Fortress Technologies Inc.

Consolidated Financial Statements

Year ended December 31, 2019

(In Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Fortress Technologies Inc.

Opinion

We have audited the consolidated financial statements of Fortress Technologies Inc. (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years 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, 2019 and 2018, and its financial performance and its cash flows for the years 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 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.

DMCL

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

June 1, 2020

Fortress Technologies Inc.

Consolidated Statements of Financial Position
(In Canadian Dollars)

		December 31, 2019		December 31, 2018
Assets				
Current assets				
Cash	**$**	**10,293,948**	$	10,564,795
Digital currencies *(Note 5)*		**-**		10,408
Accrued GIC interest receivable		**116,779**		-
Prepaid expenses *(Note 6)*		**137,539**		89,173
Deposit *(Note 7)*		**116,893**		122,714
		10,665,159		10,787,090
Property and equipment *(Note 8)*		**565,011**		942,025
Total assets	**$**	**11,230,170**	$	11,729,115
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities *(Note 9)*	**$**	**202,131**	$	217,793
		202,131		217,793
Equity				
Share capital *(Note 11)*		**21,367,543**		21,367,543
Reserves *(Note 11)*		**2,147,252**		1,569,399
Deficit		**(12,486,756)**		(11,425,620)
Total equity		**11,028,039**		11,511,322
Total liabilities and equity	**$**	**11,230,170**	$	11,729,115

Nature of operations *(Note 1)*
Subsequent events *(Note 16)*

Approved by the Board of Directors and authorized for issue on June 1, 2020:

"Aydin Kilic" Director　　　　**"David Jaques"** Director

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

Fortress Technologies Inc.

Consolidated Statements of Loss and Comprehensive Loss

(In Canadian Dollars)

		Year ended December 31, 2019		*Year ended December 31, 2018*
Revenues *(Note 5)*	**$**	**1,683,185**	$	2,306,663
Cost of sales				
Operating costs		**(916,900)**		(797,962)
Depreciation *(Note 8)*		**(336,919)**		(2,404,135)
		429,366		(895,434)
Gain (loss) on revaluation of digital currencies		**-**		(24,736)
Loss on sale of digital currencies		**(8,490)**		(418,042)
General and administrative expenses				
Depreciation *(Note 8)*		**2,117**		1,361
Business development		**2,900**		11,906
Management and consulting fees *(Note 12)*		**377,375**		300,541
Marketing		**5,357**		150,341
Office and administration		**232,469**		287,360
Professional fees *(Note 12)*		**302,253**		327,296
Repairs and maintenance		**-**		22,224
Salaries and wages		**5,366**		232,010
Share based compensation *(Note 11 and 12)*		**303,790**		846,808
Travel		**4,273**		86,700
		(1,235,900)		(2,266,547)
Operating loss		**(815,024)**		(3,604,759)
Interest income		**173,175**		116,832
Interest expense		**-**		(538)
Foreign exchange (expense) income		**(419,287)**		89,026
Listing expenses *(Note 3)*		**-**		(673,220)
Impairment *(Note 8)*		**-**		(7,286,940)
		(246,112)		(7,754,840)
Net loss	**$**	**(1,061,136)**	$	(11,359,599)
Other comprehensive income				
Translation adjustment		**274,063**		465,649
Comprehensive loss for the year	**$**	**(787,073)**	$	(10,893,950)
Basic and diluted loss per share	**$**	**(0.01)**	$	(0.17)
Weighted average number of common shares outstanding - basic and diluted		**71,177,984**		67,648,557

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

Fortress Technologies Inc.

Consolidated Statements of Changes in Equity

(In Canadian Dollars)

	Number of Shares	Capital Amount	Cumulative translation adjustment	Other equity reserves	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 *(Note 11)*	-	-	-	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**
Balance, January 1, 2019	71,177,984	$ 21,367,543	$ 465,689	$ 1,103,710	$ (11,425,620)	$ 11,511,322
Share based compensation *(Note 11)*	-	-	-	303,790	-	303,790
Translation adjustment	-	-	274,063	-	-	274,063
Net loss for the year	-	-	-	-	(1,061,136)	(1,061,136)
Balance, December 31, 2019	**71,177,984**	**$ 21,367,543**	**$ 739,752**	**$ 1,407,500**	**$ (12,486,756)**	**$ 11,028,039**

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

Fortress Technologies Inc.

