Axion Ventures Inc.

(formerly Capstream Ventures Inc.)

Financial statements

For the year ended 31 December 2016

Contents

Administrative information

Directors	John Todd Bonner Grant Kim Rob Kang Stephen Willey
Registered office	530 – 625 Howe Street Vancouver British Columbia V6C 2T6 Canada
Auditor	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD United Kingdom

Independent auditor's report to the shareholders of Axion Ventures Inc.

For the year ended 31 December 2016

We have audited the accompanying consolidated financial statements of Axion Ventures Inc. (formerly Capstream Ventures Inc.), which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of changes in equity, comprehensive loss, and cash flows for the year ended then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Axion Ventures Inc. as at December 31, 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative Information

The financial statements of Axion Ventures Inc. as at December 31, 2015 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 April, 2016.

(signed) “MAZARS LLP”

Chartered Accountants
London, United Kingdom
28 April 2017

Consolidated statement of comprehensive income

For the year ended 31 December 2016

Continuing operations	Note	2016 $'000	2015 Restated* $'000
Revenue	7	9,192	17,963
Cost of sales		(5,743)	(6,741)
Gross profit		3,449	11,222
Selling and distribution expenses		(5,993)	(7,089)
General and administrative expenses		(2,707)	(4,654)
Corporate administrative expenses		(1,182)	(69)
Operating loss		(6,433)	(590)
Other income		82	118
Finance income		32	30
Finance cost		(27)	(301)
Foreign currency exchange losses		(56)	(10)
Listing expense	6	(2,203)	-
Loss on ordinary activities before taxation		(8,605)	(753)
Taxation	10	(17)	(6)
Loss for the year		(8,622)	(759)
Attributable to:			
The owners of the parent company		(5,995)	(720)
The non-controlling interest		(2,627)	(39)
		(8,622)	(759)
Loss per share:			
Basic and diluted	18	(11.61) cents per share	(3.30) cents per share
Other comprehensive income that may be subsequently reclassified to profit or loss:			
Foreign currency translation differences		25	426
Attributable to:			
The owners of the parent company		40	438
The non-controlling interest		(15)	(12)
Total comprehensive income for the year		(8,597)	(333)

* As restated to reflect prior period adjustments. For further information refer to note 25.

The notes on pages 8 to 49 form part of these financial statements

Consolidated statement of financial position

For the year ended 31 December 2016

	Note	2016	2015 Restated*
		$'000	$'000
Assets			
Fixed assets			
Intangible assets	11	6,217	2,828
Property and equipment	12	149	249
Investments	13	485	-
		6,851	3,077
Current assets			
Investments	13	3,562	-
Trade and other receivables	14	2,282	6,295
Cash and cash equivalents	15	6,028	2,940
Total current assets		11,872	9,235
Total assets		18,723	12,312
Liabilities			
Current liabilities			
Trade and other payables	16	(6,779)	(6,973)
Deferred revenue		(3,826)	(3,464)
Total liabilities		(10,605)	(10,437)
Total assets less total liabilities		8,118	1,875
Equity			
Share capital	17	57,984	30,034
Foreign currency translation reserve	19	(1,177)	668
Share-based payment reserve	19	508	169
Reverse acquisition reserve	19	(24,745)	(17,629)
Retained earnings	19	(23,581)	(11,522)
Equity attributable to the owners of the parent company		8,989	1,720
Non-controlling interest		(871)	155
Total equity		8,118	1,875

* As restated to reflect prior period adjustments. For further information refer to note 25.

These financial statements were approved by the board of directors on 28 April 2017 and signed on its behalf by

John Todd Bonner
Director

Ravinder (Rob) Kang
Director

The notes on pages 8 to 49 form part of these financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital	Foreign currency translation reserve	Share-based payment reserve	Reverse acquisition reserve	Retained earnings	Equity attributable to the owners of the parent company	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2015	30,034	205	331	(17,629)	(10,963)	1,978	206	2,184
Prior period adjustment	-	25	-	-	(25)	-	-	-
At 1 January 2015 restated*	30,034	230	331	(17,629)	(10,988)	1,978	206	2,184
Loss for the year	-	-	-	-	(720)	(720)	(39)	(759)
Other comprehensive income	-	438	-	-	-	438	(12)	426
Total comprehensive income	-	438	-	-	(720)	(282)	(51)	(333)
Forfeiture of share options	-	-	(186)	-	186	-	-	-
Share-based payment expense	-	-	24	-	-	24	-	24
At 31 December 2015	30,034	668	169	(17,629)	(11,522)	1,720	155	1,875

* As restated to reflect prior period adjustments. For further information refer to note 25.

The notes on pages 8 to 49 form part of these financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital	Foreign currency translation reserve	Share-based payment reserve	Reverse acquisition reserve	Retained earnings	Equity attributable to the owners of the parent company	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2016	30,034	668	169	(17,629)	(11,522)	1,720	155	1,875
Loss for the year	-	-	-	-	(5,996)	(5,996)	(2,626)	(8,622)
Other comprehensive income	-	40	-	-	-	40	(15)	25
Total comprehensive income	-	40	-	-	(5,996)	(5,956)	(2,641)	(8,657)
Forfeiture of share options	-	-	(12)	-	12	-	-	-
Share-based payment expense	-	-	258	-	-	258		258
Exercise of share options	60	-	(23)	-	-	37	-	37
Reverse acquisition	1,007	(1,885)	-	(7,116)	8,424	430	2,234	2,664
Purchase of non-controlling interests	16,791	-	-	-	(14,499)	2,292	(619)	1,673
Issue of share capital	10,901	-	-	-	-	10,901	-	10,901
Share issue costs	(809)	-	116	-	-	(693)	-	(693)
At 31 December 2016	57,984	(1,177)	508	(24,745)	(23,581)	8,989	(871)	8,118

