BITFARMS TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

Interim Consolidated Financial Statements

For the six months ended June 30, 2018

(expressed in thousands of US dollars)

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UNAUDITED

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Bitfarms™

NOTICE TO THE READER OF THE FINANCIAL STATEMENTS

(Expressed in thousands of US dollars, unless otherwise noted)

These financial statements represent an unverified translation of the Hebrew financial statements reviewed by EY Israel. These English financial statements will be accompanied by a review report from EY Israel upon verification of the translation and may contain changes to conform to the reviewed Hebrew version.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of US dollars, unless otherwise noted)

	Note	June 30, 2018 $ Unaudited	December 31, 2017 $ Audited
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	599	4,518
Share subscriptions receivable	10	-	2,942
Accounts receivable	11	550	-
Sales taxes receivable and prepaid expenses	12	2,206	594
Inventory	13	1,619	431
		4,974	8,485
NON-CURRENT ASSETS			
Property, plant and equipment	14	43,323	21,341
Intangible assets	15	3,934	4,722
Deposits		426	-
		47,683	26,063
Total assets		52,657	34,548
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current portion of long-term debt	17	1,130	-
Accounts payable and accrued liabilities	16	3,451	4,454
Income taxes payable	18	2,603	1,281
		7,184	5,735
NON-CURRENT LIABILITIES			
Long-term debt	17	737	-
Asset retirement provision	19	231	207
Deferred income taxes	18	1,109	702
		2,077	909
Total liabilities		9,261	6,644
SHAREHOLDERS' EQUITY	20		
Share capital		162	115
Share premium		19,650	22,884
Obligation to issue shares		4,386	-
Retained earnings		5,568	4,905
		29,766	27,904
Non-controlling interest		13,630	-
Total shareholders' equity		43,396	27,904
Total liabilities and shareholders' equity		52,657	34,548

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

Date of approval	Chairman of the board	CEO	CFO

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in thousands of US dollars, unless otherwise noted)

	Note	For the six months ended June 30, 2018 $ Unaudited	For the 56 days ended December 31, 2017 $ Audited
Revenues		22,285	8,663
Cost of sales	23a	9,774	1,349
Gross profit		12,511	7,314
General and administrative expenses	23b	4,665	171
Listing cost for reverse takeover	6	1,000	-
Other expenses		3	251
		5,668	422
Operating income		6,843	6,892
Finance expenses		136	4
Earnings before income taxes		6,707	6,888
Income taxes	18	1,791	1,983
Net income and total comprehensive income		4,916	4,905
Attributable to:			
Equity holders of the company		4,961	4,905
Non-controlling interests		(45)	-
		4,916	4,905
Net earnings per share attributable to equity holders of the Company (in US dollars):			
Basic and diluted net earnings per share	27	0.08	0.09

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont.)

(Expressed in thousands of US dollars, unless otherwise noted)

	Attributable to the Company's shareholders						
	Share capital	Obligation to issue shares	Share premium	Retained earnings	Total	Non-controlling interest	Total equity
				Unaudited			
Balance as at January 1, 2018	115	-	22,884	4,905	27,904	-	27,904
Net income and total comprehensive income	-	-	-	4,961	4,961	(45)	4,916
Issuance of share capital and exchangeable shares on the reverse acquisition date	47	4,386	5,805	-	10,238	-	10,238
Shareholders' equity attributable to non-controlling interest as at the reverse acquisition date	-	-	(9,039)	(4,298)	(13,337)	13,337	-
Share-based payment in legal subsidiary	-	-	-	-	-	338	338
Balance as at June 30, 2018	162	4,386	19,650	5,568	29,766	13,630	43,396

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont.)

(Expressed in thousands of US dollars, unless otherwise noted)

	Share capital	Share premium	Retained earnings	Total	Total Equity
			Audited		
Balance as at November 6, 2017	-	-	-	-	-
Net income and total comprehensive income	-	-	4,905	4,905	4,905
Issuance of share capital	115	22,884	-	22,999	22,999
Balance as at December 31, 2017	115	22,884	4,905	27,904	27,904

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in thousands of US dollars, unless otherwise noted)

	Note	For the six months ended June 30, 2018 $ Unaudited	For the 56 days ended December 31, 2017 $ Audited
Cash flows from operating activities:			
Net income		4,916	4,905
Adjustments for:			
Depreciation and amortization		5,800	1,107
Deferred income taxes		397	702
Cost of listing		1,000	
Share-based compensation		338	-
Financial expenses	17	48	
Accretion and other		24	(5)
		7,607	1,804
Changes in non-cash working capital components (A)		(889)	960
Net cash generated by operating activities		11,634	7,669
Cash flows from investing activities:			
Additions to property, plant and equipment		(20,772)	(13,694)
Acquisition of a subsidiary consolidated for the first time **(B)**	7	(12)	-
Reverse acquisition **(C)**	6	182	-
Disposal of debt following the acquisition of a newly consolidated subsidiary		399	-
Net cash used in investing activities		(20,203)	(13,694)
Cash flows from financing activities:			
Issuance of ordinary shares	5&10	2,942	10,543
Proceeds of long-term debt	17	1,826	-
Repayment of long-term debt	17	(118)	-
Net cash generated by financing activities		4,650	10,543
Increase (decrease) in cash and cash equivalents		(3,919)	4,518
Cash and cash equivalents at the beginning of the period		4,518	-
Cash and cash equivalents at the end of the period		599	4,518

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of US dollars, unless otherwise noted)

		For the six months ended June 30, 2018 $ Unaudited	For the 56 days ended December 31, 2017 $ Audited
(A)	**Changes in non-cash working capital components**		
	Increase in accounts receivable	(89)	-
	Increase in sales taxes receivable	(1,608)	(594)
	Increase in inventory	(1,072)	(431)
	Increase in deposits	(426)	-
	Increase in accounts payable and other payables and current taxes payable	993	704
	Increase in income taxes payable	1,313	1,281
		(889)	960
(B)	**Acquisition of a subsidiary consolidated for the first time**		
	Accounts receivable	(549)	-
	Other receivables and debit balances	(4)	-
	Inventory	(116)	-
	Property, plant and equipment	(178)	-
	Customer lists	(58)	-
	Accounts payable	736	-
	Deferred revenues	27	-
	Income taxes payable	9	-
	Deferred tax liability	10	-
	Long-term debt	111	-
		(12)	-
(C)	**Reverse acquisition**		
	Accounts receivable	(311)	-
	Property, plant and equipment	(9,000)	-
	Cost of listing	(1,000)	-
	Accounts payable	255	-
	Issuance of ordinary shares	5,852	-
	Obligation to issue shares	4,386	-
		182	-
(D)	**Significant non-cash activities**		
	Additions to property, plant and equipment by issuance of share	-	4,519
	Additions to property, plant and equipment by short-term credit	736	3,750
	Additions to intangible assets	-	5,000
	Share subscriptions receivable	-	2,942
		736	16,211

