Hydro66 Holdings Corp (“Company”)

Management Discussion & Analysis
For the year ended December 31, 2018

1. Date - April 26, 2019

This Management’s Discussion and Analysis (“MD&A”) is dated April 26, 2019, unless otherwise indicated, and should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2018 and 2017.

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 only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results presented for the year ended December 31, 2018 are not necessarily indicative of the results that may be expected for any future period.

The Company applies 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 make reference to those risk factors referenced in Part VI – “Risk Factors” of the Filing Statement of the Company dated June 8, 2018. 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.

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. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the Company’s ability to meet its working capital needs at the current level for the next twelve-month period; management’s outlook regarding future trends; sensitivity analysis on financial instruments, which may vary from amounts disclosed; and general business and economic conditions.

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.

Steps to the Listing of Hydro66 Holdings Corp.

(i) Corporate Reorganization

On February 28, 2018 Hydro66 UK Limited was acquired by Arctic Blockchain Limited (Arctic). A timeline of events and details of the net assets which were acquired are detailed below.

Pursuant to a share purchase agreement, dated February 15, 2018 Arctic issued 100,000,000 common shares to the Hydro66 UK Limited shareholders to acquire all of the issued and outstanding common shares of Hydro66 UK Limited (the "Acquisition"). The Acquisition was completed on February 28, 2018.

The Acquisition resulted in the former shareholders of Hydro66 UK Limited holding the majority interest in Arctic. The Acquisition is not considered to be a business combination for accounting purposes as Arctic is not considered to be a business for accounting purposes. The Acquisition has been accounted for in the consolidated financial statements as the continuation of the financial statements of Hydro66 UK Limited together with an issuance of common shares, equivalent to the common shares held by the former shareholders of Arctic, and a recapitalization of the equity of Hydro66 UK Limited. In accounting for this transaction:

- Hydro66 UK Limited was deemed to be the parent company for accounting purposes. Accordingly, its net assets were included in the Consolidated Interim Statement of Financial Position at their historical book value; and
- control of the net assets of Arctic was acquired on February 28, 2018.

For comparative purposes, the consolidated financial statements continuity presented herein is that of Hydro66 UK Limited.

The table below shows the net assets of Arctic which were effectively acquired by Hydro66 UK Limited on February 28, 2018.

	$
ASSETS	
Cash	35,503
GST receivable	41,758
Trade and other receivables	704,024
Advance to Hydro66 UK Limited	9,000,000
Total current assets	9,781,285
TOTAL ASSETS	9,781,285
Accounts payable and accrued liabilities	11,492
TOTAL LIABILITIES	11,492
SHAREHOLDERS' EQUITY	
Share capital	50,000
Debenture subscriptions	10,000,000
Deficit	(280,207)
TOTAL SHAREHOLDERS' EQUITY	9,769,793
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,781,285

(ii) Transaction

On March 12, 2018, Arctic entered into a letter of intent with Caza Gold Corp. (‘Caza”) providing for the amalgamation of Caza, Arctic and 1166031 B.C. Ltd (“Subco”) to form the Company. On June 6, 2018, Caza and Arctic entered into a business combination agreement whereby Arctic and Subco would complete an amalgamation pursuant to an amalgamation agreement under the provisions of the BCBCA (the “**Amalgamation**”) and upon the completion of the Amalgamation, Arctic would become a reporting issuer listed on the CSE. The Amalgamation was completed on June 8, 2018 and on June 13, 2018 Hydro66 Holdings Corp listed on the Canadian Securities Exchange (CSE:SIX). Prior to the Amalgamation, the common shares of Caza were consolidated on a 76.3945 to 1 basis, following which there were 2,000,000 common shares issued and outstanding immediately prior to the Amalgamation.

The consolidated statement of financial position gives effect to the following assumptions and adjustments:

(a) Arctic is the deemed acquirer and issued 2,000,000 common shares to acquire 100% of the issued and outstanding common shares of Caza.
(b) Share capital, contributed surplus and the deficit of Caza are eliminated.

