
HYDRO66 HOLDINGS CORP.
(formerly “CAZA GOLD CORP.”)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2018 AND 2017

(Unaudited - Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian Dollars)

	Note	Sep 30, 2018 \$	Dec 31, 2017 \$
ASSETS			
Current assets			
Cash		2,175,382	1,690,815
VAT / GST receivable		611,826	459,606
Amounts receivable and prepaids	7	<u>3,036,718</u>	<u>860,665</u>
Total current assets		<u>5,823,926</u>	<u>3,011,086</u>
Non-current assets			
Property, plant and equipment	8	14,535,326	8,171,684
Intangible assets (digital currencies)	9	<u>522,630</u>	<u>286,898</u>
Total non-current assets		<u>15,057,956</u>	<u>8,458,582</u>
TOTAL ASSETS		<u>20,881,882</u>	<u>11,469,668</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	<u>4,414,587</u>	<u>2,104,284</u>
TOTAL LIABILITIES		<u>4,414,587</u>	<u>2,104,284</u>
SHAREHOLDERS' EQUITY			
Share capital	11	25,549,124	14,571,127
Share option reserve		1,013,688	208,386
Foreign exchange reserve		(1,118,033)	(137,803)
Deficit		<u>(8,977,484)</u>	<u>(5,276,326)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>16,467,295</u>	<u>9,365,384</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>20,881,882</u>	<u>11,469,668</u>

Nature of Operations and Going Concern – see Note 1

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on November 27, 2018 and are signed on its behalf by:

David Rowe
 Director “David Rowe”

Richard Croft
 Director “Richard Croft”

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited - Expressed in Canadian Dollars)

	Note	Three months ended Sep 30,		Nine months ended Sep 30,	
		2018	2017	2018	2017
		\$	\$	\$	\$
Revenue		2,880,058	719,931	5,704,541	1,482,044
Cost of sales					
Direct costs (power)		2,123,579	288,460	3,960,903	567,133
Depreciation	8	305,320	190,561	779,601	525,454
		<u>2,428,899</u>	<u>479,021</u>	<u>4,740,504</u>	<u>1,092,587</u>
Expenses					
Accounting and administration		1,692	11,321	60,887	18,131
Audit		21,892	-	56,797	-
Bank charges		1,246	527	8,852	1,236
Legal and professional fees		127,867	74,154	516,247	251,913
Marketing and promotion		134,663	62,043	201,290	217,626
Management fees, salaries & wages		473,231	139,786	1,234,823	626,424
Office		46,010	52,553	117,095	89,550
Regulatory and filing		29,700	-	35,588	-
Share based compensation	11(d)	265,238	-	1,013,688	-
Technical support and security costs		191,726	42,931	496,135	164,083
Travel		59,058	63,888	230,050	147,603
Other operating expenses		26,124	159,580	239,202	55,489
		<u>1,378,447</u>	<u>606,783</u>	<u>4,210,654</u>	<u>1,572,055</u>
Loss before other items		<u>(927,288)</u>	<u>(365,873)</u>	<u>(3,246,617)</u>	<u>(1,182,598)</u>
Other items					
Interest and other income / (expense)		(1,095)	30	(3,178)	30
Foreign exchange loss / (gain)		(427,136)	481,829	(955,702)	(353,720)
Acquisition and listing expenses		-	-	1,413,421	-
		<u>428,231</u>	<u>(481,859)</u>	<u>(454,541)</u>	<u>353,690</u>
Net (loss) income for the period		<u>(499,057)</u>	<u>(847,732)</u>	<u>(3,701,158)</u>	<u>(828,908)</u>
Other comprehensive income / (loss) for the period		(342,429)	1,265,165	(980,230)	1,012,124
Comprehensive (loss) income for the period		<u>(841,486)</u>	<u>417,433</u>	<u>(4,681,388)</u>	<u>183,216</u>
Income (loss) per share – basic		\$(0.007)	\$0.38	\$(0.048)	\$0.17
Weighted average number of common shares outstanding – basic		<u>127,000,000</u>	<u>1,087,084</u>	<u>98,111,111</u>	<u>1,087,084</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian Dollars)

