

Fortress Technologies Inc.

Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 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 nine months ended September 30, 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)

	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 5,728,880	\$ 7,048,050
Digital currencies (Note 4)	6,801,733	6,179,792
Receivables	105,971	17,662
Accrued GIC interest receivable	3,796	54,450
Prepaid expenses (Note 5)	23,957	37,469
Deposits (Note 6)	199,643	200,174
Biological assets	38,467	-
	12,902,447	13,537,597
Property and equipment (Note 7)	16,420,591	2,747,867
Intangible assets	5,056	-
Right-of-use asset (Note 8)	588,386	695,103
Total assets	\$ 29,916,480	\$ 16,980,567
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 498,122	\$ 254,279
Loan payable	91,973	-
Lease liability (Note 8)	126,589	119,560
	716,684	373,839
Non-current liabilities		
Lease liability (Note 8)	481,500	578,927
Total liabilities	1,198,184	952,766
Equity		
Share capital (Note 10)	29,258,259	21,172,219
Reserves (Note 10)	3,366,715	2,288,052
Deficit	(3,906,678)	(7,432,470)
Total equity	28,718,296	16,027,801
Total liabilities and equity	\$ 29,916,480	\$ 16,980,567

Nature of operations (Note 1)

Subsequent events (Note 15)

Approved by the Board of Directors and authorized for issue on November 24, 2021:

“Antonin Scalia” 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>Nine months ended</i> September 30, 2021	<i>Nine months ended</i> September 30, 2020	<i>Three months ended</i> September 30, 2021	<i>Three months ended</i> September 30, 2020
Revenue (Note 4)	\$ 2,810,604	\$ 761,769	\$ 1,547,049	\$ 189,723
Cost of revenue				
Operating costs	(816,858)	(738,636)	(415,362)	(220,637)
Depreciation (Notes 7 and 8)	(1,010,630)	(257,924)	(583,152)	(84,599)
Gross profit (loss)	983,116	(234,791)	548,535	(115,513)
Unrealized revaluation gain on digital currencies	1,421,805	-	423,476	-
Gain (loss) on sale of digital currencies	2,721,979	-	645,676	-
Operating expenses				
Director fees (Note 11)	118,067	126,000	30,567	42,000
Depreciation (Note 7)	7,893	1,588	7,136	530
Interest expense (Note 8)	39,067	-	12,630	-
Management and consulting fees (Note 11)	78,729	63,281	36,541	21,093
Office and administration	255,981	152,040	81,296	51,584
Professional fees (Note 11)	251,280	250,042	102,816	116,065
Repairs and maintenance	278	-	278	-
Share-based compensation (Note 10 and 11)	500,423	-	462,408	-
Transaction costs	46,649	-	-	-
	(1,318,836)	(592,951)	(754,141)	(231,272)
Operating income (loss)	3,808,064	(827,742)	863,546	(346,785)
Interest income	33,360	73,392	5,396	9,058
Foreign exchange loss	(315,632)	274,616	617,398	(166,218)
Sales tax recovery	-	70,977	-	-
	(282,272)	418,985	622,794	(157,160)
Net income (loss)	3,525,792	(408,757)	1,486,340	(503,945)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Translation adjustment	18,833	(121,028)	(73,800)	119,674
	18,833	(121,028)	(73,800)	119,674
Net comprehensive income (loss)	\$ 3,544,625	\$ (529,785)	\$ 1,412,540	\$ (384,271)
Basic earnings per share	\$ 0.04	\$ (0.01)	\$ 0.02	\$ (0.01)
Weighted average number of common shares outstanding - basic	79,919,243	71,064,166	84,531,488	70,839,006
Diluted earnings per share	\$ 0.03	\$ (0.01)	\$ 0.01	\$ (0.01)
Weighted average number of common shares outstanding - diluted	111,448,861	71,064,166	116,322,302	70,839,006

