

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

**Management Discussion and Analysis**  
Three and Nine months ended September 30, 2018

## **Introduction**

The following management’s discussion and analysis (“**MD&A**”) of the financial condition and results of the operations of Fortress Blockchain Corp. (formerly Focused Capital II Corp. or “**Focused II**”) constitutes management’s review of the factors that affected the Company’s financial and operating performance for the three and nine months ended September 30, 2018. The MD&A is intended to help the reader understand Fortress Blockchain Corp. (“**Fortress**”, “**we**”, “**our**” or the “**Company**”), our operations, financial performance, current and future business environment and the opportunities and risks facing the Company. The risks are explicitly set out in Appendix 1 of this MD&A. In addition, certain statements in this MD&A incorporate forward looking information and readers are advised to review the cautionary note regarding forward looking statements in section 12 of this MD&A.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the unaudited financial statements for the Company for the three and nine months ended September 30, 2018, and the related notes thereto. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results presented for the reporting period is not necessarily indicative of the results that may be expected for any future period. The financial statements and the financial information contained in this MD&A were prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”) and interpretations of the IFRS Interpretations Committee (“**IFRIC**”). Further information about the Company and its operations can be obtained from SEDAR on [www.sedar.com](http://www.sedar.com).

This MD&A contains information up to and including November 28, 2018.

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Appendix 1 – Business Risks and Uncertainties

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## 1. DESCRIPTION OF THE COMPANY

Fortress Blockchain Corp. is a miner of digital currencies headquartered in Vancouver, BC and with operations established in North American green-energy regions. On February 19, 2018, Fortress Blockchain Corp. entered into a letter of intent with Focused Capital II Corp. and entered into a definitive business combination agreement on March 21, 2018, which set forth the terms of the business combination of Fortress Blockchain Corp. and Focused Capital II Corp. and the issuance of securities of Focused Capital II Corp. in exchange for Fortress Blockchain Corp.'s securities. The Qualifying Transaction (the "QT") involved the merger of Focused Capital II Corp. and Fortress Blockchain Corp. by way of 3-corner amalgamation between Focused Capital II Corp., Fortress Blockchain Corp. and 1171054 B.C. Ltd., a wholly-owned subsidiary of Focused Capital II Corp., pursuant to the business combination agreement.

The QT was completed on August 16, 2018. Focused Capital II Corp. became the resulting parent company and was renamed as Fortress Blockchain Corp. ("**Fortress**" or the "**Company**"). 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 its profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Focused II was incorporated as a private company under the Business Corporations Act (Ontario) on July 13, 2011. Focused II's financial year-end was June 30. The Company was classified as a Capital Pool Company as defined in Policy 2.4 – Capital Pool Companies ("**Policy 2.4**") of the TSX Venture Exchange ("**Exchange**"). Focused II did not have commercial operations and had no assets other than cash, deposits and prepaids. It did not carry on any business other than identifying and evaluating other companies with a view to completing a transaction to acquire significant assets by way of purchase, amalgamation, reverse take-over or arrangement with another company (a "**Qualifying Transaction**").

## 2. QUALIFYING TRANSACTION

On August 16, 2018, Fortress Blockchain Corp. (formerly Focused Capital II Corp.) announced the closing of its Qualifying Transaction, as defined under the policies of the Exchange pursuant to the business combination agreement between the Company and Fortress Blockchain Corp. ("**Fortress**") dated March 21, 2018, as amended (the "**Transaction**").

The Transaction involved the acquisition of all of the issued and outstanding shares of Fortress by way of a three- cornered amalgamation. As part of the Transaction, Fortress amalgamated with 1171054 B.C. Ltd. to form "Fortress Blockchain Capital Holdings Corp.", a wholly-owned subsidiary of the Company.

As a result of the Transaction, the Company also (a) completed the continuation of its corporate existence from the province of Ontario to the province of British Columbia; (b) consolidated its outstanding shares on the basis of 1 post-consolidation share for every 3.25077 pre-consolidation shares; and (c) changed its name to "Fortress Blockchain Corp."

In connection with the Transaction, the Company issued (on a post-consolidation basis):

- a. an aggregate of 69,277,981 common shares issuable in exchange for the outstanding Fortress Shares;
- b. an aggregate of 18,200,000 replacement warrants issuable in exchange for the outstanding Fortress warrants, each exercisable into one common share at a price of \$0.50 with expiry dates ranging from January 4, 2019 to January 8, 2023;

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c. an aggregate of 1,050,000 replacement broker options with an expiry date of January 9, 2020 issuable in exchange for the outstanding Fortress broker options, each exercisable into one common share at a price of \$0.50; and

d. an aggregate of 2,102,500 replacement options with an expiry date of February 20, 2028, issuable in exchange for the outstanding Fortress options, each exercisable into one common share at the following exercise prices: (a) 1,550,000 Replacement options at an exercise price of \$0.60 per common share; and (b) 552,500 replacement options at an exercise price of \$0.50 per common share.

Following completion of the Transaction and consolidation, the Company has issued and outstanding an aggregate of 71,177,984 post-consolidation common shares.

On the close of the QT, a total of 233,000 stock options were granted to certain advisory board members and consultants of the Company pursuant to the Company's stock option plan. The options are exercisable for a period of ten years at a price of \$0.60 per share.