Nine months ended Sep 30, 2018

	Share capital	Share capital	Share option reserve	Debenture	FX reserve	Deficit	Total Equity
	Number of shares	Amount \$	\$	\$	\$	\$	\$
Balance at December 31, 2017	1,087,084	14,571,127	208,386	-	(137,803)	(5,276,326)	9,365,384
Conversion of share options in Hydro66 UK Ltd	45,978	81,175	(208,386)	-	-	-	(127,211)
Acquisition of Hydro66 UK Ltd shares by Arctic Blockchain Limited	(1,133,062)	-	-	-	-	-	-
Issue of share capital (note 11)	5,000,000	50,000	-	-	-	-	50,000
Issue of shares to acquire Hydro66 UK Ltd (note 3)	100,000,000	-	-	-	-	-	-
Debenture financing (note 11)	-	-	-	10,000,000	-	-	10,000,000
Conversion of debenture	20,000,000	10,000,000	-	(10,000,000)	-	-	-
Issue of shares to acquire Caza (note 4)	2,000,000	1,000,000	-	-	-	-	1,000,000
Share issuance costs	-	(153,178)	-	-	-	-	(153,178)
Share based compensation (note 11)	-	-	1,013,688	-	-	-	1,013,688
Net loss for the period	-	-	-	-	-	(3,701,158)	(3,701,158)
Foreign exchange movement	-	-	-	-	(980,230)	-	(980,230)
Balance at September 30, 2018	127,000,000	25,549,124	1,013,688	-	(1,118,033)	(8,977,484)	16,467,295

Nine months ended Sep 30, 2017

	Share capital	Share capital	FX reserve	Deficit	Total Equity
	Number of shares	Amount \$	\$	\$	\$
Balance at December 31, 2016	919,611	11,601,062	(47,030)	(4,597,552)	6,956,480
Issue of share capital	167,473	2,654,192	-	-	2,654,192
Net loss for the period	-	-	-	(828,909)	(828,909)
Foreign exchange movement	-	-	1,012,124	-	1,012,124
Balance at September 30, 2017	1,087,084	14,255,254	965,094	(5,426,461)	9,793,887

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian Dollars)

	Nine months ended Sep 30,	
	2018	2017
	\$	\$
Operating activities		
Net income / (loss) for the period	(3,701,158)	(828,908)
Adjustments for:		
Depreciation of property, plant and equipment	779,601	525,454
Increase in intangible assets	(324,648)	(756,444)
Share based compensation	1,013,688	-
Acquisition and listing expenses	1,413,421	-
Finance expenses	(3,178)	-
Net changes in working capital	(745,537)	116,130
Cash (used in) / from operations	(1,567,811)	(943,768)
Investing activities		
Additions to property, plant and equipment	(7,898,897)	(1,950,697)
Proceeds from disposal of intangible assets	67,870	464,984
Net cash used in investing activities	(7,831,027)	(1,485,713)
Financing activities		
Proceeds from debenture issuance	10,000,000	-
Issuance of share capital	50,000	2,685,616
Net cash from financing activities	10,050,000	2,685,616
Net change in cash	651,162	256,135
Cash at beginning of period	1,690,815	2,395,726
Effect of exchange rate	(166,595)	(283,274)
Cash at end of period	2,175,382	2,368,587

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited - Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Nature of Operations

Arctic Blockchain Limited (“Arctic”) was incorporated on December 4, 2017 under the provisions of the Company Act (British Columbia).

