

# **Fortress Technologies Inc.**

## **Management Discussion and Analysis**

Three months ended March 31, 2021

**Fortress Technologies Inc.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**March 31, 2021**  
**Expressed in Canadian Dollars unless otherwise indicated**

**Introduction**

The following management's discussion and analysis ("**MD&A**") of the financial condition and results of the operations of Fortress Technologies Inc. constitutes management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2021. The MD&A is intended to help the reader understand Fortress Technologies Inc. ("**Fortress**", "**we**", "**our**" or the "**Company**"), our operations, financial performance, current and future business environment and the opportunities and risks facing the Company. The risks are explicitly set out in Appendix 1 of this MD&A. In addition, certain statements in this MD&A incorporate forward looking information and readers are advised to review the cautionary note regarding forward looking statements in section 10 of this MD&A.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the unaudited condensed consolidated financial statements ("**Financial Statements**") for the Company for the period ended March 31, 2021, and the related notes thereto. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results presented for the reporting period is not necessarily indicative of the results that may be expected for any future period. The financial statements and the financial information contained in this MD&A were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the IFRS Interpretations Committee ("**IFRIC**"). Further information about the Company and its operations can be obtained from SEDAR on [www.sedar.com](http://www.sedar.com).

This MD&A contains information up to and including May 31, 2021.

**Non-IFRS Measures**

This MD&A presents certain non-IFRS financial measures to assist readers in understanding the Company's performance. These non-IFRS measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Management uses these non-IFRS measures to supplement the analysis and evaluation of operating performance.

Throughout this MD&A, the following terms are used, which are not found in the IFRS and do not have a standardized meaning under IFRS.

"Cost of Bitcoin" represents the cost of mining one Bitcoin based on quantity of Bitcoin produced monthly divided by incurred monthly cash operating expenses (expenses such as power, lease, staff, insurance and internet).

"Gross Mining Margin" represents the gross profit (revenue generated from mining activities less operating costs), excluding depreciation.

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Appendix 1 – Business Risks and Uncertainties

## **1. DESCRIPTION OF THE COMPANY**

Fortress Technologies Inc. ("**Fortress**" or the "**Company**") is a technology company headquartered in Vancouver, BC and with operations established in North America. On February 19, 2018, Fortress Blockchain Corp. entered into a letter of intent with Focused Capital II Corp. ("**Focused II**") and entered into a definitive business combination agreement on March 21, 2018 (the "**Business Combination Agreement**"), which set forth the terms of the business combination of Fortress Blockchain Corp. ("**Old Fortress**") and Focused Capital II Corp. and the issuance of securities of Focused Capital II Corp. in exchange for securities of Old Fortress (the "**Transaction**"). The Transaction involved the merger of Focused Capital II Corp. and Old Fortress by way of 3-corner amalgamation between Focused II., Old Fortress and 1171054 B.C. Ltd., a wholly-owned subsidiary of Focused II, pursuant to the Business Combination Agreement.

The Transaction was completed on August 16, 2018. Focused II became the resulting parent company and was renamed as Fortress Blockchain Corp. On August 22, 2018, the Company was listed for trading on the TSX-V under the ticker symbol "FORT". Fortress' filing statement and related documents in connection with the Transaction are available under its profile on SEDAR at [www.sedar.com](http://www.sedar.com).

On April 10, 2019 the Company was changed its name from "Fortress Blockchain Corp." to "Fortress Technologies Inc."

## **2. OUTLOOK**

Fortress Technologies Inc. is a well-capitalized company focused on developing projects where access to growth capital is highly valued, which can also advance ESG (as defined hereinbelow) and environmentally conscious business initiatives. The Company's board of directors and management has an accomplished track record in business development and building shareholder value, and thus the Company is well positioned to find an accretive path forward for the business. Fortress looks to develop projects that combine intellectual property with the potential for widespread adoption of technological innovation. The Company's Board exercises careful oversight, only considering opportunities that can demonstrate long term viability, in order to earn strong stakeholder support. As of the date hereof, there are 84,522,684 common shares issued and outstanding (114,309,984 common shares on a fully-diluted basis).

The Company has recognized an impairment recovery of \$2,519,521 from its data center (\$2,301,446) and SHA256 ASIC mining hardware (\$218,075) for the year ended December 31, 2020.

There are several factors that are critical to the profitability of a Bitcoin or Bitcoin Cash mining facility. These include low electricity, using specialized, SHA256 ASIC mining hardware, mining difficulty, and reducing other data center costs while maximizing the hashrate generated from the mining hardware based on available power capacity. The discussion below addresses each of these factors.

### *a. Electricity Costs*

The cost of power is the primary determinant in the profitability of proof-of-work mining of digital currencies.

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The Company has embarked on a new strategic venture whereby electricity is generated off-grid by converted flared/vented gas in the natural gas fields, using generator sets, into electrical power. The cost of the gas in \$/MCFD (thousand cubic feet per day), translates to an electrical cost which the Company currently expects to be (half a cent) \$0.005/kWh. Additional monthly cash operating costs bring the estimated total operating costs to \$0.035/kWh for this new ESG conscious venture.

The Company is able to operate at a competitive rate, compared to many industry participants through North America (including other notable TSX-V and TSX listed companies) who are paying US\$0.04 or higher per kWh for electricity. The rate of electricity costs are reviewed annually.

