

EDITED TRANSCRIPT

GLXY – Galaxy Digital Holdings Ltd

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Shareholder Update Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Operator

Good morning, and welcome to Galaxy Digital's Fourth Quarter 2021 Earnings Call.

Today's call is being recorded.

At this time, I would like to turn the conference over to Galaxy's Investor Relations Team. Please go ahead. You may begin.

Galaxy Digital Investor Relations

Good morning, and welcome to Galaxy Digital's Fourth Quarter Earnings Call.

Before we begin, please note that our remarks today may include forward-looking statements. Actual results may differ materially from those indicated or implied by our forward-looking statements as a result of various factors, including those

identified in our filings with the Canadian securities regulatory authorities on SEDAR, and available on our website, or in future filings we make with other securities regulators. Forward-looking statements speak only as of today and will not be updated.

In addition, none of the information on this call constitutes a recommendation, solicitation or offer by Galaxy Digital or its affiliates to buy or sell securities, including Galaxy Digital securities.

With that, I'll now turn it over to Mike Novogratz, Founder and CEO of Galaxy Digital.

Michael Novogratz

Good morning, everyone. It's a beautiful day in New York, at least if you're in New York.

Listen, 2021, I think Galaxy will look back on as really a seminal year in our history, and one, I think, in the whole industry of crypto, that really shifted this from being a maybe business to, wow, this is now an institutional asset class, and so we had a really exciting '21. Our results speak for themselves. Our fourth quarter capped off an amazing year, \$1.7 billion in net comprehensive income. If you'd asked me that two years ago, that would have seemed like a stretch, but lots of positive things happened for us and for the industry. Our partner's capital, at \$2.6 billion, leaves us one of the most equitized, strongest balance sheet companies in the crypto space. More importantly, I think, it's the human capital we added, right? We've added almost 250 people since January 1, 2020, and that's really where the excitement comes.

I know how this works. People look at your last year's earnings and they say, "Thanks, but what's next?" and so I'm going to actually leave the real analysis of the earnings to Alex, Chris and Damien later on and give you a little sense of what's next.

2022, we came into 2022 and it looks like it should be a more challenging year from a macro perspective. The Fed is hiking rates. I think Chairman Powell will continue to try to regain the credibility of that institution by speaking hawkish and being hawkish. That has created lots of volatility in asset markets. We had a war break out in the Ukraine, where Russia has invaded. You know, that's interesting. It creates lots of inflationary pressures through the commodity cycle, it creates lots of risk-off behavior and anxiety, but it also adds to a narrative in crypto, which is really positive and continues to accelerate adoption.

What's interesting, this has been a year of push-pull in crypto with macro headwinds and adoption tailwinds, and we continue to see those adoption tailwinds. Part of its story, like I said, when Europe and the U.S. told Russia those reserves really aren't your reserves, for the first time in my investing career, people said, "Wait a minute. If that could happen there, what about China's \$1.4 trillion of treasuries? Are treasuries really a risk-free rate?" So, the story for Bitcoin and other crypto assets got more of a tailwind. I don't think that is going backwards. I think we're in a vulcanized world and where crypto assets fit in is going to continue to be debated, but it's going to grow in scope.

It should not be missed that Secretary Yellen, Janet Yellen, in her last comments took a much more sanguine approach towards crypto, right? The political winds in D.C. are changing. I think Democrats who had been more opposed to crypto are realizing that voters really like this asset class, and so you're seeing a shift in the regulatory front.

Let me go to BitGo. We remain committed to integrating BitGo and becoming an institutional crypto platform, period. In keeping to that, we've extended our deal to the end of the year with BitGo. We adjusted the deal some for progress that BitGo has made. They've hired close to 150 people, or more than 150 people since we originally signed, and so it's a bigger and better company. We'll continue to work on integration side-by-side, until we close the deal.

Regarding our U.S. listing, as previously announced, subject to all the regulatory and approval processes, we remain in progress to redomicile to the U.S. We publicly filed a Registration Statement on January 28. However, we're still in the comment period with the SEC, and while we certainly expect this process to be completed at one point, we're not—and we're going to make every effort as we can to be a U.S. public company—we can't really provide a great timeframe, given that it's in negotiation with the SEC. We said in our release between the second and fourth quarter, that's a pretty broad window, and I think, you know, we're going to hope for the best and we're going to continue to engage with the SEC, they're very thorough, and expect this to get done.

Now, let me tell you about the future. We continue to invest for growth, period, and so we raised \$500 million in a convertible in December. When we went on the road, we told investors that money was going to be build platforms, and it continues to be. How do you invest for growth? You hire, hire and hire, and I think what gets me most excited is human capital, right? We're coming up with innovative ways to recruit, to attract young talent. We came up with new training programs, a flag program.

There's a big engineering focus. We brought in Alex Field to run our Engineering Team. He has had his plan approved. It's a big increase in engineers across our firm. We also brought in a new CMO, Sebastian Benkert. He came from ARK, where he did an amazing job building out Cathy Wood's brand. We can't be more excited to have him. We've added Felix Cua on our risk management side; Tom Harrop to optimize our balance sheet; Eddie Schwartz to be our Chief Security Officer. The list goes on and on.

So, when I think about what makes a great company, it's people, and I couldn't be more proud about the people we've brought in, in both the work ethic and the quality of talent.

When I look going forward, we put out an early release on what Q1 looks like at a first glance. I would tell you that all our businesses are profitable, all our operating businesses are growing. Our balance sheet is going to continue to be volatile. With the crypto market, we continue to, hopefully, outperform the crypto market in balance sheet. I think, when I look forward from here, I'm pretty optimistic about crypto. I had said originally I thought this would be rangy year, right, \$30,000 and \$50,000 in Bitcoin and whatnot, but given the adoption cycle I'm seeing, and given the way markets trade and how I see new people wanting to get in, the innovation we're seeing in Web 3 and in the metaverse space, I've gotten more constructive than I was at the beginning of the year, and so it wouldn't surprise me to see crypto significantly higher by the end of the year.

