# Galaxy Digital Holdings LP

# Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in US Dollars)

# INDEPENDENT AUDITOR'S REPORT

To the Board of Managers of
Galaxy Digital Holdings GP LLC in its capacity as general partner of Galaxy Digital Holdings LP

***Opinion***

We have audited the accompanying consolidated financial statements of Galaxy Digital Holdings LP (the "Partnership"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity, 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 Partnership as at December 31, 2020 and 2019, 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 audits 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 Partnership 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 audits is sufficient and appropriate to provide a basis for our opinion.

***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, prepared under the conditions mentioned above, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Accounting for Business Combinations*

On November 12, 2020, the Partnership completed the acquisition of 100% interest in BF Holdings I, LLC and Drawbridge Lending, LLC. The total consideration paid was executed through a mixture of cash and common shares of Galaxy Digital Holdings Ltd.

Accounting for these transactions is complex and requires management to exercise judgement in determining the fair value of the consideration and assets and liabilities acquired. As a result, we considered this a key audit matter.

Our audit procedures included, but were not limited to:

- Reviewing the sale and purchase agreements to understand the key terms and conditions.
- Obtaining an understanding of the transactions, including an assessment of whether the transactions constituted an asset acquisition or business combination.
- Agreeing the considerations paid to supporting documentation.
- Completing a range of procedures to ascertain that the acquisition date balance sheets were not materially misstated; including confirming material cash, digital assets and digital asset loans payable balances directly with third party vendors.

- Utilizing our internal valuation expert to evaluate the reasonableness of assumptions used by management and management's expert and assess whether the fair values were correctly recorded in the consolidated financial statements.
- Evaluating the independence, objectivity and competence of management and the auditor's experts.

Disclosure in relation to the acquisitions can be found in Note 6.

*Carrying Value of Investments*

As at December 31, 2020, the carrying value of the Partnership's investments is $260,383,297. The Partnership's holdings of investments are generally not traded in active markets and their fair values are measured using the cost, market or income approach under IFRS 13.

Accounting for investments requires management to exercise judgement as determining the fair value requires developing and applying significant estimates. As a result, we considered this a key audit matter.

Our audit procedures included, but were not limited to:

- Verifying ownership with third parties.
- Performing walkthroughs and testing the internal controls on the Partnership's investments and valuations process to assess the effectiveness of internal controls.
- For a selection of key investments:
    - Obtaining copies of underlying agreements and supporting documents for transactions occurring and ensuring the information is consistent with representations made by management.
    - Obtaining audit support on the inputs and assumptions used in the fair value calculations, including sending confirmations directly to third party investment companies to obtain financial and transaction information.
- Utilizing our internal valuation expert to evaluate the reasonableness of valuation methodologies used and complete an independent assessment of the valuations for the key investments.
- Evaluating the independence, objectivity and competence of management and the auditor's experts.

The accounting policy for investments is set out in Note 3, the use of estimates and judgments in applying accounting policies are set out in Note 2 and qualitative information about the significant unobservable inputs utilized in the fair value measurements is set out in Note 25. Disclosure in relation to the Partnership's holdings of investments can be found in Note 8.

*Ownership, Completeness, Occurrence and Existence of Digital Assets*

As at December 31, 2020, the carrying value of the Partnership's digital assets is $850,380,264 and the Partnership recorded a net realized gain of $271,108,044 and net unrealized gain of $239,719,806 on digital assets for the year ended December 31, 2020. The Partnership's digital assets are a significant portion of the Partnership's total assets.

The Partnership's digital assets are subject to risks unique to the asset class and different from traditional financial assets. Furthermore, the digital asset exchanges on which the Partnership may trade or hold digital assets on are relatively new and, in many cases, largely unregulated. Therefore, these platforms may have additional exposure to fraud and failure versus regulated exchanges for other assets. As a result, we considered accounting for the ownership, completeness, occurrence and existence of digital assets as a key audit matter.

Our audit procedures included, but were not limited to:

- Engaging an industry expert to provide an assessment on the reliability of the main blockchains utilized by the Partnership.
- Performing walkthroughs and completing internal control testing on the Partnership's trading operations process to assess the effectiveness of internal controls.
- Engaging an expert to complete information technology general controls testing and validate the scope of IT systems and applications relating to the trading operations process and financial reporting.
- Completing procedures at year-end akin to an inventory count whereby the majority of material assets held at exchanges were withdrawn and deposited into bank accounts or newly created Partnership controlled wallets.

- Preparing roll-backs to year end date (December 31, 2020) from inventory count date and opening statement of financial position date (January 1, 2020) and sample testing transactions during the year to validate reliance on roll-back calculations and to ensure internally generated reports agree to exchange reports.
- Sending confirmation requests directly to independent exchanges or custodians to ensure ownership of digital assets held externally.
- Evaluating the independence, objectivity and competence of management and the auditor's experts.

Disclosure in relation to the Partnership's digital assets can be found in Note 7, 11, 16, and 25. Disclosure in relation to realized and unrealized gains on digital assets can be found in Note 24.

***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 Partnership'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 Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership'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 Partnership'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 Partnership'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 Partnership 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 Partnership to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Davidson & Company LLP

Vancouver, Canada | Chartered Professional Accountants

March 29, 2021

## Galaxy Digital Holdings LP

Consolidated Statements of Financial Position
(Expressed in US Dollars)

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | $ 135,765,978 | $ 106,262,780 |
| Digital assets (Note 7) | 850,380,264 | 85,980,731 |
| Investments (Note 8) | 260,383,297 | 158,163,420 |
| Receivable for digital asset trades (Note 7) | 13,204,252 | 330,609 |
| Digital asset loans receivable (Note 11) | 96,723,981 | 16,061,945 |
| Digital assets receivables (Note 7) | 12,813,006 | — |
| Assets posted as collateral (Note 11) | 15,768,380 | 10,585,819 |
| Receivables (Note 10) | 2,710,424 | 1,853,169 |
| Due from broker | 4,452,369 | 16,590 |
| Derivatives (Note 9) | 15,921,618 | — |
| Prepaid expenses and other assets (Note 12) | 6,493,753 | 2,563,665 |
| Goodwill (Note 6) | 15,514,746 | — |
| Loans receivable (Note 13) | 8,509,587 | 11,719,738 |
| | 1,438,641,655 | 393,538,466 |
| Digital assets receivables (Note 7) | 6,911,175 | — |
| Right of use asset (Note 14) | 4,573,229 | 5,182,993 |
| Property and equipment (Note 14) | 3,693,301 | 4,057,662 |
| Intangible asset (Note 6) | 2,406,000 | — |
| | 17,583,705 | 9,240,655 |
| Total assets | **$ 1,456,225,360** | **$ 402,779,121** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Digital assets sold short (Note 16) | $ 5,277,878 | $ 18,616,860 |
| Investments sold short (Note 8) | 4,384,290 | — |
| Warrant liability (Note 18) | 20,781,207 | — |
| Accounts payable and accrued liabilities (Note 15) | 34,153,778 | 11,719,494 |
| Payable for digital asset trades (Note 7) | 31,144,419 | 250,158 |
| Digital asset loans payable (Note 11) | 226,398,948 | 11,134,329 |
| Collateral payable (Note 9, 11, 13) | 44,660,149 | 434,498 |
| Lease liability (Note 17) | 742,333 | 772,003 |
| | 367,543,002 | 42,927,342 |
| Lease liability (Note 17) | 4,515,389 | 4,747,214 |
| **Total liabilities** | 372,058,391 | 47,674,556 |
| **Equity** | | |
| Partners' capital (Note 18) | 798,211,451 | 347,785,081 |
| Non-controlling interests (Note 19) | 285,955,518 | 7,319,484 |
| **Total equity** | 1,084,166,969 | 355,104,565 |
| **Total liabilities and equity** | **$ 1,456,225,360** | **$ 402,779,121** |

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 27)
Subsequent event (Note 29)

The consolidated financial statements were authorized for issuance by the Board of Managers of Galaxy Digital Holdings GP LLC on March 29, 2021 and were signed on its behalf by:

*"Ashwin Prithipaul"* Chief Financial Officer *"Michael Novogratz"* Chief Executive Officer

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

## Galaxy Digital Holdings LP

Consolidated Statements of Comprehensive Income
(Expressed in US Dollars)

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| **Income** | | |
| Advisory and management fees | $ 9,615,240 | $ 5,329,819 |
| Net realized gain on digital assets | 271,108,044 | 71,971,480 |
| Net realized gain on investments (Note 8) | 10,795,869 | 37,922,360 |
| Interest income | 6,131,988 | 4,229,684 |
| Net derivative gain (Note 9) | 5,699,318 | 12,425,065 |
| Other income | 809,502 | 464,554 |
| | **304,159,961** | **132,342,962** |
| **Operating expenses** | | |
| Equity based compensation (Note 18) | 11,851,120 | 28,131,160 |
| Compensation and compensation related (Notes 20, 23) | 34,163,813 | 28,579,918 |
| General and administrative (Note 22) | 15,126,938 | 12,660,376 |
| Professional fees (Note 21) | 7,663,579 | 8,177,491 |
| Interest | 9,729,199 | 3,133,143 |
| Insurance | 1,090,000 | 1,322,089 |
| Director fees | 248,522 | 200,000 |
| | **(79,873,171)** | **(82,204,177)** |
| Net unrealized gain (loss) on digital assets | 239,719,806 | (11,973,090) |
| Net unrealized gain (loss) on investments (Note 8) | 90,587,112 | (12,521,148) |
| Net unrealized loss on warrant liability (Note 18) | (14,318,125) | — |
| Unrealized foreign currency gain (loss) | (517,442) | 147,986 |
| Realized foreign currency loss | (870,755) | (197,065) |
| | **314,600,596** | **(24,543,317)** |
| **Income for the year** | **$ 538,887,386** | **$ 25,595,468** |
| **Income (loss) attributed to:** | | |
| Unit holders of the Partnership | $ 385,502,231 | $ 25,770,304 |
| Non-controlling interests (Note 19) | 153,385,155 | (174,836) |
| | **$ 538,887,386** | **$ 25,595,468** |
| **Other comprehensive income** | | |
| Foreign currency translation adjustment | $ 16,615 | $ 254,448 |
| **Comprehensive income for the year** | **$ 538,904,001** | **$ 25,849,916** |
| **Comprehensive income (loss) attributed to:** | | |
| Unit holders of the Partnership | $ 385,518,846 | $ 26,024,752 |
| Non-controlling interests (Note 19) | 153,385,155 | (174,836) |
| | **$ 538,904,001** | **$ 25,849,916** |

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

Consolidated Statements of Changes in Equity
(Expressed in US Dollars)

| | Class A Unit Capital | | Class B Unit Capital | | Non-controlling Interests in Consolidated Subsidiaries | |
|---|---|---|---|---|---|---|
| | **Number** | **Amount** | **Number** | **Amount** | | **Total** |
| **Balance at December 31, 2018** | **65,117,305** | **$ 204,581,926** | **215,713,955** | **$ 96,938,665** | **$ 4,167,578** | **$ 305,688,169** |
| Purchase of additional interest | — | — | — | — | (140,316) | (140,316) |
| Equity based compensation (Note 18) | — | 6,533,282 | — | 21,597,878 | — | 28,131,160 |
| Contributions (Note 19) | — | — | — | — | 4,363,017 | 4,363,017 |
| Distributions (Note 19) | — | — | — | — | (895,959) | (895,959) |
| Vesting of Class B Units | — | — | 11,939,207 | — | — | — |
| Exchange of Class B Units | 2,834,669 | 3,669,451 | (2,834,669) | (3,669,451) | — | — |
| Cancellation of Class A Units | (1,315,434) | (1,224,760) | — | — | — | (1,224,760) |
| Cancellation of Class B Units withheld | — | — | (5,485,586) | (6,666,662) | — | (6,666,662) |
| Foreign currency translation adjustment | — | — | — | 254,448 | — | 254,448 |
| Income for the year | — | 5,846,146 | — | 19,924,158 | (174,836) | 25,595,468 |
| **Balance at December 31, 2019** | **66,636,540** | **$ 219,406,045** | **219,332,907** | **$ 128,379,036** | **$ 7,319,484** | **$ 355,104,565** |
| Equity based compensation (Note 18) | — | 2,854,540 | — | 9,145,102 | — | 11,999,642 |
| Contributions (Note 19) | — | — | — | — | 141,572,423 | 141,572,423 |
| Distributions (Note 18, 19) | — | — | — | (1,932,121) | (16,321,544) | (18,253,665) |
| Vesting of Class B Units | — | — | 7,063,639 | — | — | — |
| Exchange of Class B Units | 3,469,661 | 4,832,895 | (3,469,661) | (4,832,895) | — | — |
| Cancellation of Class A Units | (3,600,997) | (2,874,622) | — | — | — | (2,874,622) |
| Issuance of Class A Units on exercise of options and restricted stock | 2,002,832 | — | — | — | — | — |
| Cancellation of Class B Units withheld | — | — | (20,951) | (38,000) | — | (38,000) |
| Shares issued for PIPE transaction (net of issuance costs) | 19,070,000 | 49,277,614 | — | — | — | 49,277,614 |
| Warrant liability allocation | — | (6,463,082) | — | — | — | (6,463,082) |
| Shares issued for acquisitions | 3,670,471 | 14,938,093 | — | — | — | 14,938,093 |
| Foreign currency translation adjustment | — | — | — | 16,615 | — | 16,615 |
| Income for the year | — | 103,386,280 | — | 282,115,951 | 153,385,155 | 538,887,386 |
| **Balance at December 31, 2020** | **91,248,507** | **$ 385,357,763** | **222,905,934** | **$ 412,853,688** | **$ 285,955,518** | **$1,084,166,969** |

**Galaxy Digital Holdings LP**

Consolidated Statements of Cash Flows
(Expressed in US Dollars)

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| **Operating activities** | | |
| Income for the year | $ 538,887,386 | $ 25,595,468 |
| Adjustments for: | | |
| Bad debt expense | 239,883 | 2,308,406 |
| Depreciation | 1,160,690 | 1,083,126 |
| Equity based compensation | 11,851,120 | 28,131,160 |
| Equity based compensation included in directors fees | 148,522 | — |
| Interest expense | 9,729,199 | 3,133,143 |
| Interest income | (6,131,988) | (4,229,684) |
| Net realized gain on digital assets | (271,108,044) | (71,971,480) |
| Net realized gain on investments | (10,795,869) | (37,922,360) |
| Net derivative gain | (5,699,318) | — |
| Net unrealized (gain) loss on digital assets | (239,719,806) | 11,973,090 |
| Net unrealized (gain) loss on investments | (90,587,112) | 12,521,148 |
| Net unrealized loss on warrant liability | 14,318,125 | — |
| Unrealized foreign currency (gain) loss | 517,442 | (147,986) |
| Changes in operating assets and liabilities: | | |
| Net digital asset activity | (246,301,354) | 42,312,361 |
| Receivable for digital asset trades | (12,873,643) | 8,248,449 |
| Digital asset loans receivable | (80,662,036) | (16,061,945) |
| Assets posted as collateral | (5,182,561) | (10,585,819) |
| Receivables | 3,734,180 | (2,016,624) |
| Due to related party | — | (1,177,498) |
| Derivatives | (10,222,300) | — |
| Prepaid expenses and other assets | (3,775,762) | (546,967) |
| Payable for digital asset trades | 30,894,261 | (9,582,579) |
| Digital asset loans payable | 159,356,648 | 11,134,329 |
| Collateral payable | 44,225,651 | 434,498 |
| Due from broker | (4,435,779) | (16,590) |
| Accounts payable and accrued liabilities | 19,306,247 | (3,407,616) |
| Net cash used in operating activities | (153,126,218) | (10,791,970) |
| **Investing activities** | | |
| Loans receivable | (20,881,129) | (19,760,339) |
| Repayment of loans receivable | 24,894,598 | 26,775,247 |
| Receipt of interest on loans receivable | 632,602 | 2,466,413 |
| Purchase of property and equipment | (108,746) | (403,175) |
| Disposal of property and equipment | — | 35,072 |
| Purchase of investments | (27,210,329) | (29,607,022) |
| Proceeds and distributions from investments | 35,358,940 | 75,583,983 |
| Proceeds from investments sold short | 3,810,153 | — |

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

(Expressed in US Dollars)

| | | | | |
|---|---|---|---|---|
| Cash paid on acquisitions | | (7,762,005) | | — |
| Cash assumed on acquisitions | | 4,456,462 | | — |
| Net cash provided by investing activities | | 13,190,546 | | 55,090,179 |
| **Financing activities** | | | | |
| Cash paid for principal portion of lease liability | | (261,495) | | (213,209) |
| Purchase of additional interest in subsidiary | | — | | (140,316) |
| Proceeds from PIPE transaction (net of issuance costs) | | 49,277,614 | | — |
| Capital contributions from non-controlling interests | | 141,572,423 | | 4,363,017 |
| Distributions | | (1,932,121) | | — |
| Distributions to non-controlling interests | | (16,321,544) | | (895,959) |
| Cancellation of Class A Units withheld | | (2,874,622) | | (1,224,760) |
| Cancellation of Class B Units withheld | | (38,000) | | (6,666,662) |
| Net cash provided by (used in) financing activities | | 169,422,255 | | (4,777,889) |
| Impact of exchange rate change on cash | | 16,615 | | 254,448 |
| Net increase in cash | | 29,503,198 | | 39,774,768 |
| Cash, beginning of year | | 106,262,780 | | 66,488,012 |
| Cash, end of year | $ | 135,765,978 | $ | 106,262,780 |
| **Supplemental disclosure of cash flow information and non-cash investing and financing activities:** | | | | |
| Cash paid during the year for: | | | | |
| Taxes | $ | 592,137 | $ | 65,760 |
| Non-cash activities: | | | | |
| Interest paid in digital assets | $ | 9,079,397 | $ | 2,520,540 |
| Reclassification between investments and digital assets | $ | 1,699,532 | $ | 1,100,000 |
| Purchase of investments paid in digital assets | $ | 12,084,984 | $ | — |
| Initial recognition of warrant liability from equity | $ | 6,463,082 | $ | — |
| Net assets acquired in business combination | $ | 3,359,314 | $ | — |
| Shares issued for acquisitions | $ | 14,938,093 | $ | — |
| Recognition of right of use asset and lease liability | $ | — | $ | 5,732,426 |
| Purchase of investment included in accounts payable and accrued liabilities | $ | — | $ | 132,798 |
| Proceeds from investments included in prepaid expenses and other assets | $ | — | $ | 13,818 |

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

### 1. NATURE AND CONTINUANCE OF OPERATIONS

Galaxy Digital Holdings LP ("GDH LP" and together with its consolidated subsidiaries, the "Partnership") is a Cayman Islands exempted limited partnership formed on May 11, 2018. The Partnership's principal address is 107 Grand Street, 8th Floor, New York, New York, 10013.

GDH LP, an operating partnership, is managed by the board of managers and officers of the general partner, Galaxy Digital Holdings GP LLC ("GDH GP" or the "General Partner"). Galaxy Digital Holdings Ltd. ("GDH Ltd." or "Company") acquired a minority investment in the operating partnership and, effective July 6, 2020, has an active public listing on the Toronto Stock Exchange ("TSX") under the ticker "GLXY". The Company was previously listed on the TSX Venture Exchange ("TSX-V") under the same ticker.

The Company is listed on the TSX via TSX Sandbox. TSX Sandbox is an initiative intended to facilitate listing applications that may not satisfy the original listing requirements of the TSX, but due to facts or situations unique to a particular issuer otherwise warrant a listing on the TSX. The TSX has exercised its discretion to waive the requirements of subsection 309(c)(i) of its manual (C$10 million in treasury resulting from public raise) which the Company did not meet. GDH Ltd.'s approval pursuant to TSX Sandbox was conditioned upon public filing of an Annual Information Form and prominent quarterly disclosure of digital assets and investments, which the Company has completed and agreed to continue to provide. The Company will remain listed pursuant to TSX Sandbox until such time as it has completed a twelve-month period without significant compliance issues after graduation. In addition, GDH Ltd. and the Partnership are required to disclose the following two risk factors that were also included in the most recent Annual Information Form for the year-ended 2019: (1) The Company has limited operating history and its business lines are nascent and subject to material legal, regulatory, operational and other risks in every jurisdiction; and (2) the market price and trading volume of the Company's ordinary shares has been volatile and will likely continue to be so in response to, among other factors, market fluctuations in digital assets generally or the digital assets that the Partnership holds or trades.

The Partnership continues to build a diversified financial services and investment management business in the cryptocurrency and blockchain space. The intention is to capitalize on market opportunities made possible by the ongoing evolution of the digital assets space through five primary business lines: trading, principal investments, asset management, investment banking and mining.

The Partnership's digital assets may be subject to significant fluctuations in value and risks unique to the asset class and different from traditional financial assets. Additionally, certain assets are held on cryptocurrency exchanges that are limited in oversight by regulatory authorities (Note 25).

***General Partner***

GDH GP, is a limited liability company incorporated under the laws of the Cayman Islands on July 26, 2018 and serves as the general partner of GDH LP. The sole LLC member of the General Partner is Galaxy Group Investments LLC ("GGI"), which is controlled by the Chief Executive Officer ("CEO") of the General Partner, and the General Partner has a Board of Managers.

***Financial Statements***

These consolidated financial statements are prepared on a going concern basis which assumes that the Partnership will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Partnership are dependent upon generating sufficient cash flow and/or obtaining necessary financing to meet its commitments as they come due and to continue building a diversified financial services and investment management business in the cryptocurrency and blockchain sectors. At December 31, 2020, the Partnership had cash of $135,765,978 (December 31, 2019 - $106,262,780) and partners' capital of $798,211,451 (December 31, 2019 - $347,785,081). Management estimates that the Partnership has sufficient financial resources to maintain its operations and activities for the upcoming year.

