
SIXTY SIX CAPITAL INC.

(formerly Hydro66 Holdings Corp.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2021

(Unaudited - Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

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

SIXTY SIX CAPITAL INC. (formerly Hydro66 Holdings Corp.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian Dollars)

	Note	September 30, 2021 \$	December 31, 2020 \$
ASSETS			
Current assets			
Cash		44,844	198,579
Restricted cash	4, 5	1,464,865	-
Amounts receivable and prepaid expenses	6	<u>290,052</u>	<u>1,208,695</u>
Total current assets		<u>1,799,761</u>	<u>1,407,274</u>
Non-current assets			
Property, plant and equipment	7	-	15,757,839
Right-of-use assets	8	-	2,120,279
Digital currencies	9	-	18,657
Restricted cash	4,5	312,813	-
Investment in equity security	10	<u>36,069,013</u>	<u>-</u>
Total non-current assets		<u>36,381,826</u>	<u>17,896,775</u>
TOTAL ASSETS		<u>38,181,587</u>	<u>19,304,049</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11	164,118	2,163,586
Short-term borrowing	12	-	1,086,986
Current portion of lease liabilities	13	<u>-</u>	<u>483,344</u>
Total current liabilities		<u>164,118</u>	<u>3,733,916</u>
Non-current liabilities			
Convertible debentures	14	5,788,436	5,435,709
Long-term deferred income	15	-	651,198
Lease liabilities	13	-	1,686,671
Provisions	16	<u>2,234,740</u>	<u>2,170,043</u>
Total non-current liabilities		<u>8,023,176</u>	<u>9,943,621</u>
TOTAL LIABILITIES		<u>8,187,294</u>	<u>13,677,537</u>
SHAREHOLDERS' EQUITY			
Share capital	18	34,890,714	34,890,714
Other reserves		(7,155,763)	(7,155,763)
Share option reserve		2,938,412	2,036,757
Accumulated other comprehensive loss		(13,092,872)	(134,573)
Retained earnings (deficit)		<u>12,413,802</u>	<u>(24,010,623)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>29,994,293</u>	<u>5,626,512</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>38,181,587</u>	<u>19,304,049</u>

Nature of Operations and Going Concern - see Note 1

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on November 29, 2021 and are signed on its behalf by:

/s/ David Rowe

David Rowe
Director

/s/ Richard Croft

Richard Croft
Director

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

SIXTY SIX CAPITAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited - Expressed in Canadian Dollars)

	Notes	Three Months Ended September 30.		Nine Months Ended September 30.	
		2021 \$	2020 \$	2021 \$	2020 \$
Revenue	20	-	683,056	1,778,485	2,437,146
Cost of sales					
Direct costs		-	476,441	651,988	1,287,832
Depreciation	7, 8	-	544,225	494,737	1,570,910
		-	1,020,666	1,146,725	2,858,742
Cryptocurrency related items					
Disposal of digital currencies gain (loss)		-	2,651	(2,866)	(23,432)
Gross (loss) income for the period		-	(334,959)	628,894	(445,028)
Administrative expenses					
Accounting and administration		9,300	16,437	19,012	16,743
Audit		-	46,512	36,016	174,488
Bank charges		142	594	642	1,805
Legal and professional	21	65,225	198,026	642,033	711,907
Marketing and promotion fees		-	35,411	10,193	62,064
Management fees, salaries and wages	21	-	332,849	256,383	988,964
Office		2,532	24,277	47,636	60,841
Regulatory and filing fees		8,511	12,935	31,729	37,404
Share-based compensation	16	13,809	25,091	901,655	218,254
Technical support and security costs		-	138,240	99,417	395,685
Travel		-	1,379	2,351	25,515
Other operating expenses		-	32,610	84,117	196,489
		99,519	864,361	2,131,184	2,890,159
Gain on disposal of subsidiaries	4	-	-	38,788,992	-
(Loss) income before other items		(99,519)	(1,199,320)	37,286,702	(3,335,187)
Other items					
Other income		-	1,756	-	85,540
Interest and other financial costs		(117,589)	(149,034)	(376,260)	(407,842)
Foreign exchange		321	(4,271)	(486,017)	(8,464)
		(117,268)	(151,549)	(862,277)	(330,766)
Net (loss) income for the period		(216,787)	(1,350,869)	36,424,425	(3,665,953)
Other comprehensive (loss) income					
Change in fair value of investment in equity security	10	(3,489,520)	-	(12,996,226)	-
Exchange difference on translating foreign operations		-	286,272	37,927	923,665
		(3,489,520)	286,272	(12,958,299)	923,665
Comprehensive (loss) income for the period		(3,706,307)	(1,064,597)	23,466,126	(2,742,288)
Basic and diluted (loss) income per common share		\$(0.04)	\$(0.01)	\$0.28	\$(0.02)
Weighted average number of common shares outstanding		130,649,950	130,649,950	130,649,950	130,649,950

