



AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2019

U.S. DOLLARS IN THOUSANDS

UNAUDITED

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Note	June 30, 2019 <u>Unaudited</u>	December 31, 2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 5,354	\$ 552
Trade receivables, net		927	912
Other assets	4	801	429
Inventories	5	285	124
		<u>7,367</u>	<u>2,017</u>
Assets held for sale	6	56	1,278
Total current assets		<u>7,423</u>	<u>3,295</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net	7	24,238	20,862
Right-of-use assets	2	5,074	-
Intangible assets, net		723	1,013
Long-term deposits and advance payments on equipment	8	7,402	1,063
		<u>37,437</u>	<u>22,938</u>
Total non-current assets		<u>37,437</u>	<u>22,938</u>
Total assets		<u>\$ 44,860</u>	<u>\$ 26,233</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	9	\$ 3,092	\$ 1,025
Current maturities of lease liability	2	650	-
Accounts payable and accrued liabilities		2,619	2,820
Income taxes payable		754	761
		<u>7,115</u>	<u>4,606</u>
Liabilities held for sale		-	50
Total current liabilities		<u>7,115</u>	<u>4,656</u>
NON-CURRENT LIABILITIES:			
Long-term debt	9	9,596	693
Lease liability	2	4,496	-
Embedded derivative	9	409	-
Asset retirement provision	10	197	232
Warrant liability	9	4,150	-
		<u>18,848</u>	<u>925</u>
Total non-current liabilities		<u>18,848</u>	<u>925</u>
Total liabilities		<u>25,963</u>	<u>5,581</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	11	162	162
Share premium		26,353	19,650
Obligation to issue shares		-	4,386
Accumulated deficit		<u>(10,879)</u>	<u>(8,755)</u>
		15,636	15,443
Non-controlling interest		<u>3,261</u>	<u>5,209</u>
Total equity		<u>18,897</u>	<u>20,652</u>
Total liabilities and equity		<u>\$ 44,860</u>	<u>\$ 26,233</u>

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

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
(LOSS)**
U.S. dollars in thousands (except earnings per share)

	Note	Three months ended		Six months ended	
		June 30,		June 30,	
		2019	2018	2019	2018
		Unaudited			
Revenues		\$ 8,517	\$ 6,592	\$ 12,146	\$ 22,285
Cost of revenues		4,587	4,804	8,003	9,907
Gross profit		3,930	1,788	4,143	12,378
General and administrative expenses		3,359	2,506	5,282	4,713
Listing cost of reverse acquisition		-	1,000	-	1,000
		3,359	3,506	5,282	5,713
Operating income (loss)		571	(1,718)	(1,139)	6,665
Financial expenses	9	1,891	42	2,187	136
Income (loss) before taxes on income		(1,320)	(1,760)	(3,326)	6,529
Taxes on income (tax benefit)		-	(423)	-	1,791
Net income (loss) and total comprehensive income (loss)		<u>\$ (1,320)</u>	<u>\$ (1,337)</u>	<u>\$ (3,326)</u>	<u>\$ 4,738</u>
Attributable to:					
Equity holders of the Company		\$ (834)	\$ (1,222)	\$ (2,124)	\$ 4,853
Non-controlling interests		(486)	(115)	(1,202)	(115)
		<u>\$ (1,320)</u>	<u>\$ (1,337)</u>	<u>\$ (3,326)</u>	<u>\$ 4,738</u>
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):					
Basic and diluted net earnings (loss) per share	14	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ 0.08</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Equity attributable to equity holders of the Company						Total equity
	Share capital	Obligation to issue shares	Share premium	Retained earnings (accumulated deficit)	Total	Non-controlling interest	
Balance as of January 1, 2019	\$ 162	\$ 4,386	\$ 19,650	\$ (8,755)	\$ 15,443	\$ 5,209	\$ 20,652
Share-based payment	-	-	1,410	-	1,410	-	1,410
Share-based payment in legal subsidiary	-	-	-	-	-	161	161
Exchange of share-based payment from legal subsidiary to the Company	-	-	907	-	907	(907)	-
Exchange of exchangeable shares issued in the reverse acquisition	-	(4,386)	4,386	-	-	-	-
Net loss and total comprehensive loss	-	-	-	(2,124)	(2,124)	(1,202)	(3,326)
Balance as of June 30, 2019 (unaudited)	<u>\$ 162</u>	<u>\$ -</u>	<u>\$ 26,353</u>	<u>\$ (10,879)</u>	<u>\$ 15,636</u>	<u>\$ 3,261</u>	<u>\$ 18,897</u>
Balance as of January 1, 2018	\$ 115	\$ -	\$ 22,884	\$ 4,905	\$ 27,904	\$ -	\$ 27,904
Net income and total comprehensive income	-	-	-	4,853	4,853	(115)	4,738
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)	(4,298)	(13,337)	13,337	-
Share-based payment in legal subsidiary	-	-	-	-	-	383	383
Balance as of June 30, 2018 (unaudited)	<u>\$ 162</u>	<u>\$ 4,386</u>	<u>\$ 19,650</u>	<u>\$ 5,460</u>	<u>\$ 29,658</u>	<u>\$ 13,605</u>	<u>\$ 43,263</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,	
	2019	2018
	Unaudited	
Cash flows from operating activities:		
Net income (loss)	\$ (3,326)	\$ 4,738
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,647	5,933
Interest expense	821	110
Deferred taxes, net	-	397
Listing costs of reverse acquisition	-	1,000
Share-based payment	1,571	383
Financial expenses	1,382	48
Interest paid	(821)	(110)
Provision for asset retirement	16	24
	<u>5,616</u>	<u>7,607</u>
Changes in non-cash working capital components (A)	<u>(801)</u>	<u>(889)</u>
Net cash provided by operating activities	<u>1,489</u>	<u>11,634</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(5,870)	(20,772)
Proceeds from sale of property, plant and equipment	1,405	-
Advance payments for equipment	(6,120)	-
Acquisition of a subsidiary (B)	-	387
Reverse acquisition transaction (C)	-	182
Net cash used in investing activities	<u>(10,585)</u>	<u>(20,203)</u>
Cash flows from financing activities:		
Issuance of ordinary shares in 2017	-	2,942
Issuance of warrants	3,368	-
Proceeds from long-term debt, net	11,310	1,826
Prepaid transaction fees related to long-term financing facility	(109)	-
Repayment of lease liabilities	(331)	-
Repayment of long-term debt	(340)	(118)
Net cash provided by financing activities	<u>13,898</u>	<u>4,650</u>
Increase (decrease) in cash and cash equivalents	4,802	(3,919)
Cash and cash equivalents at beginning of period	<u>552</u>	<u>4,518</u>
Cash and cash equivalents at end of period	<u>\$ 5,354</u>	<u>\$ 599</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,	
	2019	2018
	Unaudited	
(A) <u>Changes in asset and liability items:</u>		
Increase in trade receivables, net	\$ (15)	\$ -
Increase in other assets	(372)	(89)
Increase in inventories	(161)	(1,072)
Increase in long-term deposits	(294)	(426)
Increase in accounts payable and accrued liabilities	98	993
Increase (decrease) in income taxes payable	(7)	1,313
Decrease in liabilities held for sale	(50)	(1,608)
	<u>\$ (801)</u>	<u>\$ (889)</u>
(B) <u>Acquisition of a subsidiary consolidated for the first time:</u>		
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
	<u>\$ -</u>	<u>\$ 387</u>
(C) <u>Reverse acquisition transaction:</u>		
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
	<u>\$ -</u>	<u>\$ 182</u>
(D) <u>Significant non-cash transactions:</u>		
Addition of right-of-use assets	\$ 175	\$ -
Purchase of property, plant and equipment financed by short-term credit	\$ 708	\$ 736