On February 28, 2018, Arctic completed a share purchase agreement with Hydro66 UK Limited whereby Arctic acquired Hydro66 UK Limited in exchange for 100,000,000 common shares at a deemed price per share of \$0.50 and 25,000,000 common share purchase warrants exercisable at a price of \$0.75 per common share for a period of two years from the completion of a liquidity event. See also note 3. Arctic subsequently completed an amalgamation with Caza Gold Corp (“Caza”), as described in note 4, and the amalgamated entity (the “Company”) became a reporting issuer on the Canadian Securities Exchange (“CSE”) as Hydro66 Holdings Corp. under the trading symbol “SIX”.

The Company’s head office is located at 15 Percy Street, London, W1T 1DS, United Kingdom and its registered office is located at 736 Granville St., Suite 1100, Vancouver, BC V6Z 1G3, Canada.

Going concern

The Company’s principal activity is the provision of colocation services. These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business operations for the foreseeable future. During the nine months ended September 30, 2018 the Company invested in expanding its capacity. 7.6 MW became available for sale in Q2, a further 4 MW in September 2018 and a further 4 MW in October 2018. The Company expects to realize these assets to discharge its liabilities in the normal course of business operations for the foreseeable future. During the nine months ended September 30, 2018 the Company incurred a loss of \$3,701,158 and, as at September 30, 2018, the Company had positive working capital of \$1,409,339 and an accumulated deficit of \$8,977,484. These condensed consolidated interim financial statements do not reflect any adjustments related to conditions that occurred subsequent to September 30, 2018.

2. Statement of Compliance and Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”), and its interpretations, using accounting policies consistent with International Financial Reporting Standards (“IFRS”). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB and interpretations of the IFRS Interpretations Committee (“IFRIC”). The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company’s consolidated financial statements for the year ended December 31, 2017.

Basis of Measurement

The Company’s condensed consolidated interim financial statements have been prepared on the historical cost basis.

Details of the Group

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

As at September 30, 2018 the Company had five wholly-owned subsidiaries: Hydro66 Canada Limited, a company incorporated under the jurisdiction of British Columbia (Canada), Hydro66 UK Limited, a company incorporated under the jurisdiction of England and Wales on May 7, 2014; Megamining Limited, a company incorporated under the jurisdiction of England and Wales on January 17, 2014; Hydro66 Svenska AB, a company incorporated under the jurisdiction of Sweden on April 25, 2014 and Hydro66 Services AB, a company incorporated under the jurisdiction of Sweden on May 4, 2015.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited - Expressed in Canadian Dollars)

3. Corporate Reorganization

Hydro66 UK Limited and the shareholders of Hydro66 UK Limited entered into a share purchase agreement, dated February 15, 2018 pursuant to which Arctic issued 100,000,000 common shares to the Hydro66 UK Limited shareholders to acquire (the “Acquisition”) all of the issued and outstanding common shares of Hydro66 UK Limited. The Acquisition was completed on February 28, 2018.

The Acquisition resulted in the former shareholders of Hydro66 UK Limited holding the majority interest in Arctic. The Acquisition is not considered to be a business combination for accounting purposes as Arctic is not considered to be a business for accounting purposes. The Acquisition has been accounted for in the condensed consolidated interim financial statements as the continuation of the financial statements of Hydro66 UK Limited together with an issuance of common shares, equivalent to the common shares held by the former shareholders of Arctic, and a recapitalization of the equity of Hydro66 UK Limited. In accounting for this transaction:

- (i) Hydro66 UK Limited was deemed to be the parent company for accounting purposes. Accordingly, its net assets were included in the Consolidated Interim Statement of Financial Position at their historical book value; and
- (ii) control of the net assets of Arctic was acquired on the Effective Date.

For comparative purposes, the condensed consolidated interim financial statements continuity presented herein is that of Hydro66 UK Limited.

The table below shows the net assets of Arctic which were effectively acquired by Hydro66 UK Limited on February 28, 2018.