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

SIXTY SIX CAPITAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian Dollars)

	Nine Months Ended September 30, 2021						
	Share Capital		Reserves		Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Equity
	Number of Shares	Amount \$	Other \$	Share-Based Compensation \$			
Balance at December 31, 2020	130,649,950	34,890,714	(7,155,763)	2,036,757	(134,573)	(24,010,623)	5,626,512
Share-based compensation	-	-	-	901,655	-	-	901,655
Net earnings for the period	-	-	-	-	-	36,424,425	36,424,425
Currency translation adjustment	-	-	-	-	37,927	-	37,927
Investment in equity security revaluation	-	-	-	-	(12,996,226)	-	(12,996,226)
Balance at September 30, 2021	130,649,950	34,890,714	(7,155,763)	2,938,412	(13,092,872)	12,413,802	29,994,293

	Nine Months Ended September 30, 2020						
	Share Capital		Reserves		Other Comprehensive Income (Loss)	Deficit	Total Equity
	Number of Shares	Amount \$	Other \$	Share-Based Compensation \$			
Balance at December 31, 2019	130,649,950	34,890,714	(7,155,763)	1,794,867	(1,445,505)	(17,114,563)	10,969,750
Share-based compensation	-	-	-	218,254	-	-	218,254
Net loss for the period	-	-	-	-	-	(3,665,953)	(3,665,953)
Currency translation adjustment	-	-	-	-	923,665	-	923,665
Balance at September 30, 2020	130,649,950	34,890,714	(7,155,763)	2,013,121	(521,840)	(20,780,516)	8,445,716

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

SIXTY SIX CAPITAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian Dollars)

	Nine Months Ended September 30.	
	2021 \$	2020 \$
Operating activities		
Net income (loss) for the period	36,424,425	(3,665,953)
Adjustments for:		
Depreciation of property, plant and equipment	422,934	1,287,401
Depreciation or right-of-use assets	64,801	283,509
Gains from de-recognition of right-of-use assets	-	(85,540)
Gain on disposals of subsidiaries	(38,788,992)	-
Share-based compensation	901,655	218,254
Result from disposal of digital currencies	2,866	23,432
Payments received in digital currencies	(1,283,571)	(2,287,399)
Foreign exchange	369,131	-
Interest expenses	376,260	410,796
Net change in working capital	(126,257)	939,665
Net cash used in operating activities	<u>(1,636,748)</u>	<u>(2,875,835)</u>
Investing activities		
Additions to property plant and equipment	(544,917)	(685,585)
Proceeds from disposal of subsidiaries	827,681	-
Proceeds from disposal of digital currencies	1,281,015	2,252,024
Net cash provided by investing activities	<u>1,563,779</u>	<u>1,566,439</u>
Financing activities		
Proceeds from debenture issuance	-	1,365,970
Lease payments	(85,576)	(359,410)
Net cash (used in) provided by financing activities	<u>(85,576)</u>	<u>1,006,560</u>
Net change in cash	(158,545)	(302,836)
Cash at beginning of period	198,579	997,568
Effect of exchange rate changes on cash	4,810	(73,573)
Cash at end of period	<u>44,844</u>	<u>621,159</u>
Supplemental cash flow information		
Payments received in shares of equity security (see Notes 4 and 10)	49,065,239	-
Escrow cash received from disposal of subsidiaries (see Notes 4 and 5)	1,841,214	-
Recognition of right-of-use assets / lease liabilities	-	1,777,595
De-recognition of right-of-use assets / lease liabilities	-	(1,819,616)
Supplemental disclosures		
Interest paid	-	113,229
Income tax paid	-	-