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE****NOTE 1:- GENERAL**

- a. The Company was incorporated under the Canada Business Corporations Act on October 11, 2018 and has its registered and head office located at 18 King St. E, Suite 902, Toronto, ON M5C 1C4. On June 12, 2019 the Company and Bitfarms Ltd. (Israel) completed a reorganization under which all of the outstanding shares of Bitfarms Ltd. (Israel) were exchanged for newly issued common shares of the Company on a 1:1 basis (the "Arrangement"). On the same date, all outstanding exchangeable shares of Backbone Hosting Solutions Inc. were exchanged on a 1:1 basis (the "Arrangement") for newly issued common shares in the Company. Prior to completion of the Arrangement Bitfarms Ltd. (Israel) delisted from the Tel Aviv Stock Exchange. On July 16, 2019 the Company began trading on the TSX Venture Exchange ("TSXV").
- b. These interim financial statements have been prepared in a condensed format as of June 30, 2019 and for the six months and three months then ended ("interim consolidated financial statements"). The interim consolidated financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2018, and for the year then ended and accompanying notes ("annual consolidated financial statements").
- c. For the six months ended June 30, 2019, the Company incurred a net loss of \$3,326. As of June 30, 2019, the Company had positive working capital of \$308. In March 2019, the Company entered into a secured debt financing facility for up to \$20,000, see Note 9 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 cryptocurrency mining operations.

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 the interim consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 1:- GENERAL (Cont.)

d. 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. | 9159-9290 Quebec Inc. | - | Volta |
| 4. | Bitfarms Ltd. (Israel) | - | Bitfarms Ltd. pre-share exchange |
| 4. | The Company and its subsidiaries | - | The Group |
| 5. | BTC | - | Bitcoin |
| 6. | BCH | - | Bitcoin Cash |
| 7. | LTC | - | Litecoin |
| 8. | ETH | - | Ethereum |
| 9. | BVVE | - | Blockchain Verification and Validation Equipment |
| 10. | GPU | - | Graphic processing unit |
- e. These unaudited condensed interim consolidated financial statements were approved and authorized for Issuance by the Board of Directors on August 28, 2019.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, unless otherwise stated.

a. Basis of presentation of the financial statements:

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "*Interim Financial Reporting*".

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- b. Adoption of new accounting standards:

IFRS 16, "Leases"

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as of January 1, 2019 is as follows:

Assets	
Right-of-use assets	\$ *) 5,303
Liabilities	
Short-term	621
Long-term	<u>4,498</u>
Total liabilities	<u>\$ 5,119</u>

*) Includes reclassification of \$184 presented in long-term deposits as of December 31, 2018.

1. Nature of the effect of adoption of IFRS 16:

The Group has lease contracts for various farming facilities, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under other assets and accounts payable, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

As all of the Group's leases were previously classified as operating leases, the Group recognized right-of-use assets and lease liabilities for these leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The lease liabilities as of January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Farming facilities operating lease commitments as of December 31, 2018	\$ 3,737
Less:	
Commitments relating to short-term leases	(37)
Adjusted farming facilities operating lease commitments as of December 31, 2018	3,700
Add:	
Payments in optional extension periods not recognized as of December 31, 2018	3,033
Adjusted farming facilities operating lease commitments and optional extension periods not recognized as of December 31, 2018	6,733
Discount rate for portfolio of leases	8%
Lease liabilities as of January 1, 2019 (unaudited)	5,017
Vehicle operating lease commitments as of December 31, 2018	105
Discount rate for portfolio of leases	3.49%
Discounted operating lease commitments at January 1, 2019	102
Lease liabilities as of January 1, 2019 (unaudited)	102
Total lease liabilities as of January 1, 2019 (unaudited)	\$ 5,119

2. Summary of new accounting policies:

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognizes right-of-use assets as of January 1, 2019, at an amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)***Lease liabilities*

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term.

