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Bitcoin Well Inc. (Formerly Red River Capital Corp.)

Management's Discussion and Analysis

For the three and six months ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") for Bitcoin Well Inc. ("Bitcoin Well", the "Company", "we", "us", or "our") was prepared as of August 18, 2021 to assist readers in understanding our financial performance for the three and six months ended June 30, 2021. This MD&A should be read in conjunction with the condensed consolidated interim financial statements and notes thereto for the three and six months ended June 30, 2021 ("Financial Statements"), and the audited consolidated financial statements and notes thereto for 1739001 Alberta Ltd. ("Old Bitcoin Well"). Such interim condensed consolidated financial statements have been prepared in accordance with IAS 34, and the audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

The company was originally incorporated as Red River Capital Corp. ("Red River") under the laws of the Province of Alberta on December 20, 2017. The Company was classified as a Capital Pool Corporation as defined in Policy 2.4 of the TSX Venture Exchange (the "TSXV"). The principal business of the Company was to identify and evaluate assets or businesses with a view to completing a Qualifying Transaction ("QT" or the "Transaction").

On June 11, 2021, the Company completed its QT with Old Bitcoin Well. The Transaction constituted the Company's "Qualifying Transaction" (as such term is defined in Policy 2.4 of the TSX Venture Exchange (the "TSXV") Corporate Finance Manual). Contemporaneous with the Transaction, Red River also changed its name to Bitcoin Well Inc. The Transaction is a reverse take-over acquisition under which Old Bitcoin Well was identified as the accounting acquirer. As a result, the condensed consolidated interim financial statements for the three and six months ended June 30, 2021 represent the continuation of Old Bitcoin Well. Accordingly, this MD&A discusses the financial performance and operations of Old Bitcoin Well.

Post completion of the QT, the principal business of the Company is to acquire, own and operate cryptocurrency ATM machines throughout Canada and the United Kingdom. The address of the Company's registered office is 2500 Stantec Tower, 10220 – 103 Avenue NW, Edmonton, Alberta.

The Company's common shares are traded on the TSXV under the ticker symbol "**BTCW**".

ADDITIONAL INFORMATION

Additional information about the Company is available on SEDAR at http://www.sedar.com.

BOARD APPROVAL

The board of directors of the Company has approved this MD&A.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

The information provided in this MD&A, including information incorporated by reference, may contain "forward-looking statements" about the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words. Forward-looking statements contained herein include, but are not limited to: (i) statements regarding the future acquisition of cryptocurrency ATMs; (ii) the acquisition of Ghostlab and the anticipated timing of same; and (iii) statements regarding the expansion plans for the Company's business.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information available as at such date and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

(a) the availability of financing opportunities, risks associated with economic conditions, dependence on management or directors and conflicts of interest, sources of income to generate cash flow, risks relating to maintenance of required licences, potential transaction and legal risks, risks relating to regulation and sale of cryptocurrency; and

(b) other risks described in this MD&A and described from time to time in documents filed by the Company with Canadian securities regulatory authorities.

With respect to the forward-looking statements contained herein, although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements, because no assurance can be given that they will prove to be correct.

Consequently, all forward-looking statements made in this MD&A and other documents of the Company, as applicable, are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Company. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on its behalf may issue. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

NON-GAAP MEASURES

References to Adjusted EBITDA in this MD&A refer to the non-GAAP ("Generally Accepted Accounting Principles") financial measure reconciled below. Adjusted EBITDA is not an earnings measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Management believes that Adjusted EBITDA is an alternative measure in evaluating the Company's business performance. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net income as determined under IFRS; nor as an indicator of financial performance as determined by IFRS; nor a calculation of cash flow from operating activities as determined under IFRS; nor as a measure of liquidity and cash flow under IFRS. The Company's method of calculating Adjusted EBITDA may differ from methods used by other Companies and, accordingly, the Company's Adjusted EBITDA may not be comparable to similar measures used by any other Company.

Throughout this MD&A, the following terms are used, which do not have a standardized meaning under IFRS.

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, unrealized gain or loss on the revaluation of digital assets, unrealized gain or loss on the fair value adjustment of cryptocurrency loans and derivative instruments, impairment of goodwill, and costs associated with one-time transactions (such as listing fees or acquisition-related costs).
- “Adjusted EBITDA Margin” represents Adjusted EBITDA as a percentage of revenue.

EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin are used to show ongoing profitability without the impact of non-cash or non-recurring items. We believe that Adjusted EBITDA, a non-GAAP measure, is useful in evaluating our operating performance. We use Adjusted EBITDA to evaluate our ongoing operations and for internal planning and forecasting purposes. However, Adjusted EBITDA is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP.

BUSINESS OVERVIEW AND OUTLOOK

We offer convenient, secure and reliable ways to buy and sell bitcoin through a trusted Bitcoin ATM network and suite of web-based transaction services. As of the date of this MD&A, we operate nearly 190 cryptocurrency ATMs throughout Canada and the United Kingdom.

For the past seven years, we have been focused on placing and acquiring profitable bitcoin ATMs throughout Canada. In 2014, we became the first company to deploy bitcoin ATMs in Alberta and Saskatchewan. Since then, we have developed strong relationships with payment processors, and secured cash in transit companies and other partners, which have helped successfully grow the Company. We also recently expanded our ATM portfolio into the United Kingdom. Our current team is focused on strong financial results. We have the ability to significantly expand our ATM fleet without the need for significant additional personnel.

Furthermore, we are continuing to expand our service offering online to include additional support for bill payments and Interac-sell, point of sale systems, and gift cards. Our expansion plans are facilitated via an exclusive, strategic partnership with a related party software group (see “Related Party Transactions”).

