



GALAXY
D I G I T A L

Galaxy Digital Holdings Ltd.

Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

(Expressed in US Dollars)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors of
Galaxy Digital Holdings Ltd.:

Opinion

We have audited the consolidated financial statements of Galaxy Digital Holdings Ltd. and its subsidiaries (collectively, the Company), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company, and have fulfilled our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit, which include relevant ethical requirements in the United States of America and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of audit evidence pertaining to the carrying value of investment in associate

As discussed in Notes 2, 3, and 6 to the consolidated financial statements, as of December 31, 2021, the Company's carrying value of the investment in associate is \$841 million. The Company holds an investment in Galaxy Digital Holdings LP (the Partnership). Management has determined it has significant influence over the investment and is accounting for it using the equity method under IAS 28.

We identified the evaluation of audit evidence pertaining to the carrying value of the Company's investment in the Partnership as a key audit matter. Specifically, auditor judgment was required to evaluate the sufficiency of audit evidence obtained over the accounting impacts of applying the equity method to the investment in the Partnership, including the reasonableness of the underlying financial performance of the Partnership.



The following are the primary procedures we performed to address this key audit matter. We audited the consolidated financial statements of the Partnership for the year ended December 31, 2021. In addition, we also evaluated the sufficiency of audit evidence obtained related to the carrying value of the investment in associate by assessing the results of the audit procedures performed, including the appropriateness of the nature and extent of such evidence, as well as the qualitative aspects of the Company's accounting practices.

Other Matter

The accompanying consolidated financial statements of the Company as of December 31, 2020 and for the year then ended were audited by other auditors whose report thereon dated March 29, 2021, expressed an unmodified opinion on those financial statements.

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 as issued by the IASB, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise significant doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued; to disclose, as applicable, matters related to going concern; and to use the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and ISAs will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and ISAs, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.



- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise significant doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis for the year ended December 31, 2021 but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

The engagement partner on the audit resulting in this independent auditors' report is Michael Campanile.

KPMG LLP

New York, New York
March 31, 2022

Galaxy Digital Holdings Ltd.

Consolidated Statements of Financial Position
(Expressed in thousands of US Dollars)

	December 31, 2021	December 31, 2020
Assets		
Current assets		
Cash	\$ 26,823	\$ —
Accounts receivable	3	—
Investment receivable from warrant exercise (Note 8)	20,488	20,781
	47,314	20,781
Investment in associate (Note 6)	841,463	246,993
Total assets	\$ 888,777	\$ 267,774
Liabilities		
Payable to associate	\$ 25,203	\$ —
Warrant liability (Notes 8,12)	20,488	20,781
Taxes payable	20,928	—
	66,619	20,781
Tax receivable agreement - payable	5,272	—
Deferred tax liability	30,593	—
Total liabilities	102,484	20,781
Shareholders' equity		
Share capital (Note 8)	417,395	301,306
Reserves (Note 8)	36,128	14,999
Accumulated other comprehensive income	791	791
Retained earnings (deficit)	331,979	(70,103)
Total shareholders' equity	786,293	246,993
Total liabilities and shareholders' equity	\$ 888,777	\$ 267,774
Nature and continuance of operations (Note 1)		
Commitments and contingencies (Note 10)		

Approved and authorized for issuance by the Board of Directors of Galaxy Digital Holdings Ltd.

"Bill Koutsouras" Director

"Michael Novogratz" Director

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

Galaxy Digital Holdings Ltd.

Consolidated Statements of Income and Comprehensive Income
(Expressed in thousands of US Dollars, except share and per share data)

	Year ended December 31, 2021	Year ended December 31, 2020
Operating expenses		
Directors fees (Note 7)	\$ 565	\$ 498
Professional fees	2,426	1,039
General and administrative	1,261	366
Recoveries from associate - reimbursable expenses (Note 7)	(4,168)	(1,903)
	(84)	—
Equity income from associate (Note 6)	506,653	103,386
Revaluation of warrant liability (Note 6)	(45,644)	(14,318)
Recoveries from associate - warrant liability (Note 8)	45,644	14,318
Tax receivable agreement expense	(2,532)	—
Income before income taxes	\$ 504,037	\$ 103,386
Income taxes (expense) – current (Note 11)	(40,596)	—
Income taxes recovery (expense) – deferred (Note 11)	(61,359)	—
	(101,955)	—
Net income and comprehensive income for the period	\$ 402,082	\$ 103,386
Basic income per share (Note 9)	\$ 4.27	\$ 1.51
Diluted income per share (Note 9)	\$ 3.81	\$ 1.28
Weighted average number of ordinary shares outstanding - basic (Note 9)	94,195,024	68,512,122
Weighted average number of ordinary shares outstanding - diluted (Note 9)	349,318,648	301,178,603

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

Galaxy Digital Holdings Ltd.

Consolidated Statements of Changes in Shareholders' Equity (Expressed in thousands of US Dollars, except share data)

	Share Capital		Reserves	Accumulated Other Comprehensive Income	Retained earnings (deficit)	Total
	Number	Amount				
Balance at December 31, 2019	66,636,540	\$ 240,639	\$ 13,102	\$ 791	\$ (173,490)	81,042
Issuance of common stock (Note 6, 8)	5,472,493	4,833	—	—	—	4,833
Repurchase of common stock (Note 6, 8)	(3,600,997)	(2,875)	—	—	—	(2,875)
Shares issued for PIPE transaction (net of issuance costs) (Note 8)	19,070,000	49,278	—	—	—	49,278
Warrant liability allocation	—	(6,463)	—	—	—	(6,463)
Shares issued for acquisitions (Note 6, 8)	3,670,471	14,938	—	—	—	14,938
Equity based compensation from investment in associate (Note 6, 8)	—	957	1,897	—	—	2,854
Income for the year	—	—	—	—	103,386	103,386
Balance at December 31, 2020	91,248,507	301,307	14,999	791	(70,104)	\$ 246,993
Issuance of common stock (Note 6, 8)	5,961,858	16,533	—	—	—	16,533
Shares issued on exercise of PIPE warrants (Note 8)	3,119,944	66,314	—	—	—	66,314
Shares issued for acquisitions (Note 6, 8)	1,220,185	4,955	—	—	—	4,955
Equity based compensation from investment in associate (Note 6, 8)	—	208	21,129	—	—	21,337
Income tax benefit recognized on share based payments	—	28,078	—	—	—	28,078
Income for the year	—	—	—	—	402,083	402,083
Balance at December 31, 2021	101,550,494	\$ 417,395	\$ 36,128	\$ 791	\$ 331,979	\$ 786,293

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

Galaxy Digital Holdings Ltd.