*b. Mining Hardware*

Fortress purchased 1,400 Bitmain S9 ASIC Miners, a SHA256 ASIC Bitcoin Miner ("**Miners**") in early March 2018. As a result of optimization and upgrades including ASIC Boost since then, as of the second week of May 2021, the Company was generating approximately 19.4 petahashes per second ("**PH/s**") from the 2MW mine.

*c. Mining Difficulty*

Another key variable that affects the profitability of mining Bitcoin is the mining difficulty ("**Difficulty**") set by the network. Difficulty is defined by the time it takes the network to mine two thousand and sixteen blocks which is intended to take exactly fourteen days at ten minutes per block. If the time taken to solve two thousand and sixteen blocks is less than fourteen days, the Difficulty is increased proportionately to ensure that the next batch of blocks takes the projected amount of time. If it took more than fourteen days, then the Difficulty is decreased. The Difficulty is the same for every Bitcoin miner and is an uncontrollable variable for Fortress. The Difficulty generally increases as more hashpower is applied to the Bitcoin mining network globally. As Difficulty rises, less efficient Bitcoin miners will become unprofitable and cease their mining activities. This should result in a reduction of global hashing power and consequently, smaller increases or even a decrease in the Difficulty rate. Since Fortress has lower mining costs and is running a more efficient mine compared to many competitors, the Company's data center operation has been able to withstand significant price decreases in Bitcoin and increases in Difficulty by continuing to mine Bitcoin with positive gross mining margins.

The Company uses gross mining margin as a key non-IFRS indicator to evaluate the efficiency and profitability of the mine. Gross mining margin is computed by deducting all direct costs related to mining such as electricity, rent, labour, internet access and similar expenses from the revenue generated from mining Bitcoin. Non-cash costs like depreciation are not deducted to arrive at gross mining margin. The gross mining margin provides a clear measure of cash generated from mining cryptocurrencies. Gross mining margin is a non-standard measure of mining efficiency that may be computed differently by other cryptocurrency miners and accordingly should not be considered in isolation or as a substitute for other IFRS operating and profitability measures of performance.

*d. Growth Outlook*

The Company's data center operations produce 19.4 PH/s of Bitcoin mining capacity.

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Since the Company acquired their data center operation, over 500 Bitcoin and 100 Bitcoin Cash have been generated (either under the Company's lease of sublease of the facility) which has resulted in a total recorded revenue of US\$4,611,054, up to and including May 27, 2021.

By running a lean operation, and minimizing costs where possible, the Company has been able to maintain its cash position during a difficult period of Bitcoin mining economics. Maintaining a strong cash balance has allowed the Company to realize the value of Bitcoin by increasing its Bitcoin inventory in response to global trends. Since Bitcoin mining economics recovered in Q4 2020 and onwards through 2021, the Company's prudent management of resources have allowed it to also continue to accumulate Bitcoin through its mining operation.

Furthermore, the Company acquired 116.1 BTC during the year ended December 31, 2020 with a weighted average price of \$16,277. Subsequent to December 31, 2020, the Company sold 130 Bitcoin for total proceeds of \$6,852,530. This brings the Company's total holdings of Bitcoin to 56.20 as of May 27, 2021.

Under the Company's normal-course issuer bid ("**NCIB**"), the Company has purchased its shares, and proceeded to cancel these purchased shares. The Company has incurred \$195,324 in costs from the share buyback to date. Once the shares are paid for, a treasury direction is given to the transfer agent, and the shares are then cancelled. A total of 1,450,000 common shares have been cancelled during the year.

In addition to this, the Company entered into a letter of intent ("**LOI**") and spent approximately \$168,000 on a formal due diligence process for an acquisition of a technology company (the "**Target Company**"). This LOI allowed the Company access to confidential information for diligence and exclusivity in negotiations at a specific valuation to acquire the Target Company. The Company has decided not to pursue the acquisition of the Target Company at this time.

On March 26, 2021, the Company completed a bought deal private placement offering for aggregate gross proceeds of \$9.3 million, through Canaccord Genuity Corp. (the "**Underwriter**") acting as lead underwriter and sole bookrunner, composed of the sale of 14,794,700 units ("**Units**") of the Company at a price of C\$0.63 per Unit (the "**Unit Price**"), which includes 887,682 Units issued pursuant to an option to purchase additional Units by the Underwriter, as previously announced. Each Unit is composed of one common share in the capital of the Company (each a "**Common Share**") and one Common Share purchase warrant (each a "**Warrant**"). Each Warrant is exercisable to acquire one Common Share (each a "**Warrant Share**") at a price of C\$0.82 per Warrant Share at any time on or before the date which is 60 months after the closing date of the Offering.

On April 6, 2021, the Company announced that it had launched a new environmental, social, and governance ("**ESG**") conscious Bitcoin mining venture with Great American Mining ("**GAM**"), thereby increasing its existing Bitcoin production and positioning the company for further growth and investments in Bitcoin mining and greenhouse gas emissions reduction and offset markets.

While many have marveled at the prospect of environmentally conscious Bitcoin mining, GAM has successfully executed and built out the gas conversion and electrical infrastructure along with active power distribution unit ("**PDU**") and software necessary to control a decentralized network of mining nodes throughout hydrocarbon rich fields. Furthermore, GAM's strategic focus on off-grid energy generation as part of the long-term viability of their business is another reason why we are excited to partner with them. Mining off-grid significantly decreases operational risk over time as demand for on-grid power purchase agreements from bitcoin miners and other energy consumers gets more competitive.

Fortress has advanced GAM an initial sum to purchase pre-ordered mining equipment and begin hashing as early as June, 2021.