## 2. BASIS OF PRESENTATION

### Statement of Compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Managers of GDH GP and authorized for issuance on March 29, 2021.

### Comparative Figures

Certain comparative figures on the statement of financial position and statement of comprehensive income have been reclassified to conform to the current year's presentation. Specifically, on the statement of financial position, the segregation of prepaid expenses and other assets into due from broker. On the statement of comprehensive income, consulting fees has been reclassified from general and administrative to professional fees. Additionally, the comparative figures on the statement of cash flow have been updated to conform to this presentation.

### Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value and digital assets which are measured at fair value less cost to sell.

In addition, the consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow disclosure.

### Functional and Presentation Currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency determinations were conducted through an analysis of the consideration factors identified in International Accounting Standard ("IAS") 21. The functional currency for First Coin Capital Corp. ("First Coin") is the Canadian dollar ("C$"), the functional currency for the Japan based entities is the Japanese Yen ("JPY"), the functional currency for the Ireland and United Kingdom based entities is the pound sterling ("GBP"), and the functional currency for the parent entity and all remaining subsidiaries is the United States dollar ("US dollar"). The presentation currency for the Partnership is the US dollar.

Foreign currency transactions are translated into the functional currency of the respective entity or division, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at period-end exchange rates are recognized in profit or loss. Non-monetary items that are not re-translated at period end are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value, which are translated using the exchange rates as at the date when fair value was determined. Gains and losses are recorded in profit or loss.

The results and financial position of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: (i) assets and liabilities for each statement of financial position presented are translated at the rate of exchange in effect as of the date of the statement of financial position; (ii) income and expense items are translated at the average rates of exchange in effect during the reporting period; and (iii) all resulting exchange differences are recognized in accumulated other comprehensive income.

### Basis of Consolidation

The consolidated financial statements include the financial statements of GDH LP and its consolidated subsidiaries, which are controlled by the Partnership. The reporting period, as well as the accounting policies, of the financial statements are consistent across all entities included in the consolidation. All inter-company transactions, balances, income and expenses and unrealized gains and losses are eliminated in full upon consolidation.

(Expressed in US Dollars)

As of December 31, 2020 and 2019, GDH LP's subsidiaries are as follows:

| Subsidiary[1] | Place of Incorporation | December 31, 2020 Ownership % | December 31, 2019 Ownership % |
|---|---|---|---|
| Galaxy Digital LLC | Delaware | 100% | 100% |
| Galaxy Digital Trading LLC | Delaware | 100% | 100% |
| Galaxy Digital Trading Cayman LLC | Cayman | 100% | 100% |
| Galaxy Digital Labs LLC | Delaware | 100% | 100% |
| Galaxy Digital Labs Cayman LLC | Cayman | 100% | 100% |
| Galaxy Digital Capital Management GP LLC | Cayman | 100% | 100% |
| Galaxy Digital Capital Management LP | Cayman | 100% | 100% |
| Galaxy Digital Ventures LLC | Delaware | 100% | 100% |
| Galaxy Digital Ventures Cayman LLC | Cayman | 100% | 100% |
| Galaxy Digital Services LLC | Delaware | 100% | 100% |
| Galaxy Digital Services II LLC | Delaware | 100% | 100% |
| Galaxy Digital Lending LLC | Delaware | 100% | 100% |
| Galaxy Digital Partners LLC[2] | New York | 100% | 100% |
| Galaxy EOS VC Fund GP LLC | Cayman | 100% | 100% |
| Galaxy Crypto Index Fund GP, LLC[3] | Cayman | 100% | 100% |
| Galaxy Crypto Index Master Fund, L.P.[3] | Cayman | 48% | 37% |
| Galaxy Crypto Index Fund, L.P.[3] | Delaware | 53% | 37% |
| Galaxy Bitcoin Fund GP LLC | Delaware | 100% | 100% |
| Galaxy Bitcoin Fund LP | Delaware | 62% | 92% |
| Galaxy Institutional Bitcoin Fund GP LLC | Delaware | 100% | 100% |
| Galaxy Institutional Bitcoin Fund LP | Delaware | 35% | 94% |
| Galaxy Institutional Bitcoin Master Fund, LP | Cayman | 21% | 93% |
| Galaxy Digital Trading Japan Quant GK | Japan | 100% | 100% |
| Galaxy Digital Trading Japan KK | Japan | 100% | 100% |
| Galaxy Digital Trading Ireland Limited | Ireland | 100% | 100% |
| First Coin Capital Corp. | British Columbia, Canada | 100% | 100% |
| Galaxy Digital GP LLC | Cayman | 100% | 100% |
| Galaxy Digital Crypto Lending LLC | Delaware | 100% | 100% |
| Galaxy Digital Crypto GP LLC | Delaware | 100% | 100% |
| Galaxy Digital LP | Cayman | 100% | 100% |
| Galaxy Digital Services HK Limited | Hong Kong | 100% | 100% |
| Galaxy Digital Trading Cayman II LLC | Cayman | 100% | 100% |
| Galaxy Digital Trading HK Limited | Hong Kong | 100% | 100% |
| Galaxy Digital UK Limited | United Kingdom | 100% | 100% |
| Galaxy Lending SPV I LLC | Delaware | 95% | 95% |
| Galaxy Digital Prime Services LLC | Delaware | 100% | 100% |

[1] Excludes subsidiaries that are dormant
[2] Formerly Galaxy Digital Advisors LLC
[3] Formerly Galaxy Benchmark Crypto Index Fund GP, LLC, Galaxy Benchmark Crypto Index Master Fund, L.P. and Galaxy Benchmark Crypto Index Fund, L.P.

| Subsidiary[1] | Place of Incorporation | December 31, 2020 Ownership % | December 31, 2019 Ownership % |
|---|---|---|---|
| Galaxy DBL, LLC | Delaware | 100% | 0% |
| Galaxy Blue Fire Holdings, LLC | Delaware | 100% | 0% |
| Blue Fire Capital, LLC | Illinois | 100% | 0% |
| Blue Fire Capital Europe Coöperatief U.A. | Netherlands | 100% | 0% |
| Galaxy Digital Mining LLC | Delaware | 100% | 0% |

[1] Excludes subsidiaries that are dormant.

**Scope of financial statements**

These consolidated financial statements represent the financial position of the Partnership and do not include the other assets and liabilities, and income and expenses of the partners. Income taxes are the responsibility of the partners through an allocation of GDH LP's taxable income (loss), and not that of GDH LP. Accordingly, no provision for income taxes has been recorded in these consolidated financial statements other than for the entities in the consolidated GDH LP group subject to income taxes. The allocation of taxable income to members may vary substantially from net income reported in these consolidated financial statements.

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the statement of financial position dates. Current income tax assets and liabilities are included in trade receivables and other current assets and accounts payable and accrued liabilities, respectively, if any.

Deferred tax is recognized on taxable temporary differences between the tax bases and the carrying amounts of assets and liabilities. Deferred tax is not recognized if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Deferred income tax assets are recognized for all deductible temporary differences, carry forwards of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets are realized or the liabilities settled, using the tax rates and laws enacted or substantively enacted at the statement of financial position dates.

Current and deferred income taxes relating to items recognized directly in other comprehensive income ("OCI") are also recognized directly in OCI.

**Allocation of income and loss**

Income and loss arising from the Partnership’s ordinary course of operations is to be allocated between the Class A Units and Class B Units pro rata in accordance with the weighted average number of such Units outstanding for the respective periods.

**Use of estimates and judgments**

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from those estimates.

Many aspects of the digital currency and blockchain industry have not yet been addressed by current IFRS guidance. The Partnership is required to make significant assumptions and judgments as to its accounting policies and the application thereof, which is disclosed in the notes to these consolidated financial statements. If specific guidance is enacted by the IASB in the future, the impact may result in changes to the Partnership’s profit or loss and financial position as currently presented.

***Significant judgments in applying accounting policies***

The critical judgments that the Partnership has made in the process of applying the Partnership's accounting policies, aside from those involving estimations, that have the most significant effect on the amounts recognized in the Partnership's consolidated financial statements are as follows:

***Digital assets - accounting***

There is limited guidance on the recognition and measurement of digital assets. The Partnership has assessed that it acts in a capacity as a commodity broker trader as defined in IAS 2, *Inventories*, in characterizing certain of its holdings as inventory, or more specifically, digital assets. If assets held by commodity broker-traders are principally acquired for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin, such assets are accounted for as inventory, and changes in fair value (less cost to sell) are recognized in profit or loss.

***Valuation techniques***

The fair values of all investments are measured using the cost, market or income approaches (Note 25). The determination of fair value requires significant judgment by the Partnership. The Partnership maintains a valuation policy which requires an appointed Valuation Committee (the "VC"), which is composed of employees of the Partnership, to act in good faith to fair value its investments on a quarterly basis thereafter, consistent with fair value accounting guidance in accordance with IFRS 13, *Fair Value Measurement*.

The VC, on behalf of the Partnership, has engaged an independent consultant to provide independent valuations of its investments on a quarterly basis.

***Functional currency***

The Partnership's functional currency has been assessed by management with consideration given to the currency and economic factors that mainly influence the Partnership's business and investments, operating costs and related transactions. Specifically, the Partnership considers the currencies in which its investments are most commonly denominated, the currencies in which its expenses are settled by the Partnership and its subsidiaries, as well as the currency in which the Partnership may receive or raise financing. Changes to these factors may have an impact on the judgment applied in the determination of the Partnership's functional currency.

***Business combination***

The determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Partnership to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The acquisitions of Drawbridge Lending, LLC and BF Holdings I, LLC were determined to be acquisitions of businesses (Note 6).

***Level of control and influence over investments and funds***

Classification of investments requires judgment on whether the Partnership controls, has joint control or significant influence over the strategic financial and operating decisions relating to the activity of the investee. In assessing the level of control or influence that the Partnership has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements. As of December 31, 2020 and 2019, the Partnership had greater than 20% ownership in certain of its underlying investments and board representation in other investments; however, after completing an analysis under IAS 28, the Partnership has concluded that it does not have significant influence in any investments.

Classification of the funds formed by the Partnership requires judgement on the degree of control and influence over these funds. Key to the assessment of control is determining whether the Partnership, as manager of these funds, is acting as principal or agent. Management considers key factors such as power, returns and its ability to use its power to affect the amount of returns, to determine which funds it controls and consolidates and those which it has significant influence and requires equity accounting. As at December 31, 2020 and 2019, after completing an analysis under IFRS 10, the Partnership has determined it has control of Galaxy Lending SPV I LLC, Galaxy Crypto Index Fund, L.P., Galaxy Institutional Bitcoin Master Fund, L.P., and Galaxy Bitcoin Fund L.P. (Note 19).

***Deferred income taxes***

In applying the Partnership's policy, judgments are made in determining the probability of whether deductions, tax credits and tax losses can be utilized.

Key sources of estimation uncertainty

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

***Digital assets and investments - valuation***

Although many of the Partnership’s digital assets are traded in active markets and are valued based upon quoted prices (less costs to sell), a portion of such digital assets, as well as the majority of the Partnership’s investments, are not actively traded and are valued based upon quoted prices for similar assets or based upon unobservable inputs (Note 25). These valuations require the Partnership to make significant estimates and assumptions.

Digital assets are generally considered to be commodities or similar to commodities and are treated as inventory for financial reporting purposes. Realized gains and losses from the disposition of digital assets and investments, whether by conversion to cash or other digital assets, are recorded as net realized gain (loss) on digital assets, and net realized gain (loss) on investments, respectively. Unrealized gains and losses on digital assets and investments are recorded as net unrealized gain (loss) on digital assets, and net unrealized gain (loss) on investments, respectively.

***Collectability of receivable for digital asset trades and digital asset loans receivable***

The Partnership records an allowance for doubtful accounts related to receivable for digital asset trades and digital asset loans receivable that are considered to be uncollectible. The allowance is based on the Partnership’s knowledge of the financial condition of its counterparties, if the loan has gone into default and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts. As at December 31, 2020, the Partnership did not record any bad debt expense associated with its receivable for digital asset trades and digital asset loans receivable. As at December 31, 2019, the Partnership recorded bad debt expense associated with its receivable for digital asset trades and digital asset loans receivable of $2,308,406.

***Estimated useful lives of property and equipment***

Depreciation of property and equipment, including right of use assets, are dependent upon estimates of useful lives and estimates of when assets become available for use, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of such assets.

***Valuation of equity based compensation***

The Partnership uses the Black-Scholes Option Pricing Model and other valuation models for the valuation of its equity based compensation. These models require the input of subjective assumptions including expected price volatility, risk-free interest rate, forfeiture rate, estimated weighted average fair value per unit calculations and expected term. If different input assumptions are used, the changes can materially affect the fair value estimate.

***Valuation of warrant liability***

The warrants issued in connection with the private investment in public equity (Note 18) are recorded as a derivative financial liability as these warrants are exercisable in Canadian dollars, differing from the Partnership’s functional currency, which is US Dollars. The Partnership measures the initial warrant liability and subsequent revaluations of the warrant liability by reference to the fair value of the warrants at the date at which they were issued and subsequently revalues them at each reporting date. Estimating fair value for these warrants requires management to determine the most appropriate valuation model. The Partnership uses the Black-Scholes Option Pricing Model to determine the fair value of its warrant liability. This estimate also requires management to make significant judgments about the capacity in which warrant holders receive warrants, and to make assumptions about the most appropriate inputs to the valuation model including the expected life of the warrants, volatility and dividend yield. If different input assumptions are used, the changes can materially affect the fair value estimate.

(Expressed in US Dollars)

***Valuation and economic recoverability of goodwill and intangible assets***

Goodwill and intangible assets are capitalized if they are expected to have future economic benefits and are expected to be economically recoverable. Purchased intangibles are valued on acquisition using established methodologies and amortized over their estimated useful economic lives, except in those cases where intangibles are determined to have indefinite lives, where there is no foreseeable limit over which these intangibles would generate net cash flows. The valuations and lives of goodwill and intangible assets are based on management's best estimates of future performance and periods over which value from intangible assets will be derived. Goodwill and intangible assets are tested for impairment at each reporting date. Management first reviews qualitative factors in determining if an impairment needs to be recorded. Quantitative factors are then used to calculate the amount of impairment, if needed.The estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that a change in circumstances will alter these projections, which may impact the recoverable amount of the assets.

***Income taxes***

The consolidated financial statements include estimates and assumptions for determining the future tax rates applicable to subsidiaries and identifying the temporary differences that relate to each subsidiary. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the year when the assets are realized or the liabilities settled, using the tax rates and laws enacted or substantively enacted at the consolidated statement of financial position dates. Operating plans and forecasts are used to estimate when the temporary difference will reverse.

***COVID-19***

In March 2020, the World Health Organization declared COVID-19 (Coronavirus) a global pandemic. For the safety and well-being of its employees, the Partnership has implemented its business continuity plans, including remote work arrangements. Nonetheless, the COVID-19 pandemic has caused global economic uncertainty and the current and expected impacts on global commerce has been and are anticipated to continue to be far-reaching. To date, globally, there has been significant volatility in markets and foreign exchange rates, restriction on conduct of business in many jurisdictions, including travel restrictions and supply chain disruptions. The Partnership has evaluated the potential impacts arising from COVID-19 on all aspects of its business and, to date, the Partnership has not been uniquely impacted by COVID-19. Given the economic uncertainty, it is not possible to predict the duration or magnitude of the adverse results of the outbreak and its effect on the Partnership at this time.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, unless otherwise indicated.

***Cash***

Cash and cash equivalents may include cash on hand, demand deposits and short-term highly liquid investments that are readily convertible into known amounts of cash, with maturities of 90 days or less when acquired. As of December 31, 2020 and 2019, the Partnership did not classify any balances as cash equivalents.

***Property and equipment***

Property and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and, where applicable, the initial estimation of any asset retirement obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is recognized in profit or loss on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Furniture and fixtures | 10 years |
| Office equipment | 6 years |
| Computer equipment | 5 years |
| Leasehold improvements | straight line over the shorter of the lease term or life of the asset |

Any item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss in the period the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted if necessary.

In addition, right-of-use assets are depreciated on a straight line basis over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Partnership applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described above.

***Revenue recognition***

The Partnership recognized revenue from advisory services, management fees and interest earned on loans receivable. Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the fair value of the consideration to which the Partnership expects to be entitled to upon completion of the Partnership's performance obligation for those goods or services. Revenue from services performed is recognized when the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Partnership.

The Partnership recognizes revenue from the provision of advisory services upon completion of the delivery of the services stated in the contract. The Partnership earns management fees on each of its managed funds at a fixed percentage of invested capital, committed capital or ending capital, as defined in each of the respective funds. Management fees are recognized based on contractual terms specified in the underlying investment agreements. The Partnership recognizes interest income on an accrual basis.

***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of each of the operating segments.

***Financial instruments***

*Financial assets*

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI, are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Partnership may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Receivables, loans receivable, due from broker and due from exchange are measured at amortized cost with subsequent impairments recognized in profit or loss. Cash, receivable for digital asset trades, digital asset loans receivable, digital assets receivables, assets posted as collateral, derivatives and investments are classified as FVTPL.

*Impairment*

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Financial liabilities*

All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities and lease liability are classified as financial liabilities and carried on the statement of financial position at amortized cost. Digital assets sold short, investments sold short, payable for digital asset trades, digital assets loans payable, collateral payable and warrant liability are classified as FVTPL.

***Digital assets***

The Partnership's digital assets are primarily traded in active markets and are purchased with the intent to resell in the near future, generating a profit from the fluctuations in prices or margins. As a result, the Partnership has determined that its holding of digital assets should be accounted for under IAS 2, Inventories, and it meets the definition of a commodity broker-trader. Under IAS 2, digital assets are measured at fair value less cost to sell, with changes in fair value recognized in profit or loss. In accordance with IAS 2, commodity broker-traders are those who buy or sell commodities for others or on their own account. The inventories held by commodity broker-traders are principally acquired for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. As these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of IAS 2.

The Partnership recognizes realized gains or losses on its digital assets when it either sells digital assets that it holds or buys digital assets to close out a short position on a first-in-first-out (FIFO) basis.

More specifically, with respect to arbitrage trading, realized gains or losses are recognized on the sale of the digital assets and there are generally no related receivables or payables as the times of trade and settlement are virtually similar. Realized gains or losses from over-the-counter ("OTC") trading with counterparties are recognized once terms of the trade have been mutually agreed and confirmed. Given that the times of trade and settlement can differ, this can create receivables or payables for unsettled digital asset trades.

***Derivatives***

As part of its trading activities, the Partnership enters into derivatives. Derivatives are instruments that derive their value from changes in an underlying reference outside the control of the Partnership (which can be foreign exchange rates or the price of a digital asset).

The most frequently used derivatives by the Partnership are bitcoin futures ("BTC futures"), digital currency futures, index futures, bitcoin swaps ("BTC swaps"), digital currency swaps and digital currency options.

- BTC futures - a bitcoin future is an exchange traded contract which represents a legal agreement to either buy or sell bitcoin at a predetermined price at a specified time in the future. Depending on contract specifications, the futures contract can be settled either in bitcoin, a stable coin or cash.
- Digital currency futures - a digital currency future, other than BTC futures, is an exchange traded contract which represents a legal agreement to either buy or sell the digital currency at a predetermined price at a specified time in the future. Depending on contract specifications, the contract can be settled either in cash, or by physical delivery.
- Index futures - an index future is an exchange traded contract which represents a legal agreement to either buy or sell a financial index at a predetermined price at a specified date in the future. Index futures are settled in cash.
- BTC swaps - a bitcoin swap is an exchange traded contract which represents a legal agreement to either buy or sell a bitcoin at a predetermined price at some time in the future. Depending on contract specifications, swaps can be settled either in bitcoin, a stable coin (such as USDC or USDT) or cash.
- Digital currency swaps - a digital currency swap, other than BTC swaps, is an exchange traded contract which represents a legal agreement to either buy or sell a referenced digital currency at a predetermined price at some time in the future. Depending on exchanges, swaps can be settled either in the referenced digital currency, a stable coin (such as USDC or USDT) or cash.
- Digital currency options - a digital currency option is an OTC traded contract, which gives the holder the right, but not the obligation, to either buy or sell a referenced digital currency at a predetermined price at a specified time in the future. Options can be settled in either cash, stable coin or by physical delivery.

The Partnership uses the derivatives for trading purposes, except for a small amount for foreign currency hedging (in addition to the above derivatives, the Partnership uses foreign currency swaps for foreign currency hedging). The derivatives are carried at fair value and any realized and unrealized gains (loss) in derivatives are recognized in "Net derivative gain or loss".

***Leases***

The Partnership assesses whether a contract is or contains a lease, at inception of the contract. The Partnership recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Partnership recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Partnership uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Partnership remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payment change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Partnership did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

***Equity based compensation***

<u>Stock Options</u>

The Partnership accounts for stock options granted to directors, officers and employees at the fair value of the options granted. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and equity based compensation is accrued and charged to operations, with an offsetting credit to partners' capital, over the respective vesting periods. Equity based payment to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity based payment is expensed on a staged (or graded) vesting basis, based on the Partnership's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Partnership revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity. Stock options granted to non-employees are measured at the fair value of goods or services rendered or at the fair value of the instruments issued, if it is determined that the fair value of the goods or services received cannot be reliably measured.