Consolidated Statements of Cash Flows

(In Canadian Dollars)

	Year ended December 31, 2019	*Year ended December 31, 2018*
Operating activities		
Net loss	**$ (1,061,136)**	$ (11,359,599)
Depreciation	**339,036**	2,404,135
Listing expense	**-**	441,077
Share based compensation	**303,790**	846,808
Interest income	**(173,175)**	-
Revaluation of digital currencies	**-**	24,736
Loss on sale of digital currencies	**8,490**	418,042
Impairment of property and equipment	**-**	7,286,940
Foreign exchange	**419,287**	-
Change in non-cash working capital components		
Increase in receivables and prepaid expenses	**(81,786)**	(81,378)
Increase in accounts payables and accrued liabilities	**(10,961)**	135,486
Increase in deposits	**-**	(116,110)
Increase in digital currencies	**1,823**	(442,215)
Due to shareholders	**-**	(40,221)
	(254,632)	(482,299)
Interest received	**84,623**	-
Net cash flows used in operating activities	**(170,009)**	(482,299)
Investing activity		
Purchase of property and equipment	**-**	(8,581,965)
Cash used in investing activity	**-**	(8,581,965)
Financing activities		
Net cash acquired on reverse take-over transaction	**-**	517,011
Proceeds on issuance of units	**-**	540,000
Proceeds on issuance of shares	**-**	14,731,812
Share issuance costs	**-**	(1,156,856)
Cash provided by financing activities	**-**	14,631,967
Change in cash during the year	**(170,009)**	5,567,703
Effect of exchange rate changes on cash	**(100,838)**	285,627
Cash, beginning of year	**10,564,795**	4,711,465
Cash, end of year	**$ 10,293,948**	$ 10,564,795

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

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 (Note 3).

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

On March 27, 2019, the Company has subleased the Flagship Facility (the "Sublease Agreement") to WeHash Technology LLP ("WeHash") for US$25,000 payable at every thirty-day period.

On May 16, 2019, the Sublease Agreement was amended whereby the US$25,000 payable at every thirty-day period is replaced by a monthly consulting fee (the "Consulting Fee") for the custody, sale of Bitcoin and transferring proceeds from sale of Bitcoin to the Company in US dollars (Note 5).

The Company is actively seeking other business opportunities in the technology sector.

2. Significant Accounting Policies

Statement of Compliance

These consolidated 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.

The consolidated financial statements were approved by the Board of Directors of the Company on June 1, 2020.

2. Significant Accounting Policies (cont'd)

Basis of Presentation

These consolidated 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 accounts 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 these financial statements from the date that control commences until the date that control ceases. All significant inter-company balances and transactions are eliminated on consolidation.

As of December 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.

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.

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.

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.

2. Significant Accounting Policies (cont'd)

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

Significant Estimates

Fair value of financial instruments
The individual fair value attributed to the different components of a financing transaction 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.

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 recognizes revenue in accordance with IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). Revenue is recorded 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.

Mining revenue
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.

2. Significant Accounting Policies (cont'd)

Revenue recognition (cont'd)

Sublease revenue
The Company earns sublease revenue in exchange for provision of cryptocurrency mining equipment and space at its mining facility. The revenue is recognized based on revenue from the mining operation less operational expenses and consulting fees charged by WeHash.

Digital Currencies

Digital currencies are generated from the Company's mining activities, which meet the definition of intangible assets in IAS 38 Intangible Assets as they are identifiable non-monetary assets without physical substance. They are initially recorded at cost and the revaluation method is used to measure the digital assets subsequently. Where digital currencies are recognized as revenue, the fair value of the Bitcoin and Bitcoin Cash received is considered to be the cost of the assets. Under the revaluation method, increases in fair value are recorded in other comprehensive income, while decreases are recorded in profit or loss. The Company revalues its digital currencies at each reporting date. There is no recycling of gains from other comprehensive income to profit or loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in profit or loss, that increase is recorded in profit or loss. Decreases in fair value that reverse gains previously recorded in other comprehensive income are recorded in other comprehensive income.

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.

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.

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.

2. Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

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.

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 is measured at FVTPL. Deposit and receivables are measured at amortized cost.

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.

2. Significant Accounting Policies (cont'd)

Adoption of new pronouncements

IFRS 16 – *Leases*

Initial adoption

The Company adopted IFRS 16 Leases effective January 1, 2019, 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. 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.

As of January 1, 2019, the impact from the adoption of IFRS 16 to these financial statements is $nil.

Ongoing recognition and measurement

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 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.

2. Significant Accounting Policies (cont'd)

Adoption of new pronouncements (cont'd)

IFRS 16 – *Leases (cont'd)*

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 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 and equipment and the lease liabilities are presented as loans on the consolidated statement of financial position.

The Company exercised judgment regarding whether it was reasonably certain that the Company would exercise an option to extend a lease. As the Company's lease agreement for its cryptocurrency mine facility ended on December 13, 2019, the Company was able to further extend its lease to December 14, 2020 while the Company is still evaluating future business opportunities. The Company has elected not to recognize right-of-use assets and lease liabilities for the short-term leases that have a lease term of 12 months or less. For the lease of its cryptocurrency mine facility, the Company recognizes the lease payments as an expense to profit or loss on a straight-line basis over the term of the lease.

(In Canadian Dollars)

2. Significant Accounting Policies (cont'd)

Adoption of new pronouncements (cont'd)

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 consolidated financial statements upon the adoption of the interpretation.

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
	$	1,182,145
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)
		508,925
Listing expenses	$	673,320

(In Canadian Dollars)

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:

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.

5. Digital Currencies and Revenue

For the year ended December 31, 2019, the Company recorded revenue of $1,683,185 (December 31, 2018 - $2,306,663) of which $262,980 (December 31, 2018 - $2,306,663) from mining revenue and $1,420,205 from sublease revenue (December 31, 2018 - $nil).

<u>Mining Revenue</u>

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 Company established a policy to sell its digital currencies to Goldmoney Inc. ("Goldmoney"), a related party (Note 12), until March 5, 2019.

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 as at December 31, 2019	-	-	-

5. Digital Currencies and Revenue (cont'd)

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 December 31, 2019	-	-	-

On March 5, 2019, the Company deactivated all crypto-currency mining hardware at the Flagship Facility. As at March 5, 2019 and December 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)).

<u>Sublease Revenue</u>

On March 27, 2019, the Company entered into the Sublease Agreement with WeHash to lease the Flagship Facility to WeHash for a fixed fee of US$25,000 payable at every thirty-day period.

<u>Revenue from WeHash amended arrangement</u>

On May 16, 2019, the Sublease Agreement was amended whereby the US$25,000 payable at every thirty-day period is replaced by the Consulting Fee for the custody, mining of Bitcoin, sale of Bitcoin and transferring proceeds from sale of Bitcoin to the Company in US dollars. The Company receives all cash proceeds from the sale of all the Bitcoin mined in the Flagship Facility. From the net profit from the mining operations (revenue less electricity, WeHash fee, insurance, internet lease costs, regulatory and state taxes), WeHash is paid a 10% consulting fee (the "Consulting Fee"). The Consulting Fee does not exceed US$10,000 or US$10,000 Bitcoin equivalent per month.

	December 31, 2019	December 31, 2018
Sublease Revenue	**$ 66,345**	$ -
Revenue from WeHash amended arrangement*	**$ 1,353,860**	$ -

* Revenue from the WeHash amended arrangement is recorded based on the fair value of Bitcoins mined by WeHash at the time they are received.

6. Prepaid Expenses

	December 31, 2019	December 31, 2018
Prepaid expenses (Rent and insurance of Bitcoin mine)	**$ 137,539**	$ 89,173
	$ 137,539	$ 89,173

(In Canadian Dollars)

7. Deposits

As of December 31, 2019, the Company has the deposit balance of $116,893 (December 31, 2018 – $122,714). This total comprised of $101,306 deposit held by Grant County Public Utility District, $14,287 rent and damage deposit for the Flagship Facility and $1,300 deposit for the Company's Vancouver office.