	\$
ASSETS	
Cash	35,503
GST receivable	41,758
Trade and other receivables	704,024
Advance to Hydro66 UK Limited	<u>9,000,000</u>
Total current assets	<u>9,781,285</u>
TOTAL ASSETS	<u><u>9,781,285</u></u>
Accounts payable and accrued liabilities	<u>11,492</u>
TOTAL LIABILITIES	<u>11,492</u>
SHAREHOLDERS’ EQUITY	
Share capital	50,000
Debenture subscriptions	10,000,000
Deficit	<u>(280,207)</u>
TOTAL SHAREHOLDERS’ EQUITY	<u>9,769,793</u>
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	<u><u>9,781,285</u></u>

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited - Expressed in Canadian Dollars)

4. Transaction

On March 12, 2018, Arctic entered into a letter of intent with Caza providing for the amalgamation of Caza and Arctic to form the Company. On June 6, 2018, Caza and Arctic entered into a business combination agreement (the “Amalgamation Agreement”) whereby Arctic would complete an amalgamation pursuant to the Amalgamation Agreement under the provisions of the BCBCA (the “Amalgamation”) and upon the completion of the Amalgamation, Arctic would become a reporting issuer listed on the CSE. The Amalgamation was completed on June 8, 2018. Prior to the Amalgamation, the common shares of Caza were consolidated on a 76.3945 to 1 basis, following which there were 2,000,000 common shares issued and outstanding immediately prior to the Amalgamation.

The condensed consolidated interim statement of financial position gives effect to the following assumptions and adjustments:

- (a) Arctic is the deemed acquirer, and issued 2,000,000 common shares to acquire 100% of the issued and outstanding common shares of Caza.
- (b) Share capital, contributed surplus and the deficit of Caza are eliminated.

The fair value of the consideration is as follows:

Issuance of 2,000,000 common shares to the former shareholders of Caza	\$1,000,000
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The allocation of the consideration is as follows:

Trade and other receivables	\$3,699
Trade and other payables	(\$30,895)
Listing costs expensed	\$972,804

Value attributed to shares issued	\$1,000,000
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Pursuant to the terms of the Amalgamation Agreement, each former shareholder of Arctic received one (1) post-consolidation common share of Caza for every one (1) Arctic common share held by such shareholder. Arctic had 105,000,000 shares outstanding prior to the completion of the Amalgamation. Immediately prior to listing on the CSE an additional 20,000,000 Caza common shares and 20,000,000 common share purchase warrants, exercisable at \$0.75 for a period of two years from June 8, 2018 in connection with the automatic conversion of the convertible debentures in the principal amount of \$10,000,000 held by Arctic securityholders, were issued.

5. Sources of Estimation and Key Judgements

The key sources of estimation at the reporting date are discussed below:

a) Digital currency recognition and valuation

The Company recognizes revenue from the provision of transaction verification services within digital currency networks. As consideration for these services, the Company receives digital currency from each specific network in which it participates.

Revenue is measured based on the fair value of the currency received. The fair value is determined using the spot price of the currency on the date of receipt. Digital currencies are treated as intangible assets and carried at the spot rate on the date of receipt.

Digital currencies are a new type of currency available only in digital form and are deemed to be intangibles assets under IAS38. The cost model has been applied to digital currencies.

The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies could have a significant impact on the Company’s earnings and financial position.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited - Expressed in Canadian Dollars)

6. Critical Accounting Policies

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services, stated net of discounts and returns. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities. Revenue represents amounts invoiced for the provision of data centre services, including space and power.

The Company also recognizes revenue from the provision of transaction verification services within digital currency networks. As consideration for these services, the Company receives digital currency from each specific network in which it participates.

Revenue is measured based on the fair value of the currency received. The fair value is determined using the spot price of the currency on the date of receipt. The currency is recorded on the statement of financial position, as an intangible asset at the spot rate. Realised gains or losses, as well as gains or losses on the sale of currency for traditional (fiat) currencies are included in profit and loss. There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting of digital currencies and management has exercised significant judgement in determining appropriate accounting treatment. Management has examined various factors surrounding the substance of the Company's operations and the guidance in IAS 18, Revenues, including the stage of completion being the completion and addition of a block to a blockchain and the reliability of the measurement of the digital currency received. In the event authoritative guidance is enacted by the IASB, the Company may be required to change its policies which could result in a change in the Company's financial position and earnings.

