

**Fortress Blockchain Corp.**  
**Condensed Interim Consolidated Financial Statements**  
Three months ended March 31, 2018  
(In Canadian Dollars)

## Independent Auditors' Report

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To the Shareholders of Fortress Blockchain Corp.

We have audited the accompanying condensed interim consolidated financial statements of Fortress Blockchain Corp., which comprise the condensed interim consolidated statement of financial position as at March 31, 2018 December 31, 2017, and the condensed interim consolidated statements of loss and other comprehensive loss and cash flows for the three months ended March 31, 2018 and the period from incorporation on November 14, 2017 to December 31, 2017 and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these condensed interim consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these condensed interim consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the condensed interim consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed interim consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the condensed interim consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the condensed interim consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the condensed interim consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the condensed interim consolidated financial statements present fairly, in all material respects, the financial position of Fortress Blockchain Corp. as at March 31, 2018 and December 31, 2017 and its financial performance and its cash flows for the three months ended March 31, 2018 and the period from incorporation on November 14, 2017 to December 31, 2017 in accordance with International Financial Reporting Standards.

Calgary, Alberta  
July 18, 2018

*MNP* LLP  
Chartered Professional Accountants

# Fortress Blockchain Corp.

## Condensed Interim Consolidated Statements of Financial Position

(In Canadian Dollars)

	March 31, 2018	December 31, 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 9,819,767	\$ 4,711,465
Digital currencies (Note 4)	218,437	-
Receivables and Prepaid Expenses	230,683	2,477
Deposits (Note 3)	48,499	130,000
	<b>10,317,386</b>	<b>4,843,942</b>
Property and equipment (Note 5)	10,766,715	6,415
Total assets	\$ 21,084,101	\$ 4,850,357
<b>Liabilities</b>		
<b>Current liabilities</b>		
Payables and accrued liabilities	\$ 352,526	\$ 67,197
Due to shareholder (Note 8)	2,588	39,654
Share subscriptions received in advance (Note 7)	-	4,761,582
	<b>355,114</b>	<b>4,868,433</b>
Convertible debenture (Note 6)	-	25,000
	<b>355,114</b>	<b>4,893,433</b>
<b>Equity</b>		
Share capital (Note 7)	20,417,541	22,905
Reserves (Note 7)	484,605	40
Deficit	(173,159)	(66,021)
Total equity (deficiency)	20,728,987	(43,076)
Total liabilities and equity	\$ 21,084,101	\$ 4,850,357

Nature of operations (Note 1)

Subsequent events (Note 13)

Approved by the Board of Directors and authorized for issue on July 18, 2018:

\_\_\_\_\_  
"Aydin Kilic" Director

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"Thomas Lynch" Director

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

## Fortress Blockchain Corp.

### Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(In Canadian Dollars)

	<b>Three month ended March 31, 2018</b>	<i>From November 14, 2017 (date of incorporation) to December 31, 2017</i>
<b>Revenues (Note 4)</b>	<b>\$ 264,348</b>	<b>\$ -</b>
<b>Cost of sales</b>		
Operating and maintenance costs	<b>(61,169)</b>	-
Depreciation	<b>(93,981)</b>	-
	<b>109,198</b>	-
<b>Loss on revaluation of digital currencies</b>	<b>(45,521)</b>	-
<b>General and administrative expenses</b>		
Depreciation	<b>31,254</b>	-
Management fees, salaries and wages	<b>80,486</b>	-
Marketing	<b>34,169</b>	13,064
Office and administration	<b>16,002</b>	741
Professional fees	<b>64,615</b>	41,604
Share based compensation (Note 7)	<b>230,025</b>	-
Travel	<b>36,885</b>	10,614
Foreign exchange	<b>(322,621)</b>	(2)
<b>Net loss for the period</b>	<b>(107,138)</b>	<b>(66,021)</b>
<b>Other comprehensive income (loss)</b>		
Translation adjustment	<b>(2,362)</b>	40
Other comprehensive income	<b>(2,362)</b>	40
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (109,500)</b>	<b>\$ (65,981)</b>
<b>Basic and diluted loss per share</b>	<b>\$ 0.00</b>	<b>\$ 0.04</b>
Weighted average number of common shares outstanding - basic and diluted	<b>62,669,760</b>	<b>1,531,917</b>