Consolidated Statements of Cash Flows
(Expressed in thousands of US Dollars)

	Year ended December 31, 2021	Year ended December 31, 2020
Operating activities		
Income for the year	\$ 402,082	\$ 103,386
Adjustments for:		
Equity income from associate	(506,653)	(103,386)
Net unrealized loss on warrant liability	45,644	14,318
Recoveries from associate - warrant liability	(45,644)	(14,318)
Deferred tax expense	61,359	
Changes in operating assets and liabilities:		
Accounts receivable	(3)	—
Taxes payable	20,927	
Tax receivable agreement - payable	2,741	
Net cash used in operating activities	(19,547)	—
Investing activities		
Investment in associate	12,241	(49,278)
Net cash used in investing activities	12,241	(49,278)
Financing activities		
Proceeds from PIPE transaction	—	50,000
Proceeds received from exercise of stock options	13,753	
Proceeds received from exercise of warrants	20,376	
Share issuance costs	—	(722)
Net cash provided by financing activities	34,129	49,278
Net decrease in cash	26,823	—
Cash, beginning of year	—	—
Cash, end of year	\$ 26,823	\$ —
Supplemental disclosure of cash flow information and non-cash financing activities:		
Cash paid during the year for taxes	\$ 19,666	\$ —
Non-cash activities:		
Exchange of Class B units for Class A shares	\$ 2,782	\$ —
Shares issued for exercise of warrants	\$ 45,937	\$ 6,463
Shares issued for acquisitions	\$ 4,955	\$ 14,938
Stock based compensation	\$ 21,129	\$ —

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

Galaxy Digital Holdings Ltd.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020
(Expressed in US Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Galaxy Digital Holdings Ltd. ("GDH Ltd." or, together with its subsidiaries, the "Company"), was originally formed and incorporated under the Business Corporations Act (Ontario) on February 10, 2006. On July 31, 2018, GDH Ltd. continued out of the Province of Ontario to become a company existing under the laws of the Cayman Islands. During the year ended, the Company relocated its principal address from 107 Grand Street, New York, New York, 10013 to 300 Vesey Street, New York, New York, 10282.

Effective July 6, 2020, the Company 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. GDH Ltd.'s ordinary shares are dual-listed on the Frankfurt Stock Exchange under the symbol "7LX".

The Company is listed on the TSX. Effective August 4, 2021, the Company successfully exited the TSX Sandbox program. 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 Company graduated having completed a twelve-month period without significant compliance issues after graduation.

The Company has a minority interest in Galaxy Digital Holdings LP (the "Partnership", "Galaxy" or "GDH LP"). Galaxy is a technology-driven diversified financial services and investment management firm that provides institutions with a full suite of scaled financial solutions spanning the digital assets ecosystem. Galaxy's mission is to institutionalize the cryptoeconomy and promote the growth and adoption of the technology and services that support the digital assets and cryptocurrency sector. The Partnership capitalizes on market opportunities made possible by the rapid evolution of the digital assets ecosystem. The Partnership operates in the following reportable segments: trading, asset management, investment banking, mining and principal investments.

Corporate Transaction

GDH LP, an operating partnership which was formed on May 11, 2018, is managed by the board of managers and officers of the Partnership's General Partner. Galaxy Digital Holdings GP LLC ("GDH GP" or the "General Partner"), 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 Company and managed by the Board of Managers of the General Partner.

These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are to manage its minority interest in GDH LP and are dependent on financial support from GDH LP, who has the obligation to reimburse the Company for all reasonable operational expenses (Note 5). At December 31, 2021, the Company had total equity of \$786.3 million (December 31, 2020 - \$247.0 million). Management estimates that, based on the financial support from GDH LP, the Company has the ability 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 accordance with International Financial Reporting Standards ("IFRS") as issued 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 Company's Board of Directors and authorized for issuance.

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

Galaxy Digital Holdings Ltd.

Notes to the Consolidated Financial Statements
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Functional and Presentation Currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency determination was conducted through an analysis of the consideration factors identified in International Accounting Standard (IAS) 21. The functional and the presentation currency for the Company and its subsidiary is the United States dollar ("US dollar").

Foreign currency transactions are translated into the functional currency of the respective entity, 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.

Basis of Consolidation

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

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.

Significant judgments in applying accounting policies

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

Influence over Investment in associate

Classification of investments requires judgment on whether the Company 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 Company has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements. If an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

The Company has classified its investment in GDH LP as an associate based on management's judgment that the Company has significant influence but not control.

Key sources of estimation uncertainty

Deferred tax assets

Judgment is required in determining whether deferred tax assets, including those arising from unutilized tax losses, are recognized in the statement of financial position. This analysis requires that management assess the likelihood that the Company will generate taxable earnings in future periods to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasting cash flows from operations and applying existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to realize tax deductions in future periods.

Investment in associate

The underlying values of the equity investment includes valuations of digital assets and investments in private companies. Digital assets may be subject to significant fluctuations in value and when the fair value of the investments in private companies cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair value and this value may not be indicative of recoverable value.

Furthermore, the Company consistently assesses the overall carrying value of its investment in associate to ensure that it is carried at no more than its recoverable amount, being the higher of its fair value less cost to dispose and value in use. Judgement is required to establish these amounts which may not be indicative of the recoverable value.

