



**HUT 8 MINING CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2018**

**MAY 24, 2018**

## Introduction

This Management's Discussion and Analysis ("**MD&A**") is dated May 24, 2018 and should be read in conjunction with the condensed interim consolidated financial statements of Hut 8 Mining Corp. ("**Hut 8**" or the "**Company**") for the three months ended March 31, 2018 ("**Q1 2018**") and the audited financial statements for the period from the date of incorporation (being November 15, 2017) to December 31, 2017, and the related notes thereto. 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 Q1 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 are applicable only as of the date of this MD&A or as of the date specified in the relevant forward-looking 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 and blockchain infrastructure company with industrial scale 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. Hut 8 provides a secure and simple way to invest.

Manufactured by Bitfury, the BlockBox Data Centers (the "**BlockBox Data Centers**") are regarded as one of the most powerful and cost-effective Bitcoin mining solutions available on the market. The BlockBox Data Centers are based on cutting-edge hardware and software, and are fully configurable and upgradeable to the next generation of silicon technology. As previously disclosed, Hut 8 has obtained an exclusive right to all Bitfury hardware and software solutions, including the BlockBox Data Centers, for cryptocurrency mining within North America.

The Company was incorporated under the laws of the Province of British Columbia on June 9, 2011. On March 2, 2018, the Company completed its "Qualifying Transaction" with Hut 8 Holdings Inc. The Company was a capital pool company prior to the Qualifying Transaction. In connection with the Qualifying Transaction, the Company (formerly known as Oriana Resources Corporation) changed its name to "Hut 8 Mining Corp."

The Company's Common Shares are listed under the symbol "HUT" on the TSX Venture Exchange.

The head office of the Company is located at 130 King Street West, Suite 1800, Toronto, Ontario.

The Company's financial year end is December 31.

## **Operational Highlights**

Hut 8 began mining on December 22, 2017 with 7 BlockBox Data Centers in Drumheller, Alberta that carried an aggregate power capacity of 7.7 MW, representing 52.5 PH/s. On February 7, 2018, an additional 10 BlockBox Data Centers were installed in Drumheller for an aggregate power capacity of 18.7 MW, representing 128 PH/s. Despite the ramp-up period, for Q1 2018, Hut 8 was able to mine a total of 828 Bitcoin. As of May 24, 2018, Hut 8 has mined and continues to own in excess of 1,300 Bitcoin.

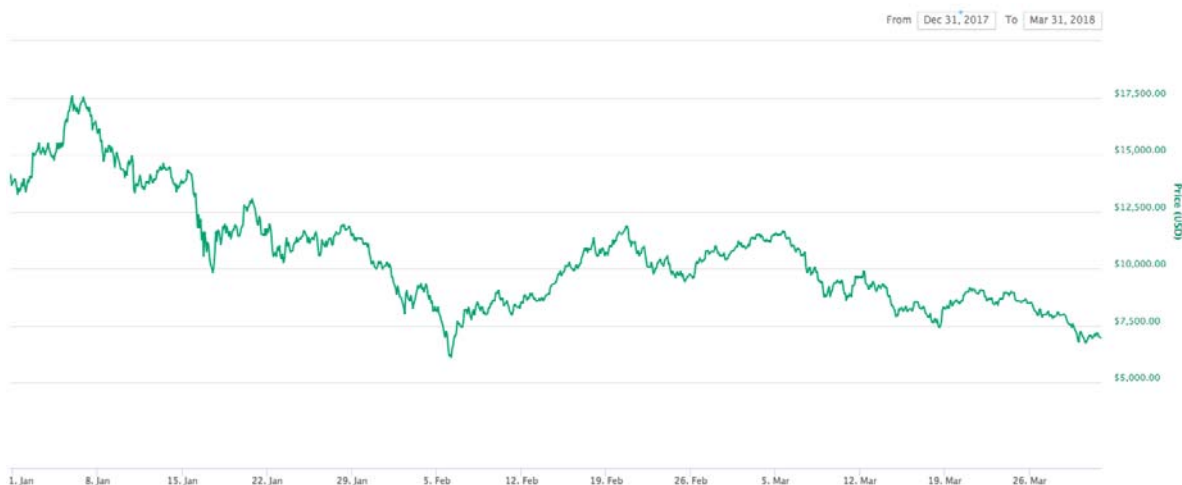
The Company's new facility in the City of Medicine Hat (the "**Medicine Hat Facility**") will consist of an additional 40 BlockBox Data Centers, and once operations are running, Hut 8 will own a total of 57 BlockBox Data Centers, representing a 335% increase in mining capacity and securing Hut 8's position as one of the largest publicly traded Bitcoin miners in the world, with a total of 66.7 MW of power capacity representing 448 PH/s. With this increase in BlockBox Data Centers from 17 to 57, the Company expects daily mining production to increase significantly. Hut 8 believes that its Medicine Hat Facility will represent operational excellence and set a new global benchmark for industrial scale cryptocurrency mining operations.

