BITFARMS LTD. (FORMERLY BITFARMS TECHNOLOGIES LTD.) AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

U.S. DOLLARS IN THOUSANDS

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NOTICE TO READER OF FINANCIAL STATEMENTS

These financial statements represent a translation of the Hebrew financial statements audited by EY Tel Aviv which can be found through the following link:

https://maya.tase.co.il/company/60?view=reports&q=%7B%22Page%22:1,%22events%22:[100]%7D

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

U.S. dollars in thousands, except share data

	Note	December 31, 2018	December 31, 2017
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	9	$ 552	$ 4,518
Share subscriptions held in trust	10	-	2,942
Trade receivables, net	11	912	-
Other assets	12	429	594
Inventories	13	124	431
		2,017	8,485
Assets held for sale	14	1,278	-
Total current assets		3,295	8,485
NON-CURRENT ASSETS:			
Property, plant and equipment, net	15	20,862	21,341
Intangible assets, net	16	1,013	4,722
Long-term deposits		1,063	-
Total non-current assets		22,938	26,063
Total assets		$ 26,233	$ 34,548
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	18	1,025	-
Accounts payable and accrued liabilities	17	2,820	4,454
Income taxes payable	19	761	1,281
		4,606	
Liabilities held for sale	14	50	-
Total current liabilities		4,656	5,735
NON-CURRENT LIABILITIES:			
Long-term debt	18	693	-
Asset retirement provision	20	232	207
Deferred taxes	19	-	702
Total non-current liabilities		925	909
Total liabilities		5,581	6,644
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	21	162	115
Share premium		19,650	22,884
Obligation to issue shares		4,386	-
Retained earnings (accumulated deficit)		(8,755)	4,905
		15,443	27,904
Non-controlling interest		5,209	-
Total shareholders' equity		20,652	27,904
Total liabilities and shareholders' equity		$ 26,233	$ 34,548

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

March 27, 2019			
Date of approval of the financial statements	**Nicolas Bonta Chairman of the Board of Directors**	**Wesley Fulford CEO**	**John Rim CFO**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

U.S. dollars in thousands, except share and per share data

	Note	December 31, 2018	For the 56 days ended December 31, 2017
Revenues	24a	$ 33,805	$ 8,663
Cost of revenues	24b	22,928	1,349
Gross profit		10,877	7,314
General and administrative expenses	24c	8,815	171
Listing cost of reverse acquisition	6	1,000	-
Impairment of property, plant and equipment and intangible assets	15b	19,060	-
Other expenses		-	251
		28,875	422
Operating income (loss)		(17,998)	6,892
Finance expenses		179	4
Income (loss) before taxes on income		(18,177)	6,888
Taxes on income	19	59	1,983
Net income (loss) and total comprehensive income (loss)		(18,236)	4,905
Attributable to:			
Equity holders of the Company		(9,363)	4,905
Non-controlling interests		(8,873)	-
		$ (18,236)	$ 4,905
Income (loss) per share attributable to equity holders of the Company (in U.S. dollars):			
Basic and diluted income (loss) per share	28	(0.16)	0.08

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

U.S. dollars in thousands, except share data

	Attributable to the Company's shareholders						
	Share capital	Obligation to issue shares	Share premium	Retained earnings (accumulated deficit)	Total	Non-controlling interest	Total equity
Balance as of January 1, 2018	$ 115	$ -	$ 22,884	$ 4,905	$ 27,904	$ -	$ 27,904
Issuance of share capital and exchangeable shares on the reverse acquisition date	47	4,386	5,805	-	10,238	-	10,238
Equity attributable to non-controlling interest on the reverse acquisition date	-	-	(9,039)	(4,297)	(13,336)	13,336	-
Share-based payment in subsidiary	-	-	-	-	-	746	746
Net loss and total comprehensive loss	-	-	-	(9,363)	(9,363)	(8,873)	(18,236)
Balance as at of December 31, 2018	$ 162	$ 4,386	$ 19,650	$ (8,755)	$ 15,443	$ 5,209	$ 20,652

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont.)

U.S. dollars in thousands, except share data

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

U.S. dollars in thousands, except share data

	Note	Year ended December 31, 2018	For the 56 days ended December 31, 2017
Cash flows from operating activities:			
Net income (loss)		$ (18,236)	$ 4,905
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization		12,548	1,107
Impairment loss on property, plant and equipment and intangible assets		19,060	-
Deferred taxes, net		(702)	702
Listing cost of reverse acquisition		1,000	-
Cost of share-based payment		746	-
Finance expenses	18	9	-
Provision for asset retirement		25	(5)
		32,686	1,804
Changes in asset and liability items (A)		(1,088)	960
Net cash provided by operating activities		13,362	7,669
Cash flows from investing activities:			
Purchase of property, plant and equipment		(22,392)	(13,694)
Proceeds from sale of property, plant and equipment		145	-
Acquisition of a subsidiary (B)	7	387	-
Reverse acquisition transaction (C)	6	182	-
Net cash used in investing activities		(21,678)	(13,694)
Cash flows from financing activities:			
Issuance of Ordinary shares	5&10	2,942	10,543
Proceeds of long-term debt	18	1,886	-
Repayment of long-term debt	18	(496)	-
Net cash provided by financing activities		4,332	10,543
Exchange rate differences on currency translation		18	-
Increase (decrease) in cash and cash equivalents		(3,966)	4,518
Cash and cash equivalents at the beginning of the period		4,518	-
Cash and cash equivalents at the end of the period		$ 552	$ 4,518
Supplemental cash flow information			
Income taxes paid		1,281	-
Interest paid		49	-

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

CONSOLIDATED STATEMENT OF CASH FLOWS

U.S. dollars in thousands, except share data

		Year ended December 31, 2018	For the 56 days ended December 31, 2017
(A)	Changes in asset and liability items		
	Increase in trade receivables	$ (338)	$ -
	Decrease (increase) in other accounts receivable	490	(594)
	Decrease (increase) in inventories	407	(431)
	Increase in long-term deposits	(1,063)	-
	Increase (decrease) in accounts payable and accrued liabilities	(107)	704
	Increase (decrease) in income taxes payable	(527)	1,281
	Increase in liabilities held for sale	50	
		$ (1,088)	$ 960
(B)	Acquisition of a subsidiary consolidated for the first time		
	Trade receivables	$ (971)	$ -
	Inventories and other receivables	(120)	-
	Property, plant and equipment	(163)	-
	Intangible assets - customer lists	(50)	-
	Trade payables	1,135	-
	Deferred revenues	27	-
	Income taxes payable	9	-
	Deferred taxes	10	-
	Long-term debt	111	-
	Elimination of company payable to subsidiary upon its acquisition	399	
		$ 387	$ -
(C)	Reverse acquisition transaction		
	Trade receivables	$ (311)	$ -
	Property, plant and equipment	(9,000)	-
	Listing cost of reverse acquisition	(1,000)	-
	Trade payables	255	-
	Issuance of Ordinary shares	5,852	-
	Obligation to issue shares	4,386	-
		$ 182	$ -
(D)	Significant non-cash transactions		
	Purchase of property, plant and equipment by issuance of ordinary shares	$ -	$ 4,519
	Purchase of property, plant and equipment financed by short-term facility	1,007	3,750
	Purchase of intangible assets	-	5,000
	Share subscriptions held in trust	-	2,942

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

NOTE 1: GENERAL

a. Bitfarms Ltd. (formerly: Bitfarms Technologies Ltd.) ("Bitfarms Ltd." or "the Company") was incorporated in Israel in June 1981. In April 1994, the Company became a public company and its shares began trading on the Tel-Aviv Stock Exchange ("the TASE"). Until October 2017, the Company operated in the natural resources industry by investing, directly and through its investees in natural resources. The head office of Bitfarms Ltd. is located at 9160 Boulevard Leduc Suite 312, Brossard, Québec, J4Y 0E3.