The notes on pages 8 to 49 form part of these financial statements

Consolidated statement of cash flows

For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Operating activities:			
Loss before tax		(8,605)	(753)
Adjustments for:			
Interest receivable		(32)	(30)
Interest payable		3	-
Depreciation and amortisation		241	497
Share-based payment charge - options		258	25
Share-based payment charge - warrants		102	-
Loss on disposal of fixed assets		4	69
Foreign currency exchange gains and losses		(99)	(41)
Listing expense	6	2,203	-
Operating cash flow before movement in working capital		(5,925)	(233)
Decrease/(increase) in receivables		4,456	(3,368)
Increase in payables		(89)	2,339
Income tax paid		(17)	(11)
Net cash flows from operating activities		(1,575)	(1,273)
Investing activities:			
Purchase of intangible assets		(3,497)	(2,350)
Purchase of property and equipment	12	(82)	(126)
Purchase of investments	13	(7,632)	-
Cash acquired on purchase of subsidiary	6	1,212	-
Repayment of loan receivable		40	-
Interest received		28	30
Net cash flows from investing activities		(9,931)	(2,446)
Financing activities:			
Issue of share capital		15,448	-
Share issue costs		(795)	
Interest paid		(3)	-
Other financing activities		9	-
Net cash flows from financing activities		14,659	-
Net increase/(decrease) in cash and cash equivalents		3,153	(3,719)
Cash and cash equivalents at the beginning of the year		2,940	6,463
Effect of exchange rates on cash and cash equivalents		(65)	196
Cash and cash equivalents at the end of the year		6,028	2,940

The notes on pages 8 to 49 form part of these financial statements

Notes to the financial statements

For the year ended 31 December 2016

1 General information

Axion Ventures Inc. ("Axion Ventures" or the "Company") was incorporated under the British Columbia Business Corporations Act on 21 June 2011, is domiciled in Canada and was originally classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange ("TSX-V" or "Exchange").

On 2 December 2011, the shares of the Company commenced trading under the symbol "CSP.P". The principal business of the Company was the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction as defined under the policies of the TSX-V ("QT"). On 24 March 2014, the Company moved from the TSX-V to the NEX board of the TSX-V trading under the symbol "CSP.H".

On 11 May 2016, the Company completed its Qualifying Transaction as particularly described in its TSX-V filing statement previously filed with Canadian regulatory authorities. As a result of the completion of the Qualifying Transaction, the Company ceased to be a CPC, and following receipt of final Exchange approval, the Company was listed as a Tier 2 Investment Issuer on the Exchange on 18 May 2016 under the symbol "CSP". This transaction was recognised as a reverse acquisition, further details of which are set out in note 6.

On 1 November 2016, the Company was approved for graduation from Tier 2 Investment Issuer to Tier 1 Investment Issuer status by the TSX-V. With the graduation to a Tier 1 listing, the common shares of the Company previously deposited into escrow pursuant to the rules of the TSX-V will be governed by the release provisions of Tier 1 Issuer's escrow.

On 9 March 2017, the Company changed its name from "Capstream Ventures Inc." to "Axion Ventures Inc." and effective from 10 March 2017, the Company's common shares traded under the new name and new symbol "AVX" on the TSX-V.

The address of the Company's corporate office and principal place of business is 530 – 625 Howe Street, Vancouver, British Columbia, V6C 2T6, Canada.

2 Basis of preparation

2.1 Statement of compliance and basis of presentation

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Standards Interpretations Committee ("Interpretations Committee").

These consolidated financial statements present the financial information of the Company and its subsidiary undertakings (together "the Group"). The principal activities of the Group are game software development, game operation, provision of outsourcing services, software licence and software training.

These consolidated financial statements have been prepared on an accruals basis and are based on the historical cost basis, except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Company's functional currency is Canadian Dollars, being the currency of the primary economic environment in which the Company operates. These financial statements are presented in Canadian Dollars, rounded to the nearest thousand.

Notes to the financial statements

For the year ended 31 December 2016

2.2 Going concern

These consolidated financial statements were prepared on a going concern basis.

The current economic conditions present increased risks for all businesses. In response to such conditions, the directors have carefully considered these risks, including an assessment of the uncertainty on future trading projections for a period of at least twelve months from the date of signing the financial statements, and the extent to which they might affect the preparation of the financial statements on a going concern basis.

Based on this assessment, the directors consider that the Group maintains an appropriate level of liquidity, sufficient to meet the demands of the business including any capital and servicing obligations of external liabilities.

In addition, the Group's assets are assessed for recoverability on a regular basis, and the directors consider that the Group is not exposed to losses on these assets which would affect their decision to adopt the going concern basis.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and that there are no material uncertainties that lead to significant doubt regarding the Group's ability to continue as a going concern. Thus the directors have continued to adopt the going concern basis of accounting in preparing these financial statements.

3 Accounting policies

3.1 Basis of consolidation

These consolidated financial statements include the results of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the effective date of the acquisition up to the effective date of disposal or loss of control.

Intercompany assets and liabilities, equity, income, expenses, and cash flows between the Company and its subsidiaries are eliminated on consolidation.

Further details in respect of the basis of consolidation for the Qualifying Transactions are set out in note 6.

3.2 Non-controlling interests

Non-controlling interests in the Company's less than wholly-owned subsidiaries are classified as a separate component of equity and represent the equity of a subsidiary not attributable directly or indirectly to the owners of the Company.

On initial recognition, non-controlling interests are measured at their proportionate share of the acquisition date fair value of the identifiable net assets of the acquired subsidiary. Subsequent to the acquisition date, adjustments are made to the carrying amount of non-controlling interests for the non-controlling interests' share of changes in equity. Adjustments to recognise the non-controlling interests' share of changes in equity are made even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

Notes to the financial statements

For the year ended 31 December 2016

3 Accounting policies (continued)

3.3 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for game operation, licensing of products, providing outsourcing services, providing training services and for the use by others of the Group's assets yielding interest. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Game operation

PC online games

The Group distributes locally installed PC online games through internet. With pre-paid game cards, players can credit their user accounts with virtual currencies to exchange for the virtual items. Third-party distribution channels and payment channels collect the payments from the paying players and remit the cash to the Group, net of discounts which are pre-determined according to the relevant terms of the agreements entered into between the Group and the third-party distribution or payment channels. As the Group acts as the principal in the transaction, revenue is recognised on a gross basis.

Proceeds received from sales of pre-paid game cards to distributors are initially recorded as advances from customers. Upon activation or charge of the pre-paid game cards to virtual currencies, these advances from customers are immediately transferred to deferred revenue. Proceeds received from sales of virtual currencies to players are recorded as deferred revenue, as the Group has an implied obligation to provide the services which enable the virtual items exchanged with the virtual currencies to be displayed or used in the games.

