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**SIXTY SIX CAPITAL INC.**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2022 AND 2021

*(Expressed in Canadian Dollars)*

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Sixty Six Capital Inc.

### *Opinion*

We have audited the accompanying consolidated financial statements of Sixty Six Capital Inc. the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive (loss) income, changes in shareholders' equity (deficit), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, 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 Canadian generally accepted auditing standards. 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 Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has an accumulated deficit of \$35,345,669 as at December 31, 2022. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company'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 judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our auditor's report.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes 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 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Canadian generally accepted auditing standards 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 Canadian generally accepted auditing standards, 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 Company'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 Company'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 Company 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 Company 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 28, 2023

**SIXTY SIX CAPITAL INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Expressed in Canadian Dollars)*

	Note	December 31, 2022 \$	December 31, 2021 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		41,174	104,551
Amounts receivable		1,269	1,032
Prepaid expenses		20,550	17,874
Investment in equity security	6	<u>2,977,374</u>	<u>-</u>
<b>Total current assets</b>		<u>3,040,367</u>	<u>123,457</u>
<b>Non-current assets</b>			
Restricted cash	5	-	1,741,283
Investment in equity security	6	-	37,036,119
Receivable from former employees		<u>-</u>	<u>213,074</u>
<b>Total non-current assets</b>		<u>-</u>	<u>38,990,476</u>
<b>TOTAL ASSETS</b>		<u>3,040,367</u>	<u>39,113,933</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		198,291	88,616
Advance	7	63,629	57,666
Amount due	9	<u>1,019,975</u>	<u>-</u>
<b>Total current liabilities</b>		<u>1,281,895</u>	<u>146,282</u>
<b>Non-current liabilities</b>			
Convertible debentures	8	6,389,321	5,912,515
Provision	9	<u>-</u>	<u>2,162,231</u>
<b>Total non-current liabilities</b>		<u>6,389,321</u>	<u>8,074,746</u>
<b>TOTAL LIABILITIES</b>		<u>7,671,216</u>	<u>8,221,028</u>
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>			
Share capital	10	35,078,289	34,890,714
Other reserves		(7,155,763)	(7,155,763)
Share option reserve		2,960,014	2,921,835
Accumulated other comprehensive loss		(167,720)	(167,720)
Retained earnings (deficit)		<u>(35,345,669)</u>	<u>403,839</u>
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIT)</b>		<u>(4,630,849)</u>	<u>30,892,905</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		<u>3,040,367</u>	<u>39,113,933</u>

**Nature of Operations and Going Concern** - see Note 1

**Event after the Reporting Period** - see Note 14

These consolidated financial statements were approved for issue by the Board of Directors on April 28, 2023 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 consolidated financial statements.*

**SIXTY SIX CAPITAL INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
*(Expressed in Canadian Dollars)*

	Notes	Year Ended December 31,	
		2022 \$	2021 \$
<b>Revenue</b>		-	1,778,485
<b>Cost of sales</b>			
Direct costs		-	(651,988)
Depreciation		-	(487,735)
		-	(1,139,723)
<b>Cryptocurrency related items</b>			
Disposal of digital currencies loss		-	(2,866)
<b>Gross income for the year</b>		-	635,896
<b>Administrative expenses</b>			
Accounting and administration	11	28,640	22,338
Audit		25,250	42,266
Bank charges		229	701
Legal and professional	11	19,293	714,510
Marketing and promotion fees		-	10,193
Management fees, salaries and wages	11	107,500	256,065
Office		2,279	30,379
Regulatory and filing fees		34,187	40,240
Share-based compensation	10	38,179	885,078
Shareholder costs		1,038	7,348
Technical support and security costs		-	99,417
Transfer agent		4,484	11,434
Travel		-	2,351
Other operating expenses		-	81,228
		261,079	2,203,548
Gain on disposal of subsidiaries	5	-	38,788,992
<b>(Loss) income before other items</b>		(261,079)	37,221,340
<b>Other items</b>			
Interest and other financial costs	7, 8	(482,769)	(501,057)
Unrealized loss on investment in equity security	6	(34,058,745)	(12,029,120)
Settlement of indemnification	9	(609,623)	-
Impairment of receivable from former employees		(202,879)	-
Other		(135,588)	-
Recovery of expenses previously recorded		-	114,225
Foreign exchange		1,175	(390,926)
		(35,488,429)	(12,806,878)
<b>Net (loss) income for the year</b>		(35,749,508)	24,414,462
<b>Other comprehensive loss</b>			
Exchange difference on translating foreign operations		-	(33,147)
<b>Comprehensive (loss) income for the year</b>		(35,749,508)	24,381,315
<b>Basic and diluted (loss) income per common share</b>		\$(0.27)	\$0.19
<b>Weighted average number of common shares outstanding</b>		131,471,868	130,649,950