8. Property and Equipment

		Facility Asset		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**
Translation adjustment		(22,303)		(37,593)		-		(59,896)
Balance, December 31, 2019	**$**	**442,916**	**$**	**746,577**	**$**	**6,351**	**$**	**1,195,844**
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		90,447		246,472		2,117		339,036
Translation adjustment		(5,582)		(16,335)		-		(21,917)
Balance, December 31, 2019	**$**	**162,401**	**$**	**464,954**	**$**	**3,478**	**$**	**630,833**
Carrying amount								
Balance, December 31, 2018	$	387,683	$	549,353	$	4,990	$	942,026
Balance, December 31, 2019	**$**	**280,515**	**$**	**281,623**	**$**	**2,873**	**$**	**565,011**

9. Accounts payable and accrued liabilities

		December 31, 2019		December 31, 2018
Accounts payable	**$**	**88,087**	$	144,259
Accrued liabilities		**114,044**		73,534
	$	**202,131**	$	217,793

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.

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.

11. Share Capital (cont'd)

b. Issued and outstanding (cont'd)

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 (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 was 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.

Total proceeds of $4,761,582 were received during the fiscal year ended December 31, 2017 related to shares issued during fiscal year ended December 31, 2018.

c. 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 were released according to the following schedule:

(i) 22% of total common shares in escrow were released 25% respectively on August 20, 2018 and 6 and 12 months thereafter, and the remaining 25% will be released 18 months thereafter.

(ii) 45% of total common shares in escrow were released 10% on August 20, 2018 and 15% respectively 6, 12, 18, 24, and 30 months thereafter, and the remaining 15% will be released 36 months thereafter.

(iii) 33% of total common shares in escrow were released 10% on August 20, 2018, 20% 6 months thereafter, 30% 12 months thereafter, and the remaining 40% will be released 18 months thereafter.

As of December 31, 2019, the Company has 6,731,727 common shares in escrow (2018 – 14,050,180).

d. Stock options

For the year ended December 31, 2019, the Company recognized share based compensation of $303,790 (2018 - $846,808) pertaining to the vesting of stock options.

11. Share Capital (cont'd)

d. Stock options (cont'd)

During the year ended December 31, 2019, the Company:

- granted 500,000 stock options with an exercise price of $0.12 per share and 3,000,000 stock options with an exercise price of $0.15 per share to the directors of the Company. The options expire three years from the date of the grant and vested over a period of nine months. The fair value per options granted was $0.07 using the Black-Scholes Option Pricing model.

- granted 100,000 stock options with an exercise price at $0.18 per share to an officer of the Company. The options expire three years from the date of the grant and fully vested upon grant. The fair value per option granted was $0.12 using the Black-Scholes Option Pricing model.

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 using the Black-Scholes Option Pricing model.

- 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 using the Black-Scholes Option Pricing model.

- granted 480,000 stock options with an exercise price of $0.50 per share and an expiry date of February 20, 2028, which vested 1/4 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 using the Black-Scholes Option Pricing model.

- 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 using the Black-Scholes Option Pricing model.

- 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 using the Black-Scholes Option Pricing model.

- 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 using the Black-Scholes Option Pricing model.

(In Canadian Dollars)

11. Share Capital (cont'd)

d. Stock options (cont'd)

The following weighted average assumptions were used in the valuation of stock options granted in the Black-Scholes Option Pricing model:

	2019	2018
Risk-free interest rate	**1.49% - 1.77%**	1.79% - 2.32%
Expected life (years)	**3**	2 - 10
Annualized volatility	**97% - 104%**	91% - 114%
Dividend rate	**0.00%**	0.00%

The following is a summary of changes in stock options:

	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 - management and directors' options	3,600,000	0.15
Cancelled	(260,500)	0.56
Forfeited	(4,500)	0.60
Balance, December 31, 2019	6,474,928	0.33

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

Outstanding	Exercisable	Exercise price ($)	Expiry date
1,050,000	1,050,000	0.500	January 8, 2020
384,500	384,500	0.500	February 19, 2028
1,200,000	1,200,000	0.600	February 19, 2028
102,000	102,000	0.600	August 15, 2028
138,428	138,428	0.650	December 20, 2021
500,000	500,000	0.125	February 6, 2022
3,000,000	3,000,000	0.150	February 6, 2022
100,000	100,000	0.180	May 29, 2022
6,474,928	6,474,928		

(In Canadian Dollars)

11. Share Capital (cont'd)

e. Warrants

Following is a summary of changes in warrants outstanding for the year ended December 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, December 31, 2019	10,000,000	0.50

The warrants outstanding as at December 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	

12. Related Party Transactions

Payments to Goldmoney Inc.
The Company formerly had 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. During the year ended December 31, 2019, the Company paid $1,366 (US$1,023) to Goldmoney (year ended December 31, 2018 - $9,395 (US$7,193)) as commissions payable for the sale of digital currencies 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.