We intend to consolidate a fragmented market through our ability to execute on our purchase and roll-up strategy. The primary factors affecting the successful execution of this strategy will be:

i) The sourcing and acquiring of profitable ATMs; and
ii) Integrating acquired ATMs into the Company’s network on a cost-effective basis.

Equity Financing

On June 8, 2021, we completed a brokered financing (the "Financing) for gross proceeds of $7,000,000 and issued 28,000,000 subscription receipts ("Units") at a price of $0.25 per Unit. Each Unit entitled the holder thereof to receive, without payment of any additional consideration or further action on the part of the holder, one common share of the Company and one half of one common share purchase warrant ("Warrant"). Each Warrant is exercisable at an exercise price of $0.375 per Warrant for a period of 2 years from the date of issuance. The Units converted into common shares and Warrants of the Company upon the completion of the Transaction.

In connection with the financing, the agent received selling commissions and corporate finance fees consisting of $290,000 in cash, 1,138,000 in Units and 1,960,000 agent options to acquire the equivalent of 1,960,000 Units at an exercise price of $0.25 per Unit for a term of 2 years from the date of issue (the "Agent Options").

We intend to use the net proceeds from this private placement to increase our working capital inventory and accelerate global expansion through organically increasing the number of deployed ATMs, along with pursuing highly synergistic asset or corporate acquisition opportunities.

Going Public Transaction

On June 11, 2021, we completed our previously announced QT with Red River. The Transaction was completed by way of a three-cornered amalgamation, pursuant to which 2283971 Alberta Ltd., a wholly-owned subsidiary of Red River, amalgamated with Old Bitcoin Well to form a newly amalgamated company, which now holds the assets of Bitcoin Well, as a wholly-owned subsidiary. Contemporaneous with the Transaction, Red River also changed its name to Bitcoin Well Inc.

Upon completion of the Transaction Bitcoin Well had 162,879,500 shares issued and outstanding on a non-diluted basis, with approximately 96% held by former Old Bitcoin Well shareholders and approximately 4% held by former Red River shareholders. Therefore, in substance, the Transaction involved Old Bitcoin Well shareholders obtaining control of the Company. Accordingly, the Transaction is a reverse take-over acquisition under which Old Bitcoin Well was identified as the accounting acquirer.

Red River did not meet the definition of a business under IFRS 3 Business Combinations prior to the Transaction. The Transaction is therefore accounted for in accordance with IFRS 2 Share-based Payments, whereby Old Bitcoin Well was deemed to have issued shares in exchange for the net assets of Red River at the fair value of the consideration paid by Old Bitcoin Well.

As a result of this asset acquisition, the excess of the consideration given over the fair value of the net assets acquired in the amount of $1,476,742 was recognizing as a listing expense for the three and six months ended June 30, 2021.

Acquisition of Paradime Ltd. – International Expansion

On May 7, 2021, we acquired 100% of the issued and outstanding shares of Paradime Ltd o/a AlphaVend ("AlphaVend"), a cryptocurrency ATM operator in the United Kingdom. AlphaVend is currently the second largest Bitcoin ATM operator in the United Kingdom and operated 26 machines across England, Scotland and Wales. This offers an established presence in key metropolitan centres such as London, Manchester and Glasgow.

This type of acquisition supports our goal of enabling the purchase and sale of bitcoin in the fastest and safest way possible and sets the stage for further growth in Europe and around the world. As there are more than 35 existing operators in the United Kingdom, we can continue to evaluate potential acquisition opportunities.

The aggregate consideration paid at closing consisted of (i) a cash payment of £100,000 (CAD $169,850) and the issuance of 6,000,000 common shares valued at £879,817 (CAD $1,494,369). The aggregate purchase price also included contingent consideration, which is payable as follows:

i. A cash payment of £711,000 (CAD $1,217,659 at June 30, 2021), payable upon the satisfaction of the following conditions:
   a. Receipt by the Company of a confirmation that AlphaVend has received a full FCA Registration from the Financial Conduct Authority ("FCA") of the United Kingdom provided that such registration is not subject to any conditions or terms, which are, in the sole discretion of the Company, onerous; and
   b. Receipt by the Company of a confirmation of approval by the FCA of any applications required in relation to the change of control of AlphaVend.

ii. Cash payments up to the aggregate value of £3,000,000 (CAD $5,137,800 at June 30, 2021), payable in monthly instalments equal to 35% of the aggregate gross margin of AlphaVend in each relevant month.

Payments of contingent consideration shall cease and be no longer payable as of May 7, 2024.

AlphaVend is currently conducting its operations under a temporary registration from the FCA. AlphaVend's operations will cease should any licensing changes occur that would result in a deemed non-compliance with FCA regulations. If we determine, in our sole discretion, that compliance with any pre-condition to obtain the full FCA Registration, or any condition or term of the Full FCA Registration, individually or taken in the aggregate with other pre-conditions or conditions, is onerous, then we may elect, at our option, to serve a notice of this determination to the sellers. Should this option be undertaken, we shall then provide the sellers the exclusive option to purchase all of the issued and outstanding shares of AlphaVend for the nominal purchase price of £1.0. No further payments of contingent consideration shall be payable to the sellers if we exercise this option.

Acquisition of Ghostlab Inc. – Software Development Company

Subsequent to June 30, 2021, we entered into a share purchase agreement to acquire Ghostlab Inc. ("Ghostlab"), a software development company that designs and develops software to improve the functionality and accessibility of modern financial technology and services, including Bitcoin ATM machines.

