

Blockchain Mining Ltd.

(“The Company”)

January 14, 2018

To:
Israel Securities Authority
www.isa.gov.il

To:
Tel Aviv Stock Exchange Ltd.
www.tase.co.il

Dear Sir or Madam:

Re: **An ad hoc report in accordance with the Companies Law, 5759-1999 to the Securities Exchange Law, 5728-1968 and in accordance with the securities regulations, a private securities offer in a registered company, (5760-2000) regarding convening of a special general assembly of company shareholders for which the agenda will be, among other things, an unusual Private Offer**

Hereby is issued an Ad hoc report, in accordance with the Companies Law, 5759-1999 (hereinafter: “**Companies Law**”), the Securities Exchange Law, 5728-1968 hereinafter: “**Securities Exchange Law**”), and in accordance with Securities regulations on a private securities offer in a registered company, 5760-2000 (hereinafter: “**Private Offer regulations**”), regarding the convening of a special general assembly of company shareholders, on whose agenda, among other things, will be an unusual Private Offer to the Offeree, none of whom are interested parties, which is performed as part of a share-replacement deal (hereinafter: “**the Private Offer**”), as detailed in this report below:

1. **The Offerees**

1.1 The Offerees in the Private Offer are 2 private Canadian companies and 3 individual Argentinian citizens, who are the principal shareholders, holding 60.69% of the Backbone Hosting Solutions Inc. company, a private registered company in Canada (henceforth: “**Backbone**”). Below are detailed the names of the Offerees:

1.1.1. Emiliano Joel Grodzki, a citizen of Argentina (hereinafter “**Offeree A**”);

1.1.2. Nicholas Bonta, a citizen of Argentina (hereinafter “**Offeree B**”);

1.1.3. Prosum Management Inc., a Canadian company that is under the control of Pierre-Luc Quimper, who is a Canadian citizen (hereinafter “**Offeree C**”);

1.1.4. 9264-2644 QUEBEC INC. a Canadian company that is under the control of Mathieu Vachon, who is a Canadian citizen (hereinafter “**Offeree D**”);

1.1.5. Rodrigo Sebastian Menendez, a citizen of Argentina (hereinafter “**Offeree E**”);

Offeree A, Offeree B, Offeree C, Offeree D and Offeree E will collectively be referred to below as: “**The Offerees.**”

1.2 To the best of the Company’s knowledge, as of the date of this report, none of the Offerees are an interested party in the Company, as is the meaning of the term in Section 270(5) of the Companies Law. Additionally, to the best of the Company’s knowledge, none of the Offerees are connected, in a family or business relationship, to the Controlling Shareholder or to anyone on his behalf.

1.3 On the 7th of December 2017 and the 11th of January 2018, the Company board of directors approved the share-replacement deal, which is described in Section 3 below and is a part of the share offer that is the topic of this report.

2. **The terms of the offered securities, their amount and proportion of the issued capital and the date of allocation.**

2.1. Subject to the approval of the securities stock exchange in Tel Aviv, (hereinafter: “**The stock exchange**”) to register them for regular share trading (as defined hereinafter), and subject to the completion of the deal that is the topic of the share replacement agreement, as it is defined hereinafter, the Company will allocate securities to the Offerees as described below:

2.1.1. **Offeree A**

11,820,797 regular shares, which will constitute, as detailed in Section 4.4 below, 20.6% of the capital and the voting rights of the Company, in full dilution. In exchange for these shares, Offeree A will transfer to the Company 11,820,797 regular shares of Backbone, which constitute approximately 17.73% of the issued and paid-off capital of Backbone.

2.1.2. **Offeree B**

11,210,731 regular shares, which will constitute, as detailed in Section 4.4 below, approximately 19.54% of the capital and the voting rights of the Company after the offer, in full dilution. In exchange for these shares, Offeree A will transfer to the Company 11,210,731 regular shares of Backbone, which constitute 16.82% of the issued and paid-off capital of Backbone.

2.1.3. **Offeree C**

Until 8,967,895 regular shares, which will constitute, as detailed in Section 4.4 below, approximately 15.63% of the capital and the voting rights of the Company after the offer, in full dilution.

In this context it is stated that at the time of deal completion, Offeree C will be given the option to obligate the Company to allocate up to 8,967,895 regular shares to the Offeree C, such that when this option is carried out, Offeree C will transfer to the Company up to 8,967,895 regular shares of Backbone, constituting approximately 13.45% of the issued and paid-off capital of Backbone.

In parallel, Offeree C will give the Company the option to obligate Offeree C to transfer to the Company up to 8,967,895 regular shares of Backbone, such that to the extent that option is carried out, the Company will allocate to the Offeree up to 8,967,895 regular shares of the Company.

2.1.4. **Offeree D**

Up to 8,367,245 regular shares, which will constitute, as detailed in Section 4.4 below, approximately 14.58% of the capital and the voting rights of the Company after the offer, in full dilution.

In this context it is stated that at the time of the deal's completion, Offeree C will be given the option to obligate the Company to allocate to the Offeree D up to 8,367,245 regular shares, such that to the extent that this option is carried out, Offeree D will transfer to the Company up to 8,367,245 regular shares of Backbone, constituting 12.55% of the issued and paid-off capital of Backbone.

At the same time, Offeree D will give the Company the option to obligate Offeree D to transfer to the Company up to 8,367,245 regular shares of Backbone, such that to the extent that the option is carried out, the Company will allocate to the Offeree D up to 8,367,245 regular shares of the Company.

2.1.5. **Offeree E**

93,333 regular shares, which will constitute, as detailed in Section 4.4 below, approximately 0.16% of the capital and voting rights of the Company after the offer, in full dilution. In exchange for these shares, Offeree E will transfer to the Company 93,333 regular shares of Backbone, constituting approximately 0.14% of the issued and paid-off capital of Backbone.

The options that the Company will give to the Offerees C and D, respectively, and the options that each one of the Offerees C and D, respectively, will give to the Company, will be labeled below: “**The mutual options.**” The mutual options mechanism was designed so that the deal would be implemented in the optimal manner in terms of the tax that will be applied to Offerees C and D. The mutual options will hold for a period of up to seven (7) years from the time of the deal’s completion.

The shares that are being offered to the Offerees A, B, and E and also the shares that will be received from implementation of the mutual options, will henceforth be called: “**The Offered Shares.**”

The offered shares and also the mutual options will henceforth be called: “**The Offered Securities.**”

In total, according to this report, the Company is offering to the Offerees A, B, and E 23,124,861 regular shares and to Offerees C and D 17,335,140 mutual options that can be exercised, whether by Offerees C and D or by the Company, to 17,335,140 regular shares in the Company.

- 2.2. The offered shares will be equal in their rights to regular shares that exist in the Company’s capital, and they will be entitled to any dividend or other benefit, which the date that determines their right to receive them starts in relation to each one of them on its allocation date or after it. In any event that the Company will distribute a dividend to its shareholders, the determining date of its eligibility will be at least ten days after the date of the announcement of the dividend’s distribution.
- 2.3. The offered Shares constitute approximately 271 % of the issued and paid-up capital and voting rights prior to the allocation. After the Private Offer is made, according to this report the offered shares will constitute (including the shares that will be allocated after the exercise of the mutual options) approximately 70.5% of the issued and paid-up capital of the Company and the right to vote in it, in full dilution. For details regarding the Offerees’ holdings before and after the Private Offer and in full dilution, see Section 4.4 below.
- 2.4. The offered securities will be allocated to the Offerees subject to receiving approvals and the fulfillment of the required terms for their allocation as stipulated in Section 8 below, (which directs to Section 3.5 below). The shares offered to the Offerees A, B, and E and also the shares that will be received from the exercise of the mutual options, will be registered for trading on the stock market, shortly after their issuance, and they will be registered as associated with a particular company, as required by Stock Exchange regulations. Alternatively, and in light of the fact that all the Offerees are not citizens or residents of Israel, the Company will issue the share certificates to the Offerees.

2.5. The capping instructions will apply to the allocated securities as required by the Securities Law provisions, as detailed in Section 10 below.

2.6. **Adjustments that Will Apply to the Mutual Options**

2.6.1. If the quantity of shares in the Company changes as a result of an action of stock splitting or consolidation of shares, the number of shares which will arise from exercising any mutual option will be adjusted proportionally.

The manner of adjustment in these cases will be determined by the board of directors and its determinations will be final and binding. Excluding cases in which it was explicitly determined otherwise, the allocation of shares of any type will not lead to adjusting the rate of exercising mutual options or the number of shares that will result from it.

2.6.2. In the event of distribution of bonus shares, the number of shares received from exercising mutual options will be adjusted, such that the number of shares received from exercising any mutual option will increase or decrease in proportion to the number of shares of the same type to which Offerees C and D would have been eligible in the form of bonus shares had the mutual options been exercised.

This manner of adjustment may not be changed.

2.6.3. In the event of issuing rights by the shareholder company, each one of Offerees C and D will be offered the same securities, under similar terms to the offer to the Company shareholders, and the mutual options will be viewed as having been exercised. This manner of adjustment may not be changed.

2.6.4. In the event of the Company distributing a dividend in cash or in-kind to all of its shareholders (including court-approved distribution in accordance with Section 303 in the Companies Law, or any other section that applies to this matter), the date that determines the right to receive the dividend (**the “deciding date”**) will be applied after the date on which the mutual options are allocated but before they are exercised, such that on that date of the mutual options actually being exercised, the Company will perform monetary adjustments toward Offerees C and D. Beyond these adjustments, the distribution of a dividend by the Company in cash or in-kind will in no way affect the number of fulfillable shares nor obligate the Company to perform any adjustments in relation to the mutual options or the shares received through exercising those options.

2.6.5. In accordance with the instructions of the stock exchange guidelines, mutual options will not be exercised on the determining date for the distribution of bonus shares, the offer by way of rights, dividend distribution, consolidation of capital, splitting of capital or reduction of capital (each of the above will henceforth be called: a **“Company Event”**). Additionally, if the effective date of a company event happens prior to the determining date of the Company event, there will be no carrying out of offered mutual options into shares on that particular day.

3. Description of the Deal

- 3.1. The share offer that is the topic of this report is being performed as part of a deal within which the Company bound itself by an agreement from December 6th, 2017, as was fixed on January 10, 2018, with Backbone and with the Offerees (including the individual holders of the shares of Offerees C and D) (above and below: “**Share Replacement Agreement**”)¹.
- 3.2. The Offerees are the principal shareholders of Backbone. As mentioned above, none of the Offerees have any family or business relations with the person who controls the Company.
- 3.3. Attached to this report as Appendix “A”, is an outline describing Backbone and its business activities. In this context, it will be mentioned that, as detailed in margin note 15, Section 13.4 of the outline, one of the assets that Backbone uses is rented from a company in which the individuals who own the shares of Offerees C and D are its principal shareholders.
- 3.4. Below are detailed the main provisions of the share replacement agreement:
 - 3.4.1 Within the framework of the share replacement agreement, the Company will purchase up to 60.69% of Backbone’s shares from the Offerees, with the allocation of up to 70.5% of the Company’s shares, as detailed in Section 2.1 above.

The purchase shall be made entirely by way of a share exchange as mentioned and it should not involve, except for the payment of any transaction expenses, by way of any financial payments.
 - 3.4.2 Within the framework of the share replacement agreement, the Company made audiovisual presentations of its current activities while Backbone and the Offerees made presentations of each of themselves and of Backbone.
 - 3.4.3 Within the framework of the share-replacement deal, the two parties committed to mutual compensation, in the event of a violation of the information presented by each one of them and in the event of a violation of the commitments undertaken by the parties. The largest compensation sum that a party in the agreement can receive was limited to \$5 million, where the warranty of each Offeree was limited to the market value at the time his share offer deal was completed.
 - 3.4.4 At the time of completion, the Offerees will be tied to a shareholder agreement that will include provisions regarding a common vote for Offerees in the Company’s general assemblies and also limiting the transfer of shares, excluding transfer of shares between Offerees, among themselves.
 - 3.4.5 At the time of completion, the Company will be tied to a shareholder agreement with Offerees C and D (including individuals who own shares of Offerees C and D) regarding the holding of Backbone shares, according to which as long as the mutual options are valid, the voting rights in Backbone will be granted solely to the Company and Offerees C and D will be prevented from transferring or selling their shares in Backbone.

¹ In this context, it will be mentioned in order to complete the picture, that within the framework of the share-replacement deal, the Company is committed to acting, after completing the deal that is the topic of the agreement but without being allocated a certain period of time, on the basis of “best efforts”, to offer the rest of the shareholders of Backbone who hold a total of 39.31 of Backbone’s shares, that the Company will purchase the remaining 26,206,666 Backbone shares that are in their hands, with the allocation of 26,206,666 shares of the Company. Due to the fact that there are more than 200 Backbone shareholders (none of whom holds more than 5% of the issued capital of Backbone), so this offer will be made, in accordance with any applicable laws, in the form of a prospectus. In this context, it is also clarified that the private allocation that is the topic of this report is not conditioned and will not be conditioned upon the publication of the aforementioned prospectus, and likewise, there is no guarantee that the Company will offer to the remaining Backbone shareholders to purchase shares from them with the allocation of company shares, and/or that the offer will be responded to.