With that, to talk more about our actual earnings in the quarter, I'm going to hand it over to Damien.

Damien Vanderwilt

Thank you, Mike. Good morning, everybody.

Before I jump into performance for our Asset Management and Investment Banking segments, I do want to contextualize a few of the macro trends specifically impacting how our clients are investing in early 2022.

Venture Capital invested more than \$33 billion into crypto and blockchain start-ups last year, more than all prior years combined—just think about that number—with much of that happening in the second half of the year at a pace of over \$1 billion per week. Sixty seven percent of that total went to fundraising rounds with deal sizes above \$100 million, and at least 43 companies that raised venture capital in '21 are unicorns. Pre-seed deal counts continue to decline, while Series A and later are growing, a sign that companies built in the 2018 to 2020 crypto bear market are maturing, and I'm seeing that play

out substantially in conversations with our clients of our Asset Management Division. Allocators, specifically, continue to put money to work in our sector, predominantly, as I mentioned on our last earnings call, for the moment through allocating to venture and other early-stage fund management product.

Turning internally to our business segments, and beginning with our Asset Management business, there remains strong demand for our fund products across our passive and active strategies, and we launched some exciting new products during the quarter and saw AUM growth across our business. I'll also highlight I'm seeing growing demand, specifically, for our active product suite, which indicates a maturation of the space is starting to occur.

During the fourth quarter, we saw strong inflows into our fund management suite. Assets under management increased by 29% from the end of the third quarter of '21, reaching \$2.9 billion, which represents AUM growth of 256% for the full year. Net client inflows in the quarter exceeded \$500 million, confirming that the investment case for cryptocurrencies in a fund structure remains very compelling. Looking year-over-year, that is nearly \$1.7 billion of net inflows. So, even in a quarter where crypto asset prices were rising, backing out the impact of price increases, we continue to see net new capital coming into the Galaxy platform.

Now, quarter to date, against the backdrop of a modest market contraction in digital assets, we've seen AUM decline to \$2.4 billion as of the end of February, consistent with the reduced total crypto market cap over the same period. Even with that reduction in overall AUM, a key element of Galaxy's strategy is providing our expertise in volatile and trickier market conditions, demonstrated in our over three-year investment management track record.

On the new product front, we were excited to launch the Galaxy Solana Funds during the fourth quarter, which are passively managed funds that seek to track the performance of the Bloomberg Galaxy Solana Index Fund; and in February of this year, in a continuation of our long partnership with CI, we launched the CI Galaxy Multi-Crypto ETF, which is designed to capture the upside of investing in both Bitcoin and Ethereum, whilst maintaining the volatility of these assets by systematically managing portfolio allocations between the cryptocurrencies and cash.

We are also thrilled to continue our partnership with Goldman Sachs, as Goldman has made our Ethereum Funds available to their clients. This is just one of the many ways Galaxy is working with Goldman, and Chris will touch on other examples in a few moments. Goldman Sachs and Morgan Stanley continue to be first-movers in offering their clients access to Bitcoin and Ethereum through Galaxy passive fund structures, demonstrating the amount of demand clients have for exposure to the asset class.

Turning now to our actively managed funds, I'll start with our Fund of Funds business, which is actively raising its third fund, a diversified, multi-manager Fund of Funds investing in leading global crypto and blockchain venture firms, giving our clients access to a diverse portfolio of crypto venture specialists when it comes to geography, stage and sector focus. We look forward to updating you on closures with that fund shortly.

Additionally, our Galaxy Interactive strategy had the first close of its third fund, growing total strategy AUM by over \$70 million to \$735 million. This fund will be dedicated to immersive virtual worlds and investing at the intersection of content, social commerce and technology.

We were also excited to announced the launch of NG+, a new co-investment consortium focused on the Web3 gaming space, a Galaxy Interactive partnership with Republic Crypto and Alameda Research. NG+ will continue to invest and cultivate the next generation of tokenized video games. These investments will flow directly into Galaxy Interactive's third fund.

It's important for shareholders to remember that Galaxy Digital will retain a large LP interest in all three of Galaxy Interactive's funds and in our Vision Hill Fund of Funds strategy, providing our shareholders with collective exposure to some of the most exciting areas of private, early-stage crypto investing. All in all, we are now proud to offer our clients 15 different fund products to choose from across our passive and active strategies.

Last, but certainly not least, we are really thrilled to welcome Chris Rhine to the team as a new Portfolio Manager, focused exclusively on long-only active strategies. Chris was previously Head of Strategic Equities and a Portfolio Manager at Cohen & Steers. I look forward to sharing more details on the strategies Chris is focused on during our next earnings call.

Turning now to our Investment Banking business, we continue to build on the momentum we've demonstrated over the prior few quarters. We announced a number of deals for the quarter, and as of last week, have an active pipeline of eight deals representing mandates of more than \$1 billion in potential transaction volumes.

Among the significant deals announced were two deals for Blockdaemon, a leading institutional grade blockchain infrastructure company, for node management and staking for their acquisitions of Gem and Anyblock Analytics. Our Banking Team acted as the exclusive financial advisor on both of those transactions, building on a strong relationship with the Blockdaemon Executive Team.

Our team, again, served as the exclusive financial advisor to BRD on their acquisition by Coinbase in November. This transaction will further accelerate Coinbase's capabilities within their Coinbase wallet business and allow BRD wallet users the opportunity to migrate their assets to Coinbase's wallet.

We were also involved as placement agent on a bridge financing convertible debt for a payments infrastructure provider in December, demonstrating the wide breadth of offerings provided by our Advisory Team.

Last month, our team worked on two fundraising rounds, Qredo's \$85 million Series A financing, where we were a exclusive financial advisor and sole placement agent, and Compute North's \$80 million Series C financing, where we advised Compute North and their teams on the equity financing.

Notably, over 2021, in full, our team closed eight transactions, more than we've closed in all previous years combined, and given our 2022 pipeline, we expect our Investment Banking franchise to continue growing at this rapid pace.

