HUT 8 MINING CORP.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2019

Introduction

This Management's Discussion and Analysis ("MD&A") is dated November 7, 2019, unless otherwise indicated, and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 ("Q3-2019") of Hut 8 Mining Corp., the audited consolidated financial statements for the year ended December 31, 2018, the annual MD&A for the year ended December 31, 2018, and the annual information form dated June 21, 2019.

In this MD&A, unless the context otherwise requires, all references to "we", "us", "our", "Hut 8", and "the Company" refer to Hut 8 Mining Corp. and its subsidiaries, and all references to "Management" refer to the directors and executive officers of the Company.

Results are reported in Canadian dollars, unless otherwise noted. The Company applies International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee. 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.

On January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases ("IAS 17") and IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4").

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.

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 revaluation 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.

EBITDA is used to show ongoing profitability without the impact of non-cash accounting policies, capital structure, and taxation. This provides a consistent comparable metric for profitability.

"Mining Profit" represents gross profit (revenue less cost of revenue), excluding depreciation. "Mining Profit Margin" represents Mining Profit as a percentage of revenue. Mining Profit and Mining Profit Margin show the cash expenses against the revenue without the impact of non-cash accounting policies such as depreciation.

"Cost per Bitcoin" represents cost of revenue excluding depreciation, divided by the number of bitcoin mined in the period. This metric is commonly referenced in the bitcoin mining industry and is important to gain an understanding of the profitability in reference to the price of bitcoin.

"Retained Bitcoin" represents the bitcoin mined less the bitcoin used by the Company. This includes the bitcoin held by the Company at period end plus the mined but not received, which is recognized under digital assets receivable. This metric is important as it shows a comparable figure for the bitcoin earned and retained at each period end.

Company

Hut 8 is a cryptocurrency mining company with industrial scale bitcoin mining operations in Canada. Hut 8 has a 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. The BlockBox is modular, portable, and more easily 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. Its registered office is located at Suite 1700, Park Place, 666 Burrard St, Vancouver, BC, Canada V6C 2X8, and the headquarter of the Company is located at 130 King St. W, Suite 1800, Toronto, ON, Canada, M5X 2A2. The Company's financial year ends on December 31. The Company's common shares are listed under the symbol "HUT" on the Toronto Stock 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.".

Summary

This was another strong quarter for Hut 8 with revenue of $26.7 million while maintaining a Mining Profit Margin of 58%. The Company faced headwinds in the industry during the quarter as the bitcoin price dropped 30% and the network difficulty rate increased by 61%, which both negatively affected the Mining Profit Margin. Management expects volatility in both bitcoin price and network difficulty rate; however, the Company consistently monitors its operations to keep electricity prices down while optimizing its output.

With additional cash and bitcoin reserves from Hut 8's mining operation, Hut 8 focused on strengthening its balance sheet by paying down US$2.0 million of its debt to Galaxy Digital Holdings Ltd. ("Galaxy") in September 2019 and has paid US$2.3 million towards its debt with Bitfury throughout the nine months ended September 30, 2019. Also, Hut 8 has progressively made payments to bring its large accounts payable balance since the beginning of the fiscal year down by $14.8 million. This has led to the strengthening of Hut 8's working capital surplus to $5.4 million as at September 30, 2019, which excludes non-current digital assets of $28.6 million. This was a drastic improvement from the working capital deficit as at December 31, 2018 of $18.3 million, which did not include non-current digital assets of $15.4 million.

Hut 8 also used its cash generated from operations to purchase nine BlockBoxes from Bitfury for US$7 million which includes an upgrade of their chips to Bitfury's latest technology. A deposit of US$3.5 million was paid towards this purchase and will add approximately 113 petahash per second ("PH/s") and 9.9 MW of capacity to Hut 8's existing operations. Combined with the increase of capacity by 4.3 MW at its City of Medicine Hat facility, the result is an increase of 19.6% to Hut 8's PH/s output. Although Hut 8 used its cash and bitcoin to pay down debt, accounts payable, and expand its operations, it was still able to increase its Retained Bitcoin by 7.6% to 3,496 bitcoin.

