# HYDRO66 HOLDINGS CORP.
# (formerly "CAZA GOLD CORP.")

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

*(Expressed in Canadian Dollars)*

## Independent Auditor's Report

To the Shareholders of Hydro66 Holdings Corp.

**Grant Thornton LLP**
30 Finsbury Square
London
EC2A 1AG

T +44 (0)20 7383 5100
W grantthornton.co.uk

### Opinion

We have audited the consolidated financial statements of Hydro66 Holdings Corp. (hereafter "the Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Professional Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group financial statements of the current period.

*Impairment of property plant and equipment*
The Group carries property, plant and equipment at a net book value of £15,903,314 (2017: £8,171,684). During the year the Group raised funds to extend the Mega Watt capacity at its data centre in Northern Sweden. The Group then subsequently experienced a significant decline in demand from customers involved in digital transaction verification services due to a global decline in the market value of digital currencies. This reduction in revenues and the associated losses reported by the company are an indicator of potential impairment of the facility and the group is therefore required to perform an impairment review in accordance with International Accounting Standard (IAS) 36, "Impairment of Assets".

Impairment of property, plant and equipment is considered subjective and requires significant judgement when determining its recoverable amount, such as timing and extent of future revenues, costs of running the centre and discount rate used. We therefore identified impairment of property, plant and equipment as significant to our audit.

Our audit work included, but was not restricted to:

- assessing whether the accounting policies adopted by management and disclosures of key judgements are in accordance with the requirements of IAS 36;
- testing management's assessment of the carrying value of the property, plant and equipment including a consideration of the appropriateness and accuracy of the methodology applied in preparing the impairment model, sensitivity analysis and evaluating the discount rate applied;
- comparing the market capitalisation of the business against the carrying value of the data centre; and
- obtaining an understanding of the revised strategic direction of the Group and its renewed focus on attracting new long term enterprise customers through investment in sales and marketing.

The group's accounting policy and judgments taken are shown in note 5 to the financial statements, sources of estimates and key judgments.

## Information other than the consolidated financial statements and the auditor's report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Paul Naylor.

Grant Thornton UK LLP

London
Date: 26 April 2019

**HYDRO66 HOLDINGS CORP. (formerly "CAZA GOLD CORP.")**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*(Expressed in Canadian Dollars)*

| | Note | Dec 31, 2018 $ | Dec 31, 2017 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | 2,304,416 | 1,690,815 |
| Amounts receivable and prepaids | 9 | 2,270,602 | 1,320,271 |
| **Total current assets** | | 4,575,018 | 3,011,086 |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 15,903,314 | 8,171,684 |
| Digital currencies | 11 | 123,838 | 286,898 |
| **Total non-current assets** | | 16,027,152 | 8,458,582 |
| TOTAL ASSETS | | 20,602,170 | 11,469,668 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 12 | 3,253,712 | 2,104,284 |
| **Total current liabilities** | | 3,253,712 | 2,104,284 |
| **Non-current liabilities** | | | |
| Convertible debenture | 13 | 1,706,895 | - |
| TOTAL LIABILITIES | | 4,960,607 | 2,104,284 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 15 | 33,123,712 | 22,226,890 |
| Other reserves | | (7,155,763) | (7,655,763) |
| Share option reserve | | 1,342,389 | 208,386 |
| Foreign exchange reserve | | 172,430 | (137,803) |
| Deficit | | (11,841,205) | (5,276,326) |
| TOTAL SHAREHOLDERS' EQUITY | | 15,641,563 | 9,365,384 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 20,602,170 | 11,469,668 |

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 26, 2019 and are signed on its behalf by:

David Rowe
Director "David Rowe"

Richard Croft
Director "Richard Croft"

R. Croft

**HYDRO66 HOLDINGS CORP. (formerly "CAZA GOLD CORP.")**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS**
*(Expressed in Canadian Dollars)*

| | Note | Years ended Dec 31, 2018 $ | 2017 $ |
|---|---|---|---|
| **Revenue** | 18 | 7,644,122 | 2,253,686 |
| **Cost of sales** | | | |
| Direct costs | | 5,805,646 | 710,409 |
| Depreciation | 10 | 1,127,397 | 617,523 |
| | | 6,933,043 | 1,327,932 |
| **Cryptocurrency Related Items:** | | | |
| Impairment on digital currencies | 11 | 212,042 | - |
| Profit on disposal of digital currencies | | (1,590,555) | (1,849,552) |
| **Administrative Expenses** | | | |
| Accounting and administration | | 83,292 | 22,631 |
| Audit | | 252,049 | 200,195 |
| Bank charges | | 9,249 | 1,599 |
| Bad debt expense | | 117,792 | - |
| Legal and professional fees | | 629,356 | 514,973 |
| Marketing and promotion | | 310,344 | 270,649 |
| Management fees, salaries & wages | | 2,192,281 | 1,117,307 |
| Office | | 155,935 | 96,119 |
| Regulatory and filing | | 56,336 | - |
| Share based compensation | 15(d) | 1,342,389 | 205,111 |
| Technical support and security costs | | 662,623 | 284,975 |
| Travel | | 247,835 | 161,544 |
| Other operating expenses | | 432,736 | 414,703 |
| Total admin expenses before acquisition and listing expenses | | 6,492,217 | 3,289,806 |
| **Acquisition and listing expenses** | 7 | 1,960,925 | - |
| Total admin expenses | | 8,453,142 | 3,289,806 |
| **Loss before other items** | | (6,363,550) | (514,500) |
| **Other expenses** | | | |
| Interest and other (income) / expense | | 2,912 | 805 |
| Foreign exchange loss / (gain) | | (30,641) | - |
| | | (27,729) | 805 |
| **Net (loss) income for the period** | | (6,335,821) | (515,305) |
| **Other comprehensive income / (loss) for the period** | | | |
| Items that will be reclassified subsequently to profit and loss | | | |
| Exchange differences on translating foreign operations | | (310,233) | (150,035) |
| **Comprehensive (loss) income for the period** | | (6,646,054) | (665,340) |
| Income (loss) per share – basic | 16 | $(0.063) | $(0.33) |
| Income (loss) per share – diluted | 16 | $(0.063) | $(0.33) |
| **Weighted average number of common shares outstanding – basic** | 16 | 106,166,667 | 2,000,000 |
| **Weighted average number of common shares outstanding - diluted** | 16 | 106,166,667 | 2,000,000 |