The purchase price for the non-arm's length acquisition of 100% of the issued and outstanding shares of Ghostlab is based on an enterprise value of up to $3.2 million, subject to the adjustments discussed below, and includes the assumption of approximately $1.8 million in negative equity. The aggregate consideration payable for Ghostlab will be as follows:

a) An amount equal to $800,000 payable in common shares of Bitcoin Well ("Common Shares");
b) The assumption of negative equity of approximately $1.8 million;
c) An earn-out of up to $600,000 payable in Common Shares (the "Earnout"). The Earnout is payable in equal installments of $150,000 predicated on achieving Net Revenue (as defined in the agreement) of $600,000, $1.5 million, $3.6 million, and $8.0 million, respectively within a 12 month period, prior to the fourth anniversary of the acquisition's Effective Date.

In the event the negative shareholders' equity of Ghostlab exceeds $1.8 million, the amount of the Earnout shall be reduced proportionately for every dollar of negative equity in excess of $1.8 million.

The number of Common Shares issuable pursuant to this acquisition, including pursuant to the Earnout, will be determined using the closing price of the Common Shares on the TSXV on the 11th day of trading of Bitcoin Well, or such other price as may be prescribed by the TSXV. As the Common Shares commenced trading on July 30, 2021, this mechanism shall allow for 10 full trading days of the Bitcoin Well Common Shares to occur prior to setting the price per Common Share for the transaction. The Closing price of the Common Shares on the TSXV on August 16, 2021 is $0.29. The total number of Common Shares issuable pursuant to this transaction is 4,827,586.

When acquired, we anticipate the Ghostlab division will bring technology that makes bitcoin more accessible and user friendly for the general public and will expand the future potential SaaS revenue stream for Bitcoin Well, including from ATM software, merchant services and additional crypto asset digital services.

Each of Adam O'Brien, Chief Executive Officer and Dave Bradley, Chief Revenue Officer, own 100% of the Common Shares of Ghostlab. Therefore, the transaction is a related party transaction under Multilateral Instrument 61-101. For the transaction, we are relying on the exemptions contained in sections 5.5(a) and 5.7(a), respectively, of Multilateral Instrument 61-101 from the valuation and minority shareholder requirements of that instrument as they apply to related party transactions since the fair market value of the acquisition is significantly less than 25% of the market capitalization of Bitcoin Well. The acquisition of Ghostlab was approved by the board upon recommendation of the independent special committee in accordance with the Company's related-party transaction policy.

Completion of the acquisition of Ghostlab is subject to, among other things, customary closing conditions and regulatory approvals, including the approval of the TSXV. There can be no assurance that these conditions precedent will be satisfied or that the proposed acquisition will be completed as proposed or at all.

KEY HIGHLIGHTS OF THE QUARTER

Financial Metrics:

- Revenue increased by over 405% to $41.7 million in Q2 2021 over Q2 2020. In addition, revenue for the six months ended June 30, 2021 increased by over 378% to $69.3 million compared to the six months ended June 30, 2020. The growth was due largely to an increase in active ATMs and an increase in over-the-counter ("OTC") and exchange sales. Included in Q2 2021 revenue was exchange sale transactions of $22.0 million with one customer, which is not expected to reoccur at these levels in future periods. Normalized revenue with this $22.0 million revenue removed was $19.7 million, representing growth of 139% over Q2 2020.

- Our average revenue generated per machine in Q2 2021 was $15,156 with an average transaction size per machine of $921 (Q2 2020 - $31,120 per machine and an average transaction size of $814). The decrease from the prior year was due to a number of factors, including (i) access to certain machines being restricted due to COVID 19 related restrictions and (ii) implementation of new KYC regulations in June 2021. We plan to address the decrease in average revenues per machine by utilizing targeted advertising to lower performing machine locations as COVID 19 restrictions change.

- We generated Adjusted EBITDA of negative $0.8 million in Q2 2021 compared to positive $0.5 million in Q2 2020. Although our gross profit was consistent year-over-year, we incurred significantly higher operating expenses in Q2 2021 to support our growth initiatives for the coming year. On a year-to-date basis, Adjusted EBITDA was negative $17 thousand for the six months ended June 30, 2021 compared to $0.5 million in 2020.

- We reported net income of $30 thousand for the quarter ended June 30, 2021, representing a decrease from net income of $37 thousand in Q2 2020.

Operational Metrics:

- In January 2021, we deemed our pilot program successful, in which we operated ghostATM (a cryptocurrency sales technology developed for multi-functional traditional ATM machines) in partnership with RapidCash ATM, one of Canada's largest independently owned ATM networks. The proven capability of this technology enables us to operate on additional multi-functional ATMs in Canada with little capital requirement. We note that ghostATM is a product developed by Ghostlab (see "Related Party Transactions") which we license. As of the date of this MD&A, we operate Ghostlab ATM software on 29 RapidCash machines, and 115 internally owned machines.

- We announced the development of a new corporate headquarters in the City of Edmonton. Our office will provide 35,000 square feet of collaborative workspace for Bitcoin Well to build community, inspire learning and innovation and be able to house our ongoing growth. Our headquarters will be a safe and inviting space for people to come and learn about bitcoin.

- In May 2021, we expanded our operations into the United Kingdom by acquiring AlphaVend, the second largest bitcoin ATM operator in the United Kingdom (see acquisition of Paradime Ltd above).

- A total of 46 new ATMs were added to our fleet through Q2 2021, which contributed to a total of 141 machines installed across Canada and 28 machines installed in the United Kingdom, as of June 30, 2021. A total of 76 machines have been added to our fleet for the six months ended June 30, 2021.