Compensatory Class B Units

The Partnership accounts for Class B Units granted to officers and employees at the fair value of the Class B Units granted. Accordingly, the fair value of the Class B Units at the date of the grant is determined using an applicable valuation model and equity based compensation is accrued and charged to operations on a staged (or graded) vesting basis, based on the Partnership's estimate of equity instruments that will eventually vest, with a corresponding increase in partners' capital. At the end of each reporting period, the Partnership revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

Restricted Stock

The Partnership accounts for restricted stock granted to officers and employees at the fair value of the restricted stock granted. Accordingly, the fair value of the restricted stock at the date of the grant is determined using an applicable valuation model and equity based compensation is accrued and charged to operations on a staged (or graded) vesting basis, based on the Partnership's estimate of equity instruments that will eventually vest, with a corresponding increase in partners' capital. At the end of each reporting period, the Partnership revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

***Income (loss) per unit***

Basic income (loss) per unit is computed by dividing net income (loss) (the numerator) by the weighted average number of outstanding units for the period (denominator). When diluted earnings per unit is calculated, only those outstanding stock options and warrants with exercise prices below the average trading price of GDH Ltd.'s shares for the period will be dilutive.

In the periods when the Partnership reports a net loss, the effect of potential issuances of units under stock option, compensatory Class B Unit and restricted stock plans and on the exercise of warrants is anti-dilutive. Therefore basic and diluted loss per unit are the same.

***Foreign currency transactions***

Transactions in foreign currencies are translated at the exchange rates prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at exchange rates at the reporting date, with any differences arising recorded in profit or loss.

***Business combination***

The Partnership accounts for business combinations using the acquisition method. The consideration transferred and the identifiable assets acquired and liabilities assumed of the acquiree are measured and recognized at the acquisition-date fair value.

Goodwill is measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. For impairment testing, the goodwill is allocated to a cash generating unit. The goodwill is tested for impairment annually, or more frequently when there is an indication that there may be an impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the goodwill, the impairment loss is first allocated to reduce the amount of goodwill and to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss and any impairment loss recognised for goodwill is not reversed in subsequent periods.

***Goodwill***

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net tangible and intangible assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units or groups of cash-generating units which are expected to benefit from the synergies of the combination. Goodwill is tested annually for impairment.

***Intangible assets***

Intangible assets acquired separately are measured at cost on initial recognition. Intangible assets acquired in a business combination are recorded at fair value on the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses, if applicable. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are depreciated over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The depreciation period and the depreciation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The software technology acquired as part of the business combination (Note 6) is depreciated on a straight line basis over two years from the acquisition date.

***Non-controlling interest***

Non-controlling interest in the Partnership’s less than wholly owned subsidiaries are classified as a separate component of equity. On initial recognition, non-controlling interests are measured at their proportionate share of the acquisition date fair value of identifiable net assets of the related subsidiary acquired by the Partnership. Subsequent to the original transaction date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interest’s share of changes to the subsidiary’s equity. Changes in the Partnership’s ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest is adjusted to reflect the change in the non-controlling interest’s relative interest in the subsidiary, and the difference between the adjustment to the carrying amount of non-controlling interests and the Partnership’s share of proceeds received and/or consideration paid is recognized directly in equity and attributed to owners of the Partnership.

***Investments in subsidiaries***

Subsidiaries are all entities over which the Partnership has control. The Partnership controls an entity when the Partnership is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The Partnership has determined that it is not an investment entity as defined within IFRS 10, Consolidated Financial Statements. As such, the Partnership consolidates its subsidiaries rather than accounting for them at fair value through profit or loss. Subsidiaries are fully consolidated from the date on which control is transferred to the Partnership. They are deconsolidated from the date that control ceases. Intercompany transactions and balances are eliminated.

## 4. NEW ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

The Partnership did not adopt any new accounting standards during the year ended December 31, 2020.

## 5. KEY TERMS OF LIMITED PARTNERSHIP AGREEMENT

On July 31, 2018, GDH LP, GDH GP, GDH Ltd., GDH Intermediate LLC (a wholly owned subsidiary of GDH Ltd. established as a tax efficient blocker corporation or similar entity for US tax purposes) entered into a second amended and restated limited partnership agreement (as amended from time to time, the "LPA"). Certain key terms of the LPA include the following:

- *Units* - there are two classes of partnership interests ("Units"): Class A Units, which are held by GDH Ltd., and Class B Units, which are held by GGI and other Class B limited partners.
- *Issuance of Additional Units* - the General Partner will not cause the Partnership to issue any additional Class B Units unless the General Partner determines there is a bona fide business or strategic reason to raise equity capital through the issuance of Class B Units, provided that the aggregate amount of Class B Units that may be issued is less than or equal to 70,000,000 or the GDH Ltd. board of directors approves such issuance.
- *Allocations of Income, Gain, Loss, Deduction and Credit* - each item of income, gain, loss, deduction and credit will generally be allocated pro-rata between Class A Units and Class B Units.

- *Issuances and redemptions of common stock of GDH Ltd.* - If GDH Ltd. issues any of its ordinary shares, the General Partner will, only if either (i) the General Partner has consented to such issuance or (ii) the issuance receives approval by the limited partners holding the majority of Units, cause the Partnership to issue to GDH Ltd., in exchange for GDH Ltd. promptly contributing the net cash proceeds of the issuance to the Partnership, a number of Class A Units equal to the number of ordinary shares issued. Upon the redemption, repurchase, or other acquisition of ordinary shares by GDH Ltd., the Partnership will, at substantially the same time as the redemption, repurchase or acquire, redeem or cancel Class A Units equal to the number of ordinary shares redeemed, repurchased or acquired for an amount equal to the net cash amount paid by the GDH Ltd. for such redemption, repurchase, or other acquisition.
- *Exchanges of Class B Units* - A Class B limited partner may exchange vested Class B Units for ordinary shares of GDH Ltd. On exchange, GDH Ltd. will issue ordinary shares and the General Partner will cancel the Class B Units exchanged and issue Class A Units to GDH Ltd. equal to the number of Class B Units being surrendered, after accounting for any withholding obligation if applicable.
- *Removal of General Partner* - The General Partner may generally be removed by the limited partners holding at least 66 2/3% of the outstanding Units.
- *Reimbursable Expenses* - All expenses reasonably incurred by GDH Ltd. in the conduct of its business, including fees related to professional advisors, required or advisable licenses and filings, and meetings and compensation of directors, will be reimbursable by GDH LP.
- *General Partner Board* - As long as GDH Ltd. owns more than 10% of the outstanding Units of GDH LP, GDH Ltd. will have the right to appoint one person to the board of the general partner. In addition, if GDH Ltd. owns more than 40%, but not more than 50%, of the outstanding Units, GDH Ltd. will have the right to appoint another person to the board of the general partner.

Accounting for the investment by GDH Ltd.

GDH Ltd. is deemed to have significant influence over GDH LP as it owns more than 20% of GDH LP and it has representation on the board of the general partner of the Partnership. As a result, GDH Ltd. has accounted for its investment in the Partnership under the equity method. If and when Class B units of the Partnership are exchanged into ordinary shares of GDH Ltd., GDH Ltd. receives Class A Units of the Partnership. As GDH Ltd. 's interest in GDH LP increases through the ownership of the Class A Units, an ongoing assessment will be performed to determine when GDH Ltd. obtains control of GDH LP. Under IFRS accounting guidance,an investor controls an investee if and only if the investor has all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

While there are many factors that need to be considered for the evaluation of control, an important factor would be when GDH Ltd. obtains the ability to impact the Partnership's governance and decision making, including its ability to replace the general partner.

## 6. BUSINESS COMBINATIONS

### *Drawbridge Lending, LLC*

On November 12, 2020, GDH Ltd. acquired Drawbridge Lending, LLC (“Drawbridge" or "DBL”). Drawbridge is a Delaware limited liability company that was established in March 2018 and operates as a Chicago-based CFTC-regulated Commodity Trading Advisor and Commodity Pool Operator. Drawbridge utilizes derivatives to provide hedged financial products to eligible contract participants through its platform. Its flagship product is a crypto-backed fiat loan with no margin call and an option hedge overlay.

On completion of the DBL acquisition on November 12, 2020:

- All of the issued and outstanding DBL membership interests and all other rights to receive DBL membership interests were cancelled and converted into the right to receive the consideration, or $4,891,217, calculated as $5,000,000 net of company transaction expenses of $108,783. The consideration consisted of 1,507,473 shares and a cash payment of $273,334. As part of the consideration, the Company issued 1,352,583 shares and held back 154,890 shares to satisfy customary representations and warranties.

(Expressed in US Dollars)

- Immediately following the execution of the acquisition, GDH Ltd. contributed its membership interests in DBL to GDH LP which, immediately thereafter, contributed them to Galaxy Digital LP. DBL changed its name to Galaxy DBL, LLC.
- Galaxy Digital LP became the sole member of Galaxy DBL, LLC, and the officers of Drawbridge became the officers of Galaxy DBL, LLC.

As of November 12, 2020, Drawbridge met the definition of a business under IFRS 3, and was identified as the accounting acquiree, whereas GDH Ltd. was identified as the accounting acquirer. The acquisition of Drawbridge was accounted for using the acquisition method. The consideration transferred was measured at fair value, which was calculated as the fair value of cash and equity interests issued by GDH Ltd. in exchange for the net identifiable assets of Drawbridge on November 12, 2020.

| | | |
|---|---|---|
| **Fair value of consideration transferred** | | |
| Common stock[(1)(2)] | $ | 6,135,170 |
| Cash | | 273,334 |
| | **$** | **6,408,504** |
| | | |
| **Less: Identifiable net assets acquired, at fair value** | | |
| Assets: | | |
| Cash | $ | 233,710 |
| Receivables | | 141,168 |
| Digital assets | | 28,131 |
| Other current & long-term assets | | 101,602 |
| Goodwill | | 8,391,751 |
| | | 8,896,362 |
| Liabilities: | | |
| Accounts payable | | 347,162 |
| Promissory note | | 2,000,000 |
| Other liabilities | | 140,696 |
| | **$** | **6,408,504** |

(1) The fair value was based on the closing share price of GDH Ltd. of approximately $4.07 on November 12, 2020 (the date of the acquisition which represents the date the acquirer obtained control of the acquiree).

(2) Of the 1,507,473 ordinary shares, 1,352,583 were issued (including 387,232 held in escrow) and the remainder was held back. The escrowed shares will be released 33% on each of the 6-month, 12-month and 18-month anniversaries for non-employees of DBL and 33% on each of the 12-month, 18-month and 24-month anniversaries for employees of DBL.The value attributed to the shares held back was $630,424 and is included in accounts payable and accrued liabilities and will be reclassified to partners' capital on issuance.

***Goodwill***

At the date of acquisition, the Partnership recorded $8,391,751 of goodwill and considered DBL as a separate cash-generating unit. Goodwill represented the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. Goodwill was attributed to the expected synergies from combining operations with GDH LP, including the ability to drive growth in the Partnership's lending business and the expected future cash flows of the business.

As of December 31, 2020, the Partnership performed an impairment test using a one-step approach and determined the goodwill was not impaired.

***Note to Drawbridge***

Prior to the acquisition, a Note Purchase Agreement was entered into on July 9, 2019 by and among Drawbridge and Galaxy Digital Ventures LLC ("GDV"), a Delaware limited liability company and wholly-owned subsidiary of Galaxy Digital LP. GDV agreed to lend to Drawbridge, and Drawbridge agreed to borrow up to an aggregate amount of $1,500,000 (the "Loan"). The Loan was evidenced by one or more secured promissory notes and the notes were secured by all present and after-acquired assets of Drawbridge. The notes bore an interest rate of 8% per annum and interest automatically accrued on a monthly basis and was capitalized to the principal amount of each note and was thereafter deemed to be a part of the principal amount of each such note. The original maturity date of the notes was January 1, 2020 and the July 9, 2019 initial loan amount was $1,000,000.

(Expressed in US Dollars)

On December 23, 2019, the initial note was amended and a new senior secured note was issued in the amount of $2,037,116 with a maturity of December 31, 2020. The new note was comprised of (1) $1,000,000 July 2019 note, (2) $1,000,000 December 2019 note, (3) $33,781 of interest paid in kind since the July 2019 note, and (4) $3,335 of accrued and unpaid interest since the most recent payment date of the July 2019 note.

***Other***

The amounts of revenue and comprehensive loss of Drawbridge since the acquisition date included in the consolidated statements of comprehensive income for the year ended December 31, 2020 approximately $250,000 and $50,000, respectively. The revenue and comprehensive income of the Partnership for the year ended December 31, 2020, if the acquisition date had been as of January 1, 2020, is not significantly different from the amount reported in the consolidated statements of comprehensive income.

***Blue Fire Capital***

On November 12, 2020, GDH Ltd. acquired BF Holdings I, LLC ("Blue Fire Capital" or "BFC"). Blue Fire Capital is a Delaware limited liability company that was established in 2007 and operates as a Chicago-based propriety trading firm specializing in providing two-sided liquidity for futures markets and digital assets.

On completion of the BFC acquisition on November 12, 2020:

- All of the issued and outstanding BFC membership interests and all other rights to receive membership interests were cancelled and converted into the right to receive the consideration, calculated as 2,317,888 shares, plus $7,488,671 of net cash and net of company transaction expenses and other adjustments.
- Immediately following the execution of the acquisition, GDH Ltd. contributed its membership interests in BFC to GDH LP which, immediately thereafter, contributed them to Galaxy Digital LP. BFC changed its name to Galaxy Blue Fire Holdings, LLC.
- Galaxy Digital LP became the sole member of Galaxy Blue Fire Holdings, LLC, and the officers of Blue Fire Capital became the officers of Galaxy Blue Fire Holdings, LLC.

As of November 12, 2020, Blue Fire Capital met the definition of a business under IFRS 3, and was identified as the accounting acquiree, whereas GDH Ltd. was identified as the accounting acquirer. The acquisition of Blue Fire Capital was accounted for using the acquisition method. The consideration transferred was measured at fair value, which was calculated as the fair value of cash and equity interests issued by GDH Ltd. in exchange for the net identifiable assets of BFC on November 12, 2020.

| | | |
|---|---|---|
| **Fair value of consideration transferred** | | |
| Common stock[1] | $ | 9,433,347 |
| Cash | | 7,488,671 |
| | **$** | **16,922,018** |
| | | |
| **Less: Identifiable net assets acquired, at fair value** | | |
| Assets: | | |
| Cash | $ | 4,222,752 |
| Receivables | | 20,000 |
| Digital assets[2] | | 59,770,210 |
| Other current assets | | 130,543 |
| Intangible asset - software technology | | 2,406,000 |
| Goodwill | | 7,122,995 |
| | | 73,672,500 |
| Liabilities: | | |
| Accounts payable | | 983,207 |
| Digital asset loans payable | | 55,767,275 |
| | **$** | **16,922,018** |

[1] The fair value was based on the closing share price of GDH Ltd. of $4.07 on November 12, 2020 (the date of the acquisition which represents the date the acquirer obtained control of the acquiree).

[2] Includes digital asset derivative positions.

(Expressed in US Dollars)

***Goodwill and Intangible Asset***

At the date of acquisition, the Partnership recorded $7,122,995 of goodwill and considered BFC as a separate cash-generating unit. Goodwill represented the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. Goodwill was attributed to the expected synergies from combining operations with GDH LP and the expected future cash flows of the business.

As of December 31, 2020, the Partnership performed an impairment test using a one-step approach and determined the goodwill was not impaired.

Intangible asset of $2,406,000 represents the proprietary software technology that BFC built. The valuation of the intangible asset was based on the estimated cost based on the effort required to replicate the software technology. The intangible asset will be depreciated over its estimated useful life of 2 years.

***Other***

The amounts of net revenue and comprehensive income of BFC since the acquisition date included in the consolidated statements of comprehensive income for the year ended December 31, 2020 is $4.7 million and $2.5 million respectively. The net revenue and comprehensive income of the Partnership for the year ended December 31, 2020, if the acquisition date for BFC had been as of January 1, 2020, is not significant to amounts reported in the consolidated statements of comprehensive income.

**7. DIGITAL ASSETS**

The Partnership's digital assets are primarily traded in active markets and are purchased with the intent to resell in the near future, generating a profit from the fluctuations in prices or margins. As a result, the Partnership has determined that its holdings of cryptocurrency, both restricted and unrestricted, are considered to be digital assets and, as a result, are accounted for as inventory with changes in fair value less cost to sell recognized in profit or loss. Below are the Partnership's digital asset holdings as of December 31, 2020 and 2019:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cryptocurrency: | | |
| Unrestricted[(1)] | $ 831,122,534 | $ 85,936,838 |
| Restricted | 19,257,730 | 43,893 |
| | **$ 850,380,264** | **$ 85,980,731** |

[(1)] The digital asset balance as of December 31, 2020 and 2019 includes $386.6 million and $32.1 million, respectively, of digital assets that are held in funds that are managed by the Partnership. The amount of the funds' digital assets held by the Partnership via its General Partner interest at December 31, 2020 and 2019 was $98.9 million and $25.3 million, respectively.

Cryptocurrency: Digital assets that are typically part of a decentralized system of recording transactions and issuance of new units and that rely on cryptography to secure its transactions, to control the creation of additional units, and to verify the transfer of assets. The Partnership holds both unrestricted and restricted cryptocurrency, as defined below.

> Unrestricted – Digital assets held by the Partnership, typically acquired through direct purchase or via pre-ICO investment whereby the related company or project has completed its token generated event or ICO and distributes such digital assets to the holder.
>
> Restricted – Certain digital assets held by the Partnership can be restricted due to a lock-up schedule. In addition, the Partnership may participate in a proof of stake program where certain digital assets will be committed to the program and restricted for a certain period of time.

During the years ended December 31, 2020 and 2019, the Partnership engaged in several trading strategies with respect to its digital assets, including cross-exchange arbitrage as well as market neutral trading strategies across a variety of crypto assets and exchanges. Realized gains and losses are recognized in profit or loss.

The Partnership's realized gain or loss on a digital asset is calculated as the proceeds received from the sale of the digital asset less its assigned original cost. The Partnership's unrealized gain or loss on a digital asset consists of both the change in fair value on a digital asset from the beginning of the year and the reversal of any previously recognized unrealized gain or loss on a digital asset sold during the year.

(Expressed in US Dollars)

**Digital assets receivables**

Digital assets receivables relate to certain digital assets that are yet to be distributed to the Partnership as of year end and which are expected to be distributed over time according to a release schedule (generally via a token sale agreement). As the digital assets are received by the Partnership, they will be reclassed to digital assets.The unrealized gains or losses on the digital assets receivables are recognized in net unrealized gain (loss) on digital assets. As at December 31, 2020 the Partnership has $12,813,006 (December 31, 2019 - $nil) in short-term digital assets receivables and $6,911,175 (December 31, 2019 - $nil) in long-term digital assets receivables.

**Digital asset trades**

As of December 31, 2020 and 2019, there were a number of unsettled trades. The amounts receivable and payable were $13,204,252 (December 31, 2019 - $330,609) and $31,144,419 (December 31, 2019 - $250,158), respectively.

## 8. INVESTMENTS

**Investments**

The Partnership's holdings of investments generally are not traded in active markets. Investments are accounted for as financial assets which are initially recognized at fair value and subsequently measured at fair value through profit or loss. Below are the Partnership's investments as of December 31, 2020 and 2019:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Common Stock | $ 29,970,097 | $ 32,476,631 |
| Convertible Notes | 4,501,295 | 5,255,579 |
| LP/LLC Interests | 84,311,034 | 38,120,805 |
| Pre-ICO | 500,000 | 6,005,114 |
| Preferred Stock | 86,258,050 | 75,703,153 |
| Warrants/Trust Units/Trust Shares | 54,842,821 | 602,138 |
| | **$ 260,383,297** | **$ 158,163,420** |

Common Stock: Class of ownership in a corporation that entitles the holders to a claim on the assets and future earnings of the corporation, as well as certain voting and governance rights over the operations of the corporation.

Convertible Notes: Class of debt that entitles the holders to convert such debt into equity of the issuer under certain circumstances.

Limited Partnership / Limited Liability Company Interests: Class of ownership in a limited partnership or limited liability company that entitles the holders to a claim on the assets and future earnings of the limited partnership or limited liability company, as well as certain voting or governance rights over the operations of the limited partnership or limited liability company.

Pre-ICO: Contributions made to companies or start-up blockchain projects, typically documented via a SAFE-T, that entitles the holder to receive cryptocurrency at a future date once the related company or project has completed its token generated event or ICO.

Preferred Stock: Class of ownership in a corporation that typically entitles the holder to a priority claim on the assets and future earnings of the corporation above that of common stock holders, as well as certain voting and governance rights over the operations of the corporation.

Warrants/ Trust Units/ Trust Shares: Warrants represent a security that entitles the holders to purchase the underlying stock of the issuing company at a pre-determined price until the stated expiry date. Trust units are a class of ownership in a unit trust (typically an unincorporated mutual fund) that entitles the holders to a claim on the assets and future earnings of the trust as well as certain voting and governance rights over the operations of the trust. Trust shares represent investments in traditional investment vehicles that enable investors to gain exposure to price movements of underlying assets.