The attributable portion of the deferred revenue relating to values of the virtual items purchased is recognised as revenue only when the services are rendered to the respective paying players. For the purposes of determining when services have been provided to the respective paying players, the Group has determined the following:

i. Consumable items represent virtual items that (i) may a have pre-determined service period; or (ii) can be consumed by a specific player action. Revenue is recognised (as a release from deferred revenue) rateably over the estimated life of the respective virtual items. The average estimated life of those consumable items consumed by a specific player action is estimated as the average period between the time an item is purchased and the time an item is completely consumed by player action. The average estimated life of consumable items of MARS (a PC online game) consumed by a specific player action is 2 days for all periods presented.

ii. Permanent ownership items represent virtual items that have no pre- determined service period and are accessible and beneficial to paying players over an extended period of time. Revenue is recognised rateably over the estimated average playing period of paying players which is the average period between the first date the paying players charge virtual currencies to their accounts and the last date these paying players play the game. Estimated playing period of paying users of MARS was determined to be 484 days for the year ended 31 December 2016 (2015: 410 days).

Virtual currencies will not expire as long as the personal game account remains active, i.e. being accessed or charged by the player. The unused virtual currencies in an inactive personal game account are recognized as revenues when the likelihood that the Group would provide further online game service with respect to such online points is remote. The Group recognises revenue related to unused virtual currencies under accounts of inactive players who are inactive for greater than 720 consecutive days.

Mobile games

Notes to the financial statements

For the year ended 31 December 2016

The Group distributes mobile games through third-party distribution platforms. Third-party distribution platforms collect the payments from the paying players and remit the cash to the Group, net of channel commission charges

3 Accounting policies (continued)

which are pre-determined according to the relevant terms of the agreements entered into between the Group and the third-party distribution platforms. The Group has evaluated the roles and responsibilities of the Group and the third-party distribution or payment channels in the delivery of the game experience to the paying players and concluded that the Group takes the primary responsibilities in rendering the services. Management has determined that the Group is the primary obligor and, accordingly, the Group records revenue on a gross basis, and the commission charged by third-party distribution and payment channels is recorded as cost of sales. Currently, the Group does not operate mobile games for which the Group is not acting as the principal or primary obligor in these arrangements.

Consistent with the Group's revenue recognition policies for PC online games, under the item-based revenue model, for the purposes of determining when the service has been provided to the end-users, the Group has determined that an implied obligation exists to the paying users to continue displaying the purchased virtual items within the game over the estimated useful lives of virtual items. However, due to system limitation on data collection of mobile games, the Group does not have the ability to differentiate the redemption respectively on consumable or permanent ownership items and track the consumption of each virtual item. Therefore, the Group recognises revenue from the sale of virtual currency and other virtual items rateably over the estimated average playing period of paying players. Estimated average playing period of paying users of Kingdom (a mobile game) was determined to be 21 days for all periods presented.

Licensing

In licensing arrangements, the Group is entitled to receive a fixed and non-refundable initial fee which permits the licensee to exploit those licensing rights freely. As the Group has limited remaining obligations to perform after delivery (i.e. at the time of sale), the initial fee is recognised as revenue at the time of sale.

According to certain license agreements, the Group is also entitled to ongoing royalties based on the amount of money generated by the customers. The ongoing royalties are recognised when they are earned, provided that the collection is probable.

Outsourcing service

The Group enters into contracts with other game developers to provide assistance to the development of their own game products.

Revenue generated from outsourcing services associated with a transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

i. the amount of revenue can be measured reliably;

ii. it is probable that the economic benefits associated with the transaction will flow to the entity;

iii. the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

iv. the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

During the current period revenue was only recognised to the extent of costs incurred, as whilst contracts are expected to be profitable, the stage of completion could not be reliably measured.

Notes to the financial statements

For the year ended 31 December 2016

3 Accounting policies (continued)

Training

Training fees are recognised as revenue over the period of instruction.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3.4 Earnings per share

Earnings per share calculations are based on the weighted average number of common shares outstanding during the period. For calculations of diluted earnings per share, the weighted average number of common shares outstanding are adjusted to include the effects of dilutive stock options and warrants, whereby proceeds from the potential exercise of dilutive stock options and warrants with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period. Shares issued but held in escrow are included in the calculation of the weighted average number of common shares as outstanding from the period of the issuance with the exception of the performance escrow shares. The performance escrow shares are considered contingently returnable and are excluded from the calculation until such date as the shares are no longer subject to recall.

3.5 Foreign currency translation

Foreign currency transactions are translated into the functional currency of the reporting entity using the exchange rate prevailing at the date the transactions took place.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are reported at the rates of exchange prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at the reporting date of monetary assets and liabilities are reported in profit or loss.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group are translated using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising are recognised through other comprehensive income.

3.6 Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Acquired computer software	3 years
Internally generated software	3 years

Internally generated intangible assets are not amortised during the development stage.

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Intangible assets are tested for impairment when an indication of impairment exists.

Notes to the financial statements

For the year ended 31 December 2016

Notes to the financial statements

For the year ended 31 December 2016

3 Accounting policies (continued)

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

i. demonstration of technical feasibility of the prospective product for internal use or sale;

ii. there is intention to complete the intangible asset and use or sell it;

iii. the Group's ability to use or sell the intangible asset is demonstrated;

iv. the intangible asset will generate probable economic benefits through internal use or sale;

v. sufficient technical, financial and other resources are available for completion; and

vi. the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. Development costs previously recognised as an expense are not recognized as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

3.7 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price and any costs directly attributable to bringing the asset into working condition for its intended purpose. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation which commences on the date the asset is available for use and capable of operating in the manner intended by management is provided over the estimated useful lives of assets using the straight-line method, at the following rates per annum:

Computer and office equipment	3 - 5 years
Office furniture	5 - 7 years
Leasehold improvements	2 - 5 years

The assets' residual values, depreciation methods and useful lives are reviewed annually, and adjusted if appropriate prospectively. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period in which the item is derecognised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Notes to the financial statements

For the year ended 31 December 2016

3 Accounting policies (continued)

3.8 Impairment of non-financial assets

Intangible assets that are not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset’s carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9 Financial instruments

Financial instruments are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and reward are transferred.

