HUT 8 MINING CORP.
(formerly Oriana Resources Corporation)

Management's Discussion and Analysis

For the year ended December 31, 2018

Introduction

This Management's Discussion and Analysis ("MD&A") is dated May 6, 2019, unless otherwise indicated, and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2018 of Hut 8 Mining Corp. ("Hut 8" or the "Company"). Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results presented in the MD&A 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 February 26, 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.

Company

Hut 8 is a cryptocurrency mining company with industrial scale bitcoin mining operations in Canada. Hut 8 has an exclusive North American partnership with the Bitfury Group Limited, inclusive of Bitfury Holding BV ("Bitfury"), one of the world's leading full-service hardware and software blockchain technology companies.

Hut 8 provides investors with direct exposure to bitcoin, without the technical complexity or constraints of purchasing the underlying cryptocurrency. Investors avoid the need to create online wallets, wire money offshore, and safely store their bitcoin.

Manufactured by Bitfury, the BlockBox Data Center AC ("BlockBox") is regarded as one of the most powerful and cost-effective bitcoin mining solutions available on the market. The BlockBox is based on cutting-edge hardware and software and are fully configurable and upgradeable to the next generation of silicon technology.

The Company was incorporated under the laws of the Province of British Columbia on June 9, 2011. The registered office of the Company is located at Suite 1700 Park Place 666 Burrard Street, Vancouver BC, Canada, V6C 2X8. The Company's financial year ends on December 31. The Company's common shares are listed under the symbol "HUT" on the TSX Venture Exchange and as "HUTMF" on the OTCQX Exchange. On March 2, 2018, the Company closed its "Qualifying Transaction" with Hut 8 Holdings Inc. ("Hut 8 Holdings"). The Company was a capital pool company prior to the Qualifying Transaction. In connection with the Qualifying Transaction, the Company changed its name to "Hut 8 Mining Corp.".

Industry Overview

Bitcoin

Bitcoin is a digital currency that allows peer-to-peer transactions globally over the internet. Bitcoin is independent of any central authority, such as a bank or government. Instead, bitcoin is governed by a pre-programmed algorithm called Secure Hash Algorithm 256 (SHA-256) that is backed by millions of computers across the world called "miners". Bitcoin miners record transactions and check their authenticity. Unlike fiat currencies which are controlled by central banks and governments, bitcoin miners are spread out across the world and store transactions on a digital public ledger called the "blockchain" that can be accessed by anyone. This global and transparent system is referred to as decentralized control as the management of bitcoin does not have a central point of failure or attack.

Unlike fiat currencies, which have an unlimited supply which is controlled by governments and central banks, the supply of bitcoin is tightly controlled by the SHA-256 to keep its availability scarce. To date, approximately 17.7 million bitcoin exist and only 21 million bitcoin will ever exist. It is expected that all bitcoin will be mined by 2140. Due to the scarcity and computational power required to mine bitcoin, it is often referred to as "digital gold", as physical gold is also scarce and is costly to mine.

Blockchain

The bitcoin "blockchain" is a cloud-based digital public ledger where bitcoin transactions are grouped together and represented as a block in a network chain, containing all relevant transaction details. The bitcoin blockchain is maintained by a community of miners. All transactions on the blockchain are transparent and designed to make it impossible to add, remove or change data without being detected by users.

Bitcoin Mining

Mining is the process of verifying cryptocurrency transactions by solving a computationally difficult encrypted code, called a "hash". The hash rate is the number of attempts at solving the encryption code the equipment can process per second. Miners use equipment that produces a high hashrate, as it results in more attempts at solving the encrypted code. This computational process of decrypting the code through hashing is referred to as "proof of work". Bitcoin miners use powerful Application Specific Integrated Circuit ("ASIC") computing chips to compete with each other to correctly solve the encryption code.

The power of the ASIC chip to produce a high number of hashes is essential to successfully mining. When a miner is successful in solving the code, a block containing transactions is validated and incorporated into the blockchain resulting in an economic incentive payment for the miner in the amount of 12.5 newly minted bitcoins plus potential transaction fees. This incentive payment halves every four years and is set to half around May 2020. Hut 8 utilizes the Bitfury BlockBox AC data centers for its mining operations. Manufactured by the Bitfury Group, the BlockBoxes data centers are regarded as some of the most powerful equipment for bitcoin mining.

