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**Galaxy Digital Holdings Ltd.**

**Consolidated Financial Statements**

For the Years Ended December 31, 2022 and 2021

(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 statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years 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, 2022 and 2021, and its financial performance and its cash flows for the years 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 audits 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 audits, 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.

### *Investment in associate*

As discussed in Notes 2, 3, and 6 to the consolidated financial statements, as of December 31, 2022, the Company's carrying value of the investment in associate is \$257.8 million which represents the Company's investment in Galaxy Digital Holdings LP (Partnership). Management has determined it has significant influence over the investment and is accounting for it using the equity method under International Accounting Standard No. 28 – Investments in Associates and Joint Ventures (IAS 28). The Company assesses whether the overall carrying value of its investment in associate exceeds its recoverable amount, which is determined based on the fair value of the Company's investment in the Partnership. The Company recognized an impairment of its investment in associate of \$252.5 million during the year ended December 31, 2022.

We identified the evaluation of the carrying value of the Company's investment in associate as a key audit matter. Specifically, auditor judgment was required to evaluate (1) the sufficiency of audit evidence obtained over the accounting impacts of applying the equity method to the investment in associate including the reasonableness of the underlying financial performance of the Partnership, and (2) the recoverable amount used in the evaluation of impairment.

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, 2022. We evaluated the Company's assessment of the recoverable amount of its investment in associate for compliance with IAS 28. We evaluated the sufficiency of audit evidence obtained related to the Company's 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.

#### *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 authorized for issuance; 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 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, 2022 but does not include the consolidated financial statements and our auditors' 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 28, 2023

# Galaxy Digital Holdings Ltd.

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

	Notes	December 31, 2022	December 31, 2021
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 10,049	\$ 26,823
Accounts receivable		16	3
Receivable from associate		45,200	—
Taxes receivable		22,996	—
Other receivables		653	—
Investment receivable from warrant exercise	8	—	20,488
		<b>78,914</b>	<b>47,314</b>
Investment in associate	6	257,810	841,463
Deferred tax asset	11	57,551	—
<b>Total assets</b>		<b>\$ 394,275</b>	<b>\$ 888,777</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payable to associate		\$ —	\$ 25,203
Warrant liability	8,12	—	20,488
Taxes payable		56,806	20,928
		<b>56,806</b>	<b>66,619</b>
Liability from tax receivable agreement		38,161	5,272
Deferred tax liability	11	—	30,593
<b>Total liabilities</b>		<b>94,967</b>	<b>102,484</b>
<b>Shareholders' equity</b>			
Share capital	8	419,871	417,395
Reserves	8	69,342	36,128
Accumulated other comprehensive income		791	791
Retained earnings (deficit)		(190,696)	331,979
<b>Total shareholders' equity</b>		<b>299,308</b>	<b>786,293</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 394,275</b>	<b>\$ 888,777</b>
Nature and continuance of operations	1		
Commitments and contingencies	10		

The consolidated financial statements were authorized by the board of directors of Galaxy Digital Holdings Ltd. to be issued on March 28, 2023.

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

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
<b>Operating expenses</b>			
Director fees	7	\$ 986	\$ 565
Professional fees		812	2,426
General and administrative		681	1,261
Recoveries from associate - reimbursable expenses	7	(2,479)	(4,168)
		—	(84)
Equity income (loss) from associate	6	(333,981)	506,653
Revaluation of warrant liability	8	20,322	(45,644)
Recoveries from associate - warrant liability	8	(20,322)	45,644
Tax receivable agreement income (expense)		6,005	(2,532)
Interest income		1,913	—
Impairment of investment in associate	6	(252,518)	—
<b>Income (loss) before income taxes</b>		<b>(578,581)</b>	<b>504,037</b>
Income taxes expense (benefit)	11	(55,905)	101,955
<b>Net income (loss) and comprehensive income (loss) for the period</b>		<b>\$ (522,676)</b>	<b>\$ 402,082</b>
Basic income (loss) per share	9	\$ (4.99)	\$ 4.27
Diluted income (loss) per share	9	\$ (4.99)	\$ 3.81
Weighted average number of ordinary shares outstanding - basic	9	104,835,527	94,195,024
Weighted average number of ordinary shares outstanding - diluted	9	104,835,527	349,318,648