Proving that point, just last week our team closed another transaction where we acted as financial advisor for the Thunder Bridge IV SPAC and its merger with Coincheck, set to close and list in the second half of this year.

Building on Mike's earlier comments, staffing up to serve both our Asset Management and Advisory business is critical. We are constantly looking for top-tier talent and have brought on the likes of Blackstone Executive Bill Burt as COO of our Asset Management business, Chris Rhine, as I mentioned earlier, and one of my old Goldman colleagues, Danielle Johnson, who most recently was Head of Venture Capital Coverage at Credit Suisse, to join our Advisory business as Head of Capital Markets. We're really pleased to welcome Bill and Danielle to our ranks.

I'll now hand the call over to Chris Ferraro, who will walk you through details for our Trading and Mining businesses, as well as give you all an update on our portfolio companies and our areas of focus for our investments.

Christopher Ferraro

Thank you, Damien.

I'll cover the performance of our Trading, Mining and Principal Investing businesses.

Our Trading business finished off 2021 in strong fashion, benefiting from both increased trading activity and the increased depth of our relationships across spot and derivatives, lending and market-making services.

To start, by providing greater visibility into the reported results, recall that IFRS disclosure of our Trading results includes: one, our core net long treasury holdings; two, our own proprietary trading around that core net long; as well as, three, all of our market-neutral counterparty-facing and liquidity provider activities. The latter bucket, our market-neutral counterparty and liquidity activities for full year 2021 contributed approximately 10% of the total GDT net revenues, which we define as realized and unrealized gains for the entire Trading business after netting associated funding costs and interest expenses, some of which show up below the line in operating expenses.

Now, let's look at the business performance from our Execution Desks within those results.

Counterparty spot trading volumes increased by just over 60% quarter-over-quarter, broadly in line with the record volumes we saw during the second quarter of 2021, and while February and March have definitely seen dampened activity across the market broadly, volumes through most of the first quarter have remained in line, if not ahead, of third quarter 2021 levels.

Derivatives volumes saw similar strength in the quarter, rising over 50% sequentially, to mark another record for franchise activity, and, furthermore, with a notable uptick in volatility in Q1 2022, our derivative franchises had its best quarter lifetime to date. We've noted for several quarters now that derivatives and structured products remain a cornerstone to our differentiated approach for meeting increasingly sophisticated demand from institutional investors, and hats off to the entire team effort for a strong finish to 2021, and into 2022.

Turning to Lending, we've continued to add new and deepen existing client relationships. As a reminder, we believe originations tell the clear story for growth, given the volatility of crypto asset prices that can cause noticeable shifts to the size of our overall loan and yield portfolio at any point in time. We added roughly \$1.5 billion of gross counterparty loan originations in the fourth quarter, a roughly 7% sequential increase, which put full year originations at over \$5 billion. This drove a 20% sequential increase in the size of the counterparty loan and yield book to \$736 million as of year end. That's a greater than 500% increase in the size of our loan and yield book versus the end of 2020, and as of earlier this week, that book stands over US\$900 million, having delivered over \$2 billion of net originations year to date in 2022.

To reiterate, our focus on building a strong, risk-adjusted financing business is core to our DNA, and doing so with a non-retail institutional counterparty base is what we believe will add the most enduring value to the Galaxy franchise over the long run.

Finally, I want to touch on GDT's ability to not only differentiate against crypto competitors, but for its role as a reliable Execution Desk for TradFi standard bearers. We announced just last week that GDT executed the first OTC non-deliverable options transaction with Goldman Sachs, building on our strategic partnership from last year, where we were chosen as a liquidity provider for Goldman's Bitcoin Futures Block Trades on the CME Group. While it's still very early and these trades are not material drivers of our business today, they do provide evidence of an increasingly open door to the traditional financial world for established platforms, like Galaxy, and what's more, it speaks to our position as a trusted partner for, and beneficiary of, TradFi adoption, not as a target for disintermediation.

Now, moving to our Principal Investments business, we've continued to aggressively pursue and invest in the most compelling opportunities across the ecosystem. Excluding our portfolio companies in our Interactive business, we now have

122 investments across 86 portfolio companies on balance sheet. Throughout fourth quarter 2021, and year to date in 2022, our team continued to grow our strategic portfolio with new investments initiated in the Polygon network, as it has gained traction around gaming and NFTs, smart contract verification and evaluation firm Certora, and Airdrop Labs, which provides crypto-enabled experiences for e-commerce, like NFT receipts.

We continue to see record-breaking fundraising, with over \$33 billion of venture deployment around the sector last year, and several of our portfolio companies have benefited as investors look for exposure to the most innovative platforms in the ecosystem.

For example, Fireblocks, a leading custody technology platform we've supported from its earliest stages, successfully completed its Series E fundraise at an \$8 billion valuation. Other notable examples include our early investment in interoperability protocol Axelar, on-ramp technology services platform Ramp, and leading zero-knowledge-based developer platform Aleo, which just raised at a nearly \$1.5 billion valuation.

Galaxy has been a differentiated supporter and investor, taking lead or co-lead positions over the last year in other highly coveted and fast-growing companies, such as smart contract simulation and security tools provider Chaos Labs, compliance tool developer Sealance, and DeFi execution platform, Skolem, as well as making notable later-stage strategic investments in platforms like Acorns, where we see significant opportunities for mass crypto adoption in which the broader Galaxy platform can play a meaningful role.

Importantly, our primary focus on being largely early-stage with our deployment and partnering to support the scaling of these businesses also means we're doing far less riding of the increasingly crowded investing waves in later-stage growth companies, which has led to private company valuations gapping out relative to now lower public market valuations.

Turning to Mining, where the team continues to build momentum in both prop mining and its miner finance offerings, in proprietary mining, we have remained on track for previously disclosed orders that will bring us to nearly 2 exahash per second of delivered orders by year end 2022, and in December, we added another set of orders which will put GDM's total purchased capacity at just over 2.5 exahash per second delivered by year end. We expect to use that capacity to fuel both proprietary and miner finance operations, and will apply hash rate opportunistically where it makes the most sense for the business.

