

## **HYDRO66 HOLDINGS CORP (“Company”)**

### **MANAGEMENT DISCUSSION & ANALYSIS**

For the nine months ending 30<sup>th</sup> September 2020

This Management Discussion and Analysis (“MD&A”) is dated November 30, 2020, unless otherwise indicated and should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements and notes for the nine months ended September 30, 2020.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. Results are reported in Canadian dollars unless otherwise noted. In the opinion of management all adjustments (which consist of normal recurring adjustments and a one-time adjustment to allow for the application of IFRS 16) considered necessary for a fair presentation have been included. The results presented for the nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for any future period.

The preparation of financial data is in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee.

#### **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as “forward-looking statements”). These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company’s ability to predict or control. For a complete list of the factors that could affect the Company, please refer to those risk factors referenced in the conciliated financial statements for the year ended 2019, in note 18 “Financial Instruments and Risk Management”, filed by the Company on April 28, 2020. Readers are cautioned that such risk factors, uncertainties and other factors are not exhaustive. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

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All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly, or otherwise revise, any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-

looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

### **Non-GAAP Measures**

This MD&A presents certain non-GAAP (“GAAP” refers to Generally Accepted Accounting Principles) financial measures to assist readers in understanding the Company’s performance. These non-GAAP measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Management uses these non-GAAP measures to supplement the analysis and evaluation of operating performance.

Throughout this MD&A, the following terms are used, which are not found in the Chartered Professional Accountants of Canada Handbook and do not have a standardized meaning under GAAP.

#### *EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)*

- “EBITDA” represents net income or loss excluding net finance income or expense, income tax or recovery, depreciation, and amortization.
- “Adjusted EBITDA” represents EBITDA adjusted to exclude share-based compensation, and impairment and costs associated with one-time transactions (such as listing fees).

## **BUSINESS OVERVIEW**

Hydro 66 Holdings Corp. is an award winning, data center operator, and cloud services provider listed on the Canadian Securities Exchange ("CSE"). The Company hosts third party IT infrastructure, utilizing 100% green power at amongst the EU's lowest power prices within an ISO27001 accredited facility. The Company uses locally generated, clean, green hydropower. Hydro66's data center is in the leading cloud and data center cluster in the Nordics, in Northern Sweden. The Company provides purpose-built colocation space and cooling, telecoms, IT support services and 24/7 physical security in their facility. On June 23<sup>rd</sup>, 2020, the Company announced that it was beginning the provision of Cloud based services in partnership with CloudSigma. The service commenced operation on August 12, 2020, and the Company expects to see rapid growth in this platform as the demand for truly green compute platforms increases.

### ***Strategy and markets***

The principal activities of Hydro66, during the period were, and will continue to be, the provision of cloud and colocation services specialized in High Performance Cloud Computing, Storage, and information processing. The Company continues to develop its position in the North of Sweden. During the period to September 30<sup>th</sup>, 2020 Hydro66 maintained the operation of the data center, sales focused its efforts on filling that capacity with several new customers added to the facility. Business Development is focused on increasing the occupancy rate, expanding the services provided by the data center into Cloud Infrastructure as a Service (IaaS) for enterprise grade clients and obtaining additional high-performance compute clients and capacity.

Data centers are increasingly under the spotlight as being energy-intensive, and with that scrutiny comes the need for innovation and transparency. Companies are realising the environmental and cost benefits of locating processing power in a cool climate close to abundant and low-cost green power. The Hydro66 data center is ideally located to deliver these benefits. Hydro66 is well positioned to deliver green cloud colocation for High Performance Computing, Storage, and Information Processing.

During the third quarter the company signed a new agreement with Cudo Ventures to provide compute capacity to the Cudocompute network. The initial capacity to provide was 3.5 petaflops of FP32 compute capacity for a period of 3 years. It is anticipated that this will expand rapidly, and new purchases of hardware have been made in anticipation of this. We anticipate additional annual revenue of CAD\$600,000 in 2021 because of this agreement.