The fair value of the consideration was as follows:

Issuance of 2,000,000 common shares to the former shareholders of Caza $@ 0.75	$1,500,000
The allocation of the consideration is as follows:	
Trade and other receivables	($3,699)
Trade and other payables	$30,895
Listing costs expensed	$1,472,804
Value attributed to shares issued	$1,500,000

Pursuant to the terms of the Amalgamation Agreement, each former shareholder of Arctic received one (1) post-consolidation common share of Caza for every one (1) Arctic common share held by such shareholder. Arctic had 105,000,000 shares outstanding prior to the completion of the Amalgamation. Immediately prior to listing on the CSE an additional 20,000,000 Caza common shares and 20,000,000 common share purchase warrants, exercisable at $0.75 for a period of two years from June 8, 2018 in connection with the automatic conversion of the convertible debentures in the principal amount of $10,000,000 held by Arctic securityholders, were issued.

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, impairment and costs associated with one-time transactions (such as listing fees).

2. Overall performance

Hydro66 owns and operates an award-winning colocation data center in Sweden specializing in High Performance Computing ("HPC") hosting. The Company hosts third party IT infrastructure, utilizing 100% green power, at amongst the EU's lowest power prices and within an ISO27001 accredited facility.

The principal activities of Hydro66 during the year were, and will continue to be, the provision of colocation services. The Company also contributes a small amount of its computing power to digital currency pools. For its contribution to the pools the Company receives income in the form of digital currencies.

During the year to December 31, 2018 the Company continued to enhance its position in the North of Sweden. During the year ended December 31, 2018 Hydro66 opened four new data halls with a capacity of 15.6 MW (Megawatts), increasing total capacity to 19.2 MW. Hydro66's growth strategy is largely to attract corporate clients on long term hosting contracts, which in turn aims to fund the delivery of additional data center space.

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 green power. The Hydro66 data centre is ideally located to deliver these benefits. Hydro66 is uniquely positioned to deliver colocation for high performance computing, enterprise data space and the provision of transaction verification services to digital currency pools.

Cash and digital currencies

The Company closed the period to December 31, 2018 with closing cash and cash equivalents of $2.3m (December 31, 2017: $1.7m); and closing digital currencies recorded as intangible assets of $0.1m (December 31, 2017: $0.3m).

Net assets

Net assets at December 31, 2018 increased by $6.2m to $15.6m (December 31, 2017: $9.4m). The $6.2m increase in net assets during the year to December 31, 2018 was mainly as a result of the expansion of the site to 19.2 MW which was fully completed in the first week of October 2018, adding $7.8m to Property, Plant and Equipment, and a $1.1m depreciation charge during the period.

The expansion was funded by the issue of a debenture in Arctic in February 2018 for $10,000,000. Prior to listing on the CSE an additional 20,000,000 Caza common shares and 20,000,000 common share purchase warrants, exercisable at $0.75 for a period of two years from June 13, 2018 in connection with the automatic conversion of the convertible debentures in the principal amount of $10,000,000 held by Arctic securityholders, were issued.

Analysis of financial performance

During the year to December 31, 2018 Hydro66 recorded revenue of $7,644,122, a 239% increase from the prior year revenue of $2,253,686.

Revenue from colocation data center services rose from $1,352,701 in 2017 to $7,070,510 in 2018 reflecting the completion and filling of the first expansion in 2018 of 7.6 MW which completed in May 2018.

Revenue from services provided to digital currency pools fell from $900,985 in 2017 to $573,612 in 2018 reflecting the digital currency bear market and the end of life of servers deployed in 2016. At December 31, 2018 an impairment on digital currencies was recorded of $212,042 to reflect the value of the currencies held at the end of the year.

The table below shows the digital currencies held at December 31, 2018 and their value. A comparison to 2017 is also shown.

	December 31, 2018		December 31, 2017	
	Number	Value $	Number	Value $
Bitcoin	27	27,526	138	172,519
Litecoin	1070	43,686	6400	114,379
Ethereum	21	3,920	-	-
AION	213,753	48,706	-	-
Total		**123,838**		**286,898**

Operations and execution for the site expansion to 19.2 MW during the year went as planned, however, financial performance was negatively impacted by market conditions relating to the price of power and the digital currency bear market. Direct costs of power rose from 32% of revenue to 76% of revenue. In April 2018, power costs in the region started to rise as a result of the fast melting of snow which was not fed into the hydro system. The hottest summer in 250 years followed along with high power prices with the spot price peaking at $60 per kWm (Kilowatt month) in August and remaining > $49 per kW for the rest of the year. The average power spot price in 2018 was $49.37 per kWm against an average of $32.89 per kWm for 2017.