In calculating the present value of lease payments, the Group uses a single incremental borrowing rate as of January 1, 2019, to a portfolio of leases with reasonably similar characteristics. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured using a revised discount rate, with a corresponding adjustment to the related right-of-use asset, if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5). Lease payments for short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group included the renewal period as part of the lease term for leases of plant and machinery due to the significance of these assets to its operations. These leases have a non-cancellable period (i.e., three to ten years) and there will be a significant negative effect on production if a replacement is not readily available. The renewal options for leases of motor vehicles were not included as part of the lease term because the Group has a policy of leasing motor vehicles for not more than five years and, hence, not exercising any renewal options.

3. Amounts recognized in the statement of financial position and profit or loss:

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period (unaudited):

	<u>Farming facilities</u>	<u>Vehicles</u>	<u>Other equipment</u>	<u>Total ROU assets</u>	<u>Lease liabilities</u>
As of January 1, 2019	\$ 5,201	\$ 102	\$ -	\$ 5,303	\$ 5,119
Additions and extensions	88	27	60	175	175
Lease terminations	-	(8)	-	(8)	(8)
Depreciation	(372)	(22)	(2)	(396)	-
Payments	-	-	-	-	(493)
Interest	-	-	-	-	162
Foreign exchange loss on lease liabilities	-	-	-	-	191
As of June 30, 2019 (unaudited)	<u>\$ 4,917</u>	<u>\$ 99</u>	<u>\$ 58</u>	<u>\$ 5,074</u>	<u>\$ 5,146</u>

The Group recognized rent expense from short-term leases of \$38 for the six months ended June 30, 2019.

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 has been initially applied in these financial statements. The initial adoption of the Interpretation did not have a material effect on the interim consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 3:- OPERATING SEGMENTS

a. General:

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:

Backbone Backbone operates server farms that support the validation and verification of transactions on the blockchain, earning cryptocurrency tokens for providing these services.

Volta 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 financial expenses are managed on a group basis.

b. Reporting on operating segments:

	Three months ended June 30, 2019 (unaudited)			
	Backbone	Volta	Adjustments	Total
Revenues:				
External customers	\$ 7,687	\$ 830	\$ -	\$ 8,517
Inter segment revenues	-	910	(910)	-
Total revenues	<u>7,687</u>	<u>1,740</u>	<u>(910)</u>	<u>8,517</u>
Cost of revenues	<u>3,926</u>	<u>1,416</u>	<u>(755)</u>	<u>4,587</u>
Gross profit	<u>3,761</u>	<u>324</u>	<u>(155)</u>	<u>3,930</u>
General and administrative expenses	<u>3,117</u>	<u>157</u>	<u>-</u>	<u>3,274</u>
Segment profit	<u>\$ 644</u>	<u>\$ 167</u>	<u>\$ (155)</u>	<u>\$ 656</u>
Unallocated corporate expenses				85
Finance expenses				<u>1,891</u>
Loss before taxes on income				<u>\$ (1,320)</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Three months ended June 30, 2018 (unaudited)			
	Backbone	Volta	Adjustments	Total
Revenues:				
External customers	\$ 5,913	\$ 679	\$ -	\$ 6,592
Inter segment revenues	-	1,207	(1,207)	-
Total revenues	<u>5,913</u>	<u>1,886</u>	<u>(1,207)</u>	<u>6,592</u>
Cost of revenues	<u>4,169</u>	<u>1,555</u>	<u>(920)</u>	<u>4,804</u>
Gross profit	1,744	331	(287)	1,788
General and administrative expenses	<u>2,126</u>	<u>270</u>	<u>(117)</u>	<u>2,279</u>
Segment profit (loss)	<u>\$ (382)</u>	<u>\$ 61</u>	<u>\$ (170)</u>	<u>\$ (491)</u>
Unallocated corporate expenses				1,227
Financial expense, net				<u>42</u>
Loss before taxes on income				<u>\$ (1,760)</u>

	Six months ended June 30, 2019 (unaudited)			
	Backbone	Volta	Adjustments	Total
Revenues:				
External customers	\$ 10,687	\$ 1,459	\$ -	\$ 12,146
Inter segment revenues	-	1,439	(1,439)	-
Total revenues	<u>10,687</u>	<u>2,898</u>	<u>(1,439)</u>	<u>12,146</u>
Cost of revenues	<u>6,959</u>	<u>2,429</u>	<u>(1,385)</u>	<u>8,003</u>
Gross profit	<u>3,728</u>	<u>469</u>	<u>(54)</u>	<u>4,143</u>
General and administrative expenses	<u>4,715</u>	<u>297</u>	<u>-</u>	<u>5,012</u>
Segment profit (loss)	<u>\$ (987)</u>	<u>\$ 172</u>	<u>\$ (54)</u>	<u>\$ (869)</u>
Unallocated corporate expenses				270
Finance expenses, net				<u>2,187</u>
Loss before taxes on income				<u>\$ (3,326)</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Six months ended June 30, 2018 (unaudited)			
	Backbone	Volta	Adjustments	Total
Revenues:				
External customers	\$ 21,129	\$ 1,156	\$ -	\$ 22,285
Inter segment revenues	-	3,242	(3,242)	-
Total revenues	<u>21,129</u>	<u>4,398</u>	<u>(3,242)</u>	<u>22,285</u>
Cost of revenues	<u>8,976</u>	<u>3,351</u>	<u>(2,420)</u>	<u>9,907</u>
Gross profit	<u>12,153</u>	<u>1,047</u>	<u>(822)</u>	<u>12,378</u>
General and administrative expenses	<u>4,205</u>	<u>758</u>	<u>(477)</u>	<u>4,486</u>
Segment profit	<u>\$ 8,126</u>	<u>\$ 289</u>	<u>\$ (345)</u>	<u>\$ 7,892</u>
Unallocated corporate expenses				1,227
Financial expense, net				<u>136</u>
Income before taxes on income				<u>\$ 6,529</u>