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

SIXTY SIX CAPITAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(Unaudited - Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Nature of Operations

Sixty-Six Capital Inc is an investor and developer active in Fin Tech, it's primary investment consists of 338,273 shares of Northern Data AG (XETRA: NB2, ISIN: DE000A0SMU87) which is a leading infrastructure supplier for Bitcoin mining and other HPC infrastructure solutions. The Company is actively reviewing additional green energy investment and business opportunities within the Fin Tech space.

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.

History 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. Arctic subsequently completed an amalgamation with Caza Gold Corp ("Caza"), 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".

On March 4, 2021, the Company sold Hydro66 UK Limited, and its wholly owned subsidiaries Hydro66 Services AB, Hydro66 Svenska AB, and Hydro66 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 EUR 32,338,899.

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.

Going Concern

The Company's principal activity has been the provision of cloud colocation services, specialised in High Performance Computing, Storage, and information processing. With the sales of its subsidiaries on March 4, 2021, the principal activity of the Company changed materially as described above. During the nine months ended September 30, 2021 the Company incurred a net income of \$36,424,425 (2020 - net loss of \$3,665,953). The positive result in the period mostly reflects the difference between the book value of the sold entities compared to the transaction price together with revaluation of shares owned in Northern Data AG to market price on September 30, 2021. As an effect of the Company's sale of the data center operation, the Company has drastically reduced its need of future financing to support the business.

These condensed consolidated interim 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 directors do not expect any problems with funding the next 12 months to enable the Company to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic that is still active. 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.

SIXTY SIX CAPITAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(Unaudited - Expressed in Canadian Dollars)

2. Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all the information required for full annual financial statements.

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

These condensed interim consolidated financial statements are presented in Canadian dollars and include accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated upon consolidation.

3. Significant Accounting Policies

We applied the same accounting policies in these condensed consolidated interim financial statements as those applied in the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2020. No new or revised standards or interpretations have been identified that could have a significant impact on the Company's condensed consolidated financial statements for 2021 and forward. Accounting standards that are used for the first time by the Company in this condensed consolidated financial statement applies to investments in equity securities and is described in Note 19 "Financial Instruments and Risk Management".

In preparing these condensed interim consolidated financial statements, the significant judgements we made in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended December 31, 2020.

You should read these condensed interim consolidated financial statements in conjunction with the Company's annual audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019.

4. Corporate Reorganization

On January 7, 2021 the Company entered into a letter of intent with Northern Data 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 in exchange for 338,273 common shares of Northern Data 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 the Company 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 the Company, with the remainder to be released on March 4, 2023.

5. Restricted Cash

	September 30, 2021 \$	December 31, 2020 \$
Escrow cash from disposal of subsidiaries		
Current portion (€ 1,000,000)	1,464,865	-
Non-current portion (€ 213,544)	<u>312,813</u>	<u>-</u>
Total restricted cash	<u>1,777,678</u>	<u>-</u>

See Note 4 above.

