

Northstake A/S

Højbro Plads 10, 1200 København K
CVR no. 42 81 87 39

Annual report for 2023

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 29.07.24

Jesper Johansen
Dirigent



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The company

Northstake A/S
Højbro Plads 10
1200 København K
Registered office: København
CVR no.: 42 81 87 39
Financial year: 01.01 - 31.12

Executive Board

Jesper Johansen

Board of Directors

Richard Breiter
Jesper Johansen
Hans Henrik Hoffmeyer
Claus Nielsen
Payam Samarghandi
Karina Rothoff Brix

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Statement by the Executive Board and Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.01.23 - 31.12.23 for Northstake A/S.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position as at 31.12.23 and of the results of the company's activities for the financial year 01.01.23 - 31.12.23.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Copenhagen, July 26, 2024

Executive Board

Jesper Johansen

Board of Directors

Richard Breiter

Jesper Johansen

Hans Henrik Hoffmeyer

Claus Nielsen

Payam Samarghandi

Karina Rothoff Brix

To the capital owners of Northstake A/S**Opinion**

We have audited the financial statements of Northstake A/S for the financial year 01.01.23 - 31.12.23, which comprise income statement, balance sheet, statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion the financial statements give a true and fair view of the company's financial position at 31.12.23 and of the results of the company's operations for the financial year 01.01.23 - 31.12.23 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 1 in the annual financial statements, where management explains the expectations for significantly improved earnings, which are a prerequisite for the value of the recognized deferred tax asset of DKK 5 million in the balance sheet. We concur with management's accounting treatment of the tax asset. Therefore, our conclusion remains unmodified regarding this matter.

Statement on the management's review

Management is responsible for the management's review.

Our opinion on the financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, it is our responsibility to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Soeborg, Copenhagen, July 26, 2024

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Philip Heick-Poulsen
State Authorized Public Accountant
MNE-no. mne34280

Primary Activities

Northstake is a regulated digital asset service provider for institutional investors and regulated financial institutions.

Northstake offers regulator-compliant staking solutions that enhance liquidity management while operating in compliance with current crypto asset regulations and observing future regulatory requirements. Northstake is transforming how regulated financial institutions stake digital assets.

Northstake's vision is to become the standard for regulatory-compliant staking solutions for regulated financial institutions. Today, Northstake serves regulated financial institutions, digital asset managers, and trading firms. The company enhances fund performance and capital efficiency in partnership with industry-leading custodians and market makers.

During 2023, Northstake partnered with leading Canadian digital asset manager, 3iQ, to develop the first version of tokenized staking leveraging our AML and OFAC-compliant staking platform. The end goal is to develop core infrastructure that allows industry participants to manage liquidity firstly in the Ethereum ecosystem through our regulated marketplace for validator infrastructure.

Northstake's primary income is derived from staking activities but will gradually expand its revenue streams to include transaction-based income.

Uncertainty Concerning Recognition and Measurement

In the financial statements for the financial year 01.01.23 - 31.12.23, it is important to note the following uncertainty with regard to recognition and measurement, as it has had a significant influence on the assets and liabilities recognised in the financial statements:

The company has a deferred tax asset of DKK 2.8 million, which is recognized in the balance sheet as of December 31, 2023. This deferred tax asset can be attributed to carried-forward tax losses. The deferred tax asset has been assessed and recognized based on budgets for the period 2024 – 2025, during which earnings are expected to improve significantly. If the actual results for 2024 – 2025 deviate from expectations, this could impact the valuation of the tax asset.

Regulatory Outlook

Northstake holds the legal status of virtual asset service provider (VASP) in Europe and the Middle East (pending final approval) and is subject to national competent authority supervision for activities falling under current crypto asset regulations and general financial service regulations.

In Europe, Markets in Crypto Asset (MiCAR) will take effect during 2024, where Northstake intends to file for a Crypto Asset Service Provider license (CASP). Although staking is not directly regulated under MiCAR and other jurisdictions, Northstake anticipates that the CASP license and similar licenses will become industry standards and necessary to operate in our chosen segments.

Northstake operates in compliance with existing AML/CTF regulations and will continue to operate as an obliged entity with enhanced customer due diligence requirements, acknowledging our role in operating in a high-risk environment.