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

c. Backbone, operating commercially under the name Bitfarms, operates server farms that support the validation and verification of transactions on the blockchain, earning cryptocurrency tokens for providing this service. The Company was incorporated on June 13, 2017, pursuant to the Canada Business Corporations Act as a private company in Canada and commenced commercial activity on November 6, 2017 - see Note 5 for historical information regarding Backbone.

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

e. For the year ended December 31, 2018, the Company incurred an operating loss of $17,998 primarily due to an impairment loss on property, plant, equipment and intangible assets amounting to $19,060 ($ nil – 2017). As of December 31, 2018, the Company has a working capital deficiency of $1,361. Subsequent to the end of the reporting period, in March 2019, the Company entered into a secured debt financing facility for up to $20,000 – see Note 30 for further information. The Company's management believes that this financing facility together with currently available resources will enable the Company to make investments in mining infrastructure and equipment as well as other assets necessary for the Company to continue growing its operations in the mining of cryptocurrencies.

NOTE 1: GENERAL (Cont.)

The Group is primarily engaged in the cryptocurrency mining industry, that is a highly volatile market with significant inherent risk. A significant decline in the market prices of cryptocurrencies, an increase in the difficulty of cryptocurrency mining, changes in the regulatory environment and adverse changes in other inherent risks can significantly negatively impact the Group's operations. Due to the volatility of the prices of cryptocurrencies and the effects of possible changes in the other aforementioned factors, there can be no assurance that future mining operations will be profitable. Based on internally prepared forecasted cash flows that take into consideration what management of the Group considers reasonably possible scenarios, management believes that the Group will be able to achieve positive cash flows from operations that will enable the Group to meet its obligations for at least one year from the date of approval of the consolidated financial statements.

f. Definitions:

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

1.	Bitfarms Ltd.	Bitfarms Ltd. or the Company
2.	Backbone Hosting Solutions Inc.	Backbone
3.	AU Acquisition VI, LLC	AU
4.	Pembroke & Timberland, LLC	Pembroke
5.	9159-9290 Quebec Inc.	Volta
6.	The Company and its subsidiaries	The Group
7.	BTC	Bitcoin
8.	BCH	Bitcoin Cash
9.	LTC	Litecoin
10.	ETH	Ethereum
11.	GPU	Graphic processing unit

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The consolidated financial statements have been prepared on a cost basis, except for assets held for sale that have been measured at the lower of their carrying amount and fair value less costs to sell. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

The Company has elected to present the profit or loss items using the function of expense method.

b. The operating cycle:

The operating cycle of the Company's activities is one year. Accordingly, the assets and liabilities directly attributable to this activity are classified in the statement of financial position as current assets and liabilities based on the operating cycle.

The operating cycle of Backbone is to mine cryptocurrency and then convert to fiat currency after mining using institutional exchanges. Other cryptocurrencies such as Dash, Litecoin and Ethereum are converted to Bitcoin using exchanges and then converted to fiat currency.

c. Consolidated financial statements:

These financial statements consolidate the Company's subsidiaries from the date of acquisition until the date that control is lost. The subsidiaries are controlled by the Company, where control is achieved when the company is exposed to or has the right to variable returns from its involvement with the investee and has the current ability to direct the activities of the investee that significantly affect the investee's returns. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Non-controlling interests in subsidiaries represent the equity of the subsidiaries that cannot be attributed, directly or indirectly, to the parent company. The non-controlling interests are presented separately in the Company's equity. Profit or loss and any component of other comprehensive income are allocated to the Company and to non-controlling interests.

Losses are attributed to non-controlling interests even if the balance of non-controlling interests in the consolidated statement of financial position is negative.

d. Business combinations:

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

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

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

1. Functional currency and presentation currency:

The financial statements are presented in U.S. Dollars, which is the Company's functional currency. The functional currency is the currency that best reflects the economic environment in which the Company operates and conducts its transactions.

The Company determines the functional currency of each company in the Group. Assets and liabilities of subsidiaries constituting foreign operations, including fair value adjustments upon acquisition, are translated using the exchange rate in effect at each reporting date. Revenues and expenses are translated using the average exchange rates in effect for all periods presented. The resulting translation differences are included in other comprehensive income.

The loss on foreign currency translation of the Canadian subsidiary was immaterial for the year ended December 31, 2018 (Volta acquired in 2018, see note 7).

2. Transactions, assets and liabilities in foreign currency:

Transactions in foreign currency are initially recorded at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currency are subsequently translated into the functional currency at the exchange rate in effect at each reporting date. Exchange rate differences, other than those capitalized to qualifying assets or carried to equity in hedging transactions, are included in profit

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

or loss. Non-monetary assets and liabilities in foreign currency stated at cost are translated at the exchange rate in effect at the transaction date. Non-monetary assets and liabilities in foreign currency carried at fair value are translated at the exchange rate at the date on which the fair value was determined.

f. Cash equivalents:

Cash and cash equivalents are highly liquid investments, including short-term bank deposits which are not restricted by liens, whose original term to maturity is up to three months from the investment date.

g. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific trade receivables whose collection, in the opinion of the Company's management, is doubtful. Impaired receivables are derecognized when they are assessed as uncollectible. Bad debt expenses for the year ended December 31, 2018 and for the 56 days ended December 31, 2017 were $19, and nil, respectively.

h. Inventories:

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

i. Revenue recognition:

As described in Note 2w regarding the initial adoption of IFRS 15, "Revenue from Contracts with Customers" ("the Standard"), the Company elected to adopt the provisions of the Standard using the modified retrospective method and without restatement of comparative data.

The accounting policy for revenue recognition applied until December 31, 2017 is as follows:

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The accounting policy for revenue recognition applied commencing January 1, 2018, is as follows:

Revenue from contracts with customers is recognized when control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

Following are the specific revenue recognition criteria which must be met before revenue is recognized:

Revenues from mining cryptocurrencies:

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

Revenues from electrical services:

The Group, through Volta, sells electrical components and provides electrician installation for those components, as well as repair and maintenance services.