SIXTY SIX CAPITAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(Unaudited - Expressed in Canadian Dollars)

6. Amounts Receivable

	September 30, 2021 \$	December 31, 2020 \$
Trade receivables	-	151,511
Pre-payments and other debtors	43,730	660,079
VAT/GST receivable	-	486,031
Provision VAT receivable	-	(220,134)
Provision GST receivable	-	(119,141)
Employee loans	246,322	250,349
	<u>290,052</u>	<u>1,208,695</u>
Total current trade and other receivables	<u>290,052</u>	<u>1,208,695</u>

7. Property, Plant and Equipment

	Land and Buildings \$	Plant and Machinery \$	Office Equipment \$	Total \$
Cost:				
Balance, December 31, 2019	6,252,632	11,827,608	62,282	18,142,522
Additions	-	1,572,961	-	1,572,961
Effect of foreign exchange	706,831	1,430,786	560	2,138,177
	<u>6,959,463</u>	<u>14,831,355</u>	<u>62,842</u>	<u>21,853,660</u>
Balance, December 31, 2020	6,959,463	14,831,355	62,842	21,853,660
Additions	60,351	484,566	-	544,917
Disposals of subsidiaries	(6,855,142)	(14,965,790)	(5,802)	(21,826,734)
Disposals	-	-	(57,264)	(57,264)
Effect of foreign exchange	(164,672)	(350,131)	224	(514,579)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, September 30, 2021	-	-	-	-
Accumulated depreciation:				
Balance, December 31, 2019	(323,347)	(3,355,957)	(62,213)	(3,741,517)
Depreciation	(128,183)	(1,699,333)	-	(1,827,516)
Effect of foreign exchange	(44,307)	(481,922)	(559)	(526,788)
	<u>(495,837)</u>	<u>(5,537,212)</u>	<u>(62,772)</u>	<u>(6,095,821)</u>
Balance, December 31, 2020	(495,837)	(5,537,212)	(62,772)	(6,095,821)
Depreciation	(23,093)	(399,771)	(70)	(422,934)
Disposals of subsidiaries	507,197	5,806,207	5,802	6,319,206
Disposals	-	-	57,264	57,264
Effect of foreign exchange	11,733	130,776	(224)	142,285
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, September 30, 2021	-	-	-	-
Carrying value:				
Balance, December 31, 2020	<u>6,463,626</u>	<u>9,294,143</u>	<u>70</u>	<u>15,757,839</u>
Balance, September 30, 2021	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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(Unaudited - Expressed in Canadian Dollars)

8. Right-of-use Assets

Cost:	Leased Equipment \$	Office Premises \$	Total \$
Balance, December 31, 2019	2,296,972	105,079	2,402,051
Additions	382,559	-	382,559
Terminations	-	(53,854)	(53,854)
Adjustments	(176,999)	158,503	(18,496)
Effect of foreign exchange	<u>272,097</u>	<u>4,880</u>	<u>276,977</u>
Balance, December 31, 2020	2,774,629	214,608	2,989,237
Disposals of subsidiaries	(2,708,977)	(215,370)	(2,924,347)
Effect of foreign exchange	<u>(65,652)</u>	<u>762</u>	<u>(64,890)</u>
Balance, September 30, 2021	<u>-</u>	<u>-</u>	<u>-</u>
Accumulated depreciation:			
Balance, December 31, 2019	(392,622)	(69,755)	(462,377)
Depreciation	(311,115)	(58,128)	(369,243)
Terminations	-	27,856	27,856
Effect of foreign exchange	<u>(61,972)</u>	<u>(3,222)</u>	<u>(65,194)</u>
Balance, December 31, 2020	(765,709)	(103,249)	(868,958)
Depreciation	(55,859)	(8,942)	(64,801)
Disposals of subsidiaries	806,542	112,556	919,098
Effect of foreign exchange	<u>15,026</u>	<u>(365)</u>	<u>14,661</u>
Balance, September 30, 2021	<u>-</u>	<u>-</u>	<u>-</u>
Carrying value:			
Balance, December 31, 2020	<u>2,008,920</u>	<u>111,359</u>	<u>2,120,279</u>
Balance, September 30, 2021	<u>-</u>	<u>-</u>	<u>-</u>

