

Fortress Technologies Inc.

Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2021

(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. for the three months ended March 31, 2021 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 Chartered Professional Accountants of Canada for a review of the interim financial statements by an auditor.

Fortress Technologies Inc.

Condensed Consolidated Interim Statements of Financial Position

(In Canadian Dollars)

(Unaudited)

	March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 21,460,773	\$ 7,048,050
Digital currencies (Note 3)	3,685,351	6,179,792
Receivables	49,914	17,662
Accrued GIC interest receivable	74,890	54,450
Prepaid expenses (Note 4)	33,242	37,469
Deposits (Note 5)	197,722	200,174
	25,501,892	13,537,597
Property and equipment (Note 6)	3,185,807	2,747,867
Right-of-use asset (Note 7)	651,917	695,103
Total assets	\$ 29,339,616	\$ 16,980,567
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 348,820	\$ 254,279
Lease liability (Note 7)	120,463	119,560
	469,283	373,839
Non-current liabilities		
Lease liability (Note 7)	540,766	578,927
Total liabilities	1,010,049	952,766
Equity		
Share capital (Note 9)	29,198,461	21,172,219
Reserves (Note 9)	2,909,978	2,288,052
Deficit	(3,778,872)	(7,432,470)
Total equity	28,329,567	16,027,801
Total liabilities and equity	\$ 29,339,616	\$ 16,980,567

Nature of operations (Note 1)

Subsequent events (Note 13)

Approved by the Board of Directors and authorized for issue on May 31, 2021:

“Aydin Kilic” Director

“David Jaques” Director

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

Fortress Technologies Inc.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Loss

(In Canadian Dollars)

(Unaudited)

	<i>Three months ended March 31, 2021</i>	<i>Three months ended March 31, 2020</i>
Revenues (Note 3)	\$ 644,813	\$ 316,811
Cost of revenue		
Operating costs	(193,489)	(265,870)
Depreciation (Notes 6 and 7)	(213,603)	(85,331)
Gross profit (loss)	237,721	(34,390)
Unrealized revaluation gain on digital currencies	1,772,620	-
Gain (loss) on sale of digital currencies	2,076,303	-
Operating expenses		
Director fees (Note 10)	42,000	-
Depreciation (Note 6)	429	529
Interest expense (Note 7)	13,707	-
Management and consulting fees (Note 10)	21,094	21,094
Office and administration	61,335	51,425
Professional fees (Note 10)	55,709	47,662
Transaction costs	31,145	-
Travel	55	560
	(225,474)	(121,270)
Operating income (loss)	3,861,170	(155,660)
Interest income	20,799	37,232
Foreign exchange loss	(228,371)	758,694
Sales tax recovery	-	-
	(207,572)	795,926
Net income (loss)	3,653,598	640,266
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Translation adjustment	43,221	(469,663)
	43,221	(469,663)
Net income (loss) and comprehensive income (loss)	\$ 3,696,819	\$ 170,603
Basic earnings per share	\$ 0.05	\$ 0.01
Weighted average number of common shares outstanding - basic	70,549,912	71,177,984
Diluted earnings per share	\$ 0.04	\$ 0.01
Weighted average number of common shares outstanding - diluted	84,538,391	71,177,984

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

Fortress Technologies Inc.

Condensed Consolidated Interim Statements of Changes in Equity

(In Canadian Dollars)

(Unaudited)