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

**HYDRO66 HOLDINGS CORP. (formerly "CAZA GOLD CORP.")**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
*(Expressed in Canadian Dollars)*

| | Share capital | Share capital | Other reserve | Share option reserve | FX reserve | Deficit | Total Equity |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount $ | $ | $ | $ | $ | $ |
| **Balance at December 31, 2017** | 152,789,005 | 22,226,890 | (7,655,763) | 208,386 | (137,803) | (5,276,326) | 9,365,384 |
| Conversion of share options in Hydro66 UK Ltd (note 15) | - | - | - | (208,386) | - | 81,175- | (127,211) |
| Issue of share capital (note 15) | 5,000,000 | 50,000 | - | - | - | - | 50,000 |
| Issue of shares to acquire Hydro66 UK Ltd (note 6 and note 7) | 100,000,000 | 1,000,000 | 500,000 | - | - | - | 1,500,000 |
| Conversion of debenture (note 7) | 20,000,000 | 10,000,000 | - | - | - | - | 10,000,000 |
| Consolidation of Caza shares on a 76.3945 to 1 basis (note 7) | (150,789,005) | - | - | - | - | - | - |
| Share issuance costs | | (153,178) | - | - | - | - | (153,178) |
| Share based compensation (note 15) | - | - | - | 1,342,389 | - | - | 1,342,389 |
| Net loss for the period | - | - | - | - | - | (6,646,054) | (6,646,054) |
| Foreign exchange movement | - | - | - | - | 310,233 | - | 310,233 |
| **Balance at December 31, 2018** | 127,000,000 | 33,123,712 | (7,155,763) | 1,342,389 | 172,430 | (11,841,205) | 15,641,563 |

| | Share capital | Share capital | Other reserve | Share option reserve | FX reserve | Deficit | Total Equity |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount $ | $ | $ | $ | $ | $ |
| **Balance at December 31, 2016** | 141,302,005 | 21,851,150 | (10,250,088) | - | (47,030) | (4,579,552) | 6,974,480 |
| Issue of share capital | 11,487,000 | 2,647,993 | - | - | - | - | 2,647,993 |
| Share based compensation | - | - | - | 205,111 | - | - | 205,111 |
| To reflect share capital of legal parent | - | (2,272,253) | 2,272,253 | - | - | - | - |
| Net loss for the period | - | - | - | - | - | (665,340) | (665,340) |
| Foreign exchange movement | - | - | 322,072 | 3,275 | (90,773) | (31,434) | 203,140 |
| **Balance at December 31, 2017** | 152,789,005 | 22,226,890 | (7,655,763) | 208,386 | (137,803) | (5,276,326) | 9,365,384 |

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

**HYDRO66 HOLDINGS CORP. (formerly "CAZA GOLD CORP.")**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
*(Expressed in Canadian Dollars)*

| | Year ended Dec 31, 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| **Net income / (loss) for the period** | (6,335,821) | (515,305) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 1,127,397 | 617,523 |
| Impairment on intangible assets | 212,042 | - |
| Share based compensation | 1,342,389 | 205,111 |
| Listing expense | 1,500,000 | - |
| Profit on disposal of intangible assets | (1,590,555) | - |
| Finance expenses | 2,912 | 805 |
| Increase in intangible assets | (572,628) | (988,647) |
| Net changes in working capital | 185,329 | 66,959 |
| **Cash (used in) / from operations** | (4,128,935) | (613,554) |
| **Investing activities** | | |
| Additions to property, plant and equipment | (8,623,796) | (3,717,153) |
| Proceeds from disposal of intangible assets | 1,644,426 | 1,058,159 |
| **Net cash used in investing activities** | (6,979,370) | (2,658,994) |
| **Financing activities** | | |
| Proceeds from convertible debenture issuance | 11,706,895 | 71,839 |
| Issuance of share capital | 50,000 | 2,647,993 |
| **Net cash from financing activities** | 11,756,895 | 2,719,832 |
| **Net change in cash** | 648,590 | (552,716) |
| Cash at beginning of period | 1,690,815 | 2,395,726 |
| Effect of exchange rate | (34,989) | (152,195) |
| **Cash at end of period** | 2,304,416 | 1,690,815 |

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

## 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 6. Arctic subsequently completed an amalgamation with Caza Gold Corp ("Caza"), as described in note 7, 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. During the year ended December 31, 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. During the year the Company incurred a loss of $6,646,054 (2017: loss $665,340). The loss in 2018 reflects the cost of the acquisition and listing of the Company, the high power costs associated with the record high temperatures in the region of the North of Sweden, as well as the investment in growing the Swedish operation to grow the sales of the Company's products. Until these activities enable the Company to reach a sustainable level of operations, it will continue to rely on financial support from additional funding to enable it to continue its activities and to meet its liabilities as they fall due. During the year to December 31, 2018, the Company raised $11.7m. $10m was raised in February 2018 through convertible debentures (see note 6) and a further $3.4m was secured in December 2018 of which $1.7m had been received by December 31, 2018 (see note 13).

These consolidated financial statements have been prepared assuming the Company will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. The Company's current business plan indicates that additional funding or income will be required within the next 12 months. The funding will be necessary to allow the business to continue to trade beyond this point. The directors have considered the business plan and potential sources of funding and have a plan in place to secure equity or other funding such that they expect to obtain sufficient funding in the coming months to enable the Company to continue as a going concern. The directors acknowledge that there can be no certainty over achieving the projected revenue and managing the cost base as forecasted, as well as the timing and the quantum of future fund raisings and that this represents a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

If additional finance were not available, the going concern basis would not be appropriate, and adjustments would be required to reduce the carrying value of non-current assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities. These consolidated financial statements do not reflect any adjustments related to conditions that occurred subsequent to December 31, 2018.

## 2. Basis of Preparation

*Statement of Compliance*

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRIC").

**2. Basis of Preparation (continued)**

*Basis of Measurement*

The Company's consolidated financial statements have been prepared on the historical cost basis.

*Consolidation*

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.

*Continuation of the business*

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 consolidated 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 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 consolidated financial statements continuity presented herein is that of Hydro66 UK Limited.

On March 12, 2018, Arctic entered into a letter of intent with Caza Gold Corp. ('Caza") providing for the amalgamation of Caza, Arctic and 1166031 B.C. Ltd ("Subco") to form the Company. On June 6, 2018, Caza and Arctic entered into a business combination agreement whereby Arctic and Subco would complete an amalgamation pursuant to an 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 and on June 13, 2018 Hydro66 Holdings Corp listed on the Canadian Securities Exchange (CSE:SIX). 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.

*Details of the Group*

As at December 31, 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.

*Comparatives*

The comparatives have been translated from GBP to CAD for presentational purposes. The closing rate at December 31, 2017 of 1.6985 Canadian Dollars to 1 Great British Pound has been used to translate the Statement of Financial Position and related notes. The average rate during 2017 of 1.67181 Canadian Dollars to 1 Great British Pound has been used to translate the Income Statement and related notes.

**3. New or revised Standards or Interpretations**

*Adoption of New Accounting Standards*
The Company adopted IFRS 9 – Financial Instruments ("IFRS 9") and IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") effective January 1, 2018.