The Company also reached a milestone by receiving conditional approval in Q3-2019 to graduate to the Toronto Stock Exchange ("TSX") from the TSX Venture Exchange, with the first day of trading beginning on October 8, 2019. Hut 8 was the first cryptocurrency or blockchain company to be listed on the TSX, and the first company to be listed through the TSX Sandbox Initiative. TSX Sandbox is an initiative intended to facilitate listing applications that may not satisfy all requirements and guidelines of TSX, but due to facts or situations unique to a particular issuer otherwise warrant a listing on TSX.

Expenses excluding non-cash share-based compensation for Q3-2019 was $707k, a slight increase from Q2-2019 of $637k, and decrease from $747k for Q1-2019. The Company has kept overhead costs consistently lean and stays focused at finding new ways to further lower costs while maintaining a high standard in the Company's operation.

Hut 8's strategy of mining and holding bitcoin while trying to sell at peak prices to cover ongoing expenses continued to pay off in Q3-2019, despite the downward bitcoin price. The realized gain from the sale of bitcoin for the three and nine months ended September 30, 2019 was $514k and $5.4 million, respectively. The bitcoin price dropped nearly 20% in the last two weeks of the quarter causing an unrealized loss from revaluation of bitcoin of $10.0 million. Despite this, the Company recognized a gain of $8.2 million in unrealized revaluation of bitcoin for the nine months ended September 30, 2019.

Selected Annual Financial Information

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue	$ 26,749,874	$ 17,654,901	$ 67,132,276	$ 36,444,220
Site operating costs	(11,353,029)	(8,727,399)	(34,372,623)	(13,736,529)
Mining Profit	15,396,845	8,927,502	32,759,653	22,707,691
Mining Profit Margin	58%	51%	49%	62%
Depreciation	(4,732,305)	(17,440,571)	(14,196,915)	(28,981,535)
Gross profit	10,664,540	(8,513,069)	18,562,738	(6,273,844)
Gross profit margin	40%	-48%	28%	-17%
Expenses	(1,377,406)	(2,618,779)	(4,517,718)	(6,659,520)
Gain on sale of digital assets	514,135	-	5,433,530	-
Revaluation of digital assets	(10,050,642)	(317,177)	8,243,089	(6,146,449)
Net operating loss	(249,373)	(11,449,025)	27,721,639	(19,079,813)
Gain on share issuance	-	-	951,059	-
Net finance expense	(1,122,930)	(245,976)	(3,512,166)	(213,661)
Foreign exchange gain (loss)	(370,374)	251,123	703,347	248,673
Listing and qualifying transaction	-	-	-	(1,151,401)
Net income (loss) and comprehensive income (loss)	$ (1,742,677)	$ (11,443,878)	$ 25,863,879	$ (20,196,202)
Adjusted EBITDA	$ 14,689,575	$ 7,422,455	$ 30,669,079	$ 17,276,053
Adjusted EBITDA Margin	55%	42%	46%	47%
Earnings (loss) per share				
basic	$ (0.02)	$ (0.14)	$ 0.34	$ (0.25)
diluted	$ (0.02)	$ (0.14)	$ 0.33	$ (0.25)

Assets

	September 30, 2019	**December 31, 2018**
Total assets	$ 96,202,645	$ 82,895,453
Total non-current financial liabilities	$ 22,483,312	$ 28,296,238

Discussion of Operations for the Quarterly Financial Results

For the three months ended September 30, 2019, the Company mined 1,965 bitcoin, resulting in revenue of $26,749,874, compared with the same period of the prior year of 1,978 bitcoin mined with revenue of $17,654,901. Revenue between the two periods increased by 52% while the amount of bitcoin mined stayed relatively the same, which was due to a better bitcoin price environment and because in Q3-2019, the Company also had 12 upgraded BlockBoxes in operation. The reason for the difference year over year was primarily because Hut 8 increased the number of BlockBoxes under operation to 85 in Q3-2019 from 17 in Q3-2018.