### Selected Financial Highlights from Q1 2018

- Revenues of \$10,988,949
- Gross profit of \$8,823,650 (excluding depreciation)
- EBITDA of \$1,824,685 and Adjusted EBITDA (adjusted for fair value re-measurement of digital assets, listing expense and one-time transactional costs) of \$7,690,365
- Completion of the Company's Qualifying Transaction
- Raised \$70.0 million of equity capital to fund investments and growth
- Cash balance of \$23.7 million and working capital of \$19.3 million
- Mined 828 Bitcoin in Q1 2018, bringing total mined since commencing operations on December 21, 2017 to over 1,300
- On February 7, 2018, added 10 new operating BlockBox Data Centers for a total of 17 in operation, representing 18.7 MW / 128 PH/s
- Purchased 40 additional BlockBox Data Centers to be operational by Q3 2018 representing additional 48 MW / 320 PH/s
- Entered into definitive agreements with the City of Medicine Hat for the supply of 42 MW of electric energy and the lease of land

As a result of the decrease in the price of Bitcoin in Q1 2018, Hut 8 incurred a \$4.1 million non-cash decrease on the re-measurement of the value of Bitcoin in inventory, and consequently finished the quarter with a net loss of approximately \$3.8 million. In future quarters, the Company expects 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 Q1 2018 (reference <https://coinmarketcap.com/currencies/bitcoin/>):



### Qualifying Transaction

On March 2, 2018, the Company completed its qualifying transaction (the “**Qualifying Transaction**”) with Hut 8 Holdings Inc. Pursuant to the Qualifying Transaction:

- (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 Inc., 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 Inc., 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 condensed interim consolidated financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, Hut 8 Holdings Inc.

### **Significant Agreements**

#### **Master Purchase Agreement**

On November 29, 2017, the Company entered into a master purchase agreement with Bitfury (the "**Master Purchase Agreement**"). The Master Purchase Agreement governs the terms and conditions for the purchase from Bitfury of the BlockBox Data Centers. The Master Purchase Agreement is for a term of five years, with two successive renewal terms of one year each.

Under Phase I of the Master Purchase Agreement, in December 2017, Hut 8 acquired 22 BlockBox Data Centers, of which 7 were *in-situ* operating BlockBox Data Centers, all located in Drumheller, Alberta. The balance of the purchase order (being 15 BlockBox Data Centers) is expected in June 2018, at which time such BlockBox Data Centers are targeted to be operational at the Company's Medicine Hat Facility.

Under Phase II, in February 2018, Hut 8 acquired 35 BlockBox Data Centers, of which 10 were *in-situ* operating BlockBox Data Centers, all located in Drumheller, Alberta. The balance of the purchase order (being 25 BlockBox Data Centers) is expected in September 2018, at which time such BlockBox Data Centers are targeted to be operational at the Company's Medicine Hat Facility.

The Company's purchase orders have been made as described below.

#### ***First Purchase Order***

The First Purchase Order, dated December 15, 2017, contemplates the delivery and installation of 7 BlockBox Data Centers for an aggregate purchase price of \$17,500,000. Consideration for the 7 BlockBox Data Centers was comprised of: (a) \$13,500,000 in cash; and (b) the issuance by Hut 8 to Galaxy Digital LP, an Affiliate of GACN 1 LLC, of 1,600,000 Hut 8 PrivateCo Common Shares, being \$4,000,000 in value of Hut 8 PrivateCo Common Shares, representing the consideration by Hut 8 for the

assignment by GACN 1 LLC of the Galaxy Original Equipment Agreement. These 7 BlockBox Data Centers were delivered on December 21, 2017 and have been continuously operating since that date.

The Galaxy Assignment Agreement was entered into on December 15, 2017 and involved the assignment by GACN 1 LLC to Hut 8 of GACN 1 LLC's rights, privileges and benefits under the Galaxy Original Equipment Agreement, including one BlockBox Data Center with a 12 PH output which GACN 1 LLC had previously purchased from Bitfury on February 4, 2016. These assigned BlockBox Data Centers are also currently operational.