Hydro66 had expected to have its expanded facility full by November 2018, but the high power prices seen in the second half of the year combined with the bear market in digital currencies resulted in low conversion of the pipeline.

Adjusted EBITDA loss for the year was $1,693,068 against a prior year adjusted EBITDA profit of $307,329, reflecting the growth of the team in Sweden to support the running of the data center, the implementation of 24/7 security at the facility and fees from operating in Canada.

No dividends were paid during the period.

In September 2018, the Swedish Tax Authority published its interpretation of the law which gave data centers energy tax discounts from January 1, 2017. The interpretation only allows the end users of the equipment held within data centers to benefit from the energy tax discounts. As a result of this from January 1, 2019, the power input cost for colocation customers has doubled. From January 1, 2019, the cost of energy tax is being charged to customers who can opt to reclaim it.

Hydro66 remains well positioned to take advantage of the exponential growth in data and computing trends by providing access to low-cost, green energy in an ultra-efficient hyperscale colocation data center . The company has already built the largest High-Performance Computing (“HPC”) colocation data center in Europe with further potential to expand this existing capacity.

3. Selected Annual Information

Revenue

The Company's operations are centred on providing data centre services and digital currency transaction verification services. Management therefore considers there are two reporting segments for the Company.

The geographical split of revenue by customer location for the last three years is as follows:

	Year ended December 31,					
	2018	2018	2017	2017	2016	2016
	$	$	$	$	$	$
	Data Center Services	Digital Currency Services	Data Center Services	Digital Currency Services	Data Center Services	Digital Currency Services
United Kingdom	14,039	-	106,051	-	313,177	-
USA & Canada	-	290,255	-	764,552	-	252,924
Rest of Europe	7,056,471	283,357	1,246,650	136,433	47,485	-
	7,070,510	573,612	1,352,701	900,985	360,662	252,924

In the year to December 31, 2018 data center services (colocation) made up 92% of the revenue compared to 60% last year representing the shift of the business from digital currency verification services to the provision of colocation to third party customers.

Adjusted EBITDA

	Year ended December 31		
	2018	2017	2016
	$	$	$
Comprehensive (loss) income for the year	(6,646,054)	(665,340)	(1,237,002)
Add back:			
Other comprehensive (loss) income for the year	310,233	150,035	(423,433)
Listing expenses	460,925	-	-
Share-based payment expense	1,500,000	-	-
Share-based compensation	1,342,389	205,111	-
Depreciation	1,127,397	617,523	414,451
Impairment on digital currencies	212,042	-	-
Adjusted EBITDA	(1,693,068)	307,329	(1,245,984)

Adjusted EBITDA loss for the year was $1,693,068 against a prior year adjusted EBITDA profit of $307,339, reflecting the growth of the team on Sweden to support the running of the data center, the expansion of the facility leading to higher fixed power costs, the implementation of 24/7 security at the facility and fees from operating in Canada.

Total assets

	Dec 31, 2018 $	Dec 31, 2017 $	Dec 31, 2016 $
ASSETS			
Current assets			
Cash	2,304,416	1,690,815	2,395,726
VAT / GST receivable	890,185	459,606	34,503
Amounts receivable and prepaids	1,380,417	860,665	171,170
Total current assets	4,575,018	3,011,086	2,601,399
Non-current assets			
Property, plant and equipment	15,903,314	8,171,684	4,692,811
Digital currencies	123,838	286,898	349,525
Total non-current assets	16,027,152	8,458,582	5,042,336
TOTAL ASSETS	20,602,170	11,469,668	7,643,735

The build of the Hydro66 data center started in 2015 and was officially opened at the end of that year.

During 2017 the data center asset was expanded as fit out of the initial structure was completed, foundations were laid for 4 further data halls and the construction of a further 2 data halls was completed.