	Number of Shares	Capital Amount	Reserve - Cumulative translation adjustment	Reserve - Equity reserved	Accumulated Deficit	Total
Balance, December 31, 2019	71,177,984	\$ 21,367,543	\$ 739,752	\$ 1,407,500	\$ (12,486,756)	\$ 11,028,039
Shares repurchased and cancelled	(1,450,000)	(195,324)	-	-	-	(195,324)
Translation adjustment	-	-	140,800	-	-	140,800
Net income for the year	-	-	-	-	5,054,286	5,054,286
Balance, December 31, 2020	69,727,984	\$ 21,172,219	\$ 880,552	\$ 1,407,500	\$ (7,432,470)	\$ 16,027,801
Balance, December 31, 2020	69,727,984	\$ 21,172,219	\$ 880,552	\$ 1,407,500	\$ (7,432,470)	\$ 16,027,801
Units issued for private placement	14,794,700	9,320,661	-	-	-	9,320,661
Share issuance costs	-	(1,294,419)	-	578,705	-	(715,714)
Translation adjustment	-	-	43,221	-	-	43,221
Net income for the year	-	-	-	-	3,653,598	3,653,598
Balance, March 31, 2021	84,522,684	\$ 29,198,461	\$ 923,773	\$ 1,986,205	\$ (3,778,872)	\$ 28,329,567

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

Fortress Technologies Inc.
Condensed Consolidated Interim Statements of Cash Flows
(In Canadian Dollars)
(Unaudited)

	<i>Three months ended</i>		<i>Three months ended</i>
	<i>March 31, 2021</i>		<i>March 31, 2020</i>
Operating activities			
Net income	\$ 3,653,598	\$	640,266
Depreciation	214,032		85,860
Revaluation gain	(1,772,620)		-
Interest expenses	13,707		-
Interest income	(20,440)		(37,232)
Loss on sale of digital currencies	-		10,026
Foreign exchange	32,528		-
Change in non-cash working capital components			
Receivables	(32,252)		21,837
Prepaid expenses	4,012		35,312
Accounts payables and accrued liabilities	95,478		(19,071)
Digital currencies	4,267,061		(47,501)
Cash flows used in operating activities	6,455,104		689,497
Interest received	-		5,400
Net cash flows used in operating activities	6,455,104		694,897
Investing activity			
Purchase of property and equipment	(655,994)		-
Cash used in investing activity	(655,994)		-
Financing activities			
Payment on lease liability	(42,560)		-
Proceeds on issuance of units	9,320,661		-
Share issuance costs (Note 11)	(715,714)		-
Cash used in financing activities	8,562,387		-
Change in cash during the year	14,361,497		694,897
Effect of exchange rate changes on cash	51,226		(549,835)
Cash, beginning of year	7,048,050		10,293,948
Cash, end of year	\$ 21,460,773	\$	10,439,010
Cash and cash equivalents consists of:			
Cash	\$ 14,975,158	\$	2,278,178
Guaranteed investment certificate	\$ 6,485,615	\$	8,160,922

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

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2021

(In Canadian Dollars)

(Unaudited)

1. Nature of Operations

Fortress Technologies Inc. (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.

The Company has a cryptocurrency mining operation in Washington State (the “Data Center Operation”), which contains 1,400 ASIC S9 Antminers.

On March 27, 2019, the Company has subleased the Data Center Operation (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 3).

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

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.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2020

(In Canadian Dollars)

(Unaudited)

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, 2020 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, 2020, 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 31, 2021.

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.

Basis of Consolidation

The condensed consolidated interim financial statements include the accounts 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 these financial statements from the date that control commences until the date that control ceases. All significant inter-company balances, income and expenses are eliminated on consolidation.

For the period ended March 31, 2021, the Company had two wholly-owned subsidiaries:

- Fortress Blockchain Holdings Corp. incorporated in the province of BC, Canada;
- Fortress Blockchain (US) Holdings Corp. ("Fortress US") incorporated in Washington, USA; and
- The Good Shepherd Land and Livestock Company Limited incorporated in England and Wales, UK.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2020

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2. Basis of Presentation (continued)

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.

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.

3. Digital currencies and Revenue

For the period ended March 31, 2021, the Company recorded revenue of \$644,813 (March 31, 2020 - \$316,811) of which \$644,813 (March 31, 2020 - \$39,226) from mining revenue and \$nil from sublease revenue (March 31, 2020 - \$277,585).

Mining Revenue

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>.