Valuation of warrant liability

The warrants issued in connection with the private investment in public equity ("PIPE") (Note 8) are recorded as a derivative financial liability as these warrants are exercisable in Canadian dollars, differing from the Company's functional currency. The Company 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 Company 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 and to make assumptions about the most appropriate inputs to the valuation model including the expected life of the warrants, fair value per unit, volatility and dividend yield. If different input assumptions are used, the changes can materially affect the fair value estimate.

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. To date, globally, there has been significant volatility in markets and foreign exchange rates, restriction on the 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 pandemic's uncertainty, including the possibility of new and more virulent strains of the virus, 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, 2021 and 2020, the Company did not classify any balances as cash equivalents.

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 Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

Galaxy Digital Holdings Ltd.

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(Expressed in US Dollars)

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. Cash, as applicable, and investment receivable from warrant exercise 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, as applicable, are classified as financial liabilities and carried on the statement of financial position at amortized cost. Warrant liability is classified as FVTPL.

Investment in associate

The Company accounts for its investment in its associate using the equity method. Under the equity method, the Company's investment in associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates are recognized through profit or loss during the period. Distributions received from an associate are accounted for as a reduction in the carrying amount of the Company's investment in the associate.

Intercompany transactions between the Company and its associates are recognized only to the extent of unrelated investors' interests in the associate.

At the end of each reporting period, the Company assesses whether there is any objective evidence that the investment in an associate is impaired. Objective evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows of the associate's operations. When there is objective evidence that the investment in associate is impaired, the carrying amount of the investment is compared to its recoverable amount, being the higher of its fair value less cost to dispose ("FVLCD") and value in use (i.e. present value of its future cash flows) ("VIU"), which, in the Company's case, is usually the FVLCD. If the recoverable amount of the investment in associate is less than its carrying amount then an impairment loss is recognized in that period. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in associate is increased to the revised estimate of the recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized through profit or loss in the period that the reversal occurs.

Equity based compensation

The Company has a stock option plan to grant options to employees, officers, directors and consultants of the Company and its affiliates (inclusive of GDH LP). All options granted subsequent to the completion of the Arrangement, have been granted by GDH LP after receiving approval by the Board of Directors of GDH Ltd., therefore the fair value of these stock options has been recorded as a charge to operations and a credit to reserves in GDH LP. GDH Ltd. recognizes a portion through equity accounting of its investment in GDH LP.

The fair value of stock options is measured at the grant date using the Black-Scholes option pricing model. The fair value of stock options which vest immediately is recorded at the grant date. For stock options which vest in the future, the fair value of the stock options, as adjusted for the expected level of vesting of the stock options and the number of stock options which ultimately vest, is recognized over the vesting period. 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. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Any consideration received on the exercise of stock options, together with the related portion of contributed surplus, is credited to share capital.

Earnings per share

Basic earnings per share is computed by dividing net earnings (the numerator) by the weighted average number of outstanding ordinary shares for the period (denominator). When diluted earnings per share is calculated, only those outstanding share options and warrants and other convertible instruments with exercise prices below the average trading price of the Company's ordinary shares for the period will be dilutive.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive and therefore basic and diluted loss per share is the same.

Net comprehensive income

Net comprehensive income comprises all components of profit or loss and other comprehensive income. Other comprehensive income includes gains and losses from translating the financial statements of an entity whose functional currency differs from the presentation currency.

Income taxes

Income tax expense comprises current and deferred tax. Current income tax and deferred income tax expense are recognized in profit or loss other than current and deferred income taxes relating to items recognized directly in other comprehensive income ("OCI"), which are also recognized directly in OCI. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

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 as of the date of the statement of financial position. Current income tax assets and liabilities are included in accounts receivable and taxes payable, respectively, if any.

Deferred tax assets are generally recognized for deductible temporary differences, unused tax losses, and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax assets arise from the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect accounting profit or taxable profit. Deferred tax assets for deductible temporary differences arising from investments in subsidiaries, branches, and associates, and interests in joint arrangements, are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference will 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 tax liabilities are generally recognized on taxable temporary differences between the tax bases and the carrying amounts of assets and liabilities for financial statement purposes other than for liabilities arising from: (1) the initial recognition of goodwill, (2) the initial recognition of assets or liabilities other than in a business combination which, at the time of the transaction, do not affect either the accounting or the taxable profit and do not give rise to equal taxable and deductible temporary differences, or (3) temporary differences associated with investments in subsidiaries, branches, and associates, and interests in joint arrangements, but only to the extent that the entity is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future.

A provision for tax treatment uncertainties which meet the probable threshold for recognition is measured using either the most likely amount or the expected value, depending upon which method provides the better prediction of the resolution of the uncertainty.

4. NEW ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

There are no new accounting policies or recent accounting pronouncements adopted in the year ended December 31, 2021.

5. KEY TERMS OF LIMITED PARTNERSHIP AGREEMENT

On June 23, 2020, GDH LP, GDH GP, GDH Ltd., GDH Intermediate LLC and each of the Persons admitted as a "Class B Limited Partner" entered into a fourth 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 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 Partnership 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, excluding tax.
- *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.

6. INVESTMENT IN ASSOCIATE

The Company holds a 30.8% interest in GDH LP as of December 31, 2021 (29.0% at December 31, 2020), which is subject to key terms of the LPA (Note 5).

Per the LPA, as long as the Company owns more than 10% of GDH LP, the Company has the right to appoint one person to the general partner board of directors. In addition, through the LPA, the Company participates in all significant financial and operating decisions of GDH LP, is generally required to acquire additional GDH LP units with all of the proceeds raised in

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financings, and is to receive reimbursements from GDH LP for the Company's reasonable operating costs. Therefore, the Company has determined that it has significant influence over GDH LP.

As of December 31, 2021, the carrying value of the investment in GDH LP was \$841.5 million (December 31, 2020 - \$247.0 million).