(Expressed in US Dollars)

**Continuity schedule of investments**

The below table shows components of the change in investments for the years ended December 31, 2020 and 2019:

| | Investments |
|---|---|
| **Balance as at December 31, 2018** | **$ 179,365,696** |
| Purchases | 29,739,820 |
| Proceeds from investments[(i)] | (75,597,801) |
| Transfer to digital assets | (1,100,000) |
| Net realized gain on investments | 37,922,360 |
| Net unrealized loss on investments | (12,521,148) |
| Other[(ii)] | 354,493 |
| **Balance as at December 31, 2019** | **$ 158,163,420** |
| Purchases | 39,295,313 |
| Proceeds from investments[(i)] | (34,768,217) |
| Distribution | (590,723) |
| Transfer to digital assets | (1,699,532) |
| Net realized gain on investments | 10,795,869 |
| Net unrealized gain on investments | 91,161,249 |
| Other[(ii)] | (1,974,082) |
| **Balance as at December 31, 2020** | **$ 260,383,297** |

[(i)] Proceeds from investments for the year ended December 31, 2020, reflect the proceeds from the sale of preferred stock and common stock of companies. Proceeds from investments for the year ended December 31, 2019, reflect the proceeds received from the tender of a portion of the Partnership's investment in the ordinary shares of Block.one, the sale of common stock of another company and a return of an investment.

[(ii)] Other includes capitalized interest and accretion of a discount from the issuance of convertible notes offset by the dissolution of a promissory note upon the Partnership's acquisition of Drawbridge (Note 6).

The Partnership's realized gain or loss on an investment is calculated as the proceeds received from the sale of the investment less its original cost. The Partnership's unrealized gain or loss on an investment consists of both the change in fair value on an investment from the beginning of the year and the reversal of any previously recognized unrealized gain or loss on an investment sold during the year.

**Investments Sold Short**

Investments sold short are accounted for as financial liabilities, which are initially recognized at fair value and subsequently measured at fair value through profit or loss. The fair value and unrealized loss of the Partnership's investments sold short as of December 31, 2020 was $4,384,290 and $574,137, respectively. The Partnership did not have holdings of investments sold short as of December 31, 2019.

The Partnership's realized gain or loss on an investment sold short is calculated as the proceeds received from the repurchase of the investment sold short less the original cost to borrow. The Partnership's unrealized gain or loss on an investment sold short consists of both the change in fair value on an investment sold short from the beginning of the year and the reversal of any previously recognized unrealized gain or loss on an investment sold short during the year.

(Expressed in US Dollars)

### 9. DERIVATIVES

For the year ended December 31, 2020 and 2019, the Partnership recognized $5,699,318 and $12,425,065, respectively, of net derivative gain. The net gains for the year ending December 31, 2020 were due to positioning, economic hedging and as part of a trading strategy.

The breakdown of the Partnership's derivatives portfolio, including their respective maturity, as of December 31, 2020 and 2019 are as follows:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Type of Derivative** | **Notional Amount** | **Fair Value** | **Notional Amount** | **Fair Value**[2] |
| BTC futures | $ 92,986,336 | $(2,634,910) | $ 2,386,395 | $ (4,548) |
| Commodity futures[1] | — | — | 304,620 | (12,030) |
| BTC swaps | 12,439,486 | (23,680) | | |
| Digital currency forwards | 850,000 | 87,362 | 96,508 | 2,336 |
| Digital currency options | 163,023,022 | 18,639,542 | 6,061,608 | 21,318 |
| Digital currency futures | 28,171,210 | 89,722 | | |
| Digital currency swaps | 10,288,449 | (86,205) | 1,682,517 | 9,559 |
| Foreign currency swaps | 4,537,841 | (17,221) | 4,552,700 | (17,775) |
| Nasdaq futures | 10,823,820 | (264,163) | — | — |
| Exchange traded digital currency options[3] | 470,075 | 131,171 | — | — |
| | **$323,590,239** | **$15,921,618** | **$ 15,084,348** | **$ (1,140)** |

[1] Futures on gold, which are used as a hedge against a digital currency.
[2] Included in prepaid expenses and other assets (Note 12).
[3] Exchange traded digital currency options are traded on a traditional financial exchange.

| | December 31, 2020 | | |
|---|---|---|---|
| | | Term to Maturity | |
| **Type of Derivative** | **Within 1 year** | **1 through 5 years** | **Over 5 years** |
| BTC futures | $ (2,634,910) | $ — | $ — |
| BTC swaps | (23,680) | — | — |
| Digital currency forwards | 87,362 | — | — |
| Digital currency options | 18,639,542 | — | — |
| Digital currency futures | 89,722 | — | — |
| Digital currency swaps | (86,205) | — | — |
| Foreign currency swaps | (17,221) | — | — |
| Nasdaq futures | (264,163) | — | — |
| Exchange traded digital currency options | 131,171 | — | — |
| | **$ 15,921,618** | $ — | $ — |

(Expressed in US Dollars)

As of December 31, 2020, in connection with the open digital currency options, counterparties had posted cash collateral of $262,519 (December 31, 2019 - $336,749) and cryptocurrency collateral of $22,329,085 (December 31, 2019 - $2,101,661). The cash collateral has been reflected in the Partnership's cash balance with a corresponding entry to collateral payable on the statement of financial position. Cryptocurrency posted as collateral of $11,509,402 is reflected in the digital assets balance (Note 7) with a corresponding entry to collateral payable on the statement of financial position as the Partnership is entitled to utilize the collateral. The remaining $10,819,683 cryptocurrency collateral is not reflected on the Partnership's statement of financial position as the Partnership is not entitled to utilize the collateral posted and is held in escrow.

The digital currency options are deemed to be Level 3 assets as one or more of the inputs are unobservable and significant to their fair value measurement. The fair value of the digital currency options is generally primarily driven by the volatility of the underlying digital currency. An increase in volatility generally increases the value of the option, while a decrease will generally decrease its value. The volatility of the underlying digital currency options held at December 31, 2020 ranged from 90% to 210%.

## 10. RECEIVABLES

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Interest receivable | $ 1,050,078 | $ 219,706 |
| Other [(i)] | 1,660,346 | 1,633,463 |
| | **$ 2,710,424** | **$ 1,853,169** |

[(i)] Includes $0.31 million (December 31, 2019 - $1.2 million) due to the Partnership from managed funds. These amounts represent expenses incurred by the funds that were paid on their behalf by the Partnership.

## 11. DIGITAL ASSET LOANS RECEIVABLE AND PAYABLE

In the ordinary course of business, the Partnership generally enters into facilities to borrow cryptocurrencies in order to lend to counterparties, thus earning a return through the spread between its borrowing and lending rates. From time to time, the Partnership has also borrowed as part of a trading strategy. In addition, the Partnership may, on occasion, lend cryptocurrencies using its holdings.

**Digital asset loans receivable**

During the year ended December 31, 2020, the Partnership loaned select cryptocurrencies to borrowers at annual rates ranging from 3% to 17%. There is no set term for the loans and the borrower can prepay without penalty. In addition, the Partnership can generally demand the repayment of the loans at any time by providing between three to twenty business days notice. The borrower is generally required to post collateral between 0% to 150% of the loan value in either US dollars or select cryptocurrencies.

As of December 31, 2020, the Partnership had a digital asset loans receivable balance of $96,723,981 (December 31, 2019 - $16,061,945).

As of December 31, 2020, borrowers had posted cash collateral of $287,254 (December 31, 2019 - $434,498), cryptocurrency collateral of $25,260,639 (December 31, 2019 - $2,624,687) and pledged cryptocurrency collateral of $1,450,086 (December 31, 2019 - $nil) and trust share collateral of $70,758,981 (December 31, 2019 - $nil). Under the terms of the master loan agreements, the Partnership is entitled to use the cash collateral to conduct its digital currency lending and borrowing business and therefore has reflected the amount in the Partnership's cash balance with a corresponding entry to collateral payable on the statement of financial position. In addition, the Partnership is entitled to utilize the cryptocurrency posted as collateral by borrowers and therefore, has reflected this amount within its digital assets with corresponding entry to collateral payable on the statement of financial position. In contrast, the cryptocurrency and trust share collateral pledged as collateral by the borrowers has no impact on the Partnership's statement of financial position as the Partnership is not entitled to utilize the pledged amounts unless there is an event of default. The value of the cryptocurrency received as collateral has been netted with the obligation to return the cryptocurrency. In the prior year, the Partnership was not entitled to utilize the cryptocurrency posted as collateral by borrowers and therefore, unless there was an event of default by the borrower, the cryptocurrency posted as collateral by the borrowers had no impact on the Partnership's statement of financial position. The value of the cryptocurrency received as collateral was netted with the obligation to return the cryptocurrency.

(Expressed in US Dollars)

**Digital asset loans payable**

As of December 31, 2020 and December 31, 2019 digital asset loans payable consisted of the following:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Master loan agreements | $ 207,898,948 | $ 11,134,329 |
| Credit facility from exchange | 18,500,000 | — |
| | **$ 226,398,948** | **$ 11,134,329** |

Master Loan Agreements

During the year ended December 31, 2020, the Partnership entered into master loan agreements with lenders and counterparties to borrow select cryptocurrencies at annual rates of interest ranging from 2% to 14%. For most of the loans, there is no set term of repayment and the Partnership can prepay the loans without penalty. In addition, the lenders can generally demand the repayment of the loans at any time by providing between five to twenty business days notice. The Partnership is generally required to post collateral between 0% to 100% of the loan value in either US dollars or in select cryptocurrencies.

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Digital assets borrowed | $ 213,176,826 | $ 46,894,236 |
| Digital assets sold short (i) | (5,277,878) | (18,616,860) |
| Digital assets borrowed but not used (ii) | — | (17,143,047) |
| Master Loan Agreements | $ 207,898,948 | $ 11,134,329 |

(i) See Note 16 for disclosure on digital assets sold short. The digital assets sold short balance above reflects the net traded balance of the cryptocurrency borrow.

(ii) For cryptocurrencies borrowed but not used as of the end of the period, the Partnership has no net exposure. For cryptocurrencies borrowed and used by the Partnership for its different business activities, the digital assets borrowed are reflected in the statement of financial position.

As of December 31, 2020, the Partnership posted cash and cryptocurrency collateral of $nil (December 31, 2019 - $2,377,166) and $15,624,879 (December 31, 2019 - $8,208,653), respectively, for digital asset loans payable. The total collateral posted by the Partnership of $15,768,380 (December 31, 2019 - $10,585,819) includes $143,501 cash collateral posted for digital currency options and is reflected as assets posted as collateral on the statement of financial position.

During the year ended December 31, 2020, the Partnership paid interest expense of $7.8 million (2019 - $2.3 million) and received interest income of $5.5 million (2019 - $0.7 million) in connection with the aforementioned lending and borrowing activity.

Credit Facility from Exchange

The Partnership has entered into credit facilities with certain exchanges and uses credit facilities provided within exchange accounts to conduct trading activity. In accordance with policy of the exchange, four arrangements of these arrangements were not pursuant to a formal credit facility agreement and are managed automatically on the trading platform. Two arrangements were pursuant to a formal agreement requiring the Partnership to post collateral of 10-25% in conjunction with the amounts drawn. These credit facilities are restricted from withdrawals from exchange accounts and bear interest rates ranging from 0% to 3.65% annually. The total amount extended under these credit facilities as at December 31, 2020 is $2,185,000 in cash and $99,600,419 in digital assets. As at December 31, 2020 $18,500,000 has been included in digital asset loans payable as the balance must be repaid in a specific currency that the Partnership does not have on hand. The remaining cash and digital asset credit facility balances of $2,185,000 and $81,100,419, respectively, have no impact on the Partnership's statement of financial position as the value of the cash and cryptocurrency extended has been netted with the obligation to return.

(Expressed in US Dollars)

## 12. PREPAID EXPENSES AND OTHER ASSETS

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Prepaid payroll funding and deposit | $ 900,000 | $ 900,000 |
| Prepaid rent and security deposits | 484,398 | 96,689 |
| Prepaid insurance | 312,090 | 380,837 |
| Other[1, 2] | 4,797,265 | 1,186,139 |
| | **$ 6,493,753** | **$ 2,563,665** |

[1] Includes the Partnership's net derivative position of ($1,140) as of December 31, 2019 (Note 9).

[2] Includes $2,649,829 for prepaid mining equipment and a $1,000,000 deposit as of December 31, 2020.

## 13. LOANS RECEIVABLE

The loans receivable balance includes the following loans:

**Fiat currency loans**

In the ordinary course of business the Partnership may lend fiat currency, such as US dollars, to counterparties to facilitate other digital asset trading and lending activity.

During the year ended December 31, 2020, the Partnership loaned fiat currencies to borrowers at annual rates ranging from 0% to 15%. There is no set term for the loans and the borrower can prepay without penalty. The borrower is generally required to post collateral in escrow between 0% to 150% of the loan value in select cryptocurrencies.

As of December 31, 2020, the Partnership had loans receivable balance of $8,509,587 (December 31, 2019 - $nil) of which the respective borrowers had posted cryptocurrency collateral of $7,340,335 and pledged $11,687,693 of cryptocurrency collateral (December 31, 2019 - $nil). The Partnership is entitled to utilize the cryptocurrency posted as collateral by borrowers and therefore, has reflected this amount within its digital assets with corresponding entry to collateral payable on the statement of financial position. In contrast, the cryptocurrency pledged as collateral by the borrowers has no impact on the Partnership's statement of financial position as the Partnership is not entitled to utilize the pledged cryptocurrency unless there is an event of default. The value of the cryptocurrency received as collateral has been netted with the obligation to return the cryptocurrency.

**Galaxy Lending SPV I LLC loans**

Galaxy Lending SPV I LLC (the "SPV") is a special purpose vehicle created to buy and house crypto-backed loans from a secured non-bank lender ("Non-bank Lender") that offers US dollar loans to cryptoasset owners who collateralize the loan with their cryptoassets. The SPV is owned 95% (2019 - 95%) by Galaxy Digital Lending LLC ("GDL") and 5% (2019 - 5%) by the Non-bank Lender.

At December 31, 2020, the SPV had outstanding loans of $nil (December 31, 2019 - $11,484,651). For the year ended December 31, 2020 and 2019, the Partnership recognized interest income of $363,063 and $900,172, respectively, on the loans.

**Loans purchased from a digital asset lending company**

During the year ended December 31, 2020, the Partnership purchased loans extended by a digital asset lending, borrowing and investment management company with a principal balance of $12,500,000 for $12,371,542. As of December 31, 2020, the loans were repaid in full. The loans carried an interest rate of either 13% or 15% and were fully collateralized. For the year ended December 31, 2020, the Partnership recognized interest income of $252,500, respectively, on the loans extended.

**Term loan to a cryptocurrency mining and blockchain infrastructure company**

On September 10, 2018, the Partnership provided a loan of $16,000,000 par amount to a cryptocurrency mining and blockchain infrastructure company (the "Borrower"). The term of the loan was 2.5 years with a maturity on March 10, 2021. The interest rate on the loan was generally the London Interbank Borrowing Rate ("LIBOR") and an applicable margin of 10%.

The Partnership also charged a lender's fee of 2% of the loan's par amount. The Partnership received detachable warrants to purchase 2,222,222 common shares of the Borrower at an exercise price of C$4.50 and an expiration of September 10, 2023. The warrants are accounted as a separate financial asset and are included in Investments as at December 31, 2020.

(Expressed in US Dollars)

On November 20, 2019, the term loan was fully repaid. The borrower paid the principal amount of $16,000,000, outstanding accrued and unpaid interest of $42,914, and prepayment fees of $240,000.

For the year ended December 31, 2019, the Partnership recognized interest income of $2,076,133 on the loan.

| | | |
|---|---|---|
| **Balance as of December 31, 2018** | $ | 15,693,341 |
| Prepayment of loan | | (16,000,000) |
| Accretion of loan origination fee | | 306,659 |
| **Balance as of December 31, 2019** | **$** | **—** |

**First Block Capital Inc. Promissory Note**

The Partnership had a promissory note held with First Block Capital Inc., acquired for $146,368. The loan was unsecured, bore interest at 5% compounded annually, and was repayable in full plus interest on its maturity date of November 30, 2019. The loan was initially recorded at its estimated fair value using a presumed market interest rate of 20% to reflect the risk profile attached to the loan. In 2018, the borrower repaid C$100,000.

On November 26, 2019, the loan was fully repaid. The borrower paid the principal amount of C$250,000, and outstanding accrued and unpaid interest of C$26,970.

**IPowow International Corporation ("IPowow") Promissory Note**

The Partnership had a promissory note held with IPowow, acquired for $196,643. The loan plus accrued interest is repayable on the earlier of May 21, 2020 or an event of default. The loan is pursuant to a general security agreement dated May 23, 2018. The loan bears interest at 12% per annum, and is payable quarterly. If IPowow is unable to repay the quarterly interest out of its cash flow, interest will accrue at 14% per annum. If IPowow has an event of default, interest will be calculated at 16% per annum. Based on an update provided by IPowow, the Partnership recorded a bad debt expense against the outstanding loan balance of $239,883 (outstanding balance at December 31, 2019 - $235,087) in fiscal 2020 (Note 22).

**14. PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSET**

| | Furniture & Fixtures | Office Equipment | Computer Equipment | Leaseholds Improvements[ii] | Total Property and Equipment | Right of Use Asset[i] |
|---|---|---|---|---|---|---|
| **Balance as of December 31, 2018** | $ 619,628 | $ 13,753 | $ 384,428 | $ 3,205,443 | $ 4,223,252 | $ — |
| Additions | 10,477 | — | 155,514 | 237,184 | 403,175 | 5,732,426 |
| Depreciation | (70,249) | (2,662) | (94,741) | (366,041) | (533,693) | (549,433) |
| Other | (35,072) | — | — | — | (35,072) | — |
| **Balance as of December 31, 2019** | **$ 524,784** | **$ 11,091** | **$ 445,201** | **$ 3,076,586** | **$ 4,057,662** | **$ 5,182,993** |
| Additions | — | — | 108,746 | — | 108,746 | — |
| Depreciation | (59,562) | (2,662) | (126,750) | (361,952) | (550,926) | (609,764) |
| Other[iii] | — | — | 77,819 | — | 77,819 | — |
| **Balance as of December 31, 2020** | **$ 465,222** | **$ 8,429** | **$ 505,016** | **$ 2,714,634** | **$ 3,693,301** | **$ 4,573,229** |

[i] On January 1, 2019, the Partnership adopted IFRS 16.

[ii] Leasehold improvements primarily relate to expenditures for renovation and build out of office space, architect and design costs.

[iii] Fixed assets acquired through acquisition.

## 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Compensation and compensation related | $ 12,720,291 | $ 7,682,508 |
| Professional fees | 2,236,194 | 1,719,410 |
| Interest | 1,723,117 | 198,747 |
| Other[(i)] | 17,474,176 | 2,118,829 |
| | **$ 34,153,778** | **$ 11,719,494** |

[(i)] Includes redemptions payable to non-controlling interests of partnership managed funds of $13.4 million as of December 31, 2020.

## 16. DIGITAL ASSETS SOLD SHORT

In the ordinary course of business, the Partnership enters into facilities or master loan agreements to borrow cryptocurrencies to facilitate trading. For certain of those cryptocurrencies, the Partnership has taken a strategy to short the borrowed cryptocurrency. In those instances, these borrowings have been reflected as digital assets sold short on the statement of financial position. In addition, from time to time, the Partnership sells cryptocurrencies that it does not hold in its inventory or that it has not borrowed. The Partnership will then, at a later date, buy the respective cryptocurrencies to close out the transaction. Such sales have also been reflected as digital assets sold short.

Realized gains and losses are recognized only on a purchase of the identical asset made in order to close out the future position at the settlement date. All other trading activity is recognized in unrealized gains and losses.

### November 2018 Facility

On November 20, 2018, the Partnership entered into a revolving cryptocurrency facility ("November 2018 Facility"), whereby the Partnership may borrow certain cryptocurrencies from a counterparty. Under the November 2018 Facility, interest of 10.0% per annum was payable on the borrowed cryptocurrencies in such cryptocurrency. There was an additional fee for the facility of 0.125% of the total value of the facility, payable each quarter in US dollars. The November 2018 Facility was terminated in the second quarter of 2019 and the cryptocurrencies outstanding were rolled into new master loan agreements with the counterparty. See Master Loan Agreements section for more detail (Note 11).

During the years ended December 31, 2019, the Partnership recognized $0.7 million in interest expense related to the November 2018 Facility.

### Master Loan Agreements

During the years ended December 31, 2020 and 2019, the Partnership entered into master loan agreements with lenders to borrow select cryptocurrencies.

As of December 31, 2020, the digital assets sold short balance under the master loan agreements (Note 11) was $5,277,878 (December 31, 2019 - $18,616,860).

## 17. LEASE LIABILITY

| **Lease liability** | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Lease liability | $ 5,257,722 | $ 5,519,217 |
| Less: current portion | (742,333) | (772,003) |
| **Classified as a long-term liability** | **$ 4,515,389** | **$ 4,747,214** |

| **Undiscounted lease payments** | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Later than a year | $ 7,146,891 | $ 8,130,185 |
| Not later than a year | 983,295 | 911,297 |
| | **$ 8,130,186** | **$ 9,041,482** |

The Partnership adopted IFRS16 - Leases and recognized $4.8 million of lease liability on January 1, 2019. The lease liability was measured at the present value of the remaining lease payments of $8.3 million as of January 1, 2019, discounted using an incremental borrowing rate at that date of 12%. The Company recorded a right of use asset of the same amount (Note 14) which relates to its long-term office lease. Depreciation of the right of use asset is calculated using the straight line method over the remaining lease term.

In addition, effective August 1, 2019, the Partnership recognized $0.9 million of lease liability related to another lease agreement which became effective during the year. The lease liability was measured at the present value of the lease payments of $1.6 million as of August 1, 2019, discounted using an incremental borrowing rate at that date of 12%. The Company recorded a right of use asset of the same amount (Note 14) for this lease. Depreciation of the right of use asset is calculated using the straight line method over the remaining lease term.

Details of the above leases are disclosed in Note 27.

For the year ended December 31, 2020, the Partnership recognized interest expense on the lease liability of $649,802 (2019 - $612,603), which was recorded within interest expense.

