

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Fortress Technologies Inc. (Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Opinion

We have audited the consolidated financial statements of Fortress Technologies Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the period from November 14, 2017 (date of incorporation) to December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on July 18, 2018.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements


Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

April 26, 2019

An independent firm associated with
Moore Stephens International Limited
MOORE STEPHENS

Fortress Technologies Inc.
(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)
Consolidated Statements of Financial Position
(In Canadian Dollars)

	December 31, 2018	December 31, 2017
Assets		
Current assets		
Cash	\$ 10,564,795	\$ 4,711,465
Digital currencies (Note 5)	10,408	-
Receivables and prepaid expenses (Note 6)	89,173	2,477
Deposits (Note 7)	122,714	130,000
	10,787,090	4,843,942
Property and equipment (Note 8)	942,025	6,415
Total assets	\$ 11,729,115	\$ 4,850,357
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Notes 9 and 12)	\$ 217,793	\$ 67,197
Due to shareholder (Note 12)	-	39,654
Share subscriptions received (Note 11)	-	4,761,582
	217,793	4,868,433
Convertible debentures (Note 10)	-	25,000
	217,793	4,893,433
Equity (Deficiency)		
Share capital (Note 11)	21,367,543	22,905
Reserves	1,569,399	40
Deficit	(11,425,620)	(66,021)
Total equity (deficiency)	11,511,322	(43,076)
Total liabilities and equity (deficiency)	\$ 11,729,115	\$ 4,850,357

Nature of operations and going concern (Note 1)
Subsequent events (Notes 1 and 16)

Approved by the Board of Directors and authorized for issue on April 26, 2019:

“Aydin Kilic” Director

“David Jaques” Director

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

Fortress Technologies Inc.
(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)
Consolidated Statements of Loss and Comprehensive Loss
(In Canadian Dollars)

	<i>November 14, 2017</i>	
	<i>(date of</i>	
	<i>Year ended</i>	<i>incorporation) to</i>
	<i>December 31, 2018</i>	<i>December 31, 2017</i>
Revenues (Note 5)	\$ 2,306,663	\$ -
Cost of sales		
Operating costs	(797,962)	-
Depreciation (Note 8)	(2,404,135)	-
	(895,434)	-
Loss on revaluation of digital currencies	(24,736)	-
Loss on sale of digital currencies	(418,042)	-
General and administrative expenses		
Depreciation (Note 8)	1,361	-
Business development	11,906	-
Management and consulting fees (Note 12)	300,541	-
Marketing	150,341	13,064
Office and administration	287,360	741
Professional fees (Note 12)	327,296	41,604
Repairs and maintenance	22,224	-
Salaries and wages (Note 12)	232,010	-
Share based compensation (Notes 11 and 12)	846,808	-
Travel	86,700	10,614
Foreign exchange	(89,026)	(2)
	2,177,521	(66,021)
Operating loss	(3,515,733)	(66,021)
Interest income	116,832	-
Impairment of property and equipment (Note 8)	(7,286,940)	-
Interest expense	(538)	-
Listing expense (Note 3)	(673,220)	-
	(7,843,866)	-
Net loss	(11,359,599)	(66,021)
Other comprehensive loss		
Translation adjustment	465,649	40
Net loss and comprehensive loss	\$ (10,893,950)	\$ (65,981)
Basic and diluted loss per share	\$ (0.17)	\$ (0.04)
Weighted average number of common shares outstanding - basic and diluted	67,648,557	1,531,917

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

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Consolidated Statements of Changes in Equity

(In Canadian Dollars)

	Number of Shares	Capital Amount	Cumulative translation adjustment	Equity reserved	Accumulated Deficit	Total Equity (Deficit)
Balance, November 14, 2017 (incorporation date)	2	\$ -	\$ -	\$ -	\$ -	\$ -
Share issued for cash (Note 11)	3,000,000	15,000	-	-	-	15,000
Share issuance costs (Note 11)	-	(17,095)	-	-	-	(17,095)
Debenture conversion (Notes 10 and 11)	5,000,000	25,000	-	-	-	25,000
Translation adjustment	-	-	40	-	-	40
Net loss for the period	-	-	-	-	(66,021)	(66,021)
Balance, December 31, 2017	8,000,002	22,905	40	-	(66,021)	(43,076)
Balance, January 1, 2018	8,000,002	\$ 22,905	\$ 40	\$ -	\$ (66,021)	\$ (43,076)
Units issued to WeHash (Note 4)	3,500,000	1,750,000	-	-	-	1,750,000
Recapitalization transaction:						
Equity of Focused Capital (Note 3)	1,900,003	950,002	-	-	-	950,002
Units issued for cash (Note 11)	5,400,000	540,000	-	-	-	540,000
Shares issued for cash (Note 11)	47,377,979	19,493,394	-	-	-	19,493,394
Share issuance costs (Note 11)	-	(1,413,758)	-	256,902	-	(1,156,856)
Debenture conversion (Note 10)	5,000,000	25,000	-	-	-	25,000
Share based compensation	-	-	-	846,808	-	846,808
Net loss for the year	-	-	-	-	(11,359,599)	(11,359,599)
Translation adjustment	-	-	465,649	-	-	465,649
Balance, December 31, 2018	71,177,984	\$ 21,367,543	\$ 465,689	\$ 1,103,710	\$ (11,425,620)	\$ 11,511,322