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Fortress has also provided funds to GAM to commence the construction of 12 of their proprietary containers, which Fortress will own pursuant to their operating agreement and statement of work. Fortress have exclusive use of these containers, which will operate ASIC miners owned and supplied by Fortress.

These 12 containers will generate approximately 8MW of Bitcoin mining capacity, as they can each operate 180 new generation ASIC miners. These 12 containers will allow Fortress to operate 2,160 new generation ASIC miners, which could generate between 140 to 216 PH/s depending on the model of ASIC sourced.

Fortress believes it is important to acquire hardware with a competitive \$/TH acquisition price, in addition to consideration of the total TH/s output of each miner and the W/TH efficiency. Therefore, the total hashrate output of the 12 containers will be updated in step with the ASIC miner acquisitions.

### **3. RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2021**

Fortress reports the following financial results on its cryptocurrency mining operations for the three months ended March 31, 2021.

#### Operational Highlights:

- Fortress has mined 11.70 Bitcoin for the three months ended March 31, 2021;
- As compared to the three months ended December 31, 2021, Fortress has mined 12.21 Bitcoin.
- The average Bitcoin mined per day during Q1, 2021 was 0.13, as compared to 0.13 during Q4 2020, 0.15 during Q3 2020, 0.24 during Q2 2020 and 0.31 during Q1 2020.
- The average Bitcoin price for the three months ended Q1, 2021 is US\$44,847 compared to US\$16,655 in Q4, 2020, US\$ 10,612 in Q3 2020 US\$8,630 in Q2 2020, and US\$8,274 for the average Bitcoin price in Q1 2020.
- During Q1 2020, the Company generated Bitcoin at a cost of \$15,937 (based on quantity of Bitcoin mined divided by incurred monthly cash operating expenses (not including prepaid expenses)).

#### Financial Highlights:

- The Company was well capitalized at the end of the quarter with cash and cash equivalents balance of \$21,460,773 and digital currencies of \$3,685,351. Total assets were \$29,339,617, primarily comprised of cash and cash equivalents and Bitcoin.
- The Company reported total revenue from the data center operations for the three months ended March 31, 2021 is \$644,813, (\$264,560 for the three months ended December 31, 2020, \$189,723 for the three months ended September 30, 2020, \$255,235 for the three months ended June 30, 2020, \$316,811 for the three months ended March 31, 2020).

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- As the Company retained the Bitcoin mined from the data center operations, with the value of Bitcoin at US\$58,730, based on the daily quantity of Bitcoin earned during this fiscal quarter, the unrealized gain (or additional gross mining margin) from the data center operation would be US\$500,622.
- Fortress had a cash and cash equivalents balance of \$21,460,773 as at March 31, 2021 compared to cash balance of \$7,048,050 as at December 31, 2020. The cash balance increase of \$14,412,723 during the three-month period was from the private placement for total gross proceeds of \$9,300,000 in exchange for 14,794,700 units of the Company as well as sale of Bitcoin.
- Fortress had a digital currency balance of 49.90 as at March 31, 2021, in addition to the cash balance. Therefore total value of cash, Bitcoin and accrued interest as at March 31, 2021 was \$25,221,014 with Bitcoin at a price of US\$58,730.
- Fortress had cash flow from data center operations of \$424,009 during the quarter (which includes proceeds of Gross Mining Margin after prepaid expenses). The Company defines gross mining margin (a non-IFRS measure) as the revenue generated from mining activities less operating costs. Operating costs include monthly cash operating expenses, as well as incidental or accrued expenses. Depreciation, being a non-cash cost, is not deducted to arrive at the gross mining margin. Gross mining margin is a non-standard measure of mining efficiency and should not be considered as a substitute for other IFRS operating and profitability measures of performance. The table below reconciles gross mining margin for the respective periods to gross margin in the income statement.

<b>Calculation of gross mining margin</b>	<b>Q1 2021 (\$)</b>	<b>Q4 2020 (\$)</b>	<b>Q3 2020 (\$)</b>	<b>Q2 2020 (\$)</b>	<b>Q1 2020 (\$)</b>	<b>Q4 2019 (\$)</b>	<b>Q3 2019 (\$)</b>	<b>Q2 2019 (\$)</b>
Revenue	644,813	264,560	189,723	255,235	316,811	364,028	616,341	372,743
Less: Operating costs	224,941	200,704	217,336	247,937	243,446	236,384	241,841	130,431
<b>Gross mining margin</b>	<b>419,872</b>	<b>63,856</b>	<b>(27,613)</b>	<b>7,298</b>	<b>73,365</b>	<b>127,644</b>	<b>374,500</b>	<b>242,312</b>
<b>Gross mining margin (%)</b>	<b>65%</b>	<b>24%</b>	<b>(15%)</b>	<b>3%</b>	<b>23%</b>	<b>35%</b>	<b>61%</b>	<b>65%</b>
Less: Depreciation	213,607	88,669	84,599	87,994	85,331	92,756	92,784	93,990
Less: B&O taxes	11,108	3,803	3,301	4,192	19,187	10,582	19,078	16,278
Less: WeHash Consulting fees	-	-	-	-	3,237	6,539	29,794	21,717
<b>Net mining margin</b>	<b>195,157</b>	<b>(28,611)</b>	<b>(115,513)</b>	<b>(84,888)</b>	<b>(34,390)</b>	<b>17,767</b>	<b>232,844</b>	<b>110,327</b>
<b>Cash Flow from data center operations</b>	<b>199,297</b>	<b>94,407</b>	<b>3,155</b>	<b>39,301</b>	<b>104,399</b>	<b>-</b>	<b>-</b>	<b>-</b>



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## 4. QUARTERLY RESULTS

The table below presents selected unaudited financial results of the Company for the quarters ended March 31, 2021, December 31, 2020, September 30, 2020, June 30, 2020, March 31, 2020, December 31, 2019, September 30, 2019 and June 30, 2019.