### 3. WEHASH TRANSACTION

On February 16, 2018, the Company completed a transaction with WeHash Technology LLP ("**WeHash**") whereby the Company acquired the WeHash cryptocurrency mining facility (the "**Flagship Facility**") located in the Grant County area of Washington, United States. This Flagship Facility had electrical and cooling infrastructure installed, including 2,872 physical outlets to operate up to 2MW of computing hardware. The Flagship Facility currently has a competitive all-in power cost of US\$0.026/kWh, with a base cost of US\$0.018/kWh; however on April 1, 2019 those rate are set to change (for a full discussion, see Section 4). The Flagship Facility's electrical capacity may also be increased, subject to the new Evolving Industries application process implemented by the Grant County Public Utility District ("**GPUD**"), the principal energy regulator in Grant County. A full summary of the recent changes implemented by GPUD is discussed in Section 4 hereof. In addition to approval from GPUD, if the Company wished to expand electrical capacity at its Flagship Facility, additional electrical infrastructure and cooling equipment would need to be installed.

In consideration for the assets in the Flagship Facility, the Company paid US\$3,000,000 and issued 3,500,000 units which consist of 3,500,000 shares and 3,500,000 warrants, exercisable at \$0.50. The WeHash transaction was accounted for as a purchase of assets and the costs were allocated to the cost of the assets acquired on the date of acquisition. The common shares issued as consideration were valued at \$0.50 per share, being the price of the most recent equity financing completed by Fortress at that time.

The purchase agreement did not include any of the digital currency mining hardware operated by WeHash. A significant portion of the digital currency mining hardware operated by WeHash was owned by 3rd parties and was being "hosted" by WeHash. The management of Fortress recognized the emergence of Bitcoin as a new digital asset class, and the most popular digital currency based on blockchain technology (colloquially referred to as "**cryptocurrency**"). Fortress maximized the yield of the Flagship Facility by configuring it as a Bitcoin mining facility. In doing so, Fortress installed 1,400 ASIC S9 Antminers ("**S9 ASIC Miners**" or "**Miners**") from Bitmain, the maximum number of miners that can be operated using the existing 2MW electrical infrastructure based on the S9 ASIC Miners' power specifications. Fortress currently owns all of the S9 ASIC Miners operating in the Flagship Facility.

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#### 4. OUTLOOK

Fortress will evaluate the strategic acquisition of sites to develop state-of-the-art mining facilities and build its portfolio to be a leader in the digital currency mining sector. Fortress initially only mined Bitcoin after it commenced operations at its Flagship Facility on March 7, 2018. In May 2018, Fortress also started mining Bitcoin Cash. The Company has developed sophisticated mathematical tools to accurately model mining on the Bitcoin and Bitcoin Cash blockchain and is able to estimate the income and profitability based on input variables such as difficulty variation, price variation, operating cost, and electrical capacity. Fortress believes that these models allow it to create more accurate projections to analyze the metrics of mining different digital currencies, acquisition targets and partnering opportunities.

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

##### *a. Electricity Costs*

The Company believes it is operating its Flagship Facility with industry leading power usage efficiency ("PUE") metrics. PUE is the ratio of the total amount of energy used by a data center facility to the energy consumed by the computing equipment. A PUE of "1" is the theoretical ideal. Fortress has achieved a PUE below 1.05 at its Flagship Facility and is targeting a range of 1.02 to 1.05, much lower than competitors who are operating at higher PUEs. By reducing power consumed by unproductive equipment at the Flagship Facility, Fortress expects to lower its PUE and operate more S9 ASIC Miners per MW of electrical capacity and will generate more Bitcoin per MW using the existing power infrastructure. For example, Fortress is able to operate more than 680 S9 ASIC Miners per MW of electricity consumed, whereas some competitors are operating between 600 to 650 S9 ASIC Miners per MW. We are able to generate more petahash per second ("PH/s") per MW since we run more Miners per MW. Specifically, we generate up to 9.45 PH/s per MW at the Flagship Facility. PH/s is a measure of how much Bitcoin can be mined per MW of power.

The cost of power is the primary determinant in the profitability of proof-of-work mining of digital currencies. The most important advantage of our Flagship Facility is the current low all-inclusive electricity cost of US\$0.026 per kWh compared to many competitors who are paying US\$0.04 or higher per kWh for electricity. Although the electricity rate at the Flagship Facility is set to increase on April 1, 2019, GPUD's relatively low electricity rates will continue to enable Fortress to have higher gross mining margin (a non-IFRS measure that is described hereunder).

Due to the attractive electricity rates offered by GPUD, this area attracted interest from a significant number of aspiring cryptocurrency miners. According to statements made by the GPUD, by early 2018 they had received applications for approximately 2,000MW of capacity. The main source of electricity for GPUD is the 600MW Priest Rapids project, with only 200MW of spare capacity remaining. Accordingly, in July 2018 the Commissioners of the GPUD decided to review their policies of Rate Schedules for traditional users and other businesses they described as "Evolving Industries". As of summer 2018, cryptocurrency miners were consuming approximately 30MW of power from the GPUD, representing approximately 5% of the total capacity of the Priest Rapids project. Following their review, on August 28, 2018 the GPUD Commissioners voted to reserve the 200MW of spare capacity from the Priest Rapids project for traditional industries. The GPUD also voted to apply more expensive electrical rates to cryptocurrency miners under an "Evolving Industries" rate class. In addition to the rate increase, Evolving Industries customers would

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be subject to a new application process that includes more expensive application and processing fees. Fortress and other industrial cryptocurrency miners are classified as an "Evolving Industry" and subject to electricity rates under Rate 17B. As a result of this rate increase, the Company's cost of power will increase from US\$0.026/kWhr to US\$0.034/kWhr effective April 1, 2019.