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

Fortress Technologies Inc.
(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)
Consolidated Statements of Cash Flows
(In Canadian Dollars)

	<i>For the year ended</i>	<i>December 31, 2018</i>	<i>From November 14, 2017 (date of incorporation) to December 31, 2017</i>
Operating activities			
Loss	\$	(11,359,599)	\$ (66,021)
Depreciation		2,404,135	-
Listing expense		441,077	-
Share based compensation		846,808	-
Revaluation of digital currencies		24,736	-
Loss on sale of digital currencies		418,042	-
Impairment of Property, plant & equipment		7,286,940	
Change in non-cash working capital components			
Increase in receivables and prepaid expenses		(81,378)	(2,477)
Increase in payables and accrued liabilities		135,486	67,197
Increase in deposits		(116,110)	-
Increase in digital currencies		(442,215)	-
Due to shareholders		(40,221)	39,654
Cash provided by (used in) operating activities		(482,299)	38,353
Investing activities			
Purchase of property and equipment		(8,581,965)	(6,415)
Cash used in investing activities		(8,581,965)	(136,415)
Financing activities			
Net cash acquired on reverse take-over transaction		517,011	-
Proceeds on issuance of units		540,000	15,000
Proceeds on issuance of shares		14,731,812	-
Share issuance costs		(1,156,856)	(17,095)
Issuance of convertible debenture		-	50,000
Proceeds on share subscriptions received in advance		-	4,761,582
Cash provided by financing activities		14,631,967	4,809,487
Increase in cash during the year		5,567,703	4,711,425
Effect of exchange rate changes on cash		285,627	40
Cash, beginning		4,711,465	-
Cash, ending	\$	10,564,795	\$ 4,711,465

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

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 10, 2018

(In Canadian Dollars)

1. Nature of Operations and Going Concern

Fortress Technologies Inc., (formerly Fortress Blockchain Corp. and Focused Capital II Corp.) (the “Company” or “Fortress”) was incorporated under the Business Corporations Act (Ontario) on July 13, 2011. The Company’s head office and registered and records office is located at 320 – 638 Broughton Street, Vancouver, British Columbia, Canada, V6G 3K3. The Company’s common shares are listed under the symbol “FORT” on the TSX Venture Exchange.

On March 21, 2018, the Company entered into a definitive business combination agreement with Fortress Blockchain Corp. (“Fortress Corp.”), a private British Columbia company incorporated on November 14, 2017, whereby the Company acquired all issued and outstanding shares of Fortress Corp on August 16, 2018 on a one-for-one basis (the “RTO”). The RTO was structured as a three-cornered amalgamation pursuant to which Fortress Corp. amalgamated with a wholly owned subsidiary of the Company, 1171054 BC Ltd. to form an amalgamated entity, Fortress Blockchain Holdings Corp.

In February 2018, the Company acquired a cryptocurrency mining facility in Washington State (the “Flagship Facility”), and purchased 1,400 ASIC S9 Antminers.

In March 2019, the Company deactivated all crypto-currency mining hardware at the Flagship Facility. The Company is actively seeking business opportunities to re-establish the Company in the technology sector. Identifying new business opportunities involves a degree of risk and there is no assurance that the Company will identify an appropriate business for acquisition or investment that satisfies its business criteria that management and the Board of Directors are seeking in the technology sector.

2. Significant Accounting Policies

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Reporting Interpretation Committee (“IFRIC”) for all periods presented. These financial statements are the first financial statements prepared by the Company.

The financial statements were approved by the Board of Directors of the Company on April 26, 2019.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd)

Basis of Presentation

These financial statements have been prepared on an accrual basis and are based on historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, which are controlled by the Company. Control is achieved when the parent company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has all of the following: (i) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect its returns.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances, income and expenses are eliminated on consolidation.

As of December 31, 2018, the Company had two wholly-owned subsidiaries:

- Fortress Blockchain Holdings Corp. incorporated in the province of BC; and
- Fortress Blockchain (US) Holdings Corp. ("Fortress US") incorporated in Washington, USA.

Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the Company.

The functional currency of Fortress and Fortress Blockchain Holdings Corp. is the Canadian dollar while the functional currency of Fortress US is the US dollar.