When mining Bitcoin, Hut 8 measures the output to process in computer hash rates. Each Bitfury BlockBox, as owned by Hut 8, is capable of processing a total hash rate of approximately 9 to 12 Petahash per second ("PH/s"). Thus, each Bitfury BlockBox has a processing power of between 9-12 (depending on the strength of the ASIC chip) quadrillion hashes per second. In total, at full operation, Hut 8 has 784 PH/s or 784 quadrillion hashes per second that are attempting to solve the cryptology code and receive the bitcoin incentive payment.

Bitcoin Outlook

The bitcoin price hit its all-time-high in December 2017. During that time, there was substantial euphoria around bitcoin and other cryptocurrencies, referred to as "altcoins". The demand and price of bitcoin was driven higher by speculators seeking quick returns and retail investors using bitcoin as a means of investing in altcoins. By early 2018, the euphoria disappeared and was replaced by uncertainty around regulation and proper custody for cryptocurrencies. In addition, the value proposition of most altcoins, in general, did not come to fruition. This led to profit taking by early adopters and then to a widespread cryptocurrency sell-off through 2018 that resulted in bitcoin losing 80% of its value from its all-time-high. However, through this crypto winter period, bitcoin still remained the largest cryptocurrency by market size and volume by a large margin.

Hut 8 management still believes that bitcoin represents the currency of the internet and the future of global digital money. Our conviction in the use of bitcoin as a digital store of value and international payment settlement system remains stronger than ever.

Bitcoin is having a positive start in 2019. The cryptocurrency has appreciated approximately 40% since the beginning of the year, outperforming the NASDAQ, the S&P 500 as well as most commodities including gold and oil. Several factors occurring in 2019 give us reason for optimism that demand for bitcoin will increase including:

- Regulatory clarity for bitcoin sets it apart from other cryptocurrencies
- Institutional custodial solutions are in the process of being rolled out by traditional players such as Fidelity and Goldman Sachs (via its investment in Bitgo)
- Increased institutional awareness is rising as major global investment banks now regularly publish updates on bitcoin and development on bitcoin platforms
- Inflationary pressure in global fiat currencies is driving increased buyers of bitcoin as a storage of wealth
- Major exchanges are getting involved in bitcoin. For example, the largest stock exchange in the world, the NYSE (via its parent company ICE and partnering with Microsoft and Starbucks) is launching a futures exchange named Bakkt that will settle transactions in physical bitcoin
- The new smart phones are being built with dedicated storage for bitcoin private keys, allowing owners to store and spend bitcoin on their phones
- Growing optimism for approval from the SEC in 2019 for a bitcoin ETF
- The rapid growth of the lighting network, a second layer bitcoin application, that enables instant use of bitcoin for smaller payments with vendors worldwide. Bitcoin spenders can now use the lightning network to shop at e-commerce sites like Amazon

Overall, Hut 8 is optimized to benefit from the strength in the price of bitcoin. Hut 8 does not plan to stray from its strategy of being a pure play bitcoin miner. In 2018, Hut 8's average cost per bitcoin was US$3,423. The bitcoin price on average for the 2018 year was US$7,572.

Hut 8 Custody of Bitcoin

For the protection of its bitcoin on behalf of shareholders, Hut 8 does not self-custody its bitcoin. Instead, Hut 8 uses the services of Xapo Gmbh ("Xapo"). Xapo is the Swiss subsidiary of the Xapo Group of companies which provides Bitcoin management, storage, and related services out of Switzerland.

Xapo is approved by FINMA, a Swiss financial regulator, to operate on the bitcoin management, storage, and related services out of Switzerland and regulated under the oversight of VFQ, the Association for Financial Quality Assurance. Xapo is also audited by MME Partners, a Swiss leading legal/compliance firm for Blockchain related matters, on a Quarterly basis. In 2018, Xapo obtained SOC I and II, Type 1 certifications.

Hut 8 continues to explore new ways to enhance the custody of its bitcoin and improve security for shareholders.