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

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 1 – GENERAL

a. These financial statements have been prepared in a condensed format for the six months ended June 30, 2018 (interim condensed financial statements). These financial statements should be read in conjunction with the Company's financial statements for the 56 days ended December 31, 2017 and the notes accompanying them (annual consolidated financial statements.

b. Bitfarms Technologies Ltd. (formerly: Blockchain Mining Ltd.) ("the Company") was incorporated in Israel in June 1981. In April 1994, the Company became a public company and its shares began trading on the Tel-Aviv Stock Exchange ("the TASE"). The Company formerly operated in the natural resources industry by investing, directly and through its investees, in natural resources.

c. On October 17, 2017 the Company's board of directors revised the Company's business strategy by entering the blockchain and cryptocurrency industry, including cryptocurrency mining. On April 12, 2018 the Company's shareholders entered into a reverse acquisition agreement with the shareholders of Backbone Hosting Solutions Inc. ("Backbone") as described in Note 6. The transaction is accounted for as a reverse acquisition that is not a business combination. The legal subsidiary, Backbone, has been treated as the acquirer of Bitfarms Technologies Ltd. for accounting and financial reporting purposes. These consolidated financial statements represent a continuation of the financial position, profit or loss and cashflows of the legal subsidiary, Backbone.

d. Backbone Hosting Solutions Inc. ("Backbone"), operating commercially under the name Bitfarms, operates server farms that support the validation and verification of transactions on the blockchain, earning cryptocurrency tokens in exchange for these services. The Company was incorporated on June 13, 2017 pursuant to the Canada Business Corporations Act as a private company in Canada and commenced commercial activity on November 6, 2017.

The address of the Company's registered head office is 312 Boulevard Leduc, Brossard, Québec, J4Y 0E3

e. On January 1, 2018, the Company entered into an agreement to purchase all of the issued and outstanding shares of 9159-9290 Quebec Inc. (operating under the name of Volta Électrique), an electrical contractor, as described in Note 7.

f. Definitions:

In these financial statements, the following terms shall have the following definitions:

1.	Bitfarms Technologies Ltd	–	The Company
2.	Backbone Hosting solutions Inc.	–	Backbone
3.	AU Acquisition VI, LLC	–	AU
4.	Pembroke & Timberland, LLC	–	Pembroke
5.	9159-9290 Quebec Inc.	–	Volta
6.	The period from November 6, 2017 (commencement of Backbone's commercial operations) until December 31, 2017	–	As of December 31, 2017
7.	The Company and its subsidiaries	–	The group

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

The interim consolidated financial statements have been prepared in accordance with IAS 34 Financial Reporting for Interim Periods, and in accordance with the disclosure provisions of Chapter four of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The interim consolidated financial statements of the Company are prepared using cost basis.

b. Basis of consolidation:

These financial statements consolidate the Company's subsidiaries from the date of acquisition until the date that control is lost. When examining control, the effect of potential voting rights is taken into account only if they are exercisable. The subsidiaries are controlled by the Company, where control is achieved when the company is exposed to or has the right to variable returns from its involvement with the investee and has the current ability to direct the activities of the investee that significantly affect the investee's returns.

The consolidated interim financial statements of the Group are prepared for identical dates and periods. Adjustments are made to the financial statements of the subsidiaries to conform their accounting policies to those of the Company. All material intercompany transactions, balances, profit and loss are eliminated upon consolidation.

Non-controlling interests in subsidiaries represent the equity of the subsidiaries that cannot be attributed, directly or indirectly, to the parent company. The non-controlling interests are presented separately in the Company's equity. Profit or loss and any component of other comprehensive income are allocated to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if the balance of non-controlling interests in the consolidated statement of financial position is negative.

c. Business combinations and goodwill:

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition, plus non-controlling interests in the acquired company. In each business combination the Company determines whether to measure the non-controlling interest in the acquired company at the fair value at the date of acquisition, or at their proportionate share of the fair value of the net identifiable assets of the acquired company.

Transaction costs related to the acquisition are expensed as incurred in the statement of profit or loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Functional currency, presentation currency and transactions in foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the US dollar.

The consolidated financial statements are presented in the US dollar as management believes that the US dollar provides relevant information to users of the financial statements.

Management determines the functional currency of each company in the Group.

Assets and liabilities of subsidiaries constituting foreign operations, including excess costs created, are translated using the exchange rate in effect at each reporting date. Revenues and expenses are translated using the average exchange rates in effect for all periods presented. The resulting translation differences are included in other comprehensive income.

2. Transactions, assets and liabilities in foreign currency:

Transactions in foreign currency are initially recorded at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currency are subsequently translated into the functional currency at the exchange rate in effect at each reporting date. Exchange rate differences, other than those capitalized to qualifying assets or carried to equity in hedging transactions, are included in profit or loss. Non-monetary assets and liabilities in foreign currency stated at cost are translated at the exchange rate in effect at the transaction date. Non-monetary assets and liabilities in foreign currency carried at fair value are translated at the exchange rate at the date on which the fair value was determined.

e. Cash and cash equivalents:

Cash and cash equivalents are highly liquid investments, including short-term bank deposits which are not restricted by liens, whose original term to maturity is up to three months from the investment date. Bank deposits whose original terms to maturity are greater than three months are included in cash and cash equivalents if they can be withdrawn immediately without penalty.

f. Provision for bad debt:

The provision for bad debt is determined specifically for debts that, in the opinion of the Company's management are doubtful. Customer debts whose value has been impaired are recognized at the time it is determined that these debts are uncollectible.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Inventory:

The company receives cryptocurrency tokens in exchange for blockchain validation and verification services. These cryptocurrency tokens are accounted for as inventory until they are sold in exchange for fiat currency. Inventory of cryptocurrency tokens are measured at the lower of cost to produce and net realizable value. The cost of inventory comprises the costs incurred with respect to the validation and verification of blockchain transactions, consisting mainly of electricity and depreciation. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

h. Revenue recognition:

Revenues are recognized in the Statement of Profit or Loss and Other Comprehensive Income when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from mining cryptocurrencies:

The Group, through Backbone, operates server farms supporting verification and validation of blockchain transactions. In exchange for verification services, the Company receives cryptocurrency tokens, the cost of which is recorded as inventory. Revenue is recognized only when the cryptocurrency tokens are converted into fiat currency, typically US dollars.

Revenues from electrical services:

The group, through Volta, sells electrical components and provides electrician installation and maintenance services. Volta also acquires and installs electrical components that support Backbones' computing hardware. Any amounts received in advance for future services to be provided by Volta are recorded as deferred revenues.

Revenues from providing services are recognized according to the stage of completion of the transaction as at the balance sheet date. According to this method, revenues are recognized in the reporting period in which the services are provided. In the event that the outcome of the contract cannot be measured reliably, the revenues are recognized to the extent of the recoverable expenses incurred.

i. Income taxes:

The income tax expense for the year comprises current and deferred taxes. These taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or directly in shareholders' equity .