Critical Accounting Estimates, Judgments and Assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd)

Critical Accounting Estimates, Judgments and Assumptions (cont'd)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the 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. Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Significant Judgments

Asset acquisition

Management determines whether assets acquired and liabilities assumed constitute a business based on the criteria determined by IFRS 3. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. The Company completed the acquisition of the Flagship Facility from WeHash in February 2018 (Note 4) at which time, concluded that the transaction did not qualify as a business combination under IFRS 3, "Business Combinations". Management concluded that significant processes and inputs were not acquired and the outputs after the acquisition were different from those produced by WeHash. Accordingly, the transaction was accounted for as an asset acquisition.

Revenue recognition

The Company recognizes revenue from the provision of transaction verification services within digital currency networks, commonly termed "cryptocurrency mining". As consideration for these services, the Company receives digital currency from each specific network in which it participates ("coins"). Revenue is measured based on the fair value of the coins received. The fair value is determined using the spot price of the coin on the date of receipt, based on the daily average from www.blockchain.info. The coins are recorded on the consolidated statement of financial position, as digital currencies, at their fair value and re-measured at each reporting date. Revaluation gains or losses, as well as gains or losses on the sale of coins for traditional (fiat) currencies are included in profit or loss. The Company records the revaluation gains or losses in profit or loss because this is considered to be the most fair and accurate presentation of the Company's operations to the users of the financial statements.

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the production and mining of digital currencies, and management has exercised significant judgement in determining appropriate accounting treatment for the recognition of revenue for mining of digital currencies. Management has examined various factors surrounding the substance of the Company's operations and the guidance in IFRS 15, Revenue from Contracts with Customers, including the stage of completion being the completion and addition of block to a blockchain and the reliability of the measurement of the digital currency received. In the event authoritative guidance is enacted by the IASB or IFRIC, the Company may be required to change its policies which could result in a change in the Company's financial position and earnings.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd)

Critical Accounting Estimates, Judgments and Assumptions (cont'd)

Significant Estimates

Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, convertible debenture, is determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of the issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. The valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of the instrument that are not quoted in active market.

Depreciation

Depreciation of the assets in the cryptocurrency data center is based on an estimate of the assets' expected life. In order to determine the useful life of the assets in the cryptocurrency mining center, assumptions are required about a range of computing industry market and economic factors, including global hashrates dedicated to proof of work mining, network difficulty, technological changes, release and availability of newer and more efficient hardware and other inputs, and production costs. Based on the data that management has reviewed, management has determined to use the straight-line method of amortization over three years, to best reflect the current expected useful life of mining equipment. Management will review its estimates and assumptions at each reporting date and will revise its assumptions if new information supports the change.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. These calculations are based on available data, other observable inputs and projections of cash flows, all of which are subject to estimates and assumptions. Recoverable amounts are also sensitive to assumptions about the future usefulness of in-process development and the related marketing rights.

Taxes

The determination of the Company's tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgement by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities, the deferral and deductibility of certain items and interpretation of the treatment for tax purposes of digital currencies by taxation authorities. Management also makes estimates of future earnings, which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payments of taxes. The Company provides for such differences where known based on management's best estimate of the probable outcome of these matters.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd)

Critical Accounting Estimates, Judgments and Assumptions (cont'd)

Significant Estimates (cont'd)

Digital currency valuation

Digital currency denominated assets (Note 5) are included in current assets. Digital currencies are carried at their fair value determined by the spot rate based on the daily average from <https://www.blockchain.com/en/charts/market-price> and <https://finance.yahoo.com/quote/BCH-USD/>. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

Share based compensation

The Company utilizes the Black-Scholes Option Pricing Model ("Black-Scholes") to estimate the fair value of stock options granted to directors, officers, employees and consultants. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the calculation of the share based compensation; however, the most significant estimate is the volatility. Expected future volatility can be difficult to estimate as the Company has had limited history, is in a unique industry, and historical volatility is not necessarily indicative of future volatility.

Revenue recognition

The Company has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") effective January 1, 2018 the modified retrospective approach with a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to the adoption date and were previously accounted for under IAS 18. IFRS 15 outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation The Company has concluded that the recognition and measurement of the sale of products in all contracts is consistent with the current revenue recognition practice and therefore does not expect any transitional adjustment.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd)

Revenue recognition (cont'd)

The Company recognizes revenue from the provision of transaction verification services within digital currency blockchains, commonly termed “cryptocurrency mining”. As consideration for these services, the Company receives digital currency from each specific blockchain in which it participates (“coins”). Revenue is measured based on the fair value of the coins received. The fair value is determined using the spot price of the coin on the date of receipt, based on the daily average from <https://www.blockchain.com/en/charts/market-price> for Bitcoin and <https://finance.yahoo.com/quote/BCH-USD/> for Bitcoin Cash. A coin is considered earned on the completion and addition of a block to the blockchain, at which time the economic benefit is received and can be reliably measured. The coins are recorded on the consolidated statement of financial position as digital currencies at their fair value and re-measured at each reporting date. Revaluation gains or losses, as well as gains or losses on the sale of coins for traditional (fiat) currencies are included in profit or loss.