The impact of this rate change will increase our electricity cost by about US\$11,600 per month, from approximately US\$38,000 per month today for the 2MW facility to approximately US\$49,600 per month beginning April 1, 2019. Our mine operating expenditures (including staff, rent, electricity, insurance and incidentals) will increase from approximately US\$60,000 to US\$71,600 per month, or an all-in cost of approximately US\$0.049/kWhr from the current US\$0.041/kWhr.

The rate of electricity for Evolving Industries will be reviewed annually thereafter. The GPUD has provided projections on future rate increases based on additional demand from Evolving Industries. If the current 30MW of Evolving Industries load were to continually increase to 200MW by April 2021, then based on these projections in April 2020 the rate would increase to \$0.054/kWhr, and then in April 2021 the rate would increase to \$0.079/kWhr. If there is no new Evolving Industry load that comes online in GPUD, then for the existing 30MW of load, the electrical rate will remain at approximately US\$0.034/kWhr. We note that the rate schedule policies are at the discretion of the Commissioners and are subject to further review or change at any time.

GPUD has also implemented a new application stream for applicants under Evolving Industries. Traditional customers will be fast-tracked, however from hearings at the GPUD attended by Fortress Management, it was understood that the new application process for Evolving Industries applicants may take as long as 1 year. This application process levies new application and processing fees, in addition to passing costs for new infrastructure to applicants. Since the Priest Rapids power supply is already at capacity for existing customers, the GPUD will need to build new transmission infrastructure to facilitate additional load for new Evolving Industries applicants. Accordingly, they want to de-risk this investment, and the cost to new applicants may be in excess of US\$500,000 per MW for new applicants looking to setup a cryptocurrency mining operation in Grant County. This comes from a GPUD Staff presentation made to the Commissioners. Excerpts of this presentation are available in our corporate presentation on the Company's website at [www.fortressblockchain.io](http://www.fortressblockchain.io).

These new application costs will not apply to the existing 2MW operational capacity of Fortress. We believe that the new proposed escalating Rate 17B electrical rates along with the new application costs will be a significant deterrent to new applicants seeking to apply for electrical power in Evolving Industries in Grant County. Fortress believes that the GPUD application process for power supply is more onerous than in other regions of the United States and Canada, and accordingly, cryptocurrency miners' future electrical demand from GPUD will be muted and that the Company's electrical rates may stay at US\$0.034/kWhr for the foreseeable future. Considering the US national average cost of industrial electricity is over \$0.06/kWhr, the new proposed Evolving Industry rate for the 30MW existing customers in Grant County still provides Fortress a competitive advantage.

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*b. Mining Hardware*

Fortress purchased Bitmain S9 ASIC Miners, a SHA256 ASIC Bitcoin Miner. These Miners consume a low amount of energy per hash (measured in Joules per Terahash [J/TH]), making them amongst the most popular SHA-256 ASIC miners available on the market today.

Fortress received its new Miners in the first week of March 2018 and began installing them in its Flagship Facility on March 7, 2018. All 1,400 Miners were installed by the end of March and the Company was operating the Flagship Facility at its rated 2MW capacity at the end of Q1, 2018. With each miner rated at 13.5 TH/s, with up to 1,400 S9 ASIC Miners operating, the total hash rate of the Flagship Facility is up to 18.9 PH/s. The revenue generated from mining digital currencies in the quarter ended March 31, 2018 only represented mining from March 7, 2018 to March 31, 2018 whereas the expenses cover the entire quarter from January 1, 2018 to March 31, 2018.

Fortress continued to operate all its Miners in the second and third quarter. In May 2018, Fortress moved some of its Miners from mining Bitcoin to mining Bitcoin Cash. Fortress had mined 64 Bitcoin and 52 Bitcoin Cash in the third quarter ended September 30, 2018 (118 Bitcoin and 31 Bitcoin Cash in the second quarter). The price of Bitcoin varied between a low of US\$6,051 and a high of US\$8,251 from July 1, 2018 to September 30, 2018, with an average of US\$6,794 (US\$5,908 and US\$9,903 in the second quarter, with an average of US\$7,751). The price of Bitcoin Cash varied between a low of US\$418 and a high of US\$866 with an average of US\$617 during the same period (US\$610 and US\$1,765 in the second quarter, with an average of US\$1,051). As of November 28, 2018, Fortress has mined more than 219 Bitcoins and 100 Bitcoin Cash at its Flagship Facility.

In the last week of October 2018, BitMain (the manufacturer of the S9 ASIC Miner) announced Overt ASIC Boost, which was a firmware update that allowed the S9 ASIC Miner to operate at the same hashrate but requiring 12-15% less electricity. Initial releases of this firmware resulted in S9 ASIC Miners with lower power consumption, however with reduced hashing (about 12.7 TH/s instead of the rated 13.5TH/s). BitMain released an updated firmware stack on November 2, 2018 which the Company installed on all its S9 ASIC Miners. The Company recorded an improvement in the hashing, while also measuring a reduction in the consumption of power. The result is the Company's S9 ASIC Miners are now hashing at 13.5 TH/s on average consuming 14% less power. Previously, the Company measured the power consumption of the S9 ASIC Miners to average 1450W (within the +10% swing advertised by BitMain on the 1323W rated electrical consumption). Currently, the Company's S9 ASIC Miners with Overt ASIC Boost are consuming approximately 1250W on average. The CEO and former CTO of Fortress studied the capacity of the existing circuitry in the 2MW facility to determine if additional S9 ASIC Miners could be safely installed. As a result, the Company has purchased and installed an additional 65 S9 ASIC Miners to increase overall hashing output of the 2MW mine. Currently, the Company is generating up to 19 PH/s from the 2MW mine, with the potential for more as additional miners can be brought online.