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)

	Notes	Share Capital		Reserves	Accumulated Other Comprehensive Income	Surplus / (Deficit)	Total
		Number	Amount				
<b>Balance at December 31, 2020</b>		<b>91,248,507</b>	<b>\$ 301,307</b>	<b>\$ 14,999</b>	<b>\$ 791</b>	<b>\$ (70,104)</b>	<b>\$ 246,993</b>
Issuance of ordinary shares		5,961,858	16,533	—	—	—	16,533
Shares issued on exercise of PIPE warrants	8	3,119,944	66,314	—	—	—	66,314
Equity based compensation from investment in associate	6	—	208	21,129	—	—	21,337
Shares issued for acquisition	6	1,220,185	4,955	—	—	—	4,955
Income tax impact from investment in associate		—	28,078	—	—	—	28,078
Income for the year		—	—	—	—	402,083	402,083
<b>Balance at December 31, 2021</b>		<b>101,550,494</b>	<b>\$ 417,395</b>	<b>\$ 36,128</b>	<b>\$ 791</b>	<b>\$ 331,979</b>	<b>\$ 786,293</b>
<b>Balance at December 31, 2021</b>		<b>101,550,494</b>	<b>\$ 417,395</b>	<b>\$ 36,128</b>	<b>\$ 791</b>	<b>\$ 331,979</b>	<b>\$ 786,293</b>
Issuance of ordinary shares	6,8	14,131,494	80,260	—	—	—	80,260
Repurchase of ordinary shares	8	(10,596,720)	(53,348)	—	—	—	(53,348)
Cancellation of ordinary shares		(273,729)	(113)	—	—	—	(113)
Equity based compensation from investment in associate	6	—	—	33,215	—	—	33,215
Income tax impact from investment in associate		—	(24,323)	—	—	—	(24,323)
Loss for the year		—	—	—	—	(522,676)	(522,676)
<b>Balance at December 31, 2022</b>		<b>104,811,539</b>	<b>\$ 419,871</b>	<b>\$ 69,343</b>	<b>\$ 791</b>	<b>\$ (190,697)</b>	<b>\$ 299,308</b>

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, 2022	Year ended December 31, 2021
<b>Operating activities</b>		
Net income (loss) for the period	\$ (522,676)	\$ 402,082
Adjustments for:		
Equity loss (income) from associate	333,981	(506,653)
Net unrealized (gain) on warrant liability	(20,322)	45,644
Recoveries from associate - warrant liability	20,322	(45,644)
Deferred tax (benefit) expense	(112,468)	61,359
Impairment of investment in associate	252,518	—
Changes in operating assets and liabilities:		
Payable (receivable) from associate	(73,234)	—
Taxes payable	35,878	20,927
Taxes receivable	(22,996)	—
Tax receivable agreement - payable	32,889	2,741
Other receivables	(653)	—
Accounts receivable	(13)	(3)
Net cash (used in) provided by operating activities	(76,774)	(19,547)
<b>Investing activities</b>		
Investment in associate	107,400	12,241
Net cash provided by investing activities	107,400	12,241
<b>Financing activities</b>		
Proceeds from issuance of ordinary shares	5,948	34,129
Repurchase of ordinary shares	(53,348)	—
Net cash used in financing activities	(47,400)	34,129
Net (decrease) increase in cash	(16,774)	26,823
Cash, beginning of period	26,823	—
Cash, end of period	\$ 10,049	\$ 26,823
<b>Supplemental disclosure of cash flow information and non-cash investing and financing activities:</b>		
Cash paid during the year for taxes	\$ 3,124	\$ 19,666
Non-cash activities:		
Share-based payments issued to employees of the Partnership	33,213	21,129
Exchange of Class B Units of the Partnership	74,034	2,782
Exercise of share options by employees of the Partnership	—	12,093
Shares issued for acquisitions	—	4,955
Shares issued for exercise of warrants	165	45,937

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, 2022 and 2021  
(Expressed in US Dollars)

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## 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. The Company's principal address is 300 Vesey Street, New York, New York, 10282.