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. **Deferred taxes**:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized, or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and are only recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Deferred taxes related to the eventual disposal of investments in investees are not included in the calculation of deferred taxes, unless the sale of an investment in investee is expected in the foreseeable future. Deferred taxes related to the distribution of profits by investees as dividends are not included in deferred taxes because the dividend distribution is non-taxable, or because the Company's policy is not to issue dividends from a subsidiary that will result in a tax liability.

Deferred and current taxes are offset if there is a legal right to do so, and if the taxes relate to the same taxable entity and the same taxation authority.

j. **Leases:**

The tests for classifying a lease as a finance or operating lease are based on the nature of the agreements and are examined at the inception of the lease according to the following criteria, when the Group is the lessee, as prescribed in IAS 17:

1. **Finance leases:**

When substantially all risks and rewards associated with ownership of the leased asset are transferred the lease is classified as a finance lease. The leased asset is measured at inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The leased asset is depreciated over the lesser of its useful life or the lease term.

2. **Operating leases:**

When all of the risks and rewards associated with ownership of the leased asset are not transferred the lease is classified as an operating lease. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Property, plant and equipment:

Property, plant and equipment are carried at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

The cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which the item is located.

Property, plant and equipment are depreciated as follows:

Blockchain validation and verification equipment ("BVVE")	Sum of years, declining over 5 years
Mineral assets	Cost plus direct acquisition costs, less accumulated impairment losses
Electrical equipment	Sum of years, declining over 5 years
Leasehold improvements	Straight line over the lesser of the lease term, including options to extend expected to be exercised. or the useful life of the leasehold improvements
Buildings	Declining balance, 4%
Vehicles	Declining balance, 30%

The sum of years depreciation method is calculated as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Rate	5/15	4/15	3/15	2/15	1/15
Percentage	33.33%	26.67%	20.00%	13.33%	6.67%

The useful life, depreciation method and residual value of an asset are reviewed annually, and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

l. Intangible assets:

Intangible assets acquired separately are initially measured at cost plus direct acquisition costs. Intangible assets acquired in business combinations are measured at their fair value as at the acquisition date. Costs related to internally developed intangible assets, other than capitalized development costs, are recognized in profit or loss as incurred.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Intangible assets with a finite useful life are amortized over their useful lives using the sum of years method and are tested for impairment when indications of impairment exist. The useful life and amortization method of intangible assets are examined, at a minimum, at each year-end.

Intangible assets consist of software used in the Company's blockchain validation and verification operations as well as customer lists acquired in a business combination, and are amortized as follows:

Computer software	Sum of years, declining over 5 years
Customer lists	Sum of years, declining over 3 years

The sum of years depreciation method for computer software is calculated as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Rate	5/15	4/15	3/15	2/15	1/15
Percentage	33.33%	26.67%	20.00%	13.33%	6.67%

The sum of years depreciation method for customer lists is calculated as follows:

	Year 1	Year 2	Year 3
Rate	1.5/3	1/3	0.5/3
Percentage	50.00%	33.33%	16.67%

m. Impairment of non-financial assets:

Each reporting period the Company assesses the need to recognize an impairment of non-financial assets whenever events or changes in circumstances indicate that their carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the carrying amount is reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In measuring value in use, the estimated net operating future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset.

When it is not possible to estimate the recoverable amount of an individual asset, which does not generate cash flows, the Company estimates the recoverable amount of the cash-generating unit the asset is part of. An impairment loss is recognized in profit or loss. An impairment loss on assets other than goodwill are reversed when there have been changes in the estimates used to determine the assets' recoverable amounts from the date on which the loss was last recognized.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Financial instruments:

The following are the accounting policies regarding financial instruments:

1. Financial assets:

Financial assets within the scope of the Standard are initially measured at fair value plus transaction costs that can be directly attributed to the acquisition of the financial asset, except in the case of a financial asset measured at fair value through profit or loss in respect of which transaction costs are charged to profit or loss.

2. Financial liabilities:

Financial liabilities within the scope of the Standard are initially measured at fair value less transactions costs directly attributable to the issuance of the financial liability. Financial liabilities are subsequently measured according to the amortized cost method.

3. Derecognition of financial assets:

Financial assets are derecognized when the contractual rights to receive the cash flows from the financial asset expire, or when the company transfers the contractual rights to receive the cash flows from the financial asset or assumes an obligation to pay the cash flows received in full to a third party without significant delay.

4. Derecognition of financial liabilities:

Financial liabilities are derecognized when and only when they are extinguished – that is, when the obligation defined in the contract is fulfilled, cancelled or expires. A financial liability is fulfilled when the debtor repays the liability by paying cash, other financial assets, goods or services, or is otherwise legally released from the liability.

o. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fair value measurement of non-financial assets takes into account the ability of a market participant to derive economic benefits from the asset through its best use, or by selling it to another market participant capable of using the asset to its best use.

Assets and liabilities measured at fair value, or whose fair value is disclosed are classified into categories within the fair value hierarchy, based on the lowest level input that is significant to the overall fair value measurement:

Level 1	Unadjusted quoted prices in an active market of identical assets and liabilities
Level 2	Non-quoted prices included in Level 1 that are either directly or indirectly observable
Level 3	Data that is not based on observable market information, such as valuation techniques without the use of observable market data

p. Provisions:

Under IAS 37, provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. When the Group expects that part or all of the expense will be refunded to the Company, such as an insurance claim, the refund will be recognized as a separate asset only on the date when there is certainty of receiving the asset. The expense will be recognized in the statement of profit or loss net of the expected refund.

Asset retirement obligations:

These provisions relate to Backbone’s legal obligation, in relation to its leased properties, to restore the properties to their original condition at the end of the lease period.

Lawsuits:

A provision for legal claims against the Group is recorded when the Group has a present legal or constructive obligation as a result of past events, that is more likely than not to be settled with an outflow of economic resources that can be measure reliably.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Share-based transactions:

Certain employees of Backbone are entitled to benefits by way of share-based payment settled with equity instruments.

Transactions settled with equity instruments:

The cost of employee services paid in equity instruments is measured at the fair value of the equity instruments as at the grant date. The fair value is determined using a generally accepted option pricing model. Equity settled transactions with other services providers is measured at the fair value of the goods or services received in return for the equity instruments.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest.

Expenses related to grants that do not vest are not recognized, except for grants whose vesting is contingent on market conditions that are treated as vested regardless of these conditions, assuming all other vesting conditions (service and/or performance) were met.

When the Company modifies the terms of equity-settled transactions, an additional expense is recognized calculated as the increase in the fair value of the compensation granted in excess of the original expense, on the date of the modification.

