Fortress Blockchain Corp.

(formerly Focused Capital II Corp.)

Condensed Consolidated Interim Financial Statements

Three and Nine months ended September 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. (formerly Focused Capital II Corp.) for the nine months ended September 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. (formerly Focused Capital II Corp.)
Condensed Consolidated Interim Statements of Financial Position
(In Canadian Dollars)
(Unaudited)

		September 30, 2018		December 31, 2017
Assets				
Current assets				
Cash	**$**	**10,610,967**	$	4,711,465
Digital currencies *(Note 5)*		**25,487**		-
Receivables and prepaid expenses *(Note 6)*		**131,104**		2,477
Deposit *(Note 4)*		**116,979**		130,000
		10,884,537		4,843,942
Property and equipment *(Note 7)*		**9,986,517**		6,415
Intangible asset *(Note 8)*		**24,750**		-
Total assets	**$**	**20,895,804**	$	4,850,357
Liabilities				
Current liabilities				
Payable and accrued liabilities	**$**	**257,674**	$	67,197
Due to shareholder *(Note 11)*		**-**		39,654
Share subscriptions received in advance *(Note 10)*		**-**		4,761,582
		257,674		4,868,433
Convertible debenture *(Note 9)*		**-**		25,000
Deferred income tax liabilities *(Note 12)*		**108,142**		-
		365,816		4,893,433
Equity				
Share capital *(Note 10)*		**21,367,543**		22,905
Reserves		**1,157,494**		40
Deficit		**(1,995,049)**		(66,021)
Total equity (deficiency)		**20,529,988**		(43,076)
Total liabilities and equity	**$**	**20,895,804**	$	4,850,357

Nature of operations *(Note 1)*
Subsequent event *(Note 16)*
Approved by the Board of Directors and authorized for issue on November 28, 2018:

__________**"Aydin Kilic"**______Director

_________**"David Jaques"** _____Director

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

Fortress Blockchain Corp. (formerly Focused Capital II Corp.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(In Canadian Dollars)

(Unaudited)

	Three month ended September 30, 2018	***Nine month ended September 30, 2018***	*November 14, 2017 (date of incorporation) to December 31, 2017*
Revenues *(Note 5)*	**$ 617,034**	**$ 2,235,358**	$ -
Cost of sales			
Operating costs	**(232,760)**	**(539,310)**	-
Depreciation	**(284,893)**	**(660,394)**	-
	99,381	**1,035,654**	-
Gain (loss) on revaluation of digital currencies	**249,704**	**(1,646)**	-
Loss on sale of digital currencies	**(250,025)**	**(250,025)**	-
General and administrative expenses			
Depreciation	**102,922**	**236,871**	-
Business development	**11,866**	**11,866**	-
Management and consulting fees	**85,250**	**241,808**	-
Marketing	**36,114**	**148,140**	13,064
Office and administration	**132,671**	**176,065**	741
Professional fees	**288,545**	**522,575**	41,604
Repairs and maintenance	**-**	**22,224**	-
Salaries and wages	**74,102**	**156,416**	-
Share based compensation *(Note 10)*	**263,750**	**849,487**	-
Travel	**22,987**	**85,124**	10,614
Foreign exchange	**296,567**	**(160,044)**	(2)
	(1,314,774)	**(2,290,532)**	(66,021)
Operating loss	**(1,215,714)**	**(1,506,549)**	(66,021)
Interest income	**41,872**	**75,691**	40
Interest expense	**(336)**	**(336)**	-
Foreign exchange - unrealized gain	**-**	**-**	-
Listing expenses *(Note 4)*	**(390,694)**	**(390,694)**	-
	(349,158)	**(315,339)**	40
Net loss from operations before tax	**(1,564,872)**	**(1,821,888)**	(65,981)
Income tax expense *(Note 12)*	**(11,723)**	**107,140**	-
Net loss for the period	**(1,553,149)**	**(1,929,028)**	(65,981)
Other comprehensive income (loss)			
Translation adjustment	**(65,161)**	**51,065**	40
Other comprehensive income	**(65,161)**	**51,065**	40
Net loss and comprehensive loss for the period	**$ (1,618,310)**	**$ (1,877,963)**	$ (65,941)
Basic and diluted loss per share	**$ (0.02)**	**$ (0.03)**	$ (0.04)
Weighted average number of common shares outstanding - basic and diluted	**70,207,330**	**67,412,634**	1,531,917

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

Fortress Blockchain Corp. (formerly Focused Capital II Corp.)