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

## Fortress Blockchain Corp.

### Condensed Interim Consolidated Statements of Changes in Equity

(In Canadian Dollars)

	Number of Shares	Capital Amount	Cumulative translation adjustment	Equity Reserves	Deficit	Total Equity
At November 14, 2017	2	\$ -	\$ -	\$ -	\$ -	\$ -
Units issued (Note 7)	3,000,000	15,000	-	-	-	15,000
Unit issuance costs (Note 7)	-	(17,095)	-	-	-	(17,095)
Exercised convertible debenture (Note 6)	5,000,000	25,000	-	-	-	25,000
Net loss for the period	-	-	-	-	(66,021)	(66,021)
Translation adjustment	-	-	40	-	-	40
<b>At December 31, 2017</b>	<b>8,000,002</b>	<b>22,905</b>	<b>40</b>	<b>-</b>	<b>(66,021)</b>	<b>(43,076)</b>
Units issued (Note 7)	5,400,000	540,000	-	-	-	540,000
Shares issued (Note 7)	47,377,979	19,493,394	-	-	-	19,493,394
Share issuance costs (Note 7)	-	(1,413,758)	-	256,902	-	(1,156,856)
Exercised convertible debenture (Note 6)	5,000,000	25,000	-	-	-	25,000
Units issued to WeHash (Note 3)	3,500,000	1,750,000	-	-	-	1,750,000
Share based compensation	-	-	-	230,025	-	230,025
Net loss for the period	-	-	-	-	(107,138)	(107,138)
Translation adjustment	-	-	(2,362)	-	-	(2,362)
<b>At March 31, 2018</b>	<b>69,277,981</b>	<b>\$ 20,417,541</b>	<b>\$ (2,322)</b>	<b>\$ 486,927</b>	<b>\$ (173,159)</b>	<b>\$ 20,728,987</b>

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

## Fortress Blockchain Corp.

### Condensed Interim Consolidated Statements of Cash Flows

(In Canadian Dollars)

	<b>For the three months ended March 31, 2018</b>	<i>From November 14, 2017 (date of incorporation) to December 31, 2017</i>
<b>Operating activities</b>		
Net loss for the period	\$ (107,138)	\$ (66,021)
Adjusted for:		
Depreciation	125,235	-
Share based compensation	230,025	-
Change in non-cash working capital components		
Increase in receivables and prepaid expenses	(223,843)	(2,477)
Increase in payables and accrued liabilities	270,976	67,197
Increase in deposits	(48,216)	-
Increase in digital currencies	(214,088)	-
Due to shareholders	(37,066)	39,654
<b>Cash (used in) / provided by operating activities</b>	<b>(4,115)</b>	<b>38,353</b>
<b>Investing activities</b>		
Purchase of property and equipment	(8,764,701)	(6,415)
Deposit	-	(130,000)
<b>Cash used in investing activities</b>	<b>(8,764,701)</b>	<b>(136,415)</b>
<b>Financing activities</b>		
Proceeds on issuance of units (Note 7)	540,000	15,000
Proceeds on issuance of shares (Note 7)	14,731,811	-
Share issuance costs (Note 7)	(1,156,855)	(17,095)
Issuance of convertible debenture (Note 6)	-	50,000
Proceeds on share subscriptions received in advance	-	4,761,582
<b>Cash provided by financing activities</b>	<b>14,114,956</b>	<b>4,809,487</b>
<b>Increase in cash during the period</b>	<b>5,346,140</b>	<b>4,711,425</b>
Effect of exchange rate changes on cash	(237,838)	40
<b>Cash, beginning of period</b>	<b>4,711,465</b>	<b>-</b>
<b>Cash, end of period</b>	<b>\$ 9,819,767</b>	<b>\$ 4,711,465</b>