The Company is listed on the Toronto Stock Exchange ("TSX") under the ticker "GLXY".

The Company has a minority interest in Galaxy Digital Holdings LP ("GDH LP", "Galaxy" or the "Partnership"). 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 engineering a new economic paradigm. Today, we are primarily focused on digital assets, cryptocurrencies and blockchain technology, and how these technological innovations will drastically alter the way we store and transfer value. The Partnership capitalizes on market opportunities made possible by the rapid evolution of the digital asset 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.

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, which has the obligation to reimburse the Company for all reasonable operational expenses, excluding tax (Note 5). As at December 31, 2022, the Company had total equity of \$299.3 million (December 31, 2021 - \$786.3 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 to be issued on March 28, 2023.

### 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 the 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 determination was conducted through an analysis of the indicators identified in International Accounting Standard ("IAS") 21. The functional and the presentation currency for the Company is the United States dollar ("US dollar").

Foreign currency transactions are translated into the functional currency 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

# Galaxy Digital Holdings Ltd.

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(Expressed in US Dollars)

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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.

## **Basis of Consolidation**

The consolidated financial statements include the financial statements of GDH Ltd. and its wholly-owned subsidiaries which are controlled by GDH Ltd. 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, 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 no controlling financial interest.

## ***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 value 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. The Company recognized an impairment of its Investment in associate during the year ended December 31, 2022 (Note 6).

# Galaxy Digital Holdings Ltd.

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## *COVID-19*

In March 2020, the World Health Organization declared COVID-19 (Coronavirus) a global pandemic. 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 three months or less when acquired. As of December 31, 2022 and 2021, 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.

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***

The Company applies an expected credit loss impairment model to held to maturity financial assets, 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 IAS 28. Under the equity method, the Company's investment in associate is initially recognized at cost and subsequently increased or decreased to recognize the

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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.

At the end of each reporting period, the Company assesses whether there is any objective evidence that the investment in 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.

## Earnings per share

Basic income (loss) 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 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 stock options, and other convertible instruments could be anti-dilutive depending on their relative impact to the numerator and the denominator.

## 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 period ended December 31, 2022. Refer to Note 3 for the Company's accounting policies.

##### Accounting standards and amendments to existing standards that are not yet effective

In October 2022, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*. The amendments clarify the impact of covenants of loan arrangements on the classification of a liability as current or non-current at the reporting date. The amendments are effective for annual periods starting on or after January 1, 2024, with early adoption permissible. The Company is assessing the impact of these amendments.

In February 2021, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, amendments to IFRS Practice Statement 2 *Making Materiality Judgements* and amendments to IAS 8 *Definition of Accounting Estimate*. The amendments require companies to disclose material accounting policies rather than their significant accounting policies and also help distinguish between changes in accounting estimates versus accounting policies. These amendments are effective for annual periods starting on or after January 1, 2023. The Company is assessing the impact of these amendments.

#### 5. KEY TERMS OF LIMITED PARTNERSHIP AGREEMENT

On November 24, 2022, GDH LP, GDH GP, GDH Ltd., GDH Intermediate LLC (a wholly owned subsidiary of GDH Ltd.) and each of the Persons admitted as a "Class B Limited Partner" entered into a fifth 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. GDH Ltd. or GDH LLC may elect to effect the exchange of all or any portion of Class B Units subject to an exchange for cash, and allow for the consolidation of Class A Units in certain circumstances.
- 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 ordinary shares of GDH Ltd. - If GDH Ltd. issues any of its ordinary shares, and 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, the General Partner will 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

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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 of GDH LP, 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 32.6% interest in GDH LP as of December 31, 2022 (30.8% at December 31, 2021), which is subject to key terms of the LPA (Note 5).