The adoption of IFRS 15 had no impact on the Company's consolidated financial statements for the year-ended ended December 31, 2018.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Cost includes all expenditures incurred to bring assets to the location and condition necessary for them to be operated in the manner intended by management. The S9 ASIC Hardware used to mine cryptocurrencies are depreciated on a straight-line basis over a 3-year life and the Cryptocurrency data center assets acquired from WeHash transaction are depreciated on a straight-line basis over 5 years. Office computer equipment are depreciated on a straight-line basis over a three-year life.

Reserves

Equity reserves include amounts related to share issuance costs, share based compensation and foreign exchange translation adjustments.

Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to their fair value and any residual in the proceeds is allocated to the warrants.

Digital currencies

Digital currencies consist of cryptocurrency denominated assets and are included in current assets. Digital currencies are carried at their fair value and adjusted at each reporting date for revaluation gains and losses through the consolidated statement of loss and comprehensive loss as well as when digital currencies are exchanged or sold for traditional (fiat) currencies, such as the US dollar. Fortress values its Bitcoin based on the price quoted on <https://www.blockchain.com/en/charts/market-price> and its Bitcoin Cash based on the price quoted on <https://finance.yahoo.com/quote/BCH-USD/> which is an average of quoted rates from various cryptocurrency exchanges.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd) Impairment of non-financial assets

The Company reviews the carrying amounts of its non-financial assets, including property and equipment, when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Assets carried at fair value, such as digital currencies, are excluded from impairment analysis.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of asset or cash generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less cost to sell is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs to sell is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash generating unit is reduced to its recoverable amount, an impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

Financial Instruments

Financial instruments are accounted for in accordance with IFRS 9, "Financial Instruments: Classification and Measurement". A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed.

All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Fortress Technologies Inc.

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Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and digital assets are measured at FVTPL.

Impairment of financial assets

IFRS 9 uses the expected credit loss ("ECL") model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company's receivables.

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable, due to shareholder, and convertible debentures are classified under other financial liabilities and carried on the statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

The Company retrospectively adopted IFRS 9 on January 1, 2018. Due to the short-term and/or liquid nature of its financial assets and financial liabilities, the adoption had no impact on the amounts recognized in the Company's consolidated financial statements for the year-ended December 31, 2018.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd)

New accounting standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. The following have not yet been adopted by the Company and are being evaluated to determine its impact:

IFRS 16 – Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16 - Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on or after January 1, 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined.

3. Reverse Take-Over

On August 16, 2018 ("RTO Date"), the Company completed an RTO with Fortress Corp., whereby the Company acquired 100% of the issued and outstanding common shares of Fortress Corp. on a one-for-one basis in exchange for 69,277,981 common shares of the Company. The Company did not constitute a business as defined under IFRS 3; therefore, the RTO is accounted under IFRS 2, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense to net loss. The accounting for this transaction resulted in the following:

- (i) The consolidated financial statements of the combined entity are issued under the legal parent, Fortress Technologies Inc., but are considered a continuation of the financial statements of the legal subsidiary, Fortress Corp.
- (ii) As Fortress Corp. is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

The shares allocated to the former shareholders of Fortress Corp., on closing the RTO, and considered within the scope of IFRS 2, whereby the value in excess of the net identifiable assets or obligations of the Company acquired on closing was expensed to profit or loss as a listing expense. The fair value of the 1,900,003 common shares for all of Focused Capital was determined to be \$950,002.

The fair value of the consideration given and charged to listing expense was comprised of:

Consideration - fair value of the common shares	\$	950,002
Legal and professional fees related to RTO		232,143
		<u>1,182,145</u>

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

3. Reverse Take-Over (cont'd)

<hr/>	
Fair value of the Company acquired, net of liabilities	
Cash	457,671
Cash held in trust	59,340
Prepaid expenses	1,412
Trade payables and accrued liabilities	(9,498)
	<hr/>
	508,925
Listing expenses	\$ 673,320
	<hr/>

4. Asset Purchase Agreement

On November 1, 2017, prior to the incorporation of Fortress Corp., the directors of Fortress Corp. entered into an asset purchase agreement with WeHash to acquire the Flagship Facility that was used to host customers who mined cryptocurrencies (the "Agreement"). In accordance with the Agreement, the directors acquired the Flagship Facility and assumed the lease of real property and electrical utility rates. On December 22, 2017, the Agreement was amended and the rights and obligations under the Agreement were assigned to Fortress Corp. The transaction was completed on February 16, 2018.

The total consideration was as follows:

<hr/>	
Considerations	
Cash payment – US\$3,000,000	\$ 3,747,925
Units issued to WeHash – 3,500,000 units (Note 11)	1,750,000
Transaction expenses	154,156
Considerations fully allocated to facility	<hr/>
	\$ 5,652,081

The fair value of 3,500,000 units of the Company was estimated to be \$0.50 per unit using the price of a financing that was completed prior to the closing of the acquisition of the Flagship Facility.