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

Any amounts received in advance for future services to be provided by Volta are recorded as deferred revenues (contract liability) and recognized as revenue in profit or loss when the services are rendered.

j. Taxes on income:

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Current taxes:

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

2. Deferred taxes:

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

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

   Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

   Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

   Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

k. Leases:

The criteria for classifying a lease as a finance or operating lease depend on the substance the agreements and are made at the inception of the lease in accordance with the following principles as prescribed in IAS 17:

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group as lessee:

1. Finance leases:

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

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

2. Operating leases:

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

l. Non-current assets held for sale

Non-currents assets or a disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition, the Company must be committed to sell, there must be a program to locate a buyer and it is highly probable that a sale will be completed within one year from the date of classification. From the date of such initial classification, these assets are no longer depreciated and are presented separately as current assets at the lower of their carrying amount and fair value less costs to sell.

m. Property, plant and equipment:

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

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Property, plant and equipment are depreciated as follows:

Blockchain validation and verification equipment ("BVVE")	-	Sum of years, declining over 5 years
Mineral assets *)	-	Units of production method
Electrical equipment	-	Sum of years, declining over 5 years
Leasehold improvements	-	See below
Buildings	-	Declining balance, 4%
Vehicles	-	Declining balance, 30%

*) Since the acquisition of mineral assets in 2018, there has been no production and therefore no depreciation was recorded during 2018.

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.

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

The sum of years depreciation method is calculated as follows:

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

n. Intangible assets:

Intangible assets acquired separately are initially measured at cost plus direct acquisition costs. Intangible assets acquired in business combinations are measured at their fair value as at the acquisition date.

Intangible assets with a finite useful life are amortized over their useful lives using the sum of years method and are reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Software:

The Group's assets include computer systems, comprised of hardware and software. Certain hardware come pre-installed with firmware. Without this firmware, the hardware could not function and therefore both the hardware and firmware are classified within property plant and equipment. In contrast, stand-alone software that adds functionality to the hardware is classified as an intangible asset.

Intangible assets consist of acquired software used in the Company's blockchain validation and verification operations (see Note 5) and customer lists acquired in a business combination (see Note 16), and are amortized as follows:

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

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

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

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

	Year 1	Year 2	Year 3
Rate	3/6	2/6	1/6
Percentage	50.00%	33.33%	16.67%

o. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

During 2018, due to increased uncertainty and high volatility that occurred in the cryptocurrency and blockchain industry, the Group tested the related property, plant and equipment and the related software for impairment and accordingly recognized an impairment loss of $16,965 with respect to property, plant and equipment and $2,095 with respect to the intangible assets. Further information about the impairment loss is included in Note 15.

p. Financial instruments:

As described in Note 2w regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard"), the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

The following is the new accounting policy regarding financial instruments applied commencing from January 1, 2018, which is substantially identical to the accounting policy applied before that date in respect of the Company's financial instruments:

:

1. Financial assets

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

2. Financial liabilities:

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Derecognition of financial assets:

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

4. Derecognition of financial liabilities:

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

q. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

r. Provisions:

Under IAS 37, provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated.

Asset retirement provisions:

These provisions relate to Backbone's legal obligation, in relation to its leased properties, to restore the properties to their original condition at the end of the lease period. The provisions are calculated at the present value of the expected costs to settle the obligations using estimated future cash flows discounted at a rate that reflects the risks specific to the obligations. Changes in the estimated future costs, or in the discount rate applied, are recorded as an adjustment of the cost of the related asset.

Lawsuits:

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

s. Share-based transactions:

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Transactions settled with equity instruments:

The cost of employee services paid in equity instruments is measured at the fair value of the equity instruments as at the grant date. The fair value is determined using a generally accepted option pricing model. Equity settled transactions with other services providers is measured at the fair value of the goods or services received in return for the equity instruments. The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period").

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

t. Earnings per share:

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

u. Share capital:

Share capital represents the amount received on the issuance of shares, less issuance costs net of any underlying income tax benefit from these issuance costs.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Employee benefits:

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as: paid vacation leave, maternity and paternal leave, sick leave, bonuses, and group insurance benefits) is recognized in the period in which the services are rendered.

w. Adoption of new accounting standards:

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 ("the Standard") was issued by the IASB in May 2014.

The new Standard replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

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

Step 1: *Identify the contract with a customer*, including reference to contract combination and accounting for contract modifications.

Step 2: *Identify the separate performance obligations in the contract*

Step 3: *Determine the transaction price*, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer

Step 4: *Allocate the transaction price to the separate performance obligations* on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: *Recognize revenue when a performance obligation is satisfied,* either at a point in time or over time.

IFRS 15 has been applied for the year-ended December 31, 2018. The Company elected to apply the provisions of the Standard retroactively without restating comparative data. IFRS 15 did not change the timing or amount of revenue recognition from the sale of cryptocurrency tokens.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 9 Financial Instruments:

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

Revenue recognition:

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the recognition of revenue from the mining of cryptocurrencies. Management has determined that the accounting for the mining of cryptocurrencies should be analogized to the accounting for the mining of mineral interests. The basis for this comparison is that Backbone invests in mining equipment, in the form of computer hardware, to attempt to solve an algorithm in exchange for a reward. The process is similar in nature to investing in traditional mining exploration in order to extract minerals from a mine. The Company believes that the award of cryptocurrency is not a trigger to recognize revenues as there is no specific individual counterparty to the blockchain protocol that awards the revenues. Accordingly, cryptocurrency rewards are accounted for as inventory under IAS 2 until the cryptocurrency is sold and exchanged for a fiat currency, at which time it is recorded as revenues. In order to allow users to better understand the performance of the Company, management has disclosed the quantity and fair

NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Cont.)

market value of coins mined during the period and on-hand at year-end - see Notes 24 and 13, respectively. Management has exercised significant judgement in determining the appropriate accounting treatment. In the event authoritative guidance is issued by the IASB, the Company may be required to change its accounting policies, which could have a material effect on the Company's financial statements.

Property, plant and equipment and intangible assets:

Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes, based on additional available information, are accounted for prospectively as a change in accounting estimate.

Impairment of property, plant and equipment and intangibles:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. See Note 15 b for details of the significant assumptions and estimates used in determining the recoverable amounts.

The Company reviews the need for recording impairment of mineral assets, as detailed in Note 15 c, for which purpose it engaged an independent external appraiser to assist in determining the value of the assets. The fair value was determined through use of the market approach, which includes analyzing similar and comparable mineral properties and making adjustments for differences between those properties, and the subject, among certain identifiable parameters.

Estimates and assumptions:

The preparation of the consolidated financial statements requires management to undertake several judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. These estimates and judgments are based on management's best knowledge of the events or circumstances and actions the Company may take in the future. The actual results may differ from these judgments and estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to judgments and estimates are recognized in the period in which the judgment or estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

NOTE 4: DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The effects of the adoption of the new Standard are as follows:

- According to the new Standard, lessees are required to recognize all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the existing standard, IAS 17, "Leases". Lessees will also recognize interest expense and depreciation expense separately.

- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.

The new Standard is effective for annual periods beginning on or after January 1, 2019.

The Company believes it will apply the modified retrospective approach without restatement of comparative data. Under this approach, the balance of the liability as of January 1, 2019, will be calculated using the incremental borrowing rate of interest relevant for each lease. The right-of-use asset will be recognized in an amount equal to lease liability. The Company estimates that the effect of the initial adoption of IFRS 16 as of January 1, 2019, is expected to result in the recognition of a right-of-use asset and a lease liability in the approximate amount of $3,200, by using the current interest rate implicit of 8%. In addition, the effect of the initial adoption of IFRS 16 will lead to a decrease in the Company's rental expenses in the amount of $ 940 in 2019 and an increase in depreciation and amortization expenses and financing expenses in the amount of $ 818 and $ 228, respectively.