NOTE 4:- OTHER ASSETS

	June 30, 2019 Unaudited	December 31, 2018
Sales taxes receivable	\$ 782	\$ 345
Prepaid expenses	<u>19</u>	<u>84</u>
	<u>\$ 801</u>	<u>\$ 429</u>

NOTE 5:- INVENTORIES

	June 30, 2019 Unaudited	December 31, 2018
Electrical components	\$ 151	\$ 85
Cryptocurrency tokens	<u>134</u>	<u>39</u>
	<u>\$ 285</u>	<u>\$ 124</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 5:- INVENTORIES (Cont.)

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

	June 30, 2019 (unaudited)				December 31, 2018			
	Bitcoin	Cash	Other	Total \$	Bitcoin	Cash	Other	Total \$
Quantity	31	-	221	-	11	-	-	-
Cost	\$ 119	-	\$ 15	\$ 134	\$ 39	-	-	\$ 39
Fair value*)	\$ 332	-	\$ 27	\$ 359	\$ 39	-	-	\$ 39

*) 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 as at June 30, 2019 and December 31, 2019. The fair value measurement is categorized as level 1 in the fair value hierarchy.

NOTE 6:- ASSETS HELD FOR SALE

On May 24, 2019, the Company's management decided to sell 2,500 Antminer L3+, and committed to carry out a plan for the sale of the property. The total proceeds are estimated to be \$310. As at June 30, 2019, the Company had received deposits totaling approximately \$150, included in accounts payable and accrued liabilities, and anticipates that the sale will be completed prior to September 30, 2019. Assets held for sale at December 31, 2018, were sold in February 2019 for approximately their carrying amount.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement:

As of June 30, 2019 and 2018, property, plant and equipment consisted of:

	<u>BVVE and electrical components</u>	<u>Mineral assets</u>	<u>Land and buildings</u>	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Total</u>
Cost:						
Balance as of January 1, 2019	\$ 35,439	\$ 9,000	\$ 2,033	\$ 2,140	\$ 333	\$ 48,945
Additions during the period	5,102	-	323	117	30	5,571
Dispositions during the period	(880)	-	-	-	-	(880)
Transfer to assets held for sale	(62)	-	-	-	-	(62)
Balance as of June 30, 2019 (unaudited)	<u>39,599</u>	<u>9,000</u>	<u>2,355</u>	<u>2,257</u>	<u>363</u>	<u>53,574</u>
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	<u>35,439</u>	<u>9,000</u>	<u>2,033</u>	<u>2,140</u>	<u>333</u>	<u>48,945</u>
Balance as of January 1, 2019	26,424	-	38	1,530	91	28,083
Depreciation	1,822	-	28	79	32	1,961
Dispositions during the period	(702)	-	-	-	-	(702)
Transfer to assets held for sale	(6)	-	-	-	-	(6)
Balance as of June 30, 2019 (unaudited)	<u>27,538</u>	<u>-</u>	<u>66</u>	<u>1,609</u>	<u>123</u>	<u>29,336</u>
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	<u>26,424</u>	<u>-</u>	<u>38</u>	<u>1,530</u>	<u>91</u>	<u>28,083</u>
Net book value December 31, 2018	<u>\$ 9,015</u>	<u>\$ 9,000</u>	<u>\$ 1,995</u>	<u>\$ 610</u>	<u>\$ 242</u>	<u>\$ 20,862</u>
Net book value as of June 30, 2019 (unaudited)	<u>\$ 12,061</u>	<u>\$ 9,000</u>	<u>\$ 2,289</u>	<u>\$ 648</u>	<u>\$ 240</u>	<u>\$ 24,238</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

Further details of the BVVE held by the Company are as follows:

	Antminer S9 (BTC/BCH)	Antminer T15	Antminer L3+ (LTC)	Innosilicon T2T (BTC/BCH)	GPU (ETH)	Other Antminer (BTC/BCH) (**)
Balance as of January 1, 2019 (*)	16,688		500		2,361	-
Additions during the period		1,554	2,400	1,446		517
Transfer to assets held for sale			(2,500)			
Dispositions during the period					(2,361)	
Balance as of June 30, 2019 (unaudited)	<u>16,688</u>	<u>1,554</u>	<u>400</u>	<u>1,446</u>	<u>-</u>	<u>517</u>

(*) Excludes Antminer S7 and Antminer D3 for which their carrying value was written off in 2018.

(**) Includes 116 Antminer S17, 399 Antminer S15 and 2 Antminer S11.

During the six months ended June 30, 2019 the Group disposed of all Ethereum mining hardware, consisting of 2,361 GPU'S with a net book value of \$178 for proceeds of \$135.