Condensed Consolidated Interim Statements of Changes in Equity

(In Canadian Dollars)

(Unaudited)

	Number of Shares	Share Capital Amount	Cumulative translation adjustment	Equity Reserves	Accumulated Deficit	Total Equity (Deficit)
At November 14, 2017	2	$ -	$ -	$ -	$ -	$ -
Units issued *(Note 10)*	3,000,000	15,000	-	-	-	15,000
Unit issuance costs *(Note 10)*	-	(17,095)	-	-	-	(17,095)
Exercised convertible debenture *(Note 9)*	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)**
Balance, January 1, 2018	8,000,002	$ 22,905	$ 40	$ -	$ (66,021)	$ (43,076)
Units issued to WeHash *(Note 4)*	3,500,000	1,750,000	-	-	-	1,750,000
Recapitalization transaction:						
Equity of Focused Capital *(Note 3)*	1,900,003	950,002	-	-	-	950,002
Units issued for cash *(Note 10)*	5,400,000	540,000	-	-	-	540,000
Shares issued for cash *(Note 10)*	47,377,979	19,493,394	-	-	-	19,493,394
Share issuance costs *(Note 10)*	-	(1,413,758)	-	256,902	-	(1,156,856)
Exercise of convertible debenture *(Note 9)*	5,000,000	25,000	-	-	-	25,000
Share based compensation *(Note 10)*	-	-	-	849,487	-	849,487
Translation adjustment	-	-	51,065	-	-	51,065
Net loss for the period	-	-	-	-	(1,929,028)	(1,929,028)
Balance, September 30, 2018	**71,177,984**	**$ 21,367,543**	**$ 51,105**	**$ 1,106,389**	**$ (1,995,049)**	**$ 20,529,988**

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

Fortress Blockchain Corp. (formerly Focused Capital II Corp.)

Condensed Consolidated Interim Statements of Cash Flows

(In Canadian Dollars)

(Unaudited)

		For the nine months ended September 30, 2018		From November 14, 2017 (date of incorporation) to December 31, 2017
Operating activities				
Net loss for the period	**$**	**(1,929,028)**	$	(66,021)
Adjusted for:				
Depreciation *(Note 7 and 8)*		**897,265**		-
Listing expense *(Note 3)*		**359,982**		-
Share based compensation *(Note 10)*		**849,487**		-
Income tax expense *(Note 12)*		**107,140**		-
Revaluation of digital currencies *(Note 5)*		**1,646**		-
Loss on sale of digital currencies *(Note 5)*		**250,025**		-
Foreign exchange		**(160,044)**		-
Change in non-cash w orking capital components				
Increase in receivables and prepaid expenses		**(128,638)**		(2,477)
Increase in payables and accrued liabilities		**161,513**		67,197
Increase in deposits		**(116,990)**		-
Increase in digital currencies		**(1,849,117)**		-
Due to shareholders		**(40,221)**		39,654
Cash (used in) / provided by operating activities		**(1,596,980)**		38,353
Investing activities				
Purchase of property and equipment *(Note 7)*		**(8,932,584)**		(6,415)
Deposit		**(33,000)**		(130,000)
Cash used in investing activities		**(8,965,584)**		(136,415)
Financing activities				
Proceeds on issuance of units *(Note 10)*		**540,000**		15,000
Proceeds on issuance of shares *(Note 10)*		**14,931,811**		-
Share issuance costs *(Note 10)*		**(1,163,005)**		(17,095)
Issuance of convertible debenture *(Note 9)*		**-**		50,000
Proceeds on share subscriptions received in advance *(Note 10)*		**-**		4,761,582
Proceeds from sale of digital currencies *(Note 5)*		**1,492,029**		-
Cash provided by financing activities		**15,800,835**		4,809,487
Increase in cash during the period		**5,238,271**		4,711,425
Effect of exchange rate changes on cash		**254,579**		40
Cash, beginning of period		**5,118,117**		-
Cash, end of period	**$**	**10,610,967**	$	4,711,465
Significant non-cash financing and investing activities:				
Shares issued for finder's fees *(Note 10)*		**256,902**		-
Share issued to WeHash *(Note 4)*		**1,750,000**		-