While cost to mine has increased across all miners, ourselves included, due to growing network hash rate and increased costs on machine orders amidst supply chain constraints, we continue to mine Bitcoin at an over 65% discount to fair market value using our full cycle cost to mine, including equipment costs, and given Bitcoin is hovering around \$47,000, that is pretty remarkable operational efficiency by the team throughout different Bitcoin price and hash rate regimes.

Turning to our client-facing business, we achieved nearly \$300 million in new mining-related originations. Our Mining and Lending Teams continue to provide miners with a comprehensive suite of financial services and products, including asset-backed loans and leases, project and equipment financing, treasury management, capital optimization, hedging, and other trading solutions. We think these facilities and lending arrangements speak to the growing demand for the offerings across our business as institutions look to manage price volatility, improve their treasury management strategies and shore up access to funding amidst turbulent capital markets.

So, all in all, Q4 was a very strong quarter that included some record results, continued positive signals for institutional adoption, and more examples of our how mix of businesses can reinforce and hedge the value of one another, and while year to date has undoubtedly included some volatility and tougher market macro conditions for crypto and for traditional

markets, we don't run the business for any individual quarter and we feel as optimistic as ever about our positioning within the sector and our ability to serve institutions in a differentiated way.

With that, I'll turn the call over to Alex to walk everyone through the specifics of our financial performance. Alex?

Alex Ioffe

Thank you, Chris. Good morning.

Galaxy earned a remarkable \$1.7 billion last year. We earned \$521 million in the fourth quarter, a nice finish to the year. Due to market volatility, we gave up approximately \$110 million to \$130 million in the first quarter of this year. Our equity capital was \$2.6 billion at the end of the year. This was up from \$800 million at the end of 2020. In addition, in December, we raised \$500 million of convertible five-year debt with a 3% coupon. This continues to position Galaxy to take advantage of abundant opportunities in this rapidly developing market. Our equity capital tripled in 2021. This was driven by our long-term strategy of maintaining a long digital assets portfolio, our diversified principal investments in this sector, and our growing operating businesses, Capital Markets, Investment Banking, Asset Management and Mining.

To elaborate, digital assets, taking realized and unrealized gains together, digital assets gained \$1.5 billion in the year. Excluding gains from non-controlling interest liability, which is money from outside investors in funds that we consolidate, our gain on digital assets was \$1.3 billion for the year. Please note that we renamed non-controlling interest to non-controlling interest liability and moved the position of this line item on the balance sheet and the P&L statements. This did not change the nature of the line item or our earnings. This represents money from outside investors in the funds that we consolidate, for technical accounting reasons.

Investments. Private investments continue to be a great part of our story. We gained \$780 million on investments this year. Our portfolio grew to include 86 companies and was valued at \$1.1 billion at the end of the year. Please note that many of our investments are made at early stages and are not immediately liquid or trade publicly. We record investments at cost or at discount to market value. We have a rigorous internal process, supplemented with third-party valuations, to make sure that reported values are reasonable.

Recurring revenue. We have seen rapid growth in our operating businesses, Trading, Advisory, Mining and Asset Management. We expect this growth to continue and for these segments to take over as key revenue streams for Galaxy over time.

On the cost side, compensation was \$114 million for the year, up from \$34 million in 2020. The large increase was driven by growth in headcount, from 89 to 280 people, in 2021, and higher cash bonuses per employee this year versus last, because of outsized results. Similarly, equity compensation was \$71 million for the year, up from \$12 million in the prior year. This was also driven by a large increase in headcount, and from roughly doubling of the 2021 grants from the time they were communicated to the employees in the beginning of the year to when the blackout period associated with our BitGo acquisition was lifted and the grants could be made in the second quarter of the year.

General and administrative fees were \$35 million, up from \$15 million in the prior year, driven by increased spending for technology, marketing, higher depreciation from mining equipment, and we wrote off our old lease in New York City, having moved to a larger and nicer space in New York.

Professional fees were \$53 million for the year, driven by expenses from BitGo and Vision Hill acquisitions, the U.S. listing and convertible notes. We expect continued elevated legal and audit costs related to the U.S. listing in 2022, but a drop-off in 2023, and additional reductions in future years.

Balance sheet. We held \$800 million in cash at the end of the year. This included \$500 million in convertible notes raised at the end of last year. Equity stood at \$2.6 billion at the end of the year.

Digital assets are a large part of our balance sheet. Digital assets, including digital assets receivable and excluding non-controlling interest liability, other people's money, were \$2.3 billion at the end of the year. Further, removing digital assets borrowed and collateral received from counterparties, net of digital assets lent and collateral posted, net digital assets were \$1.1 billion. Removing Stablecoins takes us down to \$900 million. We use this measure to assess our net exposure to digital assets. We remove Stablecoins from the mix because they typically maintain a one-to-one correlation to fiat currencies. We use Stablecoins to facilitate operations, because they can be settled 24/7 on digital asset market centers which trade 24/7.

Private investments were \$1.1 billion at the end of the year.

Accounting changes. As part of moving our public listing to the U.S., we retained KPMG as our auditor, starting in the third quarter of 2021. As I mentioned earlier, in consultation with our new auditor, we renamed non-controlling interest to non-controlling interest liability. This is money from outside investors in funds that we have to consolidate in our financials. We now display non-controlling interest in the current liabilities section of the balance sheet, and we display gains and losses attributable to non-controlling interest in the expense section of our P&L. The earnings and equity that belong to the Company remain the same.

With that, I will turn it back to the moderator for questions.

Operator

At this time, we will be conducting a question-and-answer session. One moment while we poll for questions.

Our first question comes from the line of Mark Palmer with BTIG. You may proceed with your question.

Mark Palmer

Yes, thank you, and good morning. Could you provide an update on BitGo's recent performance, including assets under custody, and tell us a bit about the integration activity, what is feasible in terms of integration ahead of the deal close?