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

**SIXTY SIX CAPITAL INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**  
*(Expressed in Canadian Dollars)*

	<b>Year Ended December 31, 2022</b>						
	<b>Share Capital</b>		<b>Reserves</b>		<b>Other Comprehensive Loss \$</b>	<b>Retained Earnings (Deficit) \$</b>	<b>Total Shareholders' Equity (Deficit) \$</b>
	<b>Number of Shares</b>	<b>Amount \$</b>	<b>Other \$</b>	<b>Share-Based Compensation \$</b>			
<b>Balance at December 31, 2021</b>	130,649,950	34,890,714	(7,155,763)	2,921,835	(167,720)	403,839	30,892,905
Common shares issued for cash:							
Private placement	9,090,907	200,000	-	-	-	-	200,000
Share issue costs	-	(12,425)	-	-	-	-	(12,425)
Share-based compensation	-	-	-	38,179	-	-	38,179
Net loss for the year	-	-	-	-	-	(35,749,508)	(35,749,508)
<b>Balance at December 31, 2022</b>	<b>139,740,857</b>	<b>35,078,289</b>	<b>(7,155,763)</b>	<b>2,960,014</b>	<b>(167,720)</b>	<b>(35,345,669)</b>	<b>(4,630,849)</b>

	<b>Year Ended December 31, 2021</b>						
	<b>Share Capital</b>		<b>Reserves</b>		<b>Other Comprehensive (Loss) \$</b>	<b>Retained Earnings (Deficit) \$</b>	<b>Total Shareholders' Equity \$</b>
	<b>Number of Shares</b>	<b>Amount \$</b>	<b>Other \$</b>	<b>Share-Based Compensation \$</b>			
<b>Balance at December 31, 2020</b>	130,649,950	34,890,714	(7,155,763)	2,036,757	(134,573)	(24,010,623)	5,626,512
Share-based compensation	-	-	-	885,078	-	-	885,078
Net income for the year	-	-	-	-	-	24,414,462	24,414,462
Currency translation adjustment	-	-	-	-	(33,147)	-	(33,147)
<b>Balance at December 31, 2021</b>	<b>130,649,950</b>	<b>34,890,714</b>	<b>(7,155,763)</b>	<b>2,921,835</b>	<b>(167,720)</b>	<b>403,839</b>	<b>30,892,905</b>