*c. Mining Difficulty*

Another key variable that affects the profitability of mining Bitcoin is the mining difficulty ("**Difficulty**") set by the network. Difficulty is defined by the time it takes the network to mine two thousand and sixteen blocks which is intended to take exactly fourteen days at ten minutes per block. If the time taken to solve two thousand and sixteen blocks is less than fourteen days, the Difficulty is increased proportionately to ensure that the next batch of blocks takes the projected amount of time. If it took more than fourteen days, then the Difficulty is decreased. The Difficulty is the same for every Bitcoin miner and is an uncontrollable variable for Fortress. The Difficulty generally increases as more hashpower is applied to the

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Bitcoin mining network globally. As Difficulty rises, less efficient Bitcoin miners will become unprofitable and cease their mining activities. This should result in a reduction of global hashing power and consequently, smaller increases or even a decrease in the Difficulty rate. Since Fortress has lower mining costs and is running a more efficient mine compared to many competitors, it believes that it will be able to withstand significant price decreases in Bitcoin and increases in Difficulty by continuing to mine Bitcoin with positive gross mining margins.

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

The forecasted run rate below shows the Companies expected monthly gross mining margins in US Dollars at its current 2MW operating capacity based on the following parameters:

- The price of Bitcoin ranging from US\$3,000 to US\$9,000 (US\$4,268 as of November 28, 2018)
- The Difficulty ranging from 4E+12 to 1.2E+13 (6.7E+12 as of November 28, 2018)
- Fortress operating 1,400 S9 ASIC Hardware with a hash rate of 18.9 PH/S
- Power usage of 2MW at a total electricity cost of US\$0.026/kWh (this includes the base price of US\$0.018/kWh plus demand and transmission charges) and an all-in operating cost of US\$0.041/kWh that includes the cost of staffing the mine 24/7, rent, insurance and electricity costs.

**Monthly Run-Rate Gross Mining Margin for Fortress 2MW Facility**

		Bitcoin Price (USD)						
		\$3,000	\$4,000	\$5,000	\$6,000	\$7,000	\$8,000	\$9,000
Difficulty	4.00E+12	\$48,498	\$84,617	\$120,736	\$156,856	\$192,975	\$229,094	\$265,214
	5.00E+12	\$26,826	\$55,722	\$84,617	\$113,513	\$142,408	\$171,304	\$200,199
	6.00E+12	\$12,379	\$36,458	\$60,538	\$84,617	\$108,697	\$132,776	\$156,856
	7.00E+12	\$2,059	\$22,698	\$43,338	\$63,978	\$84,617	\$105,257	\$125,896
	8.00E+12	-\$5,681	\$12,379	\$30,438	\$48,498	\$66,558	\$84,617	\$102,677
	9.00E+12	-\$11,701	\$4,352	\$20,405	\$36,458	\$52,511	\$68,564	\$84,617
	1.00E+13	-\$16,517	-\$2,069	\$12,379	\$26,826	\$41,274	\$55,722	\$70,169
	1.10E+13	-\$20,457	-\$7,323	\$5,811	\$18,946	\$32,080	\$45,214	\$58,349
	1.20E+13	-\$23,741	-\$11,701	\$339	\$12,379	\$24,418	\$36,458	\$48,498

For example, with Bitcoin priced at US\$7,000 and a Difficulty rate of 7E+12, Fortress will generate more than US\$1,000,000 in annual gross mining margin running 1,400 S9 ASIC hardware. With difficulty at around 7.5E+12, the Company projects to break even on a gross mining margin basis as long as the price of Bitcoin exceeds \$3,100, demonstrating the robustness of its mining operations and profitability model. It should be noted that the monthly gross mining margin run rate table above is intended to be illustrative and may not accurately predict Fortress' future financial performance.

**Impact of the rate increase in April 2019**

The forecasted run-rate schedule below shows the impact of the April 1, 2019 GPUD rate increase from US\$0.026/kWhr to US\$0.034/kWhr on the gross mining margins, assuming that other variable operating



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costs such as staffing remain constant. This run-rate is based on the current 2MW operating capacity and the following parameters:

- The price of Bitcoin ranging from US\$3,000 to US\$9,000 (US\$4,268 as of November 28, 2018)
- The Difficulty ranging from 4E+12 to 1.2E+13 (6.7E+12 as of November 28, 2018)
- Fortress operating 1,400 S9 ASIC Hardware with a hash rate of 18.9 PH/S
- Power usage of 2MW at a total electricity cost of US\$0.026/kWh (this includes the base price of US\$0.018/kWh plus demand and transmission charges) and an all-in operating cost of US\$0.041/kWh that includes the cost of staffing the mine 24/7, rent, insurance and electricity costs.