During 2018, expansion 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. During 2018 foundations were also laid for a further 3 data halls.

Total PPE additions in 2018 were $8.6m. The expansion in 2018 was funded by the issue of a debenture in Arctic in February 2018 for $10,000,000.

VAT is receivable on quarterly basis. All VAT due at December 31, 2018 has been recovered.

Amounts receivable at December 31, 2018 includes a rebate for energy tax of $587,525. This has been recovered.

Total non-current financial liabilities

As at December 31, 2018, the Company had long term liabilities of $1,706,895.

In December 2018 the Company closed a debt financing of which the initial advance was paid in December 2018. The initial advance was made up of United States Dollars $1,050,000 and Canadian Dollars $300,000 (total Canadian dollars of $1,706,895). The maximum amount of the future advances can be up to the same amount as the initial advance. The rate used to translate the advance of USD was 1.3399 Canadian Dollars to each US Dollar. The loan has term of 7 years from the date of the initial advance of the loan. The loan bears interest at a rate per annum equal to 10%. The interest is compounded and calculated annually, not in advance, and is payable on each December 31. The interest for the initial two years of the loan shall not be payable until such time as the loan is repaid in full.

The amount of the loan, at the option of each Lender, will be convertible into common shares in the capital of the Company at the market price at time of such conversion in accordance with the policies of and subject to acceptance by the Canadian Securities Exchange

As at December 31, 2018, the interest accrued on the convertible debenture was $4,652.

4. Discussion of operations

The principal activities of Hydro66 during the year were, and will continue to be, the provision of colocation services.

Hydro66 delivers low-cost, environmentally-friendly colocation services. Using locally generated clean green hydropower, Hydro66's first data centre is located in the leading cloud and data centre cluster in the Nordics, in Northern Sweden. This gives customers the ability to reduce their carbon footprint while providing cost savings against the traditional colocation model.

The Company also contributes a small amount of its computing power to digital currency pools. For its contribution to the pools the Company receives income in the form of digital currencies.

The objectives for 2018 were as follows:

- Bring 7.6 MW live during Q2 2018, fully filled and revenue generating by the end of Q2 2018. For this to be achieved, the power had to connected and the build and fit out completed in line with the business's project plan. The space and power also had to sold in line with the plan. As at the date of the listing statement on June 8, 2018, the 7.6 MW had already been pre-sold. The power had been secured and the operational project plan was on time.
- Complete build of a further 8 MW during H2 of 2018, fully filled and revenue generating in Q4. For this to be achieved, the power had to connected and the build and fit out completed in line with the business's project plan. The space and power also had to sold in line with the plan. As at the date of the listing statement on June 8, 2018, contracts for the power were already in place and the shells to house the 8 MW had already been built.
- Lay the foundations to support further flexible expansion.
- Continuous review of digital currency markets to optimize self-mining opportunities.
- By the end of 2018, Hydro66 intended to expand its existing site to a maximum capability of 44 MW to enable full site roll out in 2019.

The expansion was completed as planned and foundations have been laid to support further expansion. However, the expanded capacity has not achieved the revenue and profitability as planned due to the demand in the region for large scale colocation disappearing in the second half of the year as a result of the high power prices and the digital currency bear market.

Hydro66 expected to be cash flow positive at the end of H1 2018. This objective has not been achieved for the reasons outlined above.

Below is a table showing the expected use of proceeds as at the date of the listing statement (June 8, 2018), and the actual use of proceeds up to December 31, 2018. Cash in the business at the date of the listing statement was $8,700,000.

Item	Budgeted expenditure	Actual expenditure
Estimate costs to complete the amalgamation	($300,000)	($461,000)
Salaries	($2,295,000)	($1,431,000)
Business Operational Expenses		
- Accounting	($23,000)	($24,000)
- Legal	($129,000)	($171,000)
- Investor Relations	($100,000)	($70,000)
- Office rent	($135,000)	($85,000)
- Insurance	($30,000)	($15,000)
General and Administrative Expenses	($450,000)	($198,000)
Facility build out and fit out costs	($3,900,000)	($4,230,000)
Unallocated funds	($1,338,000)	$289,000
Cash at December 31, 2018		$2,304,000
Total	$8,700,000	$8,700,000

2018 was a year of expansion as the total data center capacity increased by 15.6 MW to 19.2 MW. Two data halls with a total operating capacity of 7.6 MW opened in the second quarter of the year. One data hall with capacity of 4 MW opened in September 2018 and a further data hall opened in October 2018. The expansion which opened in Q2 2018 was fully pre-sold. The expansion which opened in H2 2018 was 25% pre-sold. Market conditions, including rising power costs and the digital currency bear market meant that the remainder of the expansion which opened in the latter half of the year remains unsold.