The Partnership elected not to apply the new lease standard to short term leases with an initial term of 12 months or less but rather recognize the lease expense on a straight line basis. The Partnership leases office space in London, Hong Kong and Tokyo on short term leases with initial terms of 12 months or less. For the year ended December 31, 2020, the Partnership recognized $357,455 (2019 - $425,322) of lease expense, classified within occupancy of general and administrative expenses (Note 22), related to those short term leases.

## 18. EQUITY

### Issued Partnership Capital

GDH LP has two classes of ownership interests, representing limited partner interests:

(i) GDH LP Class A Units, which were subdivided into GDH LP A-1 Units, all of which are held by GDH Ltd., and GDH LP A-2 Units, all of which are held indirectly by GDH Ltd., through GDH Ltd.'s wholly owned U.S. blocker subsidiary, GDH Intermediate LLC, which was established as a tax-efficient blocker corporation or similar entity for U.S. tax purposes; and

(ii) GDH LP Class B Units, all of which are held by GGI, employees of GDH LP as part of the GDH LP employee compensation plan and certain former First Coin shareholders.

The GDH LP Class A Units and GDH LP Class B Units generally rank pari passu as to all distributions from GDH LP and they otherwise rank equally in all material respects, including from an economic and from a voting perspective.

Under the terms of the LPA, GDH LP Class B Units will, subject to certain limitations, be exchangeable for GDH Ltd. shares on a one-for-one basis subject to customary adjustments for stock splits, stock dividends and reclassifications and other similar transactions or, at the election of GDH LP, GDH LP may deliver an amount of cash in lieu of GDH Ltd. shares to an exchanging GDH LP Class B Unit holder. On receipt of a request to exchange, the Partnership or the General Partner will cancel the Class B Units and will cause GDH Ltd. to issue common shares. In addition, GDH LP will issue Class A Units.

### Private Investment in Public Equity ("PIPE")

On November 12, 2020 (the "Closing"), GDH Ltd. closed a PIPE of $50 million of aggregate gross proceeds ($49,277,614 net of cash share issuance costs of $722,386). As part of the PIPE, GDH Ltd. issued 19,070,000 shares and 4,767,500 warrants. Each share was accompanied by a warrant to purchase 0.25 of an ordinary share ("security") and each security was issued at a price of C$3.50. Each warrant is exercisable into an ordinary share of the Company for a term of two years from the date of issuance at an exercise price of C$8.25. All securities issued pursuant to the PIPE will be subject to certain selling restrictions set forth in the investment agreements. The investment agreements provide that: (i) no sales are permitted during the first six months from the Closing; (ii) sales of up to 33.3% of total shares issued are permitted seven to nine months after the Closing, subject to a maximum daily sale participation of no more than 10% of daily traded volume; (iii) sales of up to 66.6% of the total shares issued are permitted ten to twelve months after the Closing, subject to a maximum daily sale participation of no more than 10% of daily traded volume; and (iv) until eighteen months after the Closing, all shares remain subject to a daily selling restriction of no more than 10% of daily traded volume. The selling restrictions terminate upon certain corporate actions by GDH Ltd.

Under the terms of the LPA, the Partnership will issue a Class A Unit for each GDH Ltd. common share issued and any liability associated with the warrant will be pushed down to the Partnership. On initial recognition, the warrants were valued at $6,463,082 and are recorded as a derivative financial liability as these warrants are exercisable in Canadian dollars, differing from the Partnership's functional currency. As at December 31, 2020 the value of the warrant liability is $20,781,207 and the loss recognized in the statement of comprehensive income for the year ended December 31, 2020 is $14,318,125.

The fair value of the warrant liability is calculated using the Black-Scholes Option Pricing Model. A continuity table for the change in the liability-classified warrant and the inputs used to value the warrant liability as at issuance date and December 31, 2020 are included in Note 25. These are the only warrants outstanding in GDH Ltd.

**Issued Capital**

<u>Class A Units</u>

During the year ended December 31, 2020, the Partnership issued 28,212,964 (2019 - 2,834,669) Class A Units, post withholding taxes, to GDH Ltd. on exchange of Class B Units, issuance of Class A Units to GDH Ltd. on exercise of stock options, issuance of Class A Units as a result of the PIPE and issuance of Class A Units as consideration for the business combinations (Note 6).

In fiscal 2019, GDH Ltd. received approval from its Board of Directors and TSX-V to purchase up to approximately 7.3% of its issued and outstanding ordinary shares and 10% of its public float (the "Share Repurchase Program"). All shares were purchased for cancellation. On the repurchase of the shares of GDH Ltd., an equivalent number of Class A Units in GDH LP was cancelled.

GDH Ltd. began repurchasing shares on October 2, 2019. GDH Ltd. repurchased a total of 3,600,997 shares for a total cost of C$3.9 million ($2,874,622) for the year ended December 31, 2020. Shares repurchased from October 2, 2019 through April 17, 2020 were 4,916,431 for a total cost of C$5.5 million. All repurchased shares of GDH Ltd. and the equivalent number of Class A Units in the Partnership were cancelled. Effective April 17, 2020, GDH Ltd. completed its normal course issuer bid program repurchases.

<u>Class B Units</u>

During the year ended December 31, 2020, 3,469,661 (2019 - 2,834,669) Class B Units were exchanged for common shares of GDH Ltd. The number of Units exchanged is after the withholding and cancellation of 20,951 (2019 - 193,242 ) Class B Units, associated with the withholding obligation on the vested compensatory Class B Units.

As of December 31, 2020, there were 91,248,507 (December 31, 2019 - 66,636,540) Class A Units and 222,905,934 (December 31, 2019 - 219,332,907) Class B Units outstanding. The change during the year ended December 31, 2020 was due to exchanges of Class B Units for common shares of GDH Ltd. (and into Class A Units of GDH LP), vesting of Class B Units awarded, cancelled Class A Units on repurchase of GDH Ltd. shares, issuance of Class A Units on exercise of options, issuance of Class A Units as a result of the PIPE and issuance of Class A Units as consideration for the business combinations (Note 6).

**Distributions**

In June 2020, the board of the General Partner approved a tax distribution of up to $2.5 million in respect of taxable income related to tax year 2019 and estimated taxable income related to tax year 2020. As of December 31, 2020, the Partnership distributed $1,932,121 of the approved amount, of which $219,017 is included in other accrued liabilities at year end. Certain of the recipients of the tax distributions are related parties (Note 23).

(Expressed in US Dollars)

**Equity Based Compensation**

The Partnership has awarded compensatory Class B Units and stock options (equity instruments) to eligible officers and employees. For the year ended December 31, 2020 and 2019, equity based compensation expense was recognized as follows:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Stock options | $ 4,503,099 | $ 11,195,999 |
| Restricted Stock | 65,175 | |
| Compensatory Class B Unit awards [(i)]: | | |
| Standard Units | 112,885 | 9,247,778 |
| Profit Interest Units | 6,936,807 | 7,242,022 |
| Class B Units to First Coin | — | 445,361 |
| Stock options awarded to directors: | | |
| Included in equity based compensation | 233,154 | — |
| | 11,851,120 | 28,131,160 |
| Stock options awarded to directors included in director fees | 148,522 | — |
| | **$ 11,999,642** | **$ 28,131,160** |

[(i)] 2019 includes a cash payment of $226,530.

Compensatory Class B Unit Awards and Stock Option Plan

The Partnership has awarded Class B Unit awards and stock options (equity instruments) to eligible officers and employees.

*Compensatory Class B Unit Awards*

2020

On December 15, 2020, the Partnership transferred 980,932 Class B Units of GDH LP to certain officers and employees as compensation. The Class B Units transferred were comprised of 19,068 Standard Units and 961,864 Profit Interest Units. The terms of the Class B Units are as follows:

- Standard Units - 19,068 of the Standard Units vested 100% on December 15, 2020. Once vested, each Standard Unit can be exchanged for one share of GDH Ltd. for no additional consideration. The fair value of the Standard Units transferred, measured as of the grant date, was $91,078 (or approximately $4.7765 per Standard Unit) based on the 10-day volume weighted average share price of GDH Ltd. from December 2, 2020 through December 15, 2020 ("10-day WA") and on the number of Standard Units expected to vest (100%). The fair value was recognized in 2020.
- Profit Interest Units - 355,932 of the Profit Interest Units vest on December 15, 2020, 15,226 vest on December 1, 2021, 390,226 vest on December 1, 2022, 185,255 vest on December 1, 2023 and 15,226 vest on December 1, 2024. Once a Profit Interest Unit has vested and has been fully "caught up", such Profit Interest Unit may be exchanged for one share of GDH Ltd. for no additional consideration. The fair value of the Profit Interest Units granted was $3,501,531 (or approximately $3.8325 per Profit Interest Unit). The fair value of the Profit Interest Units was estimated using the probability-weighted expected return method. In applying this method, a payoff was determined for a Profit Interest Unit under three potential scenarios, each payoff was weighted by an estimated probability of the corresponding scenario, and then the probability-weighted payoffs were discounted to the date of grant and summed. The scenarios, probabilities, and other inputs into the model consider, among other things, the results of a one-period trinomial model, the results of a standard Black-Scholes option pricing model under different assumptions, and the estimated fair value of a common share of GDH Ltd. The scenarios probability ranged from 5% to 65%, the annual discount rate used was 0.50%, the term used was 5.04 years, and the share price used ranged from C$0 to C$100. The number of Profit Interest Units expected to vest ranged from 90% to 100%.

(Expressed in US Dollars)

2019

On January 30, 2019, the Partnership transferred 5,280,695 Class B Units of GDH LP to certain officers and employees as compensation. The Class B Units transferred are comprised of 1,521,558 Standard Units and 3,759,137 Profit Interest Units. The terms of the Class B Units are as follows:

- Standard Units - 1,233,422 of the Standard Units vest 50% on each of February 1, 2019 and September 1, 2019. For 288,136 of the Standard Units, 250,000 vest on September 1, 2019 and 38,136 vest on September 1, 2020. Once vested, each Standard Unit can be exchanged for one share of GDH Ltd. for no additional consideration. The fair value of the Standard Units transferred, measured as of the grant date, was $1,703,451 (or approximately $1.1561 per Standard Unit) based on the 10-day volume weighted average share price of GDH Ltd. from January 17, 2019 through January 30, 2019 ("10-day WA") and on the number of Standard Units expected to vest (87.5% to 100%). The fair value will be recognized over the vesting period.
- Profit Interest Units - 3,047,273 of the Profit Interest Units vest 50% on each of September 1, 2020 and September 1, 2021. For 711,864 of the Profit Interest Units, 211,864 vest on September 1, 2020, while 250,000 vest on each of September 1, 2021 and September 1, 2022. Similar to the July 31, 2018 grants, once a Profit Interest Unit has vested and has been fully "caught up", such Profit Interest Unit may be exchanged for one share of GDH Ltd. for no additional consideration. The fair value of the Profit Interest Units granted was $2,686,791 (or approximately $0.8485 per Profit Interest Unit). The fair value of the Profit Interest Units was estimated using the probability-weighted expected return method. In applying this method, a payoff was determined for a Profit Interest Unit under three potential scenarios, each payoff was weighted by an estimated probability of the corresponding scenario, and then the probability-weighted payoffs were discounted to the date of grant and summed. The scenarios, probabilities, and other inputs into the model consider, among other things, the results of a one-period trinomial model, the results of a standard Black-Scholes option pricing model under different assumptions, and the estimated fair value of a common share of GDH Ltd. The scenarios probability ranged from 2.50% to 70%, the annual discount rate used was 1.85%, the term used was 5.92 years, and the share price used ranged from C$0 to C$50. The number of Profit Interest Units expected to vest ranged from 77.5% to 87.5%.

The following table summarizes the activity related to the compensatory Class B Units during the respective periods:

| Description | Class B Units |
|---|---|
| Balance, December 31, 2018 | 28,165,507 |
| Granted/ Transferred [i] | 5,280,695 |
| Exchanged | (1,969,594) |
| Forfeited/ Transferred | (12,871,818) |
| Balance, December 31, 2019 | 18,604,790 |
| Transferred | 980,932 |
| Exchanged | (3,129,727) |
| Forfeited | (20,951) |
| Forfeited/ Transferred | (980,932) |
| Balance, December 31, 2020 | 15,454,112 |
| | |
| Class B Units exercisable, December 31, 2020 | 8,966,429 |
| Class B Units exercisable, December 31, 2019 | 5,042,517 |

[i] Relates to the transfer of Class B Units to existing employees from terminated employees.

Under the terms of the LPA, the General Partner may elect, at its sole discretion, to pay an amount of cash equal to the current market price of the applicable number of shares in lieu of delivering the applicable number of shares. However, as the Partnership does not have a present obligation to settle in cash, the Class B Units are accounted for as equity settled awards.

*Equity Plan*

The Partnership has granted stock options to employees, officers, directors and consultants of the Partnership under the GDH Ltd. stock option plan (the "Plan"), subject to the approval of the board of directors of GDH Ltd. Under the Plan, the number of stock options granted to any person within a one-year period will not exceed 5% and the number granted to those individuals considered consultants or providing investor relations services may not exceed 2% in a one-year period, in each case on a fully exchanged basis. In addition, the exercise price of each option may not be less than the market price of GDH Ltd.'s shares at the date of grant. Options granted under the Plan will have a term not to exceed 5 years and will be subject to vesting provisions as determined by the board of directors of GDH Ltd., who administer the Plan. On exercise of an option, the holder will receive one common share in GDH Ltd. and GDH LP will issue one Class A Unit to GDH Ltd. Up to the date of the Plan amendment on June 24, 2019, the maximum number of shares reserved for issuance under the Plan was not to exceed 10% of the issued share capital of GDH Ltd. on a fully exchanged basis.

Modification of Equity Plan

Effective June 24, 2019, the shareholders of GDH Ltd. approved an amendment to the Plan ("Amended and Restated Stock Option Plan"). The Plan was previously a rolling equity plan which reserved for issuance a number of shares of the GDH Ltd. up to a maximum of 10% of the issued share capital on a fully exchanged basis. The Plan was amended to a fixed equity plan reserving for issuance 45,565,739 shares of GDH Ltd. (15% of the issued share capital, as April 30, 2019, on a fully exchanged basis). None of the other aforementioned terms were changed under the Amended and Restated Stock Option Plan.

*Stock Option Grants*

On June 25, 2019, the Partnership granted 3,885,000 stock options ("June 2019 Grant") with a fair value of $4,426,140 (or a weighted average fair value of approximately of $1.1393 per option). The stock options granted are exercisable into one common share of GDH Ltd. at an exercise price of C$2.15 per option for a period of five years and vest 25% annually commencing on December 1, 2019.

On September 4, 2019, the Partnership granted 682,500 stock options ("September 2019 Grant") with a fair value of $694,869 (or a weighted average fair value of approximately of $1.0181 per option). The stock options granted are exercisable into one common share of GDH Ltd. at an exercise price of C$1.95 per option for a period of five years and vest 25% annually commencing on March 1, 2020.

On April 9, 2020, the Partnership granted 6,810,000 stock options ("April 2020 Grant") with a fair value of $1,813,996 (or a weighted average fair value of approximately of $0.4232 per option). The stock options granted vest by a third annually commencing on March 1, 2021. The exercise price is C$1.35 per option for the options vesting on March 1, 2021; C$1.60 for the options vesting on March 1, 2022; and C$1.85 for the options vesting on March 1, 2023. The awards will expire on April 9, 2025 if not exercised.

On November 16, 2020, the Partnership granted 6,030,000 stock options ("November 2020 Grant") with a fair value of $13,277,791 (or a weighted average fair value of approximately $2.8625 per option). 1,400,000 options granted vest by a third annually commencing on December 1, 2022. 2,630,000 options granted vest by a quarter annually commencing on December 1, 2021. 2,000,000 options granted vest equally on November 16, 2022 and November 16, 2024. The exercise price is C$5.65 per option. The awards will expire on November 16, 2025 if not exercised.

On December 3, 2020, the Partnership granted 7,500,000 stock options ("December 3 2020 Grant") with a fair value of $23,957,652 (or a weighted average fair value of approximately $3.1944 per option). The options granted vest by a quarter annually commencing on December 1, 2021. The exercise price is C$6.21 per option. The awards will expire on December 3, 2025 if not exercised.

On December 8, 2020, the Partnership granted 555,000 stock options ("December 8 2020 Grant") with a fair value of $1,180,625 (or a weighted average fair value of approximately $3.1055 per option). The options granted vest by a quarter annually commencing on December 1, 2021. The exercise price is C$6.00 per option. The awards will expire on December 8, 2025 if not exercised.

On December 21, 2020, the Partnership granted 100,000 stock options ("December 21 2020 Grant") with a fair value of $412,768 (or a weighted average fair value of approximately $4.1277 per option). The options granted vest by a quarter annually commencing on December 1, 2021. The exercise price is C$8.02 per option. The awards will expire on December 21, 2025 if not exercised.

(Expressed in US Dollars)

Grants to Directors

On June 25, 2020, the Partnership granted 750,000 stock options ("June 2020 Grant") with a fair value of $525,830 (or a weighted average fair value of approximately of $0.7011 per option) to the external directors of GDH Ltd. and external managers of the Partnership. The stock options granted are exercisable into one common share of GDH Ltd. at an exercise price of C$1.39 per option for a period of five years and vest fully on June 1, 2021.

On November 16, 2020, the Partnership granted 150,000 stock options with a fair value of $395,023 (or a weighted average fair value of approximately $2.8625 per option) to an external manager of the Partnership. The stock options granted are exercisable into one common share of GDH Ltd. at an exercise price of C$5.65 per option for a period of five years and vest fully on June 1, 2021.

Modification of stock options previously granted

On June 24, 2019, the shareholders of GDH Ltd. approved a resolution to reprice outstanding options that were granted with an exercise price of C$5.00 ("C$5.00 options") by reducing the number of option grants by 30% and reducing the exercise price to the higher of C$3.00 and the then prevailing market price. On June 24, 2019, there were 19,170,000 options, subject to the repricing, and employees holding 19,044,000 of options voluntarily agreed to the repricing. As a result, on June 25, 2019 (the "Repricing Date"), the C$5.00 options granted were reduced by 5,713,200 options to 13,330,800 options and the exercise price was reduced to C$3.00 ("C$3.00 options").

The C$5.00 options and the C$3.00 options were both fair valued at the date of modification and their fair value were compared. The fair value of the C$3.00 options was less than the fair value of the C$5.00 options and as a result of having no increase in incremental value was not considered in the calculation of the equity based compensation. The Partnership will therefore continue to recognize the equity based compensation related to the C$5.00 options based on their initial grant date fair value, updated for the options that eventually vest.

The fair value of the options granted was measured using the Black-Scholes option pricing model with the following weighted average inputs:

| Inputs to the Black-Scholes Model | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Share price (i) | C$0.97 - C$8.02 | C$1.95 - C$2.15 |
| Exercise price | C$1.35 - C$8.02 | C$1.95 - C$2.15 |
| Expected annual volatility (ii) | 85% - 90% | 90% |
| Expected term (years) | 5.00 | 5.00 |
| Dividend yield | 0% | 0% |
| Risk-free interest rate (iii) | 0.35% - 0.60% | 1.15% - 1.33% |
| Forfeiture rate | 0% - 48% | 15.4% - 18.8% |

(i) The closing price of GDH Ltd. shares on the respective grant dates were used.

(ii) Volatility was selected based on the holdings of the Partnership and a review of the historical volatility of digital assets and academic studies of historical venture equity volatility. In addition, the historical trading volatility of the shares of GDH Ltd. was also considered.

(iii) The risk-free interest rate was calculated by interpolating Government of Canada bond yields over the expected terms of the respective option grants.

(Expressed in US Dollars)

The following table summarizes the activity related to the stock options during the years ended December 31, 2020 and 2019:

| Description | Number of Options | Weighted Average Exercise Price (C$) |
|---|---|---|
| Balance, December 31, 2018 | 21,691,035 | 4.86 |
| Forfeited | (1,757,897) | 4.97 |
| Balance, March 31, 2019 (before repricing adjustment) | 19,933,138 | 4.85 |
| Reduction in number of options due to repricing adjustment | (5,713,200) | 5.00 |
| Balance, June 25, 2019 (after repricing adjustment) | 14,219,938 | 2.92 |
| Granted | 4,567,500 | 2.12 |
| Forfeited | (1,103,138) | 2.56 |
| Balance, December 31, 2019 | 17,684,300 | 2.74 |
| Granted[1] | 21,895,000 | 4.45 |
| Exercised | (1,809,800) | 2.52 |
| Forfeited | (6,203,866) | 2.32 |
| Balance, December 31, 2020 | 31,565,634 | 4.03 |
| Options exercisable as of December 31, 2020 | 5,207,000 | |
| Options exercisable as of December 31, 2019 | 4,250,450 | |

[1] Includes 5,310,468 options granted as part of an inducement grant that were not considered a use of the stock option plan, but are granted in accordance with the terms of the plan.

There were 1,809,800 options exercised during the year ended December 31, 2020. There were no options exercised for the year ended December 31, 2019. For stock options outstanding as of December 31, 2020, the weighted average remaining contractual life is 3.91years (December 31, 2019 - 3.81 years).