5. Digital currencies

Digital currencies are recorded at their fair value on the date they are received as revenues and are revalued to their current market value at each reporting date. Fair value is determined by using the daily price of Bitcoin from <https://www.blockchain.com/en/charts/market-price> and the daily price of Bitcoin Cash from <https://finance.yahoo.com/quote/BCH-USD/history/>.

During the year ended December 31, 2018, the Company established a policy to sell its digital currencies to Goldmoney, a related party (Note 12).

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

5. Digital currencies (cont'd)

For the year ended December 31, 2018, the Company recorded revenue of \$2,306,663 from cryptocurrency mining (2017 - \$nil).

Bitcoin	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Opening Balance at January 1, 2018	-	-	-
Revenue from Bitcoin mined	247.54	1,700,315	2,207,703
Bitcoin sold	(246.22)	(1,695,013)	(2,201,314)
Fair value revaluation of Bitcoin	-	(281)	(364)
Translation adjustment	-	-	824
Balance of Bitcoin as at December 31, 2018	1.32	5,021	6,849

Bitcoin Cash	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Opening Balance at January 1, 2018	-	-	-
Revenue from Bitcoin Cash mined	99.68	74,037	98,960
Bitcoin Cash sold	(82.20)	(54,229)	(70,538)
Fair value revaluation of Bitcoin Cash	-	(17,199)	(24,303)
Translation adjustment	-	-	(560)
Balance of Bitcoin Cash as at December 31, 2018	17.48	2,609	3,559

The digital currencies as at December 31, 2018 are as follows:

Digital Currencies	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Bitcoin	1.32	5,021	6,849
Bitcoin Cash	17.48	2,609	3,559
Balance as at December 31, 2018		7,630	10,408

6. Receivables and prepaid expenses

	December 31, 2018	December 31, 2017
Prepaid expenses (Rent and insurance of Bitcoin mine)	\$ 89,173	\$ -
GST receivable	-	2,477
	\$ 89,173	\$ 2,477

7. Deposits

As of December 31, 2018, the Company has the deposit balance of \$121,414 (2017- \$nil). This total comprised of \$106,408 deposit held by Grant County Public Utility District and \$15,006 rent and damage deposit for the Company's Flagship Facility.

Fortress Technologies Inc.
(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)
Notes to the Consolidated Financial Statements
Year ended December 31, 2018
(In Canadian Dollars)

8. Property and equipment

	Facility	Miners	Office Equipment	Total
Cost				
Balance, November 14, 2017	\$ -	\$ -	\$ -	\$ -
Additions	6,415	-	-	6,415
Balance, December 31, 2017	6,415	-	-	6,415
Additions	5,702,192	4,605,780	6,351	10,314,323
Impairment	(5,405,894)	(3,973,129)	-	(9,379,023)
Translation adjustment	162,506	151,519	-	314,025
Balance, December 31, 2018	\$ 465,219	\$ 784,170	\$ 6,351	\$ 1,255,740
Accumulated depreciation				
Balance, December 31, 2017 and November 14, 2017	\$ -	\$ -	\$ -	\$ -
Additions	968,366	1,403,715	1,361	2,373,442
Impairment	(900,983)	(1,191,100)	-	(2,092,083)
Translation adjustment	10,153	22,202	-	32,355
Balance, December 31, 2018	\$ 77,536	\$ 234,817	\$ 1,361	\$ 313,714
Net book value				
Balance, December 31, 2017	\$ 6,415	\$ -	\$ -	\$ 6,415
Balance, December 31, 2018	\$ 387,683	\$ 549,353	\$ 4,990	\$ 942,026

9. Accounts payable and accrued liabilities

	December 31, 2018	December 31, 2017
Accounts payable	\$ 144,259	\$ 67,197
Accrued liabilities	73,534	-
	\$ 217,793	\$ 67,197

10. Convertible Debentures

On November 15, 2017, the Company entered into two unsecured convertible debentures of \$25,000, bearing no interest and maturing on November 15, 2019 each to the Chief Executive Officer (the "CEO") and a former director of the Company. Each debenture was convertible into units of the Company at \$0.005 per unit. Each unit consists of one common share of the Company and 0.7692308 of one warrant. Each warrant entitled the holder to acquire one common share of the Company at \$0.50 per share for 60 months following the issue date.

On December 22, 2017, the CEO converted the \$25,000 convertible debenture into 5,000,000 common shares of the Company and 3,846,154 warrants.

