Fortress Blockchain Corp.

Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2018
(In Canadian Dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited consolidated interim financial statements of Fortress Blockchain Corp. for the six months ended June 30, 2018 have been prepared by the management of the Company and approved by the Company’s Audit Committee and the Company’s Board of Directors.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of the interim financial statements by an auditor.

Fortress Blockchain Corp.

Condensed Consolidated Interim Statements of Financial Position

(In Canadian Dollars)

(Unaudited)

		June 30, 2018		December 31, 2017
Assets				
Current assets				
Cash	**$**	**9,181,127**	$	4,711,465
Digital currencies *(Note 4)*		**1,024,455**		-
Receivables and Prepaid Expenses		**156,801**		2,477
Deposits		**382,955**		130,000
		10,745,338		4,843,942
Property and equipment *(Note 5)*		**10,599,228**		6,415
Intangible asset *(Note 6)*		**28,875**		-
Total assets	**$**	**21,373,441**	$	4,850,357
Liabilities				
Current liabilities				
Payables and accrued liabilities	**$**	**314,388**	$	67,197
Due to shareholder *(Note 9)*		**2,045**		39,654
Share subscriptions received in advance *(Note 8)*		**-**		4,761,582
		316,433		4,868,433
Convertible debenture *(Note 7)*		**-**		25,000
Deferred income tax liabilities *(Note 10)*		**122,462**		-
		438,895		4,893,433
Equity				
Share capital *(Note 8)*		**20,417,541**		22,905
Reserves		**958,905**		40
Deficit		**(441,900)**		(66,021)
Total equity (deficiency)		**20,934,546**		(43,076)
Total liabilities and equity	**$**	**21,373,441**	$	4,850,357

Nature of operations *(Note 1)*
Subsequent events *(Note 14)*

Approved by the Board of Directors and authorized for issue on August 22, 2018:

"Aydin Kilic" Director

"David Jaques" Director

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

Fortress Blockchain Corp.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(In Canadian Dollars)

(Unaudited)

		Three months ended June 30, 2018		Six months ended June 30, 2018		From November 14, 2017 (date of incorporation) to December 31, 2017
Revenues *(Note 4)*	$	1,353,976	$	1,618,324	$	-
Cost of sales						
Operating costs		(245,381)		(306,550)		-
Depreciation		(281,520)		(375,501)		-
		827,075		936,273		-
Loss on revaluation of digital currencies		(205,829)		(251,350)		-
General and administrative expenses						
Depreciation		102,695		133,949		-
Management and consulting fees		93,166		156,558		-
Marketing		77,857		112,026		13,064
Office and administration		27,392		43,394		741
Professional fees		169,415		234,030		41,604
Repairs and maintenance		22,224		22,224		-
Salaries and wages		65,220		82,314		-
Share based compensation *(Note 8)*		355,712		585,737		-
Travel		25,252		62,137		10,614
Foreign exchange		(133,990)		(456,611)		(2)
		(804,943)		(975,758)		(66,021)
Interest income		33,819		33,819		40
Net loss from continuing operation before tax		(149,878)		(257,016)		(65,981)
Income tax expense *(Note 10)*		118,863		118,863		-
Net loss for the period		(268,741)		(375,879)		(65,981)
Other comprehensive income (loss)						
Translation adjustment		118,588		116,226		40
Other comprehensive income		118,588		116,226		40
Net loss and comprehensive loss for the period	$	(150,153)	$	(259,653)	$	(65,941)
Basic and diluted loss per share	$	(0.00)	$	(0.01)	$	(0.04)
Weighted average number of common shares outstanding - basic and diluted		69,277,981		65,992,125		1,531,917

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

Fortress Blockchain Corp.