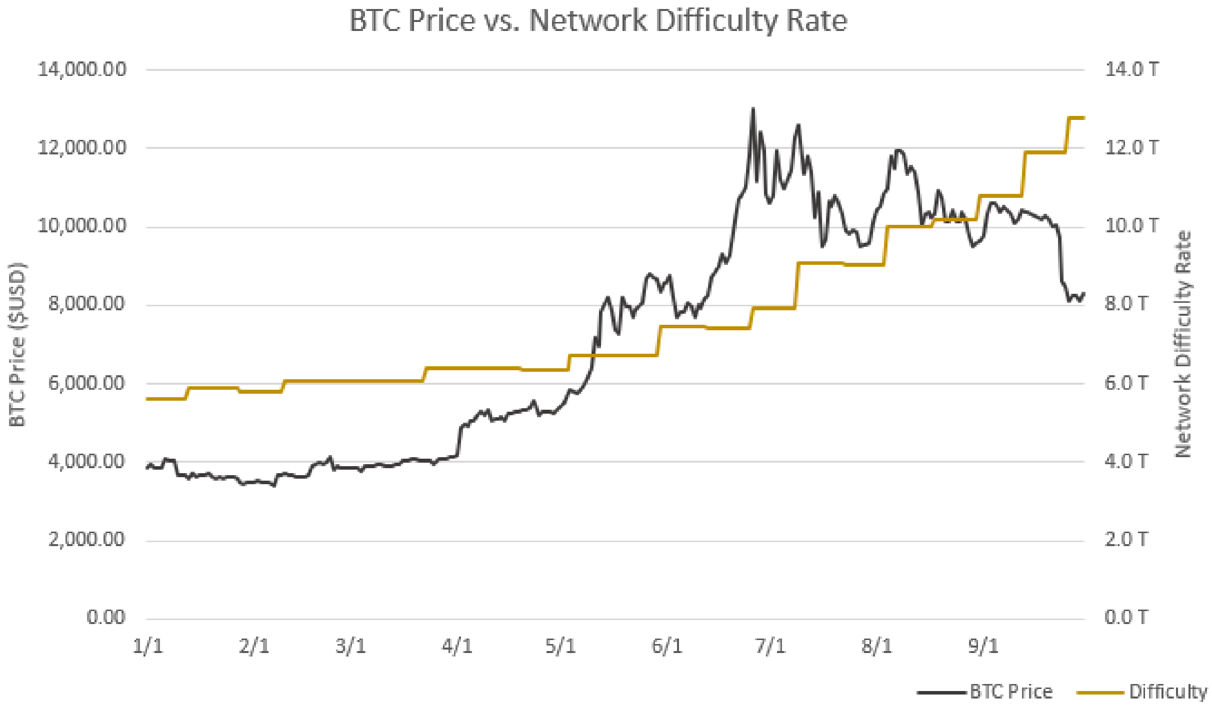
The site operating costs for the quarter were $11,353,029, which represents the costs incurred related to mining the 1,965 bitcoin for the three months ended September 30, 2019. The operating costs for Q3-2019 increased by 9% from $10,386,799 in Q2-2019 which is largely from electricity prices which is expected to have some volatility based on electricity grid and natural gas pricing. The Cost per Bitcoin for the quarter was US$4,364 inclusive of electricity costs, mining pool fees, and all other mining production costs.

Expenses excluding non-cash share-based compensation for Q3-2019 was $707,270, compared with $1,505,047 in the same period of the prior year. This was a large decrease of 53% of expenses showing Hut 8's efforts in reducing ongoing overhead expenses. The year over year decrease in expenses excluding non-cash share-based compensation for the nine months ended September 30 was larger at 62%, further showing that Hut 8 has drastically reduced expenses to maximize profitability.