NOTE 4: DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

IFRIC 23 Uncertainty Over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the accounting for recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement of the effects of uncertainty involving income taxes on the financial statements and accounting for changes in facts and circumstances in respect of the uncertainty.

The Interpretation is to be applied in financial statements for annual periods beginning on January 1, 2019.

The Company does not expect the Interpretation to have any material effect on the financial statements.

NOTE 5: HISTORICAL INFORMATION REGARDING BACKBONE

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

According to the agreement, Backbone acquired equipment, consisting mainly of data processing hardware and electrical components used for the verification and validation of blockchain transactions from the minority shareholders, the value of which was determined in the agreement as $ 15,062. The value was determined based on market price of the components and equipment on the transaction date. The consideration for the equipment was paid through the issuance of 21,929,603 shares of Backbone.

In addition, the minority shareholders invested cash of approximately $2,942 held by Backbone's trustees, as described in Note 10, in exchange for the issuance of 4,277,163 shares of Backbone.

Backbone issued 40,459,881 shares to certain founding shareholders who among others, established Backbone, organized the raising of funds and equipment from the minority shareholders and contributed software. For financial reporting purposes, Backbone reflected this transaction as compensation by way of issuance of shares of Backbone. Accordingly, the compensation was recorded directly in the equity of Backbone as a deduction from the consideration received from the investors for establishment of Backbone and organizing the investors.

NOTE 5: HISTORICAL INFORMATION REGARDING BACKBONE (Cont.)

The software was acquired pursuant to an agreement effective from November 6, 2017 between Backbone and the founding shareholders. Under the agreement, the founding shareholders transferred to Backbone exclusively, throughout the world and in all languages (including computer languages), all rights in all matters related to or related to the development of the software (including updates and improvements to the software). The consideration for the acquisition of the software, as set forth in the agreement recorded in Backbone's financial statements was estimated in the amount of $5,000, which was paid to the founding shareholders by the issuance of shares of Backbone. Under the agreement, the founding shareholders undertook not to compete in blockchain mining activities in Canada for a period of five years from the date of the agreement.

As of the date of the reverse acquisition in April 2018 (see Note 6), the outstanding share capital of Backbone was composed of one class of shares (a total of 66,666,667 common shares), and the holdings of the shareholders of Backbone were as follows:

1. The founding shareholders - 40,459,901 shares, constituting 60.69% of the outstanding share capital of Backbone.

2. Minority shareholders - 26,206,766 shares, constituting 39.31% of the outstanding share capital of Backbone.

NOTE 6: REVERSE ACQUISITION

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

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

b. The remaining members of the Backbone's founding shareholders exchanged 17,335,090 Backbone shares for 17,335,090 exchangeable shares that are subject to a put call agreement with the Company. The put call agreement results in the exchangeable shares of Backbone being exchanged for shares in the Company between six months and seven years after the transaction date. Further details on the put call agreement and exchangeable share characteristics are described in Note 21.

c. The Company expects to propose a subsequent share exchange to Backbone's minority shareholders, included in the non-controlling interest, to acquire the remaining 26,206,666 of issued and outstanding shares in Backbone in exchange for 26,206,666 newly issued shares in the Company. The proposed subsequent share exchange may not occur if the Company is successful in executing the transactions described in Note 30 b.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 6: REVERSE ACQUISITION (Cont.)

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

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

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

	April 12, 2018
Listing costs for reverse acquisition	$ 1,000
Mineral assets	9,000
Cash	182
Accounts receivable	311
Accounts payable	(255)
Value attributed to the Company shares issued	$ 10,238
Issuance of shares:	
Ordinary shares 23,124,861	$ 5,852
Obligation to issue shares 17,335,090	4,386
Total issuance	$ 10,238

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 7: BUSINESS COMBINATION

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

On January 1, 2018, Backbone acquired all of the issued and outstanding shares of 9159-9290 Quebec Inc. (operating under the name of Volta Électrique) for cash consideration of $250,000 CAD (approximately $200) payable on January 1, 2018, and additional consideration of $250,000 CAD (approximately $200) payable in four equal annual installments of $62,500 CAD (approximately $50) commencing June 30, 2018, conditional upon the continued employment of Volta's former shareholders and providing services to Backbone following the acquisition. The consideration payable in annual installments is being recorded as compensation expense in profit or loss as the services are provided. Volta provides electrician services to both commercial and residential customers in Quebec.

The strategic acquisition of Volta is expected to result in cost efficiencies regarding Backbone's acquisition and installation of electrical infrastructure for new blockchain validation and verification facilities and maintenance of Backbone's existing electrical infrastructure. The following are the fair values of the identifiable assets and liabilities of Volta as of the date of the acquisition:

	January 1, 2018
Cash and cash equivalents	$ 188
Trade receivables	971
Inventories and other receivables	120
Property, plant and equipment	163
Intangible assets - Customer list	50
	1,492
Accounts payable	(1,135)
Income taxes payable	(9)
Long-term debt	(111)
Deferred revenues	(27)
Deferred tax liability	(10)
	(1,292)
Cash and cash equivalents of Volta as at the acquisition date	$ 188
Elimination of company payable to subsidiary upon its acquisition	399
Less: cash consideration transferred	(200)
Net cash transferred	$ 387

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 8: OPERATING SEGMENTS

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

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

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

Items that were not allocated, mainly general and administrative costs and finance expenses, net are managed on a group basis.

	For the year ended December 31, 2018			
	Bitfarms	Volta	Adjustments	Total
Revenues				
External customers	$ 31,641	$ 2,164	$ -	$ 33,805
Inter segment revenues	-	4,920	(4,920)	-
Total revenues	31,641	7,084	(4,920)	33,805
Cost of revenues	21,349	6,193	(4,614)	22,928
Gross profit	10,292	891	(306)	10,877
General and administrative expenses	7,510	616	-	8,126
Impairment on property, plant and equipment and intangible assets	19,254	-	(194)	19,060
Segment profit (loss)	$ (16,472)	$ 275	$ (112)	(16,309)
Unallocated corporate expenses				1,689
Finance expenses				179
Income (loss) before taxes on income				$ (18,177)

As Volta was acquired in 2018, no segment information is provided for 2017.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 9: CASH AND CASH EQUIVALENTS

As at December 31, 2018, cash and cash equivalent consisted of:

	December 31, 2018	December 31, 2017
Cash for immediate withdrawal - in USD	$ 95	$ 4,293
Cash for immediate withdrawal - in CAD	451	225
Cash for immediate withdrawal - in NIS	6	-
	$ 552	$ 4,518

NOTE 10: SHARE SUBSCRIPTIONS HELD IN TRUST

In December 2017, Backbone issued 4,277,163 shares in consideration for approximately $2,942 which funds were transferred to Backbone's attorneys as trustees. The funds were released to Backbone in March 2018.