Summarized financial information for GDH LP

(in thousands)	December 31, 2021	December 31, 2020
Current assets		
Cash	\$ 811,129	\$ 137,951
Other current assets	3,130,075	1,131,180
	3,941,204	1,269,131
Non-current assets	1,155,334	293,481
Total assets	\$ 5,096,538	\$ 1,562,612
Liabilities	\$ 2,498,187	\$ 764,401
	\$ 2,498,187	\$ 764,401
Net Assets	\$ 2,598,351	\$ 798,211
The Company's share of net assets	\$ 841,463	\$ 246,993
(in thousands)	Year ended December 31, 2021	Year ended December 31, 2020
Income	\$ 1,365,581	\$ 304,160
Operating expenses	(364,568)	(79,874)
Net unrealized gain (loss) on digital assets	451,465	239,720
Net unrealized gain (loss) on investments (Note 8)	546,997	90,587
Net gain (loss) on notes payable - derivative (Note 18)	12,132	—
Net gain (loss) on warrant liability (Note 18)	(45,644)	(14,318)
Foreign currency gain (loss)	2,590	(1,388)
(Gain) loss attributable to non-controlling interests liability	(197,376)	(153,385)
	770,164	161,216
Income before income taxes	1,771,177	385,502
Income taxes	56,900	—
Net income	\$ 1,714,277	\$ 385,502
Foreign currency translation adjustment	367	17
Net comprehensive income for the year	\$ 1,714,644	\$ 385,519
The Company's share of comprehensive income - 29.6% (December 31, 2020 - 26.8%)	\$ 506,653	\$ 103,386

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Reconciliation to carrying amount of investment in GDH LP:

(in thousands)	Year ended December 31, 2021	Year ended December 31, 2020
Balance, beginning	\$ 246,993	\$ 81,041
Shares issued for PIPE transaction net of issuance costs ⁽¹⁾ (Note 8)	—	42,815
Shares issued for acquisitions (Note 8)	4,955	14,938
Shares issued on exercise of PIPE warrants (Note 8)	66,314	—
Equity based compensation allocation	21,337	2,855
Increase in ownership interest as a result of GDH LP Class B unit exchanges (Note 8)	2,782	4,833
Shares issued on exercise of stock options (Note 8)	12,093	—
Cancellation of Class A common stock repurchased (Note 8)	—	(2,875)
Allocation of comprehensive income	506,653	103,386
Distributions	(19,717)	—
Other	53	—
Balance, ending	<u>\$ 841,463</u>	<u>\$ 246,993</u>

⁽¹⁾ Net of \$0.7 million cash issuance costs and \$6.5 million warrant liability.

As at December 31, 2021, the Company determined there were no indicators of impairment.

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, the Company 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 the Company, the Company receives Class A Units of the Partnership. As the Company's interest in GDH LP increases through the ownership of the Class A Units, it will be performing an ongoing assessment to determine when it 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.

Business Combinations

Vision Hill Group Inc.

On May 19, 2021, GDH Ltd. legally acquired 100% of Vision Hill Group Inc. and Vision Hill Advisors, LLC (together, "Vision Hill" or "VHG"). Vision Hill is a Delaware limited liability company and is an asset manager in the digital assets space with four distinct business units: a family of crypto hedge fund indices; a crypto asset manager intelligence database called "VisionTrack"; a bespoke consulting business for allocators; and a fund manager for fund of funds. On completion of the acquisition, all issued and outstanding VHG membership interests and all outstanding rights to receive membership interests were cancelled and converted into the right to receive 1,065,295 ordinary shares plus approximately \$5.5 million of cash net of company transaction expenses. Of the 1,065,295 ordinary shares, a portion were granted to VHG employee sellers, payable in three equal payments in the three years following the closing date of the transaction (May 19, 2021), on the condition that they are still employed by the Company. Given the employment requirement, the shares in GDH Ltd. are considered remuneration

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for services to be provided post-close, and not part of the purchase consideration for IFRS 3 purposes. Immediately following GDH Ltd.'s acquisition of VHG, and contemplated in connection with the overall ownership structure of GDH Ltd. and GDH LP, GDH Ltd. contributed its ownership interest in VHG to GDH LP in exchange for equity of GDH LP in the same amount of consideration that GDH Ltd. transferred to VHG. Consequently, the effective result of the acquisition was GDH LP contributing equity in exchange for 100% of the ownership interest in VHG in order to expand its asset management business.

VHG met the definition of a business under IFRS 3, and was identified as the accounting acquiree, whereas GDH LP was identified as the accounting acquirer. The acquisition of VHG 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 in exchange for the net identifiable assets of VHG on May 19, 2021.

7. RELATED PARTY TRANSACTIONS

Compensation to key management personnel

The Company's related parties include its subsidiary, 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 Company, directly or indirectly. Key management personnel include officers, directors, companies controlled by officers and directors and companies with common directors of the Company.

Compensation provided to key management personnel for the years ended December 31, 2021 and 2020 is as follows:

(in thousands)	Year ended December 31, 2021	Year ended December 31, 2020
Directors fees	\$ 565	\$ 498

Other

Certain key management personnel have invested in funds that GDH LP manages. Some members of key management serve as board members for companies in which GDH LP or a fund it manages holds investments.

In addition, the CEO of GDH Ltd. was a member of the board for another company, resulting in GDH Ltd. and that company being a related party. As of December 31, 2021, GDH LP had an investment in the company valued at \$121.3 million (December 31, 2020 - \$19.6 million).

In accordance with the LPA (Note 5), GDH LP will reimburse or pay for all reimbursable expenses of the Company. For the year ended December 31, 2021, GDH LP paid or accrued \$4.2 million (December 31, 2020 - \$1.9 million) for the reimbursable expenses.

As at December 31, 2021, the Company had \$25.2 million in payable to GDH LP. for reimbursement from warrant and stock option exercises, net of reimbursable expenses.

8. SHARE CAPITAL AND RESERVES

Authorized

The authorized share capital of the Company is C\$2.0 million, divided into 2,000,000,000 ordinary shares of C\$0.001 par value each.

Issued

During the year ended December 31, 2021, the Company issued 5,961,858 (December 31, 2020 - 5,472,493) ordinary shares valued at \$16.5 million (December 31, 2020 - \$4.8 million) on exchange of Class B Units of GDH LP and exercise of options, 3,119,944 (December 31, 2020 - nil) ordinary shares valued at \$66.3 million (December 31, 2020 - \$nil) on exercise of warrants and 1,220,185 (December 31, 2020 - 3,670,471) ordinary shares valued at \$5.0 million (December 31, 2020 - \$14.9 million) for acquisitions.