The realized gain on sale of digital assets for the three months ended September 30, 2019 of $514,135 reflected Hut 8's continuing strategy of only selling its bitcoin inventory at favorable prices. The fair value loss on revaluation of digital assets for the three months ended September 30, 2019 was $10,050,642, representing the loss on adjusting the value of the digital assets held in inventory to the market value on the reporting date as the price of bitcoin decreased from US$10,817 at the end of Q2-2019 to US$8,293 at the end of Q3-2019. Despite this, for the nine months ended September 30, 2019 the Company recognized a revaluation gain on the fair value of digital assets of $8,243,089.

Adjusted EBITDA for Q3-2019 was $14,689,575, a 98% increase from the same period of the prior year of $7,422,455. This was a result of increased revenue, better Mining Profit Margins, lower depreciation expense, and lower overhead costs.

Below is a bitcoin price chart together with the network difficulty chart for the nine months ended September 30, 2019:



Selected Quarterly Information

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

All amounts in 000's, except for share figures, and bitcoin mined, and Cost per Bitcoin

	Dec 31 2017 Q4	Mar 31 2016 Q1	June 30 2018 Q2	Sep 30 2018 Q3	Dec 31 2018 Q4	Mar 31 2019 Q1	June 30 2019 Q2	Sep 30 2019 Q3
Revenue	$ 1,123	$ 10,989	$ 7,800	$ 17,655	$ 12,995	$ 12,102	$ 28,280	$ 26,750
Net income (loss)	95	(3,816)	(4,937)	(11,444)	(116,569)	(6,065)	33,672	(1,743)
Net income (loss) per share								
basic	-	(0.05)	(0.06)	(0.14)	(2.18)	(0.08)	0.43	(0.02)
diluted	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.43	n.a.
Site operating costs	(131)	(2,165)	(2,844)	(8,727)	(11,137)	(12,633)	(10,387)	(11,353)
Bitcoin mined	62	785	786	1,978	1,724	2,308	2,697	1,965
Cost per Bitcoin ($CAD)	$ 2,120	$ 2,758	$ 3,618	$ 4,412	$ 6,460	$ 5,473	$ 3,851	$ 5,778
Cost per Bitcoin ($USD)	$ 1,674	$ 2,139	$ 2,781	$ 3,394	$ 4,735	$ 4,117	$ 2,879	$ 4,363

See below for the calculation of EBITDA and Adjusted EBITDA for the most recent eight quarters:

All amounts in 000's

	Dec 31 2017 Q4	Mar 31 2018 Q1	Jun 30 2018 Q2	Sep 30 2018 Q3	Dec 31 2018 Q4	Mar 31 2019 Q1	Jun 30 2019 Q2	Sep 30 2019 Q3
Net income (loss) from	$ 95	$(3,816)	$(4,937)	$ (11,444)	$ (116,569)	$(6,065)	$ 33,672	$ (1,743)
Add/(deduct):								
Net finance costs	-	(32)	-	-		1,184	1,205	1,123
Depreciation and amortization	154	5,640	5,900	17,441	18,037	4,732	4,732	4,732
EBITDA (1)	$ 249	$ 1,792	$ 964	$ 5,997	$ (98,532)	$ (149)	$ 39,610	$ 4,113
Add/(deduct):								
Stock-based compensation	-	125	1,140	1,114	1,138	1,102	655	670
Revaluation of digital assets	44	4,073	1,756	317	11,716	(790)	(22,423)	10,052
Gain on sale of digital assets	-	-	-	-	-	-	-	(516)
Foreign exchange	4	(7)	-	(251)	927	(489)	(585)	370
Write-off	-	-	-	-	85,405	-	-	
Other gains or losses	743	1,705	-	-	(89)	(951)	-	-
Adjusted EBITDA (1)	$ 1,040	$ 7,690	$ 3,860	$ 7,176	$ 565	$(1,277)	$ 17,257	$ 14,689

(1) A non-GAAP measure previously defined

The most significant factors influencing the Company's revenue consist of the volume of bitcoin mined and the market price of the underlying digital asset. While the Company's average hash power increased by approximately 97% since September 2018, network hash rate only increased by 20% until the end of June 2019. This explains the increase in the number of bitcoin mined for the Company since inception to the end of Q2-2019. Bitcoin price also experienced an upward rally during Q2-2019, generating much higher revenue for the same period.