NOTE 11: TRADE RECEIVABLES

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). 76% of trade accounts receivable is derived from the sale of electrical components and services to external customers by Backbone's wholly-owned subsidiary, Volta Électrique. There were no trade receivables as at December 31, 2017.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

a. Movement in allowance for doubtful accounts:

Balance as of January 1, 2018	$ -
Provision for the year	19
Derecognition of bad debts	(19)
Balance as of December 31, 2018	$ -

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 11: TRADE RECEIVABLES (Cont.)

b. Following is information about the credit risk exposure of the Company's trade receivables as of December 31, 2018:

	Trade receivables aging				
	Not past due	30 - 60 days	61 - 90 days	>91 days	Total
Gross carrying amount	406	322	56	128	912
Allowance for doubtful accounts	-	-	-	-	-

In respect of short-term trade receivables, the Company applies the simplified approach and measures the loss allowance at an amount equal to the lifetime expected credit loss.

NOTE 12: OTHER ASSETS

	December 31,	
	2018	2017
Sales taxes receivable	$ 345	$ 519
Prepaid expenses	84	75
	$ 429	$ 594

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 13: INVENTORIES

	December 31, 2018		December 31, 2017	
Electrical components	$	85	$	-
Cryptocurrency tokens		39		431
	$	124	$	431

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

	December 31, 2018				December 31, 2017			
	Bitcoin	Bitcoin Cash	Other	Total $	Bitcoin	Bitcoin Cash	Other	Total $
Quantity	11	-	-	-	-	1,317	-	-
Cost*)	39	-	-	39	-	420	11	431
Fair value*)	39		--	39	-	3,335	64	3,399

*) The cost of the ending inventory was $57, which exceeded the net realizable value of $39. The $18 of excess of cost over net realizable value was included in Cost of revenues in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The Company based the fair value of the inventory on the prices quoted on www.coinmarketcap.com which calculates the price by taking the weighted average prices based on volume, reported in each cryptocurrency market on December 31, 2018 and December 31, 2017. The fair value measurement is categorized as level 1 in the fair value hierarchy.

NOTE 14: ASSETS HELD FOR SALE

On November 30, 2018 the Company's management decided to sell land and a building in Sherbrooke, Quebec, and committed to carry out a plan for the sale of the property. In February 2019, the Company completed the sale of the property, in consideration of approximately CAD $1,750,000 in cash. The value of the foreign currency consideration as of December 31, 2018 was $1,278, which approximate the carrying value after impairment as discussed below. As at December 31, 2018 there were $50 of liabilities related to the assets held for sale.

Prior to the classification of the land and building as held for sale, the recoverable amount was determined using a signed third-party purchase offer. As a result, an impairment loss of $511 was recognized in Impairment of property, plant and equipment and intangible assets.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement:

As at December 31, 2018 property, plant and equipment consisted of:

	BVVE and electrical equipment	Mineral assets	Land and buildings	Leasehold improvements	Vehicles	Total
Cost:						
Balance as of November 6, 2017	-	-	-	-	-	-
Acquisition from shareholders (share-based transactions)	15,062	-	-	-	-	15,062
Additions during the period	6,696	-	-	412	-	7,108
Balance as of December 31, 2017	21,758	-	-	412	-	22,170
Acquisition through reverse acquisition and business combination	18	9,000	-	15	130	9,163
Additions during the period	13,837	-	3,865	1,713	208	19,623
Dispositions during the period	(174)	-	-	-	(5)	(179)
Transfer to assets held for sale	-	-	(1,832)	-	-	(1,832)
Balance as of December 31, 2018	35,439	9,000	2,033	2,140	333	48,945
Accumulated depreciation, amortization and impairment:						
Balance as of November 6, 2017	-	-	-	-	-	-
Depreciation and amortization	807	-	-	22	-	829
Balance as of December 31, 2017	807	-	-	22	-	829
Depreciation and amortization	10,348	-	81	362	93	10,884
Dispositions during the period	(39)	-	-	-	(2)	(41)
Impairment losses	15,308	-	511	1,146	-	16,965
Transfer to assets held for sale	-	-	(554)		-	(554)
Balance as of December 31, 2018	26,424	-	38	1,530	91	28,083
Net book value December 31, 2018	9,015	9,000	1,995	610	242	20,862
Net book value December 31, 2017	20,951	-	-	390	-	21,341

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (Cont.)

Further details of the blockchain verification and validation equipment held by the Company are as follows:

	Antminer S9 (BTC/BCH)	Antminer S7 (BTC/BCH)	Antminer L3+ (LTC)	Antminer D3 (DASH)	Radeon RX470 (ETH)	Other GPU (ETH)
Quantity as of November 6, 2017	-	-	-	-	-	-
Acquisition from shareholders (Share-based transactions)	8,097	860	500	400	2,823	135
Additions during the period	2,500	-	-	-	-	-
Balance as of December 31, 2017	10,597	860	500	400	2,823	135
Additions (disposals) during the period	6,091	-	-	-	(597)	-
Balance as of December 31, 2018	16,688	860	500	400	2,226	135

Of the equipment listed above 689 Antminer S9 were not operational and awaiting repair in Backbone's specialized repair lab as of December 31, 2018. All Antminer S7, Antminer D3 and Radeon RX470 and other GPUs were not operational as of December 31, 2018 due to reduced profitability resulting from changes in economic conditions rendering their use unfavorable.

In addition to the equipment details listed above, Backbone entered into profit sharing agreements with two parties to host 1,165 Antminer S9's. The profit-sharing agreements are structured such that Backbone does not share the profits with the other parties unless minimum profitability thresholds are met. Once the profitability threshold is met, the other parties are entitled to 39% of the revenues and Backbone must pay all related electricity costs. The contracts can be terminated by either party at any time. For the period ended December 31, 2018, Backbone mined a total of approximately 63 Bitcoin using the hosted Antminer S9's, but at no point during the reporting period was the profitability threshold met.

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (Cont.)

b. Impairment of property, plant and equipment and intangible assets:

At the end of 2018, due to the continued significant decline in the Bitcoin market price, the Company performed an evaluation of the recoverable amount of the property, plant and equipment and intangible assets. As these groups of assets do not generate cash inflows that are independent of each other, the recoverable amount was calculated for the cash-generating unit ("CGU") comprised of the assets of BVVE and electrical equipment, leasehold improvements and software used in cryptocurrency mining.

Based on a calculation of value in use performed by an independent appraiser, an impairment loss of $18,549 was recorded in respect of the aforementioned assets in the CGU to their recoverable amount. The impairment loss was recognized in profit or loss under Impairment of property, plant and equipment and intangible assets.

The value in use of the CGU was determined based on the present value of the expected cash flows over a four-year period discounted at rates from 21% to 28% in varying scenarios.

Key assumptions

The value in use for the cash-generating unit is liable to change if any change occurs in the following assumptions:

- Revenues
- Discount rate
- Energy prices

Revenues – Two optimistic, two pessimistic and one status quo scenario were used in estimating future bitcoin price and network difficulty, which are key factors in predicting revenues from cryptocurrency mining. Management assigned probabilities to each scenario, which were used to calculate weighted average expected outcomes. The weighted average bitcoin price and network difficulty used in the four-year projections was $5.7 and 5.5^12. The weighted average difficulty is lower than the difficulty as at the reporting date due to management's estimate that difficulty will decrease as a result of the halving expected to occur in 2020.