- 3.4.6 At the time of completing the deal, four (4) directors will be appointed to the Company on behalf of the Offerees, whose information is mentioned in Section 13.3 above.
- 3.4.7 At the time the deal is completed, Offerees A and B and also the individuals who own the shares of Offerees C and D, who are directors or employees of Backbone will start receiving a salary from Backbone, all as detailed in Section 13.4 below.
- 3.5. The completion of the deal is conditioned upon receiving approvals and also a few additional preconditions, of which the main ones are:
 - 3.5.1 Receiving the approval of the general assembly to allocate the offered shares, including allocating the mutual options, and also for appointing directors (including acting appointments) and for approval of employment conditions, as detailed in the Sections 13.3 and 13.4 below.
 - 3.5.2 Receiving the approval of the stock market for registering the offered shares for trade, including the shares that will be received from the carrying out of the mutual options.
 - 3.5.3 Any other approval, as demanded under Israeli and American Securities Laws.
 - 3.5.4 Completion of the deal is conditional upon the lack of substantial changes for the worse (“Adverse Material Effects”), in the operations of the Company and of Backbone, their assets and commitments, as well as upon receiving standard approvals from the Company employees and from Backbone and from the representatives of each one of them.
 - 3.5.5 Signature on the shareholder agreements detailed in the Sections 3.4.4. and 3.4.5. above.
 - 3.5.6 Signature on the mutual option settlement documents, to the satisfaction of the individuals who own the shares of Offerees C and D.
 - 3.5.7 There will be no impediment under the law for deal completion.

As long as it is not decided otherwise between the parties, the parties determined that the completion of the deal, subject to the receipt of approval and the fulfillment of terms as detailed above, will be within 120 days from the time the share-replacement deal was signed.

- 3.6. Each party is responsible for all expenses assigned to it by the share-replacement deal. Despite the aforementioned, in the event that approval from the stock market is not received, the Company will compensate Backbone for its expenses, in the sum of CAD 50,000.

4. **The stock capital issued in the Company, the quantity and proportion of the Offerees’ holdings, of parties with an interest in the Company, and the total holdings of the rest of the shareholders in the capital that was issued and paid-up and in the voting rights.**

- 4.1. As of the date this report was published, the issued stock capital of the Company is 1,492,046.6 NIS that was divided into 14,920,666 regular shares of 0.01 NIS regular value Each.

- 4.2. The stock capital of the Company detailed above does not take into consideration 1,694,458 additional shares that the Company intends to allocate to the primary shareholder following the fulfillment of the Credit Line he set up for the Company, as detailed in the Company reports from July 10, 2017 (Reference: 2017-01-072273); from July 30, 2017 (Reference: 2017-01-078252), and from December 3, 2017 (Reference: 2017-01-112746). After this allocation is completed, the issued capital share of the Company will be set at 1,661,492.4 NIS, divided into 16,614,924 regular shares. Additionally, at the time of this report, the Company is in the process of allocating 300,000 non-tradable options that can be made into company shares. In this context, it will be mentioned that on January 3, 2018 an approval was received from the stock market to register for trade said 1,694,458 shares and the 300,000 shares that will materialize from exercising said 300,000 options.
- 4.3. Assuming the allocation of offered securities as detailed in this report (including the exercising of mutual options), and assuming the completion of the private allocation to primary shareholder and option allocation to investors, the issued and paid capital of the Company will be set at 5,707,492.5 NIS, divided into 57,074,925 regular shares and 300,000 non-tradable options. Assuming the carrying out of said 300,000 options, the issued and paid-up capital of the Company will be set at 5,737,492.5 NIS, divided into 57,374,925 regular shares.
- 4.4. To the best of the Company's knowledge, the quantity and share of holdings of the interested parties in the Company, the Offerees and the rest of the Company's shareholders of issued and paid-up capital and in the voting rights in the Company² are as follows:

<u>Shareholder</u>					<u>Prior to the Private Offer</u>			<u>After the Private Offer</u>
<u>Without dilution</u>		<u>With full dilution</u>						
Shares	Options	³ %	Shares	Options	³ %	Shares	³ %	
15.75	9,035,938	22.74	--	9,035,938	54.38	--	9,035,938	Roy Sabag
1.97	1,130,895	2.85	--	1,130,895	6.81	--	1,130,895	Industrial Valores S.A.
0.35	200,000	0.50	--	200,000	1.20	--	200,000	Andres Finkielsztain
0.08	44,750	0.12	--	44,750	0.27	--	44,750	Accountant Eran Mazor in trust
20.60	11,820,797	29.74	--	11,820,797	--	--	--	Offeree A
19.54	11,210,731	28.21	--	11,210,731	--	--	--	Offeree B
15.63	8,967,895	--	8,967,895	--	--	--	--	Offeree C
14.58	8,367,245	--	8,367,245	--	--	--	--	Offeree D
0.16	93,333	0.23	--	93,333	--	--	--	Offeree E
11.34	6,503,341	15.61	300,000	6,203,341	37.34	300,000	6,203,341	The public
100%	57,374,925	100%	17,635,140	39,739,785	100%	300,000	16,614,924	Total

² Assuming that the allocation of 1,694,458 shares to the primary shareholder and 300,000 options to investors, as said above, was completed. With the capital and

³ voting power.

5. **Terms of the deal, in exchange for securities, and how it was determined**

- 5.1. The offered shares will be allocated to the Offerees in exchange for 40,460,001 Backbone shares, which constitute approximately 60.69% of the stock capital of Backbone that will be transferred to the Company by the Offerees.
- 5.2. Description of Backbone and the development of its operations are brought in an outline attached as "**Appendix A**" to this report.
- 5.3. The value of the exchange was determined in a negotiation between the sides.
- 5.4. To the best of the Company's knowledge, there are no significant shareholders in it or anyone of the employees who have a personal interest in the value of the exchange.

6. **Trade registration for regular shares.**

The offered shares, including the shares that will be the product of the carrying out of mutual options, will be registered for trade and will be traded (subject to the blocking rules detailed in Section 10 below) as long as the rest of the regular shares in the issued capital of the Company are traded at the same time.

7. **The price of regular offered shares in the stock market**

- 7.1. The price of a company share in the stock market, that became known on January 11, 2018, the date the Company board of directors approved the connection, was 37.92 NIS.
- 7.2. The average share price in the six months prior to the publication of this report was 10.74 NIS.⁴

8. **Required approvals and terms which were determined for performing the allocation**

The required approvals and the terms that were determined for performing the allocation of offered shares, including the mutual options, are detailed in Section 3.5 above.

9. **Agreements related to the Company's securities or regarding the voting rights**

To the best of the Company's knowledge and as reported to it by each one of the Offerees, and the primary shareholder in the Company, there are no agreements, whether verbal or in writing, between the Offerees and another shareholder in the Company, or between each one of the Offerees and the others, or between the Offerees themselves, about the acquisition or sale of the Company securities or about the voting rights in it, except for the share replacement agreement, and the shareholder agreements detailed in the Sections 3.4.4. and 3.4.5.

When the agreement detailed in Section 3.4.4 above takes effect, the Offerees will be the Controlling Shareholders in the Company.

10. **Impeding or limiting the performing of activities with the allocated securities**

Restrictions determined by Section 15D of the Securities Law, as well as by Securities Regulations (5760-2000), will apply to the sale of offered shares, including shares that arise from the carrying out of mutual options, all or in part (details are in the Sections 15A to 15C of the law), as detailed below:

⁴ The Company did not perform any stock consolidation or splitting, distribution of bonus shares, an offer by way of rights, etc.

- 10.1 During the six months that start on the day of the allocation of offered shares to the Offerees A, B, an E and the mutual options to the Offerees C and D (“**The Period of Total Blockage**”), the Offerees will not be permitted to offer the shares, or the shares that will arise from the carrying out of mutual options, during the trading in the stock market, without publishing a prospectus that the securities authority permitted its publication.
- 10.2 During the following six consecutive quarters after the end of the total blockage period, the Offerees will be allowed to offer during the trading in the stock market the offered shares, including the shares that arise from the carrying out of mutual options, without having to publish a prospective as mention, subject to the cumulative following restrictions:
- (i) No more than the daily average of the trading cycle of the stock market in the Company’s shares for a period of eight (8) weeks prior to the offering day.
 - (ii) The total quantity offered for sale in each quarter by each of the Offerees separately, will not exceed 1% of the issued and paid-off capital of the Company, on the day of the offer.

On the matter of Section 10.2 only “**issued and paid-off capital**” except for shares that stemmed from exercising or exchanging of exchanged securities that were allocated until the day of the offer and were not yet exercised or exchanged; a “**quarter**”, is a period of three (3) months. The start of the first quarter will be at the end of the absolute blockage period.

- 10.3 No restrictions will apply to the sales of shares that were allocated to the Offerees in a transaction outside of the Stock market, regarding dates and amounts, other than each person who bought from the Offerees or any of them as mentioned shares that were allocated to him as mentioned in this report, will be in that Offeree’s place as far as fulfilling the provisions of the Securities Law and Regulations.

11. **The explanations of the board of directors for approving the Private Offer, for the value determined for the offered securities, and for the value of their exchange, and also for other topics that are on the agenda for the general assembly.**

Below are detailed the explanations of the board of directors for approving the private deal:

- 11.1. The acquisition of Backbone matches the new business strategy of the Company, as was approved in the board of directors meeting from October 17, 2017.
- 11.2. In accordance with the data passed to board directors, and specifically the data on revenues and the operational profitability of Backbone during the period of its activities up to this date, the rate of allocation of company shares in exchange for Backbone shares reflects a value that is much greater than the internal value of the Company, as is reflected in both the financial reports and its market value before the increase in prices that began on the date that the Company announced its new business strategy, as mentioned.
- 11.3. The examination of the deal’s profitability did not address the share price of the last few weeks in the stock market, as this price holds within it the expectations of completing the deal. The company’s board of directors examined the value of Backbone’s concrete assets, and in particular the cash balance in its coffers, the balance in cryptographic coins held by Backbone and also the value of its permanent equipment, and specifically the value of the ASIC components that server Backbone in mining for cryptographic coins, and also the flow of cash that Backbone underwent from the beginning of its operations until December 31, 2017 and even afterwards.
- This examination revealed that the share-replacement deal is a profitable deal for the Company and the value of Backbone shares the Company will receive is greater than the internal value of the Company’s shares that will be allocated to primary shareholders with the transfer of Backbone shares.

- 11.4. In this context, it is emphasized that the Company board of directors did not place any weight to the value of the software that serves Backbone in its activities (see Section 13.3 of the outline, Appendix "A") and that is in light of the fact that at this stage, the management of the Company has not been able to validate this software's determined value within the bounds of the agreement by which it was transferred to Backbone. The said software serves Backbone and according to the Company's board of directors' estimates, the profitability of the deal will not be damaged even if it turns out that the value of the software is significantly lower than the value that was determined for it as mentioned.
- 11.5. It should also be mentioned that according to the estimates of the Company's board of directors, the deal is profitable for the Company even if as a result of it the Company's shares are erased from the stock market, and that is in light of the value that the Company's board of directors places on Backbone compared to the internal value of the Company, and even after the value of the Company's "public skeleton" was taken into account, and/or the value of the Company for the shareholders from the fact that it is a public company whose shares are traded in the stock market.
- 11.6. Regarding the necessary employment terms for Offerees A and B and also for the individuals who own the shares for Offerees C and D, who are directors and/or employees of Backbone, the current compensation plan of the Company was adjusted to fit the financial and business status of the Company and is the topic of this business report. The current compensation plan is not appropriate for Backbone's scope of activities. According to the estimates of the Company's board of directors, in light of the significant expected increase in the scope of the Company's activities, after the completion of the deal and with receiving Backbone's shares, in light of the specialization of said Offerees and their involvement in Backbone's operation and their prior experience, and after the matters included in the first attachment in part A of the Companies Law were investigated (depending on their relevance), the salary each one of them will receive, as detailed in Section 13.4 below, is an appropriate salary considering the circumstances.

The names of the directors who participated in the Board of Directors discussion, which approved the deal:

At the board of directors meeting from December 6-7, 2017, Roy Sabag (Head of Board of Directors and CEO), Eran Mazor, Andres Finkielsztain, Shuki Hershkovitz (External Directors) and Tomer David (External Director).

At the board of directors meeting from January 1, 2018, Roy Sabag (Head of board of directors and CEO), Eran Mazor, Andres Finkielsztain, Shuki Hershkovitz (External Directors) and Tomer David (External Director). Mr. Andres Finkielsztain, who could not attend this meeting, gave his approval in writing.

12. **Date of the securities allocation to the Offerees**

The allocation of shares to the Offerees will be performed on time and subject to the completion of the deal that is the topic of the share replacement agreement and subject to the approval of the general assembly as detailed in this report below, to receive the approval of the stock market to register the offered shares for trade, including the shares that will arise from exercising the mutual options, and also subject to the fulfillment of the remaining preconditions.

13. **The Convening of the General Assembly**

13.1 The general assembly of the shareholders of the Company, on whose agenda is the unusual Private Offer as detailed above, as well as the remaining topics that are detailed in the Sections 13.3 and 13.4 below, will take place on Monday February 19, 2018 at 11:30 a.m. in the offices of the Company's attorneys, Zitvar, Galor and Co., Attorneys, at Menachem Begin Street, 7 Ramat Gan (Tel.: 03-6127778). A follow-up meeting, if required, as detailed in Section 14.1 below, will take place on Monday, February 26, 2018 in the same place and at the same time.