Financial assets carried at amortised cost

Financial assets carried at amortised cost are classified as loans and receivables and comprise trade and other receivables, short-term investments and cash and cash equivalents. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss on loans and receivables, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

Financial assets held at fair value through other comprehensive income

Investments held at fair value through other comprehensive income are classified as available for sale financial assets and are initially recognised at fair value, excluding any transaction costs, and are subsequently measured at fair value through other comprehensive income.

Notes to the financial statements

For the year ended 31 December 2016

3 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits with banks and short-term highly liquid investments that are readily convertible to cash with original terms of three months or less.

Financial liabilities carried at amortised cost

These financial liabilities comprise trade and other payables. Financial liabilities are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

3.10 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement, regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating leases

Where the Group has the right to use assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease term except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets.

Notes to the financial statements

For the year ended 31 December 2016

3 Accounting policies (continued)

3.11 Share-based payments

The Group operates a stock option plan that enables Group directors, officers and technical consultants to acquire shares of the Company. The fair value of share options granted is recognised as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of the option is measured at the grant date and the share-based compensation is expensed based on graded vesting. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value of the share options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted. Forfeiture rates are estimated in advance and are used in the estimate of the share-based expense for the financial statement period.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

At the time the share options are exercised, the amount previously recognised in the share option reserve will be transferred to retained earnings. After the vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3.12 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The employees of the subsidiary company which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute the fixed percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The subsidiary's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Notes to the financial statements

For the year ended 31 December 2016

3 Accounting policies (continued)

3.13 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current and deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts, and there is the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements

For the year ended 31 December 2016

4 Changes in accounting standards

The Group has adopted the amendments to IFRSs included in the Annual Improvements 2012-2014 cycle and a number of narrow scope amendments to certain IFRSs and IASs which are effective for annual periods beginning on or after 1 January 2016. The amendments did not have an impact on the Group's consolidated financial statements.

New standards and interpretations

The following standard is effective for annual periods beginning on or after 1 January 2017:

IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The following standards are effective for annual periods beginning on or after 1 January 2018:

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. The Group is in the process of evaluating the impact of the new standard.

IFRS 9 Financial Instruments

The IASB intends to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 Financial Instruments which is intended to reduce the complexity in the classification and measurement of financial instruments. The new standard is not expected to have a material impact on the financial statements.

IFRS 7 Financial Instruments Disclosure

IFRS 7 was amended to required additional disclosures on transition from IAS 39 to IFRS 9.

IFRS 2 Share-Based Payment

In June 2016, the Board issued the final amendments to IFRS 2 Share-Based Payment as follows:

i. Effects that vesting conditions have on the measurement of a cash-settled share-based payment;
ii. Accounting for modification to the terms of a share-based payment that changes the classification of the transaction from cash-settled to equity settled;
iii. Classification of share-based payment transactions with net settlement features.

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The new standard is not expected to have a material impact on the financial statements.

Notes to the financial statements

For the year ended 31 December 2016

4 Changes in accounting standards (continued)

The following standards are effective for annual periods beginning on or after 1 January 2019:

IFRS 16 Leases

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after 1 January 2019.

Management is currently evaluating any impact that the above standard may have on the Group's consolidated financial statements and this assessment has not yet been finished.

Notes to the financial statements

For the year ended 31 December 2016

5 Critical accounting judgements and key sources of estimation uncertainty

The Group's management makes judgements in the process of applying the Group's accounting policies in the preparation of these consolidated financial statements. In addition, the preparation of the financial data requires that the Group's management makes assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported results during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates and the resulting impact on the carrying amounts of the Group's assets and liabilities are accounted for prospectively.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimated life of consumable virtual items

Management makes a best estimate regarding the life of consumable virtual items based on the consumption history and pattern of virtual items. Such estimates are subject to re-evaluation on an annual basis.

Estimated average playing period of paying players

The determination of estimated average playing period of paying players is based on the Group's best estimate that takes into account all known and relevant information relating to the first date the paying players charge virtual currencies to their accounts and the last date these paying players would play the game at the time of assessment. Such estimates are subject to re-evaluation on an annual basis.

Estimated inactive players

Management determines that accounts of players without log-in for more than 720 consecutive days are inactive and the unused virtual currencies and virtual items of these accounts are recognized as revenue.

Research and development costs

Careful judgement is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each reporting date. In addition, all internal activities related to the research and development of new software, products or know how are continuously monitored by the Group's management.

Impairment of property, plant and equipment and intangible assets

Management assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of property, plant and equipment and intangible assets. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, management takes into consideration assumptions that are mainly based on market conditions existing at the reporting dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Notes to the financial statements

For the year ended 31 December 2016

5. Critical accounting judgements and key sources of estimation uncertainty (continued)

Depreciation and amortisation

Property and equipment and intangible assets with finite useful lives are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. Management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on management's historical experience with similar assets, taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of receivables at each reporting date.

Share-based payment

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 17.

Determining control over investees

When determining whether the Group has control over an investee, management must examine the individual facts and circumstances surrounding the nature of the Group's interest in an entity and use judgement to classify the investment. The outcome of this judgement will influence the accounting treatment adopted and consequently, may impact the reported profit for the period and the assets and liabilities at the reporting date.

The Group has a contractual interest in a number of structured entities, over which management has determined that the Group has control. Consequently, these structured entities are consolidated within the Group financial statements.

Further details surrounding the basis for this judgement are set out in note 23.

Notes to the financial statements

For the year ended 31 December 2016

6 Qualifying Transaction

On 11 May 2016, the Company completed its Qualifying Transaction as described in note 1.

The Company completed the Qualifying Transaction through the acquisition of:

i. shares of Axion Games Limited ("Axion Games") and Axion Entertainment Holdings Ltd. ("AEH") and Axion Entertainment International Holdings Limited ("AIEH"), (AEH and AIEH being formed for the sole purpose of holding Axion Games shares), pursuant to which the Company acquired an interest of approximately 29.29% of Axion Games; and

ii. an unsecured one year convertible promissory note of Innovega Inc. ("Innovega") in the principal amount of US$350k.