(i) IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets. This new accounting pronouncement, which is effective for periods beginning on or after January 1, 2018, establishes two primary measurement categories for financial assets being amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held-to-maturity, available-for-sale and loans and receivable categories.

There was no significant impact on the Company's consolidated financial statements upon the adoption of this new standard.

(ii) IFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as "IFRS 15") replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and several revenue-related interpretations. This new accounting pronouncement, which is effective for periods beginning on or after January 1, 2018, establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

There was no significant impact on the Company's consolidated financial statements upon the adoption of this new standard.

*Accounting Standards and Interpretation Issued but Not Yet Effective*
As at the date of authorization of these consolidated financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Group's financial statements:

IFRS 16, "Leases"

IFRS 16 will replace IAS 17 "Leases" and three related interpretations. It completes the IASB's long running project to overhaul lease accounting. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has low value.

IFRS 16 is effective from periods beginning on or after January 1, 2019. Early adoption is permitted; however, the Group has decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Group:

- Has decided to make use of the practical expedient not to perform a full review of existing leases and to apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Group has reassessed these leases and concluded they will be recognized on the statement of financial position as a right-of-use asset.
- Believes that the most significant impact will be that the Group will need to recognize a right-of-use asset and a lease liability for the transformers currently treated as operating leases. At December 31, 2018 the future minimum lease payments amounted to $4,288,619. This will mean the nature of the above cost will change from being an operating lease expense to depreciation and interest expense.

**3. New or revised Standards or Interpretations (continued)**

The Group is planning to adopt IFRS 16 on January 1, 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Management is currently assessing other impacts of this new standard on the Company's accounting policies and consolidated financial statement presentation.

**4. Summary of Significant Accounting Policies**

*Revenue*
Revenue arises from the sale of data center services, including space and power; and from the provision of transaction verification services within digital currency networks. 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.

To determine whether to recognize revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Group recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position as deferred income. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognizes a receivable in its statement of financial position. During the year of 2018, the Company expanded its facility. All customers who contract for services in the expanded facility are invoiced in advance. This has resulted in deferred income being recognized at December 31, 2018.

*Data Center Services*
The Company recognizes revenue from the provision of data center services (sometimes referred to as colocation). The Company enters into agreements with customers who require space and power in the Company's data center. A price for the service is determined at the point of contract. The customers physically locate servers in the Company's data center. Customer servers are housed in racks and connected to a power supply. Revenue represents amounts invoiced for the provision of data center services, including space and power. Revenue is recognized when power and space is made available to the customer.

*Transaction Verification Services within Digital Currency Networks*
The Company also recognizes revenue from the provision of transaction verification services within digital currency networks. The Group enters into agreements with digital currency pools to provide transaction verification services. As consideration for these services, the Company receives digital currency from each specific network in which it participates. Management consider it appropriate to recognize revenue when a digital currency coin is received from the pool as that is the point that the economic benefit transfers to the Company and can be converted to traditional (fiat) currencies.

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.

*(Expressed in Canadian Dollars)*

**4. Summary of Significant Accounting Policies (continued)**

*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 |

Land and assets under construction are not depreciated.

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.

*Convertible debentures*
The Company's convertible debentures are classified under IAS 32 as financial liabilities and recorded at amortised cost. 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 mature on February 27, 2023. The debentures also had a mandatory 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 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.

*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.

*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

**4. Summary of Significant Accounting Policies (continued)**
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 plan arrangements*
The Company operates a defined contribution pension plans 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.

*Share Based Payment*
The Company operates a stock option plan (Note 15). Share-based compensation to employees is measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based compensation to non-employees is measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black–Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When vested options are forfeited or are not exercised at the expiry date, the amount previously recognized in share-based compensation is transferred to deficit.

*Warrants*
The Company issued warrants as described in note 15. The warrants were assessed to be equity and they have no assigned value. In issue at the year-end were 50 million warrants to exercise in June 2020 to purchase common shares of the group at $0.50 of $0.75.

*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 Canadian Dollar, Swedish Krona and Pounds Sterling. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.

(i) Hydro66 Holdings Corp and Hydro66 Canada Limited
Hydro66 Holdings Corp and Hydro66 Canada Limited have the Canadian Dollar as the functional currency.

(ii) 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

**4. Summary of Significant Accounting Policies (continued)**

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.

(iii) 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 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. A local government grant was granted to Hydro66 Svenska AB in 2016. There are no unfulfilled conditions attaching to the grant. However, if the company closes the business and leaves the site within five years of the date of the grant, the grant needs to be repaid on a sliding scale. If the company were to leave the site between April 15, 2019 and April 14 2020, 25% would be repayable. On April 15, 2020 this falls to 10% and on April 15, 2021, the five year period ends and none of the grant becomes repayable.

*Receivables*
The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 17 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

*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.

At each reporting date, the Company reviews the carrying amounts of its intangible 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.

**4. Summary of Significant Accounting Policies (continued)**

*Segment reporting*
IFRS 8 *Operating Segments* requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Board (Chief Operating Decision Maker – CODM). In identifying its operating segments, management follow the Group reporting structure and consider there to be two reporting segments, being the provision of data centre services and digital currency transaction verification. Segmental information is presented in accordance with IFRS 8 for all periods presented within Note 18.

*Financial Instruments*
Recognition and derecognition:
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets:
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at the fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
- Amortized cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

In the periods presented the Group does not have any financial assets categorised as FVOCI.

The classification is determined by both:
- The entity's business model for managing the financial asset
- The contractual cash flow characteristics of the financial asset

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for the impairment of trade receivables which is presented within other expenses.

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.

Classification and measurement of financial liabilities:
As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS39, the Group's financial liabilities have not been impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are initially measure at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

*(Expressed in Canadian Dollars)*

## 5. Sources of Estimation and Key Judgements

### Estimates

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

*a) Share-based payments*

The fair value of share options is calculated using the Black-Scholes valuation model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The following weighted average assumptions were used for the valuation of the stock options:

| | 2018 | 2017 |
|---|---|---|
| Risk-free interest rate | 2.00% | - |
| Expected life (years) | 1.3 | - |
| Annualised volatility | 42.00% | - |
| Dividend rate | 0.00% | - |

The expected life of 1.3 years assumes that all options will be exercised at the point that they have all vested.

Due to the short trading history of Hydro66 Holdings Corp which listed on the Canadian Securities Exchange on June 13, 2018, it was not possible to base expected volatility on historic volatility. The annualised volatility was determined by analyzing the three year volatility of seven companies within the same sector.

The dividend rate of 0.00% assumes that no dividends will be paid during the expected life of the options due to expected trading performance.