## SELECTED FINANCIAL INFORMATION

	Note	Sep 30, 2020 \$	Dec 31, 2019 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		621,159	997,568
Amounts receivable and prepaids	5	743,549	1,011,942
<b>Total current assets</b>		<u>1,364,708</u>	<u>2,009,510</u>
<b>Non-current assets</b>			
Property, plant and equipment	6	14,805,324	14,401,005
Right-of-use assets	7	1,737,338	1,939,674
Digital currencies	8	29,992	16,477
<b>Total non-current assets</b>		<u>16,572,654</u>	<u>16,357,156</u>
<b>TOTAL ASSETS</b>		<u>17,937,362</u>	<u>18,366,666</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	2,403,965	1,732,693
Current portion of lease liabilities	10	336,457	416,882
<b>Total current liabilities</b>		<u>2,740,422</u>	<u>2,149,575</u>
<b>Non-current liabilities</b>			
Convertible debenture	11	5,315,528	3,651,991
Lease liabilities	10	1,435,696	1,595,350
<b>TOTAL LIABILITIES</b>		<u>9,491,646</u>	<u>7,396,916</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	34,890,714	34,890,714
Other reserves		(7,155,763)	(7,155,763)
Share option reserve		2,013,121	1,794,867
Foreign exchange reserve		(521,840)	(1,445,505)
Deficit		(20,780,516)	(17,114,563)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>8,445,716</u>	<u>10,969,750</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>17,937,362</u>	<u>18,366,666</u>

## ANALYSIS OF FINANCIAL PERFORMANCE

### Revenue

The Company's operations are centred on providing data center services and the provision of specialised information processing services to customers. Management therefore considers there to be two reporting segments for the Company.

	Nine months to September 30,							
	2020	2020	2019	2019	2018	2018	2017	2017
	\$	\$	\$	\$	\$	\$	\$	\$
	Data Center Services	Information processing Services	Data Center Services	Information processing Services	Data Center Services	Information processing Services	Data Center Services	Information processing Services
United Kingdom	36,783		37,659		63,724		91,369	
Asia		1,974,295						
USA & Canada	108,674	57,323	52,709	48,958		341,219		639,542
Rest of Europe	257,417	2,654	1,571,644	1,584,199	5,235,021	64,577	721,631	29,502
	402,874	2,034,272	1,662,011	1,633,157	5,298,745	405,796	813,000	669,044

In the nine months to September 30, 2020 Information processing and cloud services made up 83% of the revenue compared to 50% in the same period last year.

	Nine months to September 30,							
	2020		2019		2018		2017	
	\$m	% of total	\$m	% of total	\$m	% of total	\$m	% of total
Data Center Services	0.4m	17%	1.7m	50%	5.3m	93%	0.8m	55%
Information processing services	2.0m	83%	1.6m	50%	0.4m	7%	0.7m	45%
<b>Total</b>	<b>2.4m</b>		<b>3.3m</b>		<b>5.7m</b>		<b>1.5m</b>	

The significant growth in information processing services is a function of the market growth through 2019 and the expansion of information processing services and cloud computing investment by the Company during the year.

## **Operating, General and administrative expenses**

### **Adjusted EBITDA**

The key financial metrics were reported as follows:

	9 months Ending:	Sep-20	Sep-19
	Revenue	2.44mm	3.30mm
	Adjusted EBITDA	(1.55mm)	(1.44mm)

Adjusted EBITDA loss for the six months to September 30, 2020 was (\$1.55m) against an adjusted EBITDA loss of (\$1.44m) for the same period in 2019.

Revenue from the sale of information processing and cloud computing increased from \$1.6m in the nine months ended September 30, 2019 to \$2mm in the nine months ended September 30, 2020. Revenue from co-location activities fell significantly reflecting the refocusing of the business on IaaS away from co-location during 2020.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds, however the Company does expect that customer growth rates and earnings will be lower than planned for 2020.

The table below shows the calculation of adjusted EBITDA for the nine months ending September 30, of each year

	2020	2019	2018	2017
	\$	\$	\$	\$
Net (loss) income for the period	-3,665,953	-3,480,287	-3,701,160	-828,909
<i>Add back:</i>				
Other items/expenses	330,766	253,157	-958,880	-353,690
Acquisition and listing expenses			1,413,421	0
Share-based compensation	218,254	296,508	1,013,688	0
Depreciations	1,570,910	1,495,490	779,601	525,454
Adjusted EBITDA	-1,546,023	-1,435,132	-1,453,330	-657,145

