

**FOCUSED CAPITAL II CORP.**

**(A Capital Pool Company)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED**

**JUNE 30, 2018**

**(EXPRESSED IN CANADIAN DOLLARS)**

**Introduction**

The following management’s discussion and analysis (“MD&A”) of the financial condition and results of the operations of Focused Capital II Corp. (“Focused II”, the “Company”, “we”, “our” or “us”) constitutes management’s review of the factors that affected the Company’s financial and operating performance for the year ended June 30, 2018. 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 audited financial statements for the Company for the year ended June 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 year ended June 30, 2018, are 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 on [www.sedar.com](http://www.sedar.com).

**Cautionary Note Regarding Forward-Looking Information**

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as “forward-looking statements”). These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Forward-looking statements	Assumptions	Risk factors
The Company’s ability to meet its working capital needs at the current level for the twelve-month period ending June 30, 2019	The operating activities of the Company for the twelve-month period ending June 30, 2019, and the costs associated therewith, will be consistent with the Company’s current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions are favourable to the Company	Changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; regulatory compliance and changes in regulatory compliance and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic conditions

Inherent in forward-looking statements are risks, uncertainties and other factors beyond Focused II’s ability to predict or control. Please also make reference to those risk factors referenced in the “Risk

Factors" section below. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Focused II's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

### **Description of Business**

Focused II was incorporated as a private company by Certificate of Incorporation issued pursuant to the provisions of the *Business Corporations Act* (Ontario) on July 13, 2011. The authorized share capital of the Company consists of an unlimited number of common shares, without nominal or par value.

The Company's head office and registered and records office address is 1 Adelaide Street East, 21<sup>st</sup> Floor, Toronto, Ontario, Canada, M5C 2V9.

The Company's financial year ends on June 30.

The Company is classified as a Capital Pool Company as defined in Policy 2.4 – Capital Pool Companies ("Policy 2.4") of the TSX Venture Exchange ("Exchange"). The Company has not commenced commercial operations and has no assets other than cash, deposit and prepaids. The Company will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a transaction where the Company acquires significant assets, other than cash, by way of purchase, amalgamation, merger or arrangement with another company or by other means (a "Qualifying Transaction"). Any proposed Qualifying Transaction must be accepted by the Exchange.

There is no assurance that the Company will identify a business or asset that warrants acquisition or participation.

The Company has not conducted commercial operations and it is focused on the identification and evaluation of businesses or assets to acquire. Until completion of the Qualifying Transaction, the Company will not carry on any business other than the identification and evaluation of businesses or assets with a view to completing a Qualifying Transaction. Except as described in the Company's prospectus dated December 5, 2011, the funds raised by the Company will be utilized only for the identification and evaluation of potential Qualifying Transactions and, to the extent permitted by Policy 2.4, for general and administrative expenses.

On December 20, 2011, the Company completed its initial public offering (the "Offering") by issuing 1,250,000 common shares at a price of \$0.20 per common share pursuant to Policy 2.4. The common shares were listed and posted for trading on the Exchange under the trading symbol "FAV.P" at the opening of the market on December 28, 2011. The proceeds of the Offering will be used to identify and evaluate assets or business for acquisition with a view to completing a Qualifying Transaction. In

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connection with the Offering the Company paid cumulative costs of \$90,485. The agent was also granted non-transferable broker warrants to purchase 125,000 common shares at a price of \$0.20 per common share which expired on December 28, 2013.

An incentive stock option plan was established for the benefit of directors, officers, employees and consultants of the Company. Pursuant to the option plan, options to purchase up to 625,000 common shares of the Company at an exercise price of \$0.20 per common share, expiring 10 years from the date of grant, were issued on December 20, 2011.

On December 31, 2013, the common shares of the Company were suspended from trading on the Exchange for failure to complete a Qualifying Transaction within 24 months from the date of its listing on the Exchange pursuant to Policy 2.4. The Exchange gave the Company until April 2, 2014 (90 days) to complete a Qualifying Transaction or receive the necessary shareholder approvals to transfer to the NEX trading board of the Exchange. On March 26, 2014, the Company received shareholder approval to (i) cancel one-half of its seed shares (being 1,250,000 common shares) purchased by Non-Arm's Length Parties (as such term is defined by the Exchange), and (ii) apply to transfer the listing of the Company's common shares from the Exchange to the NEX trading board of the Exchange. On March 31, 2014, 1,250,000 seed shares held by Non-Arm's Length Parties were cancelled and on April 9, 2014, the Company's listing was transferred to the NEX trading board, and the Company's stock symbol changed from FAV.P to FAV.H.