Per the LPA as long as the Company owns more than 10% but no more than 50% of the total outstanding units of GDH LP, the Company has the right to appoint one manager to the board of the General Partner. 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 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, 2022, the carrying value of the investment in GDH LP was \$257.8 million (December 31, 2021 - \$841.5 million).

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## Summarized financial information for GDH LP

Summarized Statements of Financial Position (in thousands)	December 31, 2022	December 31, 2021
<b>Current assets</b>		
Cash and cash equivalents	\$ 542,101	\$ 840,776
Other current assets	801,177	3,059,403
	1,343,278	3,900,179
Non-current assets	1,002,865	1,196,359
<b>Total assets</b>	<b>\$ 2,346,143</b>	<b>\$ 5,096,538</b>
<b>Liabilities</b>	907,351	2,498,187
	<b>\$ 907,351</b>	<b>\$ 2,498,187</b>
<b>Net Assets</b>	<b>\$ 1,438,792</b>	<b>\$ 2,598,351</b>
Summarized Statements of Comprehensive Income (in thousands)	Year ended December 31, 2022	Year ended December 31, 2021
<b>Income (Loss)</b>	<b>\$ 419,462</b>	<b>\$ 1,365,581</b>
<b>Operating expenses</b>	<b>(496,861)</b>	<b>(364,568)</b>
Net unrealized gain (loss) on digital assets	(659,169)	451,465
Net unrealized gain (loss) on investments	(496,184)	546,997
Net gain (loss) on notes payable - derivative	57,998	12,132
Net gain (loss) on warrant liability	20,322	(45,644)
Foreign currency gain (loss)	(316)	2,590
Loss (gain) attributable to non-controlling interests liability	97,219	(197,376)
	<b>(980,130)</b>	<b>770,164</b>
<b>Income (loss) before income taxes</b>	<b>\$ (1,057,529)</b>	<b>\$ 1,771,177</b>
Income taxes	(35,952)	56,900
<b>Net income (loss)</b>	<b>\$ (1,021,577)</b>	<b>\$ 1,714,277</b>
Foreign currency translation adjustment	(1,726)	367
<b>Net comprehensive income (loss) for the period</b>	<b>\$ (1,023,303)</b>	<b>\$ 1,714,644</b>
The Company's share of comprehensive income (loss) - 32.6% (December 31, 2021 - 29.6%)	\$ (333,981)	\$ 506,653

## Impairment of investment in associate

As at December 31, 2022, the Company considered certain indicators to determine whether its investment in GDH LP is impaired. Amongst others, the Company noted that the carrying amount of its investment in GDH LP is more than its market capitalization.

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As a result, the Company performed a review of the recoverable amount of its investment in GDH LP. Given the inherent volatility in the digital asset industry, the Company believes that its market capitalization is a reasonable approximation of the Company's enterprise value and could be used to derive the recoverable amount of its investment in GDH LP since substantially all of the Company's value is concentrated in the investment in GDH LP.

## Reconciliation to carrying amount of investment in GDH LP:

(in thousands)	Year ended December 31, 2022	Year ended December 31, 2021
Balance, beginning	\$ 841,463	\$ 246,993
Shares issued for acquisitions (Note 8)	—	4,955
Shares issued on exercise of PIPE warrants (Note 8)	320	66,314
Equity based compensation allocation	33,215	21,337
Increase in ownership interest as a result of GDH LP Class B unit exchanges (Note 8)	74,034	2,782
Shares issued on exercise of stock options (Note 8)	7,567	12,093
Cancellation of ordinary shares (Note 8)	(53,461)	—
Allocation of comprehensive income (loss)	(333,981)	506,653
Distributions	(58,827)	(19,717)
Impairment of investment	(252,518)	—
Other	(2)	53
Balance, ending	<u>\$ 257,810</u>	<u>\$ 841,463</u>

## 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 is based on 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.