Property, plant and equipment

Property, plant and equipment are stated at cost at acquisition less accumulated depreciation. Cost includes the original purchase price for the asset and costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on all property, plant and equipment to write off the cost, less any residual value, on a straight-line basis over the expected useful economic lives of the assets concerned by applying the following annual rates

Office equipment	3 years
Plant and machinery	3 – 25 years
Buildings	50 years

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An asset's carrying amount is written down immediately to its recoverable amount (higher of an asset's fair value less costs to sell and value in use) if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the consolidated income statement.

Trade payables

Trade payables are either obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers or transaction obligations for amounts due to end customer.

Trade payables are classified as current liabilities if settlement is due within one year or less. If not, they are presented as non-current liabilities.

Operating Leases

Rentals applicable to operating leases where substantially all the benefits and risks of ownership do not transfer to the lessee are charged to the income statement on a straight-line basis over the period of the lease.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited - Expressed in Canadian Dollars)

6. Critical Accounting Policies (continued)

Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the UK and Sweden where the Group operates and generates taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of the assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferring income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions and contingencies

A provision is recognised in the statement of financial position when the Company has a legal obligation or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made. Provisions are discounted. If the obligation cannot be reliably measured, it is classified as a contingent liability.

Pension scheme arrangements

The Company operates a defined contribution pension schemes for the benefit of employees. The amount charged to the profit and loss account is the contribution payable by the Company in the year.

Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (*“the functional currency”*). *The Company's entities' functional currencies are the Swedish Krona and Pounds Sterling. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.*

(i) Hydro66 Svenska AB and Hydro66 Services AB

Hydro66 Svenska AB and Hydro66 Services AB have the Swedish Krona (SEK) as the functional currency. Assets and liabilities of these entities are therefore translated into Canadian dollars using the report date closing exchange rate. Income and expenses are translated into Canadian dollars at the average exchange rate over the reporting period. Exchange differences are presented in other comprehensive loss and recognized in the foreign currency translation reserve.

(ii) Hydro66 UK Limited and Megamining Limited

The financial statements of Hydro66 UK Limited and Megamining Limited have Pounds Sterling (GBP) as the functional currency. Assets and liabilities of these entities are therefore translated into Canadian dollars using the report date closing

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited - Expressed in Canadian Dollars)

6. Critical Accounting Policies (continued)

exchange rate. Income and expenses are translated into Canadian dollars at the average exchange rate over the reporting period. Exchange differences are presented in other comprehensive loss and recognized in the foreign currency translation reserve.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation to year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Government Grants

Government grants related to fixed assets, are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, the grant is recognised in profit or loss over the life of the depreciable asset as a reduced depreciation expense.

Receivables

Receivables are non-derivative financial assets with a fixed or determinable payment that are not quoted in an active market. After initial recognition loans and receivables are carried at amortised cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Assets carried at amortised cost

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the group will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits with a maturity of three months or less.

Intangible assets - Digital currency valuation

Digital currencies consist of cryptocurrency denominated assets such as Bitcoin and Litecoin; and are included in non-current assets as an intangible asset. Digital currencies are treated as intangible assets and carried at the spot rate they were earned at. The fair value is determined using the spot price of the currency on the date of receipt. Gain or loss is recognised in the profit and loss account at the point of sale. Digital currency is not amortised as the directors consider that it has an indefinite useful life. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

De-recognition of liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

HYDRO66 HOLDINGS CORP. (formerly “CAZA GOLD CORP.”)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited - Expressed in Canadian Dollars)