Bitcoin	Units	Amount
Balance of Bitcoin as at December 31, 2019	-	-
Revenue from Bitcoin mined	52.10	748,744
Bitcoin purchased	116.10	1,889,820
Revaluation of Bitcoin	-	3,541,228
Balance of Bitcoin as at December 31, 2020	168.20	6,179,792
Revenue from Bitcoin mined	11.70	509,167
Bitcoin sold	(130.00)	(4,717,331)
Revaluation of Bitcoin	-	1,713,723
Balance of Bitcoin as at March 31, 2021	49.90	3,685,351

Sublease Revenue

On March 27, 2019, the Company entered into the Sublease Agreement with WeHash to lease the Data Centre Operation to WeHash for a fixed fee of 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 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 the all the Bitcoin mined in the Data Centre Operation. From the net profit from the Data Centre Operation (the "Net Profit") (revenue less electricity, WeHash Contractor fee, insurance, internet lease costs, regulatory and state taxes collectively as "Operational Expenses") is determined. From the Net Profit, WeHash is paid 10% of the Net Profit as consulting fee (the "Consulting Fee"). The Consulting Fee does not exceed US\$10,000 or US\$10,000 Bitcoin equivalent per month.

	March 31, 2021	March 31, 2020
Sublease Revenue	\$ -	\$ 277,585

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(In Canadian Dollars)

(Unaudited)

3. Prepaid expenses

	March 31, 2021	December 31, 2020
Prepaid expenses (Rent and insurance of Bitcoin mine)	\$ 33,243	\$ 37,469

5. Deposits

As of March 31, 2021, the Company has the deposit balance of \$197,722 (December 31, 2020 – \$200,174). This total comprised of \$98,085 deposit held by Grant County Public Utility District, \$98,337 rent and damage deposit for the Data Centre Operation and \$1,300 deposit for the Company's Vancouver office.

6. Property and equipment

	Facility Asset (\$)	Miners (\$)	Miners (not- available for use) (\$)	Office Equipment (\$)	Total (\$)
Cost					
Balance, December 31, 2019	442,916	746,577	-	6,351	1,195,844
Impairment recovery	2,301,446	218,076	-	-	2,519,522
Translation adjustment	(8,730)	(14,716)	-	-	(23,446)
Balance, December 31, 2020	2,735,632	949,937	-	6,351	3,691,920
Additions	-	-	655,994	-	655,994
Translation adjustment	(33,734)	(11,714)	(6,304)	-	(51,752)
Balance, March 31, 2021	2,701,898	938,223	649,690	6,351	4,296,162
Accumulated depreciation					
Balance, December 31, 2019	162,401	464,954	-	3,478	630,833
Additions	91,467	249,250	-	2,117	342,834
Translation adjustment	(7,831)	(21,783)	-	-	(29,614)
Balance, December 31, 2020	246,037	692,421	-	5,595	944,053
Additions	123,841	54,899	-	425	179,165
Translation adjustment	(3,928)	(8,935)	-	-	(12,863)
Balance, March 31, 2021	365,950	738,385	-	6,020	1,110,355
Carrying amount					
Balance, December 31, 2020	2,489,595	257,516	257,516	756	3,005,383
Balance, March 31, 2021	2,335,948	199,838	649,690	331	3,185,807

Depreciation expense of \$178,740 (March 31, 2020 - \$85,331) is included in cost of revenue.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(In Canadian Dollars)

(Unaudited)

7. Right-of-use asset and lease liability

On December 15, 2020, the Company extended its lease for its Data Center Operation for an additional five years. Depreciation of right-of-use assets is calculated using the straight-line method over the remaining lease term.