Northstake anticipates comparable legislation being passed in major economic zones, e.g., the US (FIT21), that will further the adoption and growth of digital assets.

Financial Affairs

Northstake's focus on delivering core staking solutions resulted in growth in staking revenue from 2022 to 2023. The general market upturn during 2023 was primarily driven by Bitcoin and Ether and not as prevalent for altcoins. Northstake managed, despite the uptake in staking revenues primarily driven by a shift in volume from altcoins to Ethereum, to generate a gross loss of DKK -3,405,958.

The income statement for the period 01.01.23 - 31.12.23 shows a net loss of DKK -7,369,115.

The shift in assets to Ether has solidified Northstake's ability to grow its revenue, as more than 80% of the asset volume is now Ether. The two primary revenue drivers are a) the asset volume and b) the price development of the staked crypto asset. Northstake has shown that the core business model has a clear path to profitable growth as well as considerable growth potential as digital assets grow.

The management did not expect to reach profitability during the financial year 01.01.23 - 31.12.23 and consider the net loss for the year to be satisfactory, as investments in product development and growth were required.

The balance sheet shows equity of DKK 10,523,668.

Outlook

The growth drivers in digital assets market capitalization have slightly shifted from retail to institutions. The launch of digital asset ETFs has introduced a new distribution model bringing digital assets to a broader investor community. This has increased the correlation of digital assets to equities markets and general economic development, although digital assets still retain unrealized growth potential.

The company remains committed to expanding its activities to the UAE and North America and has achieved the necessary licenses to operate. The company expects that digital assets will grow at a disproportionately higher rate in MENA and North America than in the Nordic regions.

Consequently, Northstake is market-seeking in its go-to-market strategy, which is primarily driven by the partnerships available to the company.

Market Risks

Crypto assets are volatile compared to other alternative asset classes, although Bitcoin has shown remarkable returns over the past years. Despite volatility in the underlying assets, Northstake expects the continued growth of the application layer on the blockchain. It is our conviction that the blockchain will become the app store of the next internet, bringing several new innovations that will transform businesses, communities, and economies.

Northstake will continue to have exposure to crypto asset price volatility, as one core component of our business model is the fee paid in native tokens. Northstake will continue to manage these risks and mature our risk management systems in line with our management policy and framework.

Research and Development Activities

Northstake has dedicated a considerable amount of company resources to develop tokenized staking, which is a frictionless market for staked Ether, providing institutions and digital asset managers with access to deep liquidity in a regulatory-compliant and transparent environment.

The product roadmap features three phases starting with a token-less, Over-The-Counter (OTC) liquidation of Ethereum validators for version 1. A two-way marketplace for Ethereum validators for version 2, and a version 3 comprising a fully-fledged market for staked Ether integrated with institutional-grade derivatives and credit markets.

Northstake is uniquely positioned to develop this marketplace, as the prerequisites are deep experience in developing applications and smart-contract code on Ethereum, running DevOps and node operations at scale, under strict regulatory requirements.

Strengthened Leadership

Northstake has increased its investment in leadership talent, ensuring that Northstake can deliver on the growth platform and company governance. The leadership team was strengthened towards the end of 2023 with a Chief Commercial Officer and Chief Financial Officer.

Special Events

No special events during the financial year.

Income statement

		03.11.21	31.12.22
		2023	31.12.22
Note		DKK	DKK
	Gross loss	-3,405,958	-398,821
2	Staff costs	-5,940,609	-6,607,811
	Loss before depreciation, amortisation, write-downs and impairment losses	-9,346,567	-7,006,632
	Financial income	13,251	33,825
	Financial expenses	-83,134	-75,360
	Loss before tax	-9,416,450	-7,048,167
	Tax on loss for the year	2,047,335	1,535,235
	Loss for the year	-7,369,115	-5,512,932
	Proposed appropriation account		
	Retained earnings	-7,369,115	-5,512,932
	Total	-7,369,115	-5,512,932

ASSETS		31.12.23	31.12.22
		DKK	DKK
Note			
	Deposits	16,677	39,645
	Total investments	16,677	39,645
	Total non-current assets	16,677	39,645
	Manufactured goods and goods for resale	5,177,409	213,497
	Total inventories	5,177,409	213,497
	Trade receivables	291,835	243,475
	Deferred tax asset	2,834,914	920,121
	Income tax receivable	132,542	615,114
	Other receivables	410,194	209,070
	Prepayments	177,942	317,983
	Total receivables	3,847,427	2,305,763
	Cash	6,163,344	13,566,522
	Total current assets	15,188,180	16,085,782
	Total assets	15,204,857	16,125,427