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

1. Nature of Operations

Fortress Blockchain Corp., formerly Focused Capital II Corp. (the “Company” or “Fortress”) was incorporated under the Business Corporations Act (Ontario) on July 13, 2011. On March 21, 2018, the Company entered into a definitive business combination agreement with Fortress Blockchain Holdings Corp. The Qualifying Transaction (“QT”) involved the merger of Focused Capital II Corp. and Fortress Blockchain Holdings Corp. by way of 3-corner amalgamation between Focused Capital II Corp., Fortress Blockchain Holdings Corp. and 1171054 B.C. Ltd., a wholly-owned subsidiary of Focused Capital II Corp., pursuant to the business combination agreement. On August 16, 2018, Fortress completed its acquisition of Fortress Blockchain Holdings Corp. The Company’s financial year-end was June 30 and was changed to December 31 after the Qualifying Transaction (“QT”). The Company changed its name from Focused Capital II Corp. to Fortress Blockchain Corp. On August 22, 2018, the Company resumed trading on the TSX-V under the ticker symbol “FORT”.

In February 2018, Fortress Blockchain Holdings Corp. acquired a cryptocurrency mining facility in Washington State which has a capacity of 2MW (the “Flagship Facility”), and purchased 1,400 ASIC S9 Antminers from BitMain Technologies which arrived in March 2018.

Fortress Blockchain Corp. is a miner of digital currencies headquartered in Vancouver, BC with its operation established in a low cost North American green-energy region. The Company is dedicated to achieving peak operational efficiency in industrial scale Bitcoin mining with sector-leading performance.

The Company’s head office is located at 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 November 28, 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 subsidiaries, which is controlled by the Company. Control is achieved when the parent company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has all of the following: (i) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect its returns.

The financial statements of the subsidiaries are included in 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 September 30, 2018, the Company had two wholly-owned subsidiaries:
- Fortress Blockchain Holdings Corp. incorporated in the province of BC, and
- Fortress Blockchain (US) Holdings Corp. ("Fortress US") incorporated in Washington, USA.

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

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.

Significant Judgments

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. Fortress Blockchain Holdings Corp. completed the WeHash Agreement in February 2018 (Note 4) 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 was 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 5) are included in current assets. Digital currencies are carried at their fair value determined by the spot rate based on the daily average from https://www.blockchain.com/en/charts/market-price and https://finance.yahoo.com/quote/BCH-USD/. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

Share based compensation

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

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 https://www.blockchain.com/en/charts/market-price for Bitcoin and https://finance.yahoo.com/quote/BCH-USD/ for Bitcoin Cash. 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 https://www.blockchain.com/en/charts/market-price 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 the transition to IFRS 9 on the Company's statement of financial position.

IFRS 15 – *Revenue from Contracts with Customers*

The Company adopted IFRS 15 effective January 1, 2018. 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.

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. Reverse take-over transaction

On August 16, 2018 ("RTO Date"), the Company completed a reverse take-over ("RTO") transaction with FBH (Note 1), whereby the Company acquired 100% of the issued and outstanding common shares of FBH. For accounting purposes, the acquisition was considered to be a reverse acquisition under IFRS 3 *Business Combinations* ("IFRS 3") as the shareholders of FBH obtained control of the Company. However, as the Company does not meet the definition of a business as defined by IFRS 3, it has been accounted for as a share-based payment transaction in accordance with IFRS 2. The accounting for this transaction resulted in the following:

(i) The consolidated financial of the combined entity are issued under the legal parent, Fortress Blockchain Corp., but are considered a continuation of the financial statements of the legal subsidiary, FBH.

(ii) As FBH is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

Since the shares allocated to the former shareholders of FBH on closing the RTO is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations of the Company acquired on closing was expensed in the consolidated statement of loss and comprehensive loss as a listing expense. The fair value of the 1,900,003 common shares for all of Focused Capital was determined to be 950,002 or $0.50 per share.

