

Fortress Technologies Inc.

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

Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019

(In Canadian Dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Fortress Technologies Inc. (formerly Fortress Blockchain Corp.) for the three months ended March 31, 2019 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of the interim financial statements by an auditor.

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Condensed Consolidated Interim Statements of Financial Position

(In Canadian Dollars)

(Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash	\$ 10,427,038	\$ 10,564,795
Digital currencies (Note 6)	-	10,408
Receivables and prepaid expenses (Note 7)	6,414	89,173
Deposit	1,300	122,714
Assets held for sale (Note 5)	1,019,403	-
	11,454,155	10,787,090
Property and equipment (Note 8)	4,461	942,025
Total assets	\$ 11,458,616	\$ 11,729,115
Liabilities		
Current liabilities		
Payable and accrued liabilities (Note 9)	\$ 63,362	\$ 217,793
Liabilities associated with assets held for sale (Note 5)	79,299	-
	142,661	217,793
Equity		
Share capital (Note 11)	21,367,543	21,367,543
Reserves	1,709,808	1,569,399
Deficit	(11,761,396)	(11,425,620)
Total equity	11,315,955	11,511,322
Total liabilities and equity	\$ 11,458,616	\$ 11,729,115

Nature of operations (Note 1)

Subsequent event (Note 15)

Approved by the Board of Directors and authorized for issue on May 28, 2019:

"Aydin Kilic" Director

"David Jaques" Director

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

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(In Canadian Dollars)

(Unaudited)

	<i>Three months ended March 31, 2019</i>	<i>Three months ended March 31, 2018</i>
General and administrative expenses		
Depreciation	529	100
Business development	240	-
Management and consulting fees	48,094	80,486
Marketing	45	34,169
Office and administration	50,268	16,002
Professional fees	30,540	56,973
Salaries and wages	4,854	-
Share based compensation (<i>Note 11</i>)	162,993	230,025
Travel	7,208	36,885
Foreign exchange	41,481	(855)
	(346,252)	(453,785)
Operating loss	(346,252)	(453,785)
Interest income	9,510	-
	9,510	-
Net loss for the period from continuing operations	(336,742)	(453,785)
Net income for the period from discontinued operations	966	24,881
Net loss for the period	\$ (335,776)	\$ (428,904)
Other comprehensive income (loss)		
Translation adjustment	(22,584)	(2,362)
Other comprehensive income	(22,584)	(2,362)
Net loss and comprehensive loss for the period	\$ (359,326)	\$ (431,266)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding - basic and diluted	71,177,984	62,669,760

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

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Condensed Consolidated Interim Statements of Changes in Equity

(In Canadian Dollars)

(Unaudited)

	Number of Shares	Capital Amount	Cumulative translation adjustment	Equity reserved	Accumulated Deficit	Total Equity (Deficit)
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)
Exercise of convertible debenture (Note 10)	5,000,000	25,000	-	-	-	25,000
Share based compensation	-	-	-	846,808	-	846,808
Translation adjustment	-	-	465,649	-	-	465,649
Net loss for the year	-	-	-	-	(11,359,599)	(11,359,599)
Balance, December 31, 2018	71,177,984	\$ 21,367,543	\$ 465,689	\$ 1,103,710	\$ (11,425,620)	\$ 11,511,322
Share based compensation	-	-	-	162,993	-	162,993
Translation adjustment	-	-	(22,584)	-	-	(22,584)
Net loss for the period	-	-	-	-	(335,776)	(335,776)
Balance, March 31, 2019	71,177,984	\$ 21,367,543	\$ 443,105	\$ 1,266,703	\$ (11,761,396)	\$ 11,315,955

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

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Condensed Consolidated Interim Statements of Cash Flows

(In Canadian Dollars)

(Unaudited)

	<i>For the three months period ended March 31, 2019</i>	<i>For the three months ended March 31, 2018</i>
Operating activities		
Loss for the period	\$ (336,742)	\$ (453,785)
Depreciation	529	100
Share based compensation	162,993	230,025
Change in non-cash working capital components		
Increase in receivables and prepaid expenses	10,943	(9,103)
Increase in payables and accrued liabilities	(43,522)	3,524
Increase in deposits	-	(34,300)
Due to shareholders	-	(37,066)
Net cash flows used in operating activities of continuing operations	(205,799)	(300,605)
Investing activities		
Purchase of property and equipment (Note 8)	-	(1,105)
Advances to discontinued operations	122,841	(8,704,944)
Cash used in investing activities of continuing operations	122,841	(8,706,049)
Financing activities		
Proceeds on issuance of units (Note 11)	-	540,000
Proceeds on issuance of shares (Note 11)	-	14,731,811
Share issuance costs (Note 11)	-	(1,156,855)
Cash provided by financing activities of continuing operations	-	14,114,956
Change in cash during the period of continuing operations	(82,958)	5,108,302
Cash, beginning of period of continuing operations	10,509,996	4,711,465
Cash, end of period	\$ 10,427,038	\$ 9,819,767
Net cash flows provided by (used in) operating activities of discontinued operations	(207,314)	296,489
Net cash used in investing activities	-	(8,763,595)
Net cash flows provided by financing activities	150,599	8,704,944
Effect of exchange rate changes of cash of discontinued operations	56,715	(237,838)
Change in cash during the period of discontinuing operations	-	-
Cash, beginning of period of discontinuing operations	-	-
Cash, end of period of discontinued operations	-	-

