

# **SIXTY SIX Capital Inc, formerly HYDRO66 HOLDINGS CORP (“Company”)**

## **MANAGEMENT DISCUSSION & ANALYSIS**

For the Year ending 31<sup>st</sup> December 2020

### **1. Date – April 30,2021**

This Management Discussion and Analysis (“MD&A”) is dated April 30, 2021, unless otherwise indicated and should be read in conjunction with the accompanying audited consolidated financial statements and notes for the year ended December 31, 2020 and 2019.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. Results are reported in Canadian dollars unless otherwise noted. In the opinion of management all adjustments (which consist of normal recurring adjustments and a one-time adjustment to allow for the application of IFRS 16) considered necessary for a fair presentation have been included. The results presented for the year ended December 31, 2020 are not necessarily indicative of the results that may be expected for any future period.

The preparation of financial data is in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee.

### **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as “forward-looking statements”). These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company’s ability to predict or control. For a complete list of the factors that could affect the Company, please refer to those risk factors referenced in the conciliated financial statements for the year ended December 31, 2020, in note 19 “Financial Instruments and Risk Management”, filed by the Company on April 30, 2021. Readers are cautioned that such risk factors, uncertainties and other factors are not exhaustive. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the Company’s ability to meet its working capital needs at the current level for the next twelve-month period; management’s outlook regarding future trends; sensitivity analysis on financial instruments, which may vary from amounts disclosed; and general business and economic conditions.

All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly, or otherwise revise, any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

### **Non-GAAP Measures**

This MD&A presents certain non-GAAP (“GAAP” refers to Generally Accepted Accounting Principles) financial measures to assist readers in understanding the Company’s performance. These non-GAAP measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Management uses these non-GAAP measures to supplement the analysis and evaluation of operating performance.

Throughout this MD&A, the following terms are used, which are not found in the Chartered Professional Accountants of Canada Handbook and do not have a standardized meaning under GAAP.

*EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)*

- “EBITDA” represents net income or loss excluding net finance income or expense, income tax or recovery, depreciation, and amortization.
- “Adjusted EBITDA” represents EBITDA adjusted to exclude share-based compensation, and impairment and costs associated with one-time transactions (such as listing fees).

## 2. Overall Performance

The Company operated in 2020 as an award winning, data center operator, and cloud services provider and is listed on the Canadian Securities Exchange (“CSE”). The Company hosted third party IT infrastructure, utilizing 100% green power at amongst the EU’s lowest power prices within an ISO27001 accredited facility. The Company used locally generated, clean, green hydropower. The Company provided purpose-built colocation space and cooling, telecoms, IT support services and 24/7 physical security in their facility. On June 23, 2020, the Company announced that it was beginning the provision of Cloud based services in partnership with CloudSigma. The service commenced operation on August 12, 2020.

On March 4, 2021, the Company sold Hydro66 UK Limited, and its wholly owned subsidiaries Hydro66 Services AB, Hydro 66 Svenska AB, and Hydro 66 Property Services AB to Northern Data AG (XETRA: NB2) in exchange for 338,273 shares in Northern Data AH (XETRA: NB2) and €1,751,544. The Northern Data AG shares cannot be sold prior to March 4, 2023. At closing on March 4, 2021, the Northern Data shares held by the Company had a value of €32,338,899.

### *Strategy and markets*

The principal activities of the Company, during the period were, the provision of cloud and colocation services specialized in High Performance Cloud Computing, Storage, and information processing. During the year ended December 31, 2020 Hydro66 maintained the operation of the data center, sales focused its efforts on filling that capacity with several new customers added to the facility.

Data centers are increasingly under the spotlight as being energy-intensive, and with that scrutiny comes the need for innovation and transparency. Companies are realising the environmental and cost benefits of locating processing power in a cool climate close to abundant and low-cost green power. The Company’s data center was ideally located to deliver those benefits. The Company was well positioned to deliver green cloud colocation for High Performance Computing, Storage, and Information Processing.