All Antminer S7 and Antminer D3 were not operational as of June 30, 2019 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 three and six month periods ended June 30, 2019, Backbone mined a total of approximately 62 and 118 Bitcoin (June 30, 2018 – nil) using the hosted Antminer S9's. As at June 30, 2019 accounts payable and accrued liabilities included \$56 payable to the two parties, as the profitability threshold was met during the three months ended June 30, 2019.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 8:- LONG-TERM DEPOSITS AND ADVANCE PAYMENTS ON EQUIPMENT

As of June 30, 2019 and December 31, 2018 deposits consisted of the following:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
	<u>Unaudited</u>	
Security deposits for rent and energy	\$ 754	\$ 644
Advance payments for mining hardware and supporting infrastructure	6,519	399
Prepaid transaction fees related to financing facility	<u>129</u>	<u>20</u>
	<u>\$7,402</u>	<u>\$ 1,063</u>

NOTE 9:- LONG-TERM DEBT

As of June 30, 2019, long-term debt consisted of the following:

- a. On March 15, 2019, the Group 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.

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 than the amount of interest owing, such additional amounts shall be remitted such that the interest is payable in full on a current basis.

The loan contains a "make-whole" clause which stipulates that the 10% interest rate is calculated on the initial principal balance of the loan tranche and does not decrease as the principal balance is repaid. The 10% interest rate is calculated over the 24-month term of each loan tranche regardless of whether the loan tranche is repaid prior to its maturity. Any unpaid interest at the earlier of the loan tranche's early repayment, or the loan tranche's 24-month maturity is included in the balloon payment.

The loan tranches are fully secured by the assets of the Group on a first-priority basis.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE****NOTE 9:- LONG-TERM DEBT (Cont.)**

Pursuant to the terms with the Lender, the Company is required to comply with certain covenants as long as any amount is outstanding. The significant covenants are to maintain a bank balance of \$1,000 at all times, as well as restrictions on issuing additional debt or selling property, plant and equipment without re-investing the proceeds into new purchases of property, plant and equipment.

The first three \$5,000 loan tranches were drawn down in March, April and June 2019. As of June 30, 2019, the carrying amount, including capitalized transaction fees and accrued interest, was \$11,330.

In addition, Bitfarms Ltd. (Canada) issued 1,666,667 Lender warrants, which vest upon issuance, 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. As described in Note 16, the fourth and final loan tranche was drawn down subsequent to June 30, 2019. As a result, an aggregate of 6,666,668 Lender warrants to acquire 6,666,668 shares have been issued as of the date of the approval of the financial statements.

The loan features result in a loan liability measured at amortized cost, a warrant liability component measured at fair value through profit or loss, and an embedded derivative measured at fair value through profit or loss.

Loan liability

The loan liability is initially measured as the residual amount of the proceeds received, net of transaction costs and the fair value of the warrant issuance. The loan is then measured at amortized cost using the effective interest method. Management used significant judgement and estimates when determining the effective interest rate. Payment amounts are determined as 10% of the cryptocurrency mined by Backbone. In order to calculate the effective interest rate, management had to estimate Backbone's future cryptocurrency mining revenues in order to estimate the timing and amount of future loan repayments. The effective interest rate was determined to be 26.93%, 30.16% and 37.10% for the first, second and third tranches, respectively. The carrying amount of the loan liability approximates its fair value. Included in financial expenses for the three and six months ended is \$23 and \$596 of interest expense related to the loan.

Key assumptions

Key assumptions used in recording the above loan features as of June 30, 2019, are described below. These assumptions are subject to change based on future developments and such changes could have a material effect on the warrant and derivative liabilities.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE****NOTE 9:- LONG-TERM DEBT (Cont.)**

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 projections upon the inception of Tranches #1 and #2 were \$5.4 and 5.36^{12} , respectively. The weighted average bitcoin price and network difficulty used in the projections upon the inception of Tranche #3 were \$10.2 and 7.82^{12} , respectively. The weighted average difficulty for the period of the projection is lower than the difficulty as of the reporting date due to management's estimate that difficulty will decrease as a result of the halving expected to occur in 2020.

Internal hashrate - Management was required to predict the growth of the Company's internal hashrate, one of the main revenue drivers in combination with bitcoin price and network difficulty, to predict revenues. Accordingly, management was required to make assumptions regarding the timing of all four loan tranche drawdowns as well as the pricing and availability of cryptocurrency mining hardware.

Transaction fees

Backbone incurred transaction fees of \$529 in order to secure the \$20,000 debt financing facility. Management intends and expects to drawdown all four loan tranches of \$5,000. As a result, the transaction fees are expected to benefit each loan tranche equally. As of June 30, 2019, \$128 of transaction fees relating to the fourth and final undrawn loan tranche are presented in other non-current assets in the interim consolidated statement of financial position. The \$444 of transaction fees related to the first three loan drawdowns, including additional transaction fees incurred subsequent to securing the debt financing facility, were allocated on a pro-rata basis with \$25, \$33 and \$38 allocated to the first, second and third warrant issuances, respectively, which were expensed as incurred. The remaining transaction fees amounting to \$123, \$115 and \$110 allocated to the first, second and third loan tranches, respectively, were deducted from the carrying amount of the loan and will be amortized over the term of the loan agreement.

Warrant issuance

In March, April and June 2019 Bitfarms Ltd. drew down the first three loan tranches, requiring the issuance of 1,666,667 warrants per loan tranche to the Lender to purchase 1,666,667 shares of Bitfarms Ltd. at an exercise price of \$0.40 per share, for a total of 5,000,001 warrants.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 9:- LONG-TERM DEBT (Cont.)