In exchange for the above interest in Axion Games, the Company issued a total of 150,168,774 common shares of the Company to the respective selling shareholders. Prior to completion of the Qualifying Transaction, the Company had 7,079,800 common shares issued and outstanding and held by existing shareholders. In addition, concurrently with closing the Qualifying Transaction, the Company completed a private placement financing, raising aggregate gross proceeds of $1,150k through the issuance of 5,750,000 common shares.

As a result of the above share issuances, at closing of the Qualifying Transaction, the issued and outstanding shares (on a non-diluted basis) were as follows:

Shares/Shareholders	**Number**	**%**
Common shares held by existing shareholders of the Company	7,079,800	4.34%
Common shares held by Axion Games, AEH or AEIH former shareholders upon completion of the share exchange	150,168,692	92.13%
Common shares held by subscribers of the concurrent private placement	5,750,000	3.53%
Total	162,998,492	100.00%

The Qualifying Transaction was therefore accomplished through an exchange of shares which resulted in the former shareholders of Axion Games obtaining control of the Company. Accordingly, this transaction was recorded as a reverse acquisition for accounting purposes, as Axion Games was deemed to be the acquirer and Axion Ventures the acquiree. These consolidated financial statements are a continuation of the financial statements of Axion Games, while the capital structure is that of the Company. The consolidated financial statements include the historical operations and assets and liabilities of Axion Games, and those of Axion Ventures from 11 May 2016 to 31 December 2016.

As the shareholders of Axion Games obtained control of the Company, the share exchange has been recognised to reflect the substance of the transaction, which is a capital transaction, rather than a business combination. That is, the transaction is a reverse recapitalisation, equivalent to the issuance of shares by the private company (Axion Games) for the net monetary assets of the public shell company (Axion Ventures), accompanied by a recapitalisation. The accounting applied is similar to that resulting from a reverse acquisition, except that no goodwill is recorded.

The assets and liabilities of Axion Games continued to be recognised at their carrying value and at the date of the transaction the assets and liabilities of Axion Ventures were included at fair value. At the date of the transaction the amounts recognised in equity comprise the share capital of Axion Ventures (the legal parent) and the accumulated reserves of Axion Games (the legal subsidiary).

Notes to the financial statements

For the year ended 31 December 2016

6. Qualifying Transaction (continued)

The comparative period financial information presented is that of Axion Games, adjusted to reflect the share capital of Axion Ventures.

Since Axion Ventures was a non-operating shell company the transaction does not meet the definition of a business combination under IFRS 3. As such, the transaction has been accounted for as a share-based payment transaction under IFRS 2, whereby Axion Games is deemed to have issued shares in exchange for the net assets held by Axion Ventures together with the listing status of Axion Ventures.

As the listing status does not qualify for recognition as an intangible asset, an expense representing the excess of the fair value of the shares issued deemed to have been issued to the original shareholders of Axion Ventures over the fair value of the net assets of Axion Ventures was recorded in the statement of comprehensive income in 2016 as a listing expense. The listing expense was calculated as follows:

	$'000
Consideration deemed to be transferred by Axion Games in the share exchange	2,566
Less the fair value of the net assets of Axion Ventures acquired by Axion Games	(1,240)
Less the non-controlling interest	877
	(363)
Listing expense	2,203

The fair value of the net assets of Axion Ventures acquired was as follows:

	$'000
Investment in Innovega	104
Cash and cash equivalents	1,212
Trade and other receivables	5
Trade and other payables	(81)
Fair value of net assets	1,240

The revenue and profit or loss of Axion Ventures from 11 May 2016 to December 2016 included in the consolidated financial statements were:

	$'000
Revenue	-
Loss	(1,360)

Notes to the financial statements

For the year ended 31 December 2016

6. Qualifying Transaction (continued)

If the transaction had taken place on 1 January 2016 the revenue and profit or loss that would have been recognised in the consolidated financial statements were:

	$'000
Revenue	9,192
Loss	(8,750)

Transactions with the non-controlling interest

Subsequent to the Qualifying Transaction the Company entered into a number of transactions with the non-controlling interest, increasing the number of shares of Axion Games held by Axion Ventures as described below. All of the transactions were recognised directly within equity.

On 23 August 2016, the Company acquired an additional 16.79% beneficial interest in Axion Games by closing eight separate share exchange agreements with the shareholders of Axion Games and AEIH. In exchange/consideration for the 16.79% interest, the Company issued an aggregate of 33,581,358 common shares.

On 7 September 2016, the Company increased its beneficial ownership of Axion Games from 46.08% to 51.01% through its participation in a rights offering by Axion Games to its existing shareholders. Axion Games raised US$4,000k by way of the rights offering, issuing 44,147,670 preference shares in the process, of which Axion Ventures acquired 30,686,275 preference shares for a purchase price of US$2,780k.

Notes to the financial statements

For the year ended 31 December 2016

7 Revenue and business and geographical segments

Information reported to the board of directors for the assessment of performance is segmented by the nature of the business activities. The following is an analysis of the Group's revenue by reportable segment. For management reporting purposes, expenses and assets are not allocated to reporting segments.

	2016 $'000	2015 $'000
Outsourcing:		
Wanda contract	1,321	7,692
Non-Wanda outsourcing	2,984	2,476
Licensing	412	1,501
Game operation	3,672	5,403
Training	803	891
	9,192	17,963

The Wanda contract is a contract to develop certain inter-active games to be installed and operated in Wanda's commercial property.

Wanda represents the only major customer that is more than 10% of the Group's revenue.

An analysis of the Group's revenue by geographical region is as follows:

	2016 $'000	2015 $'000
China	6,783	13,157
Rest of the world	2,409	4,806
	9,192	17,963

An analysis of the Group's non-current assets by geographical region is as follows:

	2016 $'000	2015 $'000
China	312	2,571
Canada	499	-
Rest of the world	6,040	506
	6,851	3,077

Notes to the financial statements

For the year ended 31 December 2016

8 Operating loss

Operating loss is stated after charging:

	Note	2016 $'000	2015 $'000
Amortisation of intangible assets	11	177	233
Depreciation of property and equipment	12	161	302
Operating lease expense – land and buildings		1,154	1,327
Loss on disposal of property and equipment		4	69
Research and development expenditure		3,101	4,283

9 Staff costs

	2016 $'000	2015 Restated* $'000
Wages and salaries	9,986	9,905
Social welfare costs	2,764	4,201
Share-based payment expense	258	25
	13,008	14,131

* As restated to reflect prior period adjustments. For further information refer to note 25.