Going forward, post the sale of the data center and the Company’s UK and Swedish assets, it is anticipated that the Company will operate some small-scale cryptocurrency activities using third party data centers. The Company is evaluating other data center opportunities to continue its high-performance computing business while maintaining its focus on providing such capacity in a green and sustainable manner.

### *Analysis of Financial Performance*

During the year to December 31, 2020 Hydro66 recorded revenue of \$3.62m vs a prior year of \$4.27m, a decline of 15%.

Revenue from information processing and cloud services increased during the period, from \$2.45m in 2019 to \$2.89m in 2020, an 18% increase over the prior year, demonstrating the success achieved through the change in business focus from co-location to higher margin cloud services.

Direct costs declined from \$2.64mm in 2019 to \$1.77mm in 2020, despite expansion in power utilisation due to the favourable energy prices in Sweden during 2020. Direct costs accounted for 49% of revenue in 2020 (62% in 2019). Usage of the facility increased from 20.8% at the yearend December 2019 to 21.0% at the yearend December, 2020.

Operating Costs and Expenses also declined due to cost savings implemented by the Director at the end of 2019 and start of 2020. Operating Costs and Expenses declined from \$4.78m to \$3.85m, a reduction of 19.5%

No dividends were paid during the period.

### *Provision*

The Company’s Swedish entity Hydro66 Svenska AB has been under a tax review regarding parts of its deducted VAT for the period 2016-2020. The Swedish Tax Authorities have not yet come with a ruling but have expressed an intent on reclaiming parts of the VAT deducted by the entity on grounds that Hydro66 Svenska AB is mining crypto currencies for its own use. The Company do not share the Swedish Tax Authorities opinion and is of the clear position that all its services is VAT eligible and preformed for its customers. Since the legal framework regarding cryptocurrency related tax issues is still untested and the Swedish Tax Authorities is known for its aggressive stance in the matter, the Company has chosen to record a provision regarding the expected VAT reclaim. The amount recorded represent an outcome of about 50% of the total amount that is under consideration and represents the weighted effect of the expected decision from the Swedish Tax Authorities together with the probability of the final outcome. The Company’s position is that any reclaim decision will be appealed to the administrative court.

### 3. Selected Annual Information

#### Revenue.

The Company's operations are centred on providing data center services and the provision of specialised information processing services to customers. Management therefore considers there to be two reporting segments for the Company.

	Twelve months to December 31,					
	2020		2019		2018	
	\$	\$	\$	\$	\$	\$
	Data Center Services	Information processing Services	Data Center Services	Information processing Services	Data Center Services	Information processing Services
United Kingdom	172,858		43,957		14,039	
Asia		2,797,200		526,228		
USA & Canada	110,194	88,055	127,565	48,602		290,255
Rest of Europe	447,539	2,691	1,650,818	1,875,877	7,056,471	283,357
	730,591	2,887,946	1,822,340	2,450,707	7,070,510	573,612

In the twelve months to December 31, 2020 Information processing and cloud services made up 80% of the revenue compared to 57% in the same period last year.

	Twelve months to December 31,					
	2020		2019		2018	
	\$m	% of total	\$m	% of total	\$m	% of total
Data Center Services	0.7m	20%	1.8m	43%	7.1m	92%
Information processing services	2.9m	80%	2.5m	57%	0.6m	8%
<b>Total</b>	<b>3.6m</b>		<b>4.3m</b>		<b>7.7m</b>	

The growth in information processing services is a function of the market growth through 2020, driven by the expansion of information processing services and cloud computing investment by the Company during the 2019, and the growth in demand for computing services due to COVID 19.

#### Adjusted EBITDA.

The key financial metrics were reported as follows:

	12 months Ending:	Dec-20	Dec-19
	Revenue	3.62mm	4.27mm
	Adjusted EBITDA	(1.76mm)	(2.72mm)

Adjusted EBITDA loss for the year to December 31, 2020 was (\$1.76m) against an adjusted EBITDA loss of (\$2.42m) for the same period in 2019.