At December 31, 2021 3,275,387 shares were held in escrow relating to acquisitions.

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Restricted Stock

On December 15, 2020, the Partnership issued 1,079,971 restricted shares of GDH Ltd. with a fair value of \$5.2 million (or at a weighted average fair value of \$4.7765). Of the shares granted, 454,971 vest on December 1, 2023 and the remainder vest on December 1, 2024. The restricted share units were issued as part of an inducement grant to an officer.

On May 19, 2021, in connection with the Vision Hill business combination (Note 6), the Partnership granted 845,428 restricted shares of GDH Ltd. with a fair value of \$16.2 million (or a weighted average fair value of \$19.1064). The restricted shares vest annually over three years.

Private Investment in Public Equity ("PIPE")

On November 12, 2020 (the "Closing"), GDH Ltd. closed a PIPE of \$50 million of aggregate gross proceeds (\$49.3 million net of cash share issuance costs of \$0.7 million). 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 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, (iii) sales of up to 66.6% of the total shares issued are permitted ten to twelve months after the Closing, and (iv) sales of up to 100% of total shares issued are permitted until eighteen months after the Closing. All associated shares are 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. ordinary share issued and any liability associated with the warrant will be pushed down to the Partnership. Therefore, the Company has recognized a corresponding asset, investment receivable from warrant exercise, which represents the Class A units that the Partnership will issue to GDH Ltd. on exercise of the warrants. On initial recognition, the warrants were valued at \$6.5 million and 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, 2021 the value of the warrant liability is \$20.5 million (December 31, 2020 - \$20.8 million) and the loss and corresponding recovery recognized in the statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2021 is \$45.6 million (2020 - \$14.3 million).

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, 2021 are included in Note 13. These are the only warrants outstanding in GDH Ltd. During the year ended December 31, 2021, 3,119,944 of the warrants were exercised at an exercise price of C\$8.25. At December 31, 2021, there are 1,647,556 warrants outstanding and exercisable (December 31, 2020 - 4,767,500).

Exchangeable Notes

On December 9, 2021, GDH LP issued \$500 million aggregate principal amount of 3.00% exchangeable notes. The exchangeable notes will mature and have the aggregate principal amount due in 2026, unless earlier exchanged, redeemed or repurchased. Interest on the exchangeable notes will be payable semi-annually. There is no discount or premium associated with the notes. The exchangeable notes have an initial exchange rate of 7,498.2210 ordinary Shares per US\$250,000 principal amount. All Exchangeable Notes issued are subject to certain selling and transfer restrictions set forth in each investor's note purchase agreement and as set forth in the indenture that governs the Exchangeable Notes.

Shares issued for acquisitions

On May 19, 2021, GDH Ltd. acquired Vision Hill (Note 6). As part of the acquisition, the Company issued 1,065,295 ordinary shares in Galaxy Digital Holdings Ltd. to VHG employee and non-employee sellers valued at \$4.3 million.

Ordinary Share Repurchase

In September 2019, the Company 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 ("Share Repurchase Program").

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 (\$2.9 million) 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

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Class A Units in the Partnership were cancelled. Effective April 17, 2020, GDH Ltd. completed its normal course issuer bid program repurchases.

Reserves

Until mid 2018, the Company had a separate stock option plan, which provided employees, directors, officers and consultants of the Company with the opportunity to acquire ordinary shares of the Company through the exercise of stock options. Stock options granted under the plan were limited to a maximum term of ten years and limited to 10% of the Company's outstanding ordinary shares. The remaining 11,869 options with a weighted average exercise price of C\$12.64 expired on July 21, 2021. No options were granted, exercised or forfeited under the above plan during the years ended December 31, 2021 or 2020.

Refer to Note 10 for share options granted under the Company's stock option plan to employees, officers, directors and consultants of the Company and its affiliates.

Equity based compensation

During the year ended December 31, 2021, the Company recognized equity based compensation of \$21.3 million (2020 - \$2.9 million) from its investment in associate (Note 6).

9. INCOME PER SHARE

The table below presents basic and diluted net income per share of common stock for the year ended December 31, 2021 and 2020, respectively:

	Year ended December 31, 2021	Year ended December 31, 2020
Basic income per share	\$ 4.27	\$ 1.51
Diluted income per share	\$ 3.81	\$ 1.28

Basic income per share

The net income and weighted average number of ordinary shares used in the calculation of basic income per share are as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Net income used in the calculation of basic income per share	\$ 402,082	\$ 103,386
Weighted average number of ordinary shares for the purposes of basic income per share	94,195,024	68,512,122

Diluted income per share

The net income and weighted average number of ordinary shares used in the calculation of diluted income per share are as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Net income used in the calculation of diluted income per share	\$ 1,330,504	\$ 385,502
Weighted average number of ordinary shares for the purposes of diluted income per share	349,318,648	301,178,603

For the year ended December 31, 2021 and 2020, the weighted average number of ordinary shares for the purposes of diluted income per share assumes the potential conversion of the outstanding GDH LP Class B Units, the conversion of the Class B Units under the GDH LP equity compensation plan (Note 10) and the potential exercise of stock options, restricted stock, held back shares, restricted stock units under GDH LP equity compensation plan and the potential conversion of exchangeable shares.

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Reconciliation of the net income used in the calculation of basic income per share to net income used in the calculation of diluted income per share:

	Year ended December 31, 2021	Year ended December 31, 2020
Net income used in the calculation of basic income per share	\$ 402,082	\$ 103,386
Net income currently allocated to outstanding GDH LP Class B Units ⁽¹⁾	928,422	282,116
Net income used in the calculation of diluted income per share	\$ 1,330,504	\$ 385,502

⁽¹⁾ Net income allocated to GDH LP Class B Units for the year ended December 31, 2021 is net of an estimated tax adjustment.