During Q3-2019; however, network hash rate increased by 61%, resulting in a lower number of bitcoin mined for the Company. Bitcoin price, while starting to experience a downward trend, still averaged higher in Q3-2019 than Q2-2019, keeping revenue for the quarter relatively consistent compared to the prior quarter. Volatility is expected for bitcoin as it is a relatively new asset class that has only recently been attracting institutional interest. Similar to commodities and other asset classes, bitcoin has historically been cyclical for its price and network difficulty rates which is expected to continue.

Hut 8's Cost per Bitcoin for Q3-2019, which is the operating cost of mining one bitcoin, was US$4,363 and the average bitcoin price for the quarter was US$10,382. A lower average bitcoin price would mean lower Mining Profit Margins for Hut 8 and less cash flow from operations and a lower digital asset value. The bitcoin price would have to fall under the Cost per Bitcoin of US$4,363 for mining to cease being profitable for Hut 8. The Cost per Bitcoin changes on a daily basis with the price of bitcoin, network difficulty rate, and the cost of electricity.

The Bitcoin mining industry does not typically have seasonality; however, the Company may have fluctuations at similar times in the year related to its electricity prices. The Company's operations are solely out of Alberta, Canada where 42MW of power is directly from a power purchase agreement with the City of Medicine Hat and the remainder is from the Alberta grid. Due to the changing weather in Alberta and seasonal electricity needs, time periods of extreme cold or extreme hot weather may result in higher electricity costs. Hut 8 manages electricity costs to avoid peak prices and is constantly monitoring its operations to maximize efficiency.

The below chart shows the effect on operations and profitability of the Company if the average cost of electricity were to increase by 10%, 20%, and 30%.

	July 2019	August 2019	September 2019	Total
Electricity Cost				
Drumheller	1,524,447	1,125,834	1,263,570	**3,913,852**
City of Medicine Hat	1,782,891	1,649,948	1,518,147	**4,950,986**
Total	**3,307,339**	**2,775,782**	**2,781,718**	**8,864,839**

Sensitivity Analysis	Q3-2019 Actual	+10%	+20%	+30%
Electricity cost	8,864,839	9,751,323	10,637,807	11,524,291
Gross profit	10,664,540	9,778,056	8,891,572	8,005,088
% change		*-8%*	*-17%*	*-25%*
Net loss	(1,742,677)	(2,629,161)	(3,515,645)	(4,402,129)
% change		*-51%*	*-102%*	*-153%*

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 18.0 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 bitcoin 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. The average hash rate for a two-week period determines the network difficulty rate, which is set every two weeks. The network difficulty is a measure of how difficult it is to solve a block. 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.

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 13 PH/s. Thus, each BlockBox has a processing power of between 9-13 (depending on the strength of the ASIC chip) quadrillion hashes per second. In total, at full operation, Hut 8 has 963 PH/s or 963 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 a third-party custodian with a high level of security to manage the storage of its bitcoin. From the inception of Hut 8 to October 2019, the Company used the services of Xapo Gmbh ("Xapo") 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 audited by MME Partners, a Swiss leading legal/compliance firm for Blockchain related matters, on a quarterly basis. In 2018, Xapo obtained SOC 1 and 2, Type 1 certifications.

On August 15, 2019, Xapo announced that they were exiting the institutional custodian business. After a thorough search for a replacement, Hut 8 chose BitGo Trust Company Inc. ("BitGo") as its new custodian. BitGo is a New York City based custodian that has US$100 million of insurance backing its digital asset custody and has obtained one of the highest levels of regulatory certifications in the market, including a SOC 2, Type 2 certification. The transition from Xapo to BitGo was completed in October 2019.

Hut 8 utlizes BitGo's hot and cold storage solutions. Hot wallets refer to any cryptocurrency wallet that is connected to the internet where cold storage refers to any cryptocurrency wallet that is not connected to the internet. Generally, cold storage is more secure and is where Hut 8 keeps the vast majority of its bitcoin. All transactions require multiple levels of approvals from multiple individuals to ensure each transfer is made securely.