Three months ended	Total revenue (\$)	Net income (loss) (\$)	Comprehensive income (loss) (\$)	Basic earnings (loss) per share (\$)	Diluted earnings (loss) per share (\$)
March 31, 2021	644,813	3,653,598	3,696,819	0.05	0.04
December 31, 2020	264,560	5,463,046	5,724,871	0.07	0.07
September 30, 2020	189,723	(503,945)	(384,271)	(0.01)	(0.01)
June 30, 2020	255,235	(545,078)	(316,117)	(0.01)	(0.01)
March 31, 2020	316,811	640,263	170,603	0.01	0.01
December 31, 2019	364,028	(446,754)	(360,425)	(0.01)	(0.01)
September 30, 2019	616,341	141,569	334,907	(0.00)	(0.00)
June 30, 2019	439,836	(403,195)	(403,195)	(0.01)	(0.01)

- Revenue from the mining of digital currencies for the three months ended March 31, 2021 was \$644,813 from 11.70 Bitcoin (Q4 2020: \$264,560 from 12.2 Bitcoin) (Q3 2020: \$189,723 from 13.4 Bitcoin) (Q2 2020: \$255,235, 22.1 Bitcoin) (Q1 2020: \$316,811 from 28.5 Bitcoin).

### Financing Highlights:

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.

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.

## **5. LIQUIDITY AND CAPITAL RESOURCES**

As at March 31, 2021, the Company had a working capital surplus of \$25,032,610 (December 31, 2020 – \$13,163,758). The Company has sufficient cash balances to fund its current operating and administrative costs.

The net change in the Company's cash position for the three months period ended March 31, 2021 was an increase of \$14,361,497 (March 31, 2020 – \$694,897) as a result of the following cash flows:

- Cash provided by operations of \$6,455,104 (March 31, 2020 - cash provided by operations of \$694,897);
- Cash provided by financing activities of \$8,562,387;
- Cash used in purchase of property and equipment of \$655,994; and
- Effect of exchange rate changes on cash of \$51,226.

As at May 31, 2021, the Company maintains a strong cash position with approximately \$19,200,000 in cash and GICs, in addition to \$2,650,000 in digital currency (56.2 Bitcoin at \$47,148), for a total current fiat and digital currency holdings of \$21,900,000. The Company also recently acquired ESG conscious Bitcoin mining infrastructure equipment with GAM for 12 containers to operate ASIC miners using flared natural gas. The Company also acquired 180 MicroBT new generation ASIC miners for use in its ESG Conscious Bitcoin mining containers.

Please refer to Note 7 of the Company's condensed consolidated interim financial statements for details on the Company's lease obligations.

## **6. OUTSTANDING SHARE DATA**

As at May 31, 2021, 84,522,684 common shares, 5,524,928 stock options, 22,487,008 warrants and 887,682 broker warrants (each broker warrant can be exercised into 1 broker unit comprised of 1 common share and 1 warrant) were issued and outstanding. There are voluntary and TSX-V-imposed resale restrictions on certain shares.

## **7. 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.

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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.

## **8. 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.

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**

#### *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](http://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.

### **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

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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.

*Digital currency valuation*

Digital currency denominated assets 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.

## **9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

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

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*Credit risk*

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

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

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.

*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.

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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.

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.

## **10. CAUTION REGARDING FORWARD LOOKING INFORMATION**

This Management Discussion and Analysis contains certain "forward-looking information" within the meaning of Canadian securities legislation. Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made and they involve a number of risks and uncertainties. Consequently, there can be no assurances that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. The forward-looking information includes information about the Company's growth or expansion plans regarding mining digital currencies as well as other proof-of-stake digital currencies or blockchain technologies and businesses that may not come to fruition. Forward-looking information involving the costs and future revenues from mining Bitcoin and Bitcoin Cash are dependent on market factors, including but not limited to the price of digital currencies, global petahash rates and Difficulty that are beyond the control of the Company and may differ materially with the Company's assumptions.

Forward-looking information includes information about the Company's plans for future acquisitions; the expected electrical consumption and tariffs at the Company's data center; additional opportunities to be identified in the future to contribute to growth of revenue and computing equipment; the business goals and

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objectives of the Company, and other forward-looking information including but not limited to information concerning the intentions, plans and future actions of the Company. The forward-looking information in this Management Discussion and Analysis reflects the current expectations, assumptions and/or beliefs of the Company based on information currently available to the Company that are all subject to change. In connection with the forward-looking information contained in this Management Discussion and Analysis, the Company has made assumptions about the Company's the ability of the Company to mine digital currencies will be consistent with historical prices; and there will be no regulation or law that will prevent the Company from operating its business. The Company has also assumed that no significant events occur outside of the Company's normal course of business. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

## **11. MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The information provided in the audited financial statements and the accompanying MD&A is the responsibility of management. Management is required to make a number of judgment, assumptions and estimates when preparing these financial statements and MD&A, including estimates to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements but actual results may differ from these estimates. 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.