The following table lists the inputs to the Black & Scholes model used for the fair value measurement for the above issuance of warrants. The fair value measurement of the warrants is based upon level 2 inputs:

	Tranche 1	Tranche 2	Tranche 3	June 30, 2019
Dividend yield (%)	-	-	-	-
Expected volatility of the share price (%)	110%	114%	114%	115%
Risk-free interest rate (%)	2.4%	2.4%	1.8%	1.8%
Expected life of warrants (years)	5	5	5	4.8
Share price (U.S. Dollar)	0.62	0.73	0.83 *)	0.89 *)
Warrant value (U.S. Dollar)	0.57	0.68	0.77	0.83
Quantity of warrants	1,666,667	1,666,667	1,666,667	5,000,001
Total value	\$ 946	\$ 1,137	\$ 1,283	\$ 4,150

*) As of the drawdown date of tranche #3 as well as at June 30, 2019 the Company was not publicly traded. As a result, a linear regression model was used to estimate the share price as of the valuation dates. The linear regression model used a weighted average of the last five days of trading on the Tel Aviv Stock Exchange as well as the five days of trading on the TSXV ending August 2, 2019.

Based on the above inputs, the fair value of the warrants issued in connection with the first three tranche drawdowns, were determined to be \$0.57, \$0.68 and \$0.77 per warrant, for a total of \$946, \$1,138 and \$1,283, respectively for a total of \$3,367, upon their respective issuance dates.

The warrants contain an anti-dilutive feature that may result in a reduction in the exercise price in the event that Bitfarms Ltd. (Canada) issues shares at a price lower than the exercise price. As a result of this feature, the warrants will not necessarily result in a fixed number of shares being issued for a fixed price. The possibility of variation in the settlement price results in the warrants being classified as a liability that is measured at fair value through profit or loss. The warrants were remeasured as of June 30, 2019, and based on the above inputs, were determined to be valued at \$0.83 per warrant for a total of \$4,150. The resulting remeasurement resulted in an unrealized loss of \$782 included in financial expenses.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 9:- LONG-TERM DEBT (Cont.)*Embedded derivative*

The value of the "make-whole" clause described above will vary based on management's projections of the timing of the loan repayment, which are based on Backbone's cryptocurrency mining revenues. This interest feature has been accounted for as an embedded derivative that is measured at fair value through profit or loss. Since this is a non-option derivative, the fair value upon initial recognition of the loan liability is nil. As of June 30, 2019, management revised its projections of the timing of the loan repayment and discounted future payments to their present value using the effective interest rates determined upon inception of each loan tranche. The weighted average bitcoin price and network difficulty used in the projections in order to determine the fair value of the embedded derivative were \$10.2 and 7.82¹², respectively. The fair value measurement is based upon level 3 inputs, as a result management has performed a sensitivity analysis using varying discount rates:

	Scenario 1	Scenario 2	Scenario 3
Discount rate	25.5%	28.5%	31.5%
Total value	\$ 734	\$ 409	\$ 101

As of June 30, 2019, management recognized an embedded derivative liability with a fair value of \$409 resulting in an unrealized loss of the same amount included in financial expenses.

- b. Backbone signed an agreement to purchase BVVE in the amount of \$2,000, with an outstanding balance of \$1,081 at June 30, 2019 (December 31, 2018 - \$1,438). 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.
- c. Volta signed several agreements to purchase vehicles, with an outstanding balance of \$133 (CAD \$175,000) as of June 30, 2019 (December 31, 2018 - \$125). Ten notes payable, bearing interest between 3.49% and 8.2% repayable in monthly instalments totaling \$4.7 (CAD \$6,100) principal and interest, maturing between February 2019 and November 2023, secured by vehicles having a net carrying value of \$154.
- d. Volta received long-term vendor financing with an outstanding balance of \$144 (CAD \$187,000) bearing interest at 5%, payable by monthly instalments of \$4 (CAD \$5,198) principal and interest, maturing September 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 10:- ASSET RETIREMENT OBLIGATION

As of December 31, 2018, the Group estimated the costs of restoring its leased premises to their original state at the end of their respective lease terms to be \$311, discounted to present value of \$232 using a discount rate of 8% over the lease periods, which were estimated to range from two to five years depending on the location. Management has revised its estimate of the lease terms to be from two to ten years. The reason for the change in estimate was primarily based on securing the \$20,000 financing facility described in Note 9, as well as the local energy tribunal's decision to reject a proposed increase in electricity prices on cryptocurrency miners. These two factors have resulted in management's estimate that certain leases containing asset retirement provisions will be renewed, thus delaying the cash outlay required to restore the properties. The change in estimate resulted in a reduction of the asset retirement provision of \$51.

NOTE 11:- EQUITY

Composition:

	Authorized	Issued and outstanding	
	June 30, 2019 (unaudited)	June 30, 2019 (unaudited)	December 31, 2018
		Number of shares	
Common shares	Unlimited	39,739,885	39,739,785

On June 12, 2019 Bitfarms Ltd. (Israel) completed the Arrangement. which resulted in 39,739,785 Bitfarms Israel shares being exchanged on a 1:1 basis for 39,739,785 newly issued shares in the Company. The transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, Bitfarms Ltd. (Israel), 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, Bitfarms Ltd. Israel.

The Company was incorporated on October 11, 2018 for the purposes of obtaining a listing on the TSXV and engaging in the share exchange described above. The Company remained inactive from inception until the share exchange and had assets of \$100 CAD and shareholders' equity of \$100 CAD.