On January 8, 2018, a former director converted the \$25,000 convertible debenture into 5,000,000 common shares of the Company and 3,846,154 warrants.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

11. Share Capital

a. Authorized

Unlimited number of common shares without par value

b. Issued and outstanding

During the year ended December 31, 2018, the Company completed the following transactions:

- (i) Immediately prior to the closing of the RTO on August 16, 2018, the Company completed a consolidation of its common shares on the basis of 3.25 pre-consolidation shares to one post-consolidation common share for a pre-RTO balance of 1,900,003 common shares outstanding in the Company (Note 3).
- (ii) Upon completion of the RTO (Note 3), the Company issued a total of 1,900,003 common replacement shares to the previous shareholders of Focused Capital II Corp.
- (iii) On August 16, 2018, in accordance with the RTO (Note 1), 69,277,981 common shares of Fortress were issued to the shareholders of Fortress Corp. as consideration for 100% of the issued and outstanding shares of Fortress Corp.

Prior to the RTO, the Company completed the following transactions:

On January 4, 2018, the Company completed a non-brokered private placement, issued 4,000,000 units at \$0.10 per unit for gross proceeds of \$400,000. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant shall be exercisable at \$0.50 per warrant to acquire one additional common share of the Company during a period of 12 months following the date of issue. The Company incurred \$30 of share issuance costs.

On January 4, 2018, the Company completed a non-brokered private placement, issued 1,400,000 units at \$0.10 per unit for gross proceeds of \$140,000. Each unit consists of one common share of the Company and one-half common share purchase warrant. Each warrant shall be exercisable at \$0.50 per warrant to acquire one additional common share of the Company during a period of 36 months following the date of issue.

On January 4, 2018, the Company completed a non-brokered private placement, issuing 3,600,000 common shares for proceeds of \$360,000.

On January 5, 2018, the Company completed a non-brokered private placement, issued 13,327,979 common shares at \$0.30 per common share for gross proceeds of \$3,998,394. The Company incurred \$26,707 of share issuance costs.

On January 8, 2018, the Company issued 450,000 common shares for proceeds of \$135,000.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

11. Share Capital (cont'd)

b. Issued and outstanding (cont'd)

On January 9, 2018, the Company completed a brokered private placement, issued 30,000,000 common shares at \$0.50 per share for gross proceeds of \$15,000,000. In connection with the private placement, the Company paid agents' fees of \$1,029,000, other share issuance costs of \$101,119 and 3.5% compensation option with a fair value of \$256,902 (1,050,000 compensation options, in aggregate) exercisable at a price of \$0.50 per share for a period of 24 months following the closing.

On February 16, 2018, the Company completed the WeHash asset purchase agreement as disclosed in Note 3. As part of the purchase price, the Company issued 3,500,000 units at \$0.50 per share. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant shall be exercisable at \$0.50 per warrant to acquire one additional common share of the Company during a period of 12 months following the date of issue.

During the year ended December 31, 2017, the Company completed the following transactions:

On November 14, 2017, the date of incorporation, the Company issued 2 shares at \$0.005 per share.

On December 22, 2017, the Company issued 3,000,000 units at \$0.005 per unit for gross proceeds of \$15,000. Each unit consist of one common share of the Company and 0.7692308 of one common share purchase warrants. Each warrant shall be exercisable to acquire one additional common share of the Company during a period of 60 months following the closing.

During the period ended December 31, 2017, the Company issued 5,000,000 common shares and 3,846,154 warrants pursuant to the conversion of a convertible debenture (Note 10).

During the period ended December 31, 2017, the Company incurred share issuance costs of \$17,095.

c. Share subscriptions received in advance

As at December 31, 2018, the Company has no share subscriptions received in advance (2017 - \$4,761,582).

d. Escrow shares

Pursuant to the RTO dated August 16, 2018 (Note 3), a portion of the common shares, warrants and options issued as part of the transaction are subject to escrow restrictions. Pursuant to the escrow agreements, the shares will be released as follows: 25% on the date of the Final Exchange Bulletin respecting the RTO (August 20, 2018) and 25% will be released 6, 12, and 18 months thereafter.

As of December 31, 2018, the Company has 14,050,180 common shares in escrow (2017 – nil).

e. Stock options

During the year ended December 31, 2018, the Company:

- Granted 1,050,000 brokers' options with an exercise price of \$0.50 per share and an expiry date of January 9, 2020, which vested immediately; the fair value per option granted was \$0.25 with a share based compensation expense recorded as share issuance costs of \$256,902.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

11. Share Capital (cont'd)

e. Stock options (cont'd)