(In Canadian Dollars)

(iii) The fair value of the consideration given and charged to listing expense was comprised of:

Fair value of the common shares at RTO Date	$	950,002
Identifiable assets acquired – August 16, 2018		
Cash	$	457,671
Cash held in trust		59,340
Prepaid expenses		1,412
Trade payables and accrued liabilities		(9,498)
	$	508,925
Unidentified assets acquired		
Listing expense		441,077
Total net identifiable assets and transaction costs	$	950,002

4. Purchase of the Flagship Facility

On November 1, 2017, prior to the incorporation of Fortress Blockchain Holdings Corp., the directors of Fortress Blockchain Holdings Corp. 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 directors 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 Fortress Blockchain Holdings Corp. 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

As of September 30, 2018, the deposit balance is $116,979. This total comprised of $100,417 deposit held by Grant County Public Utility District and $16,562 rent and damage deposit for the Company's Flagship Facility.

(In Canadian Dollars)

5. 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. Consequently, the results of the first quarter are not comparable with the subsequent quarters.

Revenue	**Q3 2018 ($)**	**Q2 2018 ($)**	**Q1 2018 ($)**
Revenue from digital currencies	617,034	986,253	264,348
Other revenue	-	367,723	-
Total	617,034	1,353,976	264,348

For the three months ended September 30, 2018, the Company mined 64.5 Bitcoins valued at $575,561 (June 30, 2018: 93.8 Bitcoins valued at $941,438) based on the price of Bitcoin ranging from US$6,051 to US$8,251 between July 1, 2018 to September 30, 2018 (June 30, 2018: US$5,908 to US$9,803). The average price of Bitcoin was US$6,794 and the average USD/CAD exchange rate was $1.31 in the third quarter (June 30, 2018: US$7,751 and $1.29 respectively).

Fortress began mining Bitcoin Cash on 100 S9 ASIC Hardware on May 2, 2018. For the three months ended, the Company has mined 52.0 Bitcoin Cash (June 30, 2018: 31.1) valued at $41,173 (June 30, 2018: $44,815) based on the price of Bitcoin Cash ranging from US$418 to US$866 between July 1, 2018 to September 30, 2018 (US$610 to US$1,766 between April 1, 2018 to June 30, 2018). The average price of Bitcoin Cash was US$617 and the average USD/CAD exchange rate was $1.31 in the third quarter (June 30, 2018: US$1,049 and $1.29 respectively).

For the quarter ended September 30, 2018, the Board of Directors established a policy for the Company to sell its digital currencies in inventory on a regular basis. These coins were sold in a related party transaction with Goldmoney Inc. See Note 11 for details.

The Company sold 179.78 Bitcoin at an average price of US$6,505 for gross proceeds of US$1,129,342 and 0.5% transaction fee of $5,647 and 82.20 Bitcoin Cash at an average price of US$475 for gross proceeds of US$35,309 and 0.5% transaction fee of $176. The sale resulted in a realized loss on the sale of digital currencies totaling $250,025 of which $235,547 is realized loss from sale of Bitcoin and $14,478 is realized loss from sale of Bitcoin Cash, relative to the revenue recorded during the period of mining the 179.78 Bitcoin since March 2018 and the 82.20 Bitcoin Cash since May 2018.

Digital currencies are recorded at their fair value on the date they are received as revenues and are revalued to their current market value at each reporting date. Fair value is determined by using the daily price of Bitcoin from https://www.blockchain.com/en/charts/market-price and the daily price of Bitcoin Cash from https://finance.yahoo.com/quote/BCH-USD/history/. On September 30, 2018, the price of Bitcoin was US$6,593 on https://www.blockchain.com/en/charts/market-price and the price of Bitcoin Cash was US$532. The USD/CAD exchange rate was US$1 = $1.2874.

As of September 30, 2018, the Company's digital currencies consisted of 2.92 Bitcoin with a fair value of $19,219 (June 30, 2018: 118.2 Bitcoin with a fair value of $993,610) and 1.08 Bitcoin Cash with a fair value of $578 (June 30, 2018: 31.3 Bitcoin Cash with a fair value of $30,845). The price of Bitcoin and Bitcoin Cash decreased towards the end of September 2018 which resulted in an unrealized revaluation loss of $1,646. The previously recognized revaluation loss of $249,704 has been realized during the quarter as a result of the sale of digital currencies.