The legal stated capital of the Company is substantially the same as that of Bitfarms Ltd. (Israel).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 12:- ADDITIONAL DETAILS IN REGARD TO THE STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME*Revenues:*

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

	Three months ended June 30, 2019 (unaudited)					Total \$
	Bitcoin	Bitcoin Cash	Dash	Litecoin	Ethereum	
Quantity	974	-	-	4,857	-	-
Fair value *)	\$7,218	-	-	\$458	-	\$ 7,676

	Three months ended June 30, 2018 (unaudited)					Total \$
	Bitcoin	Bitcoin Cash	Dash	Litecoin	Ethereum	
Quantity	775	1,527	220	1,168	259	-
Fair value *)	\$ 5,754	\$ 2,217	\$ 78	\$ 148	\$ 149	\$ 8,346

	Six months ended June 30, 2019 (unaudited)					Total \$
	Bitcoin	Bitcoin Cash	Dash	Litecoin	Ethereum	
Quantity	1,811	-	-	6,352	-	-
Fair value *)	\$ 10,398	-	-	\$ 530	-	\$ 10,928

	Six months ended June 30, 2018 (unaudited)					Total \$
	Bitcoin	Bitcoin Cash	Dash	Litecoin	Ethereum	
Quantity	1,927	2,314	220	3,520	594	-
Fair value *)	\$ 17,787	\$ 4,130	\$ 78	\$ 604	\$ 437	\$ 23,036

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.

- *) 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 13:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

- a. Balances with related parties:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
	<u>Unaudited</u>	
Accounts payable:		
Directors' remuneration (included in accrued liabilities)	\$ 19	\$ 26
Companies controlled by directors	<u>53</u>	<u>28</u>
	\$ 72	\$ 54
Lease liabilities:		
Companies controlled by directors	<u>\$ 2,629</u>	<u>\$ -</u>

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

- b. Transactions with related parties:

During the three and six months periods ended June 30, 2019:

- One of the companies in the Group was charged approximately \$38 and \$79 for the three and six month periods ended June 30, 2019 (three and six month periods ended June 30, 2018 - \$43 and \$93) for telecommunication expenses by a company in which a director has significant influence.

In addition, one of the companies in the Group made rent payments totaling approximately \$144 and \$294 for the three and six month periods ended June 30, 2019 (three and six month periods ended June 30, 2018 - \$154 and \$303) to companies controlled by directors. For the three and six month periods ended June 30, 2019 the rent payments were classified as interest included in financial expenses and principal repayment of lease liabilities. For the three and six month periods ended June 30, 2018 rent payments were included in cost of sales.

- One of the companies in the Group entered into consulting agreements with two of the directors. The consulting fees charged by directors totaled approximately \$100 and \$200 for the three and six month periods ended June 30, 2019 (\$100 and \$248 for the three and six month periods ended June 30, 2018).
- One of the companies in the group sold 627 Bitcoin for the three and six months ended June 30, 2019 (717 Bitcoin and 2,239 Bitcoin for the three and six months ended June 30, 2018) to a company of which, at the time of such sales, had a director who was also a shareholder of Bitfarms Ltd. (Israel) for \$2,283 (\$5,913 and \$21,128 for the three and six months ended June 30, 2018).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 13:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

The Bitcoin sold includes the conversion of other cryptocurrencies to bitcoin using arm's length exchanges. The company of which one of the Bitfarms shareholders is a director ceased operating in the cryptocurrency industry as of March 11, 2019, and since that date Bitfarms has not transacted with this company.

4. As described in Note 1, on June 12, 2019, two Bitfarms founding shareholders exchanged 17,335,090 exchangeable shares of Backbone into 17,335,090 common shares of the Company.

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

These transactions were included in consolidated statements of profit or loss and comprehensive income as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	Unaudited			
Cost of revenues	\$ 171	\$ 258	\$ 359	\$ 398
General and administrative expenses	100	100	200	248
Financial expenses	53	-	89	-
	<u>\$ 324</u>	<u>\$ 358</u>	<u>\$ 648</u>	<u>\$ 646</u>

- c. Compensation of key management and directors:

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

The remuneration paid to directors and members of key management personnel are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	Unaudited			
Short-term benefits	\$ 271	\$ 196	\$ 502	\$ 419
Share based payments	1,439	195	1,549	383
	<u>\$ 1,710</u>	<u>\$ 391</u>	<u>\$ 2,051</u>	<u>\$ 802</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 14:- NET EARNINGS (LOSS) PER SHARE

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

	Three months ended June 30, (unaudited)			
	2019		2018	
	Weighted average shares outstanding Number of shares (in thousands)	Net loss attributable to the shareholders of the Company	Weighted average shares outstanding Number of shares (in thousands)	Net income attributable to the shareholders of the Company
Total shares issued and outstanding	43,207	-	39,740	-
Total exchangeable shares	13,868	-	17,335	-
Total shares for the calculation of basic and diluted net earnings per share	57,075	-	57,075	-
Net income (loss) for the calculation of basic and diluted earnings per share	-	\$ (834)	-	\$ (1,222)

	Six months ended June 30, (unaudited)			
	2019		2018	
	Weighted average shares outstanding Number of shares (in thousands)	Net loss attributable to the shareholders of the Company	Weighted average shares outstanding Number of shares (in thousands)	Net income attributable to the shareholders of the Company
Total shares issued and outstanding	41,473	-	44,536	-
Total exchangeable shares	15,602	-	17,335	-
Total shares for the calculation of basic and diluted net earnings per share	57,075	-	61,871	-
Net income (loss) for the calculation of basic and diluted earnings per share	-	\$ (2,124)	-	\$ 4,853

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 14:- NET EARNINGS (LOSS) PER SHARE (Cont.)

For 2019, potentially dilutive securities have not been included in the calculation of diluted earnings (loss) per share because their effect is antidilutive. For the six months ended June 30, 2018 potentially dilutive securities had nil effect on the calculation of diluted earnings (loss) per share.

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	Unaudited			
Basic and diluted earnings (loss) per share	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ 0.08</u>

NOTE 15:- SHARE BASED PAYMENT

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	Unaudited			
Equity-settled share-based payment plans	<u>\$ 1,460</u>	<u>\$ 195</u>	<u>\$ 1,571</u>	<u>\$ 383</u>

The share-based payment transactions entered into between the Group and its employees during the three and six month periods ended June 30, 2019 are described below.