- Granted 72,500 stock options with an exercise price of \$0.50 per share and an expiry date of February 20, 2028, which vested immediately; the fair value per option granted was \$0.43 with a share based compensation expense of \$31,408.
- Granted 480,000 stock options with an exercise price of \$0.50 per share and an expiry date of February 20, 2028, which vested quarterly on May 20, 2018 and then a further 1/4 every three months thereafter with the final tranche vesting on February 20, 2019; the fair value per option granted was \$0.43 per option and the share based compensation expense recognized for the vesting of these options to December 31, 2018 was \$166,834.
- Granted 1,550,000 stock options with an exercise price of \$0.60 per share and an expiry date of February 20, 2028, which vested quarterly on May 20, 2018 and then a further 1/4 every three months thereafter with the final tranche vesting on February 20, 2019; the fair value per option granted was \$0.43 per option and the share based compensation expense recognized for the vesting of these options to December 31, 2018 was \$568,828.
- Granted 233,000 stock options with an exercise price of \$0.60 per share and an expiry date of August 15, 2028 which vested quarterly on November 16, 2018 and then a further 1/4 every three months thereafter with the final tranche vesting on August 16, 2019; the fair value per option granted was \$0.28 per option and the share based compensation expense recognized for the vesting of these options to December 31, 2018 was \$32,956.
- Granted 138,428 stock options with an exercise price of \$0.65 per share and an expiry date of December 20, 2021, which vested immediately; the fair value per option granted was \$0.28 with a share based compensation expense of \$46,782.

	2018	2017
Risk-free interest rate	1.79% - 2.32%	-
Expected life (years)	2 - 10	-
Annualized volatility	91% - 114%	-
Dividend rate	0.00%	-

The following is a summary of changes in stock options outstanding for the year ended December 31, 2018:

	Options outstanding	Weighted-average exercise price (\$)
Balance, December 31, 2017 and November 14, 2017	-	0.00
Issued - Brokers' options	1,050,000	0.50
Issued - consultants, management and directors' options	2,473,928	0.58
Forfeited	(384,000)	0.58
Balance, December 31, 2018	3,139,928	0.55

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

11. Share Capital (cont'd)

e. Stock options (cont'd)

The stock options outstanding and exercisable as at December 31, 2018, are as follows:

Outstanding	Exercisable	Exercise price (\$)	Expiry date
1,050,000	1,050,000	0.50	January 8, 2020
468,500	390,500	0.50	February 19, 2028
1,375,000	1,075,000	0.60	February 19, 2028
108,000	27,000	0.60	August 15, 2028
138,428	138,428	0.65	December 20, 2021
3,139,928	2,680,928		

f. Warrants

Following is a summary of changes in warrants outstanding for the year ended December 31, 2018:

	Warrants	Weighted-average exercise price (\$)
Balance, November 14, 2017	-	0.00
Issued	6,153,846	0.50
Balance, December 31, 2017	6,153,846	0.50
Issued	12,046,154	0.50
Balance, December 31, 2018	18,200,000	0.50

The warrants outstanding as at December 31, 2018, are as follows:

Outstanding	Exercise price (\$)	Expiry date
2,307,692	0.50	November 29, 2020
3,846,154	0.50	December 21, 2022
3,846,154	0.50	January 7, 2023
3,500,000	0.50	February 15, 2019
4,700,000	0.50	January 3, 2019
18,200,000		

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

12. Related Party Transactions

As at December 31, 2018, the Company had an amount owing to the CEO and director of the Company of \$nil (December 31, 2017 - \$12,136) and an amount owing to a former director of the Company of \$nil (December 31, 2017 - \$12,518) for out-of-pocket expenses incurred. The amount was non-interest bearing, had no fixed repayment terms and was payable on demand.

As at December 31, 2018, the Company had no outstanding loan payable to the CEO and director of the Company (December 31, 2017 - \$15,000).

Payments to Goldmoney Inc.

For the year ended December 31, 2018, the Company opened an account with Goldmoney Inc. ("Goldmoney") to sell its digital currencies. Mr. Roy Sebag, the Founder, CEO and a major shareholder of Goldmoney is also the Chairman of the Board of Directors of Fortress. The Company paid US\$7,193 (Cdn\$9,395) to Goldmoney during the year ended December 31, 2018 (December 31, 2017 - \$Nil) as commissions payable for the sale of digital currencies (246.22 Bitcoin and 82.20 Bitcoin Cash) through Goldmoney (Note 5).

Key Management Compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of the Company's corporate officers.

For the year ended December 31, 2018, key management compensation includes management and consulting fees paid for the amount of \$257,825 (December 31, 2017 - \$nil) in relation to management consulting fees and \$42,716 (December 31, 2017 - \$nil) for executive assistant and business consultant services provided by a company controlled by the CEO of the Company. These fees include services provided by two people, as well as the provision of office space and a corporate boardroom, a dedicated office telephone landline, along with computing and printing resources. The Company paid key management salaries for the amount of \$229,387 to the former CFO and former CTO and paid management and accounting fee to a company controlled by the CFO of the company for the amount of \$15,750. The Company incurred shared based compensation of \$400,451 to directors and management.