Damien Vanderwilt

Good morning, Mark. Thanks for the question. We're not going to provide with this earnings release an update on BitGo AUC, or other operating metrics, you can look forward to those in coming months. I would tell you the way we're thinking about navigating what is clearly a prolonged closing of the transaction is to really focus on making sure that both companies are delivering on the products that we're building for our customers in a way that has the least amount of distraction possible, and so we have an integration plan that we architected very clearly in the back end of last year. That plan exists, we continue to refine and optimize it, but we want to make sure that we're continuing to deliver, particularly on the BitGo coin support and downstream services, on all of the different products that we're hearing from our customers that they need from us.

The simple way to think about it is we're going to continue to build, maintain our integration plan, and as soon as we get through the process with the SEC and close the transaction, we'll be really well positioned to swiftly integrate both firms. Along the way, we're really going to operate as best we can as a combined unit for our customers, and we already started that in the third quarter of last year, where we will provide the front-end liquidity, derivatives, lending, and other services to lots of customers from our Galaxy entities, downstream custody solutions customers need from BitGo. So, we have a process for onboarding that minimizes any disruption or friction as best we can on that approach.

Mark Palmer

Thank you, and one more question. Obviously, you had a very strong performance in the current quarter with regard to derivatives. What are you seeing in terms of client flows onto the platform? A lot of the figures that we see have to do with trading volumes and the like. What can you tell us about the adoption of digital assets by institutions, as reflected by client flows?

Christopher Ferraro

Yes. On the derivative spot side, specifically, I would say it is broad-based growth, some key themes we've seen there. We've seen a pretty significant uptick in activity in the Bitcoin mining sector and using derivatives to hedge treasury positions, which we think is actually natural, and we were pretty far ahead of in terms of making sure we had a mining business and relationship managing group to make sure that we were able to see those flows. The mining sector has exploded, in terms of big, large public companies who have raised money, and those companies naturally build net long Bitcoin treasuries as part of their core business, and so using our Derivative Desk, or using derivatives, in general, but our Derivative Desk, specifically, as a way to either get liquidity or hedge those positions or collar them up the way sort of a lot of other analogous businesses outside of crypto in the commodity space would do, has been a pretty big driver. We've also seen a fair bit of activity from institutions who had begun their digital asset adoption in 2021 now either hold core long positions and want hedges positions, want to call underwriting strategies to enhance yield when they have a view that there's a trading range for a period of time. So, that's a pretty specific update in terms of market color that we've seen on the derivatives side.

Then, in general, in terms of spot trading, we have seen a general uptick in traditional hedge funds. 2021 was a big adoption year for crossover funds taking their first position in spot coins, particularly in Ethereum, to start with.

So, yes, I'd say that's pretty much the landscape we're seeing.

Mark Palmer

Thank you. I'll get back into queue.

Operator

Our next question comes from the line of Deepak Kaushal with BMO. You may proceed with your question.

Deepak Kaushal

Hey, good morning, guys. Just a quick question on regulations, for whoever wants to take it. Mike, I think you said last quarter that you're going to be spending more time in Washington. When you look at the activity levels of regulators, how big of an effort is responding to Biden's executive order, in terms of how distracting is it to other efforts that the regulators need to do, in general?

Michael Novogratz

I think that there's a bigger story, and it's a combination of—it really started with the Infrastructure Bill, when Washington woke up to a barrage of phone calls from crypto-loving voters, from wealthy contributors to retail, yes, the lines of Senators and Congressmen. I have made it a personal mission, as well as lots of our competitors, to start reaching out and talking to politicians more often, and I really do think there's a change in mindset, on both parties, that you can't be anti-crypto and you've got to figure out—you know, we can't kill innovation. If you're a Democrat, you can't kill innovation, and this really does—it is a technology that can really help the little guy, right, the retail investor in the long run, when you think about one in five dollars in remittance payments are happening over crypto rails, so that's a huge increase from where it had been. So, I think, on the Democratic side, there's a shift, and that got through to the President's directive.

You saw that with Yellen, when she came out. She had always been anti-crypto and she came out very balanced last time. She said, "Hey, I'm still worried about some things, but crypto has a role to play, and it's now an asset class." I thought that was the single most important thing that came out of any—I won't call Janet Yellen a regulator because she runs Treasury, but someone with lots of influence in what's going to be the landscape.

How that flows into actual regulation, we'll be seen. There's still some tension between the CFTC and the SEC. The SEC continues to march to their beat. But, I have to think, as the political landscape shifts, regulators pick those—regulators are political-led, just like everyone else, they pick those cues up. So, I'm more optimistic today than I was two months ago. These efforts are really just getting started and you're going to see—I've had three Democratic Congressman come through the office within the week, or on Zoom, and it was shocking how well versed a few of them were in our space, and I would have told you six months ago there was almost no one who was well versed in our space. Again, there's nothing specific to point to in regulation that makes me excited, but the whole tone in D.C. has shifted.

Deepak Kaushal

Yes, no, it seemed pretty clear with the order. Good color, thank you. Just sticking with regulations, we didn't get any immediate clarity—and you mentioned SEC marching to their beat and kind of in contrast with CFTC. How does that impact Galaxy's business in the interim, while we don't have that clarity. Is it a benefit or a hindrance, as compared to some other players that are perhaps offshore?

Michael Novogratz

We are trying to build a company that is an institutional crypto company, that's our commitment, and that means working within a regulatory framework. So, the faster we get regulatory clarity, the better it is for us. We probably take less risk than our offshore competitors in lots of aspects of this business, which, you know, you could either let it frustrate you or you can see it as "Hey, this is our super-power. We're going to figure out how to operate." Because, in the long run, the deal with institutions, to get institutions into the space, which the space needs, that's essential. So, I stop letting it frustrate me and say, "Okay, how do we actually become part of the solution?"

Deepak Kaushal

Got it. Then, I've been struggling to try and get a sense of what kind of percentage of the industry is kind of closer to the compliance side of regulations versus the wild west side of the market. It's pretty hard to gauge, but do you have kind of a gut feel of—if I could call it the cleanup factor here, and is this something that you guys kind of gauge or kind of get a sense of it ... (inaudible).