		Bitcoin Price (USD)						
		\$3,000	\$4,000	\$5,000	\$6,000	\$7,000	\$8,000	\$9,000
Difficulty	4.00E+12	\$36,818	\$72,937	\$109,056	\$145,176	\$181,295	\$217,414	\$253,534
	5.00E+12	\$15,146	\$44,042	\$72,937	\$101,833	\$130,728	\$159,624	\$188,519
	6.00E+12	\$699	\$24,778	\$48,858	\$72,937	\$97,017	\$121,096	\$145,176
	7.00E+12	-\$9,621	\$11,018	\$31,658	\$52,298	\$72,937	\$93,577	\$114,216
	8.00E+12	-\$17,361	\$699	\$18,758	\$36,818	\$54,878	\$72,937	\$90,997
	9.00E+12	-\$23,381	-\$7,328	\$8,725	\$24,778	\$40,831	\$56,884	\$72,937
	1.00E+13	-\$28,197	-\$13,749	\$699	\$15,146	\$29,594	\$44,042	\$58,489
	1.10E+13	-\$32,137	-\$19,003	-\$5,869	\$7,266	\$20,400	\$33,534	\$46,669
	1.20E+13	-\$35,421	-\$23,381	-\$11,341	\$699	\$12,738	\$24,778	\$36,818

This table reflects the monthly run rate at the Flagship Facility following the April 1, 2019 GPUD rate increase, with Bitcoin priced at US\$7,000 and a Difficulty rate of 7E+12, Fortress will generate more than US\$875,000 of gross mining margin annually running 1,400 S9 ASIC hardware compared to \$1,000,000 at the current rates. With difficulty at 7.5E+12, the gross mining margin break-even will be approximately \$3,700 compared to \$3,100 at the current power costs.

*d. Growth Outlook*

The Company was evaluating the acquisition of additional cryptocurrency mining facilities, including a 9MW site with expected all-in power costs of US\$0.026/kWh in Grant County, Washington ("**9MW Grant County Site**") and a 100MW site in the South Eastern USA (the "**100MW South East Site**") with expected all-in power costs of US\$0.04/kWh. The 9MW Grant County Site is substantially complete (this site does not fall under the new application process for the Evolving Industries applicants, since the transformers for the 9MW were already installed in May 2018). Due to the shifting economics of the crypto-currency mining landscape, the Company has decided to preserve capital at a time to invest in opportunities that will provide the best return on investment. Accordingly, the Company has determined that any further investment in Grant County would require a renegotiation of the terms in the LOI signed with WeHash for the 9MW Grant County Site.

The capital allocation for the 100MW South East Site has a minimum initial commitment of 20MW build out. Due to the large capital commitment required by the energy provider for the 100MW South East Site, the Company decided to evaluate other opportunities.

The Company has also identified an 82MW sub-station in the North Eastern USA (the "**82MW North East Site**"). The Company believes the 82MW North East Site provides a compelling opportunity, as the acquisition of this site would include ownership of the 82MW sub-station, along with the exclusive use 2 (two) 189 MVA transmission lines that feed this transformer. The North East Site exists in a deregulated

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energy market, which is not subject to the oversight and governance found in the Public Utility Districts (PUD) in the North Western USA (such as GPUD). The all-included cost of power for the North East Site is approximately \$0.04/kWhr.

The Board of Directors of the Company has decided to postpone any capital investments, in order to preserve capital during a period of market uncertainty. Therefore at this time, the Company has not entered into any binding agreements for the 9MW Grant County Site, the 100MW South East Site, nor the 82MW North East Site. The Company did not lose any deposits nor incur any break-up fees related to the LOIs for the aforementioned sites. The Company may revisit these various sites in the future.

As potential acquisitions are identified, Fortress will attempt to determine the most cost-effective way to deploy future mining operations to maximize revenue and cash flow, while being cognizant of the capital expenditures required to scale the business and operate large quantities of S9 ASIC Miners (or next-generation S9 ASIC Miners that may be introduced to the market over the period of any future construction).

## 5. QUARTERLY PERFORMANCE AND RESULTS OF OPERATIONS

Fortress is pleased to report progress on our cryptocurrency mining operations during the quarter.

### Operational Highlights:

- The quarter ended September 30, 2018 represents Fortress’ second full quarter of mining operations;
- Fortress has mined 64.46 Bitcoin and 51.95 Bitcoin Cash during the quarter (93.8 Bitcoin and 31.3 Bitcoin Cash in the second quarter). The yield dropped due to the increase in Difficulty;
- Conducted due diligence on a number of acquisition opportunities, including a 9MW and a 100MW facility.

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.

### Financial Highlights:

- Revenue from the mining of digital currencies for the three months ended September 30, 2018 was \$617,034 (\$986,353 in the second quarter). During the quarter ended June 30, 2018, the Company had other revenue of \$367,723 from the sale of coupons to purchase ASIC hardware (September 30, 2018: Nil).

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

- Fortress started mining Bitcoin on its Miners on March 7, 2018. By the end of the quarter ended September 30, 2018, Fortress had mined 64.5 Bitcoins valued at \$575,561 (Q2: 93.8 Bitcoin valued at \$941,438 based on the price of Bitcoin ranging from US\$6,051 to US\$8,251

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between July 1, 2018 to September 30, 2018 (Q2: 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 (Q2: the average price was US\$7,751 and the average USD/CAD exchange rate was \$1.29).