Cancellation of equity settlement that has not vested is treated as if it had vested on the date of cancellation, with the unrecognized expense recognized immediately. However, if the cancellation is subsequently replaced by a new agreement and is designated as an alternative settlement, then it is treated as a modification of the original agreement as described above.

r. Earnings per share:

Earnings per share is calculated by dividing the net income attributable to the Company's shareholders by the actual number of ordinary shares outstanding during the period. Potential ordinary shares are included in the calculation of diluted earnings per share if their effect dilutes earnings per share from continuing operations. Potential ordinary shares that were converted during the period are included in diluted earnings per share only up to the conversion date, and from that date are included in basic earnings per share. The Company's share in the earnings of investees is calculated according to its share in the earnings per share of those investees multiplied by the number of shares held by the Company.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Adoption of new accounting standards:

IFRS 15 Revenue from Contracts with Customers:

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers (IFRS 15), which replaces IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31- Revenue – Barter Transactions Involving Advertising Services.

The new standard presents a five-step model that will apply to revenues arising from contracts with customers:

1. Identification of the contract with the customer, including reference to contract aggregation and handling of modifications in contracts.

2. Identification of distinct performance obligations in the contract.

3. Determination of the price of the transaction, including reference to variable value, significant financing component, non-cash proceeds and consideration to be paid to the customer.

4. The allocation of the transaction price for each separate performance obligation based on the separate relative sales prices, using observable prices, if available, or estimates and assessments.

5. Recognition of revenue when meeting a performance obligation, while distinguishing between achieving a performance obligation at a point in time and achieving a performance obligation over a period of time.

IFRS 15 is applied in these financial statements. The Company elected to apply the provisions of the Standard retroactively and without restating comparative figures. IFRS 15 did not change the timing or amount of revenue recognition from the sale of cryptographic currency chips as described in Note 2h.

The implementation of the standard included all the companies in the Group. On the acquisition date of Volta as described in Note 7,IFRS 15 was applied in order to reflect the fair value of Volta's deferred revenue.

IFRS 9 Financial Instruments:

In July 2014, the IASB published the full and final version of IFRS 9 - Financial Instruments (IFRS 9), which replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 focuses mainly on the classification and measurement of financial assets and applies to all financial assets within the scope of IAS 39. Financial assets held, and to which expected cash flows consist of principal payments and interest on the principal balance are measured at amortized cost at the end of each period. Other financial assets are measured at fair value at the end of each accounting period, with all changes recorded in profit or loss or other comprehensive income, in accordance with the criteria specified in the Standard.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 9 did not significantly change the method of recognition and measurement of financial liabilities.

The implementation of IFRS 9 for the first time had no material effect on the consolidated financial statements.

t. Reclassification:

An amount of $ 2.942 million was reclassified from cash and cash equivalents to Share subscriptions receivable as at December 31, 2017 in the Consolidated Statements of Financial Position as described in Note 10.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to undertake several judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Revenue recognition:

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the revenue recognition from the mining of cryptocurrencies. Management has determined that the accounting for the mining of cryptocurrencies should be analogized to the accounting for the mining of mineral interests. Accordingly, revenue from cryptocurrency mining is recognized when the cryptocurrency is sold and exchanged for a fiat currency. Management has exercised significant judgement in determining the appropriate accounting treatment. In the event authoritative guidance is issued by the IASB, the Company may be required to change its accounting policies, which could have a material effect on the Company's financial statements.

Estimates and assumptions:

When preparing the interim consolidated financial statements, management is required to make use of estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Changes in accounting estimates are recorded in the period in which the estimate is changed.

NOTE 4 – SIGNIFICANT NEW ACCOUNTING STANDARDS NOT YET ADOPTED

Initial implementation of IFRS 16 – Leases:

In January 2016, the IASB IFRS 16 regarding Leases. According to the new standard, a lease is defined as a contract or part of a contract that transfers the right to use the property for a specified period of time in exchange for payment.

NOTE 4 – SIGNIFICANT NEW ACCOUNTING STANDARDS NOT YET ADOPTED

The following are the highlights of the new Standard:

1. The new standard requires lessees to recognize all leases in the statement of financial position (except for certain exceptions, described below). Lessees will recognize a liability in respect of the lease payments and a right of use asset similar to the accounting treatment for finance leases in accordance with the existing standard. In addition, the lessees will recognize interest and depreciation expenses separately.

2. Variable lease payments that do not depend on an index or interest rate or based on performance or use will be recognized as an expense on the part of the lessee or as income on the part of the lessor at the date of inception.

3. In the event of a change in variable lease payment linked to an index, the lessee must revalue the lease liability when the effect of the change is allocated to the right of use asset.

4. The accounting treatment of the lessor remains essentially unchanged from the existing standard, i.e., classification as a finance lease or as an operating lease.

5. IFRS 16 includes two exceptions whereby lessees may treat leases in accordance with the existing accounting treatment of operating leases, in the event of leases of assets of low monetary value or in the event of leases for a period of up to one year.

The new standard will be implemented in annual periods beginning on or after January 1, 2019. Early adoption is permitted. The Company does not intend to adopt the new standard before the required adoption date.

The new standard allows lessees to choose one of the following application approaches:

1. Full retrospective application - According to this approach, the right of use asset and liability will be presented in the statement of financial position as if they had always been measured in accordance with the provisions of the new Standard. In this case, the effect of application of the new standard at the beginning of the earliest period presented will be carried to equity. In addition, the Company will restate the comparative figures in its financial statements. The balance of the liability at the date of initial application of the new standard, under this approach, will be calculated using the interest rate implicit in the lease, unless this rate cannot be easily determined, then the borrowing rate of the lessee should be used on the date of inception of the lease.

2. Modified retrospective application- according to this approach, no restatement of the comparative figures will be required. The balance of the liability as at the date of initial application of the new standard will be calculated using the borrowing rate of the lessee existing on the date of initial application. With respect to the balance of the right of use asset, the Company may decide, on a lease by lease basis, to apply one of the following two alternatives:

    - Recognition of an asset in the amount of the recognized liability, with certain adjustments.

NOTE 4 – SIGNIFICANT NEW ACCOUNTING STANDARDS NOT YET ADOPTED

- Recognition of an asset as if it has always been measured in accordance with the provisions of the new Standard.

Any difference created at the date of initial application of the new standard as a result of the modified retroactive application, if any, will be recognized in equity.

Since the scope of the Group's rental contracts is significant, the Group estimates that the implementation of the new standard will have a material impact on the Company's assets and liabilities in the amount of $ 3.2 million The initial application of the Standard is expected to result in an increase in the Company's assets and liabilities, a decrease in working capital, an increase in EBITDA and an increase in operating profit. The Company will continue to report on the additional effects of the Standard in the period prior to the adoption of the new Standard, including information on the quantitative effect of the new Standard, as required by the provisions of No. 19-2 of this standard.

NOTE 5 – HISTORICAL ACTIVITY

Backbone owns fixed assets consisting of blockchain verification and validation equipment, as well as software for managing the equipment. A significant portion of the equipment used by Backbone was purchased pursuant to an agreement effective November 6, 2017, between Backbone and shareholders who are not defined as part of the founders (the minority shareholders).