Condensed Consolidated Interim Statements of Changes in Equity

(In Canadian Dollars)

(Unaudited)

	Number of Shares	Capital Amount	Cumulative translation adjustment	Equity Reserves	Deficit	Total Equity
At November 14, 2017	2	$ -	$ -	$ -	$ -	$ -
Units issued *(Note 8)*	3,000,000	15,000	-	-	-	15,000
Unit issuance costs *(Note 8)*	-	(17,095)	-	-	-	(17,095)
Exercised convertible debenture *(Note 7)*	5,000,000	25,000	-	-	-	25,000
Net loss for the period	-	-	-	-	(66,021)	(66,021)
Translation adjustment	-	-	40	-	-	40
At December 31, 2017	**8,000,002**	**22,905**	**40**	**-**	**(66,021)**	**(43,076)**
Units issued *(Note 8)*	5,400,000	540,000	-	-	-	540,000
Shares issued *(Note 8)*	47,377,979	19,493,394	-	-	-	19,493,394
Share issuance costs *(Note 8)*	-	(1,413,758)	-	256,902	-	(1,156,856)
Exercised convertible debenture *(Note 7)*	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	-	-	-	585,737	-	585,737
Net loss for the period	-	-	-	-	(375,879)	(375,879)
Translation adjustment	-	-	116,226	-	-	116,226
At June 30, 2018	**69,277,981**	**$ 20,417,541**	**$ 116,266**	**$ 842,639**	**$ (441,900)**	**$ 20,934,546**

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

Fortress Blockchain Corp.

Condensed Consolidated Interim Statements of Cash Flows

(In Canadian Dollars)

(Unaudited)

	For the six months ended June 30, 2018	From November 14, 2017 (date of incorporation) to December 31, 2017
Operating activities		
Net loss for the period	**$ (375,879)**	$ (66,021)
Adjusted for:		
Depreciation	**509,450**	-
Share based compensation	**585,737**	-
Income tax expense	**118,863**	-
Change in non-cash working capital components		
Increase in receivables and prepaid expenses	**(183,656)**	(2,477)
Increase in payables and accrued liabilities	**243,498**	67,197
Increase in deposits	**(379,511)**	-
Increase in digital currencies	**(994,348)**	-
Due to shareholders	**(37,609)**	39,654
Cash (used in) / provided by operating activities	**(513,455)**	38,353
Investing activities		
Purchase of property and equipment	**(8,865,281)**	(6,415)
Deposit	**-**	(130,000)
Cash used in investing activities	**(8,865,281)**	(136,415)
Financing activities		
Proceeds on issuance of units *(Note 8)*	**540,000**	15,000
Proceeds on issuance of shares *(Note 8)*	**14,731,811**	-
Share issuance costs *(Note 8)*	**(1,156,855)**	(17,095)
Issuance of convertible debenture *(Note 7)*	**-**	50,000
Proceeds on share subscriptions received in advance	**-**	4,761,582
Cash provided by financing activities	**14,114,956**	4,809,487
Increase in cash during the period	**4,736,220**	4,711,425
Effect of exchange rate changes on cash	**(266,558)**	40
Cash, beginning of period	**4,711,465**	-
Cash, end of period	**$ 9,181,127**	$ 4,711,465
Significant non-cash financing and investing activities:		
Shares issued for finder's fees *(Note 8)*	**256,902**	-
Share issued to WeHash *(Note 3)*	**1,750,000**	-
Intangible asset in receivables and prepaid expenses	**33,000**	-

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

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 during the six months ended June 30, 2018 represents mining for the period from March 7, 2018 to June 30, 2018 after Fortress started operating in its S9 ASIC Hardware whereas the expenses cover the entire period from January 1, 2018 to June 30, 2018.

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 set forth the terms of the business combination of Fortress and FCII and the issuance of securities of FCII in exchange for Fortress Securities. The Qualifying Transaction ("QT") involved the merger of FCII and Fortress by way of 3-corner amalgamation between FCII, Fortress and 1171054 B.C. Ltd., a wholly-owned subsidiary of FCII, pursuant to the business combination agreement.

On August 16, 2018, Fortress completed its QT and 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 QT are available under the FCII's profile on SEDAR at www.sedar.com.

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

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 August 22, 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.

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 June 30, 2018, the Company had a 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.

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. 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 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 and https://finance.yahoo.com/quote/BCH-USD/. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

Share based compensation

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

Revenue recognition

The Company recognizes revenue from the provision of transaction verification services within digital currency blockchains, commonly termed “cryptocurrency mining”. As consideration for these services, the Company receives digital currency from each specific blockchain in which it participates (“coins”). Revenue is measured based on the fair value of the coins received. The fair value is determined using the spot price of the coin on the date of receipt, based on the daily average from 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. 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 and its Bitcoin Cash based on the price quoted on https://finance.yahoo.com/quote/BCH-USD/ which is an average of quoted rates from various cryptocurrency exchanges. 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, 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.