Discount rate - the discount rate reflects management's assumptions regarding the unit's specific risk. The discount rates used were estimated at 21% to 28%, with some of the risk already being implicitly reflected through management's allocation of probabilities to the various scenarios included in the revenue calculation.

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (Cont.)

Energy prices – management estimated that energy prices would remain constant for the duration of the forecasted years, however there may be uncertainty of electricity prices due to the ongoing discussions with Hydro Quebec and the Régie de l'énergie, who are responsible for setting electricity prices in Quebec, Canada.

c. Mineral assets:

In connection with the reverse acquisition (see Note 6), the Company engaged an independent appraiser to determine the fair value as at April 12, 2018 of Suni, an iron ore mine held by the Company as of that date. According to the findings of a resource valuation prepared for Suni in 2011 (by JORC Code, The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves) with estimated dilution of 20%, the deposit consists of about 280.2 million tons at about 28% of Fe of which about 95.1 million tons at about 28.5% in the indicated category and about 185.1 million tons at about 27.8% in the inferred category. The appraiser's valuation report was based on the comparison method and the analysis of similar assets.

Following certain adjustments resulting from changes in the price of iron ore, among other variables, Suni's value at April 12, 2018 was estimated at $9,000. The independent appraiser was further engaged in January 2019 to determine Suni's fair value as at December 31, 2018. Using the same valuation techniques, the appraiser determined that the value of Suni was not below $9,000 and that there was no impairment to Suni's value. The fair value measurement is categorized as level 2 in the fair value hierarchy.

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

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

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 16: INTANGIBLE ASSETS

Compositions and movements:

	Systems software	Customer lists	Total
Cost:			
Balance as of November 6, 2017	-	-	-
Acquisition from shareholders (share-based transactions)	5,000	-	5,000
Additions during the period	-	-	-
Balance as of December 31, 2017	5,000	-	5,000
Additions through business combination		50	50
Balance as of December 31, 2018	5,000	50	5,050
Accumulated amortization and impairment:			
Balance as of November 6, 2017	-	-	-
Amortization	278	-	278
Balance as of December 31, 2017	278	-	278
Amortization	1,639	25	1,664
Impairment loss (see Note 15 b.)	2,095	-	2,095
Balance as of December 31, 2018	4,012	25	4,037
Net book value December 31, 2018	988	25	1,013
Net book value December 31, 2017	4,722	-	4,722

NOTE 17: - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31, 2018 and 2017, accounts payable and accrued liabilities consisted of:

	December 31, 2018	December 31, 2017
Trade accounts payable	$ 2,622	$ 4,382
Government remittances	125	-
Trade payable to companies controlled by directors	73	72
	$ 2,820	$ 4,454

NOTE 18: LONG-TERM DEBT

As at December 31, 2018, long-term debt consisted of:

a. Backbone signed an agreement to purchase BVVE in the amount of $2,000, with an outstanding balance of $1,438 at December 31, 2018. According to the agreement, the abovementioned amount will be repaid in 20 equal monthly instalments commencing on June 15, 2018. A discount rate of 8% was used to calculate the present value of the installments and record the BVVE in the amount of $1,826 upon acquisition.

b. Volta signed several agreements to purchase vehicles, with an outstanding balance of $125 (CAD $169,000) at December 31, 2018. Nine notes payable, bearing interest between 3.49% and 7% repayable in monthly instalments totaling $3.8 (CAD $5,275) principal and interest, maturing between February 2019 and November 2023, secured by vehicles having a net carrying value of $141.

c. Volta received long-term vendor financing with an outstanding balance of $155 (CAD $213,000) bearing interest at 5%, payable by monthly instalments of $3.8 (CAD $5,198) principal and interest, maturing September 2022.

As at December 31, 2018, current maturities of the long-term debt amounted to $1,025.

NOTE 19: INCOME TAXES

a. Tax rates applicable to the Group:

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

The principal tax rates applicable to companies in the Group whose place of incorporation is in Canada is 26.7%.

b. Final tax assessments:

The Company has received final tax assessments up to and including the 2014 tax year. For Volta the 2014 tax year is deemed final.

c. Loss carryforwards for tax purposes and other temporary differences:

The Company has operating losses available for carryforward to future years of approximately NIS 21,500 thousand ($5,750) as of December 31, 2018, to be offset against future tax profits for an indefinite period. In respect of temporary differences in the Group's companies amounting to approximately $15,200, deferred tax assets of $4,052 were not recognized, due to the uncertainty as to their utilization in the foreseeable future.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 19: INCOME TAXES (Cont.)

d. Deferred taxes:

Deferred taxes are computed at a tax rate of 26.7% (2017 - 26.8%), based on tax rates expected to apply at the time of realization.

	December 31 2018	December 31, 2017
Deferred tax liabilities		
Tangible and intangible assets	-	702

e. Taxes on income included in profit or loss:

	For the year ended December 31 2018	For the 56 days ended December 31, 2017
Current tax expense		
Current year	27	1,281
Prior year	734	-
Deferred tax expense (benefit)		
Current year	-	702
Prior year	(702)	-
	59	1,983

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 19: INCOME TAXES (Cont.)

f. Effective tax rate:

Tax on the Group's earnings before income taxes differs from the theoretical amount that would arise using the statutory tax rate applicable to earnings as follows:

	For the period ended December 31 2018	For the 56 days ended December 31, 2017
Income tax expense at statutory rate of 26.7% (2017-26.8%)	(4,853)	1,891
Increase (decrease) in taxes resulting from:		
Foreign rate differential	25	-
Non-deductible expenses	178	92
Losses and other temporary differences for which deferred tax assets not recognized	4,245	-
Foreign exchange on non-monetary assets	464	-
	59	1,983

The Group's effective tax rate for the year ended December 31, 2018 is 0% (2017 - 28.7%).

NOTE 20: ASSET RETIREMENT PROVISION

As at December 31, 2017, the Group estimated the gross cost of restoring its leased premises to their original state at the end of their respective lease terms as $256 and discounted the provision at 5% over the lease term to arrive at a present value of $207. In 2018 this provision has been increased to $311 due to continuing improvements to leased premises. The discount rate has been revised to 8% based on management's best estimate, which has been accounted for prospectively. The discounted value of the new provision at 8% is $232. These amounts are expected to be paid upon termination of the leases over a period of two to five years.