7. Amounts Receivable and Prepaids

	Sep 30, 2018	Dec 31, 2017
	\$	\$
Current trade receivables	1,497,624	130,729
Prepayments and other debtors	269,055	392,066
Energy tax rebate	1,270,039	337,870
Total current trade and other receivables	3,036,718	860,665

8. Property and Equipment

	Land & Buildings	Plant & Machinery	Office Equipment	Total
	\$	\$	\$	\$
Cost				
At December 31, 2017	4,617,005	4,789,416	61,260	9,467,681
Additions	1,559,139	6,339,498	-	7,898,897
Effect of foreign exchange	(333,417)	(525,363)	(856)	(859,636)
At September 30, 2018	5,842,987	10,603,551	60,404	16,506,942
Accumulated Depreciation				
At December 31, 2017	126,537	1,112,118	57,342	1,295,997
Depreciation for period	61,430	718,171	-	779,601
Effect of foreign exchange	(9,848)	(93,333)	(801)	(103,982)
At September 30, 2018	178,119	1,736,956	56,541	1,971,616
Net book value				
At September 30, 2018	5,664,868	8,866,595	3,863	14,535,326
At December 31, 2017	4,490,468	3,677,298	3,918	8,171,684

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9. Intangible Assets (digital currencies)

Digital currencies are a new type of currency available only in digital form and are deemed to be intangibles assets under IAS38. The cost model has been applied to digital currencies. Digital currency is not amortised as the directors consider that it has an indefinite useful life.

	\$
Cost	
As at December 31, 2016	349,525
Additions	988,416
Disposals	(1,057,912)
Effect foreign exchange	(6,869)
As at December 31, 2017	286,898
Additions	324,648
Disposals	(67,870)
Effect of foreign exchange	(21,046)
At September 30, 2018	522,630

10. Accounts Payable and Accrued Liabilities

	Sep 30, 2018	Dec 31, 2017
	\$	\$
Trade payables	2,245,770	1,106,210
Other payables	189,305	430,845
Accrued expenses	1,979,512	567,229
Total trade and other payables	4,414,587	2,104,284

11. Share Capital

(a) Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) Reconciliation of changes in share capital

On February 23, 2018 Arctic completed a private placement of 5,000,000 units, at \$0.01 per unit, for gross proceeds of \$50,000. Each unit consisted of one common share of the Company and one share purchase warrant entitling the holder to purchase an additional common share at a price of \$0.50 per share for a period of one year from Listing.

The Company issued 100,000,000 common shares for the Acquisition as described in note 3.

(c) Debenture financing

On February 27, 2018 Arctic completed a debenture financing for gross proceeds of \$10,000,000. The debentures were non-secured, without terms of interest and matured on February 27, 2023. The debentures also had a mandatory

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11. Share Capital (continued)

conversion feature requiring conversion into units of the Company at a conversion price of \$0.50 per unit in the event the Company completed a liquidity event, which included a public offering of the Company’s common shares or any transaction in which all of substantially all of the Company’s outstanding common shares are exchanged for securities of another listed issuer (collectively the “Listing”). Upon conversion, each unit comprised of one common share of the Company and one share purchase warrant entitling the holder to purchase an additional common share at an exercise price of \$0.75 per share, exercisable for a period of two years from Listing. The Company paid a finder’s fee of \$48,000 and \$73,355 for legal costs associated with the financing. The Listing completed on June 13, 2018. Immediately prior to listing on the CSE an additional 20,000,000 Caza common shares and 20,000,000 common share purchase warrants, exercisable at \$0.75 for a period of two years from June 8, 2018 in connection with the automatic conversion of the convertible debentures in the principal amount of \$10,000,000 held by Arctic securityholders, were issued. Refer to Note 4.

(d) Stock options

The Company has established a rolling Stock Option Plan (the “Plan”). Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares. The exercise price of each option shall not be less than the market price of the Company’s shares at the date of grant.