## Assets

	Sep 30, 2020 \$	Dec 31, 2019 \$	Dec 31, 2018 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	621,159	997,568	2,304,416
VAT / GST receivable	77,013	378,114	890,185
Amounts receivable and prepaids	666,536	633,828	1,380,417
<b>Total current assets</b>	<b>1,364,708</b>	<b>2,009,510</b>	<b>4,575,018</b>
<b>Non-current assets</b>			
Property, plant and equipment	14,805,324	14,401,005	15,903,314
Right of use assets	1,737,338	1,939,674	0
Digital currencies	29,992	16,477	123,838
Deferred tax assets	0	0	0
<b>Total non-current assets</b>	<b>16,572,654</b>	<b>16,357,156</b>	<b>16,027,152</b>
<b>TOTAL ASSETS</b>	<b>17,937,362</b>	<b>18,366,666</b>	<b>20,602,170</b>

Net assets at September 30, 2020 decreased to \$ 9.485m (December 31, 2019: \$10.97mm)

### Current assets

VAT is receivable monthly. As of the date of this Management Discussion and Analysis all VAT receivables have been credited to the company's tax account.

### Cash and Digital Currencies

The Company closed the period to September 30, 2020 with closing cash and cash equivalents of \$0.62m (December 31, 2019: \$1.0m); and closing digital currencies recorded as intangible assets of \$0.03m (December 31, 2019: \$0.02m).

The table below shows the digital currencies held on September 30, 2020 and their recorded value. A comparison to June 30, 2020, March 31, 2020 and December 31, 2019 is also shown.

	September 30, 2020		June 30, 2020		March 31, 2020		December 31, 2019	
	Number	Value \$	Number	Value \$	Number	Value \$	Number	Value \$
Bitcoin	0,7	9,848	0,4	4,914	1	7,063	0	0
Litecoin	0	0	84	4,946	1	334	0	0
Ethereum	5,2	2,495	1	372	6	215	0	0
AION	222,834	17,652	222,834	17,287	222,834	16,876	222,834	16,477
<b>Total</b>		<b>29,995</b>		<b>27,519</b>		<b>24,488</b>		<b>16,477</b>

### **None-current assets**

During 2018, expansion of the data center continued with the completion of the fit out of 2 data halls, the build of 2 further data halls and the fit out of those halls, bringing the total active data halls to 6, foundations were also laid for a further 3 data halls. This expansion was funded by the issue of a debenture in Arctic Blockchain Limited in February 2018 for \$10,000,000.

Investments in 2019 and the nine months to September 30, 2020 focused on the expansion of the equipment used to provide the information processing and cloud services and the maintenance of the data center.

The overall value of the property, plant and equipment has been reduced due to depreciation and the decline of cash balances.

### **Non-current financial liabilities**

As September 30, 2020 the Company had long term liabilities of (\$6,751,224).

<b>Non-current liabilities</b>	<b>Sep 30 2020</b>	<b>Dec 31 2019</b>
Convertible debenture	5,315,528	3,651,991
Lease liabilities	1,435,696	1,595,350

Lease Liabilities arise from the reclassification of certain assets as financial leases in line with IFRS 16 Refer to section 10 of the condensed consolidated interim financial statements.

### **Convertible Loan**

In March 2020, the company entered into a secured convertible loan agreement with David Rowe, a significant shareholder and a director of the Company, and with Robert Keith, a significant shareholder of the Company. The maximum amount of the loan will be USD\$1,000,000 in the aggregate, convertible at the market price of the common shares at the date of conversion, with the initial advance of USD\$300,000 with exchange rate on March 31, 2020 for conversion of amounts advanced in USD to Canadian dollars. The remaining amounts of the Loan may be requested by the Company, if necessary, on or before December 31, 2021, in the same amounts as advanced by such lender under the Initial Advance. The Company will request that any amount advanced be made in Canadian dollars, however, the Company acknowledges that the lenders may make advances in either British Sterling or USD. This brought the total amount outstanding as of March 31, under the two convertible loan agreements to \$4,161,072.

The new convertible Loan is evidenced by second ranking secured convertible promissory notes in favour of the lenders for each advance under the Loan. The maturity date of the principal amount, interest and any fees of the Loan is seven (7) years from the date of the Initial Advance and the rate of interest is 10% per annum. The interest for the initial two (2) years of the Loan shall not be payable until such time as the Loan is repaid in full.

On June 2, 2020, the company announced the drawdown of an additional USD 300,000 under the new convertible loan bringing the total amount outstanding under the two convertible loan agreements to \$4,672,984.

On August 14, 2020, the company announced the drawdown of an additional USD 400,000 under the new convertible loan bringing the total amount outstanding under the two convertible loan agreements to \$5,315,528.