Significant non-cash financing and investing activities:

Shares issued for finder's fees	256,902	-
Share issued to WeHash	1,750,000	-
Equipment included in payables and accrued liabilities	5,352	-

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

# **Fortress Blockchain Corp.**

## **Notes to the Consolidated Financial Statements**

**Three months ended March 31, 2018**

(In Canadian Dollars)

### **1. Nature of Operations**

Fortress Blockchain Corp. ("Fortress" or the "Company") was incorporated under the Business Corporations Act of British Columbia on November 14, 2017. The Company is domiciled in Canada. The Company is in the business of providing infrastructure solutions in the blockchain industry, including the mining of digital currencies. The Company has established operations in low cost North American green-energy regions. In February 2018, the Company acquired the assets of a cryptocurrency mining facility in Washington state which had an initial capacity of 2MW (the "Flagship Facility"). This Flagship Facility will also serve as a research and development facility to optimize and build out the next generation of highly scalable cryptocurrency mining infrastructure. Fortress' resources are dedicated to achieving peak operational efficiency in industrial scale Bitcoin mining with sector-leading performance. Fortress intends to grow by strategically developing state-of-the-art blockchain mining facilities globally. Fortress started mining cryptocurrencies at its Flagship Facility on March 7, 2018. Consequently, the revenue generated from cryptocurrency mining in the quarter ended March 31, 2018 only represents mining for the period from March 7, 2018 to March 31, 2018 after Fortress started plugging in its S9 ASIC Hardware whereas the expenses cover the entire period from January 1, 2018 to March 31, 2018.

The address of the Company's registered office is 320 – 638 Broughton Street, Vancouver, British Columbia, Canada, V6G 3K3.

On February 19, 2018, Fortress entered into a letter of intent with Focused Capital II Corp. ("FCII") and entered into a definitive business combination agreement on March 21, 2018, which sets forth the terms of the business combination of Fortress and FCII and the issuance of securities of FCII in exchange for Fortress securities. FCII is a reporting issuer with its shares currently listed on the "NEX" board of the TSX Venture Exchange, under the trading symbol "FAV.H". The consolidated company, Fortress Blockchain Corp., will trade under the symbol "FORT".

### **2. Basis of Presentation**

#### **Statement of Compliance**

These condensed interim consolidated 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").

These condensed interim consolidated financial statements were approved by the Board of Directors of the Company on July 18, 2018.

#### **Basis of Presentation**

These condensed interim consolidated financial statements have been prepared on an accrual basis and are based on historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below.

# **Fortress Blockchain Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

**Three months ended March 31, 2018**

(In Canadian Dollars)

### **Basis of Consolidation**

The condensed interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary, 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 subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances, income and expenses are eliminated on consolidation.

As of March 31, 2018, the Company had one wholly-owned subsidiary, Fortress Blockchain (US) Holdings Corp. ("Fortress US"). The functional currency of Fortress US is the US dollar. Fortress US is domiciled in Washington, USA.

### **Functional and Presentation Currency**

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

### **Critical Accounting Estimates, Judgments and Assumptions**

The preparation of the Company's condensed interim 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 condensed interim consolidated financial statements are described below.

#### *Fair value of financial instruments*

The individual fair values attributed to the different components of a financing transaction, convertible debenture, 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.



# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2018

(In Canadian Dollars)

### *Deferred tax liabilities and assets*

Deferred tax liabilities and assets are measured at tax rates expected in the period during which the asset is realized or the liability is settled, based on tax rates (and tax laws) that are enacted or substantively enacted at the end of the reporting period of the financial information. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that result from the manner in which the Company expects, at the end of the reporting period of the financial information, to recover or settle the carrying amount of its assets and liabilities.

### *Asset acquisition*

Management determines whether assets acquired and liabilities assumed constitute a business based on the criteria determined by IFRS 3. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. The Company completed the WeHash Agreement in February 2018 (Note 3) at which time, concluded that the transactions did not qualify as a business combination under IFRS 3, "Business Combinations". Management concluded that significant processes and inputs were not acquired and the outputs after the acquisition were different from those produced by WeHash. Accordingly, the WeHash Agreement has been accounted for as an asset acquisition.