Reconciliation of the weighted average number of ordinary shares used in the calculation of basic income per share to weighted average number of ordinary shares used in the calculation of diluted income per share:

	Year ended December 31, 2021	Year ended December 31, 2020
Weighted average number of ordinary shares for the purposes of basic income per share	94,195,024	68,512,122
Diluted shares:		
Weighted average of outstanding Class B Units for the year	224,464,902	220,319,953
Compensatory Class B Unit awards	4,375,077	6,487,682
Stock options	22,353,262	5,808,683
Restricted stock	1,027,757	50,163
Restricted Stock Units	1,853,933	—
Held Back Shares	144,798	—
Exchangeable notes	903,895	—
Weighted average number of ordinary shares for the purposes of diluted income per share	349,318,648	301,178,603

10. COMMITMENTS AND CONTINGENCIES

GDH LP Class B Units

GDH LP has two classes of ownership interests: Class A Units and Class B Units. The units rank equally in all material respects, including from an economic and voting perspective; however, under the terms of the LPA (Note 5), Class B Units will, subject to certain limitations, be exchangeable for GDH Ltd. shares on a one-for-one basis.

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 \$0.1 million (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 vested on December 15, 2020, 15,226 vested 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 \$3.5 million (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

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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 an ordinary 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%.

As of December 31, 2021, after accounting for exchanges (Note 8) and forfeitures, there were 228,701,080 (December 31, 2020 - 229,404,568) Class B Units issued, of which 228,110,373 (December 31, 2020 - 222,905,934) were outstanding and exercisable into ordinary shares of GDH Ltd.

Stock Option Plan

The Company has a stock option plan (the “Plan”) to grant options, which are exercisable into an equivalent amount of the Company's ordinary shares, to employees, officers, directors and consultants of the Company and its affiliates (inclusive of GDH LP). 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 diluted basis. Under the Plan, the exercise price of each option may not be less than the market price of the Company's shares at the date of grant. Options granted under the Plan will have a term not to exceed 5 years and be subject to vesting provisions as determined by the Board of Directors of the Company who administer the Plan. On exercise of an option, the holder will receive one ordinary share in the Company and GDH LP will issue one Class A Unit to the Company. The maximum number of shares reserved for issuance under the Plan is fixed at 45,565,739 shares of the Company. Following the approval of the Long Term Incentive Plan, the Company will no longer make grants under the Plan and future grants will be made from the Long Term Incentive Plan. The Plan reserve has been rolled over into the Long Term Incentive Plan.

Long Term Incentive Plan

In May 2021, the Board of Directors of the Company approved a Long Term Incentive Plan (“LTIP”) to grant stock options, stock appreciation rights, restricted stock, and share units (in the form of restricted share units and/or performance share units) to employees, officers, and consultants of the Company and its affiliates (inclusive of GDH LP) and deferred share units to non-employee directors of the Corporation and non-employee managers of the board of managers of the General Partner, subject to shareholder approval, which was received on June 29, 2021. Under the LTIP Plan, 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 ten 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 ordinary share in GDH Ltd. and GDH LP will issue one Class A Unit to GDH Ltd. The maximum number of shares reserved for issuance under the Plan is fixed at 48,290,478 shares of GDH Ltd. Following the approval of the LTIP, the Company will no longer make grants under the Plan and future grants will be made from the LTIP Plan. The Plan reserve has been rolled over into the LTIP.

Non-Treasury Plan

In May 2021, the Board of Directors of the Company approved the Non-Treasury Share Unit Plan (“Non-Treasury Plan”) as a supplement to the LTIP Plan under which grants made under the plan are settled solely in cash. Share units are restricted share units or performance share units.

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A summary of stock options outstanding as at December 31, 2021 is as follows:

Grant Date	Number Outstanding	Number Exercisable	Exercise Price (C\$)	Expiry Date
Employees and Officers:				
July 31, 2018	5,199,222	2,985,472	3.00	July 23, 2023
July 31, 2018	126,000	94,500	5.00	July 23, 2023
September 10, 2018	103,600	77,700	3.00	July 23, 2023
June 25, 2019	1,699,700	1,197,200	2.15	June 25, 2024
April 9, 2020	3,571,623	1,148,282	1.35 - 1.85	April 9, 2025
June 25, 2020	750,000	750,000	1.39	June 25, 2025
November 16, 2020	150,000	150,000	5.65	June 25, 2025
November 16, 2020	5,698,400	325,900	5.65	November 16, 2025
December 3, 2020	7,437,300	1,812,300	6.21	December 3, 2025
December 8, 2020	552,500	136,250	6.00	December 8, 2025
December 21, 2020	100,000	25,000	8.02	December 21, 2025
May 27, 2021	3,725,000	—	23.12 - 25.00	May 27, 2026
August 17, 2021	300,000	—	22.27 - 35.00	August 17, 2026
September 29, 2021	400,000	—	20.00	September 29, 2026
December 1, 2021	550,000	—	30.76	December 1, 2026
December 8, 2021	50,000	—	25.69	December 8, 2026
Total	30,413,345	8,702,604		

Restricted Share Units

On May 27, 2021, the Partnership granted 6,191,482 restricted share units that will be settled in shares with a fair value of \$118.1 million (or a weighted average fair value of \$19.0665 per share). The restricted share units vest over three to four years with varying vest schedules.

On May 27, 2021, the Partnership granted 422,016 restricted share units that will be settled in cash. The restricted share units vest over three to four years with varying vest schedules and had a fair value of \$8.0 million at grant date. The outstanding liability related to cash settled units as of December 31, 2021 was \$1.0 million.

On August 17, 2021, the Partnership granted 453,629 restricted share units that will be settled in shares with a fair value of \$7.1 million (or a weighted average fair value of \$15.61 per share). The restricted share units vest over three to four years with varying vest schedules.

On August 17, 2021, the Partnership granted 196,851 restricted share units that will be settled in cash. The restricted share units vest over three to four years with varying vest schedules and had a fair value of \$3.1 million at grant date. The outstanding liability related to cash settled units as of December 31, 2021 was \$0.4 million.