*b) Recoverable amount of Property, plant and equipment*

Property, plant and equipment are stated at cost at acquisition less accumulated depreciation. Management believe that the Hydro66 Data Center is ideally located and has secured sufficient power for it to take advantage of the continued growth in data forecast over the coming years. When required, the determination of fair value and value in use requires management to make estimates and assumptions about data growth, demand for colocation, required computing power, technological changes and operating costs, such as electricity. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be impaired with the impact recorded in profit and loss. Management have prepared calculations that project that revenue will grow annually at a rate of 30%. Applying a discount rate of 10% to reflect the cost of capital, management believe that the carrying value of the assets in the accounts reflects the fair value and do not believe than an impairment of the assets is appropriate at this time.

### Judgements

Key judgements 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.

*(Expressed in Canadian Dollars)*

## 5. Sources of Estimation and Key Judgements (continued)

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.

## 6. 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 primary reason for the corporate reorganization was to secure funding to further build out the existing site.

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 consolidated 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 Statement of Financial Position at their historical book value; and

(ii) control of the net assets of Arctic was acquired on the Effective Date being February 28, 2018.

For comparative purposes, the consolidated 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 | 9,000,000 |
| Total current assets | 9,781,285 |
| TOTAL ASSETS | 9,781,285 |
| Accounts payable and accrued liabilities | 11,492 |
| TOTAL LIABILITIES | 11,492 |
| SHAREHOLDERS' EQUITY | |
| Share capital | 50,000 |
| Debenture subscriptions | 10,000,000 |
| Deficit | (280,207) |
| TOTAL SHAREHOLDERS' EQUITY | 9,769,793 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 9,781,285 |

*(Expressed in Canadian Dollars)*

### 6. Corporate Reorganization (continued)

The effect of the corporate reorganization has allowed for the build out of the data center in Boden, Sweden, and to invest in supporting the running of the facility. Revenue increased year on year by 239%. Loss before other items increased from $514,500 to $3,710,538.

### 7. Transaction

Following the reverse acquisition described in note 6 whereby Arctic Blockchain Ltd had acquired 100% of the share capital of Hydro66 UK Limited where Hydro66 was the deemed acquirer, on March 12, 2018, Arctic entered into a letter of intent with Caza Gold Corp. ('Caza") providing for the amalgamation of Caza, Arctic and 1166031 B.C. Ltd ("Subco") to form the Company. On June 6, 2018, Caza and Arctic entered into a business combination agreement whereby Arctic and Subco would complete an amalgamation pursuant to an 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 and on June 13, 2018 Hydro66 Holdings Corp listed on the Canadian Securities Exchange (CSE:SIX). 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 Acquisition resulted in the former shareholders of Arctic Blockchain Ltd holding the majority interest in Caza. The Acquisition is not considered to be a business combination for accounting purposes as Caza is not considered to be a business for accounting purposes. The Acquisition has been accounted for in the consolidated financial statements as the continuation of the financial statements of Arctic Blockchain Limited together with an issuance of common shares, equivalent to the common shares held by the former shareholders of Caza. In accounting for this transaction:

(i) Arctic Blockchain Ltd was deemed to be the parent company for accounting purposes. Accordingly, its net assets were included in the Consolidated Statement of Financial Position at their historical book value; and

(ii) control of the net assets of Caza was acquired on the Effective Date.

For comparative purposes, the consolidated financial statements continuity presented herein is that of Arctic Blockchain Ltd.

The Consolidated 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 at $0.75 per share | $1,500,000 |
| The allocation of the consideration is as follows: | |
| Trade and other receivables | ($3,699) |
| Trade and other payables | $30,895 |
| Listing costs expensed | $1,472,804 |
| Value attributed to shares issued | $1,500,000 |

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. The 25,000,000 warrants in Arctic Blockchain Limited with an exercise price of $0.75 which were issued to Hydro66 UK Limited shareholders as part of the Corporate Reorganization outlined in Note 6, were converted to warrants in Hydro66 Holdings Corp.

*(Expressed in Canadian Dollars)*

### 7. Transaction (continued)

Total acquisition and listing expenses reported are as follows:

| | |
|---|---|
| Consideration for deemed acquisition of Caza Gold Corp | \$1,472,804 |
| Legal and professional fees | \$488,121 |
| Total | \$1,960,925 |

### 8. Pension Plan

The Company operates a contribution plan for which the pension cost charges for the year amounted to \$14,633 (2017: \$1,871). As at December 31, 2018, \$4,887 has been included in the trade and other payables for contributions (2017: \$1,542) to be paid over.

### 9. Amounts Receivable and Prepaids

| | Dec 31, 2018 | Dec 31, 2017 |
|---|---|---|
| | \$ | \$ |
| Trade receivables, gross | 479,241 | 130,729 |
| Allowance for credit losses | (113,849) | - |
| Trade receivables | 365,392 | 130,729 |
| Prepayments and other debtors | 188,664 | 392,066 |
| VAT/GST receivable | 890,195 | 459,606 |
| Energy tax rebate | 587,525 | 337,870 |
| Employee loans | 238,826 | - |
| Total current trade and other receivables | 2,270,602 | 1,320,271 |

### 10. Property and Equipment

| | Land & Buildings | Plant & Machinery | Office Equipment | Assets under Construction | Total |
|---|---|---|---|---|---|
| | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | |
| At December 31, 2017 | 4,617,005 | 4,789,416 | 61,260 | - | 9,467,681 |
| Additions | 1,848,235 | 6,397,020 | - | 378,541 | 8,623,796 |
| Effect of foreign exchange | 55,360 | 202,790 | 1,443 | 12,283 | 271,876 |
| At December 31, 2018 | 6,520,600 | 11,389,226 | 62,703 | 390,824 | 18,363,353 |
| | | | | | |
| Accumulated Depreciation | | | | | |
| At December 31, 2017 | 126,537 | 1,112,118 | 57,342 | - | 1,295,997 |
| Depreciation for period | 91,609 | 1,033,875 | 1,913 | - | 1,127,397 |
| Effect of foreign exchange | 2,846 | 32,437 | 1,362 | - | 36,645 |
| At December 31, 2018 | 220,992 | 2,178,430 | 60,617 | - | 2,460,039 |
| | | | | | |
| **Net book value** | | | | | |
| **At December 31, 2018** | **6,299,608** | **9,210,796** | **2,086** | **390,824** | **15,903,314** |
| At December 31, 2017 | 4,490,468 | 3,677,298 | 3,918 | - | 8,171,684 |

*(Expressed in Canadian Dollars)*

## 11. 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. Additions to intangibles are not considered to be cash outflow as they are digital currencies earned during the year.

| | $ |
|---|---|
| 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 | 572,628 |
| Disposals | (524,134) |
| Effect of foreign exchange | 7,390 |
| **At December 31, 2018** | **342,782** |
| Impairment at December 31, 2018 | (212,042) |
| Effect of foreign exchange | (6,902) |
| **Carrying value after impairment** | **123,838** |

Management carried out an impairment review at December 31, 2018 of the digital currencies held. Management took the decision to impair the currencies to their spot rate on December 31, 2018, as recorded on the trading exchanges, to accurately reflect the value of the digital currencies held.