### *Revenue recognition*

The Company recognizes revenue from the provision of transaction verification services within digital currency networks, commonly termed "cryptocurrency mining". As consideration for these services, the Company receives digital currency from each specific network in which it participates ("coins"). Revenue is measured based on the fair value of the coins received. The fair value is determined using the spot price of the coin on the date of receipt, based on the daily average from [www.blockchain.info](http://www.blockchain.info). The coins are recorded on the condensed interim consolidated statement of financial position, as digital currencies, at their fair value and re-measured at each reporting date. Revaluation gains or losses, as well as gains or losses on the sale of coins for traditional (fiat) currencies are included in profit or loss. The Company records the revaluation gains or losses in profit or loss because this is considered to be the most fair and accurate presentation of the Company's operations to the users of the financial statements.

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, 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

#### *Depreciation*

Depreciation of the assets in the cryptocurrency data center is based on an estimate of the assets' expected life. In order to determine the useful life of the assets in the cryptocurrency mining center, assumptions are required about a range of computing industry market and economic factors, including global hashrates

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2018

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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, with a one third residual value, 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.

### *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 (Note 4) are included in current assets. Digital currencies are carried at their fair value determined by the spot rate based on the daily average from [www.blockchain.info](http://www.blockchain.info). The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

### *Share based compensation*

The Company utilizes the Black-Scholes Option Pricing Model ("Black-Scholes") to estimate the fair value of stock options granted to directors, officers, employees and consultants. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the calculation of the share based compensation; however, the most significant estimate is the volatility. Expected future volatility can be difficult to estimate as the Company has had limited history, is in a unique industry, and historical volatility is not necessarily indicative of future volatility.

### **Revenue recognition**

The Company recognizes revenue 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). A coin is considered earned on the completion and addition of a block to the blockchain, at which time the economic benefit is received and can be reliably measured. The coins are recorded on the condensed consolidated statement of financial position as digital currencies at their fair value and re-measured at each reporting date.

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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(In Canadian Dollars)

Revaluation gains or losses, as well as gains or losses on the sale of coins for traditional (fiat) currencies are included in profit and loss.

### Property and equipment

Items of equipment are recorded at cost less accumulated depreciation. Cost includes all expenditures incurred to bring assets to the location and condition necessary for them to be operated in the manner intended by management. The S9 ASIC Hardware used to mine cryptocurrencies are depreciated on a straight-line basis over a three year life with a residual value of one third of its costs and the Cryptocurrency data center assets acquired from WeHash transaction are depreciated on a straight-line basis over 15 years. Office computer equipment are depreciated on a straight-line basis over a three year life.

### Reserves

Equity reserves include amounts related to share issuance costs, share based compensation and foreign exchange translation adjustments.

### Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to their fair value and any residual in the proceeds is allocated to the warrants.

### Digital currencies

Digital currencies consist of cryptocurrency denominated assets and are included in current assets. Digital currencies are carried at their fair value and adjusted at each reporting date for revaluation gains and losses through the condensed interim consolidated statement of loss and comprehensive loss as well as when digital currencies are exchanged or sold for traditional (fiat) currencies, such as the US dollar. Fortress values its Bitcoin based on the price quoted on [www.blockchain.info](http://www.blockchain.info) which is an average of quoted rates from various cryptocurrency exchanges. As such, Fortress classifies its digital currencies as a Level 2 input under IFRS 13 Fair Value Measurement.

### Impairment of non-financial assets

The Company reviews the carrying amounts of its non-financial assets, including equipment, when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Assets carried at fair value, such as digital currencies, are excluded from impairment analysis.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of asset or cash generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less cost to sell is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available,

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## Notes to the Condensed Interim Consolidated Financial Statements

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fair value less costs to sell is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the condensed interim consolidated statement of loss and comprehensive loss. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

### Adoption of new pronouncements

#### IFRS 9 – *Financial Instruments*

Effective January 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Receivables and prepaid expenses that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Company's financial assets. Impairment of financial assets is based on an expected credit loss ("ECL") model under IFRS 9, rather than the incurred loss model under IAS 39. ECLs are a probability-weighted estimate of credit losses. The adoption of IFRS 9 has not had a material effect on the Company's accounting policies related to the financial assets and financial liabilities.