During the year to December 31, 2018 Hydro66 recorded revenue of $7,644,122, a 239% increase from the prior year revenue of $2,253,686.

Revenue from colocation data center services rose from $1,352,701 in 2017 to $7,070,510 in 2018 reflecting the completion and filling of the first expansion in 2018 of 7.6 MW which completed in May 2018.

Revenue from services provided to digital currency pools fell from $900,985 in 2017 to $573,612 in 2018 reflecting the digital currency bear market and the end of life of servers deployed in 2016. At December 31, 2018 an impairment on digital currencies was recorded of $212,042 to reflect the value of the currencies held at the end of the year.

Hydro66 remains well positioned to take advantage of the exponential growth in data and computing trends by providing access to low-cost, green energy in an ultra-efficient hyperscale colocation data center . The company has already built the largest High-Performance Computing ("HPC") colocation data center in Europe with further potential to expand this existing capacity.

The Company sees growth from customers in four key sectors; System Integrators, Enterprise Businesses, Cloud Hosting and HPC.

- System Integrators: Applications are normally served from clients premises, a third-party data center or the public cloud. It is essential for the System Integrator help clients make hosting decisions to maintain control and ensure quality. Having a strong colocation data center partnership is beneficial for System Integrators to add value to the client, enhance retention rates and increase margin opportunities.
- Enterprise Businesses: Hydro66's colocation data center is perfect for security conscious Enterprise clients whose needs extend beyond on-premise solutions. Reducing complexity by outsourcing non-core activities, such as physical data center operations, allows clients to focus on their principal business. Hydro66 is proving to be a perfect partner.
- Cloud Hosting: Hydro66 helps security conscious cloud providers who need EU carrier neutral colocation and recognize their hosting partner must offer economies of scale and flexible growth options. Saving money with ultra-efficient colocation at zero carbon cost is a win-win for cloud providers and their clients.
- High Performance Computing: By operating industrial grade wholesale HPC optimised server and ASIC or GPU data halls Hydro66 offers a quick and assured solution for operators needing to deploy megawatts of equipment in the minimum time possible.

In addition to the colocation business that Hydro66 continues to build, the Company continuously monitors the global cryptocurrency and blockchain space for opportunity. The Company is opportunistic in utilizing its world-class data center infrastructure to provide hashing power to mining pools when positive returns can be generated. This flexibility, to turn on and off hashing power, is a strong competitive advantage and avoids leaving the company materially exposed to negative movements in the sector, while providing significant leverage to cryptocurrency price upside.

Hydro66 continues to look at the crypto asset space and opportunistically enter whenever it is profitable. Utilizing equipment that was acquired at the bottom of the market means that there is essentially no capital expenditure to recuperate. This allows the Company to gain exposure to a rising cryptocurrency market while substantially protecting itself from any downside volatility. The ability to gain exposure from hashing power is a great cash flow opportunity as the Company continues to build out its Enterprise business.

5. Summary of quarterly results

Selected Financial Information

The following selected financial information is derived from the audited consolidated financial statements of the Company.