#### *Second Purchase Order*

The Second Purchase Order, dated December 18, 2017, contemplates the delivery and installation of an additional 15 BlockBox Data Centers for an aggregate purchase price of \$30,000,000. The purchase price was satisfied in part by the funds raised from a December 2017 private placement and a subsequent issuance of Common Shares to Bitfury. These 15 BlockBox Data Centers are expected to be delivered by June 21, 2018 and be put into operation in June 2018 at Hut 8's City of Medicine Hat site.

#### *Third Purchase Order*

The Third Purchase Order, dated February 2, 2018, contemplates the delivery and installation of an additional 10 BlockBox Data Centers for an aggregate purchase price of \$25,000,000. The purchase price was satisfied by the funds raised from the Offering (as defined below). These 10 BlockBox Data Centers were delivered to the Hut 8 Bitcoin Mining Facility on February 7, 2018 and have been continuously operational since that date.

#### *Fourth Purchase Order*

The Fourth Purchase Order, dated March 20, 2018, contemplates the delivery and installation of an additional 25 BlockBox Data Centers for an aggregate purchase price of \$50,000,000. The purchase price was satisfied in part by the funds raised from the Offering and the issuance of common shares. These 25 BlockBox Data Centers are expected to be delivered by September 20, 2018 and put into operation at that time at Hut 8's Medicine Hat Facility.

#### **Master Services Agreement**

Concurrent with the entering into of the Master Purchase Agreement on November 29, 2017, Hut 8 entered into the Master Services Agreement with Bitfury, pursuant to which Bitfury will provide installation and operational services for the BlockBox Data Centers.

Under this agreement, Bitfury will provide a turn-key service to install the BlockBox Data Centers and supply a fully managed service to configure, operate and maintain the BlockBox Data Centers on a fully monitored and managed 24/7 basis. This includes the management of the BlockBox Data Centers as well as the supply and replacement of parts and repairs.

The fees connected to the provision of these services are initially expected to be approximately \$40,000 to \$50,000 per BlockBox Data Center per month, inclusive of electricity costs. This fee has been negotiated with Bitfury and is comparable, if not more favourable, to service fees charged by Bitfury to other customers. As a protectionary measure, Hut 8 has the right to request a service fee certificate from Bitfury, certifying that: (a) neither of the provider nor any of its affiliates has provided, within the three months prior to the date of such service fee certificate; and (b) the provider and its affiliates will not provide for the three months immediately following the date of such service fee certificate, services to any third party at a price that is lower than the service fees charged to Hut 8. If necessary, the provider will

decrease the applicable service fees so that the pricing afforded to Hut 8 is at least equal to the pricing afforded to such other third party.

Hut 8 and Bitfury have also agreed that the service fees payable each month can be paid in the Bitcoin proceeds mined through the operation of the BlockBox Data Centers. The value of Bitcoin will be determined using the Bitcoin to Canadian dollar exchange rate then in effect at the date of payment as published at CoinExchange.io, or such other exchange rate source as mutually agreed upon between the parties.

### **Xapo Services Agreement**

The Xapo Services Agreement was entered into on December 21, 2017 between Hut 8 and Xapo GmbH ("**Xapo**"). Xapo provides wallet and vault services to Hut 8. Xapo was founded in March 2014 in Palo Alto, California, is currently headquartered in Zurich, Switzerland. Xapo is an entity authorized by the Swiss Financial Market Supervisory Authority (FINMA) and is subject to the supervision of the Financial Services Standards Association (VFQ), a self-regulatory organization recognized by FINMA. Since its inception, Xapo has raised approximately US\$40,000,000 from third party investors, including Benchmark, Greylock Partners, Index Ventures, and Fortress Investment Group LLC. Xapo is independent of Hut 8.

Xapo's management team includes its co-founder and chief executive officer, Wences Casares, a financial technology entrepreneur who currently sits on the board of PayPal, and Ted Rogers as President, an experienced executive who has worked at AOL, Friedman, Billings and Ramsey Group. Its advisory board includes Lawrence H. Summers, former Secretary of the Treasury under President Bill Clinton, Dee Hock, founder of VISA, and John Reed, former Chairman and Chief Executive Officer of Citibank.