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

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019

(In Canadian Dollars)

(Unaudited)

1. Nature of Operations

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. Immediately after the deactivation of all crypto-currency mining hardware, the Company has subleased The Flagship Facility to WeHash Technology LLP, a company incorporated in Washing State, USA (“WeHash”) for US\$25,000 for every thirty-day period. The Company is actively seeking business opportunities to re-establish the Company in the technology sector.

2. Basis of Presentation

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting of the International Financial Reporting Standards” (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), following the same accounting policies, including estimates and judgments and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2018 except as described in the notes to the condensed consolidated interim financial statements. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2018, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved by the Board of Directors of the Company on May 28, 2019.

Basis of Presentation

These condensed consolidated interim 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.

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019

(In Canadian Dollars)

(Unaudited)

2. Basis of Presentation (continued)

Basis of Consolidation

The condensed consolidated interim financial statements include the financial statements of the Company and its wholly-owned subsidiaries, which is 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 March 31, 2019, 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.

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.

Functional and Presentation Currency

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

Adoption of new pronouncements

IFRS 16 – Leases

The Company adopted IFRS 16 effective January 1, 2019, using the modified retrospective approach. The comparatives for the 2018 reporting period have not been restated and are accounted for under IAS 17 Leases, as permitted under the specific transitional provisions in the standard. The transitional adjustments arising from the adoption are recognized in the opening consolidated financial statement of financial position on January 1, 2019 (refer to the impact of the IFRS 16 transition below).

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Company recognizes the lease payments as an expense in net income on a straight-line basis over the term of the lease.

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019

(In Canadian Dollars)

(Unaudited)

2. Basis of Presentation

Adoption of new pronouncements (continued)

The Company recognizes a lease liability and a right-of-use asset at the lease commencement date. The lease liability is initially measured as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's applicable incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the Company expects to exercise an option to terminate the lease.

The lease liability is subsequently measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The right-of-use asset is initially measured at cost, which comprises the following:

- the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Company; and
- an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The right-of-use asset is subsequently measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. It is depreciated in accordance with the Company's accounting policy for property, mill and equipment, from the commencement date to the earlier of the end of its useful life or the end of the lease term. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to net earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are presented as property, mill and equipment and the lease liabilities are presented as loans on the consolidated statement of financial position.

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019

(In Canadian Dollars)

(Unaudited)

2. Basis of Presentation (continued)

Impact of Accounting Policy Changes – IFRS 16 Transition

The Company has applied IFRS 16 using the modified retrospective approach which requires the cumulative effect of initial application to be recognized in retained earnings at January 1, 2019. On adoption of IFRS 16, the Company recognized lease liabilities for leases previously classified as an operating lease under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's applicable incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 is 7.0%. For leases previously classified as finance leases under IAS 17, the carrying amount of the lease asset and lease liability immediately before transition was recognized as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

The Company has applied the following practical expedients permitted by IFRS 16:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company exercised judgment regarding whether it was reasonably certain that the Company would exercise an option to extend a lease. The associated right-of-use assets were measured at the amount equal to the lease liability. As the Company's lease agreement for its cryptocurrency mine facility is ending on August 31, 2019 and with the change of business to exit out of the cryptocurrency mining sector, the Company does not intend to extend the lease, there was no material impact of the transition to IFRS 16 on the Company's statement of financial position.

IFRIC Interpretation 23

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23") was issued by the IASB on June 7, 2017. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. There was no impact on the Company's condensed consolidated interim financial statements upon the adoption of the interpretation.

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019

(In Canadian Dollars)

(Unaudited)

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>
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)
		<u>508,925</u>
Listing expenses	\$	<u>673,320</u>

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019

(In Canadian Dollars)

(Unaudited)

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:

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	\$	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.