## 7. RELATED PARTY TRANSACTIONS

### Compensation to key management personnel

The Company'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 Company, directly or indirectly. Key management personnel include officers, directors, companies controlled by officers or directors and companies with common directors of the Company. The transactions the Company enters into with related parties are made on terms equivalent to those that prevail in arm's length transactions.



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Compensation provided to key management personnel for the years ended December 31, 2022 and 2021 was as follows:

(in thousands)	Year ended December 31, 2022	Year ended December 31, 2021
Director fees	\$ 986	\$ 565

## Other

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

The CEO of GDH Ltd. serves as co-chairman of the board for another company, resulting in GDH Ltd. and that company being related parties. As of December 31, 2022, GDH LP had an investment in the company valued at \$16.2 million (December 31, 2021 - \$121.3 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, 2022, GDH LP paid or accrued \$2.5 million (2021 - \$4.2 million) respectively for the reimbursable expenses.

On April 14, 2022 the Partnership entered into a Promissory Note (the "Promissory Note") with GDH Intermediate LLC ("GDHI LLC"), a subsidiary of GDH Ltd. Under the terms of the Promissory Note, the Partnership can request that GDHI LLC make advances to the Partnership from time to time, which decision is in GDHI LLC's sole and absolute discretion. As of December 31, 2022, GDHI LLC has advanced \$52.5 million to the Partnership.

Under the terms of the Promissory Note, interest accrues on any outstanding advances at a rate per annum equal to 7.0%. Interest is payable semi-annually in arrears on June 30 and December 31 of each year, commencing on December 31, 2022, subject to the right of GDHI LLC to elect that the amount of any such interest payment be capitalized and increase the principal amount of the Promissory Note in lieu of being paid in cash by the Partnership. As of December 31, 2022, the Partnership did not have interest payable outstanding. The Promissory Note will mature, and the principal amount of all outstanding advances, plus any accrued and unpaid interest, will be due and payable on December 31, 2024, unless extended by GDHI LLC.

As at December 31, 2022, the Company had \$45.2 million in receivables from GDH LP (December 31, 2021 - payable to GDH LP of \$25.2 million) for the aforementioned Promissory Note offset by payables for stock options and warrant exercises.

## 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, 2022, the Company issued 14,107,656 (December 31, 2021 - 5,961,858) ordinary shares valued at \$80.0 million (December 31, 2021 - \$16.5 million) on exchange of Class B Units of GDH LP and exercise of options, and 23,838 (December 31, 2021 - 3,119,944) ordinary shares valued at \$0.3 million (December 31, 2021 - \$66.3 million) on exercise of warrants. There were 1,220,185 ordinary shares valued at \$5.0 million issued for acquisitions during the year ended December 31, 2021.

As at December 31, 2022, 1,527,744 shares were held in escrow relating to acquisitions.

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

On November 12, 2020, GDH Ltd. closed a PIPE of \$50.0 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 warrant was 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.

Under the terms of the LPA the Partnership issued a Class A Unit for each GDH Ltd. ordinary share issued and any liability associated with the warrant was pushed down to the Partnership. Therefore, the Company recognized a corresponding asset,

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investment receivable from warrant exercise, which represented the Class A units that the Partnership would issue to GDH Ltd. on exercise of the warrants. On initial recognition, the warrants were valued at \$6.5 million and were recorded as a derivative financial liability as these warrants were exercisable in Canadian dollars, differing from the Partnership's functional currency. There were no warrants outstanding as at December 31, 2022 (December 31, 2021 - \$20.5 million) as all the outstanding warrants expired in November 2022. The gain recognized in the Company's statement of comprehensive income for the period ended December 31, 2022 was \$20.0 million (December 31, 2021 loss - \$45.6 million) offset by a recharge to the Partnership.