Xapo is viewed as a leader in Bitcoin security, and is a trusted service provider for multiple family offices and high network family offices. Its Bitcoin security protocol includes a three-layered solution:

- (a) Cryptographic. Multiple layers of the most advanced forms of cryptographic security, including multi-factor authentication and private key segmentation;
- (b) Physical. Vaults located deep underground in geographically dispersed locations on three continents, with confidential information (e.g. private keys and cryptographic materials) physically stored on offline servers that are not connected to the internet or any kind of network. The servers are guarded 24/7 by human and automated security measures; and
- (c) Jurisdictional. The geographic dispersion of the vaults is designed to protect assets from being lost in the event of a natural or man-made event. If one location is compromised, the other locations would not be impacted.

In accordance with the terms of the Xapo Services Agreement, Xapo is responsible for: (a) establishing and maintaining Hut 8's Bitcoin accounts; (b) keeping the private keys that provide access to Hut 8's Bitcoin accounts secure; and (c) facilitating the transfer of Bitcoins in accordance with instructions received by Hut 8.

Although Hut 8's Bitcoin inventory is not "stored" in a physical sense, the transaction records included in the Blockchain assigns a location for each of Hut 8's Bitcoin to the accounts established by Xapo. Most of Hut 8's private keys are kept in "cold storage", which means that the Bitcoin are not directly connected to, or accessible from, the internet or other computers. The wallets within Hut 8's Bitcoin accounts digitally hold the Bitcoin and permit Hut 8 to move its Bitcoin. Access to a digital wallet, and the Bitcoin that it



holds, is restricted through the public-private key pair, which may be broken into parts, referred to as multi-signature, that relates to each digital wallet. Xapo is responsible for the safekeeping of Hut 8's private keys that are used to access its Bitcoin account and that facilitate the transfer of Bitcoin in accordance with Hut 8's instructions.

In carrying out its duties in respect of and dealing with Hut 8's Bitcoin, Xapo is required to act honestly and in good faith, and exercise: (a) the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances; or (b) at least the same degree of care which Xapo gives to its own property of a similar kind if this is a higher degree of care than the degree of care referred to in subsection (a).

The Xapo Services Agreement has a term of five years. Either party may terminate the Xapo Services Agreement if the other party commits a material breach of the Xapo Services Agreement which is not cured within 60 days of written notice of such breach. Such prior notice is not required and termination will be immediate upon written notice to the other party if such other party is declared bankrupt or declared insolvent. Hut 8 may terminate the Xapo Services Agreement for convenience upon 60 days' written notice to Xapo.

#### **Galaxy Assignment Agreement**

The Galaxy Assignment Agreement was entered into on December 15, 2017 and involved the assignment by GACN 1 LLC to Hut 8 of GACN 1 LLC's rights, privileges and benefits under an equipment purchase agreement dated February 4, 2016 between Bitfury and GACN 1 LLC for the purchase of one BlockBox Data Center with a 12PH output (the "**Galaxy Original Equipment Agreement**"). In consideration for the assignment by GACN 1 LLC of the Galaxy Original Equipment Agreement, in January 2018, Hut 8 issued 1,600,000 Hut 8 PrivateCo Common Shares to Galaxy Digital LP, an Affiliate of GACN 1 LLC, such Hut 8 PrivateCo Common Shares having an agreed aggregate value equal to \$4,000,000.

#### **Galaxy Acknowledgement and Termination Agreement**

Hut 8 and Bitfury entered into the Galaxy Acknowledgement and Termination Agreement on December 15, 2017, pursuant to which:

- (a) the parties terminated the Galaxy Original Equipment Agreement;
- (b) the parties irrevocably and unconditionally released and discharged each other from any and all claims arising from the Galaxy Original Equipment Agreement; and
- (c) as consideration for the termination of the Galaxy Original Equipment Agreement, Bitfury credited an aggregate of \$4,000,000 in value of Hut 8 PrivateCo Common Shares (the "**Credited Amount**") against the purchase price for the initial 7 BlockBox Data Centers purchased by Hut 8 pursuant to the First Purchase Order under the Master Purchase Agreement.

The effect of the Credited Amount was to reduce the purchase price for the initial 7 BlockBox Data Centers from \$17,500,000 to \$13,500,000.

#### **Land Lease Electricity Supply Agreement and Site Development at the City of Medicine Hat**

On March 19, 2018, the Company entered into definitive agreements with the City of Medicine Hat for the supply of 42 MW of electric energy and the lease of land upon which Hut 8 is constructing and will operate its mining facilities next to the City of Medicine Hat's new Unit 16 power plant.