(In Canadian Dollars)

Bitcoin	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Opening Balance at January 1, 2018	-	-	-
Revenue from Bitcoin mined for the period ended June 30, 2018	118.24	935,428	1,205,786
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
Revenue from Bitcoin mined for the period ended September 30, 2018	64.46	440,301	575,561
Bitcoin sold during the period	(179.78)	(1,175,745)	(1,529,626)
Fair value revaluation of Bitcoin	-	180,926	235,675
Realized loss from sale of Bitcoin	-	(180,827)	(235,547)
Translation adjustment	-	-	(14,930)
Balance of Bitcoin as at September 30, 2018	2.92	19,219	24,743

Bitcoin Cash	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Opening Balance at January 1, 2018	-	-	-
Revenue from Bitcoin Cash mined for the period ended September 30, 2018	31.33	34,538	44,815
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
Revenue from Bitcoin Cash mined for the period ended September 30, 2018	51.95	31,725	41,473
Bitcoin Cash sold during the period	(82.20)	(54,229)	(70,538)
Fair value revaluation of Bitcoin Cash	-	10,771	14,030
Realized loss from sale of Bitcoin Cash	-	(11,114)	(14,478)
Translation adjustment	-	-	(589)
Balance of Bitcoin Cash as at September 30, 2018	1.08	578	744

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

Digital Currencies	Units	US Dollars (functional currency)	Cdn Dollars (presentation currency)
Bitcoin	2.92	19,219	24,743
Bitcoin Cash	1.08	578	744
Balance as at September 30, 2018		19,797	25,487

(In Canadian Dollars)

6. Receivables and prepaid expenses

	September 30, 2018	December 31, 2017
Prepaid expenses (Rent and insurance of Bitcoin mine)	$ **119,657**	$ -
GST receivable	**11,447**	2,477
	$ **131,104**	$ 2,477

7. 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	6,351	10,673,611
Translation adjustment	100,681	87,520	-	188,201
Balance, September 30, 2018	**5,809,291**	**5,052,588**	**6,351**	**10,868,230**
Accumulated depreciation				
Balance, December 31, 2017	-	-	-	-
Additions	227,790	660,394	831	889,015
Translation adjustment	(1,873)	(5,429)	-	(7,302)
Balance, September 30, 2018	**225,917**	**654,965**	**831**	**881,713**
Carrying amount				
Balance, December 31, 2017	6,418	-	-	6,418
Balance September 30, 2018	**5,583,374**	**4,397,623**	**5,520**	**9,986,517**

8. Intangible asset

	Cost			**Accumulated depreciation**			
	Balance, December 31, 2017	Additions	Balance, September 30, 2018	Balance, December 31, 2017	Additions	Balance, September 30, 2018	**Total**
Website	-	33,000	33,000	-	8,250	8,250	**24,750**

9. 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 former 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 former 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.

10. Share Capital

a. Authorized

Unlimited number of common shares without par value

b. Issued and outstanding

During the nine months ended September 30, 2018, the Company completed the following transactions:

(i) Immediately prior to the completion of the RTO on August 16, 2018, the Company completed a consolidation of its common shares on the basis of 3.25 pre-consolidation share to one post-consolidation common share for a pre-RTO balance of 1,900,003 common shares outstanding in the Company (Note 3).

(ii) Upon completion of the RTO (Note 3), the Company issued a total of 1,900,003 common replacement shares to the previous shareholders of Focused Capital II Corp.

(iii) On August 16, 2018, in accordance with the RTO (Note 1), 69,277,981 common shares of Fortress were issued to the shareholders of FBH as consideration for 100% of the issued and outstanding shares of FBH.

Prior to the RTO, the Company completed the following transactions:

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 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.

During the year ended December 31, 2017, the Company completed the following transactions:

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.

c. Share subscriptions received in advance

As at September 30, 2018, the Company has no share subscriptions received in advance.

d. Stock options

During the nine months ended September 30, 2018, the Company, the Company completed the following transactions:

(i) Upon completion of the RTO (Note 3), the Company issued:

- 1,050,000 replacement 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.