The fair value of the warrant liability was 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, 2022 are included in Note 13. During the period ended December 31, 2022, 23,838 of the warrants were exercised at an exercise price of C\$8.25. At December 31, 2021 there were 1,647,556 warrants exercisable and outstanding.

## Exchangeable Notes

On December 9, 2021, GDH LP issued \$500 million aggregate principal amount of 3.00% exchangeable notes ("Exchangeable Notes"). The Exchangeable Notes will mature and the aggregate principal amount is due in 2026, unless earlier exchanged, redeemed or repurchased. Interest on the exchangeable notes is payable semi-annually. There was no discount or premium associated with the notes. The Exchangeable Notes had 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.

## Ordinary Share Repurchase

On May 16, 2022, GDH Ltd announced that the TSX approved the Company's plan to commence a normal course issuer bid (a "Bid") to purchase up to 10,596,720 ordinary shares (10% of the Company's public float as of May 10, 2022).

GDH Ltd. began repurchasing shares on May 18, 2022. The Company completed its normal course issuer bid program on October 24, 2022. As of December 31, 2022, GDH Ltd. repurchased a total of 10,596,720 shares for a total cost of \$53.3 million. All repurchased shares of GDH Ltd. and the equivalent number of Class A Units in the Partnership were cancelled, and hence not accounted as treasury shares.

Refer to Note 10 for share options and restricted share units granted to employees, officers, directors and consultants of the Company and its affiliates.

## Equity based compensation from investment in associate

During the year ended December 31, 2022, the Company recognized \$33.2 million (December 31, 2021 - \$21.3 million) equity based compensation related to GDH LP employees through its investment in associate (Note 6).

## 9. INCOME (LOSS) PER SHARE

The table below presents basic and diluted net income (loss) per ordinary share for the years ended December 31, 2022 and 2021, respectively:

	Year ended December 31, 2022	Year ended December 31, 2021
Basic income (loss) per share	\$ (4.99)	\$ 4.27
Diluted income (loss) per share	\$ (4.99)	\$ 3.81

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## Basic income (loss) per share

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

	Year ended December 31, 2022 <sup>(1)</sup>	Year ended December 31, 2021
Net income (loss) used in the calculation of basic income (loss) per share	\$ (522,676)	\$ 402,082
Weighted average number of ordinary shares for the purposes of basic income (loss) per share	104,835,527	94,195,024

<sup>(1)</sup> For the year ended December 31, 2022 diluted loss per share was equivalent to basic loss per share. Diluted loss per share for the year ended December 31, 2022 are therefore omitted in the following tables.

## 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 (in thousands):

	Year ended December 31, 2021
Net income used in the calculation of diluted income per share	1,330,504
Weighted average number of ordinary shares for the purposes of diluted income per share	349,318,648

For the year ended December 31, 2021, the weighted average number of ordinary shares for 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. For the year ended December 31, 2022, there were 251,146,066 of such potentially dilutive shares that were not included in the calculation of diluted loss per share because they were antidilutive for the periods.

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:

(in thousands)	Year ended December 31, 2021
Net income used in the calculation of basic income per share	\$ 402,082
Net income currently allocated to outstanding GDH LP Class B Units <sup>(1)</sup>	928,422
Net income used in the calculation of diluted income per share	1,330,504

<sup>(1)</sup> Net income allocated to GDH LP Class B Units for the year ended December 31, 2021 for the purpose of diluted income per share was adjusted to reflect the tax impact of conversion of Class B Units.

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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:

	<b>Year ended December 31, 2021</b>
Weighted average number of ordinary shares for the purposes of basic income per share	94,195,024
Diluted shares:	
Weighted average of outstanding Class B Units for the period	224,464,902
Compensatory Class B Unit awards	4,375,077
Stock options	22,353,262
Restricted stock	1,027,757
Restricted stock units	1,853,933
Held back shares	144,798
Exchangeable notes	903,895
<b>Weighted average number of ordinary shares for the purposes of diluted income per share</b>	<b>349,318,648</b>

## 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 equal from an economic 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.