NOTE 21: SHARE CAPITAL

a. Composition:

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

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 21: SHARE CAPITAL (Cont.)

b. Change in issued and outstanding share capital:

	Number of shares
Balance as at January 1, 2018	49,331,627
Non-controlling interest	(26,206,766)
Issuance of shares in connection with reverse acquisition	16,614,924
Balance as at December 31, 2018	39,739,785

In a reverse acquisition, the share capital should reflect the Company's legal capital. Therefore, Backbone's capital structure (quantity and class of shares issued) is restated using an exchange ratio of 1:1, determined in the reverse acquisition to reflect the number of shares the Company issued in the transaction.

c. Commitment to issue shares:

As described in Note 6, the completion of the reverse acquisition resulted in a Put / Call agreement between the Company and the former Backbone founding shareholders who did not exchange their shares in the transaction. The Put allows the founding shareholders to exchange 17,335,090 Backbone shares in exchange for 17,335,090 Ordinary shares of the Company. The Call allows the Company to issue 17,335,090 Ordinary shares of the Company in exchange for 17,335,090 shares of Backbone. The Put or Call can be exercised commencing from the six-month anniversary date of the transaction and they expire as of the seventh anniversary of the transaction. If neither the Put or Call are exercised prior to the seventh anniversary date, then the Company's Call is deemed to be exercised and the shares will be exchanged. Both agreements cannot be executed in parts and must be executed in full. Furthermore, the Company is required to reserve 17,335,090 Ordinary shares from its authorized capital in order to fulfill the Put/Call agreement. As the exchange of shares is an obligatory event, the amount of $4,386 which was allocated to these shares has been classified in the equity of the Company as an obligation to issue shares and the shares are included in the calculation of basic earnings per share.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 22: FINANCIAL INSTRUMENTS

As described in Note 2w regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard"), the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

a. Financial assets:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 552	$ 4,518
Trade receivables, net	912	-
Share subscriptions held in trust	-	2,942
	$ 1,464	$ 7,460

b. Financial liabilities:

	December 31, 2018	December 31, 2017
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities	$ 2,820	$ 4,454
Current maturities of long-term debt	1,025	-
Long-term debt	693	-
	$ 4,538	$ 4,454

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

c. Risk management policy:

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

d. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

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

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 22: FINANCIAL INSTRUMENTS (Cont.)

A 5% increase or decrease in the USD/CAD exchange rates may have a material impact on net income or equity at December 31, 2018.

Balances in Canadian dollars are as follows:

	December 31, 2018	December 31, 2017
Share subscriptions held in trust	-	282
Cash and cash equivalents	615	-
Other receivables	471	652
Trade receivables, net	1,214	-
Accounts payable and accrued liabilities	3,726	1,387
Income taxes payable	1,044	1,608
Deferred income tax payable	-	883
Asset retirement provision	316	254

c. Credit risk:

Credit risk is the risk of an unexpected loss if a third party fails to meet its contractual obligations, including cash and cash equivalents. The risk regarding cash and cash equivalents is mitigated by holding the cash and cash equivalents through a Canadian chartered bank. The credit risk regarding trade receivables are derived mainly from sales to Volta's third party customers. The Company performs ongoing credit evaluations of its customers. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. The allowance for doubtful accounts is based on management's assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivable balances.

d. Liquidity risk:

Liquidity risk is a risk that the Group will not be able to pay its financial obligations when they are due. The Group's policy is to monitor its cash balances and planned cash flows generated from operations to ensure, as far as possible, that it maintains sufficient liquidity in order to pay its projected financial liabilities. The contractual maturities of trade and other payables are less than three months. Long-term debt includes financial obligations with contractual maturities as follows:

2019	$ 1,031
2020	560
2021 and thereafter	127
	$ 1,718

e. Market risk:

see note 1e.

NOTE 23: COMMITMENTS

The Group (as lessee) has entered into commercial real estate lease agreements to support its business activities. The leases are under non-cancellable terms and mature over a maximum of 5 years. The future minimum lease fees payable as of December 31, 2018 are as follows:

	Third parties	Related parties	Total	Third parties	Related parties	Total
	USD $			CAD $ (in thousands)		
2019	541	417	958	738	568	1,306
2nd through 5th years	1,602	1,206	2,808	2,185	1,646	3,831
	-	-	-	-	-	-
	2,143	1,623	3,766	2,923	2,214	5,137

NOTE 24: ADDITIONAL DETAILS IN REGARD TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

a. Revenues:

Details of the cryptocurrency mined and their related fair values at the time of mining are as follows:

	For the year ended December 31, 2018					
	Bitcoin	Bitcoin Cash	Dash	Lite Coin	Ethereum	Total $
Quantity	3,252	2,577	611	6,234	964	-
Fair value *)	25,747	4,178	153	734	536	31,348

	For the 56 days period ended December 31, 2017					
	Bitcoin	Bitcoin Cash	Dash	Lite Coin	Ethereum	Total $
Quantity	550	1,316	181	3,905	389	-
Fair value *)	6,626	3,190	112	474	191	10,593

The above figures differ from those included in Revenues as the Company's revenue recognition policy is to recognize revenues upon conversion of cryptocurrencies to fiat currency, see Note 2.i.

*) The Company based the fair value of the cryptocurrency mined at the time of mining on the prices quoted on www.coinmarketcap.com, which calculates the price by taking the weighted average prices, based on volume, reported in each cryptocurrency market. The fair value measurement is categorized as level 1 in the fair value hierarchy.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 24: ADDITIONAL DETAILS IN REGARD WITH STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont.)

b. Cost of Revenues:

	Year ended December 31, 2018	For the 56 days ended December 31, 2017
Energy and infrastructure expenses	8,487	673
Depreciation and amortization	12,548	1,107
Purchases of electrical components	708	-
Electrician salaries and payroll taxes	793	-
Net change in inventory	392	(431)
	22,928	1,349

c. General and administrative expenses:

	Year ended December 31, 2018	For the 56 days ended December 31, 2017
Salaries and payroll taxes	3,899	13
Professional services	3,039	92
Advertising and promotion	272	-
Insurance and other	644	-
Travel, motor vehicle and meals	621	30
Hosting and telecommunications	340	36
	8,815	171

NOTE 25: TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Balances with related parties:

	December 31, 2018	December 31, 2017
Accounts payable		
Directors' remuneration (included in accrued liabilities)	26	-
Companies controlled by directors	73	72
	99	72

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

NOTE 25: TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

b. Transactions with related parties:

During the twelve-month period ended December 31, 2018:

1. One of the companies in the Group was charged approximately $235 (2017 - $32) for telecommunication expenses by a company in which a director has significant influence.

   In addition, one of the companies in the Group was charged rent expense of approximately $597 (2017 - $111) by companies controlled by directors.

2. One of the group companies entered into an advisory agreement with two of the directors. The total consulting fees of directors totaled approximately $448 (2017 – nil).

3. One of the companies in the Group was charged sponsorship fees for a cryptocurrency conference by a company significantly influenced by a director totaling approximately $32 (2017 – nil).

4. One of the Companies in the Group was assigned rent and other security deposits made by a company controlled by directors approximating $226 in exchange for consideration approximating $226, of which $ 6 is included in accounts payable and accrued liabilities as at December 31, 2018.

5. During the year 3,346 Bitcoin and 1,790 Bitcoin Cash were sold to a company of which one of the Bitfarms shareholders is a director ("the Related Company") for $28,323. The 3,346 Bitcoin sold includes the conversion of other cryptocurrencies to Bitcoin using arm’s length exchanges. The Group monitors the market rate for cryptocurrency exchanges and regularly compares the basis points being charged to ensure optimization of the sale of cryptocurrency. The Group is under no obligation to sell to the company of which the shareholder is a director. As of the issuance of these financial statements, the Company ceased its exchange of cryptocurrencies through the Related Company.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 25: TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

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

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

	Year ended December 31, 2018	For the 56 days ended December 31, 2017
Revenues	$ 28,323	$ -
Cost of sales	(597)	(163)
General and administrative	(715)	(170)
	$ 27,011	$ (333)

c. Compensation of key management and directors

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

The remuneration paid to directors and members of key management personnel during the period ended December 31, 2018 are as follows:

	Year ended December 31, 2018	For the 56 days ended December 31, 2017
Short-term benefits	753	20
Share based payments	746	-
	1,499	20

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 26: -CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure its ability to maximize the return of its shareholders. The Group's definition of capital includes all components of equity. Capital for the reporting period is summarized in Note 21 and in the consolidated statement of changes in equity. In order to meet its objectives, the Group monitors its capital structure and makes adjustments as required in light of changes in economic conditions and the risk characteristics of the underlying assets. These objectives will be achieved by maintaining a strong capital base so as to maintain investor confidence to sustain future development of the business, maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations and ensuring sufficient liquidity to pursue organic growth.