- Fortress sold 179.8 Bitcoin during the quarter at an average price of US\$6,505 for gross proceeds of US\$1,129,342 (Nil in Q2) and 0.5% transaction fee of \$5,647 (Nil in Q2) and 82.2 Bitcoin Cash at an average price of US\$475 for gross proceeds of US\$35,309 (Nil in Q2) and 0.5% transaction fee of \$176 (Nil in Q2).
- Fortress started mining Bitcoin Cash on 100 S9 ASIC Hardware on May 2, 2018. By the end of the quarter ended June 30, 2018, Fortress 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).
- Fortress had gross mining margin of \$384,274 during the quarter (\$740,872 in the quarter ended June 30, 2018). The Company defines gross mining margin (a non-IFRS measure) as the revenue generated from mining activities less direct costs related to mining digital currencies – including rent for the Flagship Facility, power, internet and costs directly relating to running the mine. Depreciation, being a non-cash cost, is not deducted to arrive at the gross mining margin. Gross mining margin is a non-standard measure of mining efficiency and should not be considered as a substitute for other IFRS operating and profitability measures of performance. The table below reconciles gross mining margin for the respective periods to gross margin in the income statement.

<b>Calculation of gross mining margin</b>	<b>Q3 2018 (\$)</b>	<b>Q2 2018 (\$)</b>	<b>Q1 2018 (\$)</b>
Revenue	617,034	986,253	264,348
Less: Operating costs	232,760	245,381	61,169
<b>Gross mining margin</b>	<b>384,274</b>	<b>740,872</b>	<b>203,179</b>
<b>Gross mining margin (%)</b>	<b>62%</b>	<b>75%</b>	<b>77%</b>
Less: Depreciation	284,893	281,520	93,981
<b>Gross margin from mining digital currencies</b>	<b>99,381</b>	<b>459,352</b>	<b>109,198</b>
Gross margin from digital currencies (%)	16%	47%	41%
Other Revenue	Nil	367,723	nil
<b>Gross margin per Income Statement</b>	<b>99,381</b>	<b>827,075</b>	<b>109,198</b>
Gross margin (%)	16%	61%	41%

- Fortress had a net loss of \$1,553,149 during the quarter (\$268,741 in the quarter ended June 30, 2018). The largest expenses were non-cash costs for depreciation \$387,815 (quarter ended June 30, 2018: \$384,215) and share based compensation \$263,750 (June 30, 2018: \$355,712). The Company was well capitalized at the end of the quarter with cash balances of \$10,610,967 (June 30, 2018: \$9,181,127). Total assets were \$20,895,804 (June 30, 2018: \$21,373,441), primarily comprised of assets deployed at the Flagship Facility and cash balances.
- The Company had loss before interest, tax, depreciation and amortization “EBITDA” (a non-IFRS measure) of (\$1,177,057) during the quarter ended September 30, 2018 (June 30, 2018: \$234,337). The table below shows the calculation of EBITDA for the respective periods.

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Calculation of EBITDA	Q3 2018 (\$)	Q2 2018 (\$)	Q1 2018 (\$)
Net loss for the period	(1,553,149)	(268,741)	(107,138)
Add:			
Depreciation	387,815	384,215	125,235
Interest on Interest Bearing Debt	-	-	-
Tax	(11,723)	118,863	-
<b>EBITDA</b>	<b>(1,177,057)</b>	<b>234,337</b>	<b>18,097</b>
EBITDA ON REVENUE FROM DIGITAL CURRENCIES (%)	(191%)	24%	7%

## 6. SELECTED OPERATIONAL AND FINANCIAL UPDATE

The table below presents selected financial results of the Company for the quarters ended September 30, 2018, June 30, 2018 and March 31, 2018. Fortress Blockchain Corporation incorporated on November 14, 2017 and did not mine any cryptocurrencies or have any operations in 2017. As a result, the results for the period ended December 31, 2017 are not comparable. The Company commenced its mining operations on March 7, 2018 and so revenue was only generated from March 7, 2018 to March 31, 2018 whereas expenses are for the entire quarter. The Company mined cryptocurrencies for the entire second and third quarter.

	Q3 2018 (\$)	Q2 2018 (\$)	Q1 2018 (\$)	Q4 2017 (\$)
Revenue	617,034	1,353,976	264,348	-
Net Loss	(1,553,149)	(268,741)	(107,138)	(66,021)
Basic and diluted loss per share	(0.02)	(0.00)	(0.00)	(0.04)

The Company began generating revenue at its Flagship Facility in the quarter ended March 31, 2018. Specifically, the revenue generated from mining digital currencies during the quarter ended March 31, 2018 represents mining for the period from March 7, 2018 to March 31, 2018 after Fortress began turning on its S9 ASIC Hardware whereas the expenses cover the entire quarter. There were no mining operations during the prior period ended December 31, 2017. Consequently, the results of the period ended December 31, 2017 and quarter ended March 31, 2018 are not comparable with the quarters ended June 30 and September 30, 2018.

- Revenue from the mining of digital currencies for the three months ended September 30, 2018 was \$617,034 from 64.5 Bitcoin and 52.0 Bitcoin Cash (Q2: \$986,253 from 93.8 Bitcoin and 31.1 Bitcoin Cash).
- Professional fees for the quarter ended September 30, 2018 were \$288,545 (Q2: \$169,415). Professional fees were higher than usual for these quarters due to legal and accounting fees incurred on matters related to the Qualifying transaction.
- Marketing costs for the quarter ended September 30, 2018 were \$36,114 (Q2: \$77,857) for investor relations and marketing initiatives related to the Company's business.
- Travel expenses for the quarter ended September 30, 2018 were \$22,987 (Q2: \$25,252) incurred in connection with various due diligence and financing activities, as well as participating in conferences and other business events.