The following topics are on the agenda of the meeting:

13.2 Approval of the unusual private allocation detailed in this report above. It is hereby clarified that in light of the fact that to the Offerees C and D will be allocated the mutual options, i.e., at the time of completing the deal, they shall not be considered yet as shareholders in the Company. (As stated in paragraph 9 of the transaction report, upon completion of the deal and allocation of the shares, a shareholders' agreement will enter into effect among the Offerees in such a manner that the Offerees will become the Controlling Shareholders of the Company) then for the sake of caution, this allocation will also be approved in accordance with the provisions of Section 328B (1) of the Companies Law, in such a manner that the mutual options shall not, in any case, require the execution of a special purchase offer.

13.3 Approval of the appointment of directors, the validity of whose appointments will be conditional upon the completion of the deal that is the topic of this report, and from the date of its completion and thereafter, as follows:

Text of the proposed resolution: After each one of the esteemed gentlemen detailed below declared that he has the required skills and ability to devote the proper time to fulfilling his role as a company director, and detailed the skills as mentioned, and also, declared that the restrictions determined in the Sections 226 and 227 of the Companies Law do not apply to him, to appoint the directors specified in this resolution below:

- (1) To appoint Mr. Nicolas Bonta a director and the Company's Chairman of the board of directors.
- (2) To appoint Mr. Emiliano Joel Grodzki a director in the Company.
- (3) To appoint Mr. Pierre-Luc Quimper as a director in the Company.
- (4) To appoint Mr. Rodrigo Sebastian Menendez as a director in the Company.

A separate vote will be made regarding each one of the candidates to serve on the Board of Directors.

The said declarations are attached as **Appendix "B"** to this report.

Below are the details required by regulation 26 of the reporting regulations regarding Mr. Nicolas Bonta, whose appointment is proposed:

Director's name:	Nicolas Bonta
Passport number:	AAD779911
Date of birth:	February 16, 1975
Address for service of court documents:	The company's offices, Menachem Begin, 7 Ramat Gan
Citizenship:	Argentinean
Membership in a Board of Directors' committee or committees:	No

External Director:	No
Is he an employee of the Company, or its subsidiaries, or a company connected to the Company or of a party interested in it:	Will serve as active Chairman of the board of directors of the Company and of Backbone
Start date of his service on the Board of Directors:	Upon completion of the transaction
Education:	Graduate of Hospitality Management - Gllion Institute of Higher Education, Switzerland
Occupation in the last five years:	Businessman
Corporations in which he serves on the Board of Directors:	Backbone
To the best of the Company's knowledge and that of their directors, is he a relative of another party with interest in the Company:	No
Is he a Director that the Company sees as an accounting or finance specialist for the sake of fulfilling the minimal number that the board of directors determined according to Section 92(a)(12) of the Companies Law:	Not yet tested
Is he an independent director:	No

Below are the details required by regulation 26 of the reporting regulations regarding Mr. Emiliano Joel Grodzki, whose appointment is proposed:

Director's name:	Emiliano Joel Grodzki
Passport number:	AAD618528
Date of birth:	November 15, 1976
Address for service of court documents:	The company's offices, Menachem Begin,7Ramat Gan
Citizenship:	Argentinean
Membership in a Board of Directors' committee or committees:	No
External Director:	No
Is he an employee of the Company, or its subsidiaries, or a company connected to the Company or of a party interested in it:	He will serve as CEO of the Company and of Backbone.
Start date of his service on the Board of Directors:	Upon completion of the transaction
Education:	High school
Occupation in the last five years:	Businessman
Corporations in which he serves on the Board of Directors:	Backbone
To the best of the Company's knowledge and that of their directors, is he a relative of another party with interest in the Company:	No
Is he a Director that the Company sees as an accounting or finance specialist for the sake of fulfilling the minimal number that the board of directors determined according to Section 92(a)(12) of the Companies Law:	Not yet tested
Is he an independent director:	No

Below are the details required by regulation 26 of the reporting regulations regarding Mr. Pierre- Luc Quimper, whose appointment is proposed:

Director's name:	Pierre-Luc Quimper
Passport number:	GB959974
Date of birth:	September 12, 1983
Address for service of court documents:	The company's offices, Menachem Begin, 7 Ramat Gan
Citizenship:	Canadian
Membership in a Board of Directors' committee or committees:	No
External Director:	No
Is he an employee of the Company, or its subsidiaries, or a company connected to the Company or of a party interested in it:	He will serve as a Director and will be in charge of the activity of (Chief Operations Officer) of the Company and of- Backbone
Start date of his service on the Board of Directors:	Upon completion of the transaction
Education:	High school
Occupation in the last five years:	Businessman
Corporations in which he serves on the Board of Directors:	Backbone, Nworks Management Corp., Hashrate-Biz Corp.
To the best of the Company and director's knowledge, is he a relative of another interested party in the Company:	No
Is he a Director that the Company sees as an accounting or finance specialist for the sake of fulfilling the minimal number that the board of directors determined according to Section 92(a)(12) of the Companies Law:	Not yet tested
Is he an independent director:	No

Below are the details required by regulation 26 of the reporting regulations regarding Mr. Rodrigo Sebastian Menendez, whose appointment is proposed:

Director's name:	Rodrigo Sebastian Menendez
Passport number:	AAD286441
Date of birth:	May 10, 1979
Address for service of court documents:	The company's offices, Menachem Begin,7Ramat Gan
Citizenship:	Argentinean
Membership in a Board of Directors' committee or committees:	No
External Director:	No
Is he an employee of the Company, or its subsidiaries, or a company connected to the Company or of a party interested in it:	Will serve as a General Counsel
Start date of his service on the Board of Directors:	Upon completion of the transaction
Education:	Bachelor's degree in law from, Universidad de Belgrano and a Master's degree in economic law and finance, from Universidad Catolica Argentina.
Occupation in the last five years:	Attorney
Corporations in which he serves on the Board of Directors:	Mar Energia S.A.

To the best of the Company's knowledge and that of their directors, is he a relative of another party with interest in the Company: No

Is he a Director that the Company sees as an accounting or finance specialist for the sake of fulfilling the minimal number that the board of directors determined according to Section 92(a)(12) of the Companies Law: Not yet tested

Is he an independent director: No

13.4 Approval of the employment terms and tenure of Offerees A and B and also individuals who own the shares of Offerees C and D who are directors and/or employees in Backbone, will go into effect upon completion of the deal, according to the following details:

Nicolas Bonta will serve as Chairman of the Company's board of directors and of Backbone.

Emiliano Joel Grodzki will serve as a Director and CEO of the Company and of Backbone.

Pierre-Luc Quimper will serve as a Director and will be in charge of the operations (Chief Operations Officer) in the Company and in Backbone.

Mathieu Vachon will serve as the Director in charge of software engineering (software engineering) in Backbone.

All of the directors and / or officers listed above will be entitled to an annual salary of US \$ 200,000 for a full-time tenure.

Below is a tabular disclosure of the terms of tenure and annual employment of each of the directors and/or the aforementioned employees, in accordance with the sixth supplement of the securities regulations (periodic and ad hoc reports) 5730 - 1970, as of the time of completing the deal (in terms of cost to the Company in thousands of US dollars):

Details of the compensations receivers			Compensations for services					Other compensations			
Name	Position	Scope of the position	Rate of holding in the corporate capital	Wages	Grant	Remuneration based on shares	Administrative Fees	Commission	Interest	Lease payments	Total
Nicolas Bonta	Chairman of the board	100%	20.6%	200	-	-	-	-	-	-	200
Emiliano Joel Grodzki	CEO	100%	19.54%	200	-	-	-	-	-	-	200
Pierre-Luc Quimper	C.O.O	100%	15.63%	200	-	-	-	-	-	-	200
Mathieu Vachon	Software engineering	100%	14.58%	200	-	-	-	-	-	-	200

14. **Additional provisions regarding the convening of the general assembly**

- 14.1. A quorum shall be constituted when they are present, either personally or by proxy, or by voting in the electronic voting system or in a different way permitted by the law, at least two shareholders who jointly hold shares that grant at least a quarter of the voting rights in the Company. If, after half an hour past the time set for the meeting, no quorum is present, the meeting shall be postponed to Monday, February 26, 2018, at the same time and at the same place (hereinafter “**The postponed meeting**”).

If at the postponed meeting no quorum is present within half an hour of the time set, then the postponed meeting will take place with any number of participants.

All in accordance with the Company’s Articles of Association. The text of the articles was recently published in an Ad hoc report dated May 31, 2010, reference no. 2001-01-503457.

- 14.2. The shareholders entitled to participate in the meeting and in any postponed meeting, may personally or by someone on their behalf participate and vote in them, and in the case of a corporation by a person who was legally authorized by it. The appointing document is sent for voting and power of attorney if applicable, by which he signed or a certified copy from him that will be deposited in the registration office of the Company no less than 48 hours before the date determined or for the postponed meeting.
- 14.3. Non-registered shareholders (that is whoever has shares registered to their credit in a stock market member and those shares are included in the registered shareholders’ register in the name of the registration Company) that are interested in voting at the meeting, are required to present approval from the stock market member with whom their eligibility for the share is registered, regarding their ownership of the share on the determined date, in accordance with the provisions of the Companies regulations (proof of ownership of a share for the purpose of voting in the general assembly), 5760-2000. Non-registered shareholders are entitled to receive the ownership certificate at the stock market member’s branch or by mail delivery, and they are also entitled to instruct that the approval of ownership will be sent to the Company by means of the electronic voting system.

Voting letters and stance notices - a shareholder is entitled to vote in the general assembly, by means of a written vote, as detailed below:

- a. The website addresses of the Securities Authority and of the Tel Aviv Stock Exchange Ltd., in which you can find the text of voting letters and stance notices as they were meant in the Sections 87 and 88 of the Companies Law (respectively), are as follows: Securities Authority distribution website: (<http://www.magna.isa.gov.il> hereinafter: “**the Distribution Website**”); the Tel Aviv Securities Stock Exchange Ltd. <http://www.maya.tase.co.il>.
- b. Written voting will be done by means of the second part of the voting letter that is attached to this Ad hoc report. The voting letter and the documents that must be attached to it, as detailed in the voting letter, must be presented to the Company’s offices no later than 4 hours before the time of the convening of the meeting.
- c. Additionally, the non-registered shareholders are entitled to vote in the meeting by means of a voting letter, which will be transferred to the Company by means of the electronic voting system. The voting will be allowed up to 6 hours prior to the time when the meeting is convened.

- d. The latest time for presenting stance notices to the Company's offices is up to 10 days before the time of the convening of the meeting.
 - e. The last date for presenting the board of Directors' reply to stance notices is up to five (5) days before the time the meeting is convened.
- 14.4. The determined date for the matter of shareholders' eligibility to participate and to vote in the meeting, in accordance with the provisions of Sections 182(b) and (c) of the Companies Law and regulation 3 of the Companies regulations (written votes and stance notices), 5766-2005, is at the end of the trading day in the Securities Stock Exchange in Tel Aviv that will be on Monday, January 22, 2018 (hereinafter "**The determining date**").
- 14.5. A request to include a topic on the agenda of the meeting - a request of a shareholder according to Section 66(b) of the Companies Law to include a topic on the agenda of a special general assembly will be presented to the Company up to seven days after the summoning of the general assembly.

14.6. **The mandatory majority for approving decision proposals**

The required majority for approval of the unusual private proposal and also to approve the appointment of the directors and their terms of tenure, is a regular majority of those present who are entitled to participate in the meeting.

The majority required to approve the tenure terms of Mr. Emiliano Joel Grodzki, who is expected to serve as the CEO of the Company, is the majority of votes of those shareholders participating in the voting, provided that one of these will occur:

- a. The majority of the votes in the general assembly will include a majority of the votes of the shareholders who are not Controlling Shareholders of the Company or having a personal interest in the approval of the terms of salary who are participating in the vote; In counting the votes of the said shareholders, abstaining votes will not be counted; the person who has a personal interest will be subject to the provisions of 276 of the Companies Law, of the obligated changes;
- b. The total opposing votes from among the shareholders mentioned in sub-paragraph (a) was not greater than the rate of two percent of the overall rights to vote in the Company.

15. **An instruction provided by the authority or by an employee authorized by virtue of regulation 17 of the Private Offer regulations is likely to delay the convening of the general assembly.**

16. **The Company's Representatives Vis a Vis taking care of the Ad hoc report**

Messrs. Ronen Zitvar and Zohar Hadar, attorneys at law

Zitvar, Galor and Co., Attorneys at law

From 7 Menachem Begin Road, 7 Gibor Sport Building, Ramat Gan 52521

Tel: 03-6127778; Fax: 03-6127779

17. **Documents review**

The documents regarding the Private Offer as detailed in this Ad hoc report are available for review at the offices of the attorneys of law of the Company, Zitvar, Galor and Co., Attorneys at Law, at 7 Menachem Begin Street, Ramat Gan, during business hours and with appointment made in advance.

Blockchain Mining Ltd.
Via Roy Sabag, Chairman of the board of directors
And CEO

Appendix “A” to the transaction report

Outline

BACKBONE HOSTING SOLUTIONS INC.