(In Canadian Dollars)

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 material 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 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 15 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. Purchase of the Flagship Facility

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 (the Flagship Facility) 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:

Consideration:	$
Cash Payment - US$3,000,000	
Cash Payment in CAD	3,617,925
Deposit Applied	130,000
Shares issued to WeHash - 3,500,000 units of the Company	1,750,000
Transaction expenses	154,156
	5,652,082

At June 30, 2018, the Company has deposits in the amount of $263,360 secured in trust with DuMoulin Black LLP. pursuant to two term sheets in relation to the right to acquire two cryptocurrency mines subject to due diligence.

(In Canadian Dollars)

4. Digital currencies

The Company commenced its mining operations on March 7, 2018. Revenue in the first quarter was only generated from March 7, 2018 to March 31, 2018. The quarter ended June 30, 2018 was the first full quarter of mining operations for the Company. Consequently, the results of the two periods are not comparable.

Revenue from mining digital currencies for the quarter ended June 30, 2018 was $986,253. The Company earned other revenue of $367,723 from the sale of coupons to purchase ASIC hardware.

Specifically, in the quarter ended June 30, 2018, Fortress mined 93.8 Bitcoins valued at $941,438 based on the price of Bitcoin ranging from US$5,908 to US$9,803 between April 1, 2018 to June 30, 2018. The average price of Bitcoin was US$7,751 and the average USD/CAD exchange rate was $1.29 during the same period. The value of Bitcoin declined to US$6,381 at the end of June, resulting in a negative Bitcoin revaluation adjustment of $191,237 during the quarter.

Fortress began mining Bitcoin Cash on 100 S9 ASIC Hardware on May 2, 2018. By the end of the quarter ended June 30, 2018, Fortress had mined 31.1 Bitcoin Cash valued at $44,815 based on the price of Bitcoin Cash ranging from US$610 to US$1,766 between April 1, 2018 to June 30, 2018. The average price of Bitcoin Cash was US$1,052 during the same period. The value of Bitcoin Cash declined to US$748 at the end of June, resulting in a negative Bitcoin Cash revaluation adjustment of $14,591 during the quarter.

Revenue	**Q2 2018 ($)**	**Q1 2018 ($)**
Revenue from digital currencies	986,253	264,348
Other revenue	367,723	-
Total	1,353,976	264,348

As of June 30, 2018, the Company's digital currencies consisted of 118.2 Bitcoin with a fair value of $993,610 and 31.3 Bitcoin Cash with a fair value of $30,845. 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 and the daily price of Bitcoin Cash from https://finance.yahoo.com/quote/BCH-USD/history/. On June 30, 2018, the price of Bitcoin was US$6,381 on www.blockchain.info and the price of Bitcoin Cash was US$748. The USD/CAD exchange rate was US$1 = $1.3168. The price of Bitcoin and Bitcoin Cash declined towards the end of June 2018 and resulted in an unrealized revaluation loss of $251,350.

(In Canadian Dollars)

Bitcoin	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Opening Balance as at January 1, 2018	-	-	-
Revenue from Bitcoin mined for the period ended June 30, 2018	118.24	935,428	1,205,786
Bitcoin sold during the period	-	-	-
Fair Value revaluation of Bitcoin		(180,864)	(236,980)
Translation adjustment			24,804
Balance of Bitcoin as at June 30, 2018	118.24	754,564	993,610

Bitcoin Cash	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Opening Balance as at January 1, 2018	-	-	-
Revenue from Bitcoin Cash mined during the period ended June 30, 2018	31.33	34,538	44,815
Bitcoin cash sold during the period	-	-	-
Fair Value revaluation of Bitcoin Cash		(11,114)	(14,370)
Translation adjustment			400
Balance of Bitcoin Cash as at June 30, 2018	31.33	23,424	30,845

The total amount of digital currencies on the balance sheet on June 30, 2018 was as follows:

Digital Currencies	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Bitcoin	118.24	935,428	993,610
Bitcoin Cash	31.33	34,538	30,845
Balance as at June 30, 2018		969,966	1,024,455

(In Canadian Dollars)