13. Income Taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	Year ended December 31, 2018	November 14, 2017 (incorporation date) to December 31, 2017
Net loss	\$ (11,359,599)	\$ (66,021)
- Statutory tax rate	27.0%	13.50%
- Expected income tax recovery at the statutory tax rate	\$ (3,067,092)	\$ (8,913)
Non-deductible items and other		
- Change in statutory, foreign tax, foreign exchange rates and other	436,811	(10,662)
- Permanent difference	477,431	245
- Share issuance cost	(314,012)	(2,308)
- Change in deferred tax benefits not recognized	2,466,862	21,638
Income tax expense	\$ -	\$ -

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

13. Income Taxes (cont'd)

The statutory tax rate increased from 13.50% to 27.00% as the Company is a publicly-traded entity; therefore, losing its small business status.

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2018	Expiry date range	December 31, 2017	Expiry date range
Property and equipment	\$ 707,545	No expiry	\$ -	No expiry
Share issuance costs	\$ 1,055,491	2034 to 2038	\$ 16,645	2034 to 2037
Non-capital losses				
Canada	\$ 1,457,080	2038	\$ 62,313	2037
USA	\$ 1,230,114	2037 to 2038	\$ Nil	2037

14. Financial Instruments and Risk Management

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and commodity price risk.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The financial instruments that represent a potential concentration of credit risk consist primarily of cash, digital currencies and receivables and prepaid expenses. The Company limits its exposure to credit loss by placing its deposits with Tier-1 Canadian financial institutions. All the receivables are current. The carrying amount of financial assets represents the maximum credit exposure.

	December 31, 2018	December 31, 2017
Cash	\$ 10,564,795	\$ 4,711,465
Deposit	122,714	130,000
	\$ 10,687,509	\$4,841,465

The Company believes it has no significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. The Company manages its liquidity risk by ensuring that it has enough cash to meet its financial liabilities. As at December 31, 2018, the Company had a working capital surplus of \$10,569,297, the majority of which is comprised of a cash balance of \$10,564,795 to settle current liabilities of \$217,793. All of the Company's financial liabilities sounds have contractual maturities of less than 30 days and are subject to normal trade terms.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

14. Financial Instruments and Risk Management (cont'd)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as Bitcoin and Bitcoin Cash prices, interest rates, foreign exchange rates and equity prices.

Based on the current balances of digital currencies, the Company believes that it is not exposed to significant risk from commodity pricing, interest rates and foreign exchange rates.

Bitcoin and Bitcoin Cash prices

The Company has an inventory of digital currencies, comprised of Bitcoin and Bitcoin Cash on December 31, 2018, that is subject to market pricing and price volatility. The Company recorded a loss on revaluation of digital currencies in the amount of \$24,736 during the year ended December 31, 2018 (December 31, 2017 - \$nil). Digital currencies have a limited history and have had a high degree of price volatility. The historical performance of digital currencies may not be indicative of their future performance. A decline in the fair value of these digital currencies could have a significant impact on the Company's earnings. In addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required.

The Company does not hedge its Bitcoin and Bitcoin Cash balances but will actively monitor Bitcoin and Bitcoin Cash pricing, market volatility and its own balance of Bitcoin and Bitcoin Cash to determine an appropriate risk mitigation strategy.

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The interest rate risk on bank deposits is insignificant as the deposits are short term. The Company is not exposed to interest rate risk in respect to amounts due to shareholder and convertible debenture as both are non-interest bearing.

Foreign currency risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as the entities operated in Canada holds financial assets in US dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

If the US dollar had changed against the Canadian dollar by 10% at year end, the Company's net loss and comprehensive loss after taxes would change by approximately \$138,628, resulting from the translation of the US dollar denominated financial instruments.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

14. Financial Instruments and Risk Management (cont'd)

Fair value hierarchy

The Company applied the following fair value hierarchy for financial instruments that are carried at fair value. The hierarchy prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As at December 31, 2018, cash is assessed as a Level 1 instrument while digital currencies are assessed as a Level 2 instrument.

The Companies financial instruments have been classified as follows:

	Level 1	Level 2	Level 3
Fair value:			
Financial assets			
Cash	\$ 10,564,795	\$ -	\$ -
Deposit	\$ 122,714	\$ -	\$ -
Digital currencies	\$ -	\$ 10,408	\$ -
Financial liabilities			
Accounts payable	\$ 139,578	\$ -	\$ -

15. Capital Management

The Company's objective when managing capital is to maintain liquidity while providing returns to shareholders and benefits for other stakeholders.

The Company includes equity, comprised of share capital and deficit in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources for its operations and to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company monitors capital on the basis of maintaining sufficient cash flow to comply with financial obligations.

Fortress Technologies Inc.

(Formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Consolidated Financial Statements

Year ended December 31, 2018

(In Canadian Dollars)

16. Subsequent Events

On March 27, 2019, the Company entered into a sublease agreement with WeHash pursuant to the Flagship Facility whereby WeHash agreed to pay a monthly rent of US\$25,000 to the Company until September 2019.

Subsequent to December 31, 2018, the Company granted 500,000 stock options exercisable at a price of \$0.12 and 3,000,000 stock options exercisable at a price of \$0.15 expiring three years from the date of the grant and will vest over nine months to the directors of the Company.