Management is responsible for the internal controls over the operations and financial reporting, including internal controls related to maintaining records that reflect the transactions, acquisitions and dispositions of the assets of the Company. As all controls and processes are subject to certain limitations, management acknowledges that the internal controls may not prevent or detect all misstatements due to error or fraud.

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**APPENDIX 1**

**Limited Operating History**

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. In particular, the Company has a limited history with its mining operations and remains in the early stage of development. The Company is subject to many risks common to venture enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment or meeting other metrics of success.

The Company is dependent on retained earnings for substantially all of its working capital needs, and there is no assurance that additional funding will be available to it for further development and growth. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable.

The Company incurs substantial expenses in the establishment and operating of its business. A significant portion of the Company's financial resources have been and will continue to be, directed to the development of its business and related activities. The success of the Company will ultimately depend on its ability to generate cash from its business. There is no assurance that the required funds will be available for future expansion of the Company's business. If the Company does not have access to the required funds to continue the operation and development of its business and operational activities, and to the extent that it does not generate cash flow and income, the Company's long-term viability may be materially and adversely affected.

**Business Risks and Uncertainties**

There are a number of risk factors associated with Fortress and its business. Shareholders should carefully consider each of the risks described below. Fortress' success will depend on a number of things, including the expertise, ability, judgment, discretion, integrity and execution of its management. The risks and uncertainties below are not the only ones facing Fortress. Additional risks and uncertainties not presently known to Fortress or that it currently considers immaterial may also impair our business operations and cause the value of the Company to decline. If any of the following risks actually occur, Fortress' business may be harmed and its financial condition may suffer significantly.

**Liquidity and Future Financing Risk**

Fortress may require additional financing in order to fund future operations and expansion plans. The Company's ability to secure any required financing to sustain operations and expansion plans will depend in part upon prevailing capital market conditions and business success. There can be no assurance that Fortress will be successful in its efforts to secure any additional financing or additional financing on terms satisfactory to management. Moreover, future activities may require the Company to alter its capitalization significantly and, if additional financing is raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences, and privileges superior to those of current holders of the Common Shares. The inability of the Company to access sufficient capital for its operation could have a material adverse effect on the Company's financial condition and results of operations.



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In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

### **Going Concern Risk**

The Fortress Financial Statements have been prepared using accounting principles applicable to a going concern which assumes an entity will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Fortress's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations. There can be no assurances that the Company will be successful in completing equity or debt financing or in achieving its growth plans. The Fortress Financial Statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should it be unable to continue as a going concern.

### **Cash Flow Risk**

The Company may sell its coins to pay for expenses incurred, irrespective of then-current coin prices. Consequently, Fortress's coins may be sold at a time when the price is low, resulting in a negative effect on its profitability. The Company believes that the risk of this outcome is preferred over potentially greater risks of holding coin inventories and speculating in the price of coins.

### **Access to Power and Electricity Rate Risks**

The Company's operations are dependent on its ability to maintain reliable and economical sources of power in order to run its cryptocurrency mining assets. While the Company believes its source of power is reliable and current regional infrastructure limits the likelihood of power interruptions, any suspension of its power supply could result in a material and adverse effect on the Company. The Company conducts cryptocurrency mining at its data center in the State of Washington. The Grant County Public Utility District ("GCPUD") is the electricity supplier to the Company's Washington State Operation. The costs of electricity offered by GCPUD is available online, and are summarized in the Rate Schedules. As a result of operations in a single jurisdiction, the Company's current and future operations, anticipated growth, and sustainability of hydroelectricity at economic prices for the purposes of cryptocurrency mining in the State of Washington poses certain risks. There is no assurance that a particular electricity rate structure will remain in effect and the Company's electricity supplier, GCPUD, is under no obligation to lock in rates for any period of time.

Any further increases to the Company's electricity costs to the Company's data center operation may limit the profitability of its cryptocurrency mining operations and have a material and adverse effect on the Company's profitability. Any interruption of electrical supply would also have a material and adverse effect on the Company's business.

### **Regulatory Requirements**

Governmental regulation may affect the Company's activities and the Company may be affected in varying degrees by government policies and regulations. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business. Governments may take regulatory action that may increase the cost and/or subject cryptocurrency mining companies to additional regulation.

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The operations of the Company may also require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required.

The Company's operations will be subject to environmental regulations, which make operations expensive or prohibitive. The continued evolution of environmental regulations may lead to the imposition of stricter standards, more diligent enforcement, and heavier fines and penalties for non-compliance. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations or cause delays in the development of mining projects.

### **Cryptocurrency Industry Risks**

The further development and acceptance of the cryptocurrency industry is subject to a variety of factors that are difficult to evaluate. The slowing or stopping of the development or acceptance of cryptocurrency may adversely affect an investment in the Company. Cryptocurrency may be used, among other things, to buy and sell goods and services which is a new and rapidly evolving industry subject to a high degree of uncertainty. The factors that affect the further development of the cryptocurrency industry include: (i) continued worldwide growth in the adoption and use of cryptocurrency; (ii) government and quasi-government regulation of cryptocurrency and their use, or restrictions on or regulation of access to and operation of cryptocurrency systems; (iii) changes in customer demographics and public tastes and preferences; (iv) the availability and popularity of other forms or methods of buying and selling goods and services, including new means of using fiat currencies; (v) the wide-spread adoption of cryptocurrency to hedge against economic instability and inflation; and (vi) general economic conditions and the regulatory environment relating to cryptocurrency. A decline in the popularity or acceptance of cryptocurrency would harm the business and affairs of the Company.