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, fair value loss or gain on re-measurement of digital assets, write-offs, and costs associated with one-time transactions (such as listing fees).

- "Adjusted EBITDA margin" represents Adjusted EBITDA as a percentage of revenue.

"Mining Profit" represents gross profit (revenue less cost of revenue), excluding depreciation. "Mining Profit Margin" represents Mining Profit as a percentage of revenue.

"Cost per bitcoin" represents cost of revenue excluding depreciation, divided by the number of bitcoin mined in the period.

Summary

Due to the "crypto winter" in 2018, which was marked by a declining price for bitcoin and most cryptocurrencies, it was a challenging year for all cryptocurrency miners. While many miners did not survive, the Company managed its cash and digital assets conservatively to successfully make it through the "crypto winter," which appears to be ending. Today, Hut 8 is stable and poised to benefit from a recovery in the price of bitcoin. The Company will continue to manage operations prudently and with focus. Hut 8 will not diverge from its strategy by entering new verticals that risk the future of the company.

Despite challenges in 2018, it was also a year with tremendous growth for Hut 8. At the beginning of 2018, Hut 8 had seven BlockBoxes deployed utilizing 8 Megawatts ("MW") of electricity for 56 PH/s. At the end of 2018, Hut 8 had 85 BlockBoxes operating that in full operational capacity utilize 95 MW of power for 784 PH/s. This represents an increase in PH/s capacity of 1,300% in 2018. This was achieved by the completion of the flagship site in the City of Medicine Hat, two months ahead of schedule. This facility is a significant achievement and Hut 8 believes that operationally, it is amongst the most cost-effective bitcoin mining sites in the world. To management's knowledge, Hut 8 remains the world's largest publicly traded cryptocurrency miner by size of operations.

Although the cryptocurrency markets and bitcoin did not perform to expectations in 2018, Hut 8's management team did not remain idle. We successfully reduced operating costs and positioned Hut 8 as a leading bitcoin miner in North America. Our relationship with Bitfury, our strategic partner and largest shareholder remains positive, as does our relationship with the City of Medicine Hat, from whom we purchase the majority of our electricity. We continue to strive for operational excellence and transparency for shareholders.

From an operational standpoint, 2018 posed two external challenges that were out of management's control, being the price of bitcoin and an increase in the network hashrate, which is reflective of the competition and difficulty to mine bitcoin. This affected our share price which declined from the $5.00 listing price on March 6, 2018, to $1.40 at December 31, 2018, or a decline of 72%. Our common share price is strongly correlated to the price of bitcoin, which declined from $19,160 on January 1, 2018 to $5,039 on December 31, 2018, a decline of 74% through 2018.

In addition, the network hash rate, which is reflective of the competition amongst bitcoin miners, increased from 16,415,541 PH/s to 41,615,985 PH/s, an increase of 153% in 2018. This resulted in Hut 8 having increased competition for the block reward paid to bitcoin miners and consequently, mining fewer bitcoin for the same fixed costs. We believe that through 2018, mining evolved from hobbyists to large scale industrial mining. This resulted in miners raising substantial capital to order mining equipment in late 2017 that did not get delivered and deployed until 2018, once cryptocurrency prices had already decreased significantly making mining unprofitable for most. However, the equipment purchase costs were already spent and these miners chose to deploy and operate equipment or sell it at a loss, despite less efficient operating conditions and the likelihood that many miners would have to operate unprofitably through this pricing cycle.

We were not immune to the wide spread negative market conditions in 2018 and as a result Hut 8 is recognizing a non-cash write-down on its equipment. The Company entered into contracts for the purchase 57 Blockboxes in December 2017 and February 2018, at or near peak pricing for bitcoin. The market price for all bitcoin mining equipment at that time was significantly higher than its value as of this MD&A. Consequently, as the price of bitcoin has declined and more advanced equipment became available, the cost of the equipment purchased by Hut 8 in 2017 or early 2018 is not reflective of its value as at December 31, 2018. In order to more accurately reflect the value of its mining equipment, in consultation with its auditors, Hut 8 is taking a non-cash write-down of $85.4 million.