Notes to the financial statements

For the year ended 31 December 2016

10 Taxation

The tax charge on loss comprises:

	2016 $'000	2015 $'000
Current tax		
Corporation tax	17	6
Total tax	17	6

A reconciliation between the tax expense and accounting loss is as follows:

	2016 $'000	2015 $'000
Loss on ordinary activities before taxation	(8,605)	(753)
Tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdiction concerned	(1,507)	148
Tax effect of non-deductible expenses	36	12
Tax effect on Super Deduction in research and development activities	(434)	(431)
Tax effect of unused tax losses not recognised	4,486	1,244
Tax effect of deductible temporary differences not recognised	15	522
Utilisation of deductible temporary differences previously not recognised	(2,596)	(1,495)
Under provision in respect of prior years	17	6
Total tax	17	6

Notes to the financial statements

For the year ended 31 December 2016

10. Taxation (continued)

Taxation on profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Company operates.

Canada

The parent entity Axion Ventures Inc. had no taxable income for the year ended 31 December 2016 or the year ended 31 December 2015, and thus there is no resulting tax provision for current income taxes.

Cayman Islands income tax

The subsidiary incorporated in the Cayman Islands is an exempted company with limited liability under the Company Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

British Virgin Islands ("BVI") income tax

The subsidiaries incorporated in the BVI with limited liability under the BVI Business Companies Act, are exempted from BVI income tax.

Hong Kong profits tax

The Hong Kong profits tax rate is 16.5% (2015: 16.5%). Hong Kong profits tax has not been provided as the relevant subsidiaries had no estimated assessable profits in Hong Kong during the years ended 31 December 2016 and 2015.

People's Republic of China ("PRC") enterprise income tax

Pursuant to the relevant laws and regulations in the PRC, the PRC subsidiaries are subject to PRC enterprise income tax of 25%.

According to relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of the research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). Axion Games has claimed Super Deductions for the years ended 31 December 2016 and 2015.

Tax losses carried forward

The Group had the following unutilised tax losses carried forward at the reporting date:

	2016 $'000	2015 $'000
Unutilised tax losses	6,613	4,021

The tax losses have expiry dates of between 1 – 20 years.

Deferred tax assets have not been recognised because management considers it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom.

Notes to the financial statements

For the year ended 31 December 2016

11 Intangible assets

	Acquired computer software $'000	Internally generated computer software $'000	Total $'000
At 1 January 2016			
Cost	866	7,446	8,312
Accumulated amortisation	(610)	(4,874)	(5,484)
Opening carrying amount	256	2,572	2,828
Exchange differences	(17)	(29)	(46)
Additions	115	3,497	3,612
Amortisation	(177)	-	(177)
	177	6,040	6,217
Cost	425	6,040	6,465
Accumulated depreciation	(248)	-	(248)
Carrying amount at 31 December 2016	117	6,040	6,217
At 1 January 2015			
Cost	690	3,792	4,482
Accumulated amortisation	(281)	(3,792)	(4,073)
Opening carrying amount	409	-	409
Exchange differences	68	196	264
Additions	12	2,376	2,388
Amortisation	(233)	-	(233)
Carrying amount at 31 December 2015	256	2,572	2,828

Amortisation is included within general and administrative expenses within the statement of comprehensive income.

Notes to the financial statements

For the year ended 31 December 2016

12 Property and equipment

	Computer and office equipment $'000	Office furniture $'000	Leasehold improvements $'000	Total $'000
At 1 January 2016				
Cost	812	59	180	1,051
Accumulated depreciation	(648)	(48)	(106)	(802)
Opening carrying amount	164	11	74	249
Exchange differences	(3)	-	(3)	(6)
Additions	55	16	-	71
Disposals	(3)	(1)	-	(4)
Depreciation	(99)	(1)	(61)	(161)
	114	25	10	149
Cost	288	59	21	368
Accumulated depreciation	(174)	(34)	(11)	(219)
Carrying amount at 31 December 2016	114	25	10	149
At 1 January 2015				
Cost	1,092	146	497	1,735
Accumulated depreciation	(754)	(122)	(435)	(1,311)
Opening carrying amount	338	24	62	424
Exchange differences	52	4	13	69
Additions	99	7	21	127
Disposals	(57)	(12)	-	(69)
Depreciation	(268)	(12)	(22)	(302)
Carrying amount at 31 December 2015	164	11	74	249

Notes to the financial statements

For the year ended 31 December 2016

13 Investments

	2016 $'000	2015 $'000
Preference shares held in Innovega	485	-
Term deposit investment	3,562	-
	4,047	-

Innovega is a technology company that develops a display technology based on eyewear and contact lenses. The investment in the preference shares of Innovega represents a 1.9% holding in the company and is held at fair value through other comprehensive income.

The term deposit is a twelve month deposit account held at amortised cost. The investment attracts interest at Prime -1.90%.

14 Trade and other receivables

	2016 $'000	2015 $'000
Amounts falling due within one year:		
Amounts due from customers for contract work	-	4,034
Trade receivables	1,022	895
Amounts due from related parties (note 22)	237	211
Rental deposit	205	244
Loan to employees	29	87
Other receivables	14	575
Prepaid expenses	775	249
	2,282	6,295

All balances are unsecured, interest free and repayable on demand.

Management considers that the fair values of trade and other receivables are not materially different from their carrying amounts because these balances have short maturity periods at inception.

Notes to the financial statements

For the year ended 31 December 2016

14. Trade and other receivables (continued)

The ageing analysis of the Group's trade receivables from third parties that were past due as at reporting date but not impaired, based on due date is as follows:

	2016 $'000	2015 $'000
0 - 90 days	94	154
91 - 180 days	154	3
181 - 360 days	182	179
Over 540 days	101	101
	531	437

The allowance account for trade receivables was as follows:

	2016 $'000	2015 $'000
At 1 January	-	-
Increase in provision in the year	(252)	-
As at 31 December	(252)	-

As at 31 December 2016 and 2015, trade receivables that were neither past due nor impaired related to a number of distribution channels and payment vendors, for whom there was no recent history of default that had a good track record of credit with the Group.