There was no material impact of transition to IFRS 9 on the Company's statement of financial position at January 1, 2018.

#### IFRS 15 – *Revenue from Contracts with Customers*

Effective January 1, 2018, the Company adopted IFRS 15. The adoption of IFRS 15 has not had a material effect on the Company's accounting policies on revenue recognition. There was no impact of the transition to IFRS 15 on the Company's statement of financial position as at January 1, 2018.

### New accounting standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. The following have not yet been adopted by the Company and are being evaluated to determine its impact:

#### IFRS 16 – *Leases*

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on or after January 1, 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined.

### 3. WeHash

On November 1, 2017, prior to the incorporation of the Company, the directors of the Company entered into an asset purchase agreement with WeHash Technology LLP (“WeHash”) to acquire certain assets of WeHash’ data center located in Washington, USA that was used to host customers who mined cryptocurrencies (the “Agreement”). In accordance with the Agreement, the Company acquired certain assets in their data center and assumed the lease of real property and electrical utility rates. On December 22, 2017, the Agreement was amended and the rights and obligations under the Agreement were assigned to the Company. The transaction was completed on February 16, 2018.

The total consideration was as follows:

<b>Consideration:</b>	<b>Amount:</b>
Cash payment - US\$3,000,000:	
Cash payment in CAD	\$ 3,617,925
Deposit applied	130,000
Units issued to WeHash - 3,500,000 units of the Company	1,750,000
Transaction expenses	154,156
<b>Total consideration:</b>	<b>\$ 5,652,081</b>

### 4. Digital currencies

As of March 31, 2018, the Company’s digital currencies consisted of 24.4 Bitcoin with a fair value of \$218,437. 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 [www.blockchain.info](http://www.blockchain.info). On March 31, 2018, the price of Bitcoin was US\$6,935 on [www.blockchain.info](http://www.blockchain.info) and the USD/CAD exchange rate was US\$1 = \$1.2908. The price of Bitcoin declined towards the end of March 2018 and resulted in an unrealized revaluation loss of \$45,521.

	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Opening Balance as at January 1, 2018	-	-	-
Revenue from Bitcoin mined during the quarter	24.40	204,430	264,348
Fair Value revaluation of Bitcoin	-	35,203	45,521
Translation adjustment	-	-	389
<b>Balance of digital currencies as at March 31, 2018</b>	<b>24.40</b>	<b>169,226</b>	<b>218,437</b>

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 5. Property and equipment

	Cryptocurrency data centre	Computer hardware	Total
<b>Cost</b>			
Balance, December 31, 2018	6,418	-	6,418
Additions	10,667,260	2,423	10,669,683
Translation adjustment	216,887	-	216,887
<b>Balance, March 31, 2018</b>	<b>10,890,565</b>	<b>2,423</b>	<b>10,892,988</b>
Accumulated depreciation			
Balance, December 31, 2018	-	-	-
Additions	125,135	100	125,235
Translation adjustment	1,038	-	1,038
<b>Balance, March 31, 2018</b>	<b>126,173</b>	<b>100</b>	<b>126,273</b>
Carrying amount			
Balance, December 31, 2017	6,418	-	6,418
<b>Balance March 31, 2018</b>	<b>10,764,392</b>	<b>2,323</b>	<b>10,766,715</b>

### 6. Convertible Debenture

On November 15, 2017, the Company entered into convertible unsecured debentures in the principal amount of \$25,000, bearing no interest and maturing on November 15, 2019 with each to the CEO and a director of the Company. The debenture was convertible into one common share of the Company and 0.7692308 of one warrant ("Units") at \$0.005 per Unit. Each warrant entitled the holder to acquire one common share at a price of \$0.50 per warrant for 60 months following the issue date.

