



**HUT 8**

**HUT 8 MINING CORP.**

Management's Discussion and Analysis

For the three and six months ended June 30, 2019

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**Introduction**

This Management's Discussion and Analysis ("MD&A") is dated August 19, 2019, unless otherwise indicated, and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 ("Q2-2019") 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.

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**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.

"Adjusted Working Capital" represents current assets including non-current digital assets, less current liabilities. The Adjusted Working Capital is not a substitute for the conventional working capital but instead shows the short term liquidity of the company including the available digital assets at the period end.

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**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.

For its mining activities, Hut 8 utilizes the BlockBox Data Center AC ("BlockBoxes") which are manufactured by Bitfury. These BlockBoxes are regarded as one of the most powerful and cost-effective bitcoin mining solution 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 130 King St. W, Suite 1800, Toronto, ON, Canada, M5X 1E3. 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."

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**Summary**

This quarter started strong as the bitcoin price began a significant rally on April 2, 2019, when bitcoin increased by 18% in the one day. Bitcoin then rallied to nearly US\$14,000 in the quarter before settling at US\$10,817 on June 30, 2019. The bitcoin price during Q2-2019 increased 160% while the network difficulty rate increased 24%, allowing for an increased overall mining profit margin of 63% for the quarter.

One of our key advantages is that we own and operate all our own equipment, with the strategic help of Bitfury. This allows us to manage our own electricity to optimize electricity use through various initiatives to decrease overall energy costs, while minimizing risk through Bitfury's support. This was shown as the overall cost of sales decreased by 18% from \$12.6 million in Q1-2019 to \$10.4 million in Q2-2019. Hut 8's Cost per Bitcoin for Q2-2019 was US\$2,757, a 30% decrease from the Q1-2019 Cost per Bitcoin of US\$3,950. In a quarter where the bitcoin price increased by 160% and difficulty increased by 24%, it was an achievement that the Cost per Bitcoin decreased by US\$1,193 per bitcoin.

During this time of improved bitcoin mining economics and increased margins, we have stayed focused on optimizing the hash rate output of our BlockBoxes and maintaining our lean cost structure as the overhead expenses continue to decrease quarter over quarter steadily since Q3-2018. Expenses excluding non-cash share-based compensation for Q2-2019 was \$636,703, compared with \$746,601 in Q1-2019 and \$1,087,529 for Q2-2018.

Our strategy of mining and holding bitcoin has begun to pay off as there was a \$22,423,448 gain on the re-measurement of bitcoin holdings in Q2-2019. The gain from re-measurement in Q2-2019 was larger than all the losses related to this for all of 2018 combined. This was as a result of execution of a consistent strategy to retain the most amount of bitcoin through operations.

Adjusted EBITDA was \$17,256,886 for Q2-2019, a record quarter for us and nearly equals the Adjusted EBITDA for the full 2018 year of \$19,291,271. This was as a result of increased revenue, lower operating costs, a gain on the re-measurement of bitcoin, and lower overhead costs.

Overall in the second quarter, we profited from both a Mining Profit Margin of \$17,893,589 and the gain from the re-measurement of bitcoin of \$22,423,448, which after expenses resulted in net income of \$33,672,051, the highest in Hut 8's history. The increase in bitcoin price in Q2-2019 also strengthened the balance sheet of Hut 8 as the Adjusted Working Capital as at June 30, 2019 was \$38,208,194, a large increase from the March 31, 2019 Adjusted Working Capital deficit of \$497,464. As bitcoin prices increase, Hut 8 benefits from both strong margins from its mining operations and the increasing value of our growing inventory of bitcoin.

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**Selected Financial Information**

|  | Three months ended June 30, |                | Six months ended June 30, |                |
|--|-----------------------------|----------------|---------------------------|----------------|
|  | 2019                        | 2018           | 2019                      | 2018           |
| Revenue  | \$ 28,280,388               | \$ 7,800,370   | \$ 40,382,402             | \$ 18,789,319  |
| Site operating costs                                     | (10,386,799)                | (2,843,831)    | (23,019,594)              | (5,009,130)    |
| <b>Mining Profit</b>                                     | 17,893,589                  | 4,956,539      | 17,362,808                | 13,780,189     |
| <b>Mining Profit Margin</b>                              | 63%                         | 64%            | 43%                       | 73%            |
| Depreciation   | (4,732,305)                 | (5,900,495)    | (9,464,610)               | (11,540,964)   |
| <b>Gross profit</b>                                      | 13,161,284                  | (943,956)      | 7,898,198                 | 2,239,225      |
| <b>Gross profit margin</b>                               | 47%                         | -12%           | 20%                       | 12%            |
| Expenses   | (1,292,063)                 | (2,227,664)    | (3,140,312)               | (4,040,741)    |
| Fair value loss on re-measurement of digital assets      | 22,423,448                  | (1,755,962)    | 23,213,126                | (5,829,272)    |
| <b>Net operating loss</b>                                | 34,292,669                  | (4,927,582)    | 27,971,012                | (7,630,788)    |
| Net finance income (expense)                             | (1,205,471)                 | -              | (2,389,236)               | 32,315         |
| Foreign exchange gain (loss)                             | 584,853                     | (8,960)        | 1,073,721                 | (2,450)        |
| Listing and qualifying transaction                       | -                           | -              | -                         | (1,151,401)    |
| <b>Net income (loss) and comprehensive income (loss)</b> | \$ 33,672,051               | \$ (4,936,542) | \$ 26,655,497             | \$ (8,752,324) |
| <b>Adjusted EBITDA</b>                                   | \$ 17,256,886               | \$ 3,860,052   | \$ 15,979,504             | \$ 11,034,861  |
| <b>Adjusted EBITDA margin</b>                            | 61%                         | 49%            | 40%                       | 59%            |
| <b>Earnings (loss) per share</b>                         |                             |                |                           |                |
| basic  | \$ 0.43                     | \$ (0.06)      | \$ 0.36                   | \$ (0.11)      |
| diluted  | \$ 0.43                     | \$ (0.06)      | \$ 0.36                   | \$ (0.11)      |