Under the terms of an electricity supply agreement, the City of Medicine Hat will provide electric energy capacity of approximately 42 MW to the new Hut 8 facilities with the ability to buy additional electricity off grid at market prices. The electricity supply agreement and the land lease both have a concurrent term of 10 years.

Hut 8 commenced site construction at the Medicine Hat Facility on March 10, 2018. Construction of the interconnection facility, which will supply power from the City of Medicine Hat's Unit 16 power plant and the adjoining power substation, will commence on May 24, 2018, with an expected completion date of about June 1, 2018, thereby facilitating the targeted electrification date of June 4, 2018. The underground conduit for cables and fiber optics lines is nearly 90% complete and fencing is currently about 75% complete. Cable pulling through conduit and outfitting cable trays is ongoing, with fibre cable pulling to commence during the last week of May 2018, in preparation for staged BlockBox Data Center commissioning and the ramp up to 16 BlockBox Data Centers in operation by June 2018. Hut 8 has already completed the installation of 8 BlockBox Data Centers onto screw pile foundations, with 6 more BlockBox Data Centers expected in late May 2018 in preparation for the loading of servers and other equipment in June 2018. A total of 16 transformers (1 for every two BlockBox Data Centers) and 4 switch boxes (1 for every 8 BlockBox Data Centers) have been installed on site to service 40 BlockBox Data Centers. Final grading and placement of finishing material on a short access road and parking lot area is complete for the scheduled delivery in late May 2018 of Hut 8's pre-fabricated site buildings, including the control center, administration facilities, an electronics shop and certain other IT infrastructure.

In summary, electrification of the Medicine Hat Facility is targeted for June 4, 2018, with 16 BlockBox Data Centers on track to become operational in June 2018. The remaining 24 BlockBox Data Centers are expected to become fully-operational in Q3 2018. Construction activity, which is expected to peak at about 100 personnel on site, is on track to be completed by Q3 2018.

#### **Discussion of Operations for the Three Months ended March 31, 2017**

As at March 31, 2018, the Company had total assets of \$164,401,032 (December 31, 2017 - \$45,576,687) comprised of current assets of \$32,072,759 (December 31, 2017 - \$24,380,845) and long-term assets of \$132,328,273 (December 31, 2017 - \$21,195,842). The increase in assets was attributable to the \$70,000,000 private placement, the acquisition of 10 new BlockBox Data Centers at a total cost of \$29,750,000, the prepayment of 40 BlockBox Data Centers at a cost of \$80,000,000, and \$7,022,900 spent on developing the site at the City of Medicine Hat.

During the period, the Company focused its efforts on fundraising, acquiring BlockBox Data Centers, and working towards completing its Qualifying Transaction. For Q1 2018, the Company had a net loss of \$3,815,784 (with basic and diluted income per share of \$0.05).

Revenue – For Q1 2018, with 7 BlockBox Data Centers in operation from January 1, 2018 through February 7 and increasing to 17 BlockBox Data Centers in operation from February 8, 2018 to March 31, 2018, the Company mined 828 Bitcoin, resulting in revenue generation of \$10,988,949.

Cost of Revenue – Included in cost of revenue is \$2,165,300 charged for the Bitfury Services (as defined earlier) and \$5,640,469 of depreciation on the equipment used to mine the Bitcoin. With a gross profit margin of 80% excluding depreciation costs, cost of mining Bitcoin in the first quarter was \$2,615 (US\$2,028) per Bitcoin. This compares favorably to the selling price of Bitcoin at the end of Q1 2018, being \$8,991.67 (US\$6,973.53). We believe that Hut 8 is amongst the lowest cost miners of Bitcoin in the world. We anticipate our cost per Bitcoin to remain competitive, based on the increasing difficulty rate, offset by the Company's City of Medicine Hat site that will operate more efficiently, next generation BlockBox Data Centers, and a benefit from an improved energy contract for the price of electricity over the Drumheller site.

**Hut 8 Mining Corp.**  
**Management's Discussion and Analysis**  
**For the three months ended March 31, 2018**  
**Dated: May 24, 2018**

As the Company increases the number of BlockBox Data Centers mining, it expects to be profitable from its ongoing operations. The Company's revenue from mining digital currencies is highly dependent upon the current market price of digital currencies and the Company's ability to transact with and convert digital currencies. Management monitors the legal and regulatory environment surrounding digital currencies on an ongoing basis.