A summary of the stock options outstanding as at December 31, 2020 is as follows:

| Grant Date | Number Outstanding | Number Exercisable | Exercise Price (C$) | Expiry Date |
|---|---|---|---|---|
| **Employees and Officers:** | | | | |
| July 31, 2018 | 8,722,700 | 4,074,700 | 3.00 | July 23, 2023 |
| July 31, 2018 | 126,000 | 63,000 | 5.00 | July 23, 2023 |
| September 10, 2018 | 103,600 | 51,800 | 3.00 | July 23, 2023 |
| June 25, 2019 | 2,235,000 | 1,017,500 | 2.15 | June 25, 2024 |
| September 4, 2019 | 150,000 | — | 1.95 | September 4, 2024 |
| April 9, 2020 | 5,143,334 | — | 1.35 - 1.85 | April 9, 2025 |
| June 25, 2020 | 750,000 | — | 1.39 | June 25, 2025 |
| November 16, 2020 | 150,000 | — | 5.65 | June 25, 2025 |
| November 16, 2020 | 6,030,000 | — | 5.65 | November 16, 2025 |
| December 3, 2020 | 7,500,000 | — | 6.21 | December 3, 2025 |
| December 8, 2020 | 555,000 | — | 6.00 | December 8, 2025 |
| December 21, 2020 | 100,000 | — | 8.02 | December 21, 2025 |
| Total | 31,565,634 | 5,207,000 | | |

(Expressed in US Dollars)

Under certain circumstances, the options may be settled by cash payments at the election of the Partnership. However, as the Partnership does not have a present obligation to settle in cash, the stock options are accounted for as equity settled awards.

**Restricted Stock**

On December 15, 2020, the Partnership issued 1,079,971 restricted shares with a fair value of $5,158,470 (or at a weighted average fair value of $4.7765). Of the shares granted, 454,971 vest on December 1, 2023 and the remainder on December 1, 2024. The restricted shares were issued as part of an inducement grant to an officer.

**Net Income per Unit**

The below table presents the basic and diluted net income per unit for the year ended December 31, 2020.

| | Class A Unitholders | Class B Unitholders | Total Class A and Class B Unitholders |
|---|---|---|---|
| Basic income per unit | $ 1.51 | $ 1.28 | $ 1.33 |
| Diluted income per unit | N/A | N/A | 1.28 |
| Net income used in the calculation of basic and diluted income per unit | 103,386,280 | 282,115,951 | 385,502,231 |
| Weighted average number of units for the purposes of basic income per unit | 68,512,122 | 220,318,705 | 288,830,827 |
| Weighted average number of units for the purposes of diluted income per unit | N/A | N/A | 301,177,355 |

For the year ended December 31, 2020, the weighted average number of total Units (Class A and Class B Units) for the purposes of diluted income per unit assumes the potential vesting of the Class B Units and dilutive stock options under the GDH LP equity compensation plan.

Reconciliation of weighted average number of units for the purposes of basic income per unit to weighted average number of units for the purposes of diluted income per unit:

| | Year ended December 31, 2020 |
|---|---|
| Weighted average number of units for the purposes of basic income per unit | 288,830,827 |
| Diluted units: | |
| Compensatory Class B Unit awards | 6,487,682 |
| Stock options | 5,808,683 |
| Restricted stock | 50,163 |
| **Weighted average number of units for the purposes of diluted income per unit** | **301,177,355** |

(Expressed in US Dollars)

**2019**

The table below presents the basic and diluted net income per unit for the year ended December 31, 2019.

| | Class A Unitholders | Class B Unitholders | Total Class A and Class B Unitholders |
|---|---|---|---|
| Basic income per unit | $ 0.088 | $ 0.091 | $ 0.090 |
| Diluted income per unit | N/A | N/A | $ 0.086 |
| Net income used in the calculation of basic and diluted income per unit | $ 5,846,146 | $ 19,924,158 | $ 25,770,304 |
| Weighted average number of units for the purposes of basic income per unit | 66,378,053 | 218,437,042 | 284,815,095 |
| Weighted average number of units for the purposes of diluted income per unit | N/A | N/A | 299,626,118 |

For the year ended December 31, 2019, the weighted average number of total Units (Class A and Class B Units) for the purposes of diluted income per unit assumes the potential vesting of the Class B Units and dilutive stock options under the GDH LP equity compensation plan.

Reconciliation of weighted average number of units for the purposes of basic income per unit to weighted average number of units for the purposes of diluted income per unit:

| | Year ended December 31, 2019 |
|---|---|
| Weighted average number of units for the purposes of basic income per unit | 284,815,095 |
| Diluted units: | |
| Compensatory Class B Unit awards | 14,504,865 |
| Stock options | 306,158 |
| **Weighted average number of units for the purposes of diluted income per unit** | **299,626,118** |

(Expressed in US Dollars)

### 19. NON-CONTROLLING INTERESTS

During the year ended December 31, 2018, the Partnership formed the SPV (Note 13) and Galaxy Crypto Index Fund, L.P. ("Galaxy Index Fund").

During the year ended December 31, 2019, the Partnership formed Galaxy Institutional Bitcoin Master Fund, L.P. ("GIBF") and Galaxy Bitcoin Fund L.P. ("GBF").

Set out below is a summary of the financial information for GDL (Note 13), Galaxy Index Fund, GIBF and GBF, the subsidiaries for which the Partnership is subject to a non-controlling interest.

| | GDL | Galaxy Index Fund | GBF | GIBF | Total |
|---|---|---|---|---|---|
| **Non-controlling interests, December 31, 2018** | $ 280,630 | $ 3,886,948 | $ — | $ — | $ 4,167,578 |
| Sale of interest to the Partnership | (140,316) | — | — | — | (140,316) |
| Contributions[1] | 988,017 | 1,450,000 | 425,000 | 1,500,000 | 4,363,017 |
| Distributions | (582,525) | (313,301) | — | (133) | (895,959) |
| Share of income (loss) | 37,632 | 5,688 | (41,714) | (176,442) | (174,836) |
| **Non-controlling interests, December 31, 2019** | **$ 583,438** | **$ 5,029,335** | **$ 383,286** | **$ 1,323,425** | **$ 7,319,484** |
| Contributions[1] | — | 1,650,000 | 4,637,075 | 135,285,348 | 141,572,423 |
| Distributions | (596,502) | (8,660,975) | (312,299) | (6,751,768) | (16,321,544) |
| Share of income | 14,589 | 14,339,115 | 5,815,776 | 133,215,675 | 153,385,155 |
| **Non-controlling interests, December 31, 2020** | **$ 1,525** | **$ 12,357,475** | **$ 10,523,838** | **$ 263,072,680** | **$ 285,955,518** |

(1) Contributions include capital contributed by Non-bank Lender towards the purchase of the crypto-backed loans housed in the SPV and contributions from third party investors in the Galaxy Index Fund, GIBF, and GBF.

The following tables present the non-controlling interests at December 31, 2020 and 2019. The information below is before inter-company eliminations.

| | GDL | Galaxy Index Fund | GBF | GIBF | Total |
|---|---|---|---|---|---|
| Non-controlling % | 5% | 52% | 38% | 79% | |
| **Assets** | | | | | |
| Current | $ 30,500 | $ 36,272,305 | $ 28,033,748 | $ 339,540,139 | $ 403,876,692 |
| | 30,500 | 36,272,305 | 28,033,748 | 339,540,139 | 403,876,692 |
| **Liabilities** | | | | | |
| Current | — | 12,373,305 | 89,040 | 5,397,349 | 17,859,694 |
| | — | 12,373,305 | 89,040 | 5,397,349 | 17,859,694 |
| **Net Assets** | 30,500 | 23,899,000 | 27,944,708 | 334,142,790 | 386,016,998 |
| **Non-controlling interests, December 31, 2020** | **$ 1,525** | **$ 12,357,475** | **$ 10,523,838** | **$ 263,072,680** | **$ 285,955,518** |

(Expressed in US Dollars)

| | GDL | Galaxy Index Fund | GBF | GIBF | Total |
|---|---|---|---|---|---|
| Non-controlling % | 5% | 63% | 8% | 7% | |
| **Assets** | | | | | |
| Current | $ 11,690,311 | $ 8,507,825 | $ 4,966,327 | $ 19,366,281 | $ 44,530,744 |
| | 11,690,311 | 8,507,825 | 4,966,327 | 19,366,281 | 44,530,744 |
| **Liabilities** | | | | | |
| Current | 21,528 | 551,443 | 184,594 | 390,067 | 1,147,632 |
| | 21,528 | 551,443 | 184,594 | 390,067 | 1,147,632 |
| **Net Assets** | 11,668,783 | 7,956,382 | 4,781,733 | 18,976,214 | 43,383,112 |
| **Non-controlling interests, December 31, 2019** | **$ 583,438** | **$ 5,029,335** | **$ 383,286** | **$ 1,323,425** | **$ 7,319,484** |

The following table reflects the net income and net comprehensive income attributable to non-controlling interests for the year ended December 31, 2020 and 2019.

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| **Net income** | **$ 538,887,386** | **$ 25,595,468** |
| **Net comprehensive income (loss) attributable to non-controlling interests:** | | |
| GDL | 14,589 | 37,632 |
| Galaxy Index Fund | 14,339,115 | 5,688 |
| GBF | 5,815,776 | (41,714) |
| GIBF | 133,215,675 | (176,442) |
| | **$ 153,385,155** | **$ (174,836)** |

## 20. COMPENSATION AND COMPENSATION RELATED

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Base compensation and accrued bonuses[1] | $ 28,061,622 | $ 23,072,687 |
| Benefits | 2,825,652 | 1,995,865 |
| Payroll taxes | 1,512,459 | 1,304,187 |
| Consulting | 1,052,104 | 1,057,677 |
| Placement Fees | 610,000 | 1,050,283 |
| Temporary staff | 101,976 | 99,219 |
| | **$ 34,163,813** | **$ 28,579,918** |

(1) Year ended December 31, 2020 includes $446,303 of severance expense payments.

(Expressed in US Dollars)

## 21. PROFESSIONAL FEES

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Legal | $ 2,606,782 | $ 3,197,474 |
| Audit and related | 2,571,990 | 2,420,071 |
| Tax | 1,155,680 | 1,045,763 |
| Consulting | 999,527 | 1,174,220 |
| Valuations | 329,600 | 339,963 |
| | **$ 7,663,579** | **$ 8,177,491** |

## 22. GENERAL AND ADMINISTRATIVE

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Technology | $ 3,277,676 | $ 2,842,606 |
| Marketing | 2,610,702 | 99,396 |
| Depreciation (Note 14) | 1,160,690 | 1,083,126 |
| Bad debt expense (Note 13) | 239,883 | 2,308,406 |
| Travel and entertainment | 407,557 | 1,422,766 |
| Fund administration | 768,263 | 743,958 |
| Occupancy | 660,026 | 608,733 |
| Trading fees | 483,952 | 134,476 |
| Other [(i)] | 5,518,189 | 3,416,909 |
| | **$ 15,126,938** | **$ 12,660,376** |

[(i)] Includes GDH Ltd. Reimbursable Expenses of $1,903,046 and business tax expense of $592,137 for the year ended December 31, 2020 (December 31, 2019 - $1,291,184 for the reimbursable expenses and $65,760 for the business tax expense).

## 23. RELATED PARTY TRANSACTIONS

The Partnership's related parties include its subsidiaries, associates over which it exercises significant influence, and key management personnel. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Partnership, directly or indirectly. Key management personnel include officers, directors, companies controlled by officers or directors and companies with common directors of the Partnership.

### Compensation of Key Management Personnel

Key management personnel include thirteen individuals (December 31, 2019 - twelve individuals), consisting of officers, former officers and certain employees, who are considered to have decision making authority. Compensation provided to key management personnel for the years ended December 31, 2020 and 2019 are as follows:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Base compensation and accrued bonuses* | $ 6,900,702 | $ 5,907,901 |
| Benefits | 294,918 | 272,124 |
| Equity based compensation | 10,523,604 | 21,211,583 |
| **Total** | **$ 17,719,224** | **$ 27,391,608** |

*For the years ended December 31, 2020 and 2019, amounts include approximately $3.6 million and $1.6 million, respectively, of accrued bonuses within accounts payable and accrued liabilities.

The Partnership has an agreement with an entity owned by a member of key management to provide software development consulting services. The Partnership incurred $529,250 in software development technology expenses during the year ended December 31, 2020 (December 31, 2019 - $404,000), of which $43,000 is included in accounts payable at December 31, 2020 (December 31, 2019 - $36,500).

**Distributions**

During the year ended December 31, 2020, the Partnership made tax distributions of $1,679,760 to individuals and a company considered to be related parties (Note 18).

**Sublease**

GIP, which has leased the office space located on the 7th and 8th floors of 107 Grand Street, New York, New York 10013, has subleased to GDS to occupy the 8th floor on the same terms as the master lease (Note 27). In addition, effective August 1, 2019, GIP also subleased a portion of the 7th floor to GDS, including use of common areas (Note 27).

**Other**

Certain key management personnel have invested in funds that the Partnership manages. In addition, some members of key management serve as board members for companies in which the Partnership or a fund it manages holds investments.

The CEO of the general partner of the Partnership served as a director of a cryptocurrency mining and blockchain infrastructure company. During May 2019, the CEO of the general partner of the Partnership did not stand for re-election and, effective May 13, 2019, the company is no longer a related party (Note 13). The Partnership also completes OTC trades with the company.

In addition, the Partnership's CEO was a member of the advisory board for another company, resulting in the Partnership and that company being related parties. As at December 31, 2020, the Partnership had an investment in the company valued at $19.6 million (December 31, 2019 - $9.0 million).

In accordance with the LPA (Note 5), the Partnership will reimburse or pay for all reimbursable expenses of GDH Ltd. For the years ended December 31, 2020 and 2019, the Partnership paid or accrued $1,903,046 and $1,291,184, respectively, on behalf of GDH Ltd., which has been included in general and administrative expenses (Note 22).

## 24. REPORTABLE SEGMENTS

The Partnership has identified five reportable segments: trading, principal investments, asset management, investment banking and mining. The five reportable segments represent the five lines of business for which the Partnership expects to earn income, incur costs and allocate resources. In determining the Partnership's segment structure, the Partnership considered the basis on which the chief operating decision-maker, as well as other members of senior management, review the financial and operational performance of the Partnership. Certain reclassifications have been made based on how the chief operating decision-maker reviews the performance of the Partnership.

***Trading***

The trading group manages positions in cryptocurrency and other liquid digital assets contributed to the business at the outset and continues to invest and trade in those and related assets. The Partnership engages in several trading strategies (Note 7). The trading segment includes the performance of the over the counter (OTC) trading and of the short term and long term positioning of the Partnership's digital assets.

***Principal Investments***

The principal investments business has a diverse portfolio of private principal investments across the blockchain ecosystem, including early- and later-stage equity, pre-ICO contributions, and other structured alternative investments (Note 8).

***Asset Management***

The asset management business manages capital on behalf of third parties in exchange for management fees and performance-based compensation.

(Expressed in US Dollars)

***Investment Banking***

The investment banking business partners with high quality businesses operating in and around the blockchain ecosystem. The investment banking business offers the full spectrum of investment banking, including, but not limited to: general corporate advisory, mergers and acquisition (M&A), transaction advisory, restructuring and capital raising.

***Mining***

The Partnership launched Galaxy Digital Mining LLC ("GDM") in October 2020. GDM has a strategic focus to provide novel and sophisticated financial tools for North American miners. GDM will serve as a one-stop financial services platform for miners, drawing the firm's expertise in trading and risk management, investing and lending, and corporate advisory under one umbrella, tailored to the needs of the mining sector. In addition, GDM has also established its own proprietary bitcoin mining operation, which will host its machines at a third-party data center in the United States. No revenues were generated during the year ended December 31, 2020.

Corporate and Other consists of the Partnership's unallocated corporate overhead and other unallocated costs not identifiable to any of the five reportable segments.

Assets and liabilities by each of the reportable segments as of December 31, 2020 are as follows:

| | Trading | Principal Investments | Asset Management | Investment Banking | Mining | Corporate and Other | Totals |
|---|---|---|---|---|---|---|---|
| **Total assets** | $ 750,207,683 | $ 357,529,140 | $ 307,720,036 | $ 7,120,603 | $ 3,633,111 | $ 30,014,787 | $ 1,456,225,360 |
| **Total liabilities** | $ 333,320,691 | $ 101,160 | $ 18,170,148 | $ 22,374 | $ — | $ 20,444,018 | $ 372,058,391 |

Assets and liabilities by each of the reportable segments as of December 31, 2019 are as follows:

| | Trading | Principal Investments | Asset Management | Investment Banking | Corporate and Other | Totals |
|---|---|---|---|---|---|---|
| **Total assets** | $ 177,234,992 | $ 192,890,378 | $ 8,194,871 | $ 1,102,055 | $ 23,356,825 | $ 402,779,121 |
| **Total liabilities** | $ 30,329,154 | $ 403,187 | $ 1,377,492 | $ 96,273 | $ 15,468,450 | $ 47,674,556 |

(Expressed in US Dollars)

Income and expenses by each of the reportable segments for the year ended December 31, 2020 is as follows:

| | Trading | Principal Investments | Asset Management | Investment Banking | Mining | Corporate and Other | Totals |
|---|---|---|---|---|---|---|---|
| **Income (loss)** | | | | | | | |
| Advisory and management fees | $ 25,527 | $ — | $ 5,279,133 | $ 4,310,580 | $ — | $ — | $ 9,615,240 |
| Net realized gain on digital assets | 258,765,780 | 724,379 | 11,617,885 | — | — | — | 271,108,044 |
| Net realized gain on investments | — | 10,795,869 | — | — | — | — | 10,795,869 |
| Interest income | 5,542,022 | 541,687 | 9,559 | 38,274 | — | 446 | 6,131,988 |
| Net derivative gain | 5,699,318 | — | — | — | — | — | 5,699,318 |
| Other income (loss) | 864,083 | 21,788 | (44,993) | (31,376) | — | — | 809,502 |
| | **270,896,730** | **12,083,723** | **16,861,584** | **4,317,478** | **—** | **446** | **304,159,961** |
| **Operating expenses** | **29,052,876** | **3,155,367** | **15,542,049** | **4,340,417** | **603,438** | **27,179,024** | **79,873,171** |
| Net unrealized gain on digital assets | 75,695,936 | 22,270,885 | 141,752,985 | — | — | — | 239,719,806 |
| Net unrealized gain on investments | — | 90,587,112 | — | — | — | — | 90,587,112 |
| Net unrealized loss on warrant liability | — | (14,318,125) | — | — | — | — | (14,318,125) |
| Unrealized foreign currency loss | (517,442) | — | — | — | — | — | (517,442) |
| Realized foreign currency loss | (870,755) | — | — | — | — | — | (870,755) |
| | **74,307,739** | **98,539,872** | **141,752,985** | **—** | **—** | **—** | **314,600,596** |
| **Net income (loss) for the year, including non-controlling interests** | **$316,151,593** | **$107,468,228** | **$143,072,520** | **$ (22,939)** | **$ (603,438)** | **$(27,178,578)** | **$538,887,386** |

(Expressed in US Dollars)

Income and expenses by each of the reportable segments for the year ended December 31, 2019 is as follows:

| | Trading | Principal Investments | Asset Management | Investment Banking | Corporate and Other | Totals |
|---|---|---|---|---|---|---|
| **Income (loss)** | | | | | | |
| Advisory and management fees | $ — | $ — | $ 5,126,694 | $ 203,125 | $ — | $ 5,329,819 |
| Net realized gain (loss) on digital assets | 76,212,748 | (4,241,268) | — | — | — | 71,971,480 |
| Net realized gain on investments | — | 37,922,360 | — | — | — | 37,922,360 |
| Interest income | 988,715 | 3,171,168 | — | 65,613 | 4,188 | 4,229,684 |
| Net derivative gain | 12,425,065 | — | — | — | — | 12,425,065 |
| Other income (loss) | (37,131) | 430,000 | (56,266) | 127,951 | — | 464,554 |
| | **89,589,397** | **37,282,260** | **5,070,428** | **396,689** | **4,188** | **132,342,962** |
| **Operating expenses** | **24,435,663** | **7,147,840** | **17,420,511** | **8,082,934** | **25,117,229** | **82,204,177** |
| Net unrealized gain (loss) on digital assets | (13,312,748) | 1,339,658 | — | — | — | (11,973,090) |
| Net unrealized loss on investments | — | (12,521,148) | — | — | — | (12,521,148) |
| Unrealized foreign currency gain (loss) | 168,742 | — | — | (20,713) | (43) | 147,986 |
| Realized foreign currency loss | (197,065) | — | — | — | — | (197,065) |
| | **(13,341,071)** | **(11,181,490)** | **—** | **(20,713)** | **(43)** | **(24,543,317)** |
| **Net income (loss) for the year, including non-controlling interests** | **$ 51,812,663** | **$ 18,952,930** | **$ (12,350,083)** | **$ (7,706,958)** | **$ (25,113,084)** | **$ 25,595,468** |

**Select statement of financial position information**

The fair value of each asset class by reporting segment as of December 31, 2020 is as follows:

| | Trading | Principal Investments | Asset Management | Investment Banking | Mining | Corporate and Other | Totals |
|---|---|---|---|---|---|---|---|
| Digital assets | 444,215,956 | 118,555,236 | 287,609,072 | — | — | — | 850,380,264 |
| Digital assets receivable | — | 19,724,181 | — | — | — | — | 19,724,181 |
| Digital assets posted as collateral (Note 11) | 15,624,879 | — | — | — | — | — | 15,624,879 |
| **Investments:** | | | | | | | |
| Pre-ICO | — | 500,000 | — | — | — | — | 500,000 |
| Convertible Notes | — | 4,501,295 | — | — | — | — | 4,501,295 |
| Preferred Stock | — | 86,258,050 | — | — | — | — | 86,258,050 |
| Common Stock | — | 29,970,097 | — | — | — | — | 29,970,097 |
| LP/LLC Interests | — | 84,311,034 | — | — | — | — | 84,311,034 |
| Warrants/Trust Units/ Trust Shares | 51,181,618 | 3,661,203 | — | — | — | — | 54,842,821 |
| | **$511,022,453** | **$347,481,096** | **$287,609,072** | **$ —** | **$ —** | **$ —** | **$1,146,112,621** |

(Expressed in US Dollars)

The fair value of each asset class by reporting segment as of December 31, 2019 is as follows:

| | Trading | Principal Investments | Asset Management | Investment Banking | Corporate and Other | Totals |
|---|---|---|---|---|---|---|
| Digital assets | $ 53,882,704 | $ 25,318,291 | $ 6,779,736 | $ — | $ — | $ 85,980,731 |
| Digital assets posted as collateral | 8,208,653 | — | — | — | — | 8,208,653 |
| **Investments:** | | | | | | |
| Pre-ICO | — | 6,005,114 | — | — | — | 6,005,114 |
| Convertible Notes | — | 5,255,579 | — | — | — | 5,255,579 |
| Preferred Stock | — | 75,703,153 | — | — | — | 75,703,153 |
| Common Stock | — | 32,476,631 | — | — | — | 32,476,631 |
| LP/LLC Interests | — | 38,120,805 | — | — | — | 38,120,805 |
| Warrants/Trust Units | — | 602,138 | — | — | — | 602,138 |
| | **$ 62,091,357** | **$ 183,481,711** | **$ 6,779,736** | **$ —** | **$ —** | **$ 252,352,804** |

(Expressed in US Dollars)

## 25. FINANCIAL INSTRUMENTS, DIGITAL ASSETS AND RISK

The fair values of all financial instruments, digital assets and digital assets sold short were measured using the cost, market or income approaches. The financial instruments, digital assets and digital assets sold short 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, with the designation based upon the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy are:

*Level 1 Inputs*: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

*Level 2 Inputs*: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

*Level 3 Inputs*: One or more inputs to the valuation are unobservable and significant to the fair value measurement of the asset or liability. (Unobservable inputs reflect management's assumptions on how market participants would price the asset or liability based on the information available.)