Michael Novogratz

Listen, I think ...

Deepak Kaushal

... market is kind of excess, how much has to clean up before things kind of move back to (inaudible).

Michael Novogratz

It's a slippery slope, because all this stuff is very judgmental, right? I mean, if you think of trading on DeFi, what KYC and AML platform should do it, versus is it retail, one thing we have going for us that makes our decisions easier is we don't deal directly with retail. If you're in retail, there's a separate set of decisions you've got to make. Listen, people are making their own risk judgment on where they're going to see that balance. We'll see how the cards fall in time. I don't think, of the players that you read about, there are people taking wildly stupid risks and you're going to see this breakdown of our industry because they're going to haul people off in paddy wagons, by any stretch. These are very subtle decisions and it would help a lot to get clarity around some of them.

Deepak Kaushal

Okay, that's helpful. Regulation's a big topic, so I'll leave it at that, and I'll give some airtime to the other guys in line, and gals. Thanks again for your time.

Michael Novogratz

Thanks so much.

Operator

Our next question comes from the line of Owen Lau with Oppenheimer. You may proceed with your question.

Owen Lau

Hello, good morning, and thank you for taking my questions. I have a broader question. In 2022—so, looking ahead this year, which business line is Galaxy most excited about, where you will invest more money into, and you think can expand materially this year, compared with last year, and how do you approach these opportunities in 2022?

Michael Novogratz

Yes, I'll start and maybe I'll let my colleagues chime in. Listen, I think our biggest investment this year is going to be in and around engineering, building out product for our customers, and that's both in BitGo and in Galaxy, right? I said at the beginning of the year to our firm, like, this is more challenging macro headwinds, we're not exactly sure where markets end up. I'm more optimistic, like I said, now than I was at the beginning of the year, but I know one thing, we need to build, build and build. So, most of that investment is in engineering.

The second place, I think there's opportunity for great growth is in the Asset Management business. We've developed a platform, a very institutional platform, that we now are going to put different investment strategies on top of. Damien talked a little bit about that with some of the new hires and some of the new strategies. But, I think 2022, for us, you're going to see our Asset Management business really grow, and I'm optimistic about that.

I guess the last piece I'd say is—and credit to Michael Ashe and his team in Investment Banking. They are way ahead of my mental schedule of where they would have been at this point in terms of establishing a real credible voice in the advisory side of crypto. We have great domain expertise. We are doing far more deals than we had budgeted in our minds. That business seems to have a great, great tailwind to it. I do think you're going to see consolidation in this space, you're going to see lots of needs for capital raising, and so that business, as well, feels really excellent.

It's kind of funny. The platform businesses that we thought we'd be investing in, really, I see lots of optimism in. I'm still, like I said, bullish crypto, but there's certainly more uncertainty around the balance sheet.

Owen Lau

Got it. Then, more for your partnership with Goldman, could you please dive a little bit deeper into how Galaxy is providing value (audio interference).

Damien Vanderwilt

Yes, I can take that. I couldn't quite get the back end of your question. We've spoken for the past three earnings call about our expectations of how the banks would start to participate in our sector, obviously, with a close eye on what they're allowed to do, given their regulatory status. You may recall, one of the things we guided early was an expectation that the banks with large wealth platforms would probably be the place that they first dip their toe into the water to start to offer their customers access into the sector, and that's certainly what we ended up seeing, and, hence, the product partnerships that are public from both Goldman and Morgan Stanley from our Asset Management business into their wealth platforms.

The continuation of the banks moving into the sector has really culminated with the news recently of the OTC business that we conducted with Goldman Sachs, and, really, the way to think about that is, whilst the banks certainly—in the case of the larger firms, like Goldman, Morgan Stanley, JPMorgan, etc.—whilst they're not able to handle coins directly, they will serve the needs of their customers, whether that's in the alternative asset management space all the way through to their structured products businesses, by creating exposures to our sector through OTC derivatives, that Galaxy is well positioned to serve them with and hedge on our side. So, we will provide synthetic exposure to the banks in their markets businesses as they develop products suitable for their customers on the other side. So, really, it's a phrase that you might want to think about, co-opitition, where the banks are really leveraging our connectivity in the crypto sector, our expertise, certainly, in warehousing large derivatives risk, to provide them with the exposures that they need.

Their advisory businesses are also active in our space, and the one to look for, I think, in the back end of this year is going to be the opening up of different forms of wholesale lending by the banks into our sector, which we're tremendously excited about, because it will obviously reduce our cost to capital, not just for Galaxy, but for the sector, and there are some really thoughtful, innovative ways that are being manufactured to do that safely for the banks.

Owen Lau

Got it, and then any pushback from other banks, can you comment a little bit, as well? Thank you.

Damien Vanderwilt

Any pushbacks from banks? No, I don't think so. I mean, you have, if anything—I could tell you, from our banking onboarding process, since the news of the Goldman transaction, the news that hit the tape about Cowen's entry into a digital service platform in the sector, if anything, we have had acceleration requests for the onboarding of ISDAs and trading documentation with a broader range of banks that we were working with to make sure that they are up and running quickly. So, to me, it feels very much like the top-of-house. Lots of Goldman's and Morgan's competitors have accelerated the teams that they have focused on digital assets to get moving and they do not want to be left behind.

Owen Lau

Got it. Thank you very much.

Operator

Our next question comes from the line of Jamie Friedman with Susquehanna. You may proceed with your question.

Jamie Friedman

Hi, good morning. I'm just curious what you might make of the BlockFi and Voyager regulatory developments. At least on a high level, some perspective there would be helpful.