SIXTY SIX CAPITAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(Unaudited - Expressed in Canadian Dollars)

9. Digital Currencies

Cost:	Total \$
Balance, December 31, 2019	167,940
Additions	3,168,482
Adjustments	(3,168,182)
Effect of foreign exchange	<u>19,003</u>
Balance, December 31, 2020	187,243
Additions	1,283,571
Disposals	(1,283,881)
Disposals of subsidiaries	(182,502)
Effect of foreign exchange	<u>(4,431)</u>
Balance, September 30, 2021	<u>-</u>
Accumulated impairment:	
Balance, December 31, 1, 2019	(151,463)
Effect of foreign exchange	<u>(17,123)</u>
Balance, December 31, 2020	(168,586)
Disposals of subsidiaries	164,597
Effect of foreign exchange	<u>3,989</u>
Balance, September 30, 2021	<u>-</u>
Carrying value:	
Balance, December 31, 2020	<u>18,657</u>
Balance, September 30, 2021	<u>-</u>

10. Investment in Equity Security

	September 30, 2021 \$	December 31, 2020 \$
Cost of shares Northern Data AG (“Northern Data”)	49,065,239	-
Fair market value effect on shares Northern Data	<u>(12,996,226)</u>	-
Total investment in equity security	<u>36,069,013</u>	<u>-</u>

On March 4, 2021 the Company closed on the sale of certain subsidiaries and as partial consideration received 338,273 shares of Northern Data representing 2.3% of Northern Data. The market closing price for Northern Data on March 4, 2021 was used to establish the cost of the shares. The received shares are subject to a two-year holding period which expires on March 4, 2023.

SIXTY SIX CAPITAL INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(Unaudited - Expressed in Canadian Dollars)

11. Accounts Payable and Accrued Liabilities

	September 30, 2021 \$	December 31, 2020 \$
Trade payables	164,118	345,380
Other payables	-	212,443
Accrued expenses	-	831,211
Deferred income	-	1,425,750
Long term deferred income	-	(651,198)
	<u>164,118</u>	<u>2,163,586</u>

12. Short-term Borrowings

	September 30, 2021 \$	December 31, 2020 \$
Total loans payable	<u>-</u>	<u>1,086,986</u>

For detailed changes in short term borrowings during the period, see Note 17, "Reconciliation of Liabilities Arising from Financing Activities".

13. Lease Liabilities

	\$
Balance, December 31, 2019	2,012,232
Additions	382,559
Interest	143,776
Payments	(455,514)
Terminations	(28,432)
Adjustments	(102,672)
Foreign exchange movement	<u>218,066</u>
Balance, December 31, 2020	2,170,015
Interest	23,342
Payments	(85,576)
Disposals of subsidiaries	(2,056,438)
Foreign exchange movement	<u>(51,343)</u>
Balance, September 30, 2021	<u>-</u>

SIXTY SIX CAPITAL INC.
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14. Convertible Debentures

	September 30, 2021 \$	December 31, 2020 \$
Principal	4,768,063	4,768,063
Accumulated interest	<u>1,020,373</u>	<u>667,646</u>
Non-current loans payable	<u>5,788,436</u>	<u>5,435,709</u>

For detailed changes in Convertible debentures during the period, see Note 17, “Reconciliation of Liabilities Arising from Financing Activities”.