**Assets**

|   | <b>June 30,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|--------------------------|------------------------------|
| Total assets                            | \$ 106,561,011           | \$ 82,895,453                |
| Total non-current financial liabilities | \$ 25,653,882            | \$ 28,296,238                |

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**Discussion of Operations for the three months ended June 30, 2019**

For the three months ended June 30, 2019, the Company mined 2,816 bitcoin, resulting in revenue generation of \$28,280,388, compared with the same period of the prior year of 786 bitcoin mined with revenue of \$7,800,370. Revenue between the two periods increased by 263% while the amount of bitcoin mined increased by 258%, which are in line. The reason for the difference year over year was because Hut 8 increased the number of BlockBoxes under operation to 85 in Q2-2019 from 17 in Q2-2018.

The site operating costs for the quarter were \$10,386,799 which represents the costs incurred related to mining the 2,816 bitcoin for the three months ended June 30, 2019. The operating costs for Q2-2019 decreased by 18% from \$12.6 million in Q1-2019 as Hut 8 actively optimizes its electricity use, which is partially tied to natural gas prices. The Cost per Bitcoin for the quarter was US\$2,757 calculated by dividing site operating costs by the number of bitcoin mined for quarter. This was a US\$1,193 decrease in cost per bitcoin from Q1-2019, during a time when bitcoin price increased by 160%.

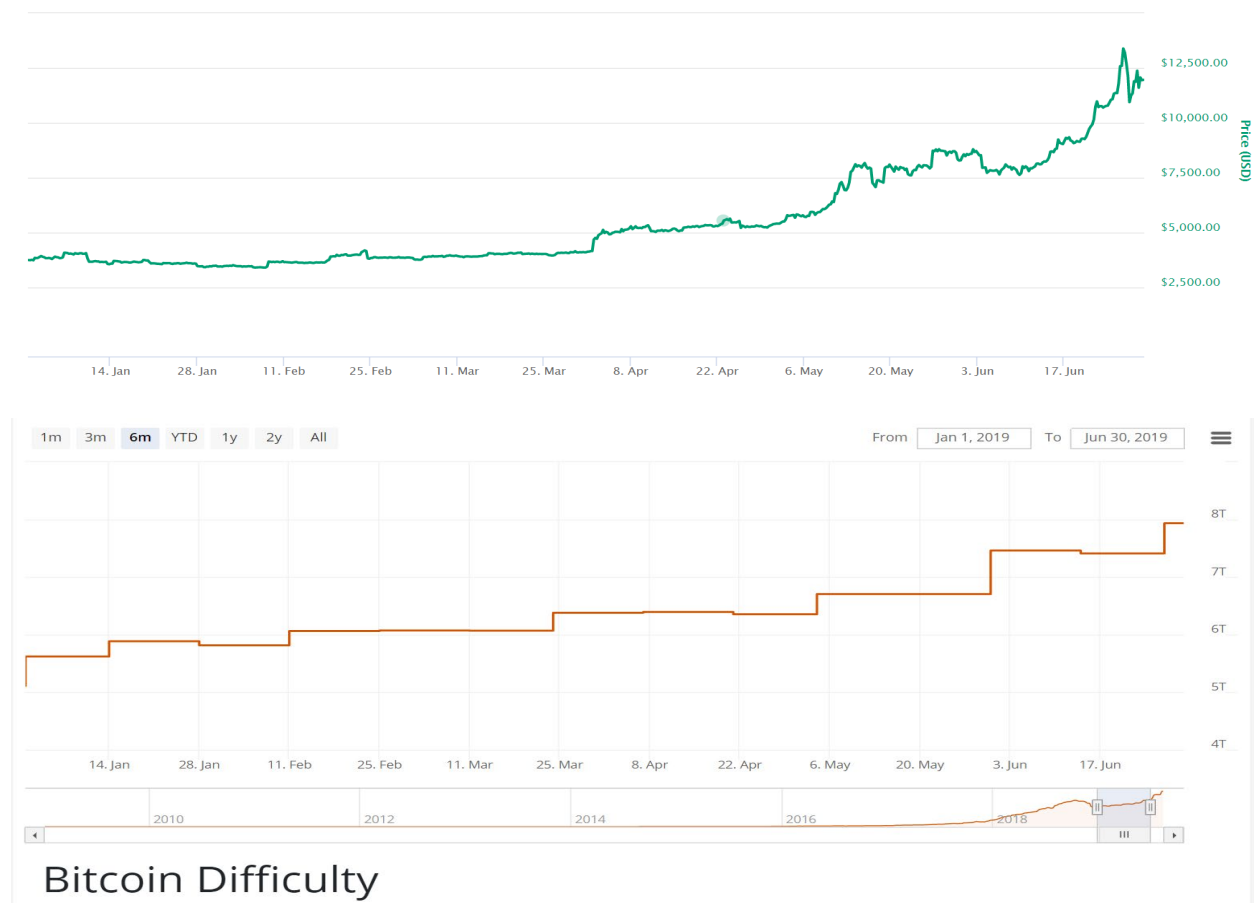
Expenses for Q2-2019 were \$1,292,063, of which there were non-cash share-based payments of \$655,360 compared with the same period of the prior year expenses of \$2,227,664 of which there were non-cash share-based payments of \$1,140,135. Management has worked to decrease quarterly expenses, especially since the large drop in the bitcoin price in November 2018. Hut 8's continued management of expenses has helped maintain a cost structure to maximize profitability as bitcoin has increased in price.