Christopher Ferraro

Sure, Jamie. Thanks for the question. This is Chris, I'll take it. First off, I would say we have had, and still have, tremendous respect for Zac, Flori and the BlockFi team, and the Voyager team. I think that they—they're doing the hard work in their version of the crypto sector to create product and meet client demand, customer and retail client demand, where it's there, and they've done great jobs in building big businesses. As you guys know, we were seed investors in BlockFi and supported Zac and Flori and the whole team all the way through that journey. Voyager is also a big customer of ours on the trading and liquidity. They chose to go down the retail route, because they saw a strong opportunity to grow a platform and there was strong retail demand, particularly across the background of zero interest rates, which we all know sort of what's been driving that, and retail individuals didn't want that and they wanted to find yield on their money, and so they provided for them.

I think that the end state now, where they are coming under regulatory pressure, was kind of inevitable, based on their business model. I think the BlockFi settlement is encouraging. The more recent news with Voyager should have been expected, based on the news with BlockFi. I think that the challenge for them—and we hope for the industry and back them in figuring out—is how do they evolve the business model to serve retail clients in a new asset class, a business model that sort of looks like a bank, but isn't regulated like a bank, or do they evolve.

We've chosen a different path, as you know. We don't run that business model. We have invested in some of those companies and we partner with those clients as back-end liquidity and financing partners, but we don't face retail directly. I think that was just a—whether it was pressure or not, that was an early decision on our part, which differed from theirs, and the net result is regulators are, inevitably, going to be more worried first about business models around retail clients.

Jamie Friedman

Thanks, for that, Chris. I was just curious. I'll drop back into queue.

Operator

Our next question comes from the line of Rich Repetto with Piper Sandler. You may proceed with your question.

Rich Repetto

Yes, good morning, and, first, congrats, Mike, on the progress you've made in 2021. My question, I don't know whether you can answer this, but you did allude to sort of the filing to be a U.S. listing and the negotiations. Again, I don't know whether you're able to disclose, but, in broad strokes, can you tell us what are the issues that you're dealing with in these negotiations, just in general terms, I guess?

Michael Novogratz

Yes, I would just say that the SEC is being very thorough. That's their right to do. It can frustrate the industry at times, but there's nothing unfriendly about the interactions, it's just they're very thorough, and thoroughness takes a lot longer than people were used to. I mean, I think that's the best way to categorize this whole thing.

Christopher Ferraro

Yes, and I'd jump in. I would say, for a little more specific color, but general as it relates to our conversations, one of the biggest focuses, not just for us, but everybody migrating from private markets or non-U.S. exchanges through the SEC processes, is accounting. As you look at the whole landscape, I think looking at U.S. GAAP and its ability to—how it treats digital assets, on which line items of the balance sheet and which pieces of the P&L, is something that—it's not adversarial, it's literally we're not sure how this treatment should flow through yet, and so it's a newer process and trying to get to the underlying of how the new technology of digital assets work and, therefore, how is the SEC and the PCAOB and the Big Four comfortable representing financial statements from a U.S. GAAP perspective, because it's new territory. That's really the biggest focus for the industry broadly.

Michael Novogratz

In the long run, what's going to have to happen is GAAP is going to have to get revised. The way GAAP is being applied just intuitively makes no sense to anyone who looks at it, and so they're in this weird box of these are the rules, and so you'll see balance sheets and income statements that don't reflect what you'd hope they'd reflect, and that's frustrating.

Rich Repetto

Got it, that's helpful. My one follow-up—you've talked a lot about regulations on the call, and pretty much I, at least, pretty much agree with everything you've said. I guess what you alluded to, Mike, was the issues of the CFTC and the SEC. It just seems like now, at least, you've got an executive order. I hear you about the politicians, about Yellen, but now we go back into sort of the black hole of who does what. I guess the question is where do you see the next progress being made now that the executive order is out there? You sort of alluded that there's still some debate for turf (phon), at least that's what it implied to me, on the regulatory front in the U.S.

Michael Novogratz

Listen, I don't think you're going to see anything coming from Congress right away, given the mid-terms coming up and how Democrats don't have, I don't think, the stroke of the pen in Congress to pass any legislation that's going to radically change how crypto gets done. This has to be bipartisan at one point. What's interesting is you're starting to see those bipartisan links show up a little bit, right? Again, no one wants to lose the crypto vote, and the crypto vote is becoming powerful at a speed no one expected it to be. So, I don't think we're going to see any real progress in the next few months, but the whole tone is shifting, and I think that's really positive.

We all sat here always in fear of the tail risk, that really something stupid was going to happen, and I don't think anything stupid is going to happen now, and that's a big plus. I don't think we're going to get clarity the way we'd like to, certainly with the setup we have right now. The effort to educate both the crypto community, educating D.C., but the D.C. community educating themselves, literally, kicked off three months ago and I am impressed at how fast it's happening. Kudos to some of our colleagues and competitors for the efforts they're putting in. Kudos to the people in D.C. for the intellectual curiosity that they've taken. It's using that intellectual curiosity, it's "Oh, damn! I better come up the curve, because this is important." But, we're seeing it and that leaves me much more optimistic, but I don't think there's anything in the short run that we can look to.

Rich Repetto

Mike, you addressed, I think, the political sort of divisions or debates, and maybe they're connected, but the agency—at least I sort of view that there's some agency debates on territory, as well, and maybe that's how you straighten them out, is through the political side, but you've got the SEC—like you mentioned, the SEC and the CFTC sort of viewing things a little bit differently, as well.

Michael Novogratz

Yes, I'm not smart enough on that chessboard to understand how that plays out. I do think it becomes a political decision in the long run.

Damien Vanderwilt

I do think—the only thing I'll add to Mike's comments is there is work happening in the industry which I think stands a chance of making some decent progress, which could see the CFTC take a broader role than they are currently in regulating some of the products, and so I would keep an eye on that.

Rich Repetto

Got it, that's helpful. Thank you very much.

Operator

Our last question comes from the line of Chris Allen from Compass Point. You may proceed with your question.

Chris Allen

Good morning, guys. Thanks for taking the questions. I guess, first, I just wanted sort of a follow-up. There was a comment before about different forms of wholesale lending coming into the sector. I've understood that it's been held up by the lack of regulatory clarity. What's the catalyst for wholesale lending to come into the sector? What do you think the impact is going to be? Because, I know there's a lot of players out there that are kind of waiting for improved financing, which I would think is going to help drive spreads down over time.