In addition, as the price of bitcoin dropped, and most of our costs remained relatively fixed, management sold more bitcoin from its inventory than anticipated to meet its obligations. Hut 8 finished 2018 with 3,035 bitcoin in its digital asset inventory valued at $15.4 million as at December, 31 2018 based on a bitcoin price of $5,078 (US$3,743).

To combat the declining bitcoin price, management initiated several cost cutting measures that will positively impact 2019 results. These include:

- In conjunction with its strategic partner, Bitfury, operations in Hut 8's facilities in Alberta were streamlined via staff reductions in January and April 2019;
- Management renegotiated Hut 8's management service fee with Bitfury;
- In December 2018, management switched its mining pool to a reduced rate;
- The Company reduced insurance costs;
- Management temporarily froze the use of non-essential operating services; and
- Management embarked on an electricity optimization plan in Q2 2018 that management expects to have substantial savings in 2018.

Management will continue to be diligent in preserving shareholder value by conservatively managing its balance sheet, keeping operations lean, and optimizing its hardware and electricity consumption. Hut 8 has also identified several new potential sites in North America should the opportunity to expand its operations become available.

For 2019, Hut 8 will continue to seek ways to reduce costs and increase mining efficiency. Through management's cost reductions and minimal equity issuance, Hut 8 is positioned to withstand the crypto winter and make it through to the next positive bitcoin pricing cycle.

Selected Annual Financial Information

	Years ended December 31, 2018	2017
Revenue	$ 49,439,100	$ 1,123,216
Site operating costs	(24,873,528)	(131,422)
Mining profit	24,565,572	991,794
Mining profit margin	50%	88%
Depreciation	(47,018,781)	(154,158)
Gross profit	$ (22,453,209)	$ 837,636
Gross profit margin	-45%	75%
Expenses	(8,791,314)	(676,688)
Fair value loss on re-measurement of digital assets	(17,862,687)	(44,456)
Net operating income (loss)	(49,107,210)	116,492
Write-down	(85,404,592)	-
Listing and qualifying transaction	(1,151,401)	-
Other income	448,264	-
Foreign exchange gain	(678,495)	(4,220)
Net finance expense and other	(872,103)	-
Income tax expense	-	(17,760)
Net income (loss) and comprehensive income (loss)	(136,765,537)	94,512
Adjusted EBITDA	$ 19,291,271	$ 1,040,470
Adjusted EBITDA margin	39%	93%
Net loss per share - basic and diluted	$ (2.43)	$ 0.00

Assets

	December 31, 2018	December 31, 2017
Total assets	$ 82,895,453	$ 45,576,687
Total non-current financial liabilities	$ 28,296,238	$ -

Discussion of Operations for the 2018 Year

For the year ended December 31, 2018, the Company mined 5,592 bitcoin, resulting in revenue generation of $49,439,100 compared with the prior year of 62 bitcoin mined with revenue of $1,123,216. The reason for the significant increase was due to the investment in mining equipment increasing Hut 8's BlockBoxes from 7 to 85 in 2018, and also due to operations in 2017 starting on November 15, 2017.