Liquidity and Capital Resources

The source of cash flows for the Company includes operations, as well as debt and equity financings. The primary uses of cash are operating expenses, including site operating costs, equipment acquisitions, and working capital.

As at September 30, 2019, the Company had a working capital surplus of $5,407,763 (December 31, 2018 – working capital deficit of $18,303,392) and shareholders' equity of $66,005,569. 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, a portion of its digital assets has been classified as non-current. The limitations in movement of bitcoin and added security in place was considered necessary when using bitcoin as collateral for the loan. The loan has two covenants requiring the Company to have a minimum of $2,979,675 (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 $8,817,381, which does not include the bitcoin mined that has not been converted to cash. Cash used in investing activities amounted to $4,884,383, which includes a $4,603,550 (US$3,500,000) deposit to Bitfury for the purchase of equipment at the Drumheller site. Cash used in financing activities was $4,306,586, which was to repay a portion of the Galaxy and Bitfury loan.

As at September 30, 2019, the contractual maturities of financial liabilities, including estimated interest payments are as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Accounts payable and accrued liabilities	$ 2,742,355	$ 2,742,355	$ 2,742,355	$ -	$ -	$ -
Loans payable and interest	26,456,212	33,114,084	6,197,855	26,916,229	-	-
Lease commitments	-	145,080	16,740	16,740	50,220	61,380
	$ 29,198,567	$ 36,001,519	$ 8,956,950	$ 26,932,969	$ 50,220	$ 61,380

As at September 30, 2019, the Company had cash on hand of $3,182,972 (December 31, 2018 - $3,556,560) and digital assets of $38,401,502 (December 31, 2018 - $15,408,189). The Company's ability to generate sufficient amounts of cash in the short term and the long term remains dependent on the price of bitcoin and the network difficulty rate which together influence the gross margins for the bitcoin mining industry. The Company plans to continue building its bitcoin balance to act as working capital and as an investment in the bitcoin asset class. Although Hut 8 holds a minimum of US$2,250,000 in cash and at times increases its cash balance, Hut 8's liquidity and working capital is volatile because the majority of its assets are held as bitcoin which is expected to fluctuate quarter to quarter. The Company currently settles its financial obligations out of cash and bitcoin. 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.

The directors are of the opinion that it is appropriate to prepare the unaudited condensed consolidated interim financial statements for the three and nine months ended September 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 the Company 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, 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 a third-party custodian with a high level of security to manage the storage of its bitcoin. Since the inception of Hut 8 to October 2019, the Company used the services of Xapo, Xapo is approved by FINMA, a Swiss financial regulator, and audited by MME Partners, a Swiss leading legal/compliance firm for Blockchain related matters, on a quarterly basis. In 2018, Xapo obtained SOC 1 and 2, Type 1 certifications.

On August 15, 2019, Xapo announced that they were exiting the institutional custodian business, and Hut 8 chose BitGo as its new custodian. BitGo is a New York City based custodian that has US$100 million of insurance backing its digital asset custody and has obtained one of the highest levels of regulatory certifications in the market, including a SOC 2, Type 2 certification.

The transition from Xapo to BitGo was completed in October 2019.

Interest Rate Risk

The Company is exposed to interest rate risk through its loan payable with Galaxy. The Galaxy loan 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

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign 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.

Price Volatility Risk

The Company is at risk due to a wide fluctuation in the price of bitcoin, the speculative nature of the underlying asset, and negative media coverage. Downward pricing of bitcoin may adversely affect investor confidence, and subsequently, the value of the Company's bitcoin inventory, its stock price, and profitability.

Security Risk

Bitcoins are controllable only by the possessor of the private key relating to the local or online digital wallet in which the bitcoin is 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 www.coinmarketcap.com ("Coinmarketcap").

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 bitcoin; 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 price for bitcoin could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of bitcoin.