On December 22, 2017, the CEO of the Company converted the \$25,000 convertible debenture into 5,000,000 common shares of the Company and 3,846,154 warrants in aggregate.

On January 8, 2018, a director of the Company converted the \$25,000 convertible debenture into 5,000,000 common shares of the Company and 3,846,154 warrants in aggregate.

### 7. Share Capital

#### a. Authorized

Unlimited number of common shares without par value

#### b. Issued and outstanding

# Fortress Blockchain Corp.

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(In Canadian Dollars)

	Number of Common Shares	Amount
Balance, November 14, 2017 (date of incorporation)	2	\$ -
Conversion of convertible debenture ( <i>Note 3</i> )	5,000,000	25,000
Units issued	3,000,000	15,000
Share issuance costs	-	(17,095)
Balance, December 31, 2017	8,000,002	22,905
Units issued	5,400,000	540,000
Shares issued	47,377,979	19,493,394
Share issuance costs	-	(1,413,758)
Exercised convertible debenture	5,000,000	25,000
Units issued to WeHash	3,500,000	1,750,000
Balance, March 31, 2018	69,277,981	\$ 20,417,541

On November 14, 2017, the date of incorporation, the Company issued 2 shares at \$0.005 per share.

On December 22, 2017, the Company issued 3,000,000 units at \$0.005 per unit for gross proceeds of \$15,000. Each unit consist of one common share of the Company and 0.7692308 of one common share purchase warrants. Each warrant shall be exercisable to acquire one additional common share of the Company during a period of 60 months following the closing.

On January 4, 2018, the Company completed a non-brokered private placement, issued 4,000,000 units at \$0.10 per unit for gross proceeds of \$400,000. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant shall be exercisable at \$0.50 per warrant to acquire one additional common share of the Company during a period of 12 months following the date of issue. The Company incurred \$30 of share issuance costs.

On January 4, 2018, the Company completed a non-brokered private placement, issued 1,400,000 units at \$0.10 per unit for gross proceeds of \$140,000. Each unit consists of one common share of the Company and one half common share purchase warrant. Each warrant shall be exercisable at \$0.50 per warrant to acquire one additional common share of the Company during a period of 36 months following the date of issue.

On January 4, 2018, the Company completed a non-brokered private placement, issuing 3,600,000 common shares at \$0.10 per common share for gross proceeds of \$360,000.

On January 5, 2018, the Company completed a non-brokered private placement, issued 13,327,979 common shares at \$0.30 per common share for gross proceeds of \$3,998,394. The Company incurred \$26,707 of share issuance costs.

On January 8, 2018, the Company completed a non-brokered private placement, issued 450,000 common shares at \$0.30 per common share for gross proceeds of \$135,000.

On January 9, 2018, the Company completed a brokered private placement, issued 30,000,000 common shares at \$0.50 per share for gross proceeds of \$15,000,000. In connection with the private placement, the Company paid agents' fees of \$1,029,000, other share issuance costs of \$99,994 and

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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3.5% compensation option with a fair value of \$256,902 (1,050,000 compensation options, in aggregate) exercisable at a price of \$0.50 per share for a period of 24 months following the closing.

On February 16, 2018, the Company completed the WeHash asset purchase agreement as disclosed in Note 3. As part of the purchase price, the Company issued 3,500,000 units at \$0.50 per share. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant shall be exercisable at \$0.50 per warrant to acquire one additional common share of the Company during a period of 12 months following the date of issue.

c. Share subscriptions received in advance

As at March 31, 2018, the Company has no share subscriptions received in advance.

d. Stock options

During the three months ended March 31, 2018, the Company:

- Granted 1,050,000 brokers' options with an exercise price of \$0.50 per share and an expiry date of January 9, 2020, which vested immediately; the fair value per option granted was \$0.25 with a share based compensation expense recorded as share issuance costs of \$256,903.
- Granted 72,500 stock options with an exercise price of \$0.50 per share and an expiry date of February 20, 2028, which vested immediately; the fair value per option granted was \$0.43 with a share based compensation expense of \$31,408.
- Granted 480,000 stock options with an exercise price of \$0.50 per share and an expiry date of February 20, 2028, which vested quarterly on May 20, 2018 and then a further 1/4 every three months thereafter with the final tranche vesting on February 20, 2019; the fair value per option granted was \$0.43 per option and the share based compensation expense recognized for the vesting of these options to March 31, 2018 was \$46,963.