Revenue from the sale of information processing and cloud computing increased from \$1.6m in 2019 to \$2mm in, 2020. Revenue from co-location activities fell significantly reflecting the refocusing of the business on IaaS away from co-location during 2020.

The table below shows the calculation of adjusted EBITDA for the twelve months ending December 31, of each year

	2020	2019	2018
	\$	\$	\$
Comprehensive (loss) income for the period	(5,585,128)	(6,891,293)	(6,646,054)
<i>Add back:</i>			
Other comprehensive (loss) income for the year	(1,310,932)	1,617,935	310,233
Listing expenses	-	-	460,925
Share-based payment expense	-	-	1,500,000
Share-based compensation	241,890	431,404	1,342,389
Provision GST	18,147	100,994	-
Provision VAT	2,253,837	-	-
Lease agreement adjustments	(86,610)	-	-
Depreciations	2,196,759	1,993,372	1,127,397
Impairment on digital currencies	-	29,213	212,042
<b>Adjusted EBITDA</b>	<b>(2,272,037)</b>	<b>(2,718,375)</b>	<b>(1,693,068)</b>

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds, however the Company does expect that customer growth rates and earnings will be lower than planned for 2021.

#### **Total Assets**

	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
	\$	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	198,579	997,568	2,304,416
VAT / GST receivable	366,890	378,114	890,185
Amounts receivable and prepaids	1,061,939	633,828	1,380,417
<b>Total current assets</b>	<b>1,627,408</b>	<b>2,009,510</b>	<b>4,575,018</b>
<b>Non-current assets</b>			
Property, plant and equipment	15,757,839	14,401,005	15,903,314
Right of use assets	2,120,279	1,939,674	0
Digital currencies	18,657	16,477	123,838
Deferred tax assets	0	0	0
<b>Total non-current assets</b>	<b>17,896,775</b>	<b>16,357,156</b>	<b>16,027,152</b>
<b>TOTAL ASSETS</b>	<b>19,524,183</b>	<b>18,366,666</b>	<b>20,602,170</b>

## Current assets

VAT is receivable monthly. As of the date of this Management Discussion and Analysis all VAT receivables have been credited to the company's tax account.

## Non-current assets

During 2018, expansion of the data center continued with the completion of the fit out of 2 data halls, the build of 2 further data halls and the fit out of those halls, bringing the total active data halls to 6, foundations were also laid for a further 3 data halls. This expansion was funded by the issue of a debenture in Arctic Blockchain Limited in February 2018 for \$10,000,000.

Investments in 2019 and 2020 focused on the expansion of the equipment used to provide the information processing and cloud services and the maintenance of the data center.

The overall value of the property, plant and equipment has been reduced due to depreciation and the decline of cash balances.

## Non-current financial liabilities

As December 31, 2020 the Company had long term liabilities of \$9,943,621.

<b>Non-current liabilities</b>	<b>Dec 31 2020</b>	<b>Dec 31 2019</b>
Convertible debenture	5,345,709	3,651,991
Long term deferred revenue	651,198	-
Lease liabilities	1,686,671	1,595,350
Provisions	2,170,043	-

Lease Liabilities arise from the reclassification of certain assets as financial leases in line with IFRS 16.

## Convertible Loan

In March 2020, the company entered into a secured convertible loan agreement with David Rowe, a significant shareholder and a director of the Company, and with Robert Keith, a significant shareholder of the Company. The maximum amount of the loan will be USD\$1,000,000 in the aggregate, convertible at the market price of the common shares at the date of conversion, with the initial advance of USD\$300,000 with exchange rate on March 31, 2020 for conversion of amounts advanced in USD to Canadian dollars. The remaining amounts of the Loan may be requested by the Company, if necessary, on or before December 31, 2021, in the same amounts as advanced by such lender under the Initial Advance. The Company will request that any amount advanced be made in Canadian dollars, however, the Company acknowledges that the lenders may make advances in either British Sterling or USD. This brought the total principal amount outstanding as of March 31, 2020 under the two convertible loan agreements to \$3,826,355.