## 12. Accounts Payable and Accrued Liabilities

| | Dec 31, 2018<br>$ | Dec 31,2017<br>$ |
|---|---|---|
| Trade payables | 1,432,005 | 1,106,210 |
| Other payables | 284,065 | 430,845 |
| Accrued expenses | 1,201,169 | 567,229 |
| Deferred income | 336,473 | - |
| Total trade and other payables | 3,253,712 | 2,104,284 |

## 13. Convertible Debenture

| | Dec 31, 2018<br>$ | Dec 31, 2017<br>$ |
|---|---|---|
| Loans payable | 1,706,895 | - |
| Total loans payable | 1,706,895 | - |

In December 2018 the Company closed on a debt financing of which the initial advance was paid in December 2018. The initial advance was made up of United States Dollars $1,050,000 and Canadian Dollars $300,000. The maximum amount of the future advances can be up to the same amount as the initial advance. The rate used to translate the advance of USD was 1.3399 Canadian Dollars to each US Dollar. The loan has term of 7 years from the date of the initial advance of the loan. The loan bears interest at a rate per annum equal to 10%. The interest is compounded and calculated annually, not in advance, but before or after default and is payable on each and every anniversary of the advance. The interest for the initial two years of the loan shall not be payable until such time as the loan is repaid in full. As at December 31, 2018, the interest accrued on the convertible debenture was $4,652.

*(Expressed in Canadian Dollars)*

**13. Convertible Debenture (continued)**

The amount of the loan, at the option of each Lender, will be convertible into common shares in the capital of the Borrower at the market price at time of such conversion in accordance with the policies of and subject to acceptance by the Canadian Securities Exchange. The value of the embedded derivative is considered to be $nil as the number of shares will be issued to equate to the amount of the original loan and so there is no upside or downside to the option for either party.

The Company has issued promissory loan notes with an embedded derivative.

i) The Company and the holder has a conversion option. The value of the embedded derivative is considered to be $nil as the number of shares will be issued to equate to the amount of the original loan so there is no upside or downside to either party.

ii) The Company has a prepayment option. The value of the embedded derivative will depend on how significant the transaction costs incurred were on the issue of the loan notes. The transaction costs were nil and so this embedded derivative has no value.

**14. Reconciliation of liabilities arising from financing activities**

The changes in the Group's liabilities arising from financing activities can be classified as follows:

| | Long-term borrowings | Short-term borrowings | Total |
|---|---|---|---|
| January 1, 2018 | - | 71,839 | 71,839 |
| Cash-flows: | | | |
| - Repayment | - | (71,839) | (71,839) |
| - Proceeds | (11,706,895) | - | (11,706,895) |
| Non-cash: | | | |
| - Conversion to share capital | 10,000,000 | - | 10,000,000 |
| December 31, 2018 | **1,706,895** | - | **1,706,795** |

| | Long-term borrowings | Short-term borrowings | Total |
|---|---|---|---|
| January 1, 2017 | - | - | - |
| Cash-flows: | | | |
| - Repayment | - | - | - |
| - Proceeds | - | 71,839 | 71,839 |
| Non-cash: | | | |
| - Conversion to share capital | - | - | - |
| December 31, 2017 | - | **71,839** | **71,839** |

**15. Equity**

Below is a description of the nature and purpose of each reserve within equity.

| | |
|---|---|
| Share option reserve | Reserve for share-based payments on options granted during the period not yet exercised. |
| FX reserve | Foreign exchange translation gains and losses arising on the translation of the Financial Statements from the functional to the presentational currency, including translation gains and losses arising on the translation of net investments in foreign subsidiaries. |
| Retained earnings | All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere. |
| Other reserve | Reserve to reflect the difference between the share capital of the legal parent (Hydro66 Holdings Corp, formerly Caza Gold Corp) and the share capital of the legal subsidiary (Hydro66 UK Limited). |

*(Expressed in Canadian Dollars)*

## 15. Equity (continued)

*(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. All of the common shares are of the same class and, once issued rank equally as to entitlement to dividends, voting powers (one vote per share) and participation in assets upon dissolution or winding up.

There are 127,000,000 shares in issue, all 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 6.

The Company issued 20,000,000 common shares for the conversion of the debenture as described in note 7.

The Company issued 2,000,000 shares to the former shareholders of Caza as described in note 7.

The table below shows a reconciliation of the shares outstanding at the beginning and at the end of the year:

| | Note | Number of shares |
|---|---|---|
| Number of shares in Hydro66 Holdings Corp (formerly Caza Gold Corp) at December 31, 2017 | | 152,789,005 |
| Consolidation of Caza shares on a 76.3945 to 1 basis | 7 | (150,789,005) |
| Issue of share capital by Arctic Blockchain Ltd and subsequent conversion | 6 | 5,000,000 |
| Issue of share capital by Arctic Blockchain Ltd to acquire Hydro66 UK Ltd and subsequent conversion | 6 | 100,000,000 |
| Conversion of debenture | 7 | 20,000,000 |
| **Total** | | **127,000,000** |

In February 2018, prior to the transaction with Arctic Blockchain Ltd, share option holders of Hydro66 UK Limited exercised options which resulted in an additional 81,175 shares in Hydro66 UK Limited being issued. These shares were acquired by Arctic Blockchain Limited in the share purchase agreement. See note 6.

*(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 mature on February 27, 2023. The debentures also had a mandatory 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 7.

*(Expressed in Canadian Dollars)*

## 15. Equity (continued)

*(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 less an applicable discount. The options can be granted for a maximum of five years and vesting periods are determined by the Board.

Following is a summary of changes in stock options outstanding for the year ended December 31, 2018.

| | Outstanding | Weighted average exercise price $ |
|---|---|---|
| Balance, December 31, 2017 | - | - |
| Granted | 8,275,000 | 0.50 |
| Cancelled | - | 0.50 |
| Exercised | - | 0.50 |
| Balance, December 31, 2018 | 8,275,000 | 0.50 |

The stock options outstanding and exercisable as at December 31, 2018 are as follows:

| Outstanding | Exercisable | Exercise Price | Expiry date |
|---|---|---|---|
| 8,050,000 | 8,050,000 | 0.50 | April 30, 2021 |
| 225,000 | 225,000 | 0.50 | June 12, 2021 |
| 8,275,000 | 8,275,000 | | |

Of the 8,275,000 options granted during the year ended December 31, 2018, 7,250,000 options were granted to directors and officers, 875,000 were granted to consultants and 150,000 granted for investor relations services.

*Share-based compensation*
During the year ended December 31, 2018 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.
- 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.
- recognized stock-based compensation of $1,342,389.