	2018	2017
Risk-free interest rate	1.79% - 2.32%	-
Expected life (years)	2 - 10	-
Annualized volatility	91%	-
Dividend rate	0.00%	-

- Granted 1,550,000 stock options with an exercise price of \$0.60 per share and an expiry date of February 20, 2028, which vested quarterly on May 20, 2018 and then a further 1/4 every three months thereafter with the final tranche vesting on February 20, 2019; the fair value per option granted was \$0.43 per option and the share based compensation expense recognized for the vesting of these options to March 31, 2018 was \$151,653.

	2018	2017
Risk-free interest rate	1.79% - 2.32%	-
Expected life (years)	2 - 10	-
Annualized volatility	91%	-
Dividend rate	0.00%	-



# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2018

(In Canadian Dollars)

The following is a summary of changes in stock options outstanding for the three months ended March 31, 2018:

	Options outstanding	Weighted-average exercise price (\$)
Balance, December 31, 2017	-	0.00
Issued - Brokers' options	1,050,000	0.50
Issued - consultants, management and directors' options	2,102,500	0.57
Balance, March 31, 2018	3,152,500	0.55

The stock options outstanding and exercisable as at March 31, 2018, are as follows:

Outstanding	Exercisable	Exercise price (\$)	Expiry date
1,050,000	1,050,000	0.50	January 8, 2020
552,500	72,500	0.50	February 19, 2028
1,550,000	-	0.60	February 19, 2028
3,152,500	1,122,500		

### e. Warrants issued and outstanding

Following is a summary of changes in warrants outstanding for the three months ended March 31, 2018:

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

The warrants outstanding and exercisable as at March 31, 2018, are as follows:

Outstanding	Exercise price (\$)	Expiry date
2,307,692	0.50	November 29, 2020
3,846,154	0.50	December 21, 2022
3,846,154	0.50	January 7, 2023
3,500,000	0.50	February 15, 2019
4,700,000	0.50	January 3, 2019
18,200,000		

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2018

(In Canadian Dollars)

### 8. Related Party Transactions

As at March 31, 2018, the Company had an amount owing to the CEO and director of the Company of \$Nil (December 31, 2017 - \$12,136) for out-of-pocket expenses incurred. The amount is non-interest bearing, has no fixed repayment terms and is payable on demand. The Company also had an amount owing to a director of the Company of \$2,588 (December 31, 2017 - \$12,518) for out-of-pocket expenses incurred. The amount is non-interest bearing, has no fixed repayment terms and is payable on demand.

As at March 31, 2018, the Company had no outstanding loan payable to the CEO and director of the Company (December 31, 2017 - \$15,000).

As at March 31, 2018, the Company had payables and accrued liabilities of \$28,560 to a company controlled by the CEO of the Company.

#### *Key Management Compensation*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of the Company's corporate officers.

For the three months ended March 31, 2018, key management compensation includes management fees, salaries and wages paid for the amount of \$63,392 in relation to management consulting fees and \$4,200 for executive assistant services provided by a company controlled by the CEO of the Company and shared based compensation of \$107,625 to directors and management.