15. Long-term Deferred Income

	September 30, 2021 \$	December 31, 2020 \$
Deferred income from customers	-	1,425,750
Revenue within 12 months	<u>-</u>	<u>(774,552)</u>
Total long-term deferred income	<u>-</u>	<u>651,198</u>

16. Provisions

	September 30, 2021 \$	December 31, 2020 \$
Provision for eventual VAT reclaim by Swedish Tax Authorities	2,234,740	2,390,177
Reduction of VAT receivables	<u>-</u>	<u>(220,134)</u>
	<u>2,234,740</u>	<u>2,170,043</u>

The Company’s previously owned Swedish subsidiary, Hydro66 Svenska AB (“Hydro AB”), has been under a tax review regarding parts of its recovered VAT for the period 2016-2020. The Company have given the buyer of Hydro66 Svenska AB an indemnity to be liable for tax rulings attributed to periods before the transaction date (March 4, 2021). The Swedish Tax Authorities have not yet come with a ruling but have expressed an intent to recover a portion of the VAT recovered by Hydro AB on grounds that Hydro AB is mining crypto currencies for its own use. The Company does not share the Swedish Tax Authorities opinion and is of the clear position that all its services are VAT eligible and preformed for its customers. Since the legal framework regarding cryptocurrency related tax issues is still untested and the Swedish Tax Authorities are known for their aggressive stance in the matter, the Company has chosen to record a provision regarding the expected VAT claim. The amount recorded (SEK 15,466,934) represents 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 outcome.

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17. Reconciliation of Liabilities Arising from Financing Activities

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

	Long-term Borrowings \$	Short-term Borrowings \$	Total \$
Balance, December 31, 2019	3,651,991	-	3,651,991
Cash-flows			
Proceeds	1,365,970	1,066,270	2,432,240
Non-cash			
Accrued interest	<u>417,748</u>	<u>20,716</u>	<u>438,464</u>
Balance, December 31, 2020	5,435,709	1,086,986	6,522,695
Cash-flows			
Disposals of subsidiaries	-	(1,086,986)	(1,086,986)
Non-cash			
Accrued interest	<u>352,727</u>	<u>-</u>	<u>352,727</u>
Balance, September 30, 2021	<u>5,788,436</u>	<u>-</u>	<u>5,788,436</u>

18. 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.
Foreign Exchange 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 Reserve:	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).

(a) *Authorized Share Capital*

The Company's authorized share capital consisted 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 130,649,950 shares in issue, all fully paid as at September 30, 2021.

(b) *Reconciliation of Changes in Share Capital*

No equity financings were conducted by the Company during the nine months ended September 30, 2021 or fiscal 2020.

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18. Equity (continued)

(c) *Share Option Plan*

The Company has established a rolling share option plan (the “Plan”) in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. 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. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years from the date of grant.

A summary of the Company’s share options at September 30, 2021 and 2020 and the changes for the nine months ended on those dates, is as follows:

	<u>2021</u>		<u>2020</u>	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	10,625,000	0.40	10,625,000	0.40
Granted	8,520,000	0.17	-	-
Expired	<u>(5,825,000)</u>	0.50	<u>-</u>	-
Balance, end of period	<u>13,320,000</u>	0.21	<u>10,625,000</u>	0.40

The following table summarizes information about the share options outstanding and exercisable at September 30, 2021:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
600,000	600,000	0.38	January 9, 2022
600,000	400,000	0.45	May 15, 2022
400,000	400,000	0.50	June 13, 2022
3,200,000	2,133,333	0.21	November 18, 2022
2,430,000	2,430,000	0.16	March 25, 2024
<u>6,090,000</u>	<u>6,090,000</u>	0.18	May 3, 2024
<u>13,320,000</u>	<u>12,053,333</u>		

(d) *Share-based Compensation*

During the nine months ended September 30, 2021 the Company:

- (i) granted 2,430,000 share options with an exercise price per share of \$0,16 and an expiry date of March 25, 2024; and
- (ii) granted 6,090,000 share options with an exercise price per share of \$0,18 and an expiry date of May 3, 2024; and
- (iii) recognized total share-based compensation of \$901,655.