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

Bitcoin Halving Risk

The current global bitcoin network rewards miners 12.5 bitcoin per block, which is approximately 1,800 bitcoin per day. In May 2020, the bitcoin daily reward will halve to 6.25 bitcoin per block, or approximately 900 bitcoin per day. This halving may have a potential impact on the Company's profitability at the reward level of 6.25 coins. Based on the fundamentals of bitcoin mining and historical data on bitcoin prices and the network difficulty rate after a halving event, it is unlikely that the network difficulty rate and price would remain at the current level when the bitcoin rewards per block are halved. The Company believes that although the halving would reduce the block reward by 50%, other market factors such as the network difficulty rate and price of bitcoin would change to offset the impact of the halving sufficiently for the Company to maintain profitability. Nevertheless, there is a risk that a halving will render the Company unprofitable and unable to continue as a going concern.

Contract Renewal Risk

Hut 8 and Bitfury have two key contracts that outline how equipment is purchased from Bitfury and how they provide services to Hut 8. The contracts are the Master Data Purchase Agreement ("MPA") and the Master Services Agreement ("MSA"). The terms of these agreements are for five years, at which point the agreements will be up for renewal. Both the Company and Hut 8 have the ability to not renew the contracts, or the contracts may be renewed at terms less favorable for the Company or for Bitfury.

Related Party Transactions

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

Michael Novogratz was a former director of the Company and 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 fiat currency with Galaxy. As at September 30, 2019, the Company has a loan payable of $17,852,984 (US$13,481,072) to Galaxy, a former related party (Note 10), and is secured by the assets of Hut 8. During the three months ended September 30, 2019, the Company made a loan prepayment in the amount of $2,652,696 (US$2,000,000), and an early repayment penalty of 1.5% or $39,790 (US$30,000). The loan matures on March 10, 2021 when the remaining US$14,000,000 will be due to Galaxy. The interest expense for the three and nine months ended September 30, 2019 was $765,681 (US$580,299) [2018 - $245,976 (US$190,410)] and $2,339,168 (US$1,758,236) [2018 - $245,976 (US$190,410)], respectively. The interest accretion for the three and nine months ended September 30, 2019 was $97,958 (US$74,182) [2018 - $85,216 (US$65,966)] and $295,622 (US$222,396) [2018 - $85,216 (US$65,966)], respectively. The Company has paid Galaxy 178 bitcoin to settle $1,139,983 (US$853,062) of interest expense.

Bitfury owns 47% of the Company's common shares, making them a related party. During the three and nine months ended September 30, 2019, the Company was charged by Bitfury $5,419,253 (2018 - $4,163,622) and $15,475,339 (2018 - $8,710,465), respectively, in site operating costs. As at September 30, 2019, $166,814 (September 30, 2018 - $13,576,698) was owed to Bitfury, which has been included in accounts payable. As at September 30, 2019, the Company has a loan payable, net of $8,603,228 (US$6,496,434) to Bitfury. The loan payable is unsecured and bears interest at 12% per annum. This loan is split into a $5,889,150 (US$4,500,000) portion which will be repaid in US$250,000 installments every month for 18 months. Nine months of installments of the principal were paid during the nine months ended September 30, 2019 of $2,986,653 (US$2,250,000), including 227 bitcoin to settle $1,332,763 (US$1,000,000) of the principal of the Bitfury loan. The remaining principal of $3,926,100 (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. The interest accrued as at September 30, 2019 was $998,509 (US$751,036). The interest expense for the three and nine months ended September 30, 2019 was $377,811 (US$286,112) and $1,195,068 (US$898,988), respectively. The interest accretion for the three and nine months ended September 30, 2019 was $67,013 (US$50,754) and $196,641 (US$147,952), respectively.

These transactions were made on terms equivalent to those that prevail in arm's length transactions.