- During Q2 2021, we made multiple investments in private companies which operate within the cryptocurrency industry. These private investments totaled $136,000 in Q2 2021 and included:

    - A bitcoin mining company, that uses stranded energy to power its fleet of bitcoin miners, thus providing a more environmentally friendly way to mine bitcoin within Canada. We believe this investment will give us an inside look into the mining industry to better position ourselves to make strategic partnerships with other bitcoin miners as well as gain exposure to the bitcoin mining industry in passive form; and

    - A Know-Your-Customer (KYC) company that uses cutting edge biometrics, artificial intelligence, and blockchain technology to provide world class identify verification. We expect to be able to leverage the partnership with this Company to create better streamlined, innovative solutions for our customers KYC onboarding process.

- Subsequent to June 30, 2021, we acquired all of the assets of Crypto Kiosk Inc. ("Crypto Kiosk"), a cryptocurrency ATM operator in northern Ontario. The assets acquired consisted of 11 cryptocurrency ATMs plus associated proprietary accounts and all social media and other digital representations. Total consideration for the acquisition was $450,701, subject to certain adjustments. Of this consideration, $81,126 was paid in cash at closing with the balance of $369,575 to be paid as an earn-out over a 35-month period.

SELECTED FINANCIAL INFORMATION

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenue	$ 41,733,509	$ 8,267,887	$ 69,258,690	$ 14,489,332
Cost of coins	(40,576,682)	(7,128,317)	(65,798,702)	(12,857,625)
Gross profit	**1,156,827**	**1,139,570**	**3,459,988**	**1,631,707**
Gross profit margin	**3%**	**14%**	**5%**	**11%**
Operating expenses	(2,002,258)	(598,001)	(3,477,053)	(1,101,989)
Business acquisition and QT transaction costs	(466,792)	(177,335)	(564,363)	(238,556)
Depreciation and accretion	(273,936)	(140,914)	(542,405)	(211,855)
Net operating income (loss)	**$ (1,586,159)**	**$ 223,320**	**$ (1,123,833)**	**$ 79,307**
Fair value change - cryptocurrency	3,312,599	(135,414)	(1,945,922)	(135,414)
Gain (loss) on debt settlement	1,008	(13,783)	5,983	(57,145)
Listing expense	(1,476,742)	-	(1,476,742)	-
Share based compensation	(207,279)	-	(282,460)	-
Current income tax recovery	109,178	-	-	-
Deferred income tax (expense) recovery	(126,440)	-	478,290	-
Other	3,904	(37,537)	11,288	(32,203)
Net income (loss)	**$ 30,069**	**$ 36,586**	**$ (4,333,396)**	**$ (145,455)**
Listing expense	1,476,742	-	1,476,742	-
Business acquisition and QT transaction costs	466,792	177,335	564,363	238,556
Depreciation and accretion	273,936	140,914	542,405	211,855
Fair value change - cryptocurrency inventory	(3,904)	37,537	(8,807)	32,203
Fair value change - cryptocurrency loans	(3,312,599)	135,414	1,945,922	135,414
Foreign exchange	-	-	(2,481)	-
Income tax expense	17,262	-	(478,290)	-
Share based compensation	207,279	-	282,460	-
(Gain) loss on debt settlement	(1,008)	13,783	(5,983)	57,145
Adjusted EBITDA	**$ (845,431)**	**$ 541,569**	**$ (17,065)**	**$ 529,718**
Adjusted EBITDA Margin	-2.0%	6.6%	0.0%	3.7%

As at	**June 30, 2021**	**December 31, 2020**
Cash	$ 9,464,607	$ 4,054,551
Working capital	3,156,233	(2,936,197)
Total assets	27,516,860	12,124,150
Shareholders' equity (deficit)	8,232,167	(872,198)
Long-term financial liabilities	$ 2,560,666	$ 207,207

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2021

Revenue during Q2 2021 increased to $41.7 million, compared to $8.3 million in Q2 2020, representing a 405% increase. The significant increase in revenue resulted from deploying additional ATMs, as well as an increase in the amount of OTC and exchange transactions. Exchange sales reflect the revenue booked when customers sell us bitcoin at one price, and we are able to sell that bitcoin to cryptocurrency exchanges at a higher price, which demonstrates the success of our OTC growth strategy. We generated revenue through sales to cryptocurrency exchanges of $31.9 million (Q2 2020 - $1.1 million), of which $22.0 million was with one customer that is not expected to reoccur in future periods. Normalized revenue with this $22.0 million revenue removed was $19.7 million, representing growth of 139% over Q2 2020. OTC and exchange sales typically represent larger transactions at a lower fee, compared to ATM sales transactions.

The above change in sales mix resulted in a relatively stable gross profit in Q2 2021 of $1.2 million, compared to $1.1 million in Q2 2020. In addition, in Q1 2021, we strategically revised our internal asset holding targets, resulting in relatively less bitcoin being held as inventory compared to Q2 2020. However, because of the high level of inventory we previously held, we experienced a higher than normal gross profit margin in the comparative quarter ended June 30, 2020 due to an upward movement in bitcoin price during that quarter. The impact to our gross margins of bitcoin price movements has largely been eliminated beginning in Q1 2021 and onward as we now only hold only enough bitcoin in inventory as is required to facilitate an operating cycle.