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Financing Highlights:

The Company completed the following financings:

- a brokered private placement, issuing 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 options (1,050,000 compensation options, in aggregate) exercisable for a period of 24 months following the closing.
- a non-brokered private placement, issuing 13,327,979 common shares at \$0.30 per common share for gross proceeds of \$3,998,394. In connection with the private placement, the Company incurred \$26,707 of share issuance costs.
- a non-brokered private placement, issuing 450,000 common shares at \$0.30 per common share for gross proceeds of \$135,000.
- a non-brokered private placement, issuing 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.
- a non-brokered private placement, issuing 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.
- A non-brokered private placement, issuing 3,600,000 common shares at \$0.10 per common share for gross proceeds of \$360,000.
- A director of the Company exercised and converted \$25,000 convertible debenture into 5,000,000 common shares of the Company and 3,846,154 warrants in aggregate.
- 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.
- Upon completion of the RTO, the Company issued a total of 1,900,003 common replacement shares to the previous shareholders of Focused Capital II Corp.
- On August 16, 2018, in accordance with the RTO, 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.

Operational Highlights:

- Fortress completed the acquisition of the Flagship Facility from WeHash on February 16, 2018. The acquisition was recorded as a purchase of assets. The total consideration for this acquisition 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

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- Subsequent to closing the acquisition of the Flagship Facility, the Company installed 1,400 S9 ASIC Hardware in March 2018; and

## 7. LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2018, the Company had a working capital surplus of \$10,626,863 (June 30, 2018 – 10,428,905). The Company determined to sell significantly all of its cryptocurrency holdings in the third quarter and consequently, the value of digital currencies on the balance sheet decreased from \$1,024,455 on June 30, 2018 to \$25,487 on September 30, 2018. The Company has sufficient cash balances to fund its current operating and administrative costs.

The net change in the Company's cash position for the nine months ended September 30, 2018 was an increase of \$5,138,271 (period ended December 31, 2017 - \$4,711,425) as a result of the following cash flows:

- Cash used in operations of \$1,596,980 (December 31, 2017 - cash provided by operations of \$38,353), primarily due to the loss in the quarter and an increase in inventory of digital currencies and prepaid expenses in the quarter;
- Cash used in investing activities of \$8,965,584 (December 31, 2017 - \$136,415) primarily for the acquisition of the Flagship Facility and S9 ASIC Hardware; and,
- Cash provided by financing activities of \$15,800,835 (December 31, 2017 - \$4,809,487), due to the proceeds of issuance of units in connection with the \$0.50 brokered private placements.

## 8. OUTSTANDING SHARE DATA

As at September 30, 2018, 71,177,984 common shares, 3,523,928 stock options and 18,200,000 warrants were issued and outstanding. There are securities law restrictions on resale, as well as voluntary restrictions, on certain shares.

At the date of this MD&A, 13,185,002 common shares remain in escrow to be released as follows:

	<b>Common shares</b>	<b>Warrants</b>	<b>Options</b>
February 2019	3,346,666	1,245,769	340,000
February 2020	4,395,000	1,868,653	510,000
August 2021	5,443,336	2,491,540	680,000
	<b>13,185,002</b>	<b>6,228,846</b>	<b>1,700,000</b>

## 9. RELATED PARTY TRANSACTIONS

As at September 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 \$Nil (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.

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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: \$Nil) as commissions payable for the sale of digital currencies through Goldmoney.

#### 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.

## 10. 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.

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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

*a. 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.

*b. 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 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 was accounted for as an asset acquisition.

*c. Revenue recognition*

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

There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the production and mining of digital currencies, and management has exercised significant judgement in determining appropriate accounting treatment for the recognition of revenue for mining of digital currencies. Management has examined various factors surrounding the substance of the Company's operations and the guidance in IFRS 15, Revenue from Contracts with Customers, including the stage of



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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

*a. 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 hash rates 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.

*b. 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.

*c. 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 [www.blockchain.info](http://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.

*d. 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.

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New 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 has not yet been adopted by the Company and is being evaluated to determine its impact.

- IFRS 16, which replaces previous lease accounting guidance, effective for annual periods beginning on or after January 1, 2019.

## 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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.

	<b>September 30, 2018</b>	December 31, 2017
Cash	<b>\$ 10,610,967</b>	\$ 4,711,465
Digital currencies	<b>25,487</b>	-
Receivables and prepaid expenses	<b>131,104</b>	2,477
	<b>\$ 10,767,558</b>	\$ 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 balances 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 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.

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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

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 incurs 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.

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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 trade receivables and other, deposits, trade 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	\$ -

## 12. CAUTION REGARDING FORWARD LOOKING INFORMATION

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

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

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

The information provided in the unaudited financial statements and the accompanying MD&A is the responsibility of management. Management is required to make a number of judgement, assumptions and estimates when preparing these financial statements and MD&A, including estimates to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements but actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

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

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**APPENDIX 1**

**Limited Operating History**

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

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

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

**Business Risks and Uncertainties**

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

**Liquidity and Future Financing Risk**

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

In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily

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increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

**Going Concern Risk**

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

**Cash Flow Risk**

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

**Access to Power and Electricity Rate Risks**

The Company's operations are dependent on its ability to maintain reliable and economical sources of power in order to run its cryptocurrency mining assets. While the Company believes its source of power is reliable and current regional infrastructure limits the likelihood of power interruptions, any suspension of its power supply could result in a material and adverse effect on the Company. The Company conducts cryptocurrency mining in the State of Washington. As a result of operations in a single jurisdiction, the Company's current and future operations, anticipated growth, and sustainability of hydroelectricity at economic prices for the purposes of cryptocurrency mining in the State of Washington poses certain risks