Data Center Operation		Total
Cost		
Balance, December 31, 2019	\$	-
Additions		700,394
Translation adjustment		(550)
Balance, December 31, 2020		700,944
Additions		-
Translation adjustment		8,643
Balance, March 31, 2021		692,301
Depreciation		
Balance, December 31, 2019		-
Additions		5,876
Translation adjustment		35
Balance, December 31, 2020	\$	5,841
Additions		34,867
Translation adjustment		(5,517)
Balance, March 31, 2021	\$	40,384
Net book value		
Balance, December 31, 2020	\$	695,103
Balance, March 31, 2021	\$	651,917

Depreciation expense of \$34,867 (March 31, 2020 - \$nil) is included in cost of revenue.

The present value of future lease payments was measured using an incremental borrowing rate of 8% per annum.

Lease liability		
Balance, December 31, 2020	\$	698,487
Additions		-
Interest expense on lease liability		13,707
Payments on lease liability		(28,853)
Translation adjustment		(22,112)
Balance, March 31, 2021		661,229
Less: Current portion		120,463
Balance, March 31, 2021	\$	540,766

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(In Canadian Dollars)

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7. Right-of-use asset and lease liability (continued)

Lease liability	
Balance, December 31, 2019	\$ -
Additions	700,394
Interest expense on lease liability	4,701
Payments on lease liability	(7,172)
Translation adjustment	564
Balance, December 31, 2020	698,487
Less: Current portion	119,560
Balance, December 31, 2020	\$ 578,927

At March 31, 2021, the Company is committed to minimum lease payments as follows:

Maturity analysis	March 31, 2021	
Less than one year	\$	169,008
One to three years		169,008
Three to five years		457,730
Total undiscounted lease liabilities		795,746
Amount representing implicit interest		(134,517)
Lease liability	\$	661,229

8. Accounts payable and accrued liabilities

	March 31, 2021		December 31, 2020	
Accounts payable	\$	181,617	\$	108,568
Accrued liabilities		167,203		145,711
	\$	348,820	\$	254,279

9. Share Capital

a. Authorized

Unlimited number of common shares without par value

b. Issued and outstanding

On March 26, 2021, the Company completed a private placement for total gross proceeds of \$9,300,000 in exchange for 14,794,700 units of the Company. Each unit is composed of one common share of the Company and one common share purchase warrant ("Warrant"). Each Warrant is exercisable to acquire one common share at a price of \$0.82 per Warrant at any time on or before the date which is 60 months after the closing date of the offering.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2020

(In Canadian Dollars)

(Unaudited)

9. Share Capital (continued)

b. Issued and outstanding (continued)

As consideration for the services of the broker, the Company issued 887,682 broker warrants. Each broker warrant entitles the holder to acquire an additional unit at a price of \$.63 for a period of 60 months, expiring on March 26, 2026. Each unit is composed of one common share of the Company and one common share purchase warrant ("Warrant"). Each Warrant is exercisable to acquire one common share at a price of \$0.82 per Warrant at any time on or before March 26, 2026. The value of the broker warrants was estimated at \$578,704 using the relative fair value model. In addition, the Company paid cash commissions the brokers of \$559,240 and other cash share issuance costs of \$156,474.

On July 27, 2020, the Company announced its intention to commence a normal course issuer bid (the "NCIB") to purchase up to 5,688,227 of its common shares representing 8% of its 71,177,984 common shares issued and outstanding as of July 27, 2020. The NCIB commenced on July 29, 2020 and will terminate upon the earliest of (i) the Company purchasing 5,688,227 common shares, (ii) the Company providing notice of termination of the NCIB, and (iii) July 28, 2021.

During the year ended December 31, 2020, the Company repurchased and cancelled 1,450,000 common shares for \$195,324 including \$5,051 of transaction fees.

c. Escrow shares

Pursuant to the RTO dated August 16, 2018, 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 25% respectively on August 20, 2018 and 6 and 12 months after the date of the Final Exchange Bulletin respecting the RTO and the remaining 25% will be released 18 months thereafter.

As of March 31, 2021, the Company has 750,000 common shares in escrow (December 31, 2020 – 750,000).

d. Stock options

During the period ended March 31, 2021 and year ended December 31, 2020, the Company did not grant any stock options.