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

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18. Equity (continued)

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

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Risk-free interest rate	0.51% - 2.00%	-
Estimated volatility	42% - 111%	-
Expected life	3 years	-
Expected dividend yield	0%	-

The weighted average grant date fair value of all share options granted during the nine months ended September 30, 2021 was \$0.10 per share option.

(e) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at September 30, 2021 and 2020 and the changes for the nine months ended on those dates, is as follows:

	<u>2021</u>		<u>2020</u>	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of period	3,723,750	0.75	48,819,750	0.75
Expired	<u>(3,723,750)</u>	0.75	<u>(45,096,000)</u>	0.75
Balance, end of period	<u>-</u>	-	<u>3,723,750</u>	0.75

19. 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.

Categories of Financial Assets and Liabilities

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

- (i) Trade receivables
- (ii) Cash and cash equivalents
- (iii) Investment in equity security
- (iv) Trade and other payables
- (v) Borrowings and convertible loan notes

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19. Financial Instruments and Risk Management (continued)

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 amortized 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.

The fair value of the investment in equity security is measured based on the quoted market price of the related common shares at each reporting date, and changes in fair value are recognized in comprehensive income loss).

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 September 30, 2021 and December 31, 2020 the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

	As at September 30, 2021			
	Within 6 Months \$	Current 6-12 Months \$	1 - 5 Years \$	Non-Current Over 5 Years \$
Convertible debentures	-	352,727	6,238,483	1,715,764
Trade and other payables	164,118	-	-	-
Total	164,118	352,727	6,238,483	1,715,764

	As at December 31, 2020			
	Within 6 Months \$	Current 6-12 Months \$	1 - 5 Years \$	Non-Current Over 5 Years \$
Convertible debentures	-	340,209	5,898,274	1,715,764
Lease liabilities	295,745	295,745	1,747,225	408,032
Short-term borrowing	1,086,986	-	-	-
Trade and other payables	2,163,586	-	-	-
Total	3,546,317	635,954	7,645,499	2,123,796

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.

Risk Exposures

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

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19. Financial Instruments and Risk Management (continued)

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 September 30, 2021 the Group had net trade receivables of \$nil (December 31, 2020 - \$151,511).

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 \$nil (December 31, 2020 - \$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 Receivable Days Past Due but Not Impaired at September 30, 2021					
Current \$	0 - 30 Days \$	Over 30 Days \$	Over 60 Days \$	Over 90 Days \$	Total \$
Nil	Nil	Nil	Nil	Nil	Nil

Trade Receivable Days Past Due but Not Impaired at December 31, 2020					
Current \$	0 - 30 Days \$	Over 30 Days \$	Over 60 Days \$	Over 90 Days \$	Total \$
120,026	Nil	Nil	Nil	31,485	151,511

The Company 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 Company 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 Company's financial results. The Company 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 Company 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 Company 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 Company's management of working capital. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company'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 Company 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.

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19. Financial Instruments and Risk Management (continued)

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 and Pounds Sterling. Management believes the foreign exchange risk related to currency conversions is minimal and therefore does not hedge its foreign exchange risk. At September 30, 2021 1 Canadian Dollar was equal to 0.78 US Dollar and 0.58 Pounds Sterling.

	United States Dollars	Pounds Sterling	CDN \$ Equivalent
Cash	4,801	854	7,628
Amounts receivable	-	166,713	287,436
Accounts payable and accrued liabilities	-	<u>(72,341)</u>	<u>(124,726)</u>
	<u>4,801</u>	<u>95,226</u>	<u>170,338</u>

Based on the net exposures as of September 30, 2021 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar and Pounds Sterling would result in the Company's net income or loss being approximately \$16,000 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 risks relate primarily to there being sufficient demand for colocation within the Data Centre and to the price of electricity which is the main cost driver on gross margin.

(d) Digital Assets Price Risk

Digital assets are measured by taking the rate from Coinmarketcap.com. Digital asset prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of digital assets; in addition, the Company may not be able liquidate its inventory of digital assets at its desired price if required. A decline in the market prices for digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of digital assets.