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 - Revaluation gain	Reserve - Equity reserved	Accumulated Deficit	Total
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)
Exercise of stock options	270,000	59,798	-	-	(19,298)	-	40,500
Share based compensation	-	-	-	-	500,423	-	500,423
Translation adjustment	-	-	18,833	-	-	-	18,833
Net income for the year	-	-	-	-	-	3,525,792	3,525,792
Balance, September 30, 2021	84,792,684	\$ 29,258,259	\$ 899,385	\$ -	\$ 2,467,330	\$ (3,906,678)	\$ 28,718,296

	Number of Shares	Capital Amount	Reserve - Cumulative translation adjustment	Reserve - Revaluation gain	Reserve - Equity reserved	Accumulated Deficit	Total
Balance, December 31, 2019	71,177,984	\$ 21,367,543	\$ 722,772	\$ -	\$ 1,407,500	\$ (12,486,756)	\$ 11,011,059
Shares repurchased and cancelled	1,006,000	(130,844)	-	-	-	-	(130,844)
Translation adjustment	-	-	(121,028)	-	-	-	(121,028)
Revaluation gain	-	-	-	178,725	-	-	178,725
Net income for the year	-	-	-	-	-	(408,757)	(408,757)
Balance, September 30, 2020	72,183,984	\$ 21,236,699	\$ 601,744	\$ 178,725	\$ 1,407,500	\$ (12,895,513)	\$ 10,529,155

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>Nine months ended</i> <i>September 30, 2021</i>	<i>Nine months ended</i> <i>September 30, 2020</i>
Operating activities		
Net income (loss)	\$ 3,525,792	\$ (408,757)
Depreciation	1,018,523	259,512
Share-based compensation	500,423	-
Revaluation of digital currencies	(1,421,805)	-
Interest expenses	38,902	-
Interest income	(33,360)	(73,392)
Loss on sale of digital currencies	-	-
Foreign exchange	315,632	(249,072)
Change in non-cash working capital components		
Receivables	(88,309)	(30,195)
Prepaid expenses	13,535	87,436
Biological assets	(38,467)	-
Accounts payables and accrued liabilities	239,477	51,034
Digital currencies	799,864	(968,276)
Cash flows used in operating activities	4,870,207	(1,331,710)
Interest received	84,014	131,923
Net cash flows used in operating activities	4,954,221	(1,199,787)
Investing activities		
Purchase of property and equipment (Note 7)	(14,595,978)	-
Intangible assets	(5,142)	-
Payment on lease	(126,164)	-
Cash used in investing activities	(14,727,284)	-
Financing activities		
Shares repurchased and cancelled	-	(130,844)
Proceeds on issuance of units (Note 10)	9,320,661	-
Proceeds from exercise of stock options (Note 10)	40,500	-
Proceeds from loan payable	91,973	-
Share issuance costs (Note 10)	(715,714)	-
Cash used in financing activities	8,737,420	(130,844)
Change in cash during the period	(1,035,643)	(1,330,631)
Effect of exchange rate changes on cash	(283,527)	86,645
Cash, beginning of period	7,048,050	10,293,948
Cash, end of period	\$ 5,728,880	\$ 9,049,962

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

Nine months ended September 30, 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.

Fortress develops and operates bitcoin mining infrastructure. The Company has a bitcoin mining operation in Washington State (the “Data Center Operation”), which contains approximately 1,400 Bitmain Antminer S9 bitcoin mining machines.

The Company also has a bitcoin mining operation in North Dakota (the “GAM Operation”), which currently houses four bitcoin mining containers, each containing approximately 180 MicroBT Whatsminer bitcoin mining machines of various models.

The Company is actively seeking expansion opportunities in the bitcoin mining 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.

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 November 24, 2021.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

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 September 30, 2021, the Company had three 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 ("TGS") incorporated in England and Wales, UK.

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

3. Summary of Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's annual financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2020.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

4. Digital currencies and Revenue

For the period ended September 30, 2021, the Company recorded revenue of \$2,810,604 (September 30, 2020 - \$761,769) of which \$2,008,685 (September 30, 2020 - \$nil) was mining revenue from the Data Center Operation, \$801,919 (September 30, 2020 - \$nil) was mining revenue from the GAM Operation and \$nil from sublease revenue (September 30, 2020 - \$761,769).