5. Property and equipment

	Facility Asset Purchase	Miners	Office Equipment	Total
Cost				
Balance, December 31, 2017	6,418	-	-	6,418
Additions	5,702,192	4,965,068	4,457	10,671,717
Translation adjustment	233,347	202,904	-	436,251
Balance, June 30, 2018	**5,941,957**	**5,167,972**	**4,457**	**11,114,386**
Accumulated depreciation				
Balance, December 31, 2017	-	-	-	-
Additions	129,522	375,501	302	505,325
Translation adjustment	2,521	7,312	-	9,833
Balance, June 30, 2018	**132,043**	**382,813**	**302**	**515,158**
Carrying amount				
Balance, December 31, 2018	6,418	-	-	6,418
Balance June 30, 2018	**5,809,914**	**4,785,159**	**4,155**	**10,599,228**

6. Intangible asset

	Cost			**Accumulated depreciation**			
	Balance, December 31, 2017	Additions	Balance, June 30, 2018	Balance, December 31, 2017	Additions	Balance, June 30, 2018	**Total**
Website	-	33,000	33,000	-	4,125	4,125	**28,875**

7. 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 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.

(In Canadian Dollars)

8. Share Capital

a. Authorized

Unlimited number of common shares without par value

b. Issued and outstanding

	Number of Common Shares		Amount
Balance, November 14, 2017 (date of incorporation)	2	$	-
Conversion of convertible debenture *(Note 3)*	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, June 30, 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.

(In Canadian Dollars)

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 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 June 30, 2018, the Company has no share subscriptions received in advance.

d. Stock options

During the six months ended June 30, 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 June 30, 2018 was $132,596.

	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 June 30, 2018 was $421,732.

(In Canadian Dollars)

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

The following is a summary of changes in stock options outstanding for the six months ended June 30, 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, June 30, 2018	3,152,500	0.55

The stock options outstanding and exercisable as at June 30, 2018, are as follows:

Outstanding	Exercisable	Exercise price ($)	Expiry date
1,050,000	1,050,000	0.50	January 8, 2020
552,500	192,500	0.50	February 19, 2028
1,550,000	387,500	0.60	February 19, 2028
3,152,500	1,630,000		

e. Warrants issued and outstanding

Following is a summary of changes in warrants outstanding for the six months ended June 30, 2018:

	Warrants outstanding	**Weighted-average exercise price ($)**
Balance, December 31, 2017	6,153,846	0.50
Issued	12,046,154	0.50
Balance, June 30, 2018	18,200,000	0.50

(In Canadian Dollars)

The warrants outstanding and exercisable as at June 30, 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		

9. Related Party Transactions

As at June 30, 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 $2,612 (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 June 30, 2018, the Company had no outstanding loan payable to the CEO and director of the Company (December 31, 2017 - $15,000).

As at June 30, 2018, the Company had no payables and accrued liabilities owing 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 six months ended June 30, 2018, key management compensation includes management and consulting fees paid for the amount of $132,392 in relation to management consulting fees and $24,166 for executive assistant and business consultant services provided by a company controlled by the CEO of the Company. These fees include services provided by 2 people, as well as the provision of office space and a corporate boardroom, a dedicated office telephone landline, along with computing and printing resources. There are salaries and wages for the amount of $80,356 and shared based compensation of $299,917 to directors and management.

(In Canadian Dollars)

10. Income Taxes

A reconciliation of combined federal and provincial corporate income taxes of statutory rates of 12.00% (December 31, 2017 - 13.50%) and the Company's effective income tax expense is as follows:

		Six Months ended June 30, 2018		Year ended December 31, 2017
Loss before tax	**$**	**(375,879)**	$	(66,021)
Combined federal and provincial rate		**12.00%**		13.50%
Expected tax recovery		**(45,106)**		(8,913)
Change in statutory, foreign tax, foreign exchange rates and other		**(159,078)**		(10,662)
Permanent difference		**-**		245
Share issuance cost		**(138,823)**		(2,308)
Changes in deferred tax benefits not recognized		**461,870**		21,638
Income tax expense	**$**	**118,863**	$	-
Current tax expense	**$**	**-**	$	-
Deferred tax expense		**118,863**		-
Total income tax expense	**$**	**118,863**	$	-

The statutory tax rate declined from 13.50% to 12.00% due to a reduction of the federal and provincial tax rates on January 1, 2018.