(In Canadian Dollars)

- 2,102,500 replacement stock options issuable in exchange for the outstanding FBH options until February 20, 2028 as follows:

  - 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 September 30, 2018 was $177,867.

- 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 September 30, 2018 was $565,719.

(ii) Following the completion of the RTO, the Company completed the following transactions:

- Granted 233,000 stock options with an exercise price of $0.60 per share and an expiry date of August 15, 2028 which vested quarterly on November 16, 2018 and then a further ¼ every three months thereafter with the final tranche vesting on August 16, 2019; the fair value per option granted was $0.28 per option and the share based compensation expense recognized for the vesting of these options to September 30, 2018 was $25,382.

- Granted 138,428 stock options with an exercise price of $0.65 per share and an expiry date of December 20, 2021, which vested immediately; the fair value per option granted was $0.28 with a share based compensation expense of $38,439.

	2018	2017
Risk-free interest rate	**1.79% - 2.32%**	-
Expected life (years)	**2 - 10**	-
Annualized volatility	**91% - 114%**	-
Dividend rate	**0.00%**	-

(In Canadian Dollars)

The following is a summary of changes in stock options outstanding for the nine months ended September 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	2,473,928	0.58
Balance, September 30, 2018	3,523,928	0.56

The stock options outstanding and exercisable as at September 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
233,000	58,250	0.60	August 15, 2028
138,428	138,428	0.65	December 20, 2021
3,523,928	1,826,678		

e. Warrants issued and outstanding

During the nine months ended September 30, 2018, the Company issued an aggregate of 18,200,000 replacement warrants in exchange for the outstanding FBH warrants, each exercisable into one common share at a price of $0.50 with expiry dates ranging from January 3, 2019 to January 8, 2023.

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

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

(In Canadian Dollars)

The warrants outstanding and exercisable as at September 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		

11. Related Party Transactions

As at September 30, 2018, the Company had an amount owing to the CEO and director of the Company of $0 (December 31, 2017 - $12,136) for out-of-pocket expenses incurred. The amount was non-interest bearing, had no fixed repayment terms and is payable on demand. The Company also had an amount owing to a former director of the Company of $0 (December 31, 2017 - $12,518) for out-of-pocket expenses incurred. The amount was non-interest bearing, had no fixed repayment terms and was payable on demand.

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

Payments to WeHash Technology LLP.
During the quarter ended June 30, 2018, the Company entered into a services agreement with WeHash to provide services to operate the Flagship Facility. WeHash is a shareholder of the Company, having received US$3,000,000 and 3,500,000 units which consisted of 3,500,000 shares and 3,500,000 warrants, exercisable at $0.50 as consideration for the purchase of the assets of the Flagship Facility (Note 4).

Under the terms of the services agreement, WeHash will provide Fortress with manpower to operate the mine and be responsible for keeping the mine running 24x7x365 for a monthly fee of US$13,000 plus expenses. Fortress can also request WeHash to provide additional services beyond those described in the services agreement for an hourly fee, based on the actual hours spent by their employees to render those services. The initial term of the services agreement was one year and automatically renews on an annual basis unless specifically terminated. Either party may terminate the agreement at any time for convenience by providing ninety days written notice of termination. During the quarter ended September 30, 2018, Fortress paid WeHash US$43,882 (June 30, 2018: US$30,941) for services rendered. with a balance owing in payables and accrued liabilities of $13,844 as at September 30, 2018.

Payments to Goldmoney Inc.
During the quarter ended September 30, 2018, the Company opened an account with Goldmoney Inc. (“Goldmoney”) to sell its digital currencies. Mr. Roy Sebag, the Founder, CEO and a major shareholder of Goldmoney is also the Chairman of the Board of Directors of Fortress. The Company paid US$5,823 (Cdn$7,576) to Goldmoney during the quarter ended September 30, 2018 (Q2: $0) as commissions payable for the sale of digital currencies (179.78 Bitcoin and 82.20 Bitcoin Cash) through Goldmoney. Refer to Note 5 for additional details.