On September 29, 2021, the Partnership granted 389,369 restricted share units that will be settled in shares with a fair value of \$5.9 million (or a weighted average fair value of \$15.03 per share). The restricted share units vest over three to four years with varying vest schedules.

On September 29, 2021, the Partnership granted 108,000 restricted share units that will be settled in cash. The restricted share units vest over three to four years with varying vest schedules and had a fair value of \$1.6 million at grant date. The outstanding liability related to cash settled units as of December 31, 2021 was \$0.1 million.

On December 1, 2021, the Partnership granted 810,000 restricted share units that will be settled in shares with a fair value of \$18.5 million (or a weighted average fair value of \$22.83 per share). The restricted share units vest over three to four years with varying vest schedules.

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On December 1, 2021, the Partnership granted 51,445 restricted share units that will be settled in cash. The restricted share units vest over three to four years with varying vest schedules and had a fair value of \$1.2 million at grant date. The outstanding liability related to cash settled units as of December 31, 2021 was not significant.

On December 8, 2021, the Partnership granted 160,000 restricted share units that will be settled in shares with a fair value of \$3.3 million (or a weighted average fair value of \$20.32 per share). The restricted share units vest over three to four years with varying vest schedules.

On December 8, 2021, the Partnership granted 23,500 restricted share units that will be settled in cash. The restricted share units vest over three to four years with varying vest schedules and had a fair value of \$0.5 million at grant date. The outstanding liability related to cash settled units as of December 31, 2021 was not significant.

Grants to Directors

On August 17, 2021, the Partnership granted 33,864 deferred share units as part of annual director compensation that will be settled in shares with a fair value of \$0.5 million (or a weighted average fair value of \$15.61 per share). The deferred share units vest in June 2022, corresponding with the directors term.

Other

The Company 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 Company 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 Company believes, however, that the possibility of making any significant payments for these indemnifications is remote. As of December 31, 2021 and December 31, 2020, there was no liability accrued under these arrangements.

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

11. INCOME TAXES

GDH Ltd. is a Cayman company limited by shares which is treated as a corporation for U.S. Federal tax purposes. GDH Intermediate LLC, a wholly-owned subsidiary of GDH Ltd., is a Delaware limited liability company which is treated as a corporation for U.S. federal tax purposes and functions as a tax-efficient block corporation or similar entity for U.S. Federal tax purposes. Under the LPA, items of income, gain, loss, deduction and credit that are attributable to sources within the United States and are effectively connected with GDH LP's United States trade or business ("ECI") are allocated to GDH Intermediate LLC. GDH Ltd. is not subject to tax in any jurisdiction. GDH Intermediate LLC is not subject to tax in any jurisdiction outside the United States (where it is subject to federal, state, and local taxes).

The following table represents Income tax recognized on the Company's Consolidated Statements of Comprehensive Income / (Loss) for the years ended December 31, 2021 and 2020:

(in thousands)	2021	2020
Current income tax expense	\$ 40,596	\$ —
Total current income tax expense	40,596	—
Deferred income tax expense		
Deferred tax related to the origination and reversal of temporary differences	74,790	25,425
Effect of changes in tax rates or imposition of new income taxes	(852)	(951)
Benefit arising from previously unrecognized deferred tax assets	(12,579)	(24,474)
Total deferred income tax expense	61,359	—
Total income tax expense	\$ 101,955	\$ —

The effective income tax rate reported in the Consolidated Statements of Earnings varies from the Cayman income tax rate of 0.0% for the following items:

(in thousands)	2021	2020
Earnings before income taxes	\$ 504,037	\$ 103,386
Cayman statutory tax rate	— %	— %
Increase (decrease) in the income tax rate resulting from:		
Foreign tax rate differential	128,655 25.52 %	24,746 23.9 %
Change in statutory, foreign tax, foreign exchange and other rates	(852) (0.17) %	(760) (0.7) %
Adjustment to prior years provision versus statutory tax returns	(259) (0.05) %	488 0.5 %
Change in unrecognized deductible temporary differences	(12,579) (2.50) %	(24,474) (23.7) %
Non-deductible expenses and non-includible income	863 0.17 %	— — %
Tax Credits and Incentives	(10,060) (2.00) %	— — %
Other	(3,813) (0.74) %	— — %
Total income tax expense and effective income tax rate	\$ 101,955 20.23 %	\$ — — %

The following table represents the composition and changes in net deferred income tax assets (liabilities) for the years ended December 31, 2021 (December 31, 2020: \$0).

	2021				
(in thousands)	Investment in GDH LP	Future Tax Benefit Under Tax Receivable	Net Operating Loss Carryforward	Tax Credit Carryforwards	Total
Balance, beginning of the year	\$ —	\$ —	\$ —	\$ —	\$ —
Recognized in Statements of Comprehensive Income	(65,007)	646	2,623	379	\$ (61,359)
Recognized in Statements of Changes in Equity	30,066	700	—	—	\$ 30,766
Balance, end of the year	\$ (34,941)	\$ 1,346	\$ 2,623	\$ 379	\$ (30,593)

The following table represents the deferred income tax assets (liabilities) recognized on the consolidated statements of financial position as of December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
(in thousands)		
Deferred tax assets	\$ —	\$ —
Deferred tax liabilities	(30,593)	\$ —
Total	\$ (30,593)	\$ —

Deferred tax is recognized on taxable temporary differences between the tax bases and the carrying amounts of assets and liabilities. Deferred income tax assets are recognized for 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. Management assesses the carrying amount of deferred income tax assets at each statement of financial position date based on estimates of future taxable income and as of December 31, 2021 believes it is probable the carrying value of the deferred tax assets are recoverable.

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.

As of December 31, 2021 the Company recognized a deferred tax asset of \$2.6 million for tax loss carryforwards, none of which are subject to expiration.