The new convertible Loan is evidenced by second ranking secured convertible promissory notes in favour of the lenders for each advance under the Loan. The maturity date of the principal amount, interest and any fees of the Loan is seven (7) years from the date of the Initial Advance and the rate of interest is 10% per annum. The interest for the initial two (2) years of the Loan shall not be payable until such time as the Loan is repaid in full.

On June 2, 2020, the company announced the drawdown of an additional USD 300,000 under the new convertible loan bringing the total principal amount outstanding under the two convertible loan agreements to \$4,239,383.

On August 14, 2020, the company announced the drawdown of an additional USD 400,000 under the new convertible loan bringing the total principal amount outstanding under the two convertible loan agreements to \$4,768,063 which also is the outstanding principal amount as of December 31, 2020.

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 (March)	Director	USD 173,000
Robert Keith (March)	Owner	USD 127,000
David Rowe (June)	Director	USD 172,000
Robert Keith (June)	Owner	USD 128,000
David Rowe (August)	Director	USD 231,000
Robert Keith (August)	Owner	USD 169,000

As of December 31, 2020, the interest accrued under the convertible debentures was \$667,646, (\$249,898 at December 31, 2019).

#### 4. Discussion of Operations

The Company's principal activity in 2020 was the provision of co-location and cloud computing services, specialised in High Performance Computing, Storage, and information processing. During the year ended December 31, 2020 the Company focussed its efforts on developing its Infrastructure as a Service (IAAS) offering and sale of computing services, alongside operating its traditional co-location services.

Hydro66 delivers low-cost, environmentally friendly colocation services. Using locally generated clean green hydropower, Hydro66's first data centre is in the leading cloud and data centre cluster in the Nordics, in Northern Sweden. This gives customers the ability to reduce their carbon footprint while providing cost savings against the traditional colocation model.

The Company also sells cloud computing power and IAAS to customers. From these sales the Company may receive income in the form of digital currencies. All digital currencies received are converted to traditional currency shortly after their receipt.

The Company retains the potential to grow the existing site to greater than 40MW and in November 2020 exercised its right to acquire additional land adjacent to the existing site enabling potential expansion to 80MW plus.

Hydro66 was close to cash flow breakeven at the end of 2020 for the reasons outlined above and moved into positive cashflow during Q1 2021. 2020 was a year of consolidation, and strategy implementation as the total data center capacity was maintained at 19.2 MW. Market conditions, power costs and the depressed digital currency market for the majority of 2019 meant that although there was an increase in capacity utilisation during 2020 a large element of the capacity remained unutilised.

#### 5. Summary of quarterly results

The following selected financial information is derived from the audited consolidated financial statements of the Company.

	Fiscal 2020				Fiscal 2019			
	dec-20	sep-20	jun-20	mar-20	dec-19	sep-19	jun-19	mar-19
	2020	2020	2020	2020	2019	2019	2019	2019
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Operations:</b>								
Revenue	1 181 391	683 056	794 313	959 777	977 879	1 298 781	1 414 727	581 660
Comprehensive income / (loss) from continuing operations	(2 842 843)	(1 064 597)	(717 858)	(959 830)	(1 325 877)	(1 551 465)	(2 086 278)	(1 927 672)
Basic loss per share	(0,022)	(0,008)	(0,005)	(0,007)	(0,010)	(0,012)	(0,016)	(0,015)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Non diluted	130 646 950	130 646 950	130 646 950	130 646 950	130 646 950	130 646 950	127 000 000	127 000 000

Revenue declined in the first three quarters of 2020 due to the refocus away from colocation activities into new cloud services. The increase in revenue in Q4 stems from increased revenue from cloud customers and the successful deployment of new equipment to meet their needs. Please note that the Provision of \$2.39m was taken in Q4, Comprehensive Loss from continuing operations would have been (\$0.45m) in the period excluding that provision.