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

**SIXTY SIX CAPITAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Expressed in Canadian Dollars)*

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	\$	\$
<b>Operating activities</b>		
Net (loss) income for the year	(35,749,508)	24,414,462
Adjustments for:		
Depreciation of property, plant and equipment	-	422,934
Depreciation on right-of-use assets	-	64,801
Gain on disposals of subsidiaries	-	(38,788,992)
Unrealized loss on investment in equity securities	34,058,745	12,029,120
Share-based compensation	38,179	885,078
Result from disposal of digital currencies	-	2,866
Payments received in digital currencies	-	(1,283,571)
Foreign exchange	(401)	95,657
Interest expense	482,769	500,866
Settlement of indemnification	609,623	-
Impairment of receivable from former employees	202,879	-
Net change in working capital	<u>106,762</u>	<u>871,764</u>
<b>Net cash used in operating activities</b>	<u>(250,952)</u>	<u>(785,015)</u>
<b>Investing activities</b>		
Additions to property plant and equipment	-	(544,917)
Proceeds from disposal of subsidiaries	-	348,524
Proceeds from disposal of digital currencies	<u>-</u>	<u>1,281,015</u>
<b>Net cash provided by investing activities</b>	<u>-</u>	<u>1,084,662</u>
<b>Financing activities</b>		
Issuances of share capital	200,000	-
Share issue costs	(12,425)	-
Proceeds from short term loans	-	93,941
Lease payments	<u>-</u>	<u>(85,576)</u>
<b>Net cash provided by financing activities</b>	<u>187,575</u>	<u>8,365</u>
<b>Effect of exchange rate changes on cash</b>	<u>-</u>	<u>(402,000)</u>
<b>Net change in cash</b>	<u>(63,377)</u>	<u>(94,028)</u>
<b>Cash at beginning of year</b>	<u>104,551</u>	<u>198,579</u>
<b>Cash at end of year</b>	<u>41,174</u>	<u>104,551</u>
<b>Supplemental cash flow information</b>		
Payments received in shares of equity security (see Note 5)	-	49,065,239
Escrow cash received from disposal of subsidiaries (see Note 5)	-	1,841,214
Provisions (see Note 9)	2,162,231	-
Restricted cash (see Note 5)	(1,579,344)	-
Amount due (see Note 9)	1,019,975	-
<b>Supplemental disclosures</b>		
Interest paid	-	23,483
Income tax paid	-	-

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



**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**1. Nature of Operations and Going Concern**

***Nature of Operations***

Sixty Six Capital Inc is an investor and developer, active in Fin Tech. The Company's primary investment consists of 338,273 shares of Northern Data AG ("Northern Data") 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. 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 in exchange for 338,273 shares in Northern Data and restricted cash of €1,751,544.

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. The Company's trading symbol, "SIX", remains the same.

***Going Concern***

The Company's principal activity had 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.

As at December 31, 2022 the Company had working capital of \$1,758,472 and an accumulated deficit of \$35,345,669. These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business operations for the foreseeable future. With the sale of its subsidiaries, the Company has curtailed its levels of corporate and administrative activities. However, until the Company is able to trade in the equity securities of Northern Data, management anticipates the Company will continue to require additional financing and continued shareholder support to maintain essential levels of administration and corporate expenses required for a publicly traded company and provide working capital to conduct due diligence on any business or acquisition opportunities as they arise. There can be no assurance that the Company will be successful in identifying a business opportunity or securing financing.

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments which could be material to the carrying values of assets and liabilities which may be required should the Company be unable 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 CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**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”).

***Basis of Measurement***

The Company’s consolidated financial statements have been prepared on the historical cost basis except for cash flow information and certain financial instruments which are measured at fair value. The consolidated financial statements are presented in Canadian dollars unless otherwise stated.

***Details of the Group***

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

As at December 31, 2022 the Company has one subsidiary, as follows:

<u>Company</u>	<u>Location of Incorporation</u>	<u>Ownership Interest</u>
Megamining Limited	United Kingdom	100%

**3. Significant Accounting Policies**

***Revenue***

Revenue arises from the sale of data centre services, including space and power; and from the provision of computing power for computationally intensive workloads (High Performance Compute) which may include such services as 3D model rendering and transaction verification services for digital currency pools. 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 Company follows a 5-step process:

- (i) Identifying the contract with a customer
- (ii) Identifying the performance obligations
- (iii) Determining the transaction price
- (iv) Allocating the transaction price to the performance obligations
- (v) Recognizing revenue when/as performance obligation(s) are satisfied.

The Company 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 Company satisfies a performance obligation before it receives the consideration, the Company recognizes a receivable in its statement of financial position. All customers who contract for services in the facility are invoiced in advance. This results in deferred income being recognized.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**3. Significant Accounting Policies** (continued)

***Data Centre 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, power and/or computational services 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 centre or utilise servers provided by the Company. Customer servers are housed in racks and connected to a power supply. Revenue represents amounts invoiced for the provision of data centre services, including space and power. Revenue is recognized when power and space or the services are 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 Company enters into agreements with digital currency pools to provide information processing and high-performance compute capacity. 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. 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.

***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	2 - 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 statement of comprehensive income.