Christopher Ferraro

Yes, I think—I'll take the first crack at it and then Damien can jump in, too. A couple things I would point out from my perspective. I think, one, market volatility declining, and sort of safer and safer and more institutional custody and back-end operations and processes to be able to hold, store, track and recognize digital assets is kind of a core piece for wholesale lending to come in, because, as a financier, you need to be able to understand your collateral, get to it, and believe that you can sell it to get your money back, or else you wouldn't provide wholesale financing. So, I think reduced volatility, so that the risk of losing money and all the core guts of being able to recognize and hold digital assets has to sort of get there, and it's getting there very fast. I think regulatory capital treatment is going to be another one, that we haven't got there yet. A wholesale financier's ability to provide capital against collateral that gets treated one way or not, from a capital treatment standpoint, is probably a pretty big hurdle from the cost of capital and the provision. Those are probably one and two on my list of additional dominos and sort of maturation you have to see happen in big ways for wholesale financing to come in.

Look, as a business, in the interim, our role has been to create structures, be the wholesale financing provider for the industry, as a bedrock to cementing ourselves as a key player in the industry before that happens. That's been a big opportunity, and will be a big opportunity, for us as we see it come in, and as we see the money come in, our expectation is that that wholesale financing, if we do our jobs right, should flow into us as one of the key nodes or gateways into the industry, to then provide additional financial solutions to the industry. So, that's how we've positioned it and that's how I think about it.

Damien Vanderwilt

Yes, the only thing I would add—I think Chris summarized it perfectly—the cost of capital in the sector is increasingly looking very attractive to lenders in the traditional financial world, and so I would say there's a lot of innovation taking place on their part to figure out how they can be comfortable lending into a sector where the predominant collateral, which is Bitcoin and Ethereum, can be utilized effectively in a scenario where they can't touch those coins physically if collateral gets called, and so liquidation agents, and such, and innovation around that, are providing a mechanism for people who have evolved a credit view that seeks to take advantage of where spreads are to be able to participate, and that will continue.

Chris Allen

Understood, and then I just wanted to ask on Trading. You noted for the full year 2021, the client-facing lending was 10%. That was mid-teens as of the September quarter. I'd love some color just in terms of what happened in the fourth quarter to bring that down, what could be a pretty material amount, and then any way you could actually give us a dollar amount around that.

Christopher Ferraro

Sure, yes. To the first question, more specially, the percentage is—because our entire sort of digital asset holdings and treasury is all kind of together and our trading around that treasury is kind of together, the more we outperform just in our holdings, or the market outperforms, by definition, the lower the percentage, but the actual notional dollar amount of revenues and net revenues in the counterparty-facing business is continuing to grow, and has grown quarter-over-quarter-over-quarter, and so it's a function of the total number growing faster than the actual gross dollars, but that's not to suggest there isn't growth involved, because there is.

Chris Allen

Got it. Any color just in terms of what the actual dollar amount from the client-facing business is?

Christopher Ferraro

Yes, I mean, to get there, I would go into—we report segments, right, and so this is meant to—if you go to the Trading segment and you look at the net revenue results minus the direct costs that we each outline times our guidance, you'll get there.

Chris Allen

Got it, cool. Appreciate it, guys. Thank you.

Christopher Ferraro

Yes.

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Mike Novogratz for closing remarks.

Michael Novogratz

Guys, thanks for your time today. Listen, I think the takeaway message is we are optimistic on our prospects. We are growing, we continue to grow. We are ready for a volatile year, if that's what we get, given the headwinds in macro. But, we're certainly excited about getting through the SEC process and getting BitGo integrated with us as fast as we can. We really think the combined entity is going to be a powerhouse in this field. Our real focus is talent. We're going to continue to build our culture and cultivate our people. We think this is a long-term battle, a long-term revolution that we're part of, and so we're taking that long-term view. Thanks for your time.

Operator

This concludes today's conference, you may disconnect your lines at this time. Thank you for your participation. Enjoy the rest of your day.

No Offer or Solicitation

In connection with the proposed reorganization and combination with BitGo, the Company has filed a registration statement, including a management information circular/prospectus and a consent solicitation statement/prospectus, with the SEC, which has not yet become effective. GALAXY AND BITGO SHAREHOLDERS ARE ADVISED TO READ THE FINAL VERSIONS OF SUCH DOCUMENTS, WHEN AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Shareholders may obtain a free copy of the registration statement (including the management information circular/prospectus and the consent solicitation statement/prospectus) and any other relevant documents from the SEC's website at <http://www.sec.gov>. Copies of the final versions of such documents can also be obtained, when available, without charge, via Galaxy Digital's investor relations website: <https://investor.galaxydigital.io>.

The proposed reorganization and domestication is subject to approval by shareholders of the Company and applicable regulatory authorities, including the Toronto Stock Exchange. The Company anticipates holding a shareholder meeting to seek approval following the effectiveness of the registration statement, and further details will be included in the management information circular to be mailed to shareholders and posted on the Company's SEDAR profile at www.sedar.com.

This release shall not constitute a solicitation of a proxy, consent or authorization with respect to any securities or in respect of any of the proposed transactions. This release does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote of approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such jurisdiction.

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control; (12) the risk that our business will not grow in line with our expectations or continue on its current trajectory; (13) the possibility that our addressable market is smaller than we have anticipated and/or that we may not gain share of it; (14) those other risks contained in the Annual Information Form for the year ended December 31, 2020 available on the Company's profile at www.sedar.com and (15) other risks and uncertainties contained in the registration statement or otherwise indicated from time to time in filings we make with the SEC. Should one or more of these risks or uncertainties materialize, they could cause our actual results to differ materially from the forward-looking statements. We are not undertaking any obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. You should not take any statement regarding past trends or activities as a representation that the trends or activities will continue in the future. Accordingly, you should not put undue reliance on these statements.