## **6. Liquidity**

During the year to December 31, 2020, the Company incurred a Loss before other items of (\$4,201,324), (2019: Loss before other items (\$4,841,628)).

Total Administration expenses before acquisition and listing expenses declined by 20% to (\$3,852,974), (2019: \$4,841,628) due to savings initiatives carried out by the Company across all aspects of the business.

The loss in 2020, reflects the impact of COVID-19 on expanding the customer footprint combined with the high fixed costs for running the expanded capacity of the data center, as well as the transition of the Swedish operation to a cloud focused operation and away from Colocation sales. 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, 2020, the Company raised \$1.37m. from the existing convertible debenture holders. This money was raised in three tranches across March, June and August as outlined below in Capital Resources.

During the months September to November 2020 at seven different occasions, the Company borrowed a total of USD 837,628 from David Rowe, a significant shareholder and director of the Company. The maturity date of the principal amount, interest and any fees of the Loan is six (6) months from the date of the Initial Advance and the rate of interest is 10% per annum compounded and calculated monthly.

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 of achieving the projected revenue and managing the cost base as forecast, 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.

## **7. Capital Resources**

On December 31, 2020 the Company had no capital commitments.

In March 2020, the company entered into a secured convertible loan agreement with David Rowe, a significant shareholder and a director of the Company, and with Robert Keith, a significant shareholder of the Company. The maximum amount of the loan will be USD\$1,000,000 in the aggregate, convertible at the market price of the common shares at the date of conversion, with the initial advance of USD\$300,000 with exchange rate on March 31, 2020 for conversion of amounts advanced in USD to Canadian dollars. The remaining amounts of the Loan may be requested by the Company, if necessary, on or before December 31, 2021, in the same amounts as advanced by such lender under the Initial Advance. The Company will request that any amount advanced be made in Canadian dollars, however, the Company acknowledges that the lenders may make advances in either British Sterling or USD. This brought the total principal amount outstanding as of March 31, 2020 under the two convertible loan agreements to \$3,826,355.

The new convertible Loan is evidenced by second ranking secured convertible promissory notes in favour of the lenders for each advance under the Loan. The maturity date of the principal amount, interest and any fees of the Loan is seven (7) years from the date of the Initial Advance and the rate of interest is 10% per annum. The interest for the initial two (2) years of the Loan shall not be payable until such time as the Loan is repaid in full.

On June 2, 2020, the company announced the drawdown of an additional USD 300,000 under the new convertible loan bringing the total principal amount outstanding under the two convertible loan agreements to \$4,239,383.

On August 14, 2020, the company announced the drawdown of an additional USD 400,000 under the new convertible loan bringing the total principal amount outstanding under the two convertible loan agreements to \$4,768,063 which also is the outstanding principal amount as of December 31, 2020.

## **8. Off-Balance Sheet Arrangements**

Hydro66 does not have any off-balance sheet arrangements.



## 9. Transactions with Related Parties

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, 2020, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of \$90,200 (year ended December 31, 2019: \$124,950).

During the year ended December 31, 2020, Black Green Capital Ltd, of which David Rowe and Richard Croft are Directors, bought services from Megamining Ltd of \$nil (2019: \$12,937).

During the year ended December 31, 2020, the Group bought services from Chase Management Limited of which Nick DeMare is a director, for \$15,350 (year ended December 31, 2019: \$19,100).

In September, October and November 2020 Hydro66 Svenska AB have at seven different occasions borrowed funds from David Rowe with a total of USD 837,628. About 30% of funds have been used for financing investments and about 70% to support the business cash flow.

In August 2020, 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 231,000
Robert Keith	Owner	USD 169,000

In June 2020, 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 172,000
Robert Keith	Owner	USD 128,000

In March 2020, 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 173,000
Robert Keith	Owner	USD 127,000

### *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:

	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$
<b>Short-term employee benefits:</b>		
- Salaries including bonuses	442,351	560,887
- Social security costs	58,984	102,607
	501,335	663,494
<b>Post-employment benefits:</b>		
- Defined contribution pension plans	2,250	17,552
<b>Share-based payments</b>	107,833	296,883
<b>Total remuneration</b>	611,418	977,929

## 10. Proposed Transactions

At yearend 2020 the Company was considering the potential sale of Hydro66 UK Ltd and substantially all its assets to Northern Data AG (XETRA: NB2), a Letter of Intent to such affect was signed on December 30, 2020. The sale was subsequently completed on March 4, 2021, and the details are below in 15. Post Balance Sheet Events.