The fair value of share options is calculated using the Black-Scholes valuation model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

The following weighted average assumptions were used for the valuation of the stock options:

| | 2018 | 2017 |
|---|---|---|
| Risk-free interest rate | 2.00% | - |
| Expected life (years) | 1.3 | - |
| Annualised volatility | 42.00% | - |
| Dividend rate | 0.00% | - |

*(Expressed in Canadian Dollars)*

## 15. Equity (continued)

Due to the short trading history of Hydro66 Holdings Corp which listed on the Canadian Securities Exchange on June 13, 2018, it was not possible to base expected volatility on historic volatility. The annualised volatility was determined by analyzing the three year volatility of seven companies within the same sector.

*(e) Warrants*

Following is a summary of changes in warrants outstanding for the year ended December 31, 2018:

| | Warrants outstanding | Weighted average exercise price $ |
|---|---|---|
| Balance, December 31, 2017 | - | |
| Issued | 50,096,000 | 0.72 |
| Exercised | - | |
| Balance, December 31, 2018 | 50,096,000 | 0.72 |

The warrants outstanding and exercisable as at December 31, 2018, are as follows:

| Outstanding | Exercise price $ | Expiry date |
|---|---|---|
| 5,000,000 | 0.50 | June 8, 2019 |
| 96,000 | 0.50 | June 8, 2020 |
| 20,000,000 | 0.75 | June 8, 2020 |
| 25,000,000 | 0.75 | June 8, 2020 |
| 50,096,000 | | |

5,000,000 warrants in Arctic Blockchain Limited with an exercise price of $0.50 were issued as part of a private placement. These were converted to warrants in Hydro66 Holdings Corp as part of the transaction outlined in note 7.

96,000 warrants in Arctic Blockchain Limited with an exercise price of $0.50 were issued as part of a private placement. These were converted to warrants in Hydro66 Holdings Corp as part of the transaction outlined in note 7.

20,000,000 warrants with an exercise price of $0.75 were issued in connection with the automatic conversion of the convertible debentures in the principal amount of $10,000,000. Refer to note 7.

25,000,000 warrants in Arctic Blockchain Limited with an exercise price of $0.75 were issued to Hydro66 UK Limited shareholders. These were converted to warrants in Hydro66 Holdings Corp as part of the transaction outlined in note 7.

*(f) Share based payment charge*

As part of the transaction described in note 7, with the effect of Arctic Blockchain Limited issuing 2,000,000 common shares to acquire 100% of the issued and outstanding common shares of Caza, a share based payment expense of $1,500,000 has been recorded as part of the listing expense. The shares were valued at $0.75 which was the opening price per share on June 13, 2018, the date of the listing on the Canadian Securities Exchange.

## 16. Loss per share

Loss per common share represents net loss for the year divided by the weighted average number of common shares outstanding during the year. The weighted average number of shares in issue in 2017 reflect the consolidation of Caza shares on a 76.3945 to 1 basis. The number of Caza shares in issue at December 31, 2017 was 152,789,005. When consolidated on a 76.3945 to 1 basis, the number of shares reflected for a EPS calculation is 2,000,000. The weighted average number of shares in issue in 2018 reflect 2,000,000 shares in issue for the first two months of the year, and 127,000,000 shares in issue for the remainder of the year. Refer to note 15 b).

### 16. Loss per share (continued)

Diluted loss per share is calculated by dividing the application net loss by the number of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year.

When potential common shares are antidilutive and would decrease a loss per share from continuing operations the calculation of diluted earnings per share does not assume conversion, exercise, or other issue of common shares that would have an antidilutive effect on earnings per share.

The reconciliation of the weighted average number of shares for the purposes of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

| Amounts in thousand shares: | 2018 | 2017 |
|---|---|---|
| Weighted average number of shares used in basic earnings per share | 106,167 | 2,000 |
| Shares deemed to be issued for no consideration in respect of share based payments | - | - |
| Weighted average number of shares used in diluted earnings per share | 106,167 | 2,000 |

### 17. Financial Instruments and Risk Management

General Objectives, Policies and Processes

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

The Board reviews its monthly reports through which it assesses the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors.

i) Categories of financial assets and liabilities

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

-- Trade receivables
-- Cash and cash equivalents
-- Trade and other payables
-- Borrowings and convertible loan notes

Trade and other receivables are initially measured at the amount of consideration that is unconditional. The Group holds trade receivables with the objective of collecting the contractual cash flows so is subsequently measured at amortised cost. Book values and expected cash flows are reviewed by the Board and any impairment charged to the consolidated Statement of Comprehensive Income in the relevant period.

Trade and other payables are measured at book value. The book value of financial assets and liabilities equates to their fair value.

The Group holds the following financial instruments:

| **Financial assets** | December 31, 2018 $ | December 31, 2017 $ |
|---|---|---|
| Cash and cash equivalents | 2,304,416 | 1,690,815 |
| Trade receivables due at reporting date | 365,392 | 130,729 |
| Other receivables | - | - |
| Total | 2,669,808 | 1,821,544 |

**17. Financial Instruments and Risk Management (continued)**

Trade receivables principally comprise amounts outstanding for sales to customers and are net of expected credit loss. Trade receivables that are due at the reporting date have been reviewed and impaired when the collectability is considered unlikely.

| **Financial liabilities** | December 31, 2018 $ | December 31, 2017 $ |
|---|---|---|
| Trade payables | 1,432,005 | 1,106,210 |
| Other accruals | 1,201,169 | 567,229 |
| Debt financing – loans payable | 1,706,895 | - |
| Total | 4,340,069 | 1,673,439 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

As at December 31, 2018, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

| December 31, 2018 | Current | | Non-current | |
|---|---|---|---|---|
| | Within 6 months | 6 to 12 months | 1 to 5 years | Later than 5 years |
| Promissory loan notes | - | - | 685,492 | 2,649,829 |
| Trade and other payables | 2,917,239 | - | - | |
| Total | 2,917,239 | - | 685,492 | 2,649,829 |

This compares to the maturity of the Group's non-derivative financial liabilities in the previous reporting periods as follows:

| December 31, 2017 | Current | | Non-current | |
|---|---|---|---|---|
| | Within 6 months | 6 to 12 months | 1 to 5 years | Later than 5 years |
| Trade and other payables | 2,104,284 | - | - | - |
| Total | 2,104,284 | - | - | - |

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

Cash and cash equivalents
Cash and cash equivalents are held in Canadian Dollars ($), United States Dollars (USD), Swedish Krona (SEK) and Sterling (GBP) and placed on deposit in Canadian, Swedish and UK banks.

(ii) Risk exposures

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

*Credit risk*
Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The group is exposed to credit risk from financial assets including cash and cash equivalents held at banks, trade and other receivables.

The credit risk in respect of cash balances held with banks is remote as they are held only with major reputable financial institutions.

The Group is mainly exposed to credit risk from credit sales. At December 31, 2018 the Group had net trade receivables of $365,392 (2017: $130,729).