(In Canadian Dollars)

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 nine months ended September 30, 2018, key management compensation includes management and consulting fees paid for the amount of $199,092 in relation to management consulting fees and $42,716 for executive assistant and business consultant services provided by a company controlled by the CEO of the Company. These fees include services provided by two people, as well as the provision of office space and a corporate boardroom, a dedicated office telephone landline, along with computing and printing resources. The Company paid salaries and wages for the amount of $156,416 and incurred shared based compensation of $413,431 to directors and management.

12. Income Taxes

A reconciliation of combined federal and provincial corporate income taxes of statutory rates of 27.00% (December 31, 2017 - 13.50%) and the Company's effective income tax expense is as follows:

		Nine Months ended September 30, 2018		**Year ended December 31, 2017**
Loss before tax	**$**	**(1,821,888)**	$	(66,021)
Combined federal and provincial rate		**27.00%**		13.50%
Expected tax recovery		**(491,910)**		(8,913)
Change in statutory, foreign tax, foreign exchange rates and other		**74,018**		(10,662)
Permanent difference		**307,383**		245
Share issuance cost		**(312,351)**		(2,308)
Changes in deferred tax benefits not recognized		**530,000**		21,638
Income tax expense	**$**	**107,140**	$	-
Current tax expense	**$**	**-**	$	-
Deferred tax expense		**107,140**		-
Total income tax expense	**$**	**107,140**	$	-

The statutory tax rate increased from 13.50% to 27.00% as the Company is a publicly-traded entity; therefore, losing its small business status.

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

Deferred tax liability		
Balance, December 31, 2017	$	-
Deferred tax expense		107,140
Translation adjustment		3,576
Balance, September 30, 2018	$	110,716

(In Canadian Dollars)

As at September 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:

		September 30, 2018	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		842,551	2037 to 2038
	$	1,903,084	
Canada	$	842,551	2037 to 2038

13. Financial Instruments

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

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

	September 30, 2018	December 31, 2017
Cash	**$ 10,610,967**	$ 4,711,465
Digital currencies	**25,487**	-
Receivables and prepaid expenses	**131,104**	2,477
	$ 10,767,558	$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 September 30, 2018, the Company had a working capital surplus of $10,626,863, the majority of which is comprised of cash balance of $10,610,967, receivables and prepaid expenses of $131,104, digital currencies of $25,487 and deposit of $116,979 to settle current liabilities of $257,674. All of the Company's financial liabilities sounds have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as Bitcoin 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.

Bitcoin and Bitcoin Cash prices
The Company has an inventory of digital currencies, comprised of Bitcoin and Bitcoin Cash on September 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 $1,646 during the quarter ended September 30, 2018 (loss on revaluation of digital currencies in the amount of $205,829 during the quarter ended June 30, 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 September 30, 2018	Impact of 25% variance in price
Bitcoin	$ 24,743	$ 6,186
Bitcoin Cash	$ 744	$ 186

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.

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.

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 costs 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 September 30, 2018 is $1,721,039 (Canadian dollar equivalent) with the effect on earnings before tax of a 10% fluctuation of US dollar to the Canadian dollar of $172,104.

(In Canadian Dollars)

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 September 30, 2018, cash is assessed as a Level 1 instrument while digital currencies are assessed as a Level 2 instrument.
The fair value of receivables and prepaid expenses, deposit, payables and accrued liabilities and due to shareholder are equal to their carrying value due to its short-term maturity.

The Companies financial instruments have been classified as follows:

	Level 1	Level 2	Level 3
Fair value:			
Cash	$ 10,610,967	$ -	$ -
Digital currencies	-	25,487	-
	$ 10,610,967	$ 25,487	$ -

14. Digital Currency and Risk Management

Digital currencies are measured using level one fair values, determined by taking the rate from https://www.blockchain.com/en/charts/market-price 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. Based on the price on September 30, 2018, a 25% price variance in the price of Bitcoin will result in an increase or decrease of US$1,648 per Bitcoin. A 25% price variance in the price of Bitcoin Cash will result in an increase or decrease of US$133 per Bitcoin Cash.

15. 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.

16. Subsequent Event

Subsequent to September 30, 2018, the Company sold 35.33 Bitcoins at an average price of US$4,794 for gross proceeds of US$169,418 and 0.5% transaction fee of $847. Fortress has mined 37 Bitcoins and 16 Bitcoin Cash from October 1 to November 28, 2018.