	Fiscal 2018				Fiscal 2017				Fiscal 2016
	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17	Jun-17	Mar-17	Dec-16
	2018	2018	2018	2018	2017	2017	2017	2017	2016
	$	$	$	$	$	$	$	$	$
Operations:									
Revenue	1,939,581	2,880,058	1,949,060	875,423	771,642	719,931	589,527	172,586	310,226
Comprehensive income / (loss) from continuing operations	(1,964,666)	(841,488)	(2,437,858)	(1,402,042)	(848,555)	417,432	301,686	(535,903)	(409,235)
Basic loss per share	(0.015)	(0.007)	(0.019)	(0.013)	(0.781)	0.384	0.278	(0.583)	(0.445)
Diluted loss per share	(0.011)	(0.005)	(0.013)	(0.008)	(0.781)	0.384	0.278	(0.583)	(0.445)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Revenue increased quarter on quarter for the seven quarters to September 30, 2018 reflecting the increasing amounts of capacity sold to customers. The fall in revenue in the final quarter reflects pressure on the sales price per kWm and customers terminating contracts early.

The quarter to June 30, 2018 included acquisition expenses and listing expenses of $1,413,421 and share-based compensation of $748,450. The quarter to September 30, 2018 included share-based compensation of $265,238. The quarter to December 31, 2018 included share-based compensation of $328,701.

The quarters to June 30, 2017 and September 30, 2017 included exchange gains from the sale of digital currency earned in previous periods resulting in comprehensive income in those quarters.

6. Liquidity

To accelerate the growth plan, on 1 March 2018 Arctic Blockchain Limited transferred $9.0m to Hydro66. This ensured that the existing growth plan to 19.2 MW could be delivered in 2018.

The 19.2 MW was delivered as planned in 2018, but market factors including high power prices and the digital currency bear market has meant that the data halls are not full.

During the year to December 31, 2018, the Company incurred a loss of $6,646,054 (2017: loss $665,340). The loss in 2018 reflects the cost of the acquisition and listing of the Company, the share based compensation, the high power costs associated with the record high temperatures in the region of the North of Sweden, the high fixed power costs for running the expanded capacity, as well as the investment in growing the Swedish operation to grow the sales of the Company's products. Until these activities enable the Company to reach a sustainable level of operations, it will continue to rely on financial support from additional funding to enable it to continue its activities and to meet its liabilities as they fall due.

During the year to December 31, 2018, the Company raised $11.7m. $10.0m was raised in February 2018 through convertible debentures and a further $3.4m was secured in December 2018 of which $1.7m had been received by December 31, 2018. A further $0.85m was received on April 4, 2019.

These consolidated financial statements have been prepared assuming the Company will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. The Company's current business plan indicates that additional funding or income will be required within the next 12 months. The funding will be necessary to allow the business to continue to trade beyond this point. The directors have considered the business plan and potential sources of funding and have a plan in place to secure equity or other funding such that they expect to obtain sufficient funding in the coming months to enable the Company to continue as a going concern. The directors acknowledge that there can be no certainty over achieving the projected revenue and managing the cost base as forecasted, as well as the timing and the quantum of future fund raisings and that this represents a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

7. Capital Resources

As December 31, 2018 the Company had no capital commitments.

On April 4, 2019, the Company requested and received additional advances of USD$525,000 and CDN$150,000 pursuant to a secured convertible loan agreement with certain shareholders and directors of the Company dated December 19, 2018 (the "Loan Agreement"). In connection with the initial advances made pursuant to the Loan Agreement the Company issued secured convertible promissory notes in favour of each lender (the "Notes"). The maturity date of the principal amount, interest and any fees under the Notes is seven years from the date of the initial advances and the rate of interest is 10% per annum. The interest for the initial two (2) years shall not be payable until such time as the principal is repaid in full. The Company will use the proceeds from the advances for ongoing sales and marketing investment of the current colocation and hosting capacity.

8. Off-Balance Sheet Arrangements

Hydro66 does not have any off-balance sheet arrangements.

9. Transactions with Related Parties

The Group's related parties include key management and others as described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

During the year ended December 31, 2018, Hydro66 UK Limited repaid a loan note to David Rowe of $74,295 (year ended December 31, 2017: nil). During the year ended December 31, 2017 the company issued a loan note and received $74,295 from David Rowe.

During the year ended December 31, 2018, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of $222,886 (year ended December 31, 2017: $130,401).

During the year ended December 31, 2018, Kurchakee Ltd, of which David Rowe is a Director, bought finance and legal services and office space of $38,012 (2017: nil) from Megamining Ltd.