The following table presents the fair value hierarchy for the Partnership's digital assets and investments measured at fair value as of December 31, 2020 and 2019:

| | As of December 31, 2020 | | | | As of December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Digital Assets | $ — | $844,066,726 | $ 6,313,538 | $ 850,380,264 | $ — | $ 85,791,558 | $ 189,173 | $ 85,980,731 |
| Digital Assets Receivable | — | — | 19,724,181 | 19,724,181 | — | — | — | — |
| Digital Assets Posted as Collateral | — | 15,624,879 | — | 15,624,879 | — | 8,208,653 | — | 8,208,653 |
| Common Stock | 19,572,000 | 10,398,097 | — | 29,970,097 | 13,497,273 | 18,979,358 | — | 32,476,631 |
| Convertible Notes | — | 2,650,577 | 1,850,718 | 4,501,295 | — | 703,500 | 4,552,079 | 5,255,579 |
| LP/LLC Interests | — | 10,450,000 | 73,861,034 | 84,311,034 | — | 21,348,796 | 16,772,009 | 38,120,805 |
| Pre-ICO | — | 500,000 | — | 500,000 | — | 6,005,114 | — | 6,005,114 |
| Preferred Stock | — | 52,873,151 | 33,384,899 | 86,258,050 | — | 58,286,806 | 17,416,347 | 75,703,153 |
| Warrants/Trust Units/ Trust Shares | 61,297 | 8,027 | 54,773,497 | 54,842,821 | 68,052 | — | 534,086 | 602,138 |
| | $19,633,297 | $936,571,457 | $189,907,867 | $1,146,112,621 | $13,565,325 | $199,323,785 | $39,463,694 | $252,352,804 |

| **Liabilities** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Digital Assets Sold Short | — | 5,277,878 | — | 5,277,878 | — | 18,616,860 | — | 18,616,860 |
| Investments Sold Short | 4,384,290 | — | — | 4,384,290 | — | — | — | — |
| | $ 4,384,290 | $ 5,277,878 | $ — | $ 9,662,168 | $ — | $ 18,616,860 | $ — | $ 18,616,860 |

*Valuation of Assets / Liabilities that use Level 1 Inputs ("Level 1 Assets / Liabilities")*. Consists of the Partnership's investments in common stock and warrants/trust units/trust shares and investments sold short, where quoted prices in active markets are available.

*Valuation of Assets / Liabilities that use Level 2 Inputs ("Level 2 Assets / Liabilities")*. Consists of the Partnership's investments in common stock, limited partnership/limited liability company interest investments, pre-ICOs and warrants/trust units/trust shares and the majority of the Partnership's convertible notes, preferred stock and digital assets, including its digital assets posted as collateral and digital assets sold short, where quoted prices in active markets are available. For the digital assets, the fair value is determined by the volume-weighted average of prices across principal exchanges as of 12:00 UTC, per coinmarketcap.com*.

* Coinmarketcap.com is a pricing aggregator, as the principal market or most advantageous market is not always known. The Partnership believes any price difference amongst the principal market and an aggregated price to be immaterial.

The Partnership's pre-ICO investments are generally carried at the total contributions made to date as there are no conditions indicating a change in value and therefore cost approximates fair value. For the Partnership's other investments classified as Level 2, the market approach is used. These investments are classified as Level 2 as they are based on other observable inputs other than quoted prices, such as transactions in the equity of the investments.

*Valuation of Assets / Liabilities that use Level 3 Inputs ("Level 3 Assets / Liabilities")*. Consists of certain of the Partnership's digital assets, preferred stock, convertible notes, and the majority of the Partnership's digital assets receivables, limited partnership/limited liability company interest investments and warrants/trust units/trust shares.

- For digital assets and digital assets receivables, fair value was determined utilizing a volume-weighted average of prices across principal exchanges as of 12:00 UTC, with an adjustment for time of receipt of tokens and/or potential volatility. If the digital asset was contractually or legally to be received over a specific vesting period of potentially multiple years, restricted for trading or lacked access to an active market, a discount was applied to the closing prices. The discount was calculated using the Black-Scholes model to determine the cost to insure the subject asset against the risk of encountering lower prices.
- For the Partnership's preferred stock investments:
    - The prior transaction approach was used with adjustments, as the transaction in the subject entity's equity may have different characteristics than the Partnership's preferred stock investment. The allocation of the subject entity's equity value (based on the market approach) to its various classes of shares was determined using the Black-Scholes model.
    - One of the Partnership's preferred stock investments used the adjusted book value method to estimate fair value. This is an approach that relies on adjusting the most recently reported book values of the subject enterprise's assets to their market values and subtracting the corresponding liabilities.
    - For some of the Partnership's preferred stock investments, the Partnership has taken further discounts for lack of marketability and control.
- For the Partnership's convertible notes, the market approach is used, with further fair value adjustments (e.g. the application of unobservable probabilities).
- For a majority of the Partnership's limited partnership/limited liability company interest investments in funds, fair value was based on the net asset value provided by the fund. For one limited partnership interest investment in a fund, fair value was based on a probability weighted estimated future payout under the income approach.
- For the Partnership's investment in warrants/trust units/trust shares, the Black-Scholes model was used to determine the fair value.

The Partnership's warrant liability is also classified as a Level 3 financial liability. The Black-Scholes model was used to determine the fair value.

The fair value of Level 3 assets and liabilities is inherently subjective. Specifically, because of the uncertainty of fair valuation of investments that do not have readily ascertainable market values, the VC's conclusion of fair value for an investment on a date may differ significantly from (1) the fair value conclusions of other knowledgeable market participants and/or (2) prior or subsequently observed transaction prices, including the price paid to acquire, or received to sell, the investment itself.

***Other***

Adjustments to observable prices obtained for assets that are deemed to lack access to an active market are based on empirical studies designed to estimate liquidity discounts. To estimate the appropriate discount to apply, the Partnership considered the relevant facts and circumstances, including features of the subject assets, expectations related to an active market existing in the future, costs associated with accessing (or trading outside of) existing exchanges as applicable, price volatility of comparable assets, and other identified risks associated with the subject assets.

A verified prior transaction is initially given 100% weighting in a fair value conclusion (if completed at arm's length), but subsequently such weighting is adjusted based on the merits of newly observed data. As a result, in the absence of disconfirming data, an unadjusted prior transaction price may not be considered "stale" for months or, in some cases, years.

(Expressed in US Dollars)

### *Level 3 Continuity*

The following is a reconciliation of Level 3 assets and liabilities for the year ended December 31, 2020:

| Assets | Fair value at December 31, 2019 | Contributions | Purchases | Sales/ Distributions | Net Realized Gain (Loss) on Digital Assets and Investments | Net Unrealized Gain/(Loss) on Digital Assets and Investments | Transfers in /(out) of Level 3 | Fair Value at December 31, 2020 |
|---|---|---|---|---|---|---|---|---|
| Digital Assets | $ 189,173 | $ — | $ 250,000 | $ (618,475) | $ 537,225 | $ 4,924,483 | $ 1,031,132 | $ 6,313,538 |
| Digital Assets Receivable | — | — | 4,700,000 | (808,103) | 468,341 | 14,863,943 | 500,000 | 19,724,181 |
| Convertible Notes | 4,552,079 | — | 733,000 | — | — | (1,265,950) | (2,168,411) | 1,850,718 |
| Common Stock | — | — | — | — | — | — | — | — |
| LP/LLC Interests | 16,772,009 | — | 18,528,260 | (590,723) | — | 24,702,692 | 14,448,796 | 73,861,034 |
| Preferred Stock | 17,416,347 | — | — | — | — | (5,786,699) | 21,755,251 | 33,384,899 |
| Warrants/Trust Units/ Trust Shares | 534,086 | — | 8,980,984 | — | — | 45,302,387 | (43,960) | 54,773,497 |
| **Total Digital Assets, Digital Assets Receivables and Investments** | **$ 39,463,694** | **$ —** | **$ 33,192,244** | **$ (2,017,301)** | **$ 1,005,566** | **$ 82,740,856** | **$ 35,522,808** | **$ 189,907,867** |

| Liabilities | Fair value at December 31, 2019 | Issued | Purchases | Conversions | Net Realized Gain (Loss) on Warrant Liability | Net Unrealized Gain/(Loss) on Warrant Liability | Transfers in /(out) of Level 3 | Fair Value at December 31, 2020 |
|---|---|---|---|---|---|---|---|---|
| Warrant Liability | $ — | $ 6,463,082 | $ — | $ — | $ — | $ 14,318,125 | $ — | $ 20,781,207 |

Transfers in and out of Level 3 are considered to have occurred at the beginning of the period the transfer occurred. Total transfers into Level 3 were $43,688,385 and total transfers out of Level 3 were $8,165,577. The transfers into Level 3 for preferred stock was due to fair value determined by a market approach that utilized an option pricing based methodology. The transfers into Level 3 for LP/LLC interest was due to a fair value determined by an income approach that utilized discounted cash flows, fair value determined by a market approach that utilized an option pricing based methodology and an investment, which utilizes net asset values provided by funds. The transfers into Level 3 for digital assets and digital assets receivable were due to restrictions of digital assets committed for a proof of stake program and due to digital assets that are expected to be distributed over time according to a release schedule. The transfers out of Level 3 for preferred stock were due to the availability of an observable input (transaction in the investment entity), the transfer out of Level 3 for convertible note was due to the acquisition completed in the fourth quarter of 2020, the transfer out of Level 3 for warrants/trust units/trust shares was due to the expiry of warrants during the year and the transfers out of Level 3 for digital assets were due to the removal of restrictions.

The following is a reconciliation of Level 3 Assets for the year ended December 31, 2019:

| | Fair value at December 31, 2018 | Contributions | Purchases | Sales/ Distributions | Net Realized Gain (Loss) on Digital Assets and Investments | Net Unrealized Gain/(Loss) on Digital Assets and Investments | Transfers in /(out) of Level 3 | Fair Value at December 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| Digital Assets | $ 545,308 | $ — | $ 100,000 | $ — | $ — | $ (965,850) | $ 509,715 | $ 189,173 |
| Convertible Notes | — | — | 6,775,578 | — | — | (2,223,499) | — | 4,552,079 |
| Common Stock | 5,580,000 | — | — | — | — | — | (5,580,000) | — |
| LP/LLC Interests | 21,659,859 | — | 4,475,570 | (1,263,925) | — | (2,211,799) | (5,887,696) | 16,772,009 |
| Preferred Stock | 2,734,262 | — | 1,169,800 | — | — | 3,368,562 | 10,143,723 | 17,416,347 |
| Warrants/Trust Units | 1,329,427 | — | — | — | — | (795,341) | — | 534,086 |
| **Total Digital Assets and Investments** | **$ 31,848,856** | **$ —** | **$ 12,520,948** | **$ (1,263,925)** | **$ —** | **$ (2,827,927)** | **$ (814,258)** | **$ 39,463,694** |

Transfers in and out of Level 3 are considered to have occurred at the beginning of the period the transfer occurred. Total transfers into Level 3 were $15,604,269 and total transfers out of Level 3 were $16,418,527. The transfers into/(out) of Level 3 for digital assets were due to contractual restrictions (or removal of restrictions) for trading of certain digital assets after their ICO events and discounts for lack of access to an active market for certain cryptocurrencies. The transfers into Level 3 for investments were due to fair value determined by market approaches that utilized an option-pricing based methodology or other unobservable inputs. The transfers out of Level 3 for investments were due to the removal of trading restrictions for a publicly traded common stock and due to the the availability of an observable input (transaction in the investment entity) for a certain limited partnership/ limited liability company interest.

The carrying values of the Partnership's cash, receivable for digital asset trades, digital asset loans receivable, assets posted as collateral, receivables, due from broker, due from exchange, loans receivable, accounts payable and accrued liabilities, payable for digital asset trades, digital asset loans payable and collateral payable approximate fair value due to their short maturities. The carrying value of the Partnership's lease liability is measured as the present value of the discounted future cash flows.

(Expressed in US Dollars)

***Quantitative Information for certain Level 3 Assets and Liabilities***

| Financial Instrument | Fair Value at December 31, 2020 | Significant Unobservable Inputs | Range |
|---|---|---|---|
| Cryptocurrency | $6,313,538 | Marketability discount | 17.0% - 53.8% |
| Digital Assets Receivables | $19,724,181 | Marketability discount | 20.1% - 73.4% |
| Convertible Notes | $1,850,718 | Recovery rate | 0% - 100% |
| | | Scenario probability [1]: | |
| | | No deal closure and dissolution | 50% |
| | | Deal closure and partial default | 45% |
| | | Deal closure and full recovery | 5% |
| LP/LLC Interests [3] | $22,832,392 | Risk-free rate | 0.13% |
| | | Marketability discount | 25% |
| | | Time to assumed payoff (years) | 2 |
| | | Scenario probability [2]: | |
| | | Downside | 25% |
| | | Upside | 25% |
| | | Best | 50% |
| Preferred Stock [4] | $32,984,748 | Control discount | 5% |
| | | Marketability discount | 15% |
| | | Time to liquidity event (years) | 3.25 - 5 |
| | | Annualized equity volatility | 90% |
| | | Risk free rate | 0.19% - 2.06% |
| | | Expected dividend payout ratio | — |
| | | Enterprise value to revenue multiple | 8 |
| Warrants/Trust Units | $54,773,497 | Volatility | 110% - 150% |
| | | Exercise price | C$4.50 - C$24.68 |
| | | Underlying share price | C$3.49 - C$24.68 |
| | | Time to liquidity event (years) | 0.01 - 0.58 |
| | | Risk free rate | 0.08% - 0.09% |
| | | Expected dividend payout ratio | — |
| | | Marketability discount | 5.7% - 43.2% |
| Warrant Liability | $20,781,207 | Volatility | 85% |
| | | Time to liquidity event (years) | 1.87 - 2.0 |
| | | Risk free rate | 0.17% - 0.25% |
| | | Expected dividend payout ratio | — |
| | | Dilution factor | 1.5% |

[1]Relates to the probability of a deal closure with a potential buyer of the underlying company, with either partial default or full recovery of the amount outstanding of the convertible notes, or no deal closure with a potential buyer and dissolution of the underlying company.

[2]Relates to the probability of the outcomes relating to an investment.

[3]The remaining fair value relates to additional investments which utilize net asset values provided by funds.

[4]The remaining fair value relates to an investments which utilizes a pre-money valuation of the Company.

(Expressed in US Dollars)

| Financial Instrument | Fair Value at December 31, 2019 | Significant Unobservable Inputs | Range |
|---|---|---|---|
| Cryptocurrency | $189,173 | Marketability discount | 25% - 54.8% |
| Convertible Notes | $4,552,079 | Recovery rate | 65% - 100% |
| | | Scenario probability [(1)]: | |
| | | No deal closure and dissolution | 25% |
| | | Deal closure and partial default | 67.5% |
| | | Deal closure and full recovery | 7.5% |
| Preferred Stock | $17,416,347 | Control discount | 5% |
| | | Marketability discount | 15% |
| | | Time to liquidity event (years) | 4.25 - 5 |
| | | Annualized equity volatility | 90% |
| | | Risk free rate | 1.66% - 2.06% |
| | | Expected dividend payout ratio | — |
| | | Enterprise value to revenue multiple | 8 |
| Warrants | $534,086 | Volatility | 84% |
| | | Exercise price | C$4.50 |
| | | Underlying share price | C$1.07 |

[1] Relates to the probability of a deal closure with a potential buyer of the underlying company, with either partial default or full recovery of the amount outstanding of the convertible notes, or no deal closure with a potential buyer and dissolution of the underlying company.

For the year ended December 31, 2020 and 2019, the latest available reported net asset value of the underlying funds were used to fair value the Level 3 limited partnership/ limited liability company interests.

As indicated above, certain of the Level 3 Assets had adjustments applied to the prices used to determine fair value. The Partnership does not believe a change in unobservable inputs will have a significant impact on partners' capital.

***Valuation Techniques***

The following tables summarize the valuation techniques and significant inputs used in the fair value measurement of the Partnership's digital assets and investments as of December 31, 2020 and 2019, respectively.

| Category | Valuation Methods & Techniques | Key Inputs |
|---|---|---|
| Cryptocurrency | • Volume-weighted average of trading prices<br>• Black-Scholes model<br>• Marketability adjustments<br>• Liquidity adjustments | • Current trading prices of subject cryptocurrencies<br>• Selected volatilities of subject cryptocurrencies<br>• Selected discounts for lack of marketability/ liquidity |
| Pre-ICO | • Prior transactions method | • Prior prices of subject pre-ICO cryptocurrencies |
| Convertible Notes | • Prior transactions method<br>• Probability-weighted expected return model | • Prior prices of subject convertible note<br>• Scenario probabilities<br>• Recovery rates |
| Preferred Stock | • Prior transactions method<br>• Comparable transactions method<br>• Backsolve method in an option pricing model framework<br>• Equity allocation using option pricing model framework<br>• Volume-weighted average of trading prices<br>• Control adjustments<br>• Marketability adjustments<br>• Guideline public company method<br>• Adjusted book value | • Prior prices of subject preferred stock<br>• Expected time to exit<br>• Volatility of the company's total equity<br>• Risk free rate<br>• Expected dividend payout ratio<br>• Current trading prices of certain cryptocurrencies<br>• Selected discounts for lack of control<br>• Selected discounts for lack of marketability<br>• Enterprise value-to-revenue multiple<br>• Net assets of subject company |
| Common Stock | • Prior transactions method<br>• Public closing price | • Prior prices of subject common stock<br>• Public closing prices of subject securities |
| LP/LLC Interests | • Prior transactions method<br>• Comparable transactions method<br>• Net asset value provided by fund<br>• Discounted cash flow analysis | • Prior prices of subject LP/LLC interests<br>• Net asset value provided by fund<br>• Current trading price of Bitcoin<br>• Scenario probabilities<br>• Selected discount for lack of marketability |
| Warrants/Trust Units/ Trust Shares | • Public closing price<br>• Black-Scholes model<br>• Prior transactions method | • Public closing prices of subject securities<br>• Selected volatility of underlying trust units<br>• Prior prices of subject trust shares |

(Expressed in US Dollars)

***Industry***

As of December 31, 2020 and 2019, details of the industry composition of the Partnership's digital assets and investments are as follows:

| Industry | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Percentage | # of Investments | Percentage | # of Investments |
| Other (Cryptocurrency and Pre-ICO) | 76 % | 115 | 36 % | 72 |
| Finance | 17 | 19 | 35 | 16 |
| Services: Business | 3 | 11 | 11 | 10 |
| High Tech Industries | 3 | 10 | 14 | 10 |
| Finance Technology | <1 | 4 | 0 | 0 |
| Media: Diversified and Production | <1 | 1 | <1 | 2 |
| Utilities: Electric | <1 | 1 | <1 | 1 |
| Banking | 0 | 0 | 4 | 1 |
| Total | 100 % | 161 | 100 % | 112 |

In the table above, multiple portfolio Partnership investments across the capital structure are considered one investment.

***Safeguarding of Digital Assets***

The Partnership utilizes the Fireblocks platform to maintain custody, transfer, and secure a material portion of its digital assets associated with its trading businesses. Fireblocks, with locations in New York and Tel Aviv, utilizes a secure hot vault and secure transfer environment to help establish connections between the Partnership's wallets, exchanges, counterparties, and networks. Fireblocks utilizes multi-party computation ("MPC") protection layers to distribute private key secrets across multiple locations to ensure there is no single point of failure associated with the private keys. The use of MPC ensures private keys are never concentrated to a single device at any point in time. The Partnership utilizes the Fireblocks Policy Engine to designate transaction approval policies for digital assets held within the Fireblocks portal. As such, administrators configure automated rules to ensure all transactions are disbursed based on the asset sent, total value of the transaction, source and destination of funds and signor requirements. All transactions that fail to meet the Partnership's pre-defined criteria per the engine policy are automatically rejected. The Partnership also utilizes the Fireblocks network as a settlement layer to transact and settle with pre-approved counterparties or entities. The Fireblocks Network utilizes secure enclave technology and data-in-motion encryption to prevent traditional vulnerabilities associated with authenticating wallet addresses. As such, the Partnership settles with counterparties or entities without the risk of losing funds due to deposit address attacks or errors.