Which was done in accordance with the securities regulations (a Private Offer of securities in a registered Company), 5760-2000

Regarding this outline;

- **Transaction report, to which this outline is attached as Appendix “A” will be called” “The Transaction Report”;**
- **Blockchain Mining Ltd. Natural Resources Holdings Ltd.) will be called: “The Company”**

1. **activities of the corporation and description of the development of its business**

- 1.1 BACKBONE HOSTING INC “Backbone” formed on June 13, 2017 in Canada as a private company.
- 1.2 Backbone started its business operations on November 6, 2017, and it engages in mining of cryptographic coins. Backbone is a company that operates under the trade name, Bitfarms server farm which provide computing power used in encrypted and distributed currencies (6 CryptoCurrency), including the mining of Litecoin Ethereum, Bitcoin Cash, Bitcoin¹.
- 1.3 **It is stated that the description of Backbone’s activities also includes actions that will be performed in practice or simultaneously and subject to the completion of the deal described in the transaction report, according to which the Company will acquire control holdings in Backbone. The detailed description below assumes that the deal will be executed and it describes Backbone as it supposedly will be at the time of completing the deal.**
- 1.4 The primary shareholders in Backbone are the esteemed gentlemen Emiliano J. Grodzki, and Nicolas Bonta, both citizens of Argentina, Pierre-Luc Quimper and Matthieu Vachon, both citizens of Canada. Together they are the “**primary shareholders**”. The association between the Canadian and Argentinean primary shareholders was formed by a common interest in the activity field, when at first, the Canadians provided services to the Argentineans and a few months later, the primary shareholders decided to act together in their field.

Following the forming of the Company, the primary shareholders acted in a collaboration that was not backed-up by a written agreement.

As of the time of the transaction report, the total holdings of the primary shareholders in Backbone stand at 60.69% of the issued stock capital of Backbone, where the remaining shares are held by 200 additional shareholders, none of whom holds more than 5% of the issued stock capital of **Backbone**.

- 1.5 As was reported to the Company, the primary shareholders have experience in the field of cryptographic coins from the year 2009, and starting in 2013, they operate similar farms around the world, though in smaller scopes relative to their operations via the Company, as detailed below. The esteemed gentlemen Nicolas Bonta and Emiliano J. Grodzki, who were first real-estate entrepreneurs in Buenos Aires, Argentina, operated in mining of cryptographic coins in a limited scope in Argentina and in Florida, USA. Mr. Pierre-Luc Quimper operated in cryptographic coin mining in a limited scope in Canada and established the first dedicated farm for this purpose in the province of Quebec. Mr. Quimper is also the owner of Globo.Tech, one of the largest data centers and storage companies in Canada, and he has experience in construction and the operation of high-energy data centers, as well as securing energy supply contracts for a low cost and for the long term.

¹ For details, see Section 6 below for the matter of describing the corporation’s operations.

As described in Section 6.1 below, at the beginning of the cryptographic era, there was less importance in the ability of computing and the availability of inexpensive energy. Over time, computing needs and energy have become more significant, leading the major shareholders to expand their collaboration. Backbone was formed from the transfer of the primary shareholders' assets to one company, as part of this the primary shareholders transferred assets, including intellectual property and equipment they purchased for Backbone.

- 1.6 Backbone currently operates four server farms, all located in the province of Quebec, in Canada.

The following are details about the four server farms:

- 1.6.1. Farnham - This farm began operating in 2017 in a total area of approximately 57,158 sq. ft., which is rented.² The power of encryption stands at 55 Petahash³ and 10 Megawatts.
- 1.6.2. St. Hyacinthe - This farm began operating in 2017 in a total area of approximately 43,691 sq. ft., which is rented. The power of encryption stands at 91 Petahash and 10 Megawatts. Backbone has intentions of expanding this farm in the future.
- 1.6.3. Cowansville - This farm began operating in 2017 in a total area of approximately 50,000 sq. ft., which is rented. The power of encryption⁴ stands at 29 Petahash and 6.5 Megawatts.
- 1.6.4. Notre Dame Standbridge This farm began operating in 2016 in a total area of approximately 6,720 sq. ft., which is rented. The power of encryption stands at 55 Gigahash and 1 Megawatt.

All said server farms use hydroelectric energy.

The computers and the rest of the equipment found in each one of the farms are under the full ownership of Backbone.

- 1.7 Additionally, two more server farms are in the process of being established and are projected to start operating in February 2018, as follows:

- 1.7.1 Magog will operate in a total area of 22,000 sq. ft., which are rented but with an option to buy. The power of encryption will stand at 196 Petahash and 20 Megawatts.
- 1.7.2 Saint-Jean-Richelieu A total area of approximately 26,200 sq. ft., which are rented. The power of encryption stands at 49 Petahash and 5 Megawatts.

These farms will also use hydroelectric energy.

² Each 10 square foot equals 0.929 m².

³ Petahash is a unit of measurement for computing and encryption.

⁴ The leasing agreement is from a company in which the esteemed gentlemen Pierre-Luc Quimper and Matthieu Vachon are the primary shareholders.

It is stated that the information regarding the server farms is forward-looking information, as defined in the Securities Law (5728-1968), (hereinafter “Securities Law”) there is no guarantee that these server farms or any of them will start operating on the date listed above and/or will have the power of encryption detailed above.

- 1.8 Based on the market research conducted by the Company, including a presentation prepared for it by one of the largest investment banks in Toronto, Canada⁵, and also based on information published by one of the competitors of Backbone, which is a public company listed on the Toronto Stock Exchange, the aforementioned server farms are in total the largest cryptographic currency farms in North America and some of the largest in the world in terms of energy and cryptographic power.
- 1.9 The server farms mentioned above use renewable and clean energy, and they support and provide computing power that supports millions of Blockchain transactions.
- 1.10 The company intends for Backbone to continue its current business operations, i.e., mining of cryptographic currencies.
- 1.11 As of the publication of this transaction report, Backbone has no subsidiary. With that, at the time of completing the deal described in the transaction report, Backbone will acquire from the primary shareholders all the stock capital of. “Onyx Hosting” Onyx Inc. in exchange for a modest fee. Onyx rents two server farms operated by Farnham Backbone and St. Hyacinthe and other than that, it has no additional assets or commitments.

2. Investments in Backbone’s capital and deals with its shares.

- 2.1 As of the date of the transaction report, Backbone’s stock capital is comprised of 66,666,667 shares of Class A stock without a specified amount.
- 2.2 As mentioned, as of the date of the transaction report, total holdings of primary shareholders in Backbone stand at 60.69% of the issued stock capital of Backbone, in that the remaining shares are held by 200 additional shareholders, none of whom holds more than 5% of the issued stock capital of Backbone.
- 2.3 Below are detailed the investments made in the Backbone’s capital from its inception until the date this report is published:
 - 2.3.1 100 shares of Class A were allocated to companies controlled by two of Backbone’s primary shareholders in exchange for CAD 1.00 per share, at the time Backbone was formed.
 - 2.3.2 Within the framework of a deal that took effect on November 6, 2017, Backbone allocated 40,459,901 Class A shares to the primary shareholders and another shareholder (Rodrigo Menendez). The share allocation was performed with the transfer of a software and intellectual property to Backbone in exchange for a sum of \$5,000,000, as determined in an agreement. For details on the acquisition of the software that connected Backbone to the primary shareholders see Section 13.3 below.

⁵ It is also one of the Offerees in the private allocation of the written options of the Company from November 27, 2017, reference: 2017-01-104959.

2.3.3 Additionally, within the framework of a deal that came into effect on November 6, 2017, Backbone allocated 26,206,666 Class A shares to 200 additional people/entities, as follows: (“**additional shareholders**”) of these shares, 4,277,163 shares were allocated in cash for the sum of \$ 2,937,750, and 21,929,603 shares were allocated with the transfer to Backbone of equipment worth \$ 15,062,250. For details on the acquisition of the equipment that connected Backbone to the primary shareholders see Section 13.3 below.

2.3.4 In this context, it should be mentioned that while the values detailed in the Sections 2.3.2 and 2.3.3 above were transferred in practice to Backbone on November 6, 2017, the allocation of shares will be completed in practice when the deal that is the topic of this report is complete.

3. **Distribution of dividends**

Since it was formed, Backbone neither declared nor distributed dividends to its shareholders. Backbone does not have a restriction on distribution of dividends and it had not developed a dividends policy.

4. **Financial information about Backbone’s area of activity**

is emphasized, because these data detailed below have not been reviewed and were not prepared in accordance with the accounting rules that apply to the Company. The information detailed below was given to the Company by Backbone.

4.1 Revenue of 4 active server farms, for 56 days of activity, from the first day of activity (November 6, 2017 until, December 31, 2017) stands at approximately \$10,612. In this context, it should be noted that this income was obtained entirely from the mining of cryptographic coins, Bitcoin, Litecoin, Ethereum, Bitcoin Cash and Dash, and it was calculated according to the exchange rates of these currencies at the time they were mined.

In total, Backbone in the said 56 days of the activity, cut approximately 587 coins in Bitcoin, 1,338 coins in Bitcoin Cash, 386 coins in Ethereum, 4,024 coins in Litecoin, and 188 coins in Dash.

4.2 In the same 56 days, the operational costs stood at \$900,000, excluding depreciation expenses.

The operating cost includes rental of assets, employees’ wages, energy costs, and maintenance costs of servers and other assets.

Additionally, Backbone had a total of \$3,890 in capital expenses (“Capex”).

And in total, the expenses came to a sum of \$4,790, excluding depreciation expenses.

It should be emphasized that the expenses of, Backbone as detailed above, have been financed by means of selling cryptographic coins and calculated in accordance with the exchange rates actually received from the sale of each currency. In this context, it should be noted that Backbone did not have difficulty selling cryptographic coins and / or paying for services and / or products using cryptographic coins.

- 4.3 Up to December 31, 2017, Backbone exchanged most of its cryptographic coins into U.S. or Canadian dollars. Backbone's cash balance for December 31, 2017 stood at approximately \$7,456. This figure includes all of Backbone's cash investments, as detailed in Section 2.3.3 above.

The value of the cryptographic coins held by the Backbone as of December 31, 2017 stood at approximately \$3,240, consisting of some 0.0056 coins of Bitcoin, approximately 1,337 Bitcoin Cash coins, 194 Litecoin coins, 31 Ethereum coins, and 6 Dash coins.

This balance includes a resulting gain of the appreciation of the cryptographic currencies held by Backbone as stated, including those sold by Backbone, in the amount of \$ 1,937.

Accordingly, and as long as Backbone does not convert these currencies into US dollars or any other country's currency, Backbone is exposed to the sharp fluctuations in these currency rates.

- 4.4 As stated, Backbone began its business operations on November 6, 2017, and therefore, it still does not have an organized accounting system and any reviewed financial statements. The company relied on numerical data provided by Backbone, which were given as a presentation by Backbone and the primary shareholders.

As stated, these data have not been reviewed and were not prepared in accordance with the accounting rules that apply to the Company.

For a daily mining table received from Backbone, for the period of November 6, 2017 to December 31, 2017, and for details on the wallets for each farm (public wallet address), see **Appendix 1** to the outline.

For details on financial non-reviewed data from Backbone, as they were received from Backbone, see **Appendix 2** to the outline.

5. **Economic environment and the influence of external forces on Backbone's activities**

There are trends, events and developments in the macro-economic environment in which Backbone operates, which may influence its operations. For details on the influence exerted by the trends, events and developments, that pose the main risks to which Backbone is exposed on Backbone's operations, see Section 23 below.

6. **General information concerning the area of operation**

6.1 **Structure of the Area of Operations and the Changes It Undergoes**

Mining for cryptographic currency is a computing process, which requires a lot of computerization and a large consumption of energy, and which at the end forms cryptographic coins that are stored and maintained with the Blockchain technology.

At the beginning of 2009 a new software technology was born: a decentralized and internet-based distributed ledger, which included an accounting chip for the technology. This technology, of which the first example was the Bitcoin, is known by the name Blockchain Technology.

The first cryptographic coin was created in 2009. Over the years, more than 1,000 different types of cryptographic coins were created, with the basic principle behind the creation of these currencies is the fact that these are encrypted and distributed currencies stored on the Internet and are not managed or controlled by any state or entity, where the intention is for these currencies to be used as a fast payment method, efficient and secure, and carrying low transaction costs, all compared to state currencies. As of December 15, 2017, these cryptographic coins have a combined market value of \$ 510, and it is estimated that they are owned by 20 million people.

The foundational principle that organizes Blockchain networks' ability to expand, their security, and their implementation ability is the demand for decentralized "farms" or "mines" that can physically exist anywhere in the world, as long as there is an Internet connection.

In the early days of cryptographic currencies, the power of encryption and the energy to create each coin were not particularly high, but over time these encryption and energy requirements grew, so that in order to continue to mine coins, you need farms of supercomputers, which consume a lot of energy. For this reason, there is an advantage to placing such server farms in places where energy production costs are lower and in colder places, since many complex computing operations require cooling of the farms.

The power of encryption is used by supercomputers in farms to solve complex mathematical problems, where the "reward" given to the person who first solves the problem is the cryptographic currency generated by solving that problem. Thus, the more a mining farm holds computing power and greater encryption, the more it has a chance of first solving the mathematical problems and winning cryptographic coins, and there is a direct correlation between the computing power of each farm and the amount of coins obtained by it.

These farms provide significant computing power, which, depending on the algorithm that is being used, requires larger and larger quantities of electric energy for long periods of time for complex computer calculations as a “proof of success.” As a result of this action, the computing power that these farms require enables us to guarantee and verify the trustworthiness of the Blockchain networks, and thus prevents hostile actors from changing the contents of the ledger.

This also means that there is no single weak point that can lead to the network crashing.

In exchange for the upfront capital investment and the provision of this essential service, the “reactors” receive a continuous salary in the form of transaction fees and cryptographic coins that were just made, in different spaces, using an algorithm of each one of the Blockchain networks.

Although today, as said, there are 1,000 types of cryptographic coins and many hashing algorithms, the majority of “reactors” use the following three hashing algorithms: Proof, Proof of Work – SHA-2
Proof of Work - Ethash- of Work/Service – X11

In order for the algorithms to be effective, an essential component is needed: “Reactors” which provide computing power (also known as “hashing power”) in order to solve different variations of a mathematical problem that, due to very large initial numbers, the decentralized network software can handle.