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.

#### Continuation, Consolidation and Name Change

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;
- c. an aggregate of 1,050,000 replacement broker options issuable in exchange for the outstanding Fortress broker options, each exercisable into one common share at a price of \$0.50 with expiry an expiry date of January 9, 2020; and
- d. an aggregate of 2,102,500 replacement options issuable in exchange for the outstanding Fortress options until

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February 20, 2028, 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.

Grant of Options

A total of 233,000 stock options have been 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.

**Overall Performance**

During the year ended June 30, 2018, the Company earned no revenue and reported losses of \$86,383 (\$0.05 basic and diluted loss per share). That compares with losses of \$55,269 for the year ended June 30, 2017 (\$0.04 basic and diluted loss per share). The losses incurred in the years presented represent general and administrative expenses and Qualifying Transaction investigation costs.

Current liabilities at June 30, 2018 total \$20,979 (June 30, 2017 - \$9,658). Shareholders' equity at June 30, 2018 is comprised of share capital of \$837,629 (June 30, 2017 - \$643,779), contributed surplus of \$125,001 (June 30, 2017 - \$125,001) and a deficit of \$440,286 (June 30, 2017 - \$353,903) for a net of \$522,344 (June 30, 2017 - \$414,877) in shareholders' equity.

Working capital, which is current assets less current liabilities, is \$522,344 at June 30, 2018 (June 30, 2017 - \$414,877). Management believes the Company's working capital is sufficient for the Company to meet its ongoing obligations and meet its objective of completing a Qualifying Transaction.

The weighted average number of common shares of the Company outstanding for the year ended June 30, 2018 was 1,681,910 and for the year ended June 30, 2017 was 1,250,000.

On February 16, 2018, the Company closed a non-brokered private placement raising gross proceeds of \$200,000 through the issuance of 1,176,470 common shares at a price of \$0.17 per share. All securities issued pursuant to the financing are subject to a four-month hold period. The Company received a subscription from Robert Leckie, a director of the Company, for \$25,000.

**Selected Annual Financial Information**

The following is selected financial data derived from the audited financial statements of the Company at June 30, 2018, 2017 and 2016 and for the year ended June 30, 2018, June 30, 2017 and June 30, 2016.

	<b>Year Ended June 30, 2018</b>	<b>Year Ended June 30, 2017</b>	<b>Year Ended June 30, 2016</b>
Total revenues	nil	nil	nil
Net loss	\$86,383	\$55,269	\$30,994
Net loss per share – basic and diluted	\$0.05	\$0.04	\$0.02

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	<b>As at June 30, 2018</b>	<b>As at June 30, 2017</b>	<b>As at June 30, 2016</b>
Total assets	\$543,323	\$424,535	\$479,879
Total non-current financial liabilities	nil	nil	nil
Distribution or cash dividends	nil	nil	nil

- The net loss for the year ended June 30, 2018, consisted primarily of general and administrative of \$86,383.
- The net loss for the year ended June 30, 2017, consisted primarily of general and administrative of \$26,517 and Qualifying Transaction investigation costs of \$28,752.
- The net loss for the year ended June 30, 2016, consisted primarily of general and administrative of \$30,994.

### **Liquidity**

At June 30, 2018, the Company had working capital of \$522,344 of which \$470,673 was cash. The Company manages its capital structure and makes adjustments to it, based on available funds to the Company. Capital levels for Capital Pool Companies are regulated pursuant to Policy 2.4. These guidelines state that proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the issuance of shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company not related to the identification and evaluation of a Qualifying Transaction. These restrictions apply until completion of the Qualifying Transaction by the Company.

Management believes the Company's working capital is sufficient for the Company to meet its ongoing obligations and meet its objective of completing its Qualifying Transaction.

### **Discussion of Operations**

#### Year ended June 30, 2018, compared to the year ended June 30, 2017

The Company's net loss totaled \$86,383 for the year ended June 30, 2018, with basic and diluted loss per share of \$0.05, versus a loss of \$55,269 for the year ended June 30, 2017, with basic and diluted loss per share of \$0.04. Activities for the year ended June 30, 2018, principally related to general and administrative of \$86,383.