According to the agreement, the minority shareholders sold backbone equipment, consisting mainly of data processing hardware and electrical components used for the verification and validation of blockchain transactions, the value of which was determined in the agreement as US $ 15.062 million. The value was determined according to the fair value of the components and equipment on the transaction date. The consideration exchanged for the equipment was a share-based payment of 21,929,603 Backbone shares.

In addition, the minority shareholders contributed approximately US $ 2.942 million held by Backbone's trustees, as described in Note 10,in exchange for the issuance of 4,277,163 shares of Backbone.

Backbone issued 40,459,881 ordinary shares to certain members of the founding shareholders who among others organized the minority shareholders and contributed software. For accounting purposes, Backbone's management reflected the above mentioned as a compensation by way of issuance of ordinary shares of Backbone and accordingly recorded it directly to the capital of Backbone as a deduction from the consideration received from the investors for establishment of Backbone and organizing the investors.

The software was acquired pursuant to an agreement effective from November 6, 2017 between Backbone and the founding shareholders. Under the agreement, the founding shareholders of Backbone exclusively, throughout the world and in all languages (including computer languages), transferred all rights in all matters related to or related to the development of the Software (including updates and improvements to the Software). In consideration for the acquisition of the software, the agreement was set and recorded in Backbone's financial statements at a valuation of US $ 5 million, which will be paid to the founding shareholders by way of allocation of shares of Backbone. Under the agreement, the founding shareholders undertook not to compete for a period of five years from the date of entry into force of the agreement in Bitfarms Technologies Ltd. in Canada.

NOTE 5 – HISTORICAL ACTIVITY (Cont.)

Backbone’s issued share capital as at the date of the transaction is composed of one class of shares (a total of 66,666,767 ordinary shares), and the holdings of the shareholders of Backbone on the closing date of the transaction are as follows:

1. The founding shareholders, 40,459,901 ordinary shares, constituting 60.69% of the issued and paid up share capital of Backbone.

2. Minority shareholders, whose total accumulated holdings in ordinary shares of Backbone is 26,206,766 ordinary shares, constituting 39.31% of the issued and paid-up share capital of Backbone.

NOTE 6 – REVERSE ACQUISITION

Backbone Hosting Solutions Inc.

On April 12, 2018, the Company's shareholders and Backbone's founding shareholders agreed to a share exchange which resulted in the following:

1. Certain members of Backbone's founding shareholders exchanged 23,124,861 Backbone shares for 23,124,861 newly issued shares in the Company

2. The remaining members of the Backbone's founding shareholders exchanged 17,335,090 Backbone shares for 17,335,090 exchangeable shares that are subject to a Put / Call agreement with the Company. The Put / Call agreement results in the exchangeable shares of Backbone being exchanged for shares in the Company between six months and seven years after the transaction date. Further details on the Put / Call agreement and exchangeable share characteristics are described in Note 20.

3. The Company expects to propose a subsequent share exchange to Backbone's minority shareholders, included in the non-controlling interest, to acquire the remaining 26,206,666 of issued and outstanding shares in Backbone in exchange for 26,206,666 newly issued shares in the Company

The transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, Backbone Hosting Solutions Inc., has been treated as the acquirer of the Company. For accounting purposes, these consolidated financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, Backbone Hosting Solutions Inc.

The minority shareholders have not exchanged their shares in Backbone, and as a result are treated as non-controlling interest in the consolidated financial statements from the date of completion of the reverse acquisition. The non-controlling interest reflects the rights of the minority shareholders in their relative share of the book value of Backbone’s net assets prior to the acquisition date. The non-controlling interest after the acquisition reflects their share in the profit or loss of Backbone and Volta.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 6 – REVERSE ACQUISITION (Cont.)

Due to the volatility in the Company's share price, it is management's view that using the share price upon completion of the merger as a basis for measuring the cost of listing would not be representative of the economic value of such listing fees. As such, the Company engaged a third-party valuator to measure the fair value of such listing fees.

	As at April 12, 2018 $
Cost of listing	1,000
Mineral assets	9,000
Cash	182
Accounts receivable	311
Accounts payable	(255)
Value attributed to the allotted Company shares	10,238
Allotment of shares:	
Ordinary shares 23,124,861	5,852
Obligation to issue shares 17,335,090	4,386
Total amount allocated	10,238

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 7 – BUSINESS ACQUISITION

9159-9290 Quebec Inc. (operating under the name of Volta Électrique)

On January 1, 2018 Backbone acquired all of the issued and outstanding shares of Volta Électrique for cash consideration of $250,000 CAD ($200,000 USD) payable on January 1, 2018, and additional consideration of $250,000 CAD ($200,000 USD) payable by four equal annual installments of $62,500 CAD ($50,000 USD) commencing June 30, 2018, conditional upon the continued employment of Volta's former shareholders. The consideration payable in annual instalments is expensed to salaries and payroll taxes as incurred. Volta Électrique provides electrician services to both commercial and residential customers in Quebec.

The strategic acquisition of Volta Électrique and its skilled electrical labor force is expected to result in cost efficiencies regarding the Company's acquisition and installation of electrical infrastructure for new blockchain validation and verification facilities and maintenance of the Company's existing electrical infrastructure.

	As at January 1, 2018
	$
Cash and cash equivalents	188
Accounts receivable	549
Inventories and other receivables and debit balances	120
Property, plant and equipment	178
Customer lists	58
	1,093
Accounts payable	(1,135)
Income taxes payable	(9)
Long-term debt	(111)
Deferred revenues	(27)
Deferred tax liability	(10)
	(1,292)
Net liabilities acquired	(199)
Cash consideration	200
Less: Removal of accounts payable due from Backbone to Volta	(399)
Consideration transferred	(199)
Volta cash and cash equivalents as at the acquisition date	188
Less: Cash consideration transferred	(200)
Net cash transferred	(12)

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 8 – OPERATING SEGMENTS

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resource allocation and performance assessment. Accordingly, for management purposes, the Group is organized into operating segments based on the products and services of its business units and has operating segments as follows:

Bitfarms	operates server farms that support the validation and verification of transactions on the blockchain, earning cryptocurrency tokens for providing these services.
Volta	provides electrician services to both commercial and residential customers in Quebec.

The segment results reported to the CODM include items that are allocated directly to the segments and items that can be allocated on a reasonable basis.

Unallocated items, which include mainly Group headquarter assets, general and administrative expenses, financing expenses and income taxes are managed on a group basis.

The CODM examines segment balances that do not include tax balances.

	For the six months period ended June 30, 2018			
	Bitfarms	Volta	Adjustments	Total
Revenues				
External customers	21,129	1,156	-	22,285
Inter segment revenues	-	3,242	(3,242)	-
Total revenues	21,129	4,398	(3,242)	22,285
Gross income	12,286	1,047	(822)	12,511
General and administrative expenses	4,160	758	(477)	4,441
Segment income	8,126	289		
Unallocated corporate expenses				1,227
Finance expense				136
Income (loss) before income taxes				6,707

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 8 – OPERATING SEGMENTS (Cont.)