Total operational expenses were $2.7 million in Q2 2021 compared to $0.9 million in Q2 2020. The increased operating expenses related primarily to an increased headcount, as well as professional fees and other costs incurred related to our public listing process and business acquisitions. Our headcount grew to 30 in Q2 2021, compared to 7 in Q2 2020, resulting in a cost of $0.7 million in Q2 2021 (Q2 2020 $0.1 million). Incurring these investments will allow us to accelerate our growth initiatives over the coming year as we work to significantly grow our ATM network, add OTC locations and pursue business acquisition opportunities.

Our operating expenses also included $0.3 million (Q2 2020 - $0.1 million) related to capital asset depreciation and interest accretion and $0.5 million (Q2 2020 - $0.2 million) related to legal fees for our public listing process and business acquisitions.

Non-operating costs in Q2 2021 included a gain on the revaluation of the cryptocurrency loans in the amount of $3.3 million (Q2 2020 - $0.1 million loss) that resulted from a decrease in the value of Bitcoin during the quarter. IFRS requires that we revalue our cryptocurrency loans at fair value at the end of each reporting period with the change recognized in the Statement of Income and Comprehensive Income. While this mark-to-market accounting treatment recognizes the unrealized gain or loss at a specific moment in time, it does not reflect a realized gain or loss.

Conversely, we also revalue our digital assets at fair value at the end of each reporting period with increases in value recognized in other comprehensive income. During the three months June 30, 2021, we recognized a revaluation loss on digital assets, net of tax, of $3.9 million. This loss also related to the decrease in the value of bitcoin during the quarter. However, unlike the gain on revaluation of the cryptocurrency loans, which is recognized in profit or loss, the loss on revaluation of our digital assets was recognized outside profit or loss in other comprehensive income, up to the amount of gains previously recorded in other comprehensive income.

As a result, changes in the unrealized value of our cryptocurrency loans and digital assets may result in significant swings in net income (loss) which are not indicative of the underlying operational performance of the business. Non-operating costs in Q2 2021 also included a non-recurring listing expense of $1.5 million related to the QT reverse-takeover transaction. As a result, we present Adjusted EBITDA to exclude the variability caused by the revaluations.

We generated Adjusted EBITDA of negative $0.8 million in Q2 2021 compared to positive $0.5 million in Q2 2020. Although our gross profit was consistent year-over-year, we incurred significantly higher operating expenses in Q2 2021 to support our growth initiatives for the coming year. This included significant investments in additional personnel to further grow our ATM network and OTC locations as well as higher professional fees and other related costs to pursue both organic growth opportunities and business acquisitions.

We reported net income of $30 thousand for the quarter ended June 30, 2021, representing a decrease from net income of $37 thousand in Q2 2020. The consistency in net income is primarily due to the recognition of a listing expense of $1.5 million and higher operating expenses during the quarter, offset by an unrealized gain on revaluation of cryptocurrency loans in the amount of $3.3 million.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2021

Revenue during the six months ended June 30, 2020 increased to $69.3 million, compared to $14.5 million in 2020, representing a 378% increase. Gross profit also increased to $3.5 million from $1.6 million in 2020 due to the higher revenue. The significant increase in revenue resulted from deploying additional ATMs and an increase in the amount of OTC and exchange transactions.

Total operational expenses were $4.6 million in the first half of 2021 compared to $1.6 million in 2020. The increased operating expenses related primarily to an increased headcount, as well as professional fees and other costs incurred related to our public listing process and business acquisitions. Our operating expenses also included $0.5 million (2020 - $0.2 million) related to capital asset depreciation and interest accretion and $0.5 million (2020 - $0.2 million) related to legal fees for our public listing process and business acquisitions.

Non-operating costs in the six months ended June 30, 2021 included a loss on the revaluation of cryptocurrency loans in the amount of $1.9 million (2020 - $0.1 million). Conversely, we recognized a revaluation gain on digital assets, net of tax, of $2.5 million within other comprehensive income. Both of these revaluation adjustments resulted from an increase in the value of bitcoin during the six-month period. However, unlike the loss on revaluation of the cryptocurrency loans, which is recognized in profit or loss, the gain on revaluation of our digital assets was recognized outside profit or loss in other comprehensive income.

On a year-to-date basis, Adjusted EBITDA was negative $17 thousand for the six months ended June 30, 2021, reflecting a decline from adjusted EBITDA of $0.5 million in 2020. Higher revenue and gross profit year-to-date in 2021 was offset by higher operating expenses.

We reported a net loss of $4.3 million for the six months ended June 30, 2021, representing a significant decline from the net loss of $0.1 million in 2020. The decrease was primarily due to the recognition of an unrealized loss on revaluation of cryptocurrency loans in the amount of $1.9 million and a listing expense of $1.5 million during the six months ended June 30, 2021.

SUMMARY OF QUARTERLY RESULTS

	2019 - Q3	2019 - Q4	2020 - Q1	2020 - Q2
Revenues	$ 3,787,122	$ 4,336,697	$ 6,221,445	$ 8,267,887
Cost of coins	(3,506,733)	(3,683,521)	(5,729,308)	(7,128,317)
Gross profit	280,389	653,176	492,137	1,139,570
Expenses including non-cash items	(301,460)	(755,818)	(674,178)	(1,102,984)
Income (loss) for the quarter	(21,071)	(102,642)	(182,041)	36,586
EPS - basic	$ (211)	$ (115)	$ (0.00)	$ 0.00
EPS - diluted	$ (211)	$ (115)	$ (0.00)	$ 0.00
Common shares outstanding				
Basic	892	892	111,010,900	115,146,708
Diluted	892	892	111,010,900	115,146,708