The Group does not hold any collateral in respect of trade receivables past due but not impaired.

Notes to the financial statements

For the year ended 31 December 2016

15 Cash and cash equivalents

	2016 $'000	2015 $'000
Cash at bank and in hand	6,028	2,193
Short-term bank deposits	-	747
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	6,028	2,940

For the year ended 31 December 2015, the short-term bank deposits earned 1.35% to 1.49% interest per annum and had a maturity of 7 days.

Management considered that the fair value of the short-term bank deposits was not materially different from their carrying amount because of the short maturity period at inception.

As at 31 December 2016, included in cash and cash equivalents of the Group was $333k (2015: $1,806k) of bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

16 Trade and other payables

	2016 $'000	2015 $'000
Amounts falling due within one year:		
Trade payables	305	23
Amounts due to related parties (note 22)	573	704
Accrued salaries and benefits	1,703	2,148
Other tax liabilities	1,750	1,413
Advances from customers	492	111
Accrued expenses	1,921	2,384
Other payables	35	190
	6,779	6,973

All balances are unsecured, interest free and repayable on demand.

All amounts are short term and hence the carrying values of the Group's trade and other payables are considered to be a reasonable approximation of fair value.

Notes to the financial statements

For the year ended 31 December 2016

17 Share capital

	Group Number of shares	Company Number of shares
At 1 January 2016	150,168,692	7,079,800
Issue of share capital - reverse acquisition	7,079,800	117,168,692
Issue of share capital - reverse acquisition	-	33,000,000
Issue of share capital - concurrent financing	5,750,000	5,750,000
Issue of share capital - transaction with the non-controlling interest	33,581,358	33,581,358
Issue of share capital - private placement	20,242,600	20,242,600
Issue of share capital - exercise of share options	150,000	150,000
At 31 December 2016	216,972,450	216,972,450

Authorised share capital

At 31 December 2016, the authorised share capital consisted of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

Issued and outstanding

At 31 December 2016, there were 216,972,450 common shares of the Company issued and outstanding. Of this amount, 119,823,541 common shares were issued but subject to future release under escrow agreements as described below.

During the year ended 31 December 2016:

i. On 11 May 2016 the Company issued 117,168,692 common shares of the Company to acquire an ownership interest of 29.29% of the outstanding common shares of Axion Games.

ii. On 11 May 2016 the Company issued 33,000,000 common shares (“Performance Escrow Shares”) to certain Axion shareholders to be held in escrow. These shares are contingently recallable and are not included as outstanding in the earnings (loss) per share calculation on the statement of comprehensive income.

iii. On 11 May 2016 the Company completed a financing concurrent (“the Concurrent Financing”) with the closing of the Qualifying Transaction which raised $1,150k through the issuance of 5,750,000 common shares of the Company at a price of $0.20 per share. $500k of the Concurrent Financing was completed by an Agent for which the Agent received a commission of 6% of the gross proceeds raised by the Agent and 2% of the remaining proceeds which totalled $43k. The Agent also received 150,000 share purchase warrants exercisable at $0.20 for a period of 12 months following the closing of financing. In addition, the Agent received a corporate finance fee of $35k. The Company also paid $10k (4%) in finders’ fees on a portion of the $650k not raised by the Agent.

iv. On 23 August 2016, the Company issued 33,581,358 common shares of the Company to acquire additional ownership interest of 16.79% of the outstanding common shares of Axion Games.

v. On 29 August 2016, the Company raised gross proceeds of $10,121k through new common share issuances conducted through $4,121k of brokered and $6,000k of non-brokered private placements of shares. A total of 20,242,600 common shares were issued at a price of $0.50 per share. Commissions of 6% totalling $247k were paid to the agent for the brokered portion of the private placement. No commission was paid on the non-brokered portion. All shares issued in the private placement are subject to a hold period that expires on 30 December 2016.

Notes to the financial statements

For the year ended 31 December 2016

17. Share capital (continued)

vi. On 2 September 2016, the Company issued 75,000 common shares on the exercise of stock options.

vii. On 30 December 2016 the Company issued 75,000 common shares on the exercise of stock options.

Escrow shares

Escrow shares prior to completion of the Qualifying Transaction ("QT")

Prior to the Qualifying Transaction, there were 1,415,000 common shares ("CPC Escrow Shares") held in escrow pursuant to a CPC escrow agreement ("CPC Escrow Agreement"). The CPC Escrow Shares were initially to be released as follows: 10% of the CPC Escrow Shares are to be released upon the date of issuance of the Final Exchange Bulletin respecting the QT (17 May 2016) and an additional 15% of the CPC Escrow Shares are to be released every 6 months thereafter until all CPC Escrow Shares have been released (36 months following the date of issuance of the Final Exchange Bulletin). However, when the Company graduated from a Tier 2 Issuer to a Tier 1 Issuer on the TSX-V, the CPC Escrow Shares became releasable on the following accelerated schedule: 25% of the CPC Escrow Shares would be released upon the date of issuance of the Final Exchange Bulletin and an additional 25% of the CPC Escrow Securities would be released every 6 months thereafter, until all CPC Escrow Shares have been released (18 months following the date of issuance of the Final Exchange Bulletin).

Escrow shares in connection with the Qualifying Transaction

i. Performance Escrow

Pursuant to the QT share exchange agreement, 33,000,000 of the 150,168,692 common shares of the Company issued to shareholders of Axion, AEH and AEIH were held pursuant to a performance escrow agreement subject to the following performance targets being attained by Axion Games within three years:

A. Axion Games generating EBITDA (earnings before interest, taxes, depreciation and amortization) in excess of US$6,000,000 in any audited fiscal year ending 31 December 2016, 2017 or 2018; or

B. Axion Games generating game pre-sales in excess of US$10,000,000 in any audited fiscal year ending 31 December 2016, 2017 or 2018.