The following is a summary of changes in stock options outstanding for the period ended March 31, 2021:

	Options outstanding	Weighted-average exercise price (\$)
Balance, December 31, 2019	6,474,928	0.33
Expired	(1,050,000)	0.50
Balance, December 31, 2020 and March 31, 2021	5,424,928	0.29

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2020

(In Canadian Dollars)

(Unaudited)

9. Share Capital (continued)

d. Stock options

The stock options outstanding and exercisable as at March 31, 2021, are as follows:

Outstanding	Exercisable	Exercise price (\$)	Expiry date
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
5,424,928	5,424,928		

e. Warrants

Following is a summary of changes in warrants outstanding for the period ended March 31, 2021:

	Warrants	Weighted-average exercise price (\$)
Balance, December 31, 2019	10,000,000	0.50
Expired	(2,307,692)	0.50
Balance, December 31, 2020	7,692,308	0.50
Addition	15,682,382	0.81
Balance, March 31, 2021	23,374,690	0.71

Relative fair value of warrants was estimated using Black-Scholes option-pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	222.61%
Risk-free rate	0.93%
Expected life	5
Share price	\$ 0.66

The warrants outstanding as at March 31, 2021, are as follows:

Outstanding	Exercise price (\$)	Expiry date
3,846,154	0.50	December 21, 2022
3,846,154	0.50	January 7, 2023
14,794,700	0.82	March 26, 2026
887,682	0.63	March 26, 2026
23,374,690	0.71	

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10. Related Party Transactions

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 period ended March 31, 2021, key management compensation included \$21,094 (March 31, 2020 - \$21,094) as management and consulting fees for executive services provided by a company controlled by the CEO of the Company. These fees include provision of office space and a corporate boardroom, a dedicated office telephone landline, along with computing and printing resources.

During the period ended March 31, 2021, the Company paid \$42,000 (March 31, 2020 - \$nil) to its independent directors. Each independent director will receive a monthly compensation of \$3,500.

During the period ended March 31, 2021, the Company paid professional fees of \$15,750 (March 31, 2020 - \$15,750) to a company controlled by the CFO of the Company for the accounting services.

11. 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 cash with Tier-1 Canadian financial institutions. All the receivables are current. The carrying amount of financial assets represents the maximum credit exposure.

	March 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 21,460,773	\$ 7,048,050
Deposit	197,722	200,174
Receivables	49,914	17,662
	\$ 21,708,409	\$ 7,265,886

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 March 31, 2021, the Company had a working capital surplus of \$25,032,610, the majority of which is comprised of a cash balance of \$21,460,773 and digital currencies balance of \$3,685,351 to settle current liabilities of \$469,283. All of the Company's financial liabilities sounds have contractual maturities of less than 30 days and are subject to normal trade terms.

Fortress Technologies Inc.

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(In Canadian Dollars)

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11. Financial Instruments (continued)

Market risk

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

Bitcoin prices

The Company has an inventory of digital currencies, Bitcoin, on March 31, 2021, that is subject to market pricing and price volatility. The Company recorded a gain on revaluation of digital currencies in the amount of \$1,772,620 during the period ended March 31, 2021 (December 31, 2020 - \$3,541,228). Digital currencies have a limited history and have had a high degree of price volatility. The historical performance of digital currencies may not be indicative of their future performance. A decline in the fair value of these digital currencies could have a significant impact on the Company's earnings. In addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required.

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

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The interest rate risk on bank deposits is insignificant as the deposits are short term.

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 \$36,000, 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.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2020

(In Canadian Dollars)

(Unaudited)

11. Financial Instruments (continued)

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>, 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.

12. 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.

13. Subsequent Event

Subsequent to March 31, 2021, the Company:

- a) granted 100,000 stock options to an officer of the Company; and
- b) purchased 55 ASIC miners for US\$381,040.