During the year ended December 31, 2018, Black Green Capital Ltd, of which David Rowe and Richard Croft are Directors, bought services from Megamining Ltd of $12,959 (2017: $13,374).

During the year ended December 31, 2018, Moiety AB, of which Anne Graf is a Director, provided consultancy services to Hydro66 Svenska AB of $8,872 (2017: $285,636).

During the year ended December 31, 2018, 0920 Media AB (brand name Meramedia), of which Anne Graf is a director, provided marketing services to Hydro66 Svenska AB of $34,543 (year ended December 31, 2017: $101,735). During the year ended December 31, 2018, Hydro66 Services AB, provided colocation services to B-chain e-services AB, of which Anne Graf was a director, of $1,013,202 (year ended December 31, 2017: $773,008). Anne Graf resigned as a director from B-chain e-services AB on June 21, 2018.

During the year ended December 31, 2018, the Group bought services from Chase Management Limited of which Nick DeMare is a director, for $24,600. 75,000 share options were also issued to Chase Management Limited with an associated in year cost of $12,167.

In February 2018 Arctic Blockchain Limited raised funding via a convertible debenture. 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 Arctic Blockchain Limited convertible debenture
Michael Hudson *through Elmwood Partners Discretionary Trust*	Director	$400,000
Richard Patricio *through Totus Inc*	Director	$475,000
Nick DeMare	Company Secretary	$124,800

In December 2018, Hydro66 Holdings Corp raised funding via a convertible debenture. 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	Director	USD 600,000
Richard Patricio *through Totus Inc*	Director	$100,000

Key Management Compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. Key management personnel remuneration includes the following expenses:

	Year ended December 31, 2018 $	Year ended December 31, 2017 $
Short-term employee benefits:		
- Salaries including bonuses	651,887	168,129
- Social security costs	168,629	19,439
	820,516	187,568
Post-employment benefits:		
- Defined contribution pension plans	1,899	406
Share-based payments	600,222	34,191
Total remuneration	1,422,637	222,165

The Group has allowed its employees to take up limited loans to cover personal income tax liabilities arising from the exercise of share options in Hydro66 UK Limited prior to the transaction between Arctic Blockchain Limited and Hydro66 UK Limited. The loans were paid in January 2019. At December 31, 2018, the group held an accrual and a receivable for employee loans that were due to be paid to employees in January 2019. This facility was also available to the Group's key management personnel. In January 2019, $52,050 was lent to a member of key management personnel.

10. Fourth Quarter

Revenue in the fourth quarter of $1,939,851 fell from the previous quarter of $2,880,058 due to downwards pressure on the sales price for its services as Hydro66's largest customer negotiated a 28% reduction in sales price with effect from September 1, 2018. The decrease in revenue also reflects early terminations from customers as result of the digital currency bear market.

Comprehensive loss for the fourth quarter of $1,468,398 increased from the previous quarter's reported comprehensive loss of $841,488 as a result of the decline in revenue, the high spot rates for power, the increase in fixed power costs (transformers and electricity network costs) to support the expanded site and the write off of digital currencies.

11. Proposed Transactions

There are no proposed transactions.

12. Basis of Preparation and Critical Accounting Policies

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRIC").

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates which are detailed below. These accounting policies were consistently applied for all the periods presented.

Revenue

Revenue arises from the sale of data center services, including space and power; and from the provision of transaction verification services within digital currency networks. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services, stated net of discounts and returns. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities.

To determine whether to recognize revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Group recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position as deferred income. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognizes a receivable in its statement of financial position. During the year of 2018, the Company expanded its facility. All customers who contract for services in the expanded facility are invoiced in advance. This has resulted in deferred income being recognized at December 31, 2018.

Data Center Services

The Company recognizes revenue from the provision of data center services (sometimes referred to as colocation). The Company enters into agreements with customers who require space and power in the Company's data center. A price for the service is determined at the point of contract. The customers physically locate servers in the Company's data center. Customer servers are housed in racks and connected to a power supply. Revenue represents amounts invoiced for the provision of data center services, including space and power.