During the year ended June 30, 2018, the Company continued its search for a suitable business or asset to merge with or acquire. For the year ended June 30, 2017, costs directly related to these activities amounted to \$28,752. The 2017 activities did not lead to the execution of any agreements for a Qualifying Transaction.

General and administrative costs of \$86,383 consisted of administrative of \$1,976, professional fees and disbursements of \$53,921 and transfer agent, listing and filing fees of \$30,486. In the 2017 comparative period, net loss principally related to administrative of \$2,098, professional fees and disbursements of \$14,494 and transfer agent, listing and filing fees of \$9,925.

At June 30, 2017, the Company had assets of \$543,323 and total equity of \$522,344. This compares with assets of \$424,535 and total equity of \$414,877 at June 30, 2017. At June 30, 2017, the Company had \$20,979 of current liabilities, compared to \$9,658 of current liabilities at June 30, 2017.

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Three months ended June 30, 2018, compared to the three months ended June 30, 2017

The Company's net loss totaled \$25,103 for the three months ended June 30, 2018, with basic and diluted loss per share of \$0.01, versus a loss of \$6,819 for the three months ended June 30, 2017, with basic and diluted loss per share of \$0.01. Activities for the three months ended June 30, 2018, principally related to general and administrative of \$25,103.

General and administrative costs of \$25,103 consisted of administrative of \$554, professional fees and disbursements of \$14,739 and transfer agent, listing and filing fees of \$9,810. In the Q4 2017 comparative period, net loss principally related to administrative of \$484, professional fees and disbursements of \$3,593 and transfer agent, listing and filing fees of \$2,420.

**Capital Resources**

The following financings have been completed by the Company:

Date	Gross Proceeds	Type of Transaction
October 10 and 13, 2011	\$500,000	Private Placement
December 20, 2011 <sup>(1)</sup>	\$250,000	Offering
February 16, 2018	\$200,000	Private Placement

<sup>(1)</sup> On December 20, 2011, the Company completed the Offering by issuing 1,250,000 common shares at a price of \$0.20 per common share pursuant to Policy 2.4.

**Selected Quarterly Information**

A summary of selected information for each of the quarters presented below is as follows:

Three Months Ended	Net Revenues (\$)	Net Loss	
		Total (\$)	Basic and Diluted Loss per Share (\$) <sup>(9)</sup>
June 30, 2018	-	(25,103) <sup>(1)</sup>	(0.01)
March 31, 2018	-	(42,573) <sup>(2)</sup>	(0.02)
December 31, 2017	-	(11,432) <sup>(3)</sup>	(0.01)
September 30, 2017	-	(7,275) <sup>(4)</sup>	(0.01)
June 30, 2017	-	(6,819) <sup>(5)</sup>	(0.01)
March 31, 2017	-	(34,178) <sup>(6)</sup>	(0.03)
December 31, 2016	-	(9,504) <sup>(7)</sup>	(0.01)
September 30, 2016	-	(4,768) <sup>(8)</sup>	(0.00)

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Notes:

(1) The Company's net loss totaled \$25,103 for the three months ended June 30, 2018, with basic and diluted loss per share of \$0.01. Net loss included professional fees and disbursements of \$14,739 and transfer agent, listing and filing fees of \$9,810. All other expenses related to general working capital purposes.

(2) The Company's net loss totaled \$42,573 for the three months ended March 31, 2018, with basic and diluted loss per share of \$0.02. Net loss included professional fees and disbursements of \$26,710 and transfer agent, listing and filing fees of \$15,388. All other expenses related to general working capital purposes.

(3) The Company's net loss totaled \$11,432 for the three months ended December 31, 2017, with basic and diluted loss per share of \$0.01. Net loss included professional fees and disbursements of \$8,169 and transfer agent, listing and filing fees of \$2,882. All other expenses related to general working capital purposes.

(4) The Company's net loss totaled \$7,275 for the three months ended September 30, 2017, with basic and diluted loss per share of \$0.01. Net loss included professional fees and disbursements of \$4,303 and transfer agent, listing and filing fees of \$2,406. All other expenses related to general working capital purposes.

(5) The Company's net loss totaled \$6,819 for the three months ended June 30, 2017, with basic and diluted loss per share of \$0.01. During the quarter, the Company continued its search for a suitable business or asset to merge with or acquire. For the three months ended June 30, 2017, costs directly related to these activities amounted to \$322. Net loss also included professional fees and disbursements of \$3,593 and transfer agent, listing and filing fees of \$2,420. All other expenses related to general working capital purposes.