During the year ended December 31, 2019, key management compensation included $192,375 (December 31, 2018 - $257,825) as management and consulting fees, $35,000 as bonus (December 31, 2018 - $nil), $150,000 as a contract material change fee (December 31, 2018 - $nil) and $nil (December 31, 2018 - $42,716) for executive services provided by a company controlled by the CEO of the Company. These fees include the provision of office space and a corporate boardroom, a dedicated office telephone landline, along with computing and printing resources.

During the year ended December 31, 2019, the Company paid professional fees of $60,000 (December 31, 2018 - $15,750) to a company controlled by the CFO of the Company for the accounting services.

(In Canadian Dollars)

12. Related Party Transactions (cont'd)

During the year ended December 31, 2019, the Company paid key management salaries for the amount of $nil (December 31, 2018 - $229,387) to the former CFO and former CTO.

During the year ended December 31, 2019, the Company recorded shared-based compensation of $282,198 (December 31, 2018 - $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, 2019		**Year ended December 31, 2018**
Net loss	$	(1,061,136)	$	(11,359,599)
- Statutory tax rate		27.0%		27.0%
- Expected income tax recovery at the statutory tax rate	$	(286,507)	$	(3,067,092)
Non-deductible items and other				
- Change in statutory, foreign tax, foreign exchange rates and other		199,813		436,811
- Permanent difference		82,300		477,431
- Share issuance cost		-		(314,012)
- Change in deferred tax benefits not recognized		132,275		2,466,862
- Adjustment to prior years provision versus statutory tax returns		(127,881)		-
Income tax expense	$	-	$	-

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

		December 31, 2019	**Expiry date range**		**December 31, 2018**	**Expiry date range**
Property and equipment	$	598,510	No expiry	$	707,545	No expiry
Share issuance costs	$	707,610	2034 to 2039	$	1,055,491	2034 to 2038
Non-capital losses						
Canada	$	2,825,573	2038 to 2039	$	1,457,080	2038
USA	$	3,896,554	2037 to 2039	$	1,230,114	2037 to 2038

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.

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

	December 31, 2019	December 31, 2018
Cash	**$ 10,293,948**	**$ 10,564,795**
Deposit	**116,893**	**122,714**
	$ 10,410,841	**$ 10,687,509**

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, 2019, the Company had a working capital surplus of $10,463,028, the majority of which is comprised of a cash balance of $10,293,948 to settle current liabilities of $202,131. 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.

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

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 $205,811, resulting from the translation of the US dollar denominated financial instruments.

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.

The Company's cash is measured at level 1 fair value.

The Company's digital currencies are measured using level 2 fair value, determined by taking quoted price, per https://www.blockchain.com/en/charts/market-price and https://finance.yahoo.com/quote/BCH-USD/, with no adjustment.

The carrying value of the Company's receivables, deposits and accounts payable approximates fair value because of the relatively short periods to maturity of these instruments and the low credit risk.

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.

16. Subsequent Events

Bitcoin purchases

As of March 18, 2020, the Company decided to increase its holdings of Bitcoin in the event of the halving and economic indicators suggesting Bitcoin would emerge as a store of value. The Company instructed WeHash to hold the Bitcoin mined until further direction from the Board of Directors. In addition, as part of the strategy, in the first week of May 2020 the Company purchased 39.61 Bitcoin with $500,000 at an average price of $12,624.

COVID-19

The recent outbreak of the coronavirus, also known as “COVID-19,” has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company’s business activities. The extent to which the coronavirus may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. The effect that these events will have on the price of Bitcoin, the ability for the Company to raise capital and the supply of upgraded equipment are highly uncertain and as such, the Company cannot determine the corresponding financial impacts at this time.