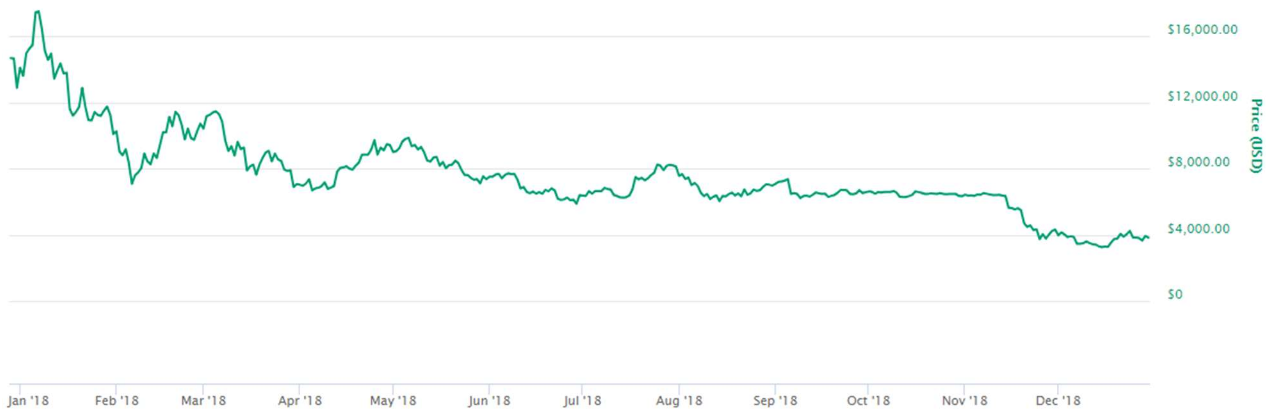
The site operating costs for the year were $24,873,528 which represents the costs incurred related to mining the 5,592 bitcoin for the year ended December 31, 2018. The cost of mining each bitcoin for the year was $4,448 (US$3,423) calculated by dividing site operating costs by the number of bitcoin mined for the 2018 year. As at December 31, 2018, the cost of mining remained lower than the average bitcoin price for the 2018 year of $9,839 (US$7,572). The cost of mining each bitcoin increased in the fourth quarter due to a significant drop in the price of bitcoin in mid-November which decreased revenue and increased network hash rates, resulting in lower mining profit margins. The price of bitcoin decreased significantly by 72% for the year and 44% in the fourth quarter.

Expenses for the 2018 year were $8,791,314 of which there were non-cash share-based payments of $3,517,013. As discussed, the Company continually manages expenses to grow margins and best positions itself for the next bitcoin pricing cycle. This is seen from the decrease in quarterly expenses for the three months ended September 30, 2018 of $2,618,779 of which $1,113,732 were non-cash expenses compared with the three months ended December 31, 2018 of $2,131,792 of which $1,137,730 were non-cash expenses. When the price of bitcoin dropped in November 2018, Hut 8 focused on cutting its expenses to remain profitable during what was a difficult time in the bitcoin mining industry.

Hut 8 recognized $19,291,271 in Adjusted EBITDA, nearly a 19x increase from the prior year of $1,040,470 largely as a result of increased revenue from the new facility at CMH and increased number BlockBoxes in Drumheller.

For the 2018 year, fair value loss on re-measurement of digital assets of $17,862,687 represented the unrealized loss on adjusting the value of the digital assets held in inventory to the market value on the reporting date. This loss is from the drop in bitcoin price from highs of over US$17,000 in January 2018 to the December 31, 2018 price of US$3,743. In future quarters, the Company would expect to see unrealized gains or losses based on the price of bitcoin on the reporting date, relative to the price on the day mined, when revenue is recorded.

Below for your reference is a bitcoin price chart for 2018 year (reference https://coinmarketcap.com/currencies/bitcoin):



The Company recorded a net loss for the year ended December 31, 2018 of $136,765,537 which was primarily due to an approximately $85 million non-cash write-down of mining equipment. Due to the decline in the market value of servers, weakening prices of bitcoin and volatility in network difficulty levels during the year, a write-down was recognized to reflect the change in cash flows expected from the miners.

Selected Quarterly Information

The Company commenced operations on November 15, 2017. As such, there is limited comparable quarterly information.

Period Ended	Revenue ($)	Net income (loss)	
		Total ($)	Basic and diluted income per share ($)
December 31, 2017	1,123,216	94,512	0.00
March 31, 2018	10,988,949	(3,815,784)	(0.05)
June 30, 2018	7,800,370	(4,936,542)	(0.06)
September 30, 2018	17,654,901	(11,443,878)	(0.14)
December 31, 2018	12,994,880	(116,569,333)	(2.18)

Qualifying Transaction

On March 2, 2018, the Company completed its qualifying transaction (the "Qualifying Transaction") with Hut 8 Holdings Pursuant to the Qualifying Transaction the following occurred:

(a) The Company implemented a consolidation, immediately prior to the completion of the Debt Conversion and the Amalgamation (as defined below), of its then issued and outstanding 9,500,000 Common Shares on the basis of one new Common Share for every 52.7777 existing Common Share;

(b) The Company effected a conversion of $200,000 of debt owing by the Company into 40,000 Common Shares, based on a conversion price of $5.00 per Common Share (the "Debt Conversion");