Fireblocks is SOC 2 Type II certified for 2020 and undergoes a SOC 2 review on an annual basis. The Partnership reviews the Fireblocks SOC 2 report to ensure they maintain a secure technology infrastructure and that their systems are designed and operating effectively. Additionally, the Partnership reviews its own complementary user entity controls in conjunction with the Fireblocks controls to ensure that applicable trust services criteria can be met. Fireblocks maintains an insurance policy which has coverage for technology, cyber, and professional liability and is rated "A" by A.M. Best based on the strength of the policy and has had no known security breaches or incidents reported to date. The Partnership currently has an investment interest in Fireblocks in the form of preferred stock.

The Partnership also utilizes cold storage solutions to self-custody a portion of its digital assets offline. Private keys are generated, backed-up and stored in hardware wallets which are maintained in secured locations. Access to private keys and back-ups are segregated amongst authorized personnel throughout the Partnership to ensure appropriate segregation of duties are maintained between departments. Specific details relating to the Partnership's private key management protocols remain highly sensitive in nature and are only discussed internally with the appropriate personnel to minimize security threats.

The Partnership also utilizes institutional grade custodians to secure digital assets for its fund products. A material percentage of the digital assets in the Partnership's funds are custodied with Bakkt Trust Company, LLC ("Bakkt Warehouse"). Bakkt is a New York State Department of Financial Services (NYDFS) regulated qualified custodian and is also majority owned by the Intercontinental Exchange ("ICE"). Bakkt's headquarters are in Atlanta, Georgia and business continuity operations can also be performed at ICE locations based in Chicago, New York and London. Terms and conditions for account services and offerings are pre-defined and agreed upon by both the Partnership and Bakkt per the Bakkt Trust Warehouse Agreement. The Partnership maintains internal controls to ensure accounts are appropriately created, restricted to designated individuals, and secured per account credentials. All Bakkt wallets require multi-signature authorization of 2 of 3 keys to approve each withdrawal transaction. The Bakkt Warehouse provides both online ("Warm Wallets") and offline ("Cold Wallets") custody solutions and its systems algorithmically balance between both storage mechanisms to minimize risks associated with online custody. Private keys are stored on hardened systems in cold storage and on FIPS 140-2 level 3 HSMs and are never transferred across any open or unencrypted communication channels. Bakkt's warm and cold wallets are covered by a $125 million insurance policy from a global syndicate.

On an on-going basis, a designated individual from the Partnership reviews and monitors balances maintained at Bakkt against internal fund records to ensure holdings are complete and accurate. The Partnership performs monitoring and due-diligence procedures on Bakkt on an ongoing basis; review procedures include the assessment of Bakkt's Warehouse wallet polices to ensure they are in line with institutional grade standards. Additionally, the Partnership had reviewed an attestation report on Bakkt's internal controls over custody of digital assets as of December 31, 2020, which has indicated that controls were implemented and operated as described by Bakkt management. The Partnership also reviews penetration test results to ensure Bakkt's critical systems are evaluated for potential vulnerabilities and exploits. The Partnership currently has an investment interest in Bakkt Holdings, LLC in the form of Class B Voting Units.

***Crypto Asset Trading Platforms***

The Partnership utilizes multiple cryptocurrency exchanges to assist in conducting digital trading activity. As such, the Partnership maintains digital asset balances on their exchange accounts to facilitate operations. Active exchanges are domiciled across multiple geographies including the United States, Malta, Luxembourg, Singapore, Seychelles, and Hong Kong. The Partnership has a robust due diligence program for all exchanges, regardless of domicile or jurisdiction. Each exchange is required to provide all information and documentation that is necessary to do business with the Partnership. Information security reviews are conducted on each exchange to assess data retention protocols, infrastructure, and applicable IT policies and procedures. Designated departments review all documentation to ensure each exchange meets pre-defined criteria before providing approval for onboarding. Additionally, the Partnership assesses security, reputation, and operational risks in its determination of utilizing any exchange. Once onboarded, each exchange is monitored on an ongoing basis to ensure they maintain compliance with required legal and regulatory standings.

As part of the Partnership's control procedures, certain individuals are designated to administrator and authenticate users with exchange access and secure accounts per IT security protocols. Upon opening a new account, passwords, application programming interface ("API") keys, and multi-factor authentication mechanisms are created to secure credentials under the Partnerships Password and Multi-Factor Authentication Policy. Credentials are managed in secured locations and are only made accessible to authorized personnel with privileged access. Address management features are utilized in accordance with each exchange and require withdrawal addresses to be whitelisted and approved by authorized individuals. This prevents the withdrawal of digital assets held on the exchanges to any address that has not been internally verified.

Exchange balances are aggregated via live API feeds to ensure risk exposures are monitored across the Partnership's positions. Exchange accounts with material balances are integrated within the Fireblocks platform; the integration allows for authorized users to initiate exchange withdrawals directly from Fireblocks to dedicated vault accounts within the platform. The Partnership maintains contingency plans to securely transfer digital assets of exchanges to pre-defined wallets and vault accounts. On an ongoing basis, the Partnership assesses its risk exposure based on current market conditions and its digital asset positions. To date, no known security breaches have occurred with any of the Partnership's exchange accounts which have resulted in a loss or theft of digital assets. The Partnership performs reconciliation procedures to review exchange balances, trades, and fees against internal and third-party records to ensure digital asset holdings are complete and accurate.

***Risk***

The Partnership's activities may expose it to variety of financial and other risks: credit risk, interest rate risk, liquidity risk, foreign currency risk, market risk, digital asset risk, loss of access risk, irrevocability of transactions, hard fork and airdrop risks and regulatory oversight risk, among others. The Partnership seeks to minimize potential adverse effects of these risks on performance by employing experienced personnel, daily monitoring of the Partnership's investments and digital assets, and any market events and diversifying the Partnership's business strategy as well as its investment portfolio within the constraints of the Partnership's investment objectives.

***Credit Risk***

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into, causing the other party to incur a financial loss. The Partnership's cash, receivables, receivable for digital asset trades, and loans (including digital asset loans) receivable are exposed to credit risk. The Partnership limits its credit risk by placing its cash with high credit quality financial institutions and with cryptocurrency exchanges on which the Partnership has performed internal due diligence procedures. The Partnership deems these procedures necessary as some exchanges are unregulated and not subject to regulatory oversight. Furthermore, crypto-exchanges engage in the practice of commingling their clients' assets in exchange wallets. When crypto-assets are commingled, transactions are not recorded on the applicable blockchain ledger but are only recorded by the exchange. Therefore, there is risk around the occurrence of transactions or the existence of period end balances represented by exchanges. As at December 31, 2020, the Partnership held approximately $12.4 million (December 31, 2019 - $4.5 million) in cash and $265.7 million (December 31, 2019 - $68.5 million) in digital assets at exchanges or custodians that do not have system or organization control reporting available. The Partnership's due diligence procedures around exchanges include, but are not limited to, internal control procedures around on-boarding new exchanges which includes review of the exchanges anti-money laundering ("AML") and know-your-client ("KYC") policies by the Partnership's chief compliance officer, obtaining a security ratings report by an independent third-party on certain exchanges, constant review of market information specifically regarding the exchanges security and solvency risk, setting balance limits for each exchange account based on risk exposure thresholds and preparing daily asset management reports to ensure limits are being followed and having a fail-over plan to move cash and digital assets held on an exchange in instances where risk exposure significantly changes. The Partnership limits its credit risk with respect to its receivables, receivables for digital asset trades, digital assets loans receivable and digital assets receivables by transacting with credit worthy counterparties that are believed to have sufficient capital to meet their obligations as they come due and, with regards to OTC and Master Loan Agreement (MLA) counterparties for the trading business, on which the Partnership has satisfactorily performed the relevant AML and KYC procedures. As of December 31, 2020 and subsequently, the Partnership does not expect a material loss on any of its loans. As of each reporting period, the Partnership assesses if there may be expected credit losses requiring recognition of a loss allowance. As of December 31, 2020, the Partnership is exposed to credit risk. While the Partnership intends to only transact with counterparties or exchanges that it believes to be creditworthy, there can be no assurance that a counterparty will not default and that the Partnership will not sustain a material loss on a transaction as a result.

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Partnership. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

The Partnership manages credit risk by transacting with counterparties that have gone through an internal due diligence approval process and requiring the posting of collateral if deemed necessary. The Partnership has also established mark-to-market provisions in its agreements with some counterparties which provide it with the right to request that the counterparties pay down or collateralize the current market value of its derivatives when the value exceeds a specified amount.

***Interest Rate Risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. General interest rate fluctuations may have an impact on the Partnership's investment opportunities, primarily within its principal investments segment. An increase in interest rates may make it more expensive to utilize a leverage facility in the future to make investments. To the extent the Partnership invests in debt instruments, interest rate changes may affect the value of the instrument indirectly in the case of fixed rate obligations, or directly in the case of adjustable rate instruments. In general, rising rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Interest rate sensitivity generally is more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate changes would also affect its ability to earn interest income on cash balances at variable rates. The Partnership did not have a leverage facility in place, and its digital assets loans receivable and payable (Note 11) are at fixed rates of interest. The Partnership's remaining loans all have fixed rates however in some cases can also be settled in digital assets at the option of the borrower. As of December 31, 2020, the Partnership's exposure to interest rate risk is limited.

***Liquidity Risk***

Liquidity risk is the risk that the Partnership will not be able to meet its financial obligations as they come due, as well as the risk of not being able to liquidate assets at reasonable prices. The Partnership manages liquidity risk by maintaining sufficient cash balances to enable settlement of its liabilities. Accounts payable and accrued liabilities, other than accrued compensation, and payables for digital asset trades generally have maturities of 30 days or less or are due on demand, or in the case of digital assets loan payable, on 5 to 20 business days notice or at the end of the set term unless renewed. The Partnership intends to manage its short-term liquidity needs through its available cash balance and cash inflows from its ongoing business activities. In addition, as of December 31, 2020, 74.3% (December 31, 2019 - 37.4%) of the Partnership's net portfolio was in liquid, actively traded cryptocurrency which can be monetized at reasonable prices in short order.

***Foreign Currency Risk***

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. To the extent these financial instruments are unhedged or not adequately hedged, the value of the Partnership's financial instruments may fluctuate with exchange rates as well as with price changes in various local markets and currencies. The value of the financial assets may therefore be unfavorably affected by fluctuations in currency rates and exchange control regulations. For the year ended December 31, 2020, the Partnership minimized exposure to digital assets transactions completed in foreign currencies by entering into foreign currency swaps, which are not significant.

***Market Risk***

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value. The Partnership's investments are susceptible to other market risk arising from uncertainties about future prices of the instruments. The Partnership moderates this risk through the various investment strategies within the parameters of the Partnership's investment guidelines.

As of December 31, 2020, management's estimate of the effect on equity to a +/- 10% change in the market prices of the Partnership's investments and investments sold short, with all other variables held constant, is +/- $25.6 million (December 31, 2019 - $15.8 million).

***Digital Asset Risk***

Digital assets are measured at fair value less cost to sell. Digital currency or cryptocurrency prices are affected by various forces including global supply and demand, interest rates, exchanges rates, inflation or deflation and the political and economic conditions. Further, cryptocurrencies have no underlying backing or contracts to enforce recovery of invested amounts.

The profitability of the Partnership is related to the current and future market price of cryptocurrencies; in addition, the Partnership may not be able to liquidate its inventory of cryptocurrencies at its desired price if necessary. Investing in cryptocurrencies is speculative, prices are volatile, and market movements are difficult to predict. Supply and demand for such currencies change rapidly and are affected by a variety of factors, including regulation and general economic trends. Cryptocurrencies have a limited history, their fair values have historically been volatile and the value of cryptocurrencies held by the Partnership could decline rapidly. A decline in the market prices of cryptocurrencies could negatively impact the Partnership's future operations. Historical performance of cryptocurrencies is not indicative of their future performance.

Many cryptocurrency networks are online end-user-to-end-user networks that host a public transaction ledger (blockchain) and the source code that comprises the basis for the cryptographic and algorithmic protocols governing such networks. In many cryptocurrency transactions, the recipient or the buyer must provide its public key, which serves as an address for a digital wallet, to the seller. In the data packets distributed from cryptocurrency software programs to confirm transaction activity, each party to the transaction user must sign transactions with a data code derived from entering the private key into a hashing algorithm, which signature serves as validation that the transaction has been authorized by the owner of the cryptocurrency. This process is vulnerable to hacking and malware, and could lead to theft of the Partnership's digital wallets and the loss of the Partnership's cryptocurrency.

Cryptocurrencies are loosely regulated and there is no central marketplace for exchange. Supply is determined by a computer code, not a central bank. Additionally, exchanges may suffer from operational issues, such as delayed execution, that could have an adverse effect on the Partnership.

The cryptocurrency exchanges on which the Partnership may trade on are relatively new and, in many cases, largely unregulated, and therefore may be more exposed to fraud and failure than regulated exchanges for other assets.

Any financial, security, or operational difficulties experienced by such exchanges may result in an inability of the Partnership to recover money or digital assets being held on the exchange. Further, the Partnership may be unable to recover digital assets awaiting transmission into or out of the Partnership, all of which could adversely affect an investment of the Partnership.

Additionally, to the extent that the digital asset exchanges representing a substantial portion of the volume in digital asset trading are involved in fraud or experience security failures or other operational issues, such digital asset exchanges' failures may result in loss or less favorable prices of digital assets, or may adversely affect the Partnership, its operations and its investments.

As of December 31, 2020, management’s estimate of the effect on equity to a +/- 10% change in the market prices of the Partnership’s net digital assets, including digital assets posted as collateral, with all other variables held constant, is +/- $86.1 million (December 31, 2019 - $7.8 million).

***Loss of access risk***

The loss of access to the private keys associated with the Partnership's cryptocurrency holdings may be irreversible and could adversely affect an investment. Cryptocurrencies are controllable only by an individual that possesses both the unique public key and private key or keys relating to the "digital wallet" in which the cryptocurrency is held. To the extent a private key is lost, destroyed or otherwise compromised and no backup is accessible the Partnership may be unable to access the cryptocurrency.

***Irrevocability of transactions***

Cryptocurrency transactions are irrevocable and stolen or incorrectly transferred cryptocurrencies may be irretrievable. Once a transaction has been verified and recorded in a block that is added to the blockchain, an incorrect transfer or theft generally will not be reversible, and the Partnership may not be capable of seeking compensation.

***Hard fork and air drop risks***

Hard forks may occur for a variety of reasons including, but not limited to, disputes over proposed changes to the protocol, significant security breach, or an unanticipated software flaw in the multiple versions of otherwise compatible software. In the event of a hard fork in a cryptocurrency held by the Partnership, it is expected that the Partnership would hold an equivalent amount of the old and new cryptocurrency following the hard fork.

Air drops occur when the promoters of a new cryptocurrency send amounts of the new cryptocurrency to holders of another cryptocurrency that they will be able to claim a certain amount of the new cryptocurrency for free.

The Partnership may not be able to realize the economic benefit of a hard fork or air drop, either immediately or ever, for various reasons. For instance, the Partnership may not have any systems in place to monitor or participate in hard forks or airdrops. Therefore, the Partnership may not receive any new cryptocurrencies created as a result of a hard fork or airdrop, thus losing any potential value from such cryptocurrencies.

***Regulatory oversight risk***

Regulatory changes or actions may restrict the use of cryptocurrencies or the operation of cryptocurrency networks or exchanges in a manner that adversely affects investments held by the Partnership.

## 26. CAPITAL MANAGEMENT

The Partnership’s objectives when managing capital are to safeguard its ability to continue as a going concern, to meet the capital needs of its ongoing operations, and to maintain a flexible capital structure which optimizes the cost of capital. The Partnership considers current economic conditions as well as the risk profile of its portfolio and overall business when managing its capital structure. The Partnership has an ongoing process whereby actual expenditures and cash needs are compared against budgets to ensure that there is sufficient capital on hand to meet ongoing obligations. As of December 31, 2020 and 2019, the Partnership had $798.2 million and $347.8 million in equity, excluding non-controlling interests, respectively. The Partnership has the flexibility to acquire or dispose of assets, and to issue debt or equity to adjust its capital structure in the future. The Partnership is not subject to externally imposed capital requirements other than the minimum net capital requirement for its broker dealer of $0.1 million, nor were there any changes to the Partnership’s approach to capital management during the year ended December 31, 2020.

(Expressed in US Dollars)

## 27. COMMITMENTS AND CONTINGENCIES

### Sublease

As of December 31, 2020 and 2019, the Partnership had commitments under two operating subleases (Note 23). The first sublease has a 10.5 year term that commenced on February 1, 2018 and expiring on June 30, 2028. The sublease contains a standard rent escalation clause, and rent was waived until June 30, 2018. The rent began at $756,800 per annum and is to be paid monthly in advance in equal installments.

In addition, the Partnership entered into another sublease agreement, effective August 1, 2019. The sublease started on August 1, 2019 and ends on June 30, 2028. The sublease contains a standard rent escalation clause and rent began at $11,532 per month and is to be paid monthly in advance.

The Partnership adopted IFRS 16 on January 1, 2019, which changed the accounting for the first operating lease (Notes 14 and 17).

As of December 31, 2020, the Partnership has operating lease commitments for the next five years as follows:

| | Rent Due |
|---|---|
| 2021 | 983,295 |
| 2022 | 1,012,793 |
| 2023 | 1,043,177 |
| 2024 | 1,074,473 |
| 2025 | 1,106,707 |
| **Total** | **$ 5,220,445** |

Additionally, the Partnership has $2.9 million in total commitments under the subleases for the period from 2026 to the expiration of the sublease terms on June 30, 2028.

### Investment and loan commitments

As of December 31, 2020, the Partnership was obligated to two portfolio companies to fund up to $7.2 million, of which $0.4 million was funded subsequent to year end.

### Agreement for blockchain servers

In September 2020, the Partnership entered into an agreement for the supply of blockchain servers. Under the terms of the agreement, the Partnership agreed to pay not less than $10 million during the 12 month period commencing January 1, 2021 for approximately 5,200 units. As at December 31, 2020, the Partnership had made deposits and prepayments of $3,649,829 million which is included in prepaid expenses and other assets (Note 12).

### Indemnification

The Partnership has provided standard representations for agreements and customary indemnification for claims and legal proceedings. Insurance has been purchased to mitigate certain of these risks. Generally, there are no stated or notional amounts included in these indemnifications and the contingencies triggering the obligation for indemnification are not expected to occur. Furthermore, often counterparties to these transactions provide comparable indemnifications. The Partnership is unable to develop an estimate of the maximum payout under these indemnifications for several reasons. In addition to the lack of a stated or notional amount in a majority of such indemnifications, it is not possible to predict the nature of events that would trigger indemnification or the level of indemnification for a certain event. The Partnership believes, however, that the possibility of making any material payments for these indemnifications is remote. As of December 31, 2020 and 2019, there was no liability accrued under these arrangements.

In the ordinary course of business, the Partnership and its subsidiaries may be threatened with, named as defendants in, or made parties to pending and potential legal actions. The Partnership does not believe that the ultimate outcome of these and any outstanding matters will have a material effect upon our financial position, results of operations or cash flows.

### Financial Support of GDH Ltd.

In accordance with the LPA, the Partnership will reimburse or pay for all reimbursable expenses of GDH Ltd. (Note 5).

(Expressed in US Dollars)

## 28. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Income for the year | $ | 385,502,231 | $ | 25,595,469 |
| Expected income tax (recovery) | $ | — | $ | (1,045,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | | — | | 78,000 |
| Permanent differences | | — | | 107,000 |
| Change in unrecognized deductible temporary differences | | — | | 860,000 |
| **Total income tax expense (recovery)** | **$** | **—** | **$** | **—** |

Statutory income tax expense is calculated at the domestic rates applicable to the profits in the country concerned. The above reconciliation has been prepared by aggregating the information of all the Partnership's subsidiaries using the domestic rate in each tax jurisdiction.

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:

| | | 2020 | Expiry Date Range | | 2019 | Expiry Date Range |
|---|---|---|---|---|---|---|
| **Temporary Differences** | | | | | | |
| Unrealized / realized loss (gain) on digital assets | $ | — | No expiry date | $ | (979,000) | No expiry date |
| Non-capital losses available for future periods | $ | 41,789,000 | 2036 to No expiry date | $ | 12,044,000 | 2036 to No expiry date |
| Canada | $ | 2,304,000 | 2036 to 2040 | $ | 2,071,000 | 2036 to 2039 |
| Hong Kong | $ | 2,486,000 | No expiry date | $ | 4,499,000 | No expiry date |
| Ireland | $ | 38,000 | No expiry date | $ | 640,000 | 2024 |
| Japan | $ | 2,453,000 | 2038 to 2040 | $ | 4,836,000 | 2038 to 2039 |
| United Kingdom | $ | 199,000 | No expiry date | $ | (2,000) | No expiry date |
| United States | $ | 34,309,000 | No expiry date | $ | — | No expiry date |

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

## 29. SUBSEQUENT EVENT

In March 2021, the Partnership recognized a significant liquidity event from one of its portfolio companies. The Partnership expects to recognize an incremental realized gain of approximately $105 million as a result of the sale in the first quarter of 2021.