Transaction Verification Services within Digital Currency Networks

The Company also recognizes revenue from the provision of transaction verification services within digital currency networks. The Group enters into agreements with digital currency pools to provide transaction verification services. As consideration for these services, the Company receives digital currency from each specific network in which it participates. Management consider it appropriate to recognize revenue when a digital currency coin is received from the pool as that is the point that the economic benefit transfers to the Company and can be converted to traditional (fiat) currencies.

Revenue is measured based on the fair value of the currency received. The fair value is determined using the spot price of the currency on the date of receipt. The currency is recorded on the statement of financial position, as an intangible asset at the spot rate. Realised gains or losses, as well as gains or losses on the sale of currency for traditional (fiat) currencies are included in profit and loss. There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting of digital currencies and management has exercised significant judgement in determining appropriate accounting treatment.

Intangible assets - Digital currency valuation

Digital currencies consist of cryptocurrency denominated assets such as Bitcoin and Litecoin; and are included in non-current assets as an intangible asset. Digital currencies are treated as intangible assets and carried at the spot rate they were earned at. The fair value is determined using the spot price of the currency on the date of receipt. Gain or loss is recognised in the profit and loss account at the point of sale. Digital currency is not amortised as the directors consider that it has an indefinite useful life. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

13. Changes in accounting policies

Adoption of New Accounting Standards
The Company adopted IFRS 9 – Financial Instruments ("IFRS 9") and IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") effective January 1, 2018.

(i) IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets. This new accounting pronouncement, which is effective for periods beginning on or after January 1, 2018, establishes two primary measurement categories for financial assets being amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held-to-maturity, available-for-sale and loans and receivable categories. There was no significant impact on the Company's consolidated financial statements upon the adoption of this new standard.

(ii) IFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as "IFRS 15") replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and several revenue-related interpretations. This new accounting pronouncement, which is effective for periods beginning on or after January 1, 2018, establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. There was no significant impact on the Company's consolidated financial statements upon the adoption of this new standard.

Accounting Standards and Interpretation Issued but Not Yet Effective
As at the date of authorization of these consolidated financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Group's financial statements:

IFRS 16, "Leases" - IFRS 16 will replace IAS 17 "Leases" and three related interpretations. It completes the IASB's long running project to overhaul lease accounting. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has low value.

IFRS 16 is effective from periods beginning on or after January 1, 2019. Early adoption is permitted; however, the Group have decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Group:

- Has decided to make use of the practical expedient not to perform a full review of existing leases and to apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Group has reassessed these leases and concluded they will be recognized on the statement of financial position as a right-of-use asset.
- Believes that the most significant impact will be that the Group will need to recognize a right-of-use asset and a lease liability for the transformers currently treated as operating leases. At December 31, 2018 the future minimum lease payments amounted to $4,288,619. This will mean the nature of the above cost will change from being an operating lease expense to depreciation and interest expense.

The Group is planning to adopt IFRS 16 on January 1, 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Management is currently assessing other impacts of this new standard on the Company's accounting policies and consolidated financial statement presentation.

14. 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.

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 amortised 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:

Financial assets	December 31, 2018 $	December 31, 2017 $
Cash and cash equivalents	2,304,416	1,690,815
Trade receivables due at reporting date	365,392	130,729
Other receivables	-	-
Total	2,669,808	1,821,544

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.

Financial liabilities	December 31, 2018 $	December 31, 2017 $
Trade payables	1,432,005	1,106,210
Other accruals	1,201,169	567,229
Debt financing – loans payable	1,706,895	-
Total	4,088,976	1,673,439

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

As at December 31, 2018, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

December 31, 2018	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Promissory loan notes	-	-	685,492	2,649,829
Trade and other payables	2,917,239	-	-	
Total	2,917,239	-	685,492	2,649,829

This compares to the maturity of the Group's non-derivative financial liabilities in the previous reporting periods as follows:

December 31, 2017	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Trade and other payables	2,104,284	-	-	-
Total	2,104,284	-	-	-

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.

15. Share Capital

As at the date of this MD&A, the Company has issued, and outstanding share capital comprised of 127,000,000 Common Shares, 8,275,000 Stock Options all at an exercise price of $0.50, and 50,096,000 Warrants outstanding at exercise prices ranging from $0.50 to $0.75 per share.