	2020 - Q3	2020 - Q4	2021 - Q1	2021 - Q2
Revenues	$ 14,615,607	$ 22,865,643	$ 27,525,181	$ 41,733,509
Cost of coins	(12,789,565)	(19,030,673)	(25,222,020)	(40,576,682)
Gross profit	1,826,042	3,834,970	2,303,161	1,156,827
Expenses including non-cash items	(2,583,155)	(5,675,421)	(6,666,626)	(1,126,758)
Income (loss) for the quarter	(757,113)	(1,840,451)	(4,363,465)	30,069
EPS - basic	$ (0.01)	$ (0.02)	$ (0.04)	$ 0.00
EPS - diluted	(0.01)	(0.02)	(0.04)	0.00
Common shares outstanding				
Basic	116,775,700	116,775,700	116,981,990	131,029,537
Diluted	116,775,700	116,775,700	116,981,990	139,209,551

Revenue in Q2 2021 increased by 52% to $41.7 million from $27.5 million in the previous quarter ended March 31, 2021 due to significantly higher OTC and exchange sales. Likewise, with the significant expansion of our business over the past two years, we have seen continuous growth in revenue over the past eight operating quarters.

Gross profit in Q2 2021 declined to $1.1 million from $2.3 million in the previous quarter ended March 31, 2021. A significant change in sales mix towards OTC and exchange sales from ATM revenue caused the decline. OTC and exchange sales typically represent larger transactions at a lower fee than ATM related sale transactions.

Net income for the three months ended June 30, 2021 increased to $30 thousand from a $4.4 million loss in Q1 2021. In Q2 2021, we recognized an unrealized gain on revaluation of cryptocurrency loans in the amount of $3.3 million due to a decline in the value of bitcoin over the past three months. Conversely, in Q1 2021, we reported an unrealized loss on revaluation of cryptocurrency loans of $5.3 million.

LIQUIDITY & CAPITAL RESOURCES

We define the capital that we manage as our shareholders' equity, loans payable – cryptocurrency and line of credit. Our objectives when managing capital are:

- Maintaining healthy liquidity reserves and access to capital.
- Ensuring sufficient liquidity to support our corporate and administrative functions as well as being able to execute on strategic initiatives.
- Minimizing the impact of the current market and economic conditions through active capital management.

We manage our capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. However, there can be no assurances that we will be able to obtain debt or equity capital in the future.

Cash increased to $9.5 million as at June 30, 2021 from $4.1 million at December 31, 2020. In addition, we had a working capital surplus of $3.2 million at June 30, 2021 compared to a working capital deficit of $2.9 million at December 31, 2020. The significant improvements in our cash and working capital positions were primarily due to the equity financing we completed in June 2021 for gross proceeds of $7.0 million.

Our ability to continue as a going concern and realize our assets and discharge our liabilities in the normal course of business is dependent upon maintaining a positive level of cash and working capital as well as keeping our cryptocurrency loans in good standing. A portion our cryptocurrency loans are from a company controlled by Adam O'Brien, the Chief Executive Officer of the Company, and the risk of the Company defaulting on the loan, or the loan being called by the creditor, are remote.

There are various risks and uncertainties affecting our operations including, but not limited to, the liquidity of bitcoin and other cryptocurrencies, our ability to keep our digital assets and physical machine assets secure, and our ability to maintain the host relationships required to execute our business plan. These risk factor could negatively impact our financial condition and liquidity in the future.

Our strategy to mitigate these risks and uncertainties is to execute a business plan with a focus on operational excellence, positive customer experience, revenue growth through additional partnerships, monitoring and adjusting sales margins to optimize competitiveness, managing operating expenses and working capital requirements, and securing additional means of financing for operations and inventory, as needed. However, given the limitations embedded within the financial markets, it may be difficult to raise traditional financing when needed. We have structured host location contracts extending up to 12-months into the future, which supports our ability to execute the business plan required to maintain adequate cash flows.

The prices of most cryptocurrencies are expected to remain volatile, due to continued speculation, conflicting media coverage, potential regulatory actions, and lawsuits against industry participants. This gives the Company and our investors exposure to the transactional side of the industry, which provides stability against any volatile swings of cryptocurrency. This has proved advantageous to the Company, as volatility can lead to increased speculative buying and selling of cryptocurrencies which provides us with additional revenue opportunities. We are non-custodial in that all inventory held is owned by the Company, and once bitcoin and other cryptocurrencies are sold to the consumer, we immediately transfer ownership of those bitcoin or other cryptocurrencies to the consumer.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Our related party transactions include:

- As at June 30, 2021, we had loans payable – cryptocurrency valued at $2,389,110 outstanding with the Chief Executive Officer of the Company.
- As at June 30, 2021, we had a $750,000 shareholder loan due to the Chief Executive Officer of the Company, that is convertible into common shares of the Company, at the option of the Chief Executive Officer.
- We have entered into a Software License Agreement with Ghostlab Inc. ("Ghostlab") that provides for support and licensing fees as well as the payment of expenses on behalf of Ghostlab. Ghostlab is a related company controlled by the Chief Executive Officer and Chief Revenue Officer of the Company. The Company also prepaid Ghostlab for certain software licensing fees, that are essential to the growth of the Company's ecosystem of bitcoin-related products.

Further details of all these related party transactions, and their financial impact is provided in the Financial Statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Unless otherwise noted, it is management's opinion that we are not exposed to significant interest rate, currency or credit risks arising from the financial instruments. The fair values of all of the financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments, except for the loans denominated in cryptocurrency, which are revalued at their fair value using the market rate using CoinMarketCap.com. Refer to Note 15 of our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2021 for further information on the Company's financial instruments.