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	50.80	2,810,604
Bitcoin purchased	90.00	3,824,165
Bitcoin sold	(180.00)	(6,480,956)
Revaluation of bitcoin	-	468,127
Balance of bitcoin as at September 30, 2021	129.00	6,801,733

GAM Strategic Venture

On March 29, 2021, the Company entered into a Master and Service Agreement with Great American Mining, LLC ("GAM"), whereby GAM will manufacture 12 bitcoin mining containers, the Company will acquire the bitcoin mining machines to outfit the containers and GAM will operate these containers by converting vented/flared natural gas into electricity.

The bitcoin mined will be split between the Company and GAM based on the following gross monthly revenue from bitcoin mined and assuming all 12 containers are operational:

Gross Monthly revenue	Percentage of bitcoin split or dollar equivalent
Greater than US\$749,450	60% to Fortress
Less than or equal to \$749,450 and greater than \$556,043	\$443,493 to Fortress
Less than or equal to \$556,043 and greater than \$410,989	80% to Fortress
Less than or equal to \$410,989	85% to Fortress

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

4. Digital currencies and Revenue (continued)

Sublease Revenue

On March 27, 2019, the Company entered into the Sublease Agreement with WeHash which was amended on May 16, 2019, 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 Center Operation. From the net profit from the Data Center 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.

	September 30, 2021	September 30, 2020
Sublease Revenue	\$ -	\$ 761,769

5. Prepaid expenses

	September 30, 2021	December 31, 2020
Prepaid expenses (Rent and insurance of bitcoin mine)	\$ 23,957	\$ 37,469

6. Deposits

As of September 30, 2021, the Company has the deposit balance of \$199,643 (December 31, 2020 - \$200,174). This total comprised of \$99,044 deposit held by Grant County Public Utility District, \$99,299 rent and damage deposit for the Data Center Operation and \$1,300 deposit for the Company's Vancouver office.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

7. Property and equipment

	Land (\$)	Livestock Equipment (\$)	Facility Asset (\$)	Miners (\$)	Equipment (\$)	Miners (not- available for use) (\$)	Equipment under production (\$)	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	1,720,602	185,525	-	4,142,963	482,486	7,108,398	956,004	-	14,595,978
Translation adjustment	-	-	(7,306)	(2,211)	38	560	9,044	-	125
Balance, September 30, 2021	1,720,602	185,525	2,728,326	5,090,689	482,524	7,108,958	965,048	6,351	18,288,023
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	-	6,957	367,110	515,581	24,583	-	-	756	914,987
Translation adjustment	-	-	4,674	3,505	213	-	-	-	8,392
Balance, September 30, 2021	-	6,957	617,821	1,211,507	24,796	-	-	6,351	1,867,432
Carrying amount									
Balance, December 31, 2020	-	-	2,489,595	257,516	257,517	-	-	756	3,005,384
Balance, September 30, 2021	1,720,602	178,568	2,110,505	3,879,182	457,728	7,108,958	965,048	-	16,420,591

Depreciation expense of \$907,274 (September 30, 2020 - \$257,924) is included in cost of revenue.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

8. 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		1,872
Balance, September 30, 2021		699,072
Depreciation		
Balance, December 31, 2019		-
Additions		5,876
Translation adjustment		35
Balance, December 31, 2020	\$	5,841
Additions		103,360
Translation adjustment		(7,326)
Balance, September 30, 2021	\$	110,686
Net book value		
Balance, December 31, 2020	\$	695,103
Balance, Septemebr 30, 2021	\$	588,386

Depreciation expense of \$103,360 (September 30, 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		38,902
Payments on lease liability		(87,261)
Translation adjustment		(42,039)
Balance, September 30, 2021		608,089
Less: Current portion		126,589
Balance, September 30, 2021	\$	481,500

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

8. 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 September 30, 2021, the Company is committed to minimum lease payments as follows:

	September 30,
	2021
Maturity analysis	
Less than one year	\$ 170,661
One to three years	170,661
Three to five years	376,877
Total undiscounted lease liabilities	718,199
Amount representing implicit interest	(110,110)
Lease liability	\$ 608,089

9. Accounts payable and accrued liabilities

	September 30, 2021	December 31, 2020
Accounts payable	\$ 338,116	\$ 108,568
Accrued liabilities	160,006	145,711
	\$ 498,122	\$ 254,279

10. Share Capital

a. Authorized

Unlimited number of common shares without par value

b. Issued and outstanding

During the period ended September 30, 2021, 270,000 stock options was exercised for total proceeds of \$40,500.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

10. Share Capital (continued)

b. Issued and outstanding (continued)

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.