	For the period ended December 31, 2017			
	Bitfarms	Volta	Adjustments	Total
Revenues				
External customers	8,663	-	-	8,663
Inter segment revenues	-	-	-	-
Total revenues	8,663	-	-	8,663
Gross income	7,314	-	-	7,314
Operating expense	422	-	-	422
Financing expense	4			4
Segment income	6,888	-		
Income (loss) before income taxes				6,888

NOTE 9 – CASH AND CASH EQUIVALENTS

As at June 30, 2018, cash and cash equivalents consisted of:

	June 30, 2018 $	December 31, 2017 $
Cash for immediate withdrawal – in USD	535	4,293
Cash for immediate withdrawal – in CAD	63	225
Cash for immediate withdrawal – in NIS	1	-
	599	4,518

NOTE 10 – SHARE SUBSCRIPTIONS RECEIVABLE

During the 56 days ended December 31, 2017, Backbone entered into an agreement to issue ordinary shares, as described in Note 5. As of December 31, 2017, an amount of approximately $ 2.942 million was transferred to Backbone's trustees. The share subscription receivable was transferred to the Company's bank account in March 2018. The release of the funds from Backbone's attorneys was to secure the terms of the agreement.

NOTE 11 – ACCOUNTS RECEIVABLE

The balance of the Company's accounts receivable derives entirely from Volta’s sales to external customers.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 12 – SALES TAXES RECEIVABLE AND PREPAID EXPENSES

As at June 30, 2018, sales taxes receivable and prepaid expenses consisted of:

	June 30, 2018 $	December 31, 2017 $
Sales taxes receivable	2,079	519
Prepaid expenses	127	75
	2,206	594

NOTE 13 – INVENTORY

As at June 30, 2018, the Company's inventory consisted of the following:

	June 30, 2018 $	December 31, 2017 $
Electrical components	95	-
Cryptocurrency tokens	1,524	431
	1,619	431

Details of the Company's cryptocurrency inventory are as follows:

	Bitcoin	Bitcoin Cash	Other	Total $
Quantity	309	357	-	-
Cost	1,171	227	126	1,524
Fair value	1,977	267	126	2,370

The Company based the fair value of the inventory on the prices quoted on www.coinmarketcap.com which calculates the price by taking the volume weighted average prices reported on each cryptocurrency market and reported on as at June 30, 2018.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

As at June 30, 2018 property, plant and equipment consisted of:

	BVVE and Electrical Equipment	Mineral assets	Buildings	Leasehold Improvements	Vehicles	Total
Cost:						
Balance as of November 6, 2017	-	-	-	-	-	-
Acquisition from shareholders (share-based transactions)	15,062	-	-	-	-	15,062
Additions during the period	6,696	-	-	412	-	7,108
Balance as of December 31, 2017	21,758	-	-	412	-	22,170
Additions through business acquisition (Note 7)	18	-	-	18	142	178
Additions through reverse acquisition (Note 6)	-	9,000	-	-	-	9,000
Additions during the period	12,496	-	3,863	1,264	135	17,758
Balance as of June 30, 2018	34,272	9,000	3,863	1,694	277	49,106
Accumulated depreciation and amortization:						
Balance as of November 6, 2017	-	-	-	-	-	-
Depreciation and amortization	807	-	-	22	-	829
Balance as of December 31, 2017	807	-	-	22	-	829
Depreciation and amortization	4,786	-	19	108	41	4,954
Balance as of June 30, 2018	5,593	-	19	130	41	5,783
Net book value June 30, 2018	28,679	9,000	3,844	1,564	236	43,323
Net book value December 31, 2017	20,951	-	-	390	-	21,341

In connection with the reverse acquisition, the Company hired an independent appraiser to determine Suni's fair value as at April 12, 2018. The appraiser's valuation report was based on the comparison method and the analysis of similar assets. Following certain adjustments resulting from changes in the price of iron ore, among other variables, Suni's value at April 12, 2018 was estimated at $ 9 million, and in the opinion of the Company’s management, there is no change in the value of Suni as at June 30, 2018.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (Cont.)

The Company also holds interests in three additional mineral properties, Hidden Lake gold mine, Victorine Gold mine and Pembroke silver mine. It is management's view that these three mines are unlikely to be of significant value and as a result they were not reflected in the purchase price allocation of the reverse acquisition.

The abovementioned mineral assets, including Suni, were inactive during the reporting periods and as of the date of approval of the consolidated interim financial statements.

NOTE 15 – INTANGIBLE ASSETS

As at June 30, 2018, intangible assets consisted of:

	Systems software	Customer lists	Total
Cost:			
Balance as of November 6, 2017	-	-	-
Acquisition from shareholders (share-based transactions Note 5)	5,000	-	5,000
Additions during the period	-	-	-
Balance as of December 31, 2017	5,000	-	5,000
Additions through business combination (Note 7)	-	58	58
Balance as of June 30, 2018	5,000	58	5,058
Accumulated amortization:			
Balance as of November 6, 2017	-	-	-
Amortization	278	-	278
Balance as of December 31, 2017	278	-	278
Amortization	833	13	846
Balance as of June 30, 2018	1,111	13	1,124
Net book value June 30, 2018	3,889	45	3,934
Net book value December 31, 2017	4,722	-	4,722

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 16 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at June 30, 2018, accounts payable and accrued liabilities consisted of:

	June 30, 2018	December 31, 2017
	$	$
Trade accounts payable	3,148	4,382
Government remittances	218	-
Trade, companies controlled by directors	85	72
	3,451	4,454

NOTE 17 – LONG-TERM DEBT

As at June 30, 2018, long-term debt consisted of:

a. $2,000,000 20-month non-interest-bearing note payable, repayable in monthly instalments of $100,000 maturing January 15, 2020 with payments beginning on June 15, 2018. A discount rate of 8% was used to record the note payable at present value. Secured by BVVE having a net carrying value of $1,826,000.

b. $115,234 ($148,746 CAD) 7 notes payable, bearing interest between 3,49% and 7% repayable in monthly instalments totaling $3,178 ($4,185 CAD) principal and interest, maturing between November 2019 and May 2020, secured by vehicles having a net carrying value of $98,000.

NOTE 18 – INCOME TAXES

a. Tax rates applicable to the Group:

The corporate tax rate in Israel is 23% in 2018 and 24% in 2017.

The corporate tax rates applicable to subsidiaries whose tax jurisdiction is Canada is 26.7%.