Expenses – Expenses for Q1 2018 were as follows:

	<b>2018</b>	<b>% of total</b>
<b>Consulting</b>	83,943	3%
<b>Conference and travel</b>	162,328	5%
<b>General and office</b>	195,669	7%
<b>Listing</b>	1,151,401	39%
<b>Professional</b>	891,474	30%
<b>Public relations</b>	287,272	10%
<b>Salary and benefits</b>	66,977	2%
<b>Share based payments</b>	125,416	4%
	<b>2,839,064</b>	<b>100%</b>

*As this was the first full quarter of operations, there are no comparative results reported.*

**Other Items**

Fair value loss on re-measurement of digital assets of \$4,073,310 represented the unrealized loss on adjusting the value of the digital assets held in inventory to the market value on the reporting date. As of March 31, 2018, the price of Bitcoin was \$8,991 (US\$6,973) compared to higher prices when the digital assets were mined. This is a non-cash item and will fluctuate based on the price of Bitcoin at the end of each reporting date.

The Company earned \$32,315 during Q1 2018 from cash deposits.

The Company reported an exchange gain of \$6,510 from U.S. dollar cash balances and transaction.

**Selected Quarterly Information**

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

Period Ended	Net Revenues (\$)	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)

### **Liquidity and Cash Flow**

At March 31, 2017, the Company had working capital of \$19,329,062 (December 31, 2017 - \$15,311,700). Net cash from operating activities was \$2,677,976 (mainly as a result of the increase in accounts payable in the amount of \$6,838,313). Cash used in investing activities amounted to \$57,112,557 and was used for the purchase of BlockBox Data Centers (\$50,089,657) and for building the mining site in the City of Medicine Hat (\$7,022,900). Net cash flow from financing activities was \$54,850,426 being the net cash proceeds from the issuance of shares on incorporation.

As at March 31, 2018, the Company also had \$8,004,399 (December 31, 2017 - \$1,078,760) of digital assets held in inventory that could be converted to cash should the Company need additional liquidity.

### **Capital Resources**

The Company relies upon various sources of funds for its ongoing operating and investing activities. These sources include proceeds from dispositions of investments, interest income from investments, capital raising activities such as private placement debt and equity financings, and corporate borrowings from the Company's bank and brokers. The Company as at March 31, 2018, and as at the date of this MD&A, has no debt or borrowings.

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 \$46,152,265 in cash, \$11,559,735 in value of Bitcoin, and \$12,288,000 in subscription receivable. 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. The proceeds from the common share portion Offering were used to finance the purchase by Hut 8 of 10 BlockBox Data Centers from Bitfury, comprising the Third Purchase Order pursuant to the Master Data Center Purchaser Agreement, the fourth Purchase Order for 25 BlockBox Data Centers and to satisfy working capital requirements.

### **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.

### **Related Party Transactions**

#### **Key Management Salaries**

During Q1 2018, \$12,000 (plus HST) was charged by CFO Advantage Inc., a Company owned by the Chief Financial Officer of the Company, for consulting fees. As at March 31, 2018, \$4,480 of these fees were included in accounts payable and accrued liabilities.

During Q1 2018, \$62,500 was charged by the former interim Chief Executive Officer of the Company as salary and/or consulting expenses.

During Q1 2018, \$75,000 was charged by a director of the Company for consulting fees in consideration of this director's involvement with various pre-listing and corporate governance-related matters.

## **Other**

During the period, the Company was charged \$112,327 for out of pocket expenses, by First Block Capital Inc., a Company controlled by an officer and a former director of the Company. These expenses were charged primarily for travel costs related to fundraising, meetings with strategic partners and planning and organizing the Company.

See note 12 of the condensed interim consolidated financial statements for Q1 2018, for related party transactions with respect to share issuances.

During the period, the Company acquired mining equipment, with a total cost of \$29,750,000 (2017 - \$21,350,000) and made an \$80,000,000 pre-payment for mining equipment from a company owned by Bitfury, a controlling shareholder of the Company. In 2017, \$4,000,000 of the purchase was assigned by Galaxy Digital L.P./GACN 1 LLC. ("**Galaxy**"), a founding shareholder of the Company. As at March 31, 2018, 10,021,717 (December 31, 2017 - \$4,905,813) was owed to Bitfury and \$nil (December 31, 2017 - \$4,000,000) was owed to Galaxy, which have been included in accounts payable and accrued liabilities.

## **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.

## **Share Capital**

As of the date of this MD&A, the Company has issued and outstanding share capital comprised of 82,808,400 Common Shares, 595,000 stock options and 945,600 Broker Warrants (entitling the holders thereof to purchase 945,600 Common Shares pursuant to the terms of the underlying Broker Warrants).