RISK MANAGEMENT

We may be exposed to risks of varying degrees of significance which could affect our ability to achieve our strategic objectives. The main objectives of our risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which we are exposed are described below.

a) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay any amounts owed to the Company. Financial instruments that potentially subject us to a concentration of credit risk consist primarily of cash and related party receivables. We limit our exposure to credit loss by placing our cash with high credit quality financial institutions. The related party receivable is from a corporation who is heavily integrated in the business and is controlled by the Chief Executive Officer of the Company, as such, management's assessment of our exposure to credit risk is low.

In order to protect our shareholders, we do not hold our bitcoin assets with any counterparty, as to avoid any counter-party risk. Instead, we have implemented rigorous levels of internal controls to ensure the safety and security of our digital assets, including but not limited to multi-signature wallets, the use of cold storage wallets, and signing authority limitations.

b) Liquidity Risk

Liquidity risk is the risk that we are not able to meet our financial obligations as they fall due. Specific liquidity risk is discussed in the Financial Statements.

c) Market Risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk affect the fair values of financial assets and liabilities. Specific market risk is discussed in the Financial Statements.

DISCLOSURE OF OUTSTANDING SHARE DATA

Common Shares

As of the date of this MD&A, Bitcoin Well has issued and outstanding 162,879,500 common shares. In addition, the company had the following securities potentially convertible into common shares:

i) 5,621,042 stock options to purchase common shares;
ii) 14,569,000 Warrants to purchase common shares at an exercise price of $0.375 per share;
iii) 1,960,000 agent options to acquire Units of the company at an exercise price of $0.25 per share. Each Unit entitles the holder thereof to receive, without payment of any additional consideration or further action on the part of the holder, one common share of the Company and one half of one Warrant; and
iv) a shareholder loan of $750,000, which is convertible into 6,250,000 common shares.

RISK FACTORS

Our business, operating results and financial condition could be adversely affected by any of the risks outlined and discussed in the Financial Statements and this MD&A.

COMPETITION

We are exposed to the risk of increased competition in the bitcoin ATM industry. We have addressed this risk by developing proprietary software for our ATMs, which operationally set them apart from our competitors, offering a superior customer experience, as well as partnering and contracting with top-tier hosts to place ATMs in the best possible locations, with exclusivity terms.

The regulatory environment in which we operate is always changing and presents new challenges. We have established ourself as a leader in regulatory understanding and compliance, and through our strategic partnerships with industry leading compliance and regulatory experts, we understand the regulatory landscape and the expected changes to the playing field. This proactive approach allows us to plan ahead and adapt our service offerings accordingly. Having invested time and resources in understanding this risk has allowed us to operate at a significant advantage over any of the competition in the bitcoin ATM industry.

ADDITIONAL FUNDING REQUIREMENTS

Further expansion of our business in Canada and internationally will require additional capital, and the ongoing costs of operations may not generate positive cash flow for the near or long term. Although we believe we have adequate funds to operate for the foreseeable future, there is no assurance that we will be successful in obtaining the required financing for these or other purposes, including for general working capital. Our ability to secure any required financing to sustain operations will depend in part upon prevailing capital market conditions and business success. There can be no assurance that we will be successful in our efforts to secure any additional financing or additional financing on terms satisfactory to management. If additional financing is raised by issuance of additional shares from treasury, control may change, and shareholders may suffer dilution. If adequate funds are not available, or are not available on acceptable terms, we may be required to scale back our current business plan or cease operating.

MARKET RISK FOR SECURITIES

The market price for our common shares may be subject to wide fluctuations. Factors such as government regulation, cryptocurrency price fluctuations, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of our securities. The stock market has, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies. There also can be no assurance that an active trading market for our common shares will be sustained in the future.

BITCOIN AND CRYPTOCURRENCY INDUSTRY

The further development and acceptance of the bitcoin and other cryptocurrency industry is subject to a variety of factors that are difficult to anticipate and evaluate. The use of bitcoin and other cryptocurrencies to buy and sell goods and services, among other things, is a new and rapidly evolving industry. Although it is widely predicted that bitcoin and other cryptocurrencies will become a leading means of digital payment, it cannot be assured that this will in fact occur. Any slowing or stopping of the development in the acceptance of bitcoin and other cryptocurrencies may adversely affect an investment in us. For a number of reasons, including for example the lack of recognized security technologies, inefficient processing of payment transactions, problems in the handling of warranty claims, limited user-friendliness, inconsistent quality, and lack of clear universally applicable regulation as well as uncertainties regarding proprietary rights and other legal issues, bitcoin and other cryptocurrency activities may in fact prove in the long run to be an unprofitable means for businesses. Factors affecting the further development of the bitcoin and other cryptocurrency industry include: (i) continued worldwide growth in the adoption and use of bitcoin and other cryptocurrencies; (ii) government and quasi-government regulation of bitcoin and other cryptocurrencies and their use, or restrictions on or regulation of access to and operation of bitcoin and other cryptocurrency systems; (iii) changes in consumer demographics and public tastes and preferences; (iv) the availability and popularity of other forms or methods of buying and selling goods and services; and (v) the regulatory environment and general economic conditions and the regulatory environment related to bitcoin and other cryptocurrencies. A decline in the popularity or acceptance of bitcoin and other cryptocurrencies would harm our business.

SUBJECTION TO REGULATORY ACTIONS OR CHANGES

As cryptocurrencies have grown in both popularity and market size, governments around the world have reacted differently to bitcoin and other cryptocurrencies, with certain governments deeming them illegal while others have allowed their use and trade. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, our ability to continue to operate. The effect of any future regulatory change on the ability to buy and sell bitcoin and other cryptocurrencies is impossible to predict, but such change could be substantial and have a material adverse effect on us.