## 11. Basis of Preparation and Critical Accounting Policies

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”).

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates which are detailed below. These accounting policies were consistently applied for all the periods presented.

### *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.

### *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.

### *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.

## 12. New or revised Standards or Interpretations

### *Adoption of New Accounting Standards*

No new accounting standards have been adopted during the year that have a material impact on the Company's consolidated financial statement for year ended December 31, 2020.

### *Accounting Standards and Interpretation Issued but Not Yet Effective*

No new standards not yet effective have been identified that can have a significant impact on the Company's consolidated financial statements for 2021 and forward.

## 13. Financial Instruments and Other instruments

### 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.

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.

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

As at December 31, 2020, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

December 31, 2020	Within 6 months	Current 6 to 12 months	1 to 5 years	Non-current Later than 5 years
Promissory loan notes	-	340,209	5,898,274	1,715,764
Lease liabilities	295,745	295,745	1,747,225	408,032
Short term borrowings	1,086,986	-	-	-
Trade and other payables	2,163,586	-	-	-
<b>Total</b>	<b>3,546,317</b>	<b>635,955</b>	<b>7,645,499</b>	<b>2,123,796</b>

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

December 31, 2019	Within 6 months	Current 6 to 12 months	1 to 5 years	Non-current Later than 5 years
Promissory loan notes	-	-	1,360,837	4,331,258
Lease liabilities	259,860	255,621	1,803,324	110,948
Trade and other payables	1,713,263	-	-	-
<b>Total</b>	<b>1,973,123</b>	<b>255,621</b>	<b>3,164,161</b>	<b>4,442,206</b>

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.

#### 14. Share capital

As at the date of the MD&A, 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 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 130,649,950 shares in issue, all fully paid as of December 31, 2020.

#### 15. Post Balance Sheet Events

On January 7, 2021 the Company entered into a letter of intent with Northern Data AG to sell the Data Center located in Boden, Sweden. On March 4, 2021 the Company completed the sale of Hydro66 UK Ltd and its three Swedish subsidiaries to Northern Data AG in exchange for 338,273 Northern Data Shares and EUR 1,754,544 (\$2,723,595) in cash subject to adjustment based on the consolidated balance sheet of Hydro66 UK as of the closing date of the transaction. The received shares are subject to a two-year holding period which expires on March 4, 2023.

The cash element of the proceeds from the sale of the subsidiaries is a total of EUR 1,754,544. EUR 1,213,544 of this is to be held in an Escrow Account and EUR 538,000 was received by Hydro66 Holding Corp on completion of the deal. On March 4, 2022 EUR 1,000,000 less any payments made from the escrow account, or outstanding claims on the escrow account shall be released to Hydro66 Holdings Corp, with the remainder to be released on March 4, 2023.

On March 10, 2021 Hydro66 Holdings Corp and its 100% owned subsidiary Hydro66 Canada Ltd were amalgamated as one company under the name Hydro66 Holdings Corp.

On March 25, 2021 the Company granted the following options:

Name	Position	No of Options	Exercise Price	Expiry Date
David Rowe	Director	1,100,000	\$0.16	25th March 2024
Alex Johnstone	CFO	500,000	\$0.16	25th March 2024
Richard Croft	Director	400,000	\$0.16	25th March 2024
Richard Patricio	Director	215,000	\$0.16	25th March 2024
Michael Hudson	Director	215,000	\$0.16	25th March 2024

On April 13, 2021, the Company changed its name from Hydro66 Holdings Corp to Sixty Six Capital Inc to better reflect its existing business and future prospects.