EQUITY AND LIABILITIES		31.12.23	31.12.22
		DKK	DKK
Note			
	Share capital	990,662	925,864
	Share premium	22,415,053	18,787,013
	Retained earnings	-12,882,047	-5,512,932
	Total equity	10,523,668	14,199,945
	Prepayments received from customers	24,082	978,998
	Trade payables	1,027,852	408,753
	Other payables	2,799,072	537,731
	Deferred income	830,183	0
	Total short-term payables	4,681,189	1,925,482
	Total payables	4,681,189	1,925,482
	Total equity and liabilities	15,204,857	16,125,427

3 Contingent liabilities

Statement of changes in equity

Figures in DKK	Share capital	Share premium	Retained earnings	Total equity
Statement of changes in equity for 03.11.21 - 31.12.22				
Capital contributed on establishment	40,000	60,000	0	100,000
Capital increase	885,864	18,727,013	0	19,612,877
Net profit/loss for the year	0	0	-5,512,932	-5,512,932
Balance as at 31.12.22	925,864	18,787,013	-5,512,932	14,199,945
Statement of changes in equity for 01.01.23 - 31.12.23				
Balance as at 01.01.23	925,864	18,787,013	-5,512,932	14,199,945
Capital increase	64,798	3,628,040	0	3,692,838
Net profit/loss for the year	0	0	-7,369,115	-7,369,115
Balance as at 31.12.23	990,662	22,415,053	-12,882,047	10,523,668

1. Uncertainty concerning recognition and measurement

In the financial statements for 2023, it is important to note the following uncertainty as regards recognition and measurement as it has had a significant influence on the assets and liabilities recognised in the financial statements:

The company has a deferred tax asset of DKK 2.8 million, which is recognized in the balance sheet as of December 31, 2023. This deferred tax asset can be attributed to carried-forward tax losses. The deferred tax asset has been assessed and recognized based on budgets for the period 2024 – 2025, during which earnings are expected to improve significantly. If the actual results for 2024 – 2025 deviate from expectations, this could impact the valuation of the tax asset.

	2023	03.11.21
	DKK	DKK

2. Staff costs

Wages and salaries	4,753,000	5,751,304
Pensions	127,200	120,000
Other social security costs	56,374	31,904
Other staff costs	1,004,035	704,603
Total	5,940,609	6,607,811
Average number of employees during the year	7	5

3. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 3 months and total lease payments of DKK 108k.

4. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for enterprises in reporting class B with application of provisions for a higher reporting class.

The accounting policies have been applied consistently with previous years.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

On initial recognition, transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment are recognised in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised under financial income or expenses in the income statement. Fixed assets, inventories and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

4. Accounting policies - continued -

LEASES

Lease payments relating to operating leases are recognised in the income statement on a straight-line basis over the lease term.

INCOME STATEMENT

Gross loss

Gross loss comprises revenue, other operating income and cost of sales and other external expenses.

Revenue

Income from the sale of services is recognised in the income statement as delivery takes place (delivery method). Revenue is measured at the selling value of the agreed consideration exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including rental income, negative goodwill and gains on the sale of intangible assets and property, plant and equipment.

Cost of sales

Cost of sales comprises cost of sales for the year measured at cost plus any changes in inventories, including write-downs to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

4. Accounting policies - continued -

Staff costs

Staff costs comprise wages and salaries as well as other staff-related costs.

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognised in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

BALANCE SHEET

Impairment losses on fixed assets

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation and amortisation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

4. Accounting policies - continued -

Inventories

Inventories are measured at cost calculated according to the FIFO-method. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

Deposits recognised under assets comprise deposits paid to the lessor under leases entered into by the company.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

Cash includes deposits in bank account.

Current and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

4. Accounting policies - continued -

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Short-term financial payables are measured at amortised cost, normally corresponding to the nominal value of such payables. Other short-term payables are measured at net realisable value.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to the time and date of delivery of the agreed product or completion of the agreed service.

Deferred income

Deferred income under liabilities comprises payments received in respect of income in subsequent financial years.