As of December 31, 2022, after accounting for exchanges (Note 8) and forfeitures, there were 215,973,821 (December 31, 2021 - 228,701,080) Class B Units issued, of which 215,943,369 (December 31, 2021 - 228,110,373) 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). 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.

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The table below presents a summary of stock options outstanding as at December 31, 2022:

Grant Date	Number Outstanding	Number Exercisable	Exercise Price (C\$)	Expiry Date
<b>Employees and Officers:</b>				
July 31, 2018	3,914,852	3,914,852	3.00	July 23, 2023
June 25, 2019	1,382,200	1,382,200	2.15	June 25, 2024
April 9, 2020	2,401,541	1,423,214	1.35 - 1.85	April 9, 2025
June 25, 2020	750,000	750,000	1.39	June 25, 2025
November 16, 2020	5,327,150	2,386,317	5.65	November 16, 2025
December 3, 2020	7,384,300	3,634,300	6.21	December 3, 2025
December 8, 2020	452,500	225,000	6.00	December 8, 2025
December 21, 2020	100,000	50,000	8.02	December 21, 2025
May 27, 2021	3,075,000	165,000	23.12 - 25	May 27, 2026
August 17, 2021	300,000	—	22.27 - 35	August 17, 2026
September 29, 2021	400,000	100,000	20.00	September 29, 2026
December 1, 2021	550,000	137,500	30.76	December 1, 2026
December 8, 2021	50,000	12,500	25.69	December 8, 2026
April 1, 2022	1,315,000	—	21.30 - 23.00	April 1, 2027
May 11, 2022	200,000	—	10.52	May 11, 2027
June 30, 2022	50,000	—	5.39	June 30, 2027
Total	27,652,543	14,180,883		

As of December 31, 2022, there were 11,462,917 restricted share units outstanding (December 31, 2021- 7,833,659), including deferred share units granted to the directors.

## 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 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 Company believes, however, that the possibility of making any material payments for these indemnifications is remote. As of December 31, 2022 and December 31, 2021, there was no liability accrued under these arrangements.

In the ordinary course of business, the Company and its subsidiaries 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).

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## Components of Income Taxes Expense (Benefit) Recorded in Net Income (Loss)

The following table presents the components of the Company's provision for income taxes:

(in thousands)	Year ended December 31, 2022	Year ended December 31, 2021
Income taxes expense (benefit) – current	\$ 17,671	\$ 40,596
Deferred income tax expense (benefit):		
Deferred tax related to the origination and reversal of temporary differences	(150,696)	74,790
Effect of changes in tax rates or imposition of new income taxes	(6,441)	(852)
Benefit arising from previously unrecognized deferred tax assets	83,561	(12,579)
Income taxes expense (benefit) – total deferred	(73,576)	61,359
<b>Income taxes expense (benefit)</b>	<b>\$ (55,905)</b>	<b>\$ 101,955</b>

## Effective Income Tax Rate

The following table presents the reconciliation of the effective income tax rate to the income tax expense calculated at statutory rates:

	Year ended December 31, 2022	Year ended December 31, 2021
Earnings before income taxes	\$ (578,581)	\$ 504,037
Cayman Statutory Tax Rate	— %	— %
Foreign Tax Rate Differential	(131,118) 22.66 %	128,655 25.52 %
Change in statutory, foreign tax, foreign exchange and other rates	(6,441) 1.11 %	(852) (0.17) %
Non-deductible expenses and non-includible income	853 (0.15) %	863 0.17 %
Tax Credits and Incentives	— — %	(10,060) (2.00) %
Adjustment to prior years provision versus statutory tax returns	(7,073) 1.22 %	(259) (0.05) %
Change in unrecognized deductible temporary differences	83,561 (14.44) %	(12,579) (2.50) %
Other	4,313 (0.74) %	(3,813) (0.74) %
<b>Total income tax expense and effective income tax rate</b>	<b>\$ (55,905) 9.66 %</b>	<b>\$ 101,955 20.23 %</b>

The following table represents the composition and changes in net deferred income tax assets (liabilities) for the years ended December 31, 2022 and December 31, 2021.