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 \$0.63 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 September 30, 2021, the Company has nil common shares in escrow (December 31, 2020 - 750,000).

d. Stock options

During the three months period ended September 30, 2021, the Company granted 250,000 stock options exercisable at \$0.485 expiring five years from the date of the grant to management. 100,000 stock options vest immediately on the date of the grant and 50,000 on each six month anniversary of the date of grant thereafter. The fair value per options granted was \$0.38 and the share-based compensation expense recognized for the nine months ended September 30, 2021, was \$51,601.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

10. Share Capital (continued)

d. Stock options (continued)

During the three months period ended September 30, 2021, the Company granted 650,000 stock options exercisable at \$0.56 expiring five years from the date of the grant to management. The stock options vest immediately on the date of the grant. The fair value per options granted was \$0.52 and the share-based compensation expense recognized for the nine months ended September 30, 2021, was \$276,759.

During the three months ended September 30, 2021, the Company granted 2,000,000 stock options exercisable at \$0.49 expiring five years from the date of the grant to a director of the Company. 500,000 stock options vest three months after the date of grant and every three months thereafter. The fair value per options granted was \$0.40 and the share-based compensation expense recognized for the nine months ended September 30, 2021, was \$134,048.

During the period ended June 30, 2021, the Company granted 100,000 stock options exercisable at \$0.51 expiring three years from the date of the grant vesting immediately to management. The fair value per options granted was \$0.38 and the share-based compensation expense recognized for the six months ended September 30, 2021, was \$38,015.

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

The following weighted average assumptions were used in the Black-Scholes option pricing model valuation of options granted:

Dividend yield	0%
Expected volatility	120.28%
Risk-free rate	0.84%
Expected life	4.93 years
Share price	\$0.50

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(In Canadian Dollars)

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10. Share Capital (continued)

d. Stock options

The following is a summary of changes in stock options outstanding for the period ended September 30, 2021:

	Options outstanding	Weighted-average exercise price (\$)
Balance, December 31, 2020	5,424,928	0.33
Granted	3,000,000	0.50
Exercised	(270,000)	0.15
Balance, September 30, 2021	8,154,928	0.40

	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	5,424,928	0.29

The stock options outstanding and exercisable as at September 30, 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
2,730,000	2,730,000	0.150	February 6, 2022
100,000	100,000	0.180	May 29, 2022
100,000	100,000	0.510	May 3, 2024
250,000	100,000	0.485	August 27, 2026
650,000	650,000	0.520	September 24, 2026
2,000,000	-	0.490	September 1, 2026
8,154,928	6,004,928		

Fortress Technologies Inc.

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(In Canadian Dollars)

(Unaudited)

10. Share Capital (continued)

e. Warrants

Following is a summary of changes in warrants outstanding for the period ended September 30, 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, September 30, 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 September 30, 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	

11. 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 September 30, 2021, key management compensation included \$3,000 (September 30, 2020 - \$nil) as salary to the CEO of the Company and \$3,000 (September 30, 2020 - \$nil) as salary to the COO and President of the Company.

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11. Related Party Transactions

During the period ended September 30, 2021, key management compensation included \$64,438 (September 30, 2020 - \$63,281) as management and consulting fees for executive services provided by a company controlled by the former 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 September 30, 2021, the Company paid \$118,067 (September 30, 2020 - \$126,000) to its directors. Each director will receive a monthly compensation of \$3,500.