(c) The Company acquired all of the issued and outstanding common shares of a private corporation incorporated under the Business Corporations Act (British Columbia) (the "BCBCA"), Hut 8 Mining Corp. (the "Hut 8 PrivateCo"), from the shareholders of Hut 8 PrivateCo in exchange for an aggregate of 82,160,000 Common Shares;

(d) Hut 8 PrivateCo and 1149835 B.C. Ltd., a wholly-owned subsidiary of the Company amalgamated under the BCBCA (the "Amalgamation") and continued as one corporation, Hut 8 Holdings, which is a wholly-owned subsidiary of the Company; and (e) the Company changed its name to "Hut 8 Mining Corp.".

The Qualifying Transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, Hut 8 Holdings, has been treated as the acquirer and Hut 8 Mining Corp., the legal parent, has been treated as the acquiree. For accounting purposes, this MDA and the related consolidated financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, Hut 8 Holdings.

Significant Agreements

On November 29, 2017, the Company entered into a Master Data Centre Purchase Agreement (the "Purchase Agreement") with Bitfury. The Purchase Agreement governs the terms and conditions for the purchase from Bitfury of certain equipment (the "Data Centres") used for the purpose of running diverse cryptographic hash functions in connection with the mining of cryptocurrency. The Purchase Agreement is for a term of five years, with two successive renewal terms of one year each.

Concurrent with the Purchase Agreement, on November 29, 2017, the Company entered into a Master Service Agreement (the "MSA") with Bitfury. In accordance with the MSA, Bitfury shall provide the management, maintenance, support, logistics and operational services (the "Services") required to run the Data Centres. The MSA is for a term of five years, with two successive renewal terms of one year each.

The Company entered into definitive agreements with the City of Medicine Hat ("CMH") for the supply of electric energy, and the lease of land upon which Hut 8 is constructed its mining facilities. For electricity, an Electricity Supply Agreement ("ESA") was executed, whereby CMH will provide electric energy capacity of approximately 63 MW to the new Hut 8 facilities, which in conjunction with the Company's approximate 19 MW in operation in Drumheller, will allow Hut 8 to operate at 82 MW in total. The ESA and the land lease have a concurrent term of 10 years. The minimum payments on the land lease are $10,500 per month from May 1, 2018 to December 31, 2027.

Liquidity and Capital Resources

As at December 31, 2018, the Company had working capital deficit of $18,303,392 (December 31, 2017 – working capital surplus of $15,311,700) and shareholders' equity of $32,659,362. A primary reason for the large working capital deficit was because Hut 8's digital assets were classified as a non-current asset based on the assessment of the agreements related to the Galaxy Digital Holdings Ltd. ("Galaxy") loan. Hut 8 has the ability to use its bitcoin over the next 12 months; however, the bitcoin withholdings are pledged against the Galaxy loan and due to the agreed upon limitations Hut 8 has over its spending of bitcoin, the digital asset has been classified as non-current. The limitations in movement in bitcoin and added security in place was considered necessary when using the digital assets as collateral for the loan. The loan has two covenants requiring the Company to have a minimum US$2,250,000 cash balance and from June 28, 2019 through and including August 30, 2019 the Company to maintain a loan to bitcoin value of 100%. From August 31, 2019 through and including October 30, 2019, the loan to bitcoin value decreases to 85% and from October 31, 2019 and thereafter the loan to bitcoin value remains at 75%. Subsequent to December 31, 2018, the Company converted $5,576,150 of accounts payable and accrued liabilities to Bitfury to common shares thereby further improving the working capital position of the Company.

Net cash used in operating activities was $6,772,488, which does not include the bitcoin mined but not converted to cash. Cash used in investing activities amounted to $90,163,477 and was used for the purchase of BlockBoxes and for building the facility in the City of Medicine Hat. Cash proceeds from financing activities was $77,244,039, primarily from net cash proceeds from the issuance of shares and the Galaxy and Bitfury loans payable.

As at December 31, 2018, the Company had cash on hand of $3,556,560 (December 31, 2017 - $23,248,485) and digital assets of $15,408,189 (December 31, 2017 - $1,078,760).

The directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended December 31, 2018 on a going concern basis, which do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If we are unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation on a liquidation basis, which could differ materially from the values presented in the consolidated financial statements.

The Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon maintaining sustained profitability and maintaining the Company's credit agreement in good standing with Galaxy. There are various risks and uncertainties affecting the Company's operations including, but not limited to, the viability of the economics of bitcoin mining, the liquidity of bitcoin, and the Company's ability to maintain its security of its digital assets and execute its business plan.

On February 7, 2018, Hut 8 completed a private placement, on both a brokered and non-brokered basis, of 9,000,000 Hut 8 Subscription Receipts at a price of $5.00 per Hut 8 Subscription Receipt, and 5,000,000 Hut 8 PrivateCo Common Shares at a price of $5.00 per Hut 8 PrivateCo Common Share, for aggregate gross proceeds of $70,000,000 (the "Offering"), comprised of $58,440,265 in cash and $11,559,735 in value of bitcoin. The brokered portion of the Offering was completed pursuant to an agency agreement dated February 7, 2018 between Hut 8 and the Agent, being GMP Securities L.P.

On September 10, 2018, the Company received funds from a loan payable, net of cash transaction costs, of $19,626,691 (US$15,194,570) to Galaxy, a related party. The loan payable matures on March 10, 2021 when US$16,000,000 will be due to Galaxy. The loan payable is denominated in US dollars and bears interest at a rate equal to LIBOR + 10% per annum (or otherwise in accordance with the terms of the loan payable credit agreement).

At December 31, 2018, the Company finalized a loan with Bitfury related to a purchase for the purchase of 12 BlockBoxes in Drumheller which included upgraded chips, for $12,210,012 (US$9,000,000). The loan payable is unsecured and bears interest at 12% per annum. This loan is split into a $8,140,008 (US$6,000,000) portion which will be repaid in $339,167 (US$250,000) installments every month for 24 months. The remaining principal of $4,070,004 (US$3,000,000) will become due at the earlier of January 1, 2021 or the date that the principal for the Galaxy loan has been fully repaid. All interest accrued during the first 24 months of this loan will become due on January 1, 2021 and all interest accrued after this date will be due on a monthly basis thereafter.

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Financial Instruments and Business Risks

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and deposits and prepaid expenses. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions.

Hut 8 does not self-custody its bitcoin. Instead, Hut 8 uses the services of Xapo Gmbh ("Xapo"). Xapo is the Swiss subsidiary of the Xapo Group of companies ("Xapo") which provides Bitcoin management, storage, and related services out of Switzerland. Xapo is approved by FINMA (Swiss financial regulator) to operate on the bitcoin management, storage, and related services out of Switzerland and regulated under the oversight of VFQ (Association for Financial Quality Assurance). Xapo is also audited by MME Partners, a Swiss leading legal/compliance firm for Blockchain related matters, on a quarterly basis. In 2018, Xapo obtained SOC I and II, Type I certifications. The carrying amount of financial assets represents the maximum credit exposure.

Interest Rate Risk

The Company is exposed to interest rate risk through its loan payable with Galaxy. The loan payable bears interest at a rate equal to LIBOR + 10%.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents and digital assets. The Company has a planning and budgeting process to help determine the funds required to support the Company's normal spending requirements on an ongoing basis and its expansionary plans.

As at December 31, 2018 the contractual maturities of financial liabilities, including estimated interest payments are as follows:

Foreign Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Company. The Company's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Company has also transacted in US Dollars to purchase mining equipment from Bitfury and with loans payable denominated in US Dollars. Management currently does not hedge its foreign exchange risk.

Concentration Risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. Currently, the Company has its investment highly concentrated in a single asset, bitcoin. The Company tracks the market price of bitcoin, less the Company's liabilities and expenses, by investing in the assets of the company in bitcoin.

Security Risk

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the local or online digital wallet in which the bitcoins are held. The bitcoin network requires a public key relating to a digital wallet to be published when used in a spending transaction and, if keys are lost or destroyed, this could prevent trading of the corresponding bitcoins.

Security breaches, computer malware and computer hacking attacks have been a prevalent concern in the bitcoin exchange market since the launch of the bitcoin network. Any security breach caused by hacking could cause loss of bitcoin investments.