The significant component of the Company's deferred tax liabilities are as follows:

Deferred tax asset (liability)		
Balance, December 31, 2017	$	-
Deferred tax expense		118,863
Translation adjustment		3,137
Balance, June 30, 2018	$	122,000

As at June 30, 2018, the significant components of the Company's unrecognized deductible temporary differences, unused tax credits and unused tax losses, that have not been included on the consolidated statement of financial position are as follows:

		30-Jun-18	Expiry date range
Temporary differences			
Property and equipment	$	4,427	2037
Share issuance costs		1,056,106	2019 to 2022
Non-capital losses available for future periods		419,034	2037 to 2038
	$	1,479,567	
Canada	$	419,034	2037 to 2038

(In Canadian Dollars)

11. Financial Instruments

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

Credit risk
Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The financial instruments that represent a potential concentration of credit risk consist primarily of cash 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 June 30, 2018 are as under:

	June 30, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$ 9,181,127	$4,711,465
Receivables and prepaid expenses	156,801	2,477
	$ 9,337,928	$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 June 30, 2018, the Company had a working capital surplus of $10,428,905, the majority of which is comprised of cash balances of $9,181,127, receivables and prepaid expenses of $156,801, digital currencies of $1,024,455 and deposit of $382,955 to settle current liabilities of $316,433. 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.

Market risk

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

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

(a) Bitcoin and Bitcoin Cash prices

The Company maintains an inventory of digital currencies, comprised of Bitcoin and Bitcoin Cash on June 30, 2018, that is subject to market pricing and price volatility. The Company recorded a loss on revaluation of digital currencies in the amount of $205,829 during the quarter ended June 30, 2018 ($45,521 during the quarter ended March 31, 2018). Digital currencies have a limited history and have had a high degree of price volatility. As such, we believe that the historical performance of digital currencies may not be indicative of their future performance. The Company's digital currencies consist of Bitcoin and Bitcoin Cash. The table below shows the impact of a 25% variance in the price of each of these digital currencies on the Company's earnings before tax,

Digital Currencies		Balance on June 30, 2018		Impact of 25% variance in price
Bitcoin	$	993,610	$	248,403
Bitcoin Cash	$	30,845	$	7,711

The Company does not hedge its Bitcoin and Bitcoin Cash balances but will actively monitor Bitcoin and Bitcoin Cash pricing, market volatility and its own balance of Bitcoin and Bitcoin Cash 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

Currency risk relates to the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. Exchange rate fluctuations affect the costs that the Company incus in its operations.

The Company's operational expenditures are transacted in US dollars. The Company's cost of sales are incurred in US dollars. The fluctuation of the US dollars in relation to the Canadian dollar will consequently impact the profitability of the Company and may also affect the value of the Company's assets and liabilities.

The Company's net monetary position in US dollars as of June 30, 2018 is $272,602 (Canadian dollar equivalent) with the effect on earnings before tax of a 10% fluctuation of US dollar to the Canadian dollar of $27,260.

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.

(In Canadian Dollars)

As at June 30, 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.

The Companies financial instruments have been classified as follows:

June 30, 2018	Level 1	Level 2	Level 3
Fair value:			
Cash	$ 9,181,127	-	$ -
Digital currencies	-	$ 1,024,455	
	$ 9,181,127	$ 1,024,455	$ -

12. Digital Currency and Risk Management

Digital currencies are measured using level one fair values, determined by taking the rate from www.blockchain.info and https://finance.yahoo.com/quote/BCH-USD/.

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 and Bitcoin Cash. A 25% price variance in the price of Bitcoin will result in an increase or decrease of US$1,595 per Bitcoin. A 25% price variance in the price of Bitcoin Cash will result in an increase or decrease of US$187 per Bitcoin Cash.

13. Capital Management

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

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

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

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

14. Subsequent Events

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 set forth the terms of the business combination of Fortress and FCII and the issuance of securities of FCII in exchange for Fortress Securities. The Qualifying Transaction ("QT") involved the merger of FCII and Fortress by way of 3-corner amalgamation between FCII, Fortress and 1171054 B.C. Ltd., a wholly-owned subsidiary of FCII, pursuant to the business combination agreement.

On August 16, 2018, Fortress completed its QT and on August 22, 2018, the Company was listed for trading on the TSX-V under the ticker "FORT". Fortress' filing statement and related documents in connection with the QT are available under its profile on SEDAR at www.sedar.com.