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

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(In Canadian Dollars)

(Unaudited)

5. Discontinued operations

The major classes of assets and liabilities of Fortress Blockchain (US) Holdings Corp. classified as held for sale as at March 31, 2019 are as follows:

	March 31, 2019
Assets	
Receivables and prepaid expenses	\$ 41,416
Deposit	118,815
Property and equipment	859,172
Total assets held for sale	1,019,403
Liabilities	
Payable and accrued liabilities	(45,924)
Unearned revenue	(33,375)
Total liabilities relating to assets held sale	(79,299)
Net assets held for sale	\$ 940,104

The operating results of Fortress Blockchain (US) Holdings Corp. for the three months period ended have been presented as discontinued operations as below:

	March 31, 2019	March 31, 2018
Revenues	\$ 262,980	\$ 264,348
Cost of sales		
Operating costs	(199,441)	(61,169)
Depreciation	(57,390)	(125,134)
	6,149	78,045
Loss on revaluation of digital currencies	-	45,521
Gain on sale of digital currencies	235	-
Operating		
Office and administration	5,180	-
Professional fees	238	7,643
	(5,418)	(7,643)
	966	24,881
Net income from discontinued operations	\$ 966	\$ 24,881

The net cash flows from discontinued operations for the three months period ended are as follows:

	March 31, 2019	March 31, 2018
Net cash provided by (used in) operating activities	\$ (330,155)	\$ 296,488
Net cash used in investing activity	-	(8,763,595)
Net cash provided by financing activities	273,440	8,477,735
Effect of exchange rate changes on cash	56,715	(10,628)
Change in cash for discontinued operations	-	-
Cash, beginning for discontinued operations	-	-
Cash, end discontinued operations	\$ -	\$ -

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

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(In Canadian Dollars)

(Unaudited)

6. 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/>.

The the Company established a policy to sell its digital currencies to Goldmoney, a related party (Note 12).

For the three months period ended March 31, 2019, the Company recorded revenue of \$262,980 from cryptocurrency mining recognized as discontinued operations (Note 5) (March 31, 2018 - \$264,348).

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
Revenue from Bitcoin mined	53.71	198,217	262,980
Bitcoin sold	(55.03)	(203,238)	(269,829)
Balance of Bitcoin Cash as at March 31, 2019	-	-	-

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
Bitcoin Cash sold	(17.48)	(2,609)	(3,559)
Balance of Bitcoin Cash as at March 31, 2019	-	-	-

As at March 31, 2019, the Company does not hold any digital currencies (December 31, 2018 – 1.32 Bitcoin at US\$5,021 (Cdn\$6,849) and 17.48 Bitcoin Cash at US\$2,609 (Cdn\$3,559).

7. Receivables and prepaid expenses

	March 31, 2019	December 31, 2017
Prepaid expenses (Rent and insurance of Bitcoin mine)	\$ 6,414	\$ 89,173
GST receivable	-	-
	\$ 131,104	\$ 89,173

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

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(In Canadian Dollars)

(Unaudited)

8. Property and equipment

	Facility Asset Purchase	Miners	Office Equipment	Total
Cost				
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
Additions	-	-	-	-
Assets held for sale	(455,261)	(767,385)	-	(1,222,646)
Translation adjustment	(9,958)	(16,785)	-	(26,743)
Balance, March 31, 2019	-	-	6,351	6,351
Accumulated depreciation				
Balance, December 31, 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
Additions	15,066	42,324	529	57,919
Assets held for sale	(91,052)	(272,422)	-	(363,474)
Translation adjustment	(1,550)	(4,719)	-	(6,269)
Balance, March 31, 2019	-	-	1,890	1,890
Carrying amount				
Balance, December 31, 2017	6,415	-	-	6,415
Balance, December 31, 2018	387,683	549,353	4,990	942,026
Balance, March 31, 2019	-	-	4,461	4,461

9. Accounts payable and accrued liabilities

	March 31, 2019	December 31, 2018
Accounts payable	\$ 56,254	\$ 144,259
Accrued liabilities	7,108	73,534
	\$ 63,362	\$ 217,793

Fortress Technologies Inc. (formerly Fortress Blockchain Corp. and Focused Capital II Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

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(In Canadian Dollars)

(Unaudited)

10. Convertible Debenture

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.

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.

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11. Share Capital (continued)

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.

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.

b. 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 March 31, 2019, the Company has 10,415,120 common shares in escrow (2018 – 14,050,180).

c. Stock options

During the three months period ended March 31, 2019, 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. The fair value per options granted was \$0.07 with a share based compensation expense of \$129,931.

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.
- 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.