(6) The Company's net loss totaled \$34,178 for the three months ended March 31, 2017, with basic and diluted loss per share of \$0.03. During the quarter, the Company continued its search for a suitable business or asset to merge with or acquire. For the three months ended March 31, 2017, costs directly related to these activities amounted to \$28,430. Net loss also included professional fees and disbursements of \$2,190 and transfer agent, listing and filing fees of \$3,087. All other expenses related to general working capital purposes.

(7) The Company's net loss totaled \$9,504 for the three months ended December 31, 2016, with basic and diluted loss per share of \$0.01. Net loss included professional fees and disbursements of \$6,730 and transfer agent, listing and filing fees of \$2,102. All other expenses related to general working capital purposes.

(8) The Company's net loss totaled \$4,768 for the three months ended September 30, 2016, with basic and diluted loss per share of \$0.00. Net loss included professional fees and disbursements of \$1,981 and transfer agent, listing and filing fees of \$2,316. All other expenses related to general working capital purposes.

(9) Per share amounts are rounded to the nearest cent, therefore aggregating quarterly amounts may not reconcile to year-to-date per share amounts.

### **Off-Balance Sheet Arrangements**

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

### **Proposed Transactions**

Not applicable at the date of this MD&A.

### **Risk Factors 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's 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's 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 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 a consistent and economical source of power in order to run its cryptocurrency mining assets. While the Company believes its source of power are reliable and its backup power supply limits the likelihood of power interruptions, any suspension of its power supply or failure in its backup power supply could result in a material and adverse effect on the Company.

On August 28, 2018, the Grant County Public Utility District ("Grant County PUD") 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 Grant County PUD is a non-profit corporation owned by its customers. 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 Grant County PUD has not done so.

The effect of these electricity rate increases may or may not affect future demand for electricity in Grant County, and Grant County PUD could further increase electricity rates for evolving industries to protect rates for 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 Grant County PUD 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 licences and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licences and permits that may be required.

### **Cryptocurrency Industry Risks**

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

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

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

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

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

### **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.

### **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 blockchains,

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

### **Cryptocurrency Exchange Risk**

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

### **Banking Risk**

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

cryptocurrency-related services. This could decrease the market prices of cryptocurrencies and have a material and adverse effect on the Company's business.

### **Risk of System Failure**

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

### **Technological System Risk**

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

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

### **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**

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 favourable 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-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 favourably, 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.

### **New Accounting Policies**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, it does not expect any of these to have a material impact on the financial statements.

### **Financial Instruments**

#### **Fair Values**

At June 30, 2018, the Company's financial instruments consist of cash and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments. The Company classifies its cash as loans and receivables and its account payable and accrued liabilities as other financial liabilities.

#### **Credit Risk**

The Company is not exposed to any significant credit risk.

#### **Interest Rate Risk**

The Company is not exposed to any significant interest rate risk.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

### **Capital Management**

The Company's capital currently consists of common shares. Its principal source of cash is from the issuance of common shares. The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to identify, evaluate and then acquire an interest in a business or assets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

Pursuant to the polices of the Exchange, the proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the issuance of shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of

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the Company not related to the identification and evaluation of a Qualifying Transaction. These restrictions apply until completion of the Qualifying Transaction by the Company as defined under the policies of the Exchange.

### **Outlook**

For the immediate future, the Company intends to review opportunities for expansion in the cryptocurrency and blockchain sectors to maximize shareholder value. The Company will provide regular updates to shareholders based on business opportunities that may arise in the future.

### **Share Capital**

As of the date of this MD&A, the Company had 71,177,981 issued and outstanding common shares. In addition, the Company had 3,523,928 stock options outstanding exercisable into common shares at prices ranging from \$0.50 to \$0.60 and with maturity ranging from January 9, 2020 to February 19, 2028. The Company also issued 18,200,000 warrants exercisable into common shares at \$0.50 per share with maturity ranging from January 3, 2019 to January 7, 2023. The Company had a total of 92,901,909 common shares on a fully diluted basis.

### **Additional Disclosure for Venture Issuers Without Significant Revenue**

	<b>Year Ended June 30, 2018 \$</b>	<b>Year Ended June 30, 2017 \$</b>
<b>General and Administrative</b>		
Administrative	1,976	2,098
Professional fees and disbursements	53,921	14,494
Transfer agent, listing and filing fees	30,486	9,925
<b>Total</b>	<b>86,383</b>	<b>26,517</b>