Critical Accounting Estimates and Accounting Policies

The following are the estimates and assumptions that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the unaudited condensed consolidated interim financial statements:

i. Fair value measurement of stock options and broker warrants

The Company measures the cost of equity-settled transaction by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the broker warrants, volatility and dividend yield and making assumptions about them.

ii. Revenue recognition

The Company recognizes revenue from the provision of transaction verification services within the bitcoin blockchain, and as consideration for these services, the Company receives bitcoin. Revenue is measured based on the fair value of the bitcoin received. The fair value is determined using the closing bitcoin price each day per Coinmarketcap. The Company is relying on the data available at Coinmarketcap to be an accurate representation of the closing price for the digital assets.

iii. Fair value of digital assets

Digital assets, consisting solely of bitcoin, are measured at fair value using the quoted price on Coinmarketcap. Management considers this fair value to be a level two input under IFRS 13 Fair Value Measurement fair value hierarchy as the price on this source represents an average of quoted prices on multiple digital currency exchanges. The bitcoin is valued based on the closing price obtained from Coinmarketcap at the reporting period corresponding to the digital assets mined by the Company.

The Company's determination to classify its holding of bitcoin as current assets is based on management's assessment that its bitcoin held can be considered a commodity and the availability of liquid markets to which the Company may sell a portion or all of its holdings.

iv. Non-monetary transactions

Non-monetary transactions for the exchange of bitcoin for various goods and services are measured at the fair value determined from the exchange amount. Fair value of the bitcoin is determined at the time of transaction.

v. Share based transactions

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

The Company issued broker warrants as part of brokered private placement offering for common shares. Broker warrants are measured at fair value at the date of the offering and accounted for as a separate component of shareholders' equity. When the broker warrants are exercised, the proceeds received together with the related amount allocated as a separate component of shareholders' equity are allocated to capital stock. If the broker warrants expire unexercised, the related amount separately allocated to shareholders' equity is allocated to contributed surplus.

vi. Useful life of mining equipment

Management is depreciating mining equipment using a straight-line basis, with a useful life of:

Seacan containers and supporting infrastructure	4 years
Mining servers	2 years

The mining equipment is used to generate bitcoin. The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its mining equipment are influenced by several factors including, but not limited to, the following:

- The complexity of the mining process which is driven by the algorithms contained within the digital assets open source software; and
- Technological obsolescence reflecting rapid development in the mining machines such that more recently developed hardware is more economically efficient to run in terms of digital assets mined as a function of operating costs, primarily power costs (ie., the speed of mining machines evolution in the industry) is such that later mining machine models generally have faster processing capacity combined with lower operating costs and a lower cost of purchase.

Based on the Company and the industry's limited history to date, management is limited by the market data available. Furthermore, the data available also includes data derived from the use of economic modelling to forecast future digital assets and the assumptions included in such forecasts, including digital asset's price and network difficulty, and derived from management's assumptions. Based on current data available, management has determined that the straight-line method of amortization best reflects the current expected useful life of mining equipment. Management will review their estimates at each reporting date and will revise such estimates as and when data become available. Management will review the appropriateness of its assumption related to residual value at each reporting date.

vii. Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company has not recognized the value of any deferred tax assets in its statements of financial position.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute of limitations for examination expires or when additional information becomes available. The Company's liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with our various filing positions. Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

The Company has earned bitcoin from the commercial activity of bitcoin mining. The Company has followed the published Canada Revenue Agency ("CRA") view that bitcoin is a commodity and inventory of the business, the value of which is included in the calculation of taxable income from the business. Bitcoin is valued in accordance with Section 10 of the Income Tax Act. Revenue from bitcoin mining is included in taxable income when the bitcoin earned is sold or exchanged for cash or another asset. There is uncertainty regarding the taxation of cryptocurrency and the CRA may assess the Company differently from the position adopted. This could result in additional current taxes payable with equal offset to deferred tax expense.

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 common shares.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and include controls and procedures designed to ensure that information is accumulated and communicated to Management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure.

Management, including the CEO and CFO, are responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. A material weakness in internal controls over financial reporting exists if the deficiency is such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The CEO and CFO have certified that disclosure controls and procedures and internal controls over financial reporting were properly designed and effective for the three months ended September 30, 2019. There have been no changes in the design of the Company's disclosure controls and procedures or internal control over financial reporting that occurred during the three months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

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, 890,000 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.