	2022					
(in thousands)	Investment in GDH LP	Future Tax Benefit Under Tax Receivable	Net Operating Loss Carryforward	Tax Credit Carryforwards	Other	Total
Balance, beginning of the year	\$ (34,941)	\$ 1,346	\$ 2,623	\$ 379	\$ —	\$ (30,593)
Recognized in Statements of Income (Loss) and Comprehensive Income (Loss)	65,008	(1,434)	9,900	—	102	73,576
Recognized in Statements of Changes in Equity	5,831	8,737	—	—	—	14,568
<b>Balance, end of the year</b>	<b>\$ 35,898</b>	<b>\$ 8,649</b>	<b>\$ 12,523</b>	<b>\$ 379</b>	<b>\$ 102</b>	<b>\$ 57,551</b>

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

The following table represents the deferred income tax assets (liabilities) recognized on the consolidated statements of financial position as of December 31, 2022 and 2021:

(in thousands)	December 31, 2022	December 31, 2021
Deferred tax assets	\$ 57,551	\$ —
Deferred tax liabilities	—	(30,593)
<b>Total</b>	<b>\$ 57,551</b>	<b>\$ (30,593)</b>

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, 2022 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, 2022 the Company recognized a deferred tax asset of \$12.5 million for tax loss carryforwards, of which \$0.6 million expire starting in 2038.

## Unrecognized Unused Tax losses and Deductible Temporary Differences

The following table presents unrecognized deferred tax assets as of December 31, 2022:

As of December 31, 2022 (in thousands)	Tax Effect
Investment in GDH LP	\$ 83,561

## 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 \$38.2 million as of December 31, 2022 (December 31, 2021 - \$5.3 million).

## **12. CAPITAL MANAGEMENT**

GDH Ltd.'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 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 was 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.)



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## 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%

## Level 3 Continuity

The following is a reconciliation of the Level 3 asset and liability for the period ended December 31, 2022:

(in thousands)	Fair value at December 31, 2021	Conversions	Revaluation <sup>(1)</sup>	Fair Value at December 31, 2022
Investment receivable from warrant exercise	\$ 20,488	\$ (166)	\$ (20,322)	—
Warrant liability	\$ 20,488	\$ (166)	\$ (20,322)	—

<sup>(1)</sup> All the outstanding warrants expired in November 2022.

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

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

## 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 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 Company's primary exposure to credit risk is on its cash held in bank accounts and the Promissory Note due from the Partnership. Credit risk on its cash exposure is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As at December 31, 2022, the Company's credit risk exposure is not deemed to be significant.

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## **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due, as well as the risk of not being able to liquidate assets at reasonable prices. 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, as applicable. 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's only interest-bearing instrument is its Promissory Note with the Partnership. The Promissory Note is at a fixed interest rate of 7% and is not scheduled to be repriced prior to maturity. The Company's financial results are therefore not sensitive to changes in interest rates.

## **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. 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 February 7, 2023, Damien Vanderwilt transitioned from his role as Co-President and Head of Global Markets at Galaxy to become a Senior Advisor and, on February 14, 2023, a member of the Company's board of directors.

In January 2023, the Partnership acquired additional shares of Candy Digital, a related party, for approximately \$13 million. As a result of this transaction, the Partnership increased its ownership percentage but did not obtain control and continues to account for its investment using the equity method of accounting.

On February 23, 2023, the Partnership acquired substantially all the assets of GK8, a secure institutional digital asset custody platform, for approximately \$44 million.

On March 12, 2023, Federal Deposit Insurance Corporation ("FDIC") was appointed as the receiver of Signature Bank. The Partnership had a banking relationship with Signature Bank for its day-to-day operations. The receivership did not have an impact on the Partnership's financials as the Partnership was able to retrieve its deposits from Signature Bank.