Bitcoin Network Risk

The open-source structure of the bitcoin network protocol means that the core developers of the bitcoin network and other contributors are generally not directly compensated for their contributions in maintaining and developing the bitcoin network protocol. A failure to properly monitor and upgrade the bitcoin network protocol could damage the bitcoin network.

Digital Assets and Risk Management

Digital assets are measured using level two fair values, determined by taking the rate from Coinmarketcap.com.

Digital asset prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of digital assets; in addition, the Company may not be able liquidate its inventory of digital assets at its desired price if required. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of digital assets.

Digital assets have a limited history and the fair value historically has been very volatile. Historical performance of digital assets is not indicative of their future price performance. The Company's digital assets currently solely consist of bitcoin.

Related Party Transactions

During the year ended December 31, 2018, $24,000 was charged by CFO Advantage Inc., a Company owned by the former Chief Financial Officer of the Company, for consulting fees.

During the year ended December 31, 2018, $75,000 was charged by a former director of the Company for consulting fees in consideration of this former director's involvement with various pre-listing and corporate governance-related matters and was reimbursed for $13,627 of out of pocket expenses.

During the year ended December 31, 2018, the Company was charged $146,044 (2017 - $105,239) for out of pocket expenses, by First Block Capital Inc., a Company controlled by a former officer and a former director of the Company. These expenses were charged primarily for travel costs related to fundraising, meetings with strategic partners, and organizing the Company.

See the consolidated financial statements for the year ended December 31, 2018, for related party transactions with respect to share issuances.

A Director of the Company is also a key management personnel at Galaxy, resulting in the Company and Galaxy to be related party entities. During the year ended December 31, 2018, The Company traded 1,345 bitcoin for $8,068,270. The interest expense for the year ended December 31, 2018 was $912,550 (US$692,842) which has been recognized as finance expense.

During the year ended December 31, 2018, the Company acquired mining equipment from Bitfury, a controlling shareholder of the Company, with a total cost of $168,712,484 (2017 - $21,350,000) paid through share issuances, bitcoin, and cash. During the year ended December 31, 2018, the Company was charged $13,368,890 (2017 - $370,370) in site operating costs. As at December 31, 2018, $15,163,527 (December 31, 2017 - $4,905,813) was owed to Bitfury, which have been included in accounts payable and accrued liabilities. Of the outstanding accounts payable at December 31, 2018, $5,576,150 was converted to equity and another $1,167,386 related to a recent purchase order was paid in equity as originally planned.

On February 26, 2019, Hut 8 agreed and subsequently closed the issuance of 3,717,433 common shares in settlement of outstanding accounts payable to Bitfury of $5,576,150, based on a conversion price of $1.50 per share.

Recent Accounting Pronouncements

IFRS 16, Leases: New standard that replaced IAS 17 Leases, effective for annual periods beginning on or after January 1, 2019.

Capital Management

The Company's capital currently consists of Common Shares. The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to identify, evaluate and then acquire an interest in a business or assets. The Company does not have any externally imposed capital requirements to which it is subject. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

Management's Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management is committed to delivering timely and accurate disclosure of all material information.

Disclosure controls and procedures ensure that reporting requirements are satisfied, and that material information is disclosed in a timely manner. Due to the limitation on the ability of the officers to design and implement cost-effective policies for disclosure controls and procedures and internal control over financial reporting, the officers are not making representations that such controls and procedures would identify and allow for reporting material information on a timely basis, nor are they representing that such procedures are in place that provide reasonable assurance regarding the reliability of financial reporting.

However, as permitted for TSX Venture issuers, the CEO and CFO individually have certified that after reviewing the consolidated financial statements for the year ended December 31, 2018 and this MD&A of the Company, there are no material misstatements or omissions, and the filing materially presents the consolidated financial position and consolidated results of operations and cash flows for the year ended December 31, 2018 and all material subsequent activity up to May 6, 2019.

Share Capital

As of the date of this MD&A, the Company has issued, and outstanding share capital comprised of 90,108,118 Common Shares, 965,000 stock options, 2,882,222 warrants, and 1,262,626 restricted share units.

Additional information and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com.