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11. Share Capital (continued)

- 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 for the three months ended March 31, 2019 was \$4,722 (year ended December 31, 2018 - \$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 for the three months ended March 31, 2019 was \$17,886 (year ended December 31, 2018 - \$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 for the three months ended March 31, 2019 was \$10,454 (year ended December 31, 2018 - \$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.

	2019	2018
Risk-free interest rate	1.77%	1.79% - 2.32%
Expected life (years)	3	2 - 10
Annualized volatility	97%	91% - 114%
Dividend rate	0.00%	0.00%

The following is a summary of changes in stock options outstanding for the year ended March 31, 2019:

	Options outstanding	Weighted-average exercise price (\$)
Balance, December 31, 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
Issued - directors' options	3,500,000	0.15
Balance, March 31, 2019	6,639,928	0.34

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11. Share Capital (continued)

The stock options outstanding and exercisable as at March 31, 2019, are as follows:

Outstanding	Exercisable	Exercise price (\$)	Expiry date
1,050,000	1,050,000	0.500	January 8, 2020
468,500	468,500	0.500	February 19, 2028
1,375,000	1,375,000	0.600	February 19, 2028
108,000	54,000	0.600	August 15, 2028
138,428	138,428	0.650	December 20, 2021
500,000	125,000	0.125	February 6, 2022
3,000,000	750,000	0.150	February 6, 2022
6,639,928	3,960,928		

e. Warrants

Following is a summary of changes in warrants outstanding for the period ended March 31, 2019:

	Warrants	Weighted-average exercise price (\$)
Balance, December 31, 2017	6,153,846	0.00
Issued	12,046,154	0.50
Balance, December 31, 2018	18,200,000	0.50
Expired	(8,200,000)	0.50
Balance, March 31, 2019	10,000,000	0.50

The warrants outstanding as at March 31, 2019, 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
10,000,000	0.50	

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12. Related Party Transactions

Payments to Goldmoney Inc.

The Company has 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\$1,023 (Cdn\$1,366) to Goldmoney for the three months period ended March 31, 2019 (year ended December 31, 2018 - US\$7,193 (Cdn\$9,395)) as commissions payable for the sale of digital currencies (55.29 Bitcoin and 15.78 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 three months period ended March 31, 2019, key management compensation includes management and consulting fees paid for the amount of \$50,498 (December 31, 2018 - \$257,825) in relation to management consulting fees and \$nil (December 31, 2018 - \$42,716) 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 and accounting services to the company controlled by the CFO of the Company for the amount of \$15,750 (December 31, 2018 - \$15,750). For the year ended December 31, 2018, the Company paid key management salaries for the amount of \$229,387 to the former CFO and former CTO. The Company incurred shared based compensation of \$11,633 (December 31, 2018 - \$400,451) to directors and management.

13. Financial Instruments

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.

	March 31, 2019	December 31, 2018
Cash	\$ 10,427,038	\$ 10,564,795
Deposit	1,300	122,714
	\$ 10,428,338	\$ 10,687,509

The Company believes it has no significant credit risk.

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13. Financial Instruments (continued)

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 March 31, 2019, the Company had a working capital surplus of \$11,314,922, the majority of which is comprised of a cash balance of \$10,427,038 to settle current liabilities of \$142,661. All of the Company's financial liabilities sounds have contractual maturities of less than 30 days and are subject to normal trade terms.

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

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.

Based on the current balances of digital currencies, the Company believes that it is not exposed to significant risk from the volatility in Bitcoin and Bitcoin Cash prices.

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 period end, the Company's net loss and comprehensive loss after taxes would change by approximately \$198,142, resulting from the translation of the US dollar denominated financial instruments.

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13. Financial Instruments (continued)

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 March 31, 2019, 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	\$ 10,427,038	\$ -	\$ -
Deposit	\$ 1,300	\$ -	\$ -
Digital currencies	\$ -	\$ -	\$ -
Financial liabilities			
Accounts payable	\$ 56,254	\$ -	\$ -

14. 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.

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15. Subsequent Event

Subsequent to March 31, 2019, the Company has amended its Sublease Agreement with WeHash (the "Sublease Amendment"). The US\$25,000 per thirty-day period payment by WeHash to Fortress will be replaced by a consulting fee paid to WeHash by Fortress calculated as 10% of the revenue from Bitcoin mined less cash cash operating costs, up to a maximum of US\$10,000 ("Consulting Fee"). WeHash shall be paid in Bitcoin for the Consulting Fee, as WeHash will be the custodians of the Bitcoin and will be responsible to sell the Bitcoin, providing Fortress payment in US Dollar of revenue from the Bitcoin mined, less all operating expenses and WeHash Consulting Fee.