***Leases***

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assess whether:

- (i) the contract involves the use of an identified asset.
- (ii) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (iii) the Company has the right to direct the use of the asset.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**3. Significant Accounting Policies (continued)**

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

***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***

To determine if a convertible debenture is a financial liability or an equity instrument (or a mix thereof), the company uses two key principles in accordance with IAS 32. These are:

- (i) Does the issuer have a contractual obligation to deliver cash or another financial asset that it cannot avoid?
- (ii) Is the convertible debenture meeting of the "fixed for fixed" criteria?

If the issuer does not have an unconditional right to avoid delivering cash or another financial asset to settle the convertible debenture, this obligation meets the definition of a financial liability. An equity instrument can only be part of a convertible debenture if it can be settled by an issuer delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash.

***Taxation***

Income 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 Company operates and generates taxable income.

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

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**3. Significant Accounting Policies** (continued)

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 period. 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 10(d)). 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***

During fiscal 2021 the Company had warrants in issue as described in Note 10. The warrants were assessed to be equity and they had no assigned value.

***Foreign Currencies***

***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.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**3. Significant Accounting Policies** (continued)

- (i) Sixty Six Capital Inc. has the Canadian Dollar as the functional currency.
- (ii) Hydro66 Svenska AB, Hydro66 Services AB and Hydro66 Property Services AB have the Swedish Krona (“SEK”) as the functional currency. Assets and liabilities of these entities are therefore translated into Canadian dollars using the report date closing exchange rate. Income and expenses are translated into Canadian dollars at the average exchange rate over the reporting period. Exchange differences are presented in other comprehensive loss and recognized in the foreign currency translation reserve.
- (iii) 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.

Hydro66 UK Limited, Hydro66 Svenska AB, Hydro66 Services AB and Hydro66 Property Services AB were disposed of in the corporate reorganization conducted in March 2021, as described in Note 5.

*Transactions and Balances*

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

**Government Grants**

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

**Receivables**

The Company 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 Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Company 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.

**Cash and Cash Equivalents**

Cash and short-term deposits in the consolidated 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, Ethereum 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 profit and loss at the point of sale. Digital currency is not amortised as the company has determined 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.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

---

**3. Significant Accounting Policies** (continued)

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 in profit and loss.

***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 Company reporting structure and consider there to be two reporting segments, being the provision of data centre services and digital currency transaction verification.

***Financial Instruments***

***Recognition and De-recognition***

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are de-recognised 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 Measurement of Financial Assets and Liabilities***

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit and loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

***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 the year ended December 31, 2022.

***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 2023 and forward.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**4. Sources of Estimation and Key Judgements Estimates**

*Estimates*

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

*Share-based Payments*

The Company utilizes the Black-Scholes Option Pricing Model (“Black-Scholes”) to estimate the fair value of stock options granted to directors, officers and employees. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the expected volatility of the stock price, the risk-free interest rate, dividend yield, the expected life of the stock options and the number of options expected to vest. Any changes in these assumptions could change the amount of share-based compensation recognized. Significant assumptions related to share-based payments are disclosed in Note 10.

*Taxation*

The determination of the Company’s tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgement by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings, which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on management's best estimate of the probable outcome of these matters.

*Judgements*

Key judgements at the reporting date are discussed below:

*Functional Currency*

The functional currency of the Company has been assessed by management based on consideration of the currency and economic factors that mainly influence the Company's digital currencies, production and operating costs, financing and related transactions. Specifically, the Company considers the currencies in which digital currencies are most commonly denominated and the currencies in which expenses are settled, by each entity, as well as the currency in which each entity receives or raises financing. Changes to these factors may have an impact on the judgment applied in the determination of the Company's functional currency.

*Contingencies*

Contingencies can be either possible assets or liabilities arising from past events which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. Such contingencies include, but are not limited to, litigation, regulatory proceedings, tax matters and losses resulting from other events and developments. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgement regarding the outcome of future events.



**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

**5. Corporate Reorganization**

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, at a fair value of \$49,065,239, and \$2,657,478 (€1,751,544) in cash for total net proceeds of \$51,722,717, resulting in a gain of \$38,788,992, determined as follows:

	\$
<b>Proceeds</b>	<u>51,722,717</u>
<b>Net assets of subsidiaries disposed</b>	
Cash	566,760
Amounts receivable and prepaid expenses	837,201
Property, plant and equipment	16,157,691
Right-of-use assets	2,008,764
Digital currencies	18,548
Accounts payable and accrued liabilities	(2,583,718)
Lease liabilities	(2,067,419)
Deferred income	<u>(2,004,102)</u>
	<u>12,933,725</u>
<b>Gain on disposal</b>	<u>38,788,992</u>

The shares of Northern Data 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 €1,751,544 of which €538,000 was received on closing and the remaining €1,213,544 was released from the escrow account in July 2022 on the resolution of the VAT issue with the Swedish Tax Authorities as described in Note 9.