These mathematical problems are included in the title code for each “block” in Blockchain. When the amount of computerization required to solve the initial placed “clue” is maximized, the block is “located” or “mined” and the first miner that solves the riddle wins an “award” in the form of a block in the frame of the cryptographic coin of the network.

Mining is an integral layer in the concept of the Blockchain technology and that is because of the large amount of computing power it inserted into the network. Tens of thousands of computers around the world are trying simultaneously to solve these “clues” in an attempt to win the “Block” award, which is worth tens of millions of US dollars per day in the case of Bitcoin alone.

This enormous computing power raises the stakes technically for an attacker with a devious motive to solve the clues.⁷

Theoretically, in order to perform what is known by the name “51% attack” a computing power that is equal to that of the whole network is required.⁸

In other words, the “reactors” using a decentralized process, secure the network by means of the energy invested in mining activity, and thus prevent entities with impure motives and that do not have a vested interest in the well-being of the network from disturbing normal procedures.

⁷ These sums may change in accordance with the changes in the Bitcoin rate in comparison to the USD.

⁸ The “51% attack” can be carried out by anyone who holds 50% or more potential mining power in a network of a particular cryptographic currency. Although it is not possible to steal a cryptographic coin by means of the “51% attack” it is possible to perform double spending, mine disproportionately for more coins than anybody else and even to stop deals. With that, those who engage in mining for cryptographic coins have no real incentive to commit a “51% attack” as this kind of attack would severely hurt the trust in this currency, which will reduce its worth, and will thus directly hurt the “miner” who will commit this said attack. Despite that, it is possible to think about entities that have the incentive to perform such an attack, such as government agencies or banks, and that is to destroy the cryptographic currency networks in order to preserve their old monetary systems. It is possible to think similarly about hackers as well, who would perform such an attack. Still, because computing power is required, only those who anyway possess 50% or more of the potential mining power in the network would be able to unleash an attack, hence this option seems improbable.

While the miners are competing with one another in an effort to solve the mathematical problem, another process is taking place that is important for understanding mining operations. A stable collection of transactions is accumulating, each one representing an individually signed transfer from a source wallet to a destination wallet in the network. This process is known by the name of “mempool” The oldest transactions or those that included the highest sums are those that are attached to the next block located by a miner. Each one of the blocks includes a collection of transactions and serves as an approval for these transactions for the other friends in the network. This continuous chain of blocks represents all the deals that ever took place in the network, starting with the first block (“initial block”). This transaction chain is the one called Blockchain, and it is transparent and open to be searched by any person.

Algorithms of the different types of coins have different “award” curves. With Bitcoin, for example, there is a “cutting in half” of block awards that is done from time to time. With that, until two years ago, Bitcoin block awards were worth 3,600 Bitcoins per day. Nowadays, Bitcoin block awards are worth 1,800 Bitcoins per day, and during June of 2020, daily Bitcoin block awards are projected to be cut in half to a sum of 900 Bitcoins per day.⁹

Additionally, there are adjustments in the difficulty level, according to which, depending on the amount of computers connected and on the time required to solve the block, the algorithm that runs a decentralized computer network will increase or decrease the difficulty of the initial “clue.” The result is that a mining factory of a high quality can go back and forth, simply speaking, between mining for one type of cryptographic coin to mining for another type, relying on the following formula:

Profitability = multiplied product of a block award and value of cryptographic coin minus the cost (especially the cost of energy).

If the difficulty is made low enough and the value of the cryptographic coin remains relatively stable, it is probable that a cryptographic coin farm will mine for other coins, and thus create a higher rate of internal return (in dollars). That was the situation until three months ago, when “Bitcoin cash” became more profitable for mining because its value was much higher relative to the level of difficulty.

Another possible source of revenue for a cryptographic coin mining farm is charging transaction fees. As the popularity of these systems grew, network backlogs were created in the memory database of transactions, which are waiting to become approved “blocks.” The meaning of this increase in network activity, in combination with the “cutting in half” that is planned for block awards, was that unless the miners were paid an additional amount for their effort, there would be no financial incentive for mining.

As a result, an option for charging transaction fees was added to Bitcoin. Other cryptographic currencies have similar concepts. Nowadays, when an individual Bitcoin deal is signed and sent to mempool, there is the option of adding an accompanying “commission” to it. It is clear that the higher the commission, the more likely that it is a deal will be chosen from mempool by a block miner.

⁹ <http://www.bitcoinblockhalf.com>.

In fact, there are three ways for generating revenues from mining of cryptographic coins: Block awards, transaction fees and arbitrage opportunities hidden in adjusting difficulty levels for the solutions of the mathematical problems of the different types of cryptographic coins.

The way that everything mentioned comes together and becomes a business is by designing, building, and operating the supercomputers that can operate for very low energy cost. Due to the enormous levels of heat emitted by these supercomputers, it is also necessary to engage in a smart cooling strategy.

The first step is to locate a large physical space (an industrial warehouse for example) that has a powerful energy source installed. Afterwards, this large amount of energy is used for operating the supercomputer that has (depending on its power) hundreds of thousands of central adaptation units (or CPUs) or graphic adaptation units (GPUs).

This supercomputer (from having this much adaptation power) becomes very skilled in calculating and giving a quick answer to the “initial” clue placed by the cryptographic coin algorithm in every new block title. With every new block title, the supercomputers run millions of calculations per minute on specially designed silicon chip (in Bitcoin, these chips are known as “application specific integrated circuit” or ASICS) with the hope of finding the answer to the mathematical question.

A few years ago, different operators in the field of cryptographic coin mining realized that it was more logical for them, from a statistical standpoint, to join forces and create “mining databases.” That is, the enormous mining power that spreads in the network leaves any single computer a small chance of finding the right answer to the mathematical question by itself. Because of that, in order to increase their chance of finding the solution to the mathematical problem, the “miners” collaborate and join the “database” or “mining pool” where they share their computing power and divide among one another, according to their relative share, the cryptographic coins mined by the mining pool.

Due to these considerations of a statistical advantage, the majority of cryptographic coin mining factories join the databases. The five biggest databases are: ViaBTC, BTC.com, AntPool (Bitmain), AntPool BTC.TOP, and SlushPool. Bitmain is known as the biggest database of them all, owning approximately 19% of all of Bitcoin’s hashing (computing) power.¹⁰

6.2 **Restrictions, legislation, standards, and special constraints that apply to the field of operations**

The field of cryptographic coins is an innovative and developing field in the country and in the world, which has yet to be handled regulation-wise in a full and comprehensive manner. For additional details, see Section 21 below.

¹⁰ The following data were received from the website: www.blockchain.info.

6.3. Changes in the Field's Scope of Operations and Profitability

As said above, the field of cryptographic coins is an innovative and developing field. As such, there may be significant changes in the scope of operations in the field and the field's profitability, all as detailed in the chapter on risk factors as follows, and in particular Sections 23.1.6, 23.1.3, 23.1.2, and 23.2.2 below.

6.4. Technological Changes that Can Significantly Impact the Field of Operation.

A new power of calculation, which will substantially increase (such as quantum computers) the calculating capacity of the computers and for a price that can make this computability possible, may impact significantly the field of operation.

6.5. Critical Factors of Success in the Field of Operation and the Changes that They Experience

Given the fact that the field of cryptographic coins is, as mentioned, an innovative and developing field, it is difficult to pinpoint critical success factors. With that, it can certainly be assumed that the continued global adoption of the Blockchain technology, and in particular its adoption by the banking system, as well as regulatory stability and transparency, may lead to a significant increase in the operations within the field. With that, some of the said success factors can also constitute risk factors in Backbone's operations, see Section 23.1.2 below.

6.6. Primary entrance and exit roadblocks in the field of operations and changes that apply to them

The primary entrance roadblocks, which influence competitors' ability to enter Backbone's field of operations, are knowledge, intellectual property, ability to purchase the required components and in large amounts (ASIC), and access energy supply infrastructure in large amounts and low prices.

6.7. Structure of the Competition in the Field of Operations and the Changes It Undergoes

For details on the structure of market competition and the names of Backbone's primary competitors, see Section 11 below.

7. Products and services

From the beginning of Backbone's operations, the following cryptographic coins were mined by it: Bitcoin, Dash, Litecoin, Bitcoin Cash, and Ethereum. Backbone considers from time to time the mining of additional cryptographic coins, and it will do it depending on the estimated profitability that is hidden in it.

8. Segmentation of Revenues and Profitability

As mentioned above, the primary value from Backbone's process of mining cryptographic mines is received from the coin themselves, where, as a rule, the operational profit of a mining farm is derived from the difference between the value of the cryptographic coins that farm received as a result of solving said mathematical problems and the cost (a big part of which is energy cost) that was required to produce the computing power that led to the solving of those mathematical problems.

For additional details, see Section 4 above.

9. **New products**

Blockchain technology may have other uses, much beyond the mining of cryptographic coins. Given the fact that Backbone has significant technological capacities in the Blockchain field, in the future it may be able to, depending on the estimated profitability hidden in it, provide other services that are not necessarily tied to existing cryptographic coins.

It is stated that the information regarding new products is forward-looking, as defined in the Securities Law, and there is no guarantee that indeed, it will be possible to use the technology in the hands of Backbone to provide other services.

The matter depends on technological advances and also on future market needs.

10. **Customers**

Backbone does not have customers, in the standard sense of the word. Until the beginning of December 2017, Backbone did not sell cryptographic coins, except to finance its expenses. In any case, the sale of cryptographic coins is performed through stock markets established for the exchange of these coins, such as GDAX, ItBit, and Xapo, and also via Goldmoney®¹¹

11. **Competition**

The field in which Backbone operates is characterized by much competition.

Due to the fact that the markets to which Backbone's operations are directed are being created and in light of the fact that in the field where Backbone operates new companies, which also intend to operate in this field, appear from time to time, and due to the scarcity of public information in relation to the sales of the different companies that operate in the same field as Backbone, it cannot estimate its share of the market.

With that, as mentioned in Section 1.8 above, based on market research conducted by the Company, including a presentation prepared for it by one of the largest investment banks in Toronto, Canada, and also based on information published by one of the competitors of Backbone, which is a public company listed on the Toronto Stock Exchange, the aforementioned server farms owned by Backbone are in total the largest cryptographic currency farms in North America and some of the largest in the world in terms of energy and encryption power.

¹¹ A company that Roy Sabag, Controlling Shareholder in the Company, is one of its founders and is serving as its CEO, and which operates in, among other things, the gold trade, in other metals and in cryptographic coins. The act of converting the coin in the Company Goldmoney is done as part of its normal operations and the commission rates that Backbone pays Goldmoney are similar to the commission rates that other companies of the same magnitude pay and also to the commission rates Backbone pays other entities.

The closest competitor to Backbone in North America is Hive Blockchain Technologies, a public company that is traded in the Toronto Stock Exchange, which conducted recently two fundraising tours, for an average company value of CAD 700,000,000.

Other companies that are competing in the same area as Backbone are Bitfury, Hut8, Genesis Mining, which is projected to be registered for trade in the Canadian stock exchange in Toronto, Riot Blockchain Inc, which is traded on the NASDAQ and MGT Capital. Investments Inc., which is traded on the NASDAQ, over-the-counter.

12. **Production Capacity**

As stated, the more a computing farm holds computing power and greater encryption, the more it has a chance of first solving the mathematical problems and winning cryptographic coins, and there is a direct correlation between the computing power of each farm and the amount of coins obtained by it.

With that, due to the fact that mining of cryptographic coins is dependent on Backbone solving the mathematical problems first, and in light of the activities of many other companies in this field, there is no way of predicting the production capacity of cryptographic coins by Backbone.

13. **Permanent Property and Facilities**

13.1 Backbone has permanent property, which serves it for its activities, and also a software mining cryptographic coins, Mining Farm Management System (or “MFMS”, hereinafter “**The software**”).

13.2 The primary equipment used by Backbone was purchased in accordance with an agreement that took effect on November 6, 2017, which was signed into practice in January 2018, between Backbone and 200 sellers, the remaining shareholders, as they are defined in Section 2.3.3 above.

According to the agreement, the other shareholders sold Backbone equipment that includes mainly hardware materials (computers) that are used for mining cryptographic coins, also Antiminer PSU APW3, Antiminer S9 (hereinafter “**ASIC**”). In each one of Backbone’s server farms, network components, security components, electronic components, cooling components and other equipment, at a cost determined in an agreement to be worth a total of \$ 15,062,500, (hereinafter “**The value**”). In the agreement it was determined that the value would be paid by way of allocating 21,929,603 Backbone shares. The transfer of equipment in practice to Backbone was done December 15, 2017 and was in effect from November 6, 2017 as mentioned.

13.3 The software was purchased in accordance with an agreement that in effect from November 6, 2017, which was signed into practice in January 2018, between Backbone and the primary shareholders, hereinafter in this Section 13.1 as “**the sellers.**” According to the agreement, the sellers exclusively transferred to Backbone, in the whole world and in all languages (including computer languages), all the rights associated with the development of the software (including updates and improvements to the software). The software was purchased in exchange for \$5,000,000, which will be paid to sellers by way of allocating a total of 40,459,901 Backbone shares. Within the agreement, the sellers committed not to compete, for a period of five (5) years after the agreement takes effect, with Blockchain mining activities in Canada.

The software permits control, management, reporting and security of cryptographic coin mining systems.