Digital assets have a limited history and the fair value historically has been very volatile. Historical performance of digital assets is not indicative of their future price performance.

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19. Financial Instruments and Risk Management (continued)

(e) Equity Price Risk

The Company is exposed to equity risk due to the significance of its holding of 338,273 common shares of Northern Data. On September 30, 2021 these shares were valued at €71.60 each, for a total of €24,220,347. A change in the price of Northern Data shares by +/- €1, will impact the value of the Company's holding by €338,273.

A 10% fluctuation in the value of Northern Data common shares from the value at September 30, 2021 would result in the Company recording a gain or loss through the change in fair value of investment in equity security of \$3,600,000.

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 Centre 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. There has been no change to the Company's capital management strategy in the 2020 fiscal year, and the Company is not subject to any externally imposed capital requirements.

20. Segmented Information

The Company's operations are centred on providing data centre services and information processing services. Management therefore considers there are two reporting segments for the Company. The geographical split of revenue by customer location is as follows:

	As at September 30, 2021				
	United Kingdom	Asia	North America	Rest of Europe	Total
	\$	\$	\$	\$	\$
Data Centre Services	320,099	-	-	96,140	416,239
Information Processing Services	-	1,304,384	57,862	-	1,362,246
	<u>320,099</u>	<u>1,304,384</u>	<u>57,862</u>	<u>96,140</u>	<u>1,778,485</u>
	As at June 30, 2020				
	United Kingdom	Asia	North America	Rest of Europe	Total
	\$	\$	\$	\$	\$
Data Centre Services	19,920	-	106,442	206,980	333,342
Information Processing Services	-	1,383,220	35,104	2,424	1,420,748
	<u>19,920</u>	<u>1,383,220</u>	<u>141,546</u>	<u>209,404</u>	<u>1,754,090</u>

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21. Related Party Disclosures

During the nine months ended September 30, 2021, Croft Legal Services Ltd, of which Richard Croft is a Director, provided legal services to Megamining Ltd of \$53,473 (2020 - \$80,982).

During the nine months ended September 30, 2021, the Group bought services from Chase Management Limited of which Nick DeMare is a director, for \$16,300 (2020- \$5,225).

During the nine months ended September 30, 2021, the Company granted the following options:

<u>Name</u>	<u>Position</u>	<u># of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
David Rowe	Director	1,100,000	\$0.16	March 25, 2024
Alex Johnstone	Director	500,000	\$0.16	March 25, 2024
Richard Croft	Director	400,000	\$0.16	March 25, 2024
Richard Patricio	Director	215,000	\$0.16	March 25, 2024
Michael Hudson	Director	215,000	\$0.16	March 25, 2024
David Rowe	Director	2,760,000	\$0.18	May 3, 2024
Alex Johnstone	Director	1,250,000	\$0.18	May 3, 2024
Richard Croft	Director	1,000,000	\$0.18	May 3, 2024
Richard Patricio	Director	540,000	\$0.18	May 3, 2024
Michael Hudson	Director	540,000	\$0.18	May 3, 2024

During the nine months ended September 30, 2020 Mr. David Rowe a director of the Company participated in a secured convertible loan agreement for \$482,837 (US \$346,000).

During the nine months ended September 30, 2020 Mr. Robert Keith a significant shareholder of the Company participated in a secured convertible loan agreement for \$354,453 (US \$254,000).

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:

	<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2021</u> \$	<u>2020</u> \$
Short-term employee benefits:		
Salaries including bonuses	122,784	321,444
Social security costs	16,437	41,695
	<u>139,221</u>	<u>363,139</u>
Post-employment benefits:		
Defined contribution pension plans	571	3,770
Professional fees	69,916	-
Share-based compensation	<u>877,560</u>	<u>92,700</u>
	<u>1,087,268</u>	<u>459,609</u>