**6. Investment in Equity Security**

	December 31, 2022 \$	December 31, 2021 \$
Cost of shares Northern Data	49,065,239	49,065,239
Fair market value effect on shares Northern Data	<u>(46,087,865)</u>	<u>(12,029,120)</u>
Total	<u>2,977,374</u>	<u>37,036,119</u>

On March 4, 2021 the Company closed on the sale of certain of its subsidiaries and as partial consideration received 338,273 shares of Northern Data. See also Note 5. The market closing price for Northern Data on March 4, 2021 was used to establish the cost of the shares. The carrying value of the Northern Data shares at December 31, 2022 was also determined using quoted market values. The received shares were subject to a two-year holding period which expired on March 4, 2023.

During fiscal 2022 the Company recorded an unrealized loss of \$34,058,745 (2021 - \$12,029,120) on its investment in equity security.

**7. Advance**

	2022 \$	2021 \$
Balance, beginning of year	57,666	-
Advance	-	93,941
Application of receivable	-	(36,993)
Accrued interest	<u>5,963</u>	<u>718</u>
Balance, end of year	<u>63,629</u>	<u>57,666</u>

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

**7. Advance** (continued)

In November 2021 the Company received an advance from Mr. David Rowe, the Chairman and CEO of the Company. The advance is payable on demand and the rate of interest is 10% per annum compounded and calculated monthly. See also Note 14.

**8. Convertible Debentures**

	December 31, 2022 \$	December 31, 2021 \$
Principal	4,768,063	4,768,063
Accumulated interest	<u>1,621,258</u>	<u>1,144,452</u>
Non-current loans payable	<u>6,389,321</u>	<u>5,912,515</u>

The Company has received a number of loans and issued convertible debentures which bear interest at 10% per annum and are repayable between December 2025 and August 2027. During fiscal 2022 the Company recognized \$476,806 (2021 - \$476,806) of interest expense.

The amount of the loans, at the option of each lender, will be convertible into common shares of the Company at the market price at time of such conversion in accordance with the policies of and subject to acceptance by the CSE. 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 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.

**9. Provision**

	December 31, 2022 \$	December 31, 2021 \$
Provision for eventual VAT reclaim by Swedish Tax Authorities	<u>-</u>	<u>2,162,231</u>

The Company's previously owned Swedish subsidiary, Hydro66 Svenska AB ("Hydro AB"), had been under a tax review regarding parts of its recovered VAT for the period 2016-2020. The Company had 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 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 and Northern Data did not share the Swedish Tax Authorities opinion and an appeal was filed. During fiscal 2021 the Company recorded a provision of \$2,162,231 (SEK 15,466,934) representing approximately 50% of the total amount that was under consideration and represented the weighted effect of the expected decision from the Swedish Tax Authorities together with the probability of the outcome. On July 8, 2022 the Swedish Tax Authorities rendered their decision rejecting the appeal and, as a result SEK 19,858,205 was paid by Northern Data, of which the €1,213,544 escrowed funds were released to Northern Data and \$1,019,975 (€708,125) remains payable to Northern Data as at December 31, 2022. During fiscal 2022 the Company recorded a loss of \$609,623 on the difference between the provision as at December 31, 2021 and the actual settlement with the Swedish Tax Authorities

**10. Share Capital**

(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.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

**10. Share Capital (continued)**

(b) ***Equity Financings***

*Fiscal 2022*

On November 29, 2022 the Company completed a private placement of 9,090,907 common shares with its directors of the Company, at \$0.022 per common share for gross proceeds of \$200,000.

The Company incurred a total of \$12,425 for legal costs associated with this private placement financing.

*Fiscal 2021*

No equity financings were conducted by the Company during fiscal 2021.