On June 20, 2019, the Board of Directors approved a stock option plan which includes a maximum of 11,414,975 options to purchase 11,414,975 shares in the Company, exercisable within 5 years of the grant date. The plan that was approved June 20, 2019 included the grant of 7,554,998 options to purchase 7,554,998 shares which can be separated into three separate tranches:

- a. 4,805,000 options exercisable at \$0.99 CAD of which 2,601,667 vested as of the grant date with the remainder vesting in four equal tranches, every six months, over two years as of the grant date. The following table lists the inputs to the Black-Scholes model used to determine the fair value of the abovementioned options:

Dividend yield (%)	-
Expected volatility of the share price (%)	95%
Risk-free interest rate (%)	1.76%
Expected life of share options (years)	3
Share price (U.S. Dollar) *)	0.83

Based on the above inputs, the fair value of the options was determined at \$0.52 at the grant date.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE****NOTE 15:- SHARE BASED PAYMENT (Cont.)**

- b. 1,623,679 options exercisable at \$1.19 CAD of which 458,333 vests on December 20, 2019, 458,333 vest on March 20, 2020 and 707,013 vest on June 20, 2020. The following table lists the inputs to the Black-Scholes model used to determine the fair value of the above-mentioned options:

Dividend yield (%)	-
Expected volatility of the share price (%)	95%
Risk-free interest rate (%)	1.76%
Expected life of share options (years)	3
Share price (U.S. Dollar *)	0.83

Based on the above inputs, the fair value of the options was determined at \$0.48 at the grant date.

- c. 1,126,319 options contingent upon the share exchange with the non-controlling interest described in Note 16. The contingent options are exercisable at the greater of \$1.19 CAD or the closing share price as at the date of the share exchange. 209,653 contingent options vest on September 2020, 458,333 vest on December 20, 2020 and 458,333 vest on March 20, 2021. The closing price as at the date of the share exchange was \$1.25 CAD.

Dividend yield (%)	-
Expected volatility of the share price (%)	95%
Risk-free interest rate (%)	1.76%
Expected life of share options (years)	3
Share price (U.S. Dollar *)	0.83

Based on the above inputs, the fair value of the options was determined at \$0.56 at the grant date.

*) As of June 20, 2019 the Company was not publicly traded. As a result, a linear regression model was used to estimate the share price as of the valuation date. The linear regression model used a weighted average of the last five days of trading on the Tel Aviv Stock Exchange as well as the five days of trading on the TSXV ending August 2, 2019.

*) The conditions required for the contingent options were met in August 2019.

The plan also approved the modification of the 500,000 options to purchase 500,000 shares in Backbone and 100,000 restricted shares in Backbone previously granted to the CEO and CFO, respectively. The modification resulted in the options and shares previously granted to the CEO and CFO by Backbone to be replaced with the option to purchase 500,000 shares in Bitfarms and 100,000 restricted shares, respectively, in Bitfarms. The strike price of the options remains unmodified, and both the shares and options that were modified were deemed to be 67% vested as at the modification date and 33% over the next twelve months. As a result of the replacement of stock compensation in Backbone with stock compensation in the Company, the amounts originally recorded in non-controlling interest were transferred to shareholder's equity.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except per share, cryptocurrency data, warrants and quantity of PPE

NOTE 16:- SUBSEQUENT EVENTS AND PURCHASE COMMITMENTS*Loan drawdown*

On August 9, 2019, the Company drew down on the fourth and final \$5,000 loan tranche from the secured debt financing facility described in Note 9, which resulted in an obligation for the Company to issue 1,666,667 warrants.

Purchase commitments

On April 21, 2019, the Company entered into an agreement to purchase mining hardware for approximately \$6,500. As of the date of the approval of the interim consolidated financial statements, the Company has paid for the mining hardware and delivery is expected to occur in Q3 2019.

On June 21, 2019, the Company entered into an agreement to purchase mining hardware for \$4,400. The Company has placed deposits with the vendor totaling approximately \$3,100 as of the date of the approval of the interim consolidated financial statements. The Company has committed to pay an additional \$1,300 and delivery is expected to occur in early Q4 2019.

On August 8, 2019, the Company entered into an agreement to purchase mining hardware for \$5,750. The Company has placed deposits with the vendor totaling approximately \$2,800 as of the date of the approval of the interim consolidated financial statements. The Company has committed to pay an additional \$2,850 and delivery is expected to occur in early Q4 2019.

Share exchange

On August 15, 2019 the Company entered into a share exchange agreement to acquire all of the 26,295,655 Class A voting shares of Backbone in consideration for 26,295,655 Common shares of the Company. The fair value of the aggregate shares issued in connection to the transaction approximated \$24,900. The transaction had no net effect on the total equity of the Company. Prior to the transaction Bitfarms owned 60.7% of Backbone shares. Subsequent to the transaction, Bitfarms owns 100% of the issued and outstanding shares of Backbone. The share exchange agreement resulted in the removal of any non-controlling interest.

Lease Agreement Modification

On August 1, 2019, Bitfarms entered into a new lease agreement for the Cowansville farming facility as the former landlord, a company controlled by directors, sold the property a third-party unrelated to Bitfarms. The new lease contract is for the same underlying property and has a lease term of 10 years with two lease extension options of five years each. Monthly rent is approximately \$17 (\$22,000 CAD) with an increase based on the Consumer Price Index per Statistics Canada on December 31 of each year. Management has not yet determined the impact of this new lease agreement.