During the period the Company granted 8,050,000 stock options with an exercise price per share of \$0.50 and an expiry date of April 30, 2021. One-third of these options granted in the period vested immediately, with a further third due to vest on April 30, 2019 and the final third on April 30, 2020. During the period the Company granted a further 225,000 stock options with an exercise price per share of \$0.50 and an expiry date of June 12, 2021. One-third of these options granted in the period vested immediately, with a further third due to vest on June 12, 2019 and the final third on June 12, 2020. During the period the Company recognised stock-based compensation of \$1,013,688.

12. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following five categories: fair value through profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; available-for-sale and other financial liabilities. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instrument	Category	September 30, 2018 \$	December 31, 2017 \$
Cash	FVTPL	2,175,382	1,690,815
Accounts receivables	Loans and receivables	1,497,624	130,729
Accounts payable and accrued liabilities	Other financial liabilities	4,414,587	2,104,284

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

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12. Financial Instruments and Risk Management (continued)

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for trade and other receivables and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The Company's fair value of cash under the fair value hierarchy is measured using Level 1 inputs.

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

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

(b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major transactions are transacted in Canadian Dollars, US Dollars, Pounds Sterling and Swedish Krona. Management believes the foreign exchange risk related to currency conversions is minimal and therefore does not hedge its foreign exchange risk. At September 30, 2018 1 Canadian Dollar was equal to 0.79 US Dollar, 0.60 Pounds Sterling and 6.92 Swedish Krona.

Balances are as follows:

	US Dollars	Pounds Sterling	Swedish Krona	CAD equivalent
Cash	202,936	65,220	10,531,143	1,887,422
Accounts receivable and other debtors	-	48,982	26,226,969	3,871,661
Accounts payable and accrued liabilities	-	(138,544)	(30,989,918)	(4,709,219)
	<u>202,936</u>	<u>(24,342)</u>	<u>5,768,194</u>	<u>1,049,864</u>

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12. Financial Instruments and Risk Management (continued)

Based on the net exposures as of September 30, 2018 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar, Pound Sterling and Swedish Krona would result in the Company’s comprehensive loss being approximately \$105,000 higher (or lower).

(c) Commodity Price Risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company’s commodity inputs and outputs. The Company’s risk relates primarily to there being sufficient demand colocation within the Data Centre.

Capital Management

The Company’s objective when managing capital is to safeguard the Company’s ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders’ equity as capital. The management of the capital structure is based on the funds available to the Company in order to support the expansion of the Data Center and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders.

13. Segmented Information

The Company’s operations are centred on providing data centre services and digital currency transaction verification services. Management therefore considers there are two reporting segments for the Company.

The geographical split of revenue by customer location is as follows:

	Nine months ended September 30,			
	2018		2017	
	\$	\$	\$	\$
	Data Centre Services	Digital Currency Services	Data Centre Services	Digital Currency Services
United Kingdom	63,724	-	91,369	-
USA & Canada	-	341,219	-	639,542
Rest of Europe	-	64,577	-	29,502
Sweden	5,235,021	-	721,631	-
	5,298,745	405,796	813,000	669,044

14. Related Party Transactions

During the nine months ended September 30, 2018, Hydro66 UK Limited repaid a loan note to David Rowe of \$75,575 (nine months to September 30, 2017: nil).

During the nine months ended September 30, 2018, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of \$191,432 (nine months to September 30, 2017: \$100,657).

During the nine months ended September 30, 2018, 0920 Media AB (brand name Meramedia), of which Anne Graf is a director, provided marketing services to Hydro66 Svenska AB of \$33,339 (nine months to September 30, 2017: \$86,845).

During the nine months ended September 30, 2018, Hydro66 Services AB, provided colocation services to B-chain e-services AB, of which Anne Graf was a director, of \$799,904 (nine months to September 30, 2017: \$431,194). Anne Graf resigned as a director from B-chain e-services AB on June 21, 2018.