(c) ***Warrants***

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2022 and 2021 and the changes for the years ended on those dates, is as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price \$</u>	<u>Number</u>	<u>Weighted Average Exercise Price \$</u>
Balance, beginning of year	-	-	3,723,750	0.75
Expired	<u>-</u>	-	<u>(3,723,750)</u>	0.75
Balance, end of year	<u>-</u>	-	<u>-</u>	-

As at December 31, 2022 and 2021 the Company had no warrants outstanding.

(d) ***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.

During fiscal 2022 the Company granted share options to purchase 5,454,083 (2021 - 8,520,000) common shares and recorded compensation expense of \$38,179 (2021 - \$862,020). During fiscal 2021 the Company also recorded additional compensation expense of \$23,058 on the vesting of share options previously granted.

The fair value of share options granted and vested during fiscal 2022 and 2021 is estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>2022</u>	<u>2021</u>
Risk-free interest rate	3.22%	0.51% - 2.00%
Estimated volatility	108%	42% - 111%
Expected life	3 years	3 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

**10. Share Capital (continued)**

The weighted average measurement date fair value of all share options granted, using the Black-Scholes option pricing model, during fiscal 2022 was \$0.007 (2021 -\$0.10) per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

A summary of the Company's share options at December 31, 2022 and 2021 and the changes for the year ended on those dates, is as follows:

	2022		2021	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	12,770,000	0.21	10,625,000	0.40
Granted	5,454,083	0.05	8,520,000	0.17
Expired	(4,250,000)	0.27	(5,825,000)	0.50
Forfeited	-	-	(550,000)	0.42
Balance, end of year	<u>13,974,083</u>	0.13	<u>12,770,000</u>	0.21

The following table summarizes information about the share options outstanding and exercisable at December 31, 2022:

Number Outstanding	Exercise Price \$	Expiry Date
2,430,000	0.16	March 25, 2024
6,090,000	0.18	May 3, 2024
<u>5,454,083</u>	0.05	December 16, 2025
<u>13,974,083</u>		

**11. Related Party Disclosures**

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 consists of members of the Company's Board of Directors and its executive officers.

(a) *Transactions with Key Management Personnel*

(i) During fiscal 2022 and 2021 the Company incurred the following compensation amounts to its current and former key management personnel:

	2022 \$	2021 \$
Directors and officers compensation	107,500	246,459
Share-based compensation	<u>38,179</u>	<u>876,837</u>
	<u>145,679</u>	<u>1,123,296</u>

As at December 31, 2022 \$139,750 (2021 - \$32,250) remained unpaid and has been included in accounts payable and accrued liabilities.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**11. Related Party Disclosures** (continued)

(ii) During fiscal 2021 the Company incurred a total of \$53,473 to Croft Legal Services Ltd. (“Croft”), a private corporation owned by Richard Croft, a director of the Company, for legal services. No legal services were performed by Croft during fiscal 2022.

(iii) See also Notes 7 and 14.

(b) *Transactions with Other Related Parties*

During fiscal 2022 the Company incurred a total of \$26,350 (2021 - \$19,600) to Chase Management Ltd., a private corporation owned by the former Corporate Secretary of the Company, for accounting and administration services. As at December 31, 2022 \$5,500 (2021 - \$2,700) remained unpaid and has been included in accounts payable and accrued liabilities.

(c) *Convertible Debentures*

The Company has issued convertible debentures which bear interest of 10% per annum and are repayable between December 2025 and August 2027. As at December 31, 2022 \$4,168,063 (2021 - \$4,168,063) of principal is due to certain directors of the Company

**12. 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 Company’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***

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

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

- (i) Trade receivables
- (ii) Cash and restricted cash
- (iii) Investment in equity security
- (iv) Accounts payable and accrued liabilities
- (v) Advance and convertible debentures

Trade and other receivables are initially measured at the amount of consideration that is unconditional. The Company 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.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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

The fair value of the investment in equity security is measured based on level 1 at the quoted market price of the related common shares at each reporting date, and changes in fair value are recognized in comprehensive income (loss).

Accounts payable and accrued liabilities are measured at book value. The book value of financial assets and liabilities equates to their fair value.