### **Risk of Loss, Theft or Restriction on Access**

Although the Company stores its coins offline, there is a risk that some of the Company's coins could be lost or stolen. Any of these events may adversely affect our operations and, consequently, our profitability.

Cryptocurrencies are controllable only by the possessor of both the unique public and private keys relating to the local or online digital wallet in which they are held. The Company publishes the public key relating to its digital wallets when it verifies the receipt of cryptocurrency transfers and disseminates such information into the network but needs to safeguard the private keys relating to such digital wallets. To the extent such private keys are lost, destroyed or otherwise compromised, we will be unable to access our coins and such private keys cannot be restored. Any loss of private keys relating to our digital wallets could adversely affect our investments and profitability.

Bitcoin ("**BTC**") and Bitcoin Cash ("**BCH**") transactions are irrevocable and stolen or incorrectly transferred BTC or BCH may be irretrievable. BTC/BCH transactions are not reversible without the consent and active participation of the recipient of the transaction. Once a transaction has been verified and recorded in a block that is added to the blockchain, an incorrect transfer of BTC/BCH or a theft of BTCs/BCHs generally will not be reversible, and the Company may not be capable of seeking compensation for any such transfer or theft. To the extent that the Company is unable to seek a corrective transaction with the third party or is incapable of identifying the third party that has received the Company's cryptocurrencies through error or theft, the Company will be unable to revert or otherwise recover incorrectly transferred BTCs/BCHs. The company will also be unable to convert or recover BTC/BCH transferred to uncontrolled accounts.

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**Risk of Malicious Actors**

If a malicious actor or botnet (a volunteer or hacked collection of computers controlled by networked software coordinating the actions of the computers) obtains a majority of the processing power dedicated to "mining", it may be able to alter the blockchain on which cryptocurrency transactions rely. In such circumstances, the malicious actor or botnet could control, exclude or modify the ordering of transactions, though it could not generate new cryptocurrency or transactions using such control. The malicious actor or botnet could double spend its own cryptocurrency and prevent the confirmation of other users' transactions for so long as it maintains control. Such changes could have a material and adverse effect on the Company's operations.

**Risk of Reduced Incentives**

As the number of BTC/BCH awarded for solving a block in the blockchain decreases, the incentive for miners to contribute processing power to the BTC/BCH network (the "Network") will transition from a set reward to transaction fees. In order to incentivize miners to continue to contribute processing power to the Network, the Network may either formally or informally transition from a set reward to transaction fees earned upon solving for a block. If miners demand higher transaction fees to record transactions in the blockchain or a software upgrade automatically charges fees for all transactions, the cost of using BTC/BCH may increase and the marketplace may be reluctant to accept BTC/BCH as a means of payment. Existing users may be motivated to switch from BTC/BCH to another digital currency or back to fiat currency. Decreased use and demand for cryptocurrencies may adversely affect their value and result in a reduction in cryptocurrencies index price and, consequently, the price of the Company's Common Shares.

**Facility Development Risk**

The continued development of existing and planned facilities is subject to various factors, and may be delayed or adversely affected by such factors beyond the Company's control, including delays in the delivery or installation of equipment by suppliers, difficulties in integrating new equipment into existing infrastructure, shortages in materials or labour, defects in design or construction, diversion of management resources, insufficient funding, or other resource constraints. Actual costs for development may exceed the Company's planned budget. Delays, cost overruns, changes in market circumstances and other factors may result in different outcomes than those intended.

**Risk of Non-Availability of Insurance**

When considered practical to do so, the Company will maintain insurance against risks in the operation of its business and in amounts that it believes to be reasonable. Such insurance, however, will contain exclusions and limitations on coverage. There can be no assurance that such insurance will continue to be available, will be available at economically acceptable premiums or will be adequate to cover any resulting liability. The novelty of the industry may impair the ability of the Company to acquire adequate insurance coverage for risks associated with its operations. The occurrence of an event that is not covered, in full or in part, by insurance may cause substantial economic damage to the Company. In some cases, such as with respect to environmental risks, coverage is not available or considered too expensive relative to the perceived risk.

**Bitcoin Network Risks**

The open-source structure of the Network protocol means that the core developers of the Network and other contributors are generally not directly compensated for their contributions in maintaining and developing the Network protocol. A failure to properly monitor and upgrade the Network protocol could damage the Network.

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The core developers of the Network can propose amendments to the Network's source code through software upgrades that alter the protocols and software of the Network and the properties of BTC/BCH, including the irreversibility of transactions and limitations on the mining of new BTC/BCH. Proposals for upgrades and related discussions take place on online forums, including [www.github.com](http://www.github.com) and [www.bitcointalk.org](http://www.bitcointalk.org). To the extent that a significant majority of the users are miners on the Network install such software upgrade(s), the Network would be subject to new protocols and software.

The acceptance of the Network software patches or upgrades by a significant, but not overwhelming, percentage of the users and miners in the Network could result in a "fork" in the blockchain underlying the Network, result in the operation of two separate networks. Without an official developer or group of developers that formally control the Network, any individual can download the Network software and make desired modifications, which are proposed to users and miners on the Network through software downloads and upgrades, typically posted to Bitcoin development forums. A substantial majority of miners and Bitcoin users must consent to such software modifications by downloading the altered software of upgrade; otherwise, the modifications do not become a part of the Network. Since the Network's inception, modifications to the Network have been accepted by the vast majority of users and miners, ensuring that the Bitcoin network remains a coherent economic system.