In order to maintain or adjust the capital structure, the Group may issue new common shares or funded debt. As at December 31, 2018, the Group is not subject to any externally imposed capital requirements.

NOTE 27: INVESTMENTS IN INVESTEES

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

Also, in 2011, Bitfarms established Pembroke & Timberland, LLC ("Pembroke") in the State of Maine, USA which is also wholly owned and controlled by Bitfarms. Pembroke is registered as the legal owner of the Pembroke mineral asset as described in Note 15.

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

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

Excluding the mineral assets with a carrying amount of $9,000, substantially all of the other assets, liabilities, revenues, expenses and cash flows in the consolidated financial statements are those of Backbone and of Volta.

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 28: NET EARNINGS PER SHARE

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

	Year ended December 31, 2018		For the 56 days ended December 31, 2017	
	Weighted average shares outstanding	Net loss attributable to the shareholders of the Company	Weighted average shares outstanding	Net income attributable to the shareholders of the Company
	Number of shares	Thousands of US dollars	Number of shares	Thousands of US dollars
Total shares issued and outstanding	39,581	-	40,332	-
Total exchangeable shares	17,335	-	17,335	-
Total shares	56,916	-	57,667	-
Net income (loss) for the calculation of basic earnings per share	-	(9,363)	-	4,905
Total shares for the calculation of basic and diluted net earnings (loss) per share	56,916	(9,363)	57,667	4,905

For 2018, potentially dilutive securities (share based payment – see Note 29) have not been included in the calculation of diluted earnings (loss) per share because their effect is antidilutive. In 2017 there were no potentially dilutive securities.

	Year ended December 31, 2018	For the 56 days ended December 31, 2017
Basic and diluted earnings (loss) per share	(0.16)	0.08

NOTE 29: SHARE BASED PAYMENT

a. Expense recognized in the financial statements

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

	Year ended December 31, 2018	For the 56 days ended December 31, 2017
Equity-settled share-based payment plans	746	-
Total expense arising from share-based payment transactions	746	-

U.S. dollars in thousands, except share data and quantity of PPE and Inventories

NOTE 29: SHARE BASED PAYMENT (Cont.)

b. Share-based payment plan for senior executives:

The share-based payment transactions entered into between the Group and its employees are described below. During the twelve-month period ended December 31, 2018 and the 56 days ended December 31, 2017, there have been no modifications or cancellations to any of the employee benefit plans.

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

Dividend yield (%)	-
Expected volatility of the share price (%)	83%
Risk-free interest rate (%)	2%
Expected life of share options (years)	5.5
Share price (U.S. Dollar)	2.10

Based on the above inputs, the fair value of the options was determined at $1.74 at the grant date.

On March 7, 2018, the board of directors at the general meeting of the shareholders of Backbone approved a plan according to which 500,000 options to purchase 500,000 Common A shares were granted to the CEO of Backbone. The exercise price of the share options is US $0.69 and the expiry date is March 7, 2028.

The options that were granted to the CEO of Backbone vest over a period of two years. The number of options exercisable as at December 31, 2018 is 166,666.

c. Other equity instruments

On May 22, 2018, the board of directors at the general meeting of the shareholders of the Company approved a plan according to which 100,000 restricted shares of Backbone will be granted to the CFO of Backbone. The fair value of the restricted shares that were granted on that day was US $1.6.

The restricted shares that were granted to the CFO of Backbone will vest over a period of two years. The number of restricted shares vested to the CFO of Backbone as at December 31, 2018 was 24,999.

NOTE 30: SUBSEQUENT EVENTS

a. On March 15, 2019, Backbone entered into a secured debt financing facility for up to $20,000 with Dominion Capital LLC (the Lender). The debt facility is structured into four separate loan tranches of $5,000 per tranche. Each loan tranche bears interest at 10% per annum and the term of each loan tranche is 24 months with a balloon payment for any remaining outstanding balance at the end of the term of the loan tranche (subject to the achievement of the milestones agreed upon in the agreement). A monthly payment equivalent to 10% of the value of cryptocurrencies mined by Backbone during the month is required in repayment of the total loan tranches drawn. The monthly payments shall be applied to interest and the balance to principal and, in the event that the amount of the cryptocurrency mined is less that than the amount of interest owing, such additional amount shall be remitted such that the interest is payable in full on a current basis. The loan tranches are fully secured by the assets of Backbone and Volta on a first priority basis.

In addition, the Bitfarms Ltd. (Canada), as described in note 30.b. below, will issue 1,666,667 Lender warrants to acquire 1,666,667 shares of Bitfarms Ltd. (Canada) for each loan tranche drawn with an exercise price of $0.40 per share and an expiration date of five years. If all of the loan tranches are drawn, an aggregate of 6,666,668 Lender warrants to acquire 6,666,668 shares will be issued. On March 15, 2019, the first loan tranche was drawn down for net proceeds of approximately $4,300 ($5,000 less transaction fees related to the financing and repayment of certain pre-existing debts) and 1,666,667 Lender warrants were issued with an expiry date of March 15, 2024. Management has not yet determined the value of the warrants as at the report date.

After the drawing of the initial loan tranche, each subsequent loan tranche may be drawn down, conditional upon meeting certain agreed upon milestones related to operational infrastructure expansion. There is no obligation to drawdown any subsequent loan tranches. Each loan tranche not drawn down within four months from the drawdown schedule (the Company expects to meet all milestones during 2019) are no longer available unless otherwise agreed by the Lender.

b. On March 27, 2019, the Company, through a newly formed Canadian company, Bitfarms Ltd. (Canada), filed a preliminary prospectus with the Ontario Securities Commission to commence a regulatory process to investigate a potential public listing on the Canadian TSX Venture Exchange ("TSXV"). The preliminary prospectus is a "non-offering" filing and no securities are anticipated to be offered pursuant to the preliminary prospectus.

On April 8, 2019, a Special General Meeting will be called for shareholders of the Company to vote on a proposed arrangement of the Company and Bitfarms Ltd. (Canada) whereby shareholders will exchange their shares in the Company on a 1:1 basis for shares of Bitfarms Ltd. (Canada). Subject to an affirmative vote and approval from the Israel Securities Authority, the Company will be delisted from the Tel Aviv Stock Exchange (the "Arrangement"). In the event the Arrangement is approved by shareholders, the Company will not proceed to close the Arrangement until conditional approval for listing of Bitfarms Ltd. (Canada) common shares on the TSXV is obtained.

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