Accounts payable and accrued liabilities principally comprise amounts outstanding for trade purchases and ongoing costs.

The Company's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

	As at December 31, 2022			
	Within 6 Months \$	Current 6-12 Months \$	Non-Current 1 - 5 Years \$	Non-Current Over 5 Years \$
Accounts payables and accrued liabilities	198,291	-	-	-
Advance	63,629	-	-	-
Amount due	1,019,975	-	-	-
Convertible debentures	-	-	6,389,321	-
<b>Total</b>	<b>1,281,895</b>	<b>-</b>	<b>6,389,321</b>	<b>-</b>

  

	As at December 31, 2021			
	Within 6 Months \$	Current 6-12 Months \$	Non-Current 1 - 5 Years \$	Non-Current Over 5 Years \$
Accounts payables and accrued liabilities	88,616	-	-	-
Advance	57,666	-	-	-
Convertible debentures	-	-	4,319,637	1,592,878
<b>Total</b>	<b>146,282</b>	<b>-</b>	<b>4,319,637</b>	<b>1,592,878</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 currently held in Canadian Dollars (\$), United States Dollars ("USD") and Sterling ("GBP") and placed on deposit in Canadian and UK banks.

***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 Company. The Company 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 Company is mainly exposed to credit risk from credit sales.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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

*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.

*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, Euros, 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 December 31, 2022 1 Canadian Dollar was equal to 0.69 Euro, 0.74 US Dollar and 0.61 Pounds Sterling.

	Euros	United States Dollars	Pounds Sterling	CDN \$ Equivalent
Cash	-	1,088	854	2,870
Amounts receivable	-	-	775	1,269
Investment in equity securities	2,044,860	-	-	2,977,374
Accounts payable and accrued liabilities	-	-	(6,563)	(10,758)
Amount due	<u>(708,125)</u>	<u>-</u>	<u>-</u>	<u>(1,019,975)</u>
	<u>1,336,735</u>	<u>1,088</u>	<u>(4,934)</u>	<u>1,950,780</u>

Based on the net exposures as of December 31, 2022 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Euro, US Dollar and Pounds Sterling would result in the Company's net income or loss being approximately \$160,000 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.

**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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

(d) 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 December 31, 2022 these shares were valued at €6.05 each, for a total of €2,046,552. 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 December 31, 2022 would result in the Company recording a gain or loss through unrealized loss or gain in fair value of investment in equity security of \$295,000.

**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 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 during fiscal 2022 and the Company is not subject to any externally imposed capital requirements.

**13. Income Tax**

A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision for fiscal 2022 and fiscal 2021 is provided as follows:

	2022 \$	2021 \$
Comprehensive (loss) income before income taxes	(35,749,508)	24,381,315
Canadian statutory tax rate	27.0%	27.0%
Expected income tax (recovery)	(9,598,000)	6,583,000
Foreign income tax rates different from statutory rates	(48,000)	27,000
Permanent differences	4,094,000	(8,728,000)
Adjustment to prior years provision versus statutory tax	217,000	(237,000)
Impact of sale of subsidiaries	-	1,864,000
Unused tax losses and tax offsets not recognized	5,335,000	491,000
<b>Income tax benefit recorded</b>	<b>-</b>	<b>-</b>

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2022		2021	
	\$	Expiry Date Range	\$	Expiry Date Range
<b>Temporary differences</b>				
Marketable securities	46,088,000	No expiry date	12,029,000	No expiry date
Share issue cost	34,000	No expiry date	45,000	No expiry date
Allowable capital losses	3,854,000	No expiry date	3,854,000	No expiry date
Non-capital losses	17,448,000	See below	15,098,000	See below



**SIXTY SIX CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
*(Expressed in Canadian Dollars)*

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**13. Income Tax (continued)**

Non-capital losses available for future periods by country are as follows:

	2022		2021	
	\$	Expiry Date Range	\$	Expiry Date Range
Canada	13,414,000	2026 to 2042	10,747,000	2026 to 2041
United Kingdom	4,034,000	No expiry date	4,351,000	No expiry date

Tax attributes are subject to review and potential adjustment by tax authorities.

**14. Event after the Reporting Period**

On February 25, 2023 Mr. Rowe advanced \$30,000 to the Company.