Tax Receivable Agreement

On July 31, 2018, the Company entered into a Tax Receivables Agreement (“TRA”) with holders of Class B Units in GDH LP (each such person and any permitted transferee, a “TRA Holder” and together, the “TRA Holders”). The TRA generally provides for the payment by the Company of 85% of the net cash savings, if any, in U.S. federal, state, local, and non-US income tax that the Company actually realizes (or is deemed to realize in certain circumstances) in periods after the closing, as applicable to each TRA Holder, of (i) certain increases in tax basis that occur as a result of the Company’s acquisition (or deemed acquisition for U.S. federal income tax purposes) of all or a portion of such TRA Holder’s Class B Units in connection with the arrangement and (ii) imputed interest deemed to be paid by the Company as a result of, and additional basis arising from, any payments the Company makes under the TRA.

The term of the TRA commenced on July 31, 2018 and will continue until all such tax benefits that are subject to the TRA have been utilized or expired, unless the Company experiences a change of control or the TRA is terminated early, and the Company makes the termination payments specified in the TRA. The amounts payable, as well as the timing of any payments, under the TRA are dependent upon significant future events and assumptions, including the timing of the redemptions of Class B Units, the price of the Company’s ordinary stock at the time of each redemption, the extent to which such redemptions are taxable transactions, the amount of the redeeming unit holder’s tax basis in its Class B Units at the time of the relevant redemption, the depreciation and amortization periods that apply to the increase in tax basis and the portion of the Company’s payments under the TRA that constitute imputed interest or give rise to depreciable or amortizable tax basis.

The Company has a liability associated with the TRA of \$5.3 million as of December 31, 2021. The Company did not have a liability associated with the TRA as of December 31, 2020.

12. CAPITAL MANAGEMENT

GDH Ltd.’s objectives when managing capital is to safeguard its ability to continue as a going concern, to meet the needs of its ongoing operations, and to maintain a flexible capital structure which optimizes the cost of capital. The Company considers the items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. The Company is not subject to externally imposed capital requirements.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

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

Level 1 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 Company's warrant liability is classified as a Level 3 financial liability. The warrant liability was deemed to be a Level 3 financial liability as one or more inputs to the valuation are unobservable and significant to the fair value measurement of the liability. The fair value of the warrant liability is calculated using the Black-Scholes Option Pricing Model. (Unobservable inputs reflect management's assumptions on how market participants would price the asset or liability based on the information available.)

Quantitative Information for Warrant Liability:

Financial Instrument	Fair Value at December 31, 2021 (in thousands)	Significant Unobservable Inputs	Range
Investment receivable from warrant exercise	\$20,488	Volatility	120%
		Time to liquidity event (years)	0.87
		Risk free rate	0.69%
		Expected dividend payout ratio	—
		Dilution factor	0.5%
Warrant liability	\$20,488	Volatility	120%
		Time to expiration (years)	0.87
		Risk free rate	0.69%
		Expected dividend payout ratio	—
		Dilution factor	0.5%

Financial Instrument	Fair Value at December 31, 2020	Significant Unobservable Inputs	Range
Investment receivable from warrant exercise	20,781	Volatility	85%
		Time to expiration (years)	1.87 - 2.0
		Risk free rate	0.17% - 0.25%
		Expected dividend payout ratio	—
		Dilution factor	1.5%
Warrant liability	20,781	Volatility	85%
		Time to expiration (years)	1.87 - 2.0
		Risk free rate	0.17% - 0.25%
		Expected dividend payout ratio	—
		Dilution factor	1.5%

Level 3 Continuity

The following is a reconciliation of the Level 3 asset and liability for the year ended December 31, 2021:

Assets (in thousands)	Fair value at December 31, 2020	Conversion on warrant exercise	Revaluation	December 31, 2021
Investment receivable from warrant exercise	\$ 20,781	\$ (45,937)	\$ 45,644	\$ 20,488
Liabilities (in thousands)	Fair value at December 31, 2020	Conversions	Revaluation	Fair Value at December 31, 2021
Warrant liability	\$ 20,781	\$ (45,937)	\$ 45,644	\$ 20,488

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

Assets (in thousands)	Fair value at December 31, 2019	Proceeds from issuance	Revaluation	December 31, 2020
Investment receivable from warrant exercise	\$ —	\$ 6,463	\$ 14,318	20,781

Liabilities (in thousands)	Fair value at December 31, 2019	Issuance	Revaluation	Fair Value at December 31, 2020
Warrant liability	\$ —	\$ 6,463	\$ 14,318	20,781

Risk Management

The Company is directly exposed to minimal financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As at December 31, 2021, the Company is not exposed to significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and financial support from GDH LP. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. Furthermore, under the LPA, GDH LP is responsible for reimbursing the Company for all reasonable operating expenses. Therefore, the Company is not currently exposed to significant liquidity risk.

Interest rate risk

The Company is not currently exposed to significant interest rate risk.

Foreign exchange risk

The Company's functional currency and the reporting currency is the US dollar. Periodically the Company incurs charges on its operations for settlement in currencies other than its functional currency and any gain or loss arising on such transactions is recorded in operations for the period. The Company is not currently exposed to significant foreign exchange risk.

Digital assets and market risks

The Company's investment in associate is impacted by the associate's investments in digital assets as well as private companies, both of which may be subject to significant changes in value. The Company seeks to minimize potential adverse effects of these risks on performance by ensuring that the risk management at GDH LP appropriately addresses these risks by, for example, employing experienced personnel, daily monitoring of the Partnership's investments and digital assets and review of the Partnership's investment objectives.

14. SUBSEQUENT EVENTS

On March 30, 2022, GDH Ltd. amended and restated the merger agreement governing its previously announced acquisition of BitGo. BitGo is an independent digital assets infrastructure provider. Under the terms of the merger agreement, the consideration to BitGo shareholders will consist of 44.8 million newly issued shares of common stock of the successor to GDH Ltd. following its domestication as a Delaware corporation and \$265 million in cash, subject to certain adjustments and deferred purchase considerations. The acquisition is expected to close immediately following the domestication of GDH Ltd. as a Delaware corporation, subject to approval by the Company's shareholders as well as certain other acquisition-related closing conditions and regulatory approvals. A reverse termination fee of \$100 million will be payable by the Company to BitGo in certain circumstances if the transaction has not been completed by December 31, 2022, subject to certain conditions set forth in the merger agreement.