The average credit period on the sales of services is 23 days (2017: 21 days).

**17. Financial Instruments and Risk Management (continued)**

The Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables, including certain trade receivables not yet due, were not considered recoverable and a provision of $113,849 (2017: $nil) has been recorded accordingly. The trade receivables considered irrecoverable relate to customers which are experiencing trading difficulties. In addition, some of the recoverable trade receivables are past due as at the reporting date. The extent of the financial assets past due but not impaired is as follows:

Trade receivables days past due but not impaired:

| Current | 0-30 days | More than 30 days | More than 60 days | More than 90 days | Total |
|---|---|---|---|---|---|
| 302,098 | 41,223 | 11,063 | 11,008 | - | 365,392 |

The Group applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

Impairment losses on trade receivables are presented as net impairment losses within other operating expenses. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group is exposed to credit risk in respect of these balances such that, if one or more customers encounter financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by assessing the credit rating of new customers prior to entering into contracts and by entering contracts with customer with agreed credit terms. The Group also mitigates the credit risk by requesting payment in advance.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Group manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations.

Short-term liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least 30 days.

Longer-term liquidity risk is the ability of the Group to continue as a going concern. This risk is managed by the preparation by the Directors of cash flow forecasts and the strict management of expenditure.

*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 December 31, 2018 1 Canadian Dollar was equal to 0.73 US Dollar, 0.579 Pounds Sterling and 6.72 Swedish Krona.

*(Expressed in Canadian Dollars)*

**17. Financial Instruments and Risk Management (continued)**

Balances are as follows:

| | US Dollars | Pounds Sterling | Swedish Krona | CAD equivalent |
|---|---|---|---|---|
| Cash | 804,609 | 1,872 | 4,786,172 | 1,817,664 |
| Accounts receivable and other debtors | - | 23,250 | 2,859,367 | 465,657 |
| Accounts payable and accrued liabilities | - | (65,399) | (14,255,121) | (2,234,249) |
| | 804,609 | (40,277) | (6,609,582) | 49,072 |

Based on the net exposures as of December 31, 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 $5,000 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.

**18. 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:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | 2018 | 2018 | 2017 | 2017 | 2017 |
| | $ | $ | $ | $ | $ | $ |
| | Data Center Services | Digital Currency Services | Total | Data Center Services | Digital Currency Services | Total |
| United Kingdom | 14,039 | - | 14,039 | 106,051 | - | 106,051 |
| USA & Canada | - | 290,255 | 290,255 | - | 764,552 | 764,552 |
| Rest of Europe | 7,056,471 | 283,357 | 7,339,828 | 1,246,650 | 136,433 | 1,383,083 |
| | 7,070,510 | 573,612 | 7,644,122 | 1,352,701 | 900,985 | 2,253,686 |

*(Expressed in Canadian Dollars)*

## 18. Segmented Information (continued)

Segment information for the reporting period is as follows:

| | For the year ended December 31, 2018 | | |
|---|---|---|---|
| | Data Center Services | Digital Currency Services | Total |
| Revenue from external customers | 7,070,510 | 573,612 | 7,644,122 |
| Segment revenue | 7,070,510 | 573,612 | 7,644,122 |
| Direct costs | (5,369,992) | (435,654) | (5,805,646) |
| Employee benefits expense | (2,027,773) | (164,508) | (2,192,281) |
| Depreciation | (1,042,797) | (84,600) | (1,127,397) |
| Impairment of non-financial assets | - | (212,042) | (212,042) |
| Other expenses | (3,977,271) | (322,665) | (4,299,936) |
| Profit on disposal of digital currencies | - | 1,590,555 | 1,590,555 |
| Segment operating profit / (loss) | (5,347,323) | 944,698 | (4,402,625) |
| Segment assets | 14,467,826 | 1,173,737 | 15,641,563 |

| | For the year ended December 31, 2017 | | |
|---|---|---|---|
| | Data Center Services | Digital Currency Services | Total |
| Revenue from external customers | 1,352,701 | 900,985 | 2,253,686 |
| Segment revenue | 1,352,701 | 900,985 | 2,253,686 |
| Direct costs | (426,400) | (284,009) | (710,409) |
| Employee benefits expense | (670,627) | (446,680) | (1,117,307) |
| Depreciation | (370,648) | (246,875) | (617,523) |
| Other expenses | (1,303,971) | (868,528) | (2,172,499) |
| Profit on disposal of digital currencies | - | 1,849,552 | 1,849,552 |
| Segment operating profit / (loss) | (1,418,945) | 904,445 | (514,500) |
| Segment assets | 5,621,264 | 3,744,120 | 9,365,384 |

During the year revenue of $3,120,404 was recognized from a single external customer.
During 2017 revenue of $767,073 was recognized from a single external customer.

*(Expressed in Canadian Dollars)*

## 19. Commitments

### 19(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised in liabilities is as follows:

| | Year ended 31 December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| | $ | $ |
| Property, plant and equipment | - | 1,387,671 |

### 19(b) Non-cancellable operating leases

The Group leases office space under non-cancellable operating leases expiring with three years. The group also has a three year contract with a supplier to provide security services. The Group leases transformers under non-cancellable operating leases expiring within seven years. Commitments for minimum lease payments in relations to non-cancellable operating leases are payable as follows:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| | $ | $ |
| Within one year | 1,077,613 | 60,127 |
| Later than one year but not later than five years | 2,650,933 | 52,859 |
| Later than five years | 560,073 | - |
| | 4,288,619 | 112,986 |

The Company has various commercial agreements with vendors. The Company does not have any contingencies as of December 31, 2018 (2017: none).

### 19(c) Employee loans

An accrual has been made for loans that were paid to four UK based employees in January 2019 to cover personal tax liabilities arising from the exercise of share options in Hydro66 UK Limited in February 2018 prior to the transaction with Arctic Blockchain Limited. A further commitment of $55,234 existed at the year-end for an employee who signed the loan documentation after the end of the year.

### 19(d) Power purchase commitments

The company has committed to purchase 2 MW of power for 2019 and 2 MW of power for 2020 as follows:

| Year | Commitment | Price SEK / MWh | Price CAD / MWh |
|---|---|---|---|
| 2019 | 2 MW (17,520 MWh) | 298.06 | 45.51 |
| 2020 | 2 MW (17,568 MWh) | 335.57 | 51.24 |

## 20. Related Party Transactions

The Group's related parties include key management and others as described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

During the year ended December 31, 2018, Hydro66 UK Limited repaid a loan note to David Rowe of $74,295 (year ended December 31, 2017: nil). During the year ended December 31, 2017 the company issued a loan note and received $74,295

*(Expressed in Canadian Dollars)*

**20. Related Party Transactions (continued)**

from David Rowe.

During the year ended December 31, 2018, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of $222,886 (year ended December 31, 2017: $130,401).