Governments may in the future take regulatory actions that prohibit or severely restrict the right to acquire, own, hold, sell, use or trade bitcoin or other cryptocurrencies or to exchange cryptocurrencies for fiat currency. By extension, similar actions by other governments, may result in the restriction of the acquisition, ownership, holding, selling, use or trading in our common shares. Such a restriction could result in us having to liquidate our cryptocurrency inventory at unfavorable prices and may adversely affect our shareholders.

IMPACT OF BITCOIN AND OTHER CRYPTOCURRENCY VALUE MAY AFFECT OPERATIONS

The markets for bitcoin and other cryptocurrencies have experienced much larger fluctuations than other markets, and there can be no assurances that erratic swings in price will slow in the future. In the event that the price of bitcoin or other cryptocurrencies declines, the value of an investment in us will likely decline. Several factors may affect the price and volatility of bitcoin and other cryptocurrencies including, but not limited to: (i) global bitcoin and other cryptocurrency demand, depending on the acceptance of bitcoin and/or other cryptocurrencies by retail merchants and commercial businesses; (ii) the perception that the use and holding of bitcoin or other cryptocurrencies is safe and secure, and the related lack of or inconsistency in regulatory restrictions, particularly across various jurisdictions; (iii) conversely, heightened regulatory measures restricting the use of bitcoin and/or other cryptocurrencies as a form of payment or the purchase of bitcoin and/or other cryptocurrencies; (iv) investor's expectations with respect to the rate of inflation; (v) interest rates; (vi) currency exchange rates, including exchange rates between various cryptocurrencies and fiat currency; (vii) fiat currency withdrawal and deposit policies on cryptocurrency exchanges and liquidity on such cryptocurrency exchanges; (viii) interruption of services or failures of major cryptocurrency exchanges; (ix) general governmental monetary policies, including trade restrictions, and currency revaluations; (x) global or regional political, economic or financial events and situations, including increased threat of terrorist activities; and/or (xi) self-fulfilling expectations of changes in the bitcoin and/or other cryptocurrency market. As well, momentum pricing is typically associated with assets whose valuation, as determined by the investing public, accounts for anticipated future appreciation in value. Momentum pricing of bitcoin or other cryptocurrencies may result in speculation regarding future appreciation in their value. As a result, changing investor confidence could adversely affect an investment in us.

RESTRICTIONS ON BANKING

A number of companies that provide cryptocurrency-related services have been unable to find banks that are willing to provide them with bank accounts and banking services. Similarly, a number of such companies have had their existing bank accounts closed by their banks. Banks may refuse to provide bank accounts and other banking services to cryptocurrency-related companies or companies that accept cryptocurrencies for a number of reasons, such as perceived compliance risks or costs. The difficulty that many businesses which provide cryptocurrency-related services have and may continue to have in finding consistent banking services may decrease the usefulness of cryptocurrencies as a payment system and harm its public perception in the future. Similarly, the usefulness of cryptocurrencies as a payment system and the public perception of cryptocurrencies could be damaged if banks were to close the accounts of key businesses providing cryptocurrency-related services.

ACCEPTANCE OF BITCOIN AND OTHER CRYPTOCURRENCIES

Currently, there is a relatively small use of cryptocurrencies in the retail and commercial marketplace in comparison to relatively large use by speculators, thus contributing to price volatility that could adversely affect our operations, investment strategies, and profitability. As relatively new products and technologies, bitcoin and other cryptocurrencies have not been widely adopted as a means of payment for goods and services by major retail and commercial outlets. Conversely, a significant portion of bitcoin and other cryptocurrency demand is generated by speculators and investors seeking to profit from the short-term or long-term holding of cryptocurrencies. The relative lack of acceptance of cryptocurrencies in the retail and commercial marketplace limits the ability of end-users to use them to pay for goods and services. A lack of expansion by cryptocurrencies into retail and commercial markets, or a contraction of such use, may result in increased volatility or a reduction in their market prices, either of which could adversely impact our business.

MISUSE OF BITCOIN AND OTHER CRYPTOCURRENCIES

Since the existence of cryptocurrencies, there have been attempts to use them for speculation or malicious purposes. Although law makers increasingly regulate the use and applications of bitcoin and other cryptocurrencies, and software is being developed to curtail speculative and malicious activities, there can be no assurances that those measures will sufficiently deter those and other illicit activities in the future. Advances in technology, such as quantum computing, could lead to a malicious actor or botnet (a volunteer or hacked collection of computers controlled by networked software coordinating the actions of the computers) being able to alter the blockchain on which bitcoin and other cryptocurrency transactions rely. In such circumstances, the malicious actor or botnet could control, exclude or modify the ordering of transactions, or generate new cryptocurrency or transactions using such control. The malicious actor or botnet could double spend its own cryptocurrency and prevent the confirmation of other users' transactions for so long as it maintains control. Such changes could adversely affect an investment in us.

UNINSURABLE RISKS

We intend to insure our operations in accordance with technology industry practice. However, given the novelty of the proposed business, such insurance may not be available, uneconomical, or the nature or level may be insufficient to provide adequate insurance coverage. We may become subject to liability for hazards against which we cannot insure or against which we may elect not to insure because of high premium costs or for other reasons. The payment of any such liabilities would reduce or eliminate the funds available for operations. Payments of liabilities for which we do not carry insurance may have a material adverse effect on our financial position.

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, we have our investments highly concentrated in a single cryptographic asset, bitcoin. This risk exposure is mitigated in part, but having our loans payable – cryptocurrency also denominated in bitcoin.

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.