The software is in fact a package comprised of three active software: A software that provides a situation assessment in real time and report about malfunctions almost immediately, a managing software from an internet market that presents different events and gives notifications by means of text messages or other notification modes, and a software that enables management and inspection of cooling modes in the farms (effective cooling is a necessary condition for operating mining farms). The software is capable of handling an unlimited number of ASIC components and websites.

13.4 As stated, Backbone operates today 4 server farms, which are all located in the Canadian province of Quebec, and is working to establish two more server farms, in areas owned or leased by it, as follows:

Location of server farms	Rent/ownership	Area in square feet	Monthly rent in Canadian dollars (CAD) ¹²	Beginning of rent period	End of rent period
¹³ Farnham	Rent	57,158	25,721	July 27, 2017	September 30, 2022
¹⁴ St. Hyacinthe	Rent	43,691	25,486	October 1, 2017	September 30, 2022
¹⁵ Cowansville	Rent	50,000	18,750	November 1, 2017	December 31, 2022
Notre Dame Standbridge	Rent	6,720	1,870	February 1, 2016	February 1, 2019
Magog	Rent ¹⁶	22,200	11,563	December 1, 2017	November 30, 2022
Saint-Jean-Sur-Richelieu	Rent	26,200	14,847	November 1, 2017	November 1, 2022
Total:		205,969	98,237		

13.5 Insuring Backbone’s assets and acquiring it

13.5.1 Backbone’s hardware materials, which are located in every one of the server farms, are insured with property insurance in the accumulating sum of (there is a separate policy for each farm) CAD 37,500,000. According to the Company’s estimate, Backbone is not underinsured. The self-participation is not in a significant sum, compared to the coverage sums described above.

13.5.2 In addition to the insurance policies described above, Backbone has civil warranty insurance,

¹² Rent mentioned above is the current rent. In some of the assets, there is increase in rent during the period of rental.

¹³ The renter of this asset is Onyx.

¹⁴ The renter of this asset is Onyx.

¹⁵ The leasing agreement is from a company in which the esteemed gentlemen Pierre-Luc Quimper and Matthieu Vachon are the primary shareholders.

¹⁶ Backbone has the option of acquiring the asset in exchange for CAD 1,200,000.

As required by Canadian law, in a sum of CAD 5,000,000 for each of the server farms Magog, Saint-Jean-Sur-Richelieu, Hyacinthe and St. Farnham, and CAD 2,000,000 for each of the server farms Notre Dame Standbridge and Cowansville. The insurance is subject to self-participation in a sum of CAD 50,000 per farm.

- 13.5.3 The annual cost of insurance premiums paid by Backbone stands at NIS 117,000.

14. **Research and Development**

Excluding the purchase of the software, as stated in Section 13.3 above, from the day it started its operations until the publication of this transaction report, Backbone did not have investments in research and development.

15. **Non-tangible Assets**

- 15.1 As part of the software purchase, detailed in Section 13.1 below, Backbone also received the intellectual property rights that were held by the sellers. The source code for the software programs that collectively constitute the MFMS software is owned by Backbone and held by it in a private account. With that, Backbone did not register patents for the software and did not copyright the software or its components.

16. **Human Capital**

- 16.1 Around the time of the transaction report, Backbone employs 17 workers, 12 of whom are technicians and 5 are inspectors.

- 16.2 Additionally, Backbone is tied to agreements with different advisors from whom it receives judicial services, management and accounting services, architecture, and real estate brokerage.

16.3 **Significant Dependence on a Particular Employee**

As of the publication of the transaction report, Backbone is not significantly dependent on an employee or any service provider within its existing operations. With that, Backbone may have a dependence with respect to the development and establishment of additional server farms, on one of its primary shareholders, Mr. Pierre-Luc Quimper, who specializes in server infrastructure.

16.4 **Deal agreements**

Up to this point, Backbone has not communicated with its employees in writing about the deal agreements. Backbone intends to communicate with its employees about the deal agreements in writing following the completion of the deal that is detailed in the transaction report.

Under labor laws in Canada, an employer must pay dismissal compensation at the end of employment, under certain terms. With that, it is not the norm in Canada to deposit dismissal compensation in reserve funds or accounts, and accordingly Backbone does not deposit stated sums.

16.5 **Employees in Upper Management**

The primary shareholders have not received up to this point any salary from Backbone, as detailed in the transaction report. From the time the deal is completed, each one of the primary shareholders, will be eligible to receive a yearly salary of USD 200,000 from Backbone, where the division of labor between them will be as follows:

Nicolas Bonta - Chairman of the Company's board of directors and of Backbone.

Emiliano Joel Grodzki - Director and CEO of the Company and of Backbone.

Pierre-Luc Quimper- Director and will be in charge of the operations (Chief Operations Officer) in the Company and in Backbone.

Matthieu Vachon - Director in charge of software engineering. In the Company and in Backbone.

In this context, it should be noted that from the time the deal is completed, the current Controlling Shareholder in the Company, Mr. Roy Sabag, will serve, parallel to his tenure as a Director in the Company, as the Chief Investment Officer in the Company, without receiving compensation for it.

The primary shareholders aside, two other employees serve in leadership roles in Backbone. One serves as VP of Operations and the second one as VP of Infrastructure. The cost of each one's yearly salary stands at CAD 100,000.

17. **Components and suppliers**

17.1 **Main components**

Backbone does not consume natural resources, although the computer components that it purchases can be seen as natural resources that serve its purposes.

17.2 **Main supplier**

The main components used by Backbone are ASIC components, made by the Company Bitmain Technologies Inc, which is one of the leading suppliers in the field of Blockchain industry components.

Components are usually purchased with cash payments, state currency or cryptographic currency. With that, Backbone is not necessarily purchasing the components directly from Bitmain and some of the components were purchased from secondary suppliers. In the month of December 2017, Backbone acquired (from secondary suppliers) thousands of ASIC components of the Antiminer S9 type. In exchange for some of the components, Backbone received credit from suppliers, for which the balance on December 31, 2017, was approximately USD 4,000.

18. **Financing**

18.1 Backbone's current day-to-day activities are financed, primarily by means of the cash flow that it creates from time to time through the sale of cryptographic coins it has mined.

18.2 Backbone is considering the possibility of raising, through a Canadian investment bank, USD 50,000,000 for the purpose of building additional server farms, beyond those that were specified in the Sections 1.6 and 1.7 above. With that, it should be clarified that said fundraising is not required to finance the current flow of operations by Backbone.

19. **Taxation**

19.1 **The tax laws that apply to Backbone**

Backbone's activities are subject to a company tax by the federal Canadian tax authority and the tax authority in Quebec Province.

19.2 **Tax Rates that Apply to Backbone's Revenues**

As long as Backbone's permanent activity takes place only in Quebec (and not in any other province in Canada), the tax rate that will apply to its income will be the regular company tax rate (combination of the federal tax rate and Quebec's tax rate) and will stand at 26.7%. These tax rates will continue to apply to Backbone even after it is acquired by the Company.

20. **Environmental Issues**

As stated, the server farms used by Backbone use renewable and clean energy.

According to Backbone's estimates, it is not expected to experience significant costs and investments in order to uphold guidelines regarding the environment, excluding maintaining the procedures it currently implements.

21. **Restrictions and inspection of Backbone's activities**

21.1 As stated, the field of cryptographic coins is an innovative and developing field, which has yet to be regulated in a full and comprehensive manner, in Israel and around the world. The company is not aware of any restrictions related to the law or legal arrangements in Canada regarding Backbone and / or its activities. As such, for example, as known by the Company, there are three companies that are registered or are in the process of registered in the Canadian stock exchange in Toronto, which work in the field of cryptographic coin mining.

In this context, it should be noted that to the best of the Company's knowledge, in Israel there are attempts to place regulatory restrictions on companies that operate in the field of cryptographic coins. As such, for example, the current policy of some banks in Israel is not to accept money that is rooted in cryptographic coins and/or financing this field; and that's what, for example, the current head of the Securities Authority, Professor Shmuel Hauser, recently stated that the idea of not allowing companies that work in the field of cryptographic coin to be included in one of the indices in Tel Aviv securities exchange or be traded there is being considered, until a regulatory framework for these financial products is found.

In this context, the Company announced that it has no objections to it at this stage, its shares will not be included in the different indices in the stock market, though, the Company is not aware of any legal order and/or minor legislation, including no order from the stock market's articles of association or instructions on its behalf, that can prevent the Company from acquiring Backbone's shares in the form of an allocation of

company shares and/or prevent the Company from continuing to be traded in the stock market.

It should be noted that the Israel Bank did not publish a policy or instructions on this matter, except for a public announcement from February 2014 that expresses its estimations and the estimations of the other regulators that it is a high-risk activity in relation to financial institutions and clients who acquire these assets.

21.2 Money Laundering - with respect to money laundering, mining cryptographic coins carries a low risk, as it concerns the production of new coins. In any case, Backbone is subject to the money laundering regime, in accordance with the instructions by FINTRAC (the Canadian regulator in the area of money laundering). Additionally, cryptographic coin exchange transactions by Backbone will be subject to the instructions by FinCEN, the financial intelligence unit in the American department of Treasury.

Backbone intends to minimize the risk of money laundering by preserving a business model of producing pure cryptographic coins by mining them, exchanging them into established merchandise, such as: state currency (FIAT), gold and its derivatives, without mediators, and also, it intends to avoid, from the time the deal that is the topic of this report is completed, making payments to contractors, service providers and all everything related with cryptographic coins.

22. **Goals and a Business Strategy and a Development Forecast**

As of the date of the outline, Backbone's goals are as follows:

22.1 **Short-term Goals** (up to a year)

Begin operating the two other server farms in Magog and in Saint-Jean-Sur-Richelieu. By Backbone's estimate, the capital expenses required for the next eight (8) months for the purpose of fully operating the said server farms stand at approximately USD 35,000,000, which Backbone intends to finance using its free cash flow.

22.2 Long-term Goals

22.2.1 Backbone is examining the possibility of building another server farm, with an estimated use of up to 200 Megawatts, in the northern part of Quebec Province, and in coordination with Hydro-Quebec, which is the province's electric company.

22.2.2 Backbone is examining the possibility of independently establishing a mining database (mining pool, see Section 6.1 above), and it began developing the software needed for this.

Backbone's estimates regarding its future goals include forward-looking information, as defined in the Securities Law.

Regulation changes, technological and other difficulties, and also financing restrictions, can change Backbone's estimates that are presented above.

23. Discussion of Risk Factors

Backbone is exposed to threats, weaknesses and the following risk factors:

23.1 Affiliated Risk Factors

23.1.1 **Risks and Cyber Attacks** - The computer code may be exposed to hacking attacks, which would disrupt the activities of the computer, create flaws in the mining system, and in worse cases lead to the emptying of the cryptographic coins inventory owned by Backbone. Backbone is acting to reduce this risk using a combination of: Daily sales of cryptographic coins, using cold storage places (for which addresses are saved in secure environments), purchasing insurance against these types of events, and exchanging part of Backbone's profit balance for gold, silver, US dollar, Canadian dollar, and/or other assets for investment. Additionally, Backbone is employing a hardware team, which focuses, among other things, on tracking security threats.

23.1.2 **Regulatory Activities and Changes in Regulation** - Since the cryptographic currency field is innovative and developing in Israel and around the world, which has yet to be fully and comprehensively regulated, regulatory changes or actions in this field, whether domestic or international, may place different restrictions on Backbone's activities, including in relation to purchasing, holding, selling, using and/or trading in cryptographic coins.

23.1.3 **Innovation in the Field of Cryptographic Coins** - The field of cryptographic coins and their trade is relatively new, the majority of which is not inspected and may thus be exposed to failure and, also to fraudulent activities, which may even lead to price reduction of cryptographic coins.

23.1.4 **Banking Services** - Banks may refuse to provide banking services or reduce banking services for businesses that provide cryptographic coins or receive these coins as a form of payment, and they also might refuse to accept money rooted in cryptographic coins, which would make it difficult to manage bank accounts for companies that work in this field. Stated actions may even reduce the usefulness of cryptographic coins as forms of payment and damage the public perception of them and lead to the reduction in their prices. As of the time of the transaction report, Backbone manages a bank account, without any restrictions, in one of the biggest financial institutions in Canada, where it deposits its revenues from selling cryptographic coins and through which it pays for its expenses. Additionally, Backbone has other accounts in other institutions, which provides it with additional indirect banking connections.

23.1.5 **Commercial Use of Cryptographic Coins** - The use of cryptographic coins for the purpose of buying and selling products and services is part of a new and developing industry, which uses digital assets in the form of a computer and encryption protocols. The growth of this field in general, and the use of cryptographic coins in particular, includes a high level of uncertainty, and it is influenced by, among other things, the continued growth in adopting and using cryptographic coins, government supervision of cryptographic coins and their use, the imposing of regulatory restrictions regarding the operation of cryptographic coin mining systems, consumer demographic changes regarding public tastes and preferences, availability and popularity of other forms of buying and selling services, and more.

Additionally, as of now, the use of cryptographic coins as payment methods for merchandise and services is relatively small, and in fact, the biggest trade in these coins is done by speculators and investors, who seek to make a long- or short-profit from holding cryptographic coins. The lack of expansion in the use of cryptographic coins in the wholesale and commercial market and the relative gap between the ability to use cryptographic coins for payment purposes and the amount of cryptographic coins in the market, may cause increased fluctuation in their price and a decrease in their market prices.