The directors and related parties participated in the funding as follows:

Name of related party	Nature of related party to Hydro66 Holdings Corp	Participation in Hydro66 Holdings Corp convertible debenture
David Rowe (March)	Director	USD 173,000
Robert Keith (March)	Owner	USD 127,000
David Rowe (June)	Director	USD 172,000
Robert Keith (June)	Owner	USD 128,000
David Rowe (August)	Director	USD 231,000
Robert Keith (August)	Owner	USD 169,000

Hydro66 has no other material long term obligations.

As of September 30, 2020, the interest accrued under the convertible debentures was \$547,465, (\$433,601 at June 30, 2020).

### **Financial Instruments and Other Instruments**

#### General Objectives, Policies and Processes

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

The Board reviews its monthly reports through which it assesses the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors.

#### i) Categories of financial assets and liabilities

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Borrowings and convertible loan notes

Trade and other receivables are initially measured at the amount of consideration that is unconditional. The Group holds trade receivables with the objective of collecting the contractual cash flows so is subsequently measured at amortized cost. Book values and expected cash flows are reviewed by the Board and any impairment charged to the consolidated Statement of Comprehensive Income in the relevant period.

Trade and other payables are measured at book value. The book value of financial assets and liabilities equates to their fair value.

The Group holds the following financial instruments:

<b>Financial assets</b>	September 30, 2020	December 31, 2019
	\$	\$
Cash and cash equivalents	621,159	997,568
Trade receivables due at reporting date	56,701	94,730
Other receivables	686,848	917,212
<b>Total</b>	<b>1,364,708</b>	<b>2,009,510</b>

Trade receivables principally comprise amounts outstanding for sales to customers and are net of expected credit loss. Trade receivables that are due at the reporting date have been reviewed and impaired when the collectability is considered unlikely.

<b>Financial liabilities</b>	September 30, 2020	December 31, 2019
	\$	\$
Trade payables	643,035	688,461
Other Payables	1,079,193	272,481
Other accruals	681,737	771,751
Lease liabilities	1,772,153	2,012,232
Debt financing – loans payable	5,315,528	3,651,991
<b>Total</b>	<b>9,491,646</b>	<b>7,396,916</b>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

As at September 30, 2020, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

September 30, 2020	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Promissory loan notes	-	-	1,770,628	6,183,619
Lease liabilities	169,420	224,016	1,464,391	477,755
Trade and other payables	2,403,965	-	-	-
<b>Total</b>	<b>2,573,385</b>	<b>224,016</b>	<b>3,235,019</b>	<b>6,661,374</b>

This compares to the maturity of the Group's non-derivative financial liabilities at the end of 2019 as follows:

December 31, 2019	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Promissory loan notes	-	-	1,360,837	4,331,258
Lease liabilities	259,860	255,621	1,803,324	110,948
Trade and other payables	1,713,263	-	-	-
<b>Total</b>	<b>1,973,123</b>	<b>255,621</b>	<b>3,164,161</b>	<b>4,442,206</b>

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

***Cash and cash equivalents***

Cash and cash equivalents are held in Canadian Dollars (\$), United States Dollars (USD), Swedish Krona (SEK) and Sterling (GBP) and placed on deposit in Canadian, Swedish and UK banks.

***Post Balance Sheet Events:***

***Off-Balance Sheet Arrangements***

Hydro66 does not have any off-balance sheet arrangements.

**Transactions with Related Parties:**

During the nine months ended September 30, 2020, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of \$80,981.5.

During the nine months ended September 30, 2020 the Group bought services from Chase Management Limited of which Nick DeMare is a director, for \$5,224.71.

During the nine months ended September 30, 2020 Mr David Rowe, a significant shareholder and a director of the Company participated in a secured convertible loan agreement in the amount of USD 576,000.

During the nine months ended September 30, 2020 Mr Robert Keith, a significant shareholder of the Company participated in a secured convertible loan agreement in the amount of USD 424,000.

On September 1, 2020 Mr David Rowe, a significant shareholder and a director of the Company lent USD 250,000 to the company for the purchase of Computing Equipment, this loan is secured on the equipment purchased.

**Share Capital**

As at the date of the MD&A, The Company's authorized share capital consists of an unlimited number of common shares without par value. All issued common shares are fully paid. All the common shares are of the same class and, once issued rank equally as to entitlement to dividends, voting powers (one vote per share) and participation in assets upon dissolution or winding up.

There are 130,649,950 shares in issue, all fully paid as of September 30, 2020.