During the year ended December 31, 2018, Kurchakee Ltd, of which David Rowe is a Director, bought finance and legal services and office space of $38,012 (2017: nil) from Megamining Ltd.

During the year ended December 31, 2018, Black Green Capital Ltd, of which David Rowe and Richard Croft are Directors, bought services from Megamining Ltd of $12,959 (2017: $13,374).

During the year ended December 31, 2018, Moiety AB, of which Anne Graf is a Director, provided consultancy services to Hydro66 Svenska AB of $8,872 (2017: $285,636).

During the year ended December 31, 2018, 0920 Media AB (brand name Meramedia), of which Anne Graf is a director, provided marketing services to Hydro66 Svenska AB of $34,543 (year ended December 31, 2017: $101,735).

During the year ended December 31, 2018, Hydro66 Services AB, provided colocation services to B-chain e-services AB, of which Anne Graf was a director, of $1,013,202 (year ended December 31, 2017: $773,008). Anne Graf resigned as a director from B-chain e-services AB on June 21, 2018.

During the year ended December 31, 2018, the Group bought services from Chase Management Limited of which Nick DeMare is a director, for $24,600. 75,000 share options were also issued to Chase Management Limited with an associated in year cost of $12,167.

In February 2018 Arctic Blockchain Limited raised funding via a convertible debenture. The directors and related parties participated in the funding as follows:

| Name of related party | Nature of related party to Hydro66 Holdings Corp | Participation in Arctic Blockchain Limited convertible debenture |
|---|---|---|
| Michael Hudson *through Elmwood Partners Discretionary Trust* | Director | $400,000 |
| Richard Patricio *through Totus Inc* | Director | $475,000 |
| Nick DeMare | Company Secretary | $124,800 |

In December 2018, Hydro66 Holdings Corp raised funding via a convertible debenture. The directors and related parties participated in the funding as follows:

| Name of related party | Nature of related party to Hydro66 Holdings Corp | Participation in Hydro66 Holdings Corp convertible debenture |
|---|---|---|
| David Rowe | Director | USD 600,000 |
| Richard Patricio *through Totus Inc* | Director | $100,000 |

*Key Management Compensation*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. Key management personnel remuneration includes the following expenses:

*(Expressed in Canadian Dollars)*

**20. Related Party Transactions (continued)**

| | Year ended December 31, 2018 $ | Year ended December 31, 2017 $ |
|---|---|---|
| **Short-term employee benefits:** | | |
| - Salaries including bonuses | 651,887 | 168,129 |
| - Social security costs | 168,629 | 19,439 |
| | 820,516 | 187,568 |
| **Post-employment benefits:** | | |
| - Defined contribution pension plans | 1,899 | 406 |
| **Share-based payments** | 600,222 | 34,191 |
| **Total remuneration** | 1,422,637 | 222,165 |

The Group has allowed its employees to take up limited loans to cover personal income tax liabilities arising from the exercise of share options in Hydro66 UK Limited prior to the transaction between Arctic Blockchain Limited and Hydro66 UK Limited. The loans were paid in January 2019. At December 31, 2018, the group held an accrual and a receivable for employee loans that were due to be paid to employees in January 2019. This facility was also available to the Group's key management personnel. In January 2019, $52,050 was lent to a member of key management personnel.

**21. Income Taxes**

(a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision for the year ended December 31, 2018 (United Kingdom statutory rates to the reported income tax provision for the year ended December 31, 2017) is provided as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Loss for the year | $ | (6,646,053) | $ | (515,305) |
| Canadian statutory tax rate (2017: United Kingdom statutory tax rate) | | 27.0% | | 19.0% |
| Income tax benefit computed at statutory rates | | (1,794,434) | | (97,908) |
| Foreign tax rates different from statutory rates | | 194,836 | | (18,168) |
| Items non-deductible for income tax purposes | | 929,561 | | - |
| Other reconciling items | | 95,615 | | 116,076 |
| Unused tax losses and tax offsets not recognized | | 574,422 | | - |
| | $ | - | $ | - |

In September 2017, the Provincial Government of British Columbia proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial general corporate income tax rate from 26% to 27%.

(b) The tax effected items that give rise to significant portions of the deferred income tax assets deferred income tax liabilities at December 31, 2018 and 2017 are presented below:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Non-capital losses carried forward | $ | 14,119 | $ | 26,946 |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | | (2,803) | | (1,962) |
| Foreign exchange | | (11,316) | | (24,984) |
| | $ | - | $ | - |

*(Expressed in Canadian Dollars)*

### 21. Income Taxes (continued)

(c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

| | December 31, 2018 | 2017 |
|---|---|---|
| Non-capital losses | $ 6,602,866 | $ 4,029,068 |
| Property, plant and equipment | 1,793,709 | - |
| Capital losses | 612,448 | - |
| Share issuance costs | 33,826 | - |
| Unrecognized deferred tax assets | $ 9,042,849 | $ 4,029,068 |

The Company forfeited non-capital losses carried forward of $Nil (2017 - $7,213,042) upon the disposal of subsidiaries in Mexico and $Nil (2017 - $296,653) upon the disposal of a subsidiary in Nicaragua.

The Company's unrecognized and unused non-capital losses carried forward have the following expiry dates:

| | Country of Origin | | |
|---|---|---|---|
| | Canada | Sweden | United Kingdom |
| 2030 | $ | $ - | $ - |
| 2031 | | - | - |
| 2032 | | - | - |
| 2033 | | - | - |
| 2034 | | - | - |
| 2035 | | - | - |
| 2036 | | - | - |
| 2037 | 3,222 | - | - |
| 2038 | 398,236 | - | - |
| No expiry date | - | 3,276,550 | 2,924,858 |
| Total | $ 401,458 | $ 3,276,550 | $ 2,924,858 |

During the year ended December 31, 2018, the Company completed an amalgamation with Caza. The Company does not expect to utilize the $6,603,069 of Canadian non-capital losses carried forward acquired through this amalgamation.

### 22. Subsequent Events

There were no subsequent events to report.

### 23. Comparatives

The comparatives have been translated from GBP to CAD for presentational purposes. The closing rate at December 31, 2017 of 1.6985 Canadian Dollars to 1 Great British Pound has been used to translate the Statement of Financial Position and related notes. The average rate during 2017 of 1.67181 Canadian Dollars to 1 Great British Pound has been used to translate the Income Statement and related notes.

### 24. Auditors Remuneration

Within Administrative expenses is included $252,049 of audit costs. Of this amount, fees of $171,808 were paid to the Group auditor and $71,454 were paid to the Group auditor affiliated firm for the audit of the two subsidiaries in Sweden. The remainder were fees paid to unaffiliated advisors in Canada.

During the year included within legal and professional $629,356 includes fees for non-audit services for $39,652 provided by the Group auditor.