23.1.6 **Changes in the “Level of Difficulty” of the Mining Algorithm** - The need to handle changes in the level of difficulty in cracking the mining algorithm is one of the challenges that all cryptographic coin “miners” have to face. Backbone is certain that it has a good technology in its hands, which can handle changes as stated, and it does not expect that there will be a significant computing breakthrough that will create a revolution in the abilities of cryptographic coin mining. With that, Backbone intends to manage this risk by increasing its computing power. Additionally, Backbone developed a software that allows it to check, in real time, which type of cryptographic coin is the most profitable to mine in US dollars (as stated, there are more than 1,000 types of cryptographic coins, and each type of coin has a different mining algorithm).

This software allows Backbone to change, during the day, its mining attempts from one type of cryptographic coin to another type, in accordance with the difficulties posed by the mining algorithm for each type of coin, and as such transition to mining the type of coin that has the most profitability chance.

23.2 **Special Risk Factors for Backbone**

23.2.1 **Need for Additional Financing-** The establishment of additional server farms and additional purchases of computer components will require additional capital, as well as the normal daily activities of the server farms requires consistent monthly payments, and there is no guarantee that Backbone will be able to secure the financing required for these goals, including working capital overall.

23.2.2 **Exposure to Fluctuation in the Value of Cryptographic Coins-** The fluctuation in the value of cryptographic coins may have a significant impact on the operational cost of mining them, as said operational cost is not calculated and not paid primarily with these coins but rather with state coins (FIAT). Additionally, the fluctuation may have an influence, as stated, on the value of Backbone's coin inventory. Backbone will act to reduce this risk by a combination of: Daily sales of cryptographic coins and the exchange of a portion of Backbone's excess profit balance to gold, silver, US dollars, Canadian dollars (CAD) and/or other assets for investing, where to the extent possible, the amount of cryptographic coins that will guarantee the coverage of running operational costs (OPEX) and the capital costs (CAPEX) will be exchanged to US dollars, the purpose of which is to limit the risk of fluctuations for everything related to Backbone's expenses. Additionally, Backbone intends to act to reduce the risk by purchasing future contracts on Bitcoin.¹⁸

23.2.3 **Exposure to Competition-**Backbone is competing with other entities that are mining cryptographic coins, and thus are biting and/or may bite into Backbone's ability to win cryptographic coins from solving mathematical problems. For details on competitors, see Section 11 above. Other companies, which are not active on the market today, may enter it and increase the competition that Backbone is facing today. Backbone does not have the ability to influence the addition of new competitors to the market or the continued development of existing competitors, and thus, it intends to continue investing in greater computing and encryption power to increase its chances of solving the mathematical problems first and winning the cryptographic coins.

¹⁸ A future contract is a financial tool, that is traded on the stock market, and constitutes a commitment to provide or to acquire a certain asset at a future time, where the price of the asset is pre-determined and the payment is done before the asset is given.

23.2.4 **Making Erroneous Transactions and Exposure to Fraud-** Cryptographic transactions are irreversible. Therefore, a wrong coin transfer or theft of coins will be, usually, irreversible and impossible to compensate. Although Backbone performs cryptographic coin transfers using experienced team members, computer errors or human errors, and also criminal activity may lead to digital coins being transferred to unauthorized sources.

23.2.5 **Lack of insurance coverage-** innovation in the field of cryptographic coin mining may damage the ability to purchase appropriate insurance coverage for the risks that are inherent to Backbone's activity. The occurrence of an event that is not covered, partially or fully, by insurance may cause Backbone significant economic damages.

23.2.6 **Collapse of Servers-** In everything related to computer systems, and hardware systems in particular, there is a risk of a serious malfunction in the servers or the central adaptation units and/or a risk that they will collapse.

Backbone is acting to reduce this risk by employing a team of experts, who have many years of experience in construction and management of data centers. Additionally, Backbone employs a "hardware team" which focuses on, among other things, fixing chips and conducting daily assessments regarding the technical state of the server farms operated by Backbone.

23.3 **Macro-level risks**

Influence of Geopolitical Events- the influence of geopolitical events on the supply and demand of cryptographic coins is unclear. On one hand, crises may motivate large-scale purchases of cryptographic coins, which may lead to an increase in their prices. On the other hand, large-scale sales of cryptographic coins may cause their market prices to go down. Influences too large in size may wear down cryptographic coin investors and hurt their trust in the stability of these coins.

In this table, the risk factors described above are presented, according to their quality-affiliated risks, specific risks to Backbone, and macro-level risks. The risks were ranked as follows, based on Backbone’s estimate of their influence on Backbone’s overall business:

	The level of influence of the risk factor on Backbone’s overall activities		
	Big influence	Moderate influence	Small influence
<u>Affiliated risks</u>			
Security risks and cyber attacks		X	
Regulatory activities and regulation changes		X	
Innovation in the field of cryptographic coins		X	
Banking services	X		
Commercial use of cryptographic coins			X
Changes to the “level of influence” of the mining algorithm		X	
<u>Special risks for Backbone</u>			
Need for additional financing			X
Exposure to the fluctuation in the value of cryptographic coins			X
Exposure to competition		X	
Performing incorrect transactions and exposure to fraud		X	
Lack of insurance coverage			X
Server collapse			X
<u>Macro risks</u>			
Influence of geopolitical events		X	

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Appendix “A”

Details on public wallets in every farm

And a daily mining table, for the period from November 6, 2017 until December 31, 2017

A. For location Cowansville:

Bitcoin holding: 36L13nBCZB3PQEBA4yU2WRLpcnncB4hDx Visible at:

<https://blockchain.info/address/36L13nBCZB3PQEBA4yU2WRLpcnncB4hDx>

Bitcoin Cash holding: 16Ej8BsS2uFfhxiAUbaeRvachojcvYEiv3 Visible at:

<https://blockchair.com/bitcoin-cash/address/16Ej8BsS2uFfhxiAUbaeRvachojcvYEiv3>

B. For location Farnham:

Bitcoin holding: 374omh7YwQJWAntQNfdY1CrhveTx2CXDXG Visible at:

<https://blockchain.info/address/374omh7YwQJWAntQNfdY1CrhveTx2CXDXG>

Bitcoin Cash holding: 1DEpYqDjCNTAvqsbsm77aHRjVVEQaVCBMj Visible at:

<https://blockchair.com/bitcoin-cash/address/1DEpYqDjCNTAvqsbsm77aHRjVVEQaVCBMj>

Litecoin holding: Li2dHBfaiTFYbhtkRMrpBCo5TrD2YWs1b Visible at:

<https://live.blockcypher.com/ltc/address/Li2dHBfaiTFYbhtkRMrpBCo5TrD2YWs1b/>

Dash Coin holding: XrZmFii4yPdGgjxu9r51UET6HANURv7jbu Visible at:

<https://explorer.dash.org/address/XrZmFii4yPdGgjxu9r51UET6HANURv7jbu>

C. For location Notre Dame:

Ethereum holding: 0x8613a3342fE57860A3403Bf8B1f0C63c2566A34d Visible at:

<https://etherscan.io/address/0x8613a3342fE57860A3403Bf8B1f0C63c2566A34d>

D. For location St. Hyacinthe:

St-Hyacinthe Bitcoin:

ypub6XFCrJsFR7aKCn9iPjk1D6ZibD1e2n5tCo3Xv8rT6mtYfJ2p5MvpfeZgsFB59Fp2dTJ7uRff45Ccr
L CAFZ2neoRJHSwL64Yt9pyvKwQeHBq

St-Hyacinthe Bitcoin Cash:

xpub6C6X9vmNs8TSmTCnfX8kVRme8Zai2kqsSS9uz2wd6DPgyUweGWpKXcaNfjvediK3rZjVgL85
n WoLxmVMzUmN3ukMdDop8mj3JqkecTkFSYB

And a daily mining table, for the period from November 6, 2017 until December 31, 2017

Daily Revenue in Native Coins

Daily Revenue in US Dollars

Day	Date	BTC Wallet 1	BTC Wallet 2	Total BTC Revenue	BCC Wallet 1	BCC Wallet 2	Total BCC Revenue	DASH	LTC	ETH	Bitcoin Price	Bitcoin Cash Price	Dash Price	Litecoin Price	Ethereum Price	Total USD Revenue by Day
1	06/11/2017		0.88	0.88			0	9.262	85.046	4.061	\$ 7,355.00	\$ 588.00	275.00	54.62	296.88	14,870.29
2	07/11/2017	21.841	0.87	22.711	0.0021		0.0021	9.25		8.388	\$ 6,959.00	\$ 604.50	289.00	60.61	291.46	163,165.13
3	8	11.162	0.979	12.141			0	8.62	252.7	8.48	\$ 7,102.00	\$ 618.00	315.00	62.46	307.45	107,331.50
4	9	11.68	0.89	12.57			0	7.748	114.65	7.92	\$ 7,447.00	\$ 650.00	319.00	64.40	319.50	105,994.30
5	10	1.04	0.93	1.97	103.9	2.467	106.367	7.31	113.921	8.012	\$ 7,123.00	\$ 993.00	326.00	59.32	296.12	131,168.11
6	11			0	103.23	8.328	111.558	7.18	114.58	7.7	\$ 6,541.00	\$ 1,330.00	344.00	62.50	313.26	160,415.41
7	12	2.877	0.22	3.097	75.01	7.77	82.78	6.36	115.059	7.97	\$ 6,282.00	\$ 1,350.00	491.00	58.81	303.68	143,518.06
8	13	12.69	0.98	13.67	13.09	1.46	14.55	6.132	104.474	7.9	\$ 5,806.00	\$ 1,350.00	420.00	61.15	313.30	110,449.62
9	14	13.26	1.05	14.31	2.834	1.25	4.084	5.65	100.34	7.87	\$ 6,476.00	\$ 1,252.00	420.00	62.28	333.67	109,032.89
10	15	13.89	1.098	14.988			0	5.44	101.1	8.37	\$ 6,589.00	\$ 1,186.00	421.00	63.30	330.90	110,215.44
11	16	13.529	1.071	14.6			0	5.37	101	8.78	\$ 7,273.00	\$ 904.40	418.00	70.55	330.78	118,460.26
12	17	11.86	0.94	12.8			0	4.94	107.55	8.78	\$ 7,865.00	\$ 1,175.00	423.00	67.50	331.42	112,931.11
13	18	12.059	0.912	12.971			0	4.57	108.9	8.39	\$ 7,674.00	\$ 1,247.00	455.00	69.35	346.90	112,081.51
14	19	11.636	0.84	12.476			0	4.79	109.96	8.12	\$ 7,770.00	\$ 1,176.00	443.00	71.70	354.62	109,824.14
15	20	12.469	0.943	13.412			0	4.61	101.764	7.155	\$ 8,052.00	\$ 1,248.00	477.00	72.63	367.94	120,216.12
16	21	11.41	0.98	12.39			0	3.68	80.27	6.665	\$ 8,245.00	\$ 1,171.00	492.00	70.00	359.80	111,983.08
17	22	12.45	0.945	13.395			0	4.65	99.12	7.02	\$ 8,097.00	\$ 1,298.00	577.00	72.26	380.40	120,975.18
18	23	12.121	0.936	13.057			0	4.11	97.03	7.81	\$ 8,230.00	\$ 1,658.00	559.00	73.36	405.20	120,039.33
19	24	12.334	0.916	13.25			0	4.39	98.2	7.86	\$ 7,977.00	\$ 1,619.00	560.00	77.54	469.40	119,457.56
20	25	12.214	0.917	13.131			0	4.36	96.99	7.67	\$ 8,191.00	\$ 1,548.00	632.00	89.22	464.20	122,525.40
21	26	11.68	0.877	12.557			0	3.922	96.16	6.82	\$ 8,791.00	\$ 1,720.00	618.00	86.61	469.00	124,339.38
22	27	12.064	0.908	12.972			0	3.979	92.67	6.1	\$ 9,303.00	\$ 1,585.00	623.00	91.36	473.00	134,509.06
23	28	12.579	0.935	13.514			0	4.02	94.16	6.26	\$ 9,727.00	\$ 1,481.00	610.00	94.49	465.50	145,714.09
24	29	12.91	0.935	13.845			0	3.92	96.16	6.82	\$ 9,891.00	\$ 1,333.00	661.00	86.70	422.20	150,748.49
25	30	14.38	0.85	15.23			0	2.71	73.02	7.2	\$ 9,771.00	\$ 1,315.00	759.00	85.82	432.50	160,249.80
26	1	14.14	0.86	15			0	2.295	78.97	7.27	\$ 9,907.00	\$ 1,431.00	771.00	100.17	460.52	161,632.85
27	2	13.838	0.841	14.679			0	2.159	78.963	7	\$ 10,852.00	\$ 1,389.00	767.00	99.65	455.52	171,849.88
28	3	13.96	0.858	14.818			0	1.779	80.064	7.13	\$ 10,880.00	\$ 1,502.00	757.00	101.21	460.35	173,952.12
29	4	14.91	0.917	15.827			0	1.85	84.96	6.92	\$ 11,162.00	\$ 1,539.00	763.00	104.29	465.00	190,150.80
30	5	14.383	0.898	15.281			0	2.0355	85.811	7.085	\$ 11,611.00	\$ 1,414.00	735.00	101.01	451.80	190,792.33
31	6	13.691	0.85	14.541			0	2.09	79.5	6.96	\$ 13,537.00	\$ -	668.00	97.95	414.00	208,906.10
32	7	12.795	0.743	13.538			0	2.066	65.87	8.74	\$ 16,601.00	\$ -	657.00	100.00	415.00	236,315.80
33	8	13.968	0.846	14.814			0	2.12	68.42	7.69	\$ 15,200.00	\$ 1,455.00	755.00	152.00	466.00	240,756.78
34	9	13.83	0.484	14.314			0	1.88	50.49	7.63	\$ 15,512.00	\$ 1,305.00	685.00	151.00	446.00	234,353.54
35	10	13.1	0	13.1			0	1.914	50.01	7.582	\$ 16,391.00	\$ 1,362.80	710.00	154.34	449.55	227,208.07
36	11	13.98	0	13.98			0	1.86	46.75	7.222	\$ 17,300.00	\$ 1,566.00	884.00	300.00	580.00	261,712.00
37	12	15.14	0	15.14			0	1.889	40.45	6.92	\$ 17,138.00	\$ 1,633.00	921.62	320.63	711.00	279,099.86
38	13	14.042	0	14.042			0	1.826	40.033	6.179	\$ 16,482.00	\$ 1,926.00	907.12	308.69	702.94	249,797.90
39	14	14.84	0	14.84			0	1.81	39.27	6.5	\$ 17,711.00	\$ 1,729.00	900.30	309.00	692.72	281,097.89
40	15	13.87	0	13.87			0	1.692	37.3	6.51	\$ 17,522.00	\$ 1,798.5	893.0	303.8	677.7	260,283.96
41	16	14.06	0	14.06			0	1.599	35.16	6.17	\$ 19,187.00	\$ 1,774.1	993.0	306.9	684.4	286,368.66
42	17	14.701	0	14.701			0	1.736	38.19	6.05	\$ 18,971.00	\$ 1,828.4	1,083.5	324.7	708.6	297,462.27