On August 28, 2018, the Grant County Public Utility District ("GPUD") Board of Commissioners unanimously voted to approve a three-year, graduated increase to a new above-cost electricity rate, Rate 17-B, for "evolving industries", the criteria of which include any business involved in cryptocurrency mining, which applies to the Company. Starting April 1, 2019, electrical rates for Fortress Blockchain in Grant County, Washington, will increase to \$0.034/kWhr. The creation of Rate 17-B also requires that new evolving industries applicants will have to pay up-front costs for lines, poles, transformers, studies and other equipment needed to expand or connect power supply.

The increase in electricity rates in Grant County were a result of increased demand for electricity from cryptocurrency miners. The GPUD is a non-profit corporation owned by its customers. Public utility districts ("PUDs") must comply with state regulations for municipal corporations. PUDs are required to encourage the orderly development of plentiful supplies of electricity at reasonable prices. Power rate changes must be considered through a hearing process, but there is no assurance that a particular rate structure will remain in effect and a PUD is under no obligation to lock in rates for any period of time and the GPUD has not done so.

The effect of these electricity rate increases may or may not affect future demand for electricity in Grant County, and GPUD could further increase electricity rates for evolving industries to protect rates for

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residential and agricultural consumers. Any further increases to the Company's electricity costs in Grant County may limit the profitability of its cryptocurrency mining operations and have a material and adverse effect on the Company's profitability. Any interruption of electrical supply from GPUD would also have a material and adverse effect on the Company's business.

### **Regulatory Requirements**

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

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

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

### **Cryptocurrency Industry Risks**

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

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

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

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



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

**Risk of Malicious Actors**

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

**Risk of Reduced Incentives**

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

**Facility Development Risk**

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

**Risk of Non-Availability of Insurance**

When considered practical to do so, the Company will maintain insurance against risks in the operation of its business and in amounts that it believes to be reasonable. Such insurance, however, will contain exclusions and limitations on coverage. There can be no assurance that such insurance will continue to be available, will be available at economically acceptable premiums or will be adequate to cover any resulting liability. The novelty of the industry may impair the ability of the Company to acquire adequate insurance

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coverage for risks associated with its operations. The occurrence of an event that is not covered, in full or in part, by insurance may cause substantial economic damage to the Company. In some cases, such as with respect to environmental risks, coverage is not available or considered too expensive relative to the perceived risk.

**Bitcoin Network Risks**

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

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

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

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

**Momentum Pricing Risk**

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

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**Cryptocurrency Exchange Risk**

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

Cryptocurrency market prices depend, directly or indirectly, on the prices set on exchanges and other trading venues, which are new and, in most cases, largely unregulated as compared to established, regulated exchanges for securities, derivatives and other currencies. For example, during the past three years, a number of Bitcoin exchanges have been closed due to fraud, business failure or security breaches. In many of these instances, the customers of the closed cryptocurrency exchanges were not compensated or made whole for the partial or complete loss of their account balances in such exchanges. While smaller exchanges are less likely to have the infrastructure and capitalization that provide the larger exchanges with additional stability, larger exchanges may be more likely to be appealing targets for hackers and "malware" (i.e., software used or programmed by attackers to disrupt computer operation, gather sensitive information or gain access to private computer systems) and may be more likely to be targets of regulatory enforcement action. Such attacks to cryptocurrency exchanges may have a material and adverse effect on the price of cryptocurrencies, and accordingly, the Company's operations.

**Banking Risk**

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

**Risk of System Failure**

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

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**Technological System Risk**

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

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

**Competitive Risk**

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

**Technological Obsolescence Risk**

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

**Hardware Supply Risk**

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

**Risk of Equipment Breakdown**

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

**Profit Risk**

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

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

**Third-party Risk**

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

**Intellectual Property Risk**

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

**Contractual Risk**

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

**Unforeseen Expenses**

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

**Geopolitical Risk**

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

The possibility of large-scale purchases of cryptocurrencies in times of crisis may have a short-term positive impact on the price of Bitcoin. For example, in March 2013, a report of uncertainty in the economy of the Republic of Cyprus and the imposition of capital controls by Cypriot banks motivated individuals in Cyprus and other countries with similar economic situations to purchase Bitcoin. This resulted in a significant short-

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term positive impact on the price of cryptocurrencies. However, as the purchasing activity of individuals in this situation waned, speculative investors engaged in significant sales of cryptocurrencies, which significantly decreased the price of cryptocurrencies. Crises of this nature in the future may erode investors' confidence in the stability of cryptocurrencies and may impair their price performance which would, in turn, adversely affect the Company.

As an alternative to fiat currencies that are backed by central governments, cryptocurrencies, which are relatively new, are subject to supply and demand forces based upon the desirability of an alternative, decentralized means of buying and selling goods and services, and it is unclear how such supply and demand will be impacted by geopolitical events. Nevertheless, political or economic crises may motivate large-scale acquisitions or sales of cryptocurrencies either globally or locally. Large-scale sales of cryptocurrencies would result in a reduction in their market prices and adversely affect the Company's operations and profitability.

### **Litigation Risk**

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

### **Key Personnel Risk**

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