The fair value gain on re-measurement of digital assets as at June 30, 2019 of \$22,423,448 represented the gain on adjusting the value of the digital assets held in inventory to the market value on the reporting date. This was due to a consistent strategy to retain the most amount of bitcoin from operations and has continued to be beneficial thus far into Q3-2019 with increasing bitcoin prices.

Adjusted EBITDA was \$17,256,886 for Q2-2019, a record quarter for Hut 8 and nearly equals the Adjusted EBITDA for the full 2018 year of \$19,291,271. This was as a result of increased revenue, lower operating costs, a gain on the re-measurement of bitcoin, and lower overhead costs.

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Below is a bitcoin price chart and mining difficulty for the six months ended June 30, 2019 (reference <https://coinmarketcap.com/currencies/bitcoin/>):



**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 (loss) 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)   |
| March 31, 2019     | 12,102,014   | (6,065,495)       | (0.08)   |
| June 30, 2019      | 28,280,388   | 33,672,051        | 0.43   |



## **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 17.9 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 hash rate, 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 BlockBox for its mining operations. Manufactured by the Bitfury Group, the BlockBoxes 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 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 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.

### ***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") which provides Bitcoin management, storage, and related services out of Switzerland.

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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.

**Liquidity and Capital Resources**

As at June 30, 2019, the Company had working capital deficit of \$734,637 (December 31, 2018 – working capital deficit of \$18,303,392) and shareholders' equity of \$66,940,503. A primary reason for the large working capital deficit was because a large portion of Hut 8's digital assets were classified as a non-current asset based on the assessment of the credit 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 Company's bitcoin is 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%.

Net cash provided from operating activities was \$3,193,439, which does not include the bitcoin mined but not converted to cash. Cash used in investing activities amounted to \$41,443 and was used to prepay for the Company's insurance policies. Cash used in financing activities was \$663,090, which was to repay a portion of the existing Bitfury debt.

As at June 30, 2019, the Company had cash on hand of \$6,045,470 (December 31, 2018 - \$3,556,560) and digital assets of \$46,008,004 (December 31, 2018 - \$15,408,189).

The directors are of the opinion that it is appropriate to prepare the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 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 unaudited condensed consolidated interim 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.

**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 provides bitcoin management, storage, and related services out of Switzerland and is approved by FINMA, a Swiss financial regulator, to operate on the bitcoin management, storage, and related services out of Switzerland. Xapo is regulated under the oversight of the Association for Financial Quality Assurance and is audited 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.

### ***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

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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***

See the unaudited condensed consolidated interim financial statements for the three months ended June 30, 2019, for related party transactions with respect to share issuances.

A former director of the Company is also a controlling shareholder of Galaxy, resulting in the Company and Galaxy to be classified as related party entities up to May 13, 2019, the date of the Company's Annual General Meeting. During the period between January 1, 2019 and May 13, 2019, the Company sold 1,942 bitcoin for approximately \$10,950,403 in cash with Galaxy.

During the three and six months ended June 30, 2019, the Company was charged \$5,657,807 (2018 - \$2,165,299) and \$10,056,086 (2018 - \$5,009,130), respectively, in site operating costs. As at June 30, 2019, \$6,671,244 (June 30, 2018 - \$14,322,572) was owed to Bitfury, which has been included in accounts payable.

***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.

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**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 unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and this MD&A of the Company, there are no material misstatements or omissions, and the filing materially presents the condensed consolidated financial position and condensed consolidated results of operations and cash flows for the three and six months ended June 30, 2019 and all material subsequent activity up to August 19, 2019.

**Share Capital**

As of the date of this MD&A, the Company has issued, and outstanding share capital comprised of 90,438,009 Common Shares, 965,000 stock options, 2,882,222 warrants, and 1,270,100 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](http://www.sedar.com).