If, however, a proposed modification is not accepted by a vast majority of miners and users, but is nonetheless accepted by a substantial population of participations in the Network, a "fork" in the blockchain underlying the Network could develop, resulting in two separate Bitcoin networks. Such a fork in the blockchain typically would be addressed by community-led efforts to merge the forked blockchain, and several prior forks have been so merged. However, in some cases, there may be a permanent "hard fork" in the blockchain and a new cryptocurrency may be formed as a result of that "hard fork". For example, Bitcoin Cash™ was recently created through a fork in the blockchain. Where such forks occur on the blockchain, the Company will follow the chain with the greatest proof of work in the fork.

### **Momentum Pricing Risk**

Momentum pricing typically is associated with growth stocks and other assets whose valuation, as determined by the investing public, accounts for anticipated future appreciated in value. Cryptocurrency market prices are determined primarily using data from various exchanges, over-the-counter markets, and derivative platforms. Momentum pricing may have resulted, and may continue to result, in speculation regarding future appreciation in the value of cryptocurrencies, inflating and making their market prices more volatile. As a result, cryptocurrency prices may be more likely to fluctuate in value due to changing investor confidence in the future appreciation (or depreciation) in their market prices, which could adversely affect the value of the Company's inventory and/or revenues, thereby having a material and adverse effect on the Company's business.

### **Cryptocurrency Exchange Risk**

To the extent that cryptocurrency exchanges or other trading venues are involved in fraud or experience security failures or other operational issues, this could result in a reduction in cryptocurrency prices.

Cryptocurrency market prices depend, directly or indirectly, on the prices set on exchanges and other trading venues, which are new and, in most cases, largely unregulated as compared to established, regulated exchanges for securities, derivatives and other currencies. For example, during the past three years, a number of Bitcoin exchanges have been closed due to fraud, business failure or security breaches. In many of these instances, the customers of the closed cryptocurrency exchanges were not compensated or made whole for the partial or complete loss of their account balances in such exchanges. While smaller exchanges are less likely to have the infrastructure and capitalization that provide the larger exchanges

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with additional stability, larger exchanges may be more likely to be appealing targets for hackers and "malware" (i.e., software used or programmed by attackers to disrupt computer operation, gather sensitive information or gain access to private computer systems) and may be more likely to be targets of regulatory enforcement action. Such attacks to cryptocurrency exchanges may have a material and adverse effect on the price of cryptocurrencies, and accordingly, the Company's operations.

### **Banking Risk**

A number of companies that provide Bitcoin and/or other cryptocurrency-related services have been unable to find banks that are willing to provide them with bank accounts and banking services. Similarly, a number of such companies have had their existing bank accounts closed by their banks. Banks may refuse to provide bank accounts and other banking services to Bitcoin and/or other cryptocurrency-related companies or companies that accept cryptocurrencies for a number of reasons, such as perceived compliance risks or costs. Many businesses that provide Bitcoin and/or other cryptocurrency-related services may continue to have difficulty in finding banks willing to provide them with bank accounts and other banking services which may decrease the usefulness of cryptocurrencies as a payment system. Inability to secure banking services may also harm public perception of cryptocurrencies or could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of cryptocurrencies as a payment system and the public perception of cryptocurrencies could be damaged if banks were to close the accounts of many or of a few key businesses providing Bitcoin and/or other cryptocurrency-related services. This could decrease the market prices of cryptocurrencies and have a material and adverse effect on the Company's business.

### **Risk of System Failure**

The Company's operations will be dependent on its and WeHash Technology LLP's ("**WeHash**") ability to maintain its equipment in effective working order and to protect its systems against cyber security breaches, damage from fire, natural disaster, power loss, telecommunications failure or similar events. Security procedures implemented by the Company are technical and complex, and the Company depends on the security procedures to protect the storage, acceptance and distribution of data relating to its inventory or cryptocurrencies. The Company's and WeHash's security procedures may not protect against all errors, software flaws (i.e. bugs) or vulnerabilities. Defects in the security procedures may only be discovered after a failure in the Company's mining operations or safekeeping and storage of its inventory of cryptocurrencies. While the Company will continually review and seek to upgrade its technical infrastructure and provide for certain system redundancies and backup power to limit the likelihood of systems overload or failure, any damage, failure or delay that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.

### **Technological System Risk**

The success of the Company is dependent on the accuracy, proper use and continuing development of its technological systems, including its business systems and operational platforms. The Company's ability to effectively use the information generated by its information technology systems, as well as its success in implementing new systems and upgrades, may affect its ability to maximize the efficiency of its miners.

As technological change occurs, the security threats to the Company's Bitcoins and mining systems will likely adapt and previously unknown threats may emerge. The Company's and WeHash's ability to adopt technology in response to changing security needs or trends may pose a challenge to the Company's business. To the extent that the Company or WeHash is unable to identify and mitigate or stop new security threats, the Company's cryptocurrencies may be subject to theft, loss destruction or other attack, which would have a material and adverse effect on the value of the Company.

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**Competitive Risk**

The Company will compete with other users and/or companies that are mining cryptocurrencies and other financial vehicles, possibly including securities backed by or linked to cryptocurrencies through entities similar to the Company, or exchange-traded funds (ETFs). Market and financial conditions, and other conditions beyond the Company's control, may make it more attractive to invest in other financial vehicles, or to invest in cryptocurrencies, directly which could limit the market for the Company's Shares and reduce their liquidity.