Income taxes are recognized as income multiplied by the expected annual effective tax rate, in accordance with the estimate of the Group's management.

b. Final tax assessments:

The Company has issued final tax assessments up to and including the 2012 tax year.

c. Losses carried forward for tax purposes and other temporary differences:

The Company has taxable business losses carried forward to future years and amounts to NIS 19M as of December 31, 2017. In respect of these losses and other temporary differences, deferred tax assets in respect of business losses were not recognized, in the absence of expectations of their utilization in the foreseeable future.

d. Deferred taxes:

Deferred taxes are computed at an average tax rate of 26.7% (2017 - 26.7%), based on tax rates expected to apply at the time of realization.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 18 – INCOME TAXES (Cont.)

e. **Taxes on income included in profit or loss:**

	Statements of Financial position		Statements of comprehensive income	
	June 30, 2018	December 31, 2017	For the six months ended June 30, 2018	For the 56 days ended December 31, 2017
	$	$	$	$
Deferred tax liabilities				
Differences due to depreciation method	1,109	702	397	702
	1,109	702	397	702
Deferred tax expenses			397	702
Deferred tax liabilities	1,109	702		

f. **Effective tax rate:**

	For the six months ended June 30, 2018	For the 56 days ended December 31, 2017
	$	$
Current taxes	1,394	1,281
Deferred taxes, as described in section d above	397	702
	1,791	1,983

The Group's effective tax rate for the six months ended June 30, 2018 is 26.7% (2017 - 28.7%).

NOTE 19 – ASSET RETIREMENT PROVISION

As at December 31, 2017 the Group has estimated the gross cost of restoring its leased premises to their original condition at the end of their respective lease terms as $256,000 and discounted the provision at 5% over the lease term to arrive at a present value of $207,000. This provision has been increased to $339,000 due to continuing improvements to leased premises. The discount rate has been revised to 8% based on management's best estimate, which has been accounted for prospectively. The discounted value of the new provision at 8% is $231,000. These amounts are expected to be paid over a period of two to five years.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 20 – SHARE CAPITAL

a. Composition:

	Authorized at	Issued and outstanding	
	December 31, 2017 and June 30, 2018	June 30, 2018	December 31, 2017
	Number of shares		
Ordinary shares of NIS 0.01 par value each	1,000,000,000	39,739,785	49,331,627

b. Change in issued and outstanding share capital:

	Number of shares
Balance as at January 1, 2018	49,331,627
Minority interests	(26,206,766)
Issuance of shares in connection with reverse acquisition	16,614,924
Balance as at June 30, 2018	39,739,785

In a reverse acquisition, the share capital should reflect the Company’s legal capital. Therefore, Backbone’s capital structure (quantity and class of shares issued) is restated using an exchange ratio determined in the reverse acquisition to reflect the number of shares the Company issued in the transaction.

c. Commitment to issue shares:

The completion of the reverse acquisition resulted in a put call agreement between the Company and the former Backbone founding shareholders who did not exchange their shares in the transaction. The Put agreement allows the founding shareholders to exchange 17,335,090 Backbone shares in exchange for 17,335,090 Ordinary shares of NIS 0.01 par value each of the Company. The agreement can be exercised as of the six-month anniversary date of the transaction and expires as of the seventh anniversary of the transaction. The Call agreement allows the Company to issue 17,335,090 Ordinary shares NIS 0.01 par value each of the Company in exchange for 17,335,090 shares of Backbone. If neither agreement is executed prior to the seventh anniversary date, then the Company's call agreements is deemed to be exercised and the shares will be exchanged. Both agreements cannot be executed in parts and must be executed in full, furthermore the Company is required to reserve 17,335,090 Ordinary shares NIS 0.01 par value each from its authorized capital in order to respect the put call agreement. As a result of the mandatory exchange of shares the amounts are classified as obligation to issue shares on the balance sheet in the amount of $4,386 and included in the calculation of basic earnings per share.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 21 – FINANCIAL INSTRUMENTS

a. Financial assets:

	June 30, 2018 $	December 31, 2017 $
Cash and cash equivalents	599	4,518
Accounts receivable	550	-
Share subscriptions receivable	-	2,942
	1,149	7,460

b. Financial liabilities:

	June 30, 2018 $	December 31, 2017 $
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities	3,451	4,454
Current portion of long-term debt	1,130	-
Long-term debt	737	-
	5,318	4,454

The book value of all of the Company's financial assets and liabilities, presented in the tables above, are a reasonable approximation of their fair value.

c. Risk management policy:

The Company is exposed to exchange risk, foreign currency risk and credit risk. The Company's senior management monitors these risks.

Market risk:

Market risk is the risk that the fair value of future cash flows from a financial instrument will change as a result of changes in market prices. Market risk includes three types of risk: interest rate risk, currency risk, and other price risks such as share price risk and the price risk of cryptocurrencies.

Exchange risk:

Exchange risk is the risk that the fair value of future cash flows will fluctuate because of changes in exchange rates.

The Group's functional currency is the US Dollar as all revenues and most capital expenditures are transacted in US dollars. The Group is exposed to variability in the Canadian dollar to US dollar exchange rate when paying operating expenses incurred and payable in Canadian dollars.

The Group funds foreign currency transactions by buying the foreign currency at the spot rate when required.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 21 – FINANCIAL INSTRUMENTS (Cont.)

Balances in foreign currencies as at June 30, 2018 are as follows:

	CAD $
Cash and cash equivalents	6
Sales taxes receivable	2,079
Accounts receivable	550
Deposits	426
Accounts payable and accrued liabilities	(2,700)
Income taxes payable	(2,603)
Deferred income taxes payable	(1,109)
Asset retirement provision	(231)

Credit risk:

Credit risk is the risk of an unexpected loss if a third party fails to meet its contractual obligations, as a customer, or its liabilities arising from a financial instrument, resulting in the Group incurring a loss. The Group is exposed to credit risk as a result of its operating activities through its financing activities, foreign currency transactions, cryptocurrencies and other financial instruments.

NOTE 22 – COMMITMENTS

Backbone has entered into commercial real estate lease agreements, as a lessee, to support its business activities. The leases are under non-cancellable terms and mature over a maximum of 5 years.

The future minimum lease payments as of June 30, 2018 are as follows:

	Third parties	Related parties	Total	Third parties	Related parties	Total
		USD $			CAD $	
Remainder of 2018	142	299	441	186	393	579
2nd through 5th years	1,466	2,382	3,848	1,931	3,137	5,068
Thereafter	53	-	53	70	-	70
	1,661	2,681	4,342	2,187	3,530	5,717

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 23 – ADDITIONAL DETAILS TO THE STATEMENT OF PROFIT AND OTHER COMPREHENSIVE INCOME

a. Cost of sales:

	For the six months ended June 30, 2018 $	For the 56 days ended December 31, 2017 $
Energy and infrastructure expenses	4,176	673
Depreciation and amortization	5,800	1,107
Purchases	523	-
Electrician salaries	368	-
Net change in inventory	(1,093)	(431)
	9,774	1,349

b. General and administrative expenses:

	For the six months ended June 30, 2018 $	For the 56 days ended December 31, 2017 $
Salaries and payroll taxes	2,247	13
Professional services	1,491	92
Advertising and promotion	183	-
Insurance and other	219	-
Travel, motor vehicle and meals	378	30
Hosting and telecommunications	147	36
	4,665	171

NOTE 24 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Balances with related parties:

	June 30, 2018 $	December 31, 2017 $
Accounts payable		
Directors' remuneration ncluded in accrued liabilities	21	-
Companies controlled by directors	85	72
	106	72

Amounts due to related parties, are unsecured, non-interest bearing and payable on demand.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 24 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

b. Transactions with related parties:

During the six months period ended June 30, 2018:

1. One of the companies in the Group was charged telecommunication expenses by a company significantly influenced by a director totaling approximately $95,000.