43	18	14.26	14.26			0	1.53	34.85	5.98	\$	18,931.0	\$	2,219.0	\$	1,148.0	\$	359.4	\$	796.0	\$	288,997.3
44	19	13.611	13.611			0	1.56	32.57	5.99	\$	17,340.0	\$	3,727.0	\$	1,414.0	\$	350.0	\$	800.0	\$	254,412.0
45	20	14.99	14.99			0	1.655	35.06	6.287	\$	16,433.0	\$	3,694.0	\$	1,428.0	\$	305.1	\$	795.9	\$	264,394.7
46	21	1.376	1.376	60.023		60.023	1.571	34.515	6.374	\$	12,171.0	\$	2,165.0	\$	1,002.5	\$	243.0	\$	595.0	\$	160,451.7
47	22		0	83.008		83.008	1.569	34.635	6.207	\$	14,036.0	\$	2,895.0	\$	1,129.0	\$	294.3	\$	672.0	\$	256,443.7
48	23		0	104.8		104.8	1.56	34.63	5.944	\$	13,476.0	\$	2,755.0	\$	1,095.0	\$	278.0	\$	658.0	\$	303,970.5
49	24	0.003	0.003	77.59		77.59	1.5	33.16	5.794	\$	13,801.0	\$	2,745.0	\$	1,197.0	\$	276.0	\$	719.0	\$	228,139.5
50	25	0.0011	0.0011	79.416		79.416	1.653	34.784	5.2883	\$	15,638.0	\$	2,796.3	\$	1,171.1	\$	279.4	\$	730.2	\$	237,604.3
51	26	0.001	0.001	89.72		89.72	1.57	33.07	5.434	\$	15,468.0	\$	2,776.0	\$	1,167.0	\$	275.1	\$	735.7	\$	264,006.4
52	27			93.41		93.41	1.55	32.77	5.284	\$	13,952.0	\$	2,420.0	\$	1,031.8	\$	247.3	\$	691.9	\$	239,411.3
53	28	0.001	0.001	105.46		105.46	1.4	32.81	5.264	\$	14,459.0	\$	2,593.5	\$	1,088.0	\$	245.0	\$	737.2	\$	286,967.2
54	29	0.0015	0.0015	112.1		112.1	1.255	31.43	4.84	\$	14,308.0	\$	2,612.0	\$	1,080.0	\$	245.8	\$	731.5	\$	305,448.1
55	30	0.001	0.001	109.44		109.44		32.44	4.94	\$	13,973.0	\$	2,406.9	\$	1,048.4	\$	231.9	\$	739.0	\$	274,597.3
56	31/12/2017	0.001	0.001	103.3		103.3		31.88	4.549	\$	13,531.0	\$	2,367.0	\$	1,012.7	\$	227.3	\$	746.8	\$	255,168.0
	Totals	557.6296	29.099	586.7286	1316.3331	21.275	1337.6081	187.9465	4023.639	385.502											10,611,968.08

Price Sources - Daily Closing Prices Used

Bitcoin	https://www.investing.com/currencies/btc-usd-historical-data
Bitcoin Cash	https://www.investing.com/currencies/bch-usd-historical-data
Dash	https://www.investing.com/currencies/dash-usd-historical-data
Litecoin	https://www.investing.com/currencies/ltc-usd-historical-data
Ethereum	https://www.investing.com/currencies/eth-usd-historical-data

Appendix “2”- non-reviewed financial data for the period from November 6, 2017 until December 31, 2017

Summary of Backbone Hosting Solutions Inc. (Bitfarms) Financial Results for the 56 day Period (November 6, 2017 - December 31, 2017)

All Figures in US Dollars

Operating Activity

Total USD Revenue	\$	10,611,968
Total OPEX	\$	(899,866)

Mining Margin for the Period **\$ 9,712,102**

Capital Account Activity

Mining Margin for the Period	\$	9,712,102
Total Growth Capital Expenditures in USD	\$	(3,890,646)
Final Operating Cash Balance at December 31, 2017	\$	4,518,903
Final Coin Balance Value at December 31, 2017	\$	3,239,771

Profit or (Loss) on Surplus Coins held for Investment Purposes **\$ 1,937,218**

Balance Sheet Snapshot as of December 31, 2017

Assets

Cash at ScotiaBank	\$	4,518,903	This amount was earned through the operating period from November 6, 2017 to December 31, 2017
Cash Received from 11/6/2017 Investor Subscriptions into Backbone (Peterson Mcvicar Trust)	\$	3,000,000	This cash amount was contributed by minority investors through a property and subscription agreement into Backbone at November 6, 2017
Coins Held for Investment Purposes	\$	3,239,771	This amount was earned through the operating period from November 6, 2017 to December 31, 2017
Property, Equipment, and Leasehold Improvements	\$	3,890,646	This amount represents capital expenditures for hardware and leasehold improvements sourced from operating cash flow over the period November 6, 2017 to December 31, 2017
Property and Equipment Acquired from Minority Investors in November 2017	\$	15,000,000	This property and equipment was contributed by minority investors through a property and subscription agreement into Backbone at November 6, 2017
Intellectual Property Acquired from Founders in June 2017	\$	5,000,000	This intellectual property was contributed by the founders of Backbone at the formation of the company.
Total Assets	\$	34,649,320	

Liabilities

Accounts Payable and Accrued Expenses	\$	(300,000)
Long-term Lease Payments	\$	(1,000,000)
Shareholder Equity	\$	33,349,320

Operational expenses- OPEX

Total Maintenance and Operational Expenditures for the period November 6, 2017 - December 30, 2017 (55 days)

DATE	OPEX Description	USD Expense
14/12/2017	Monthly Expenses Including: Energy, Payroll, Leases, Maintenance	\$ 372,824.60
23/12/2017	Monthly Expenses Including: Energy, Payroll, Leases, Maintenance	\$ 359,041.00
31/12/2017	Monthly Expenses Including: Energy, Payroll, Leases, Maintenance	\$ 168,000.00 Additional Tentative Opex for Period
		\$ 899,865.60

Operational expenses- OPEX

Total Growth Capital Expenditures for the period November 6, 2017 - December 30, 2017 (55 days)

DATE	CAPEX Description	USD Proceeds From Sale
<i>November 29</i>	S9 Miners, PSU's,	\$ 1,041,372.00
<i>November 30</i>	S9 Miners, PSU's,	\$ 501,723.00
<i>December 13</i>	Payment for Purchase of 3,500 S9 Miners	\$ 1,435,005.00
<i>December 13</i>	Construction and other Capital Expenses Associated with Non-Operating Farms in Pipeline	\$ 912,546.00
		\$ 3,890,646.00

*Coin Sales are sold into USD with the proceeds wired to Backbone Hosting Solutions Inc. Canadian Bank Account in USD

Final Wallet Balance

Date	Btc	Bcc	Dash	Litecoin	eth		Btc Price	Bcc Price	Dash Price	Lite price	Eth price	Total Balance US\$
12/14	136.91	298.07	72.43	1913.59	175.33		\$ 17,711.0	\$ 1,729.0	\$ 900.3	\$ 309.0	\$ 692.7	\$ 3,718,138.7
12/15	150.786	298.07	74.128	1950.9	181.84		\$ 17,522.0	\$ 1,798.5	\$ 893.0	\$ 303.8	\$ 677.7	\$ 3,960,235.3
12/16	164.859	298.07	75.72	1986.069	188.02		\$ 19,187.0	\$ 1,774.1	\$ 993.0	\$ 306.9	\$ 684.4	\$ 4,505,262.2
12/17	179.57	298.07	77.46	2014.26	194.0784		\$ 18,971.0	\$ 1,828.4	\$ 1,083.5	\$ 324.7	\$ 708.6	\$ 4,827,168.6
12/18	193.85	298.07	79	2059.122	200.058		\$ 18,931.0	\$ 2,219.0	\$ 1,148.0	\$ 359.4	\$ 796.0	\$ 5,321,157.7
12/19	252.368	298.07	1.56	32.6	207.37		\$ 17,340.0	\$ 3,727.0	\$ 1,414.0	\$ 350.0	\$ 800.0	\$ 5,666,475.7
12/20	267.36	298.07	3.22	67.73	213.68		\$ 16,433.0	\$ 3,694.0	\$ 1,428.0	\$ 305.1	\$ 795.9	\$ 5,689,930.1
12/21	268.7378	358.103	4.793	102.26	218.527		\$ 12,171.0	\$ 2,165.0	\$ 1,002.5	\$ 243.0	\$ 595.0	\$ 4,205,778.5
12/22	268.7378	441.111	6.362	136.895	224.734		\$ 14,036.0	\$ 2,895.0	\$ 1,129.0	\$ 294.3	\$ 672.0	\$ 5,247,512.3
12/23	268.7378	545.911	7.922	171.525	230.678		\$ 13,476.0	\$ 2,755.0	\$ 1,095.0	\$ 278.0	\$ 658.0	\$ 5,333,640.1
12/24	268.7408	623.501	9.422	204.685	236.99		\$ 13,801.0	\$ 2,745.0	\$ 1,197.0	\$ 276.0	\$ 719.0	\$ 5,658,569.0
12/25	225.26	702.96	0	0	0.442		\$ 15,638.0	\$ 2,796.3	\$ 1,171.1	\$ 279.4	\$ 730.2	\$ 5,488,625.7
12/26	0.001	792.68	1.579	33.087	4.736		\$ 15,468.0	\$ 2,776.0	\$ 1,167.0	\$ 275.1	\$ 735.7	\$ 2,214,925.0
12/27	0.002	886.1	3.139	65.868	10.77		\$ 13,952.0	\$ 2,420.0	\$ 1,031.8	\$ 247.3	\$ 691.9	\$ 2,171,369.2
12/28	0.0021	991.58	4.548	98.684	17.147		\$ 14,459.0	\$ 2,593.5	\$ 1,088.0	\$ 245.0	\$ 737.2	\$ 2,613,459.7
12/29	0.0036	1103.68	5.803	130.114	21.987		\$ 14,308.0	\$ 2,612.0	\$ 1,080.0	\$ 245.8	\$ 731.5	\$ 2,937,196.9
12/30	0.0046	1213.12	5.803	162.554	26.927		\$ 13,973.0	\$ 2,406.9	\$ 1,048.4	\$ 231.9	\$ 739.0	\$ 2,983,595.2
12/31	0.0056	1337.6081	5.803	194.434	31.476		\$ 14,200.0	\$ 2,600.0	\$ 1,012.7	\$ 227.3	\$ 746.8	\$ 3,551,437.5

Coin Sales

date	btc	price sold	Usd proceed from sale
29/11/2017	100	\$ 9,650.19	\$ 965,019.00
30/11/2017	24.5	\$ 9,916.00	\$ 242,942.00
30/11/2017	26	\$ 10,700.00	\$ 278,200.00
30/11/2017	7.7	\$ 9,650.19	\$ 74,306.46
30/11/2017	26	\$ 9,842.00	\$ 255,892.00
30/11/2017	46.89	\$ 10,700.00	\$ 501,723.00
30/11/2017	21.27	\$ 10,700.00	\$ 227,589.00
12/12/2017	59.79	\$ 16,600.00	\$ 992,514.00
13/12/2017	86.97	\$ 16,500.00	\$ 1,435,005.00
25/12/2017	60	\$ 15,350.00	\$ 921,000.0
26/12/2017	60	\$ 15,345.00	\$ 920,700.0
26/12/2017	60	\$ 15,515.00	\$ 930,900.0
27/12/2017	105.24	\$ 14,050.00	\$ 1,478,622.0
		\$	\$ 9,224,412.46

Coin Exchange

Date	Dash sent	Btc received
18/12	79	5.02

Date	Litecoin sent	Btc received
18/12	2059.11	39.87

Date	Dash sent	Btc received
25/12	11.22	0.833

Date	Litecoin sent	btc received
25/12	240.23	4.265

Date	Ethereum se	btc received
25/12	240.55	11.411