**Technological Obsolescence Risk**

To remain competitive, the Company will continue to invest in hardware and equipment required for maintaining the Company's activities. Should competitors introduce new services/software embodying new technologies, the Company recognizes its hardware and equipment and its underlying technology may become obsolete and require substantial capital to replace such equipment.

**Hardware Supply Risk**

The increase in interest and demand for cryptocurrencies may lead to a shortage of capable hardware as individuals and businesses purchase equipment for mining and other cryptocurrency-related uses. Equipment will also require replacement from time to time and any shortages of ASIC machines or graphics processing units may lead to unnecessary downtime as the Company searches for replacement equipment.

**Risk of Equipment Breakdown**

The Company purchased 1,400 cryptocurrency mining machines in connection to the acquisition of its data center operation in Washington State. It is possible that serious defects or deficiencies could arise in these machines, which would make it difficult or impossible for the Company to meet its expected operational levels and could result in a material and adverse effect on the Company's business.

**Profit Risk**

Further development and acquisitions of server farms and the ongoing operation of the existing data center in Washington State will require additional capital and monthly expenses. The Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with the maintenance of the data center in Washington State and any other mining facility the Company may acquire are added. There is no assurance that the Company will be successful in obtaining the required financing for these or other purposes, including for general working capital.

There can be no assurance that the Company will generate net profits in future periods. Further, there can be no assurance that the Company will be cash flow positive in future periods. In the event that the Company fails to achieve profitability in future periods, the value of the Company's Common Shares may decline. In addition, if the Company is unable to achieve or maintain positive cash flows, the Company would be required to seek additional financing, which may not be available on favorable terms, if at all.

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**Third-party Risk**

The Company relies on services and software developed and maintained by third-party vendors. The Company also expects that it may incorporate in the future software from third-party vendors and open source software. The Company's business may be disrupted if this software, or functional equivalents of this software, were either no longer available to the Company or no longer offered to it on commercially reasonable terms. In either instance, the Company would be required to redesign services to function with alternate third-party software or open source software.

**Intellectual Property Risk**

The Company cannot assure its shareholders that its activities will not infringe on patents, trademarks or other intellectual property rights owned by others. If the Company is required to defend itself against intellectual property rights claims, it may spend significant time and effort and incur significant litigation costs, regardless of whether such claims have merit. If the Company is found to have infringed on the patents, trademarks or other intellectual property rights of others, the Company may also be subject to substantial claims for damages or a requirement to cease the use of such disputed intellectual property, which could have an adverse effect on its operations. Such litigation or claims and the consequences that could follow could distract management of the Company from the ordinary operation of its business and could increase costs of doing business, resulting in a negative impact on the business, financial condition or results of operations of the Company.

**Contractual Risk**

The Company is a party to various contracts and it is always possible that the other contracting parties may not fully perform their obligations.

**Unforeseen Expenses**

While the Company is not aware of any expenses that may need to be incurred that has not been taken into account, if such expenses were subsequently incurred, the Company's forecasted uses of funds and other budgets may be adversely affected.

**Geopolitical Risk**

Crises may motivate large-scale purchases of cryptocurrencies which could increase the price of cryptocurrencies rapidly. This may increase the likelihood of a subsequent price decrease as crisis-driven purchasing behavior wanes, adversely affecting the value of the Companies digital currency inventory.

The possibility of large-scale purchases of cryptocurrencies in times of crisis may have a short-term positive impact on the price of Bitcoin. For example, in March 2013, a report of uncertainty in the economy of the Republic of Cyprus and the imposition of capital controls by Cypriot banks motivated individuals in Cyprus and other countries with similar economic situations to purchase Bitcoin. This resulted in a significant short-term positive impact on the price of cryptocurrencies. However, as the purchasing activity of individuals in this situation waned, speculative investors engaged in significant sales of cryptocurrencies, which significantly decreased the price of cryptocurrencies. Crises of this nature in the future may erode investors' confidence in the stability of cryptocurrencies and may impair their price performance which would, in turn, adversely affect the Company.

As an alternative to fiat currencies that are backed by central governments, cryptocurrencies, which are relatively new, are subject to supply and demand forces based upon the desirability of an alternative, decentralized means of buying and selling goods and services, and it is unclear how such supply and

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demand will be impacted by geopolitical events. Nevertheless, political or economic crises may motivate large-scale acquisitions or sales of cryptocurrencies either globally or locally. Large-scale sales of cryptocurrencies would result in a reduction in their market prices and adversely affect the Company's operations and profitability.

**Litigation Risk**

The Company may from time to time be involved in various claims, legal proceedings and disputes arising in the ordinary course of business. If the Company is unable to resolve these disputes favorably, it may have a material and adverse effect on the Company. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's brand. Securities litigation as well as potential future proceedings could result in substantial costs and damages and divert the Company's management's attention and resources. Any decision resulting from any such litigation that is adverse to the Company could have a negative impact on the Company's financial position.

**Key Personnel Risk**

Our success is largely dependent on the performance of our proposed directors and officers. Certain members of our management team have experience in the cryptocurrency industry, while others have experience in other areas including financial management, corporate finance and sales and marketing. The experience of these individuals is expected to contribute to our continued success and growth. Fortress will be relying on its directors and officers, as well as independent consultants and advisory board, for various aspects of our business. The amount of time and expertise expended on our affairs by our management team, consultants, advisory board members and directors will vary according to Fortress' needs. The Company does not intend to acquire any key man insurance policies and there is, therefore, a risk that the death or departure of any director and officer, key employee or consultant, could have a material adverse effect on its operations.