   In addition, one of the companies in the Group was charged rent expense by companies controlled by directors totaling approximately $303,000.

2. One of the companies in the Group entered into consulting agreements with two of the board members. The total consulting fees charged by directors totaled approximately $248,000.

3. One of the Companies in the Group was assigned rent and other security deposits made by a company controlled by directors approximating $226,000 in exchange for consideration approximating $226,000, of which $6,000 is included in accounts payable and accrued liabilities as at June 30, 2018.

4. All cryptocurrency sold in exchange for fiat currency during the period was sold to a company of which one of the Group's interested shareholders is a director. The Group monitors the market rate for cryptocurrency exchanges and regularly compares the basis points being charged to ensure optimization of the sale of cryptocurrency. The Group is under no obligation to sell to the company of which an interested shareholder is a director and regularly maintains relationships with other exchanges and institutional purchasers of cryptocurrencies.

The above transactions were incurred in the normal course of operations.

These transactions were included in the Statement of Profit and Other Comprehensive Income as follows:

	For the six months ended June 30, 2018	For the 56 days ended December 31, 2017
	$	$
Cost of sales	398	163
Professional services	248	170
	646	333

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 24 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

c. Compensation of key management and directors:

Key management includes the Group's President, Chief Executive Officer, Chief Financial Officer, Chief Strategy Officer, Vice President of Operations and Vice President of Infrastructure.

The remuneration paid to directors and members of key management personnel during the period ended June 30, 2018 are as follows:

	For the six months ended June 30, 2018 $	For the 56 days ended December 31, 2017 $
Short-term benefits	419	20
	419	20

NOTE 25 – CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure its ability to maximize the return of its shareholders. In order to achieve these objectives, the Company monitors its capital structure and makes adjustments as required in light of changes in economic conditions and the risks to which the Group is exposed. These objectives will be achieved by maintaining a strong capital base so as to maintain investor confidence to sustain future development of the business, maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations, and ensuring sufficient liquidity to pursue organic growth.

In order to maintain or adjust the capital structure, the Group may issue new common shares or funded debt. As at June 30, 2018, the Group is not subject to any externally imposed capital requirements.

NOTE 26 – INVESTMENTS IN INVESTEES

In 2011, the Company established AU Acquisition VI, LLC ("AU") which is incorporated in the State of Nevada, USA and is wholly owned and controlled by Bitfarms. AU is registered as the legal owner of the mineral assets, Hidden Lake and Victorine.

Also, in 2011, Bitfarms established Pembroke & Timberland, LLC ("Pembroke") in the State of Maine, USA which is also wholly owned and controlled by Bitfarms. Pembroke is registered as the legal owner of the Pembroke mineral asset as described in Note 14.

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 26 – INVESTMENTS IN INVESTEES (Cont.)

Following are details of the Company's investees as of the reporting date:

				% of rights in			
Company name	Security type	No. of shares	Main place of business	Securities	Equity	Voting	Appointment of officers
AU	Ordinary shares	100	USA	100%	100%	100%	100%
Pembroke	Ordinary shares	100	USA	100%	100%	100%	100%
Volta	Ordinary shares	7,503	CDA	61%	61%	61%	61%
Backbone	Ordinary shares	40,459,951	CDA	61%	61%	61%	61%

NOTE 27 – NET EARNINGS PER SHARE

Details of the number of shares and income (loss) used in the computation of net earnings (loss) per share:

	For the six months ended June 30, 2018		For the 56 days ended December 31, 2017	
	Weighted average shares outstanding	Net income attributable to the shareholders of the Company	Weighted average shares outstanding	Net income attributable to the shareholders of the Company
	Number of shares	Thousands of US dollars	Number of shares	Thousands of US dollars
Total shares issued and outstanding	45,067	-	40,332	-
Total exchangeable shares	17,335	-	17,335	-
Total shares	62,402	-	57,667	-
Net income for the calculation of basic earnings per share	-	4,961	-	4,905
Total shares for the calculation of basic net earnings per share	62,402	4,961	57,667	4,905
The effect of dilutive potential ordinary shares	-	-	-	-
Total shares for the purpose of calculating diluted earnings per share	62,402	4,961	57,667	4,905

(Expressed in thousands of US dollars, unless otherwise noted)

NOTE 27 – NET EARNINGS PER SHARE (Cont.)

	For the six months ended June 30, 2018	For the 56 days ended December 31, 2017
	$	$
Basic and diluted earnings per share	0.08	0.09

NOTE 28 – SHARE BASED PAYMENT

a. Expense recognized in the financial statements:

The expense recognized in the financial statements for employee services received is shown in the following table:

	For the six months ended June 30, 2018	For the 56 days ended December 31, 2017
	$	$
Equity-settled share-based payment plans	338	-
Total expense arising from share-based payment transactions	338	-

The share-based payment transactions entered into between the Group and its employees are described below. During the six-month period ended June 30, 2018 and the 56 days ended December 31, there have been no modifications or cancellations to any of the employee benefit plans.

The following table lists the inputs to the binomial model used for the fair value measurement of equity-settled share options for the above plan:

Dividend yield (%)	--
Expected volatility of the share prices (%)	65%
Risk-free interest rate (%)	2%
Expected life of share options (years)	10
Share price (NIS)	2.1

Based on the above inputs, the fair value of the options was determined at US $ 1.80 at the grant date.

b. Share-based payment plan for senior executives:

On March 7, 2018, the board of directors at the general meeting of the shareholders of Backbone approved a plan according to which 500,000 options were granted to the CEO of Backbone, the exercise price of the share options is US $ 0.69, which constitutes the fair value of the shares on the grant date. The options granted to the CEO are options for the purchase of shares of Backbone.

The number of options outstanding as at June 30, 2018 is 83,332.

The options that were granted to the CEO of Backbone will mature over a period of two years.

NOTE 28 – SHARE BASED PAYMENT (Cont.)

c. Other equity instruments:

On March 7, 2018, the board of directors at the general meeting of the shareholders of Backbone approved a plan according to which 100,000 restricted shares will be granted to the CFO of Backbone. The weighted average of the fair value of the restricted shares that were granted on that day was US $ 1.6.

The restricted shares that were granted to the CFO of Backbone will mature over a period of two years.

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