During the period ended September 30, 2021, the Company paid professional fees of \$50,000 (September 30, 2020 - \$45,000) to a company controlled by the CFO of the Company for the accounting services. In addition, the Company also granted 350,000 stock options and the share-based compensation expense recognized for the nine months ended September 30, 2021, was \$89,616.

The remuneration of directors and other members of key management personnel during the nine months ended September 30, 2021, and September 30, 2020, are as follows:

Nine months ended September 30, 2021	Salaries	Fees	Share-based compensation	Total
Chief Executive Officer	\$ 3,817	\$ -	\$ 138,380	\$ 142,197
Chief Operating Officer and President	3,817	-	138,379	142,196
Former Chief Executive Officer	-	77,271	-	77,271
Chief Financial Officer	-	50,000	89,616	139,616
Non-executive directors	-	103,600	134,048	12,296
	<u>\$ 7,634</u>	<u>\$ 230,871</u>	<u>\$ 500,423</u>	<u>\$ 43,124</u>

Nine months ended September 30, 2020	Salaries	Fees	Share-based compensation	Total
Former Chief Executive Officer	\$ -	\$ 63,281	\$ -	\$ 63,281
Chief Financial Officer	-	45,000	-	45,000
Non-executive directors	-	126,000	-	126,000
	<u>\$ -</u>	<u>\$ 234,281</u>	<u>\$ -</u>	<u>\$ 234,281</u>

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

(Unaudited)

12. 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.

	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 5,728,880	\$ 7,048,050
Deposit	199,643	200,174
Receivables	105,971	17,662
	\$ 6,034,494	\$ 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 September 30, 2021, the Company had a working capital surplus of \$12,185,763, the majority of which is comprised of a cash and cash equivalents balance of \$5,728,880 and digital currencies balance of \$6,801,733 to settle current liabilities of \$716,684. 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 prices, interest rates, foreign exchange rates and equity prices.

Bitcoin prices

The Company has an inventory of digital currencies, bitcoin, on September 30, 2021, that is subject to market pricing and price volatility. The Company recorded a gain on revaluation of digital currencies in the amount of \$1,421,805 during the period ended September 30, 2021 (September 30, 2020 - \$178,725). 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.

Fortress Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2021

(In Canadian Dollars)

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12. Financial Instruments (continued)

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 \$127,154, 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 and biological assets are 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.

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Nine months ended September 30, 2021

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13. 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.

14. Segmented Information

September 30, 2021	Canada	USA	UK	Total
Revenue	\$ -	\$ 2,810,604	\$ -	\$ 2,810,604
Cost of sales	\$ -	\$ 3,202,097	\$ -	\$ 3,202,097
Net income/(loss)	\$ 2,662,561	\$ 917,330	\$ (48,099)	\$ 3,531,792
Non-current assets	\$ -	\$ 15,109,807	\$ 637,627	\$ 1,904,226

15. Subsequent Events

Subsequent to September 30, 2021, the Company:

- Purchased 180 MicroBT Whatsminer M30S bitcoin mining machines;
- Purchased 4,500 Bitmain Antminer S19j Pro (100 TH/s) bitcoin mining machines for a purchase price in the range of US\$26,000,000. The order will be paid for in installments over the course of 11 months;
- Purchased 600 Bitmain Antminer S19 XP bitcoin mining machines; and
- Entered into an agreement with respect to a non-brokered private placement offering to issue 25,000 of 3.5% senior secured convertible debenture units ("Convertible Debenture Unit") due 36 months following the date of issuance. Each Convertible Debenture Unit consists of (i) \$1,000 principal amount of senior secured convertible debenture of the Company (each, a "Debenture"); and (ii) 641 common share purchase warrants of the Company (each, a "Warrant"), with each Warrant exercisable for one common share of the Company (a "Common Share"). Each Warrant shall entitle the holder to acquire one Common Share (a "Warrant Share") at an exercise price of CDN\$0.95 per Warrant Share for a period of 60 months from the date of issuance. Upon the Offering being fully subscribed, there would be CDN\$25,000,000 principal of Debentures outstanding convertible for approximately 32,051,282 Common Shares, and approximately 16,025,000 Warrants exercisable for 16,025,000 Common Shares.