### 9. Income Taxes

A reconciliation of combined federal and provincial corporate income taxes of statutory rates of 12.0% (December 31, 2017: 13.5%) and the Company's effective income tax expense is as follows:

	Three months ended March 31, 2018	From November 14, 2017 to December 31, 2017
Loss before tax	\$ (107,138)	\$ (66,021)
Combined federal and provincial rate	12.0%	13.5%
Expected tax recovery	(12,857)	(8,913)
Change in statutory, foreign tax, foreign exchange rates and other	(173,536)	(10,662)
Permanent difference	27,216	245
Share issuance cost	-	(2,308)
Changes in deferred tax benefits not recognized	159,177	21,638
Income tax recovery	\$ -	\$ -

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2018

(In Canadian Dollars)

As at March 31, 2018, the significant components of the Company's temporary differences, unused tax credits and unused tax losses, that have not been included on the consolidated statement of financial position are as follows:

	2018	Expiry date range
<b>Temporary differences</b>		
Share issuance costs	\$ 1,112,239	2034 to 2037
Non-capital losses available for future periods	(3,222)	2038
	1,109,017	2037
Canada	1,450,999	2037 to 2038
USA	(341,982)	2038

### 10. 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 balances and accounts receivable. 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.

The Companies cash and accounts receivable balances as of March 31, 2018 are as under:

	March 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	\$ 9,819,767	\$4,711,465
Receivables and Prepaids	230,683	2,477
	\$10,050,450	\$4,713,942

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 and cash equivalents on hand to meet its financial liabilities. As at March 31, 2018, the Company had a working capital surplus of \$9,962,272, the majority of which is comprised of cash balances of \$9,819,767, accounts receivable of \$230,683 and digital currencies of \$218,437 to settle current liabilities of \$355,114. All of the Company's financial liabilities with the exception of the convertible debentures have contractual maturities of less than 30 days and are subject to normal trade terms.

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2018

(In Canadian Dollars)

### *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.

Based on the current balances of digital currencies, the Company believes that it is not exposed to significant risk from commodity pricing, interest rates and foreign exchange rates.

#### (a) Bitcoin prices

The Company maintains an inventory of digital assets, comprised solely of Bitcoin on March 31, 2018, that is subject to market pricing and price volatility. Based on the value of Bitcoin on the Company's Condensed Interim Consolidated Statements of Financial Position as of March 31, 2018, the Company does not believe it is subject to significant market risk due to Bitcoin price volatility. 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.

#### (b) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The interest rate risk on bank deposits is insignificant as the deposits are short term. The Company is not exposed to interest rate risk in respect to amounts due to shareholder and convertible debenture as both are non-interest bearing.

#### (c) Foreign currency risk

The Company does not hold significant balances in foreign currencies which would give rise to exposure to foreign exchange risk. As such, the Company believes it has no significant foreign exchange rate risk.

### Fair value hierarchy

The Company applied the following fair value hierarchy for financial instruments that are carried at fair value. The hierarchy prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As at March 31, 2018, cash is assessed as a Level 1 instrument while digital currencies are assessed as a Level 2 instrument.

The fair value of trade receivables and other, deposits, trade payables and accrued liabilities and due to shareholder are equal to its carrying value due to its short-term maturity.

# Fortress Blockchain Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2018

(In Canadian Dollars)

The Companies financial instruments have been classified as follows:

March 31, 2018	Level 1	Level 2	Level 3
Fair value:			
Cash	\$ 9,819,767	-	\$ -
Digital currencies		\$ 218,437	
	\$ 9,819,767	\$ 218,437	\$ -

### 11. Digital Currency and Risk Management

Digital currencies are measured using level one fair values, determined by taking the rate from [www.blockchain.info](http://www.blockchain.info).

Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of Bitcoins; in addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required. A decline in the market prices for Bitcoins could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its Bitcoins.

Digital currencies have a limited history and the fair value historically has been very volatile. Historical performance of digital currencies is not indicative of their future price performance. The Company's digital currencies consist of Bitcoin. A 25% price variance in the price of Bitcoin will result in an increase or decrease of US\$2,238 per Bitcoin.

### 12. Capital Management

The Company's objective when managing capital is to maintain liquidity while providing returns to shareholders and benefits for other stakeholders.

The Company includes equity, comprised of share capital and deficit in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources for its operations and to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company monitors capital on the basis of maintaining sufficient cash flow to comply with financial obligations. During the quarter, the Company issued shares from treasury to meet its financial obligations.