The performance escrow shares do not carry voting rights until released from escrow and none of the performance escrowed shares have been released from escrow as of the date hereof.

ii. Surplus Escrow

Pursuant to the QT exchange agreement, 53,684,753 (the "Surplus Escrow Shares") of the 150,168,692 common shares of the Company issued to shareholders of Axion, AEH and AEIH were held pursuant to a TSX-V surplus escrow agreement (the "Surplus Escrow Agreement"). The Surplus Escrow Shares were initially to be released as follows: 5% immediately following the issuance of the Final Exchange Bulletin respecting the QT (17 May 2016); 5% would be released 6 months thereafter; 10% would be released 12 and 18 months thereafter; 15% will be released 24 and 30 months thereafter and 40% will be released 36 months thereafter. However, when the Company graduated from a Tier 2 Issuer to a Tier 1 Issuer on the TSX-V, the Surplus Escrow Shares became releasable on the following accelerated schedule: 10% of the Surplus Escrow Shares would be released upon the date of issuance of the Final Exchange Bulletin; 20% would be released 6 months thereafter; 30% would be released 12 months thereafter and 40% would be released 18 months thereafter.

Notes to the financial statements

For the year ended 31 December 2016

17. Share capital (continued)

iii. Value Escrow

Pursuant to the QT share exchange agreement, 41,634,797 (the "Value Escrow Shares") of the 150,168,692 common shares of the Company issued to shareholders of Axion, AEH and AEIH were held pursuant to a TSX-V value escrow agreement (the "Value Escrow Agreement"). The Value Escrow Shares were initially to be released as follows: 10% of the CPC Escrow Shares are to be released upon the date of issuance of the Final Exchange Bulletin respecting the QT (17 May 2016) and an additional 15% of the Value Escrow Shares are to be released every 6 months thereafter until all Value Escrow Shares have been released (36 months following the date of issuance of the Final Exchange Bulletin). However, when the Company graduated from a Tier 2 Issuer to a Tier 1 Issuer on the TSX-V, the Value Escrow Shares became releasable on the following accelerated schedule: 25% of the Value Escrow Shares would be released upon the date of issuance of the Final Exchange Bulletin and an additional 25% of the CPC Escrow Securities would be released every 6 months thereafter, until all Value Escrow Shares have been released (18 months following the date of issuance of the Final Exchange Bulletin).

Voluntary pooled/Escrowed Shares on 23 August 2016 share exchanges

All 33,581,358 common shares of the Company issued to shareholders as part of the share exchanges dated 23 August 2016 are subject to voluntary escrow/pooling agreement. Pursuant to the escrow/pooling agreements, 23,448,169 of the 33,581,358 Capstream shares will be released as follows: 25% on closing (23 August 2016); and 25% will be released, 6, 12 and 18 months thereafter. The other 10,133,189 of the 33,581,358 Capstream shares will be released in one tranche on 10 February 2017.

Stock options

The Company has established a stock option plan for its directors, officers and technical consultants under which the Company may grant options from time to time to acquire a maximum number of common shares being 10% of the total number of issued common shares of the Company (calculated on a non-diluted basis) at the time an option is granted. The number of optioned shares granted under the plan cannot exceed the number of plan shares. The exercise price of each option granted under the plan shall be determined by the board of directors. Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option. Unless otherwise stated, the options fully vest when granted.

Notes to the financial statements

For the year ended 31 December 2016

17. Share capital (continued)

Company stock option transactions and the number of stock options outstanding are summarized as follows:

	Number	Weighted Average Exercise Price $
Balance at 1 January 2015	105,000	0.10
Forfeited	(105,000)	(0.10)
Balance at 1 January 2016	-	-
Granted	14,500,000	0.43
Forfeited	(200,000)	0.25
Exercised	(150,000)	0.25
Balance at 31 December 2016	14,150,000	0.49
Exercisable at 31 December 2016	850,000	0.37

For the year ended 31 December 2016, share-based compensation was $249k which was included in share-based compensation expense in the consolidated financial statements.

A share-based payment expense of $9k (2015: $24k) was also recognised in respect of share-options granted to employees of the Group in Axion Games, in respect of the share capital of Axion Games.

At 31 December 2016, the Company had the following stock options outstanding entitling the holders thereof to acquire the following common shares in the Company:

Number of shares	Exercise Price ($)	Expiry Date
350,000	0.25	11 May 2021
500,000	0.45	6 June 2021
13,300,000	0.50	30 December 2021
14,150,000		

The weighted average fair value of stock options granted during the year ended 31 December 2016 of $0.50 per option was calculated as of the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	2016
Expected life of options	5 years
Risk-free interest rate	0.68%
Annualised volatility	75.00%
Dividend rate	0.00%
Forfeiture rate	0.00%
Share price	$0.33

At 31 December 2016, the weighted average remaining contractual life of the outstanding stock options was five years.

Notes to the financial statements

For the year ended 31 December 2016

17. Share capital (continued)

Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Number	Weighted Average Exercise Price $
Balance at 1 January 2015	-	-
Issued	1,150,000	0.24
Exercisable at 31 December 2016	1,150,000	0.24

The following table summarizes warrants outstanding at 31 December 2016:

Number of shares	Exercise Price ($)	Expiry Date
150,000	0.20	11 May 2017
1,000,000	0.25	11 May 2018
1,150,000		

At 31 December 2016, all warrants are exercisable.

i. The Company issued 1,000,000 share purchase warrants ("finder's warrants") with an exercise price of $0.25 as a finder's fee for the investment in Axion. Each finder's warrant is exercisable into one common share of Axion and will expire two years from the date of issuance. The fair value of the finder's warrants was calculated to be $102k using the Black-Scholes option pricing model.

ii. The Company issued 150,000 agent's warrants ("agent's warrant") with an exercise price of $0.20 associated with brokering some portion of the concurrent equity financing. Each agent warrant is exercisable into one common share of Axion and will expire 12 months from the date of issuance. The fair value of the agent's warrants was calculated to be $14k using the Black-Scholes option pricing model.

The weighted average fair value of warrants issued during the nine months ended 31 December 2016 of $0.10 per warrant was calculated as of the date of issue using the Black-Scholes option pricing model using the following weighted average assumptions:

	2016
Expected life of options	1.74 years
Risk-free interest rate	0.48%
Annualised volatility	75.00%
Dividend rate	0.00%
Forfeiture rate	0.00%
Weighted average share price	$0.24

For the year ended 31 December 2016 the expense recognised in the statement of comprehensive income in respect of warrants was $102k.

Notes to the financial statements

For the year ended 31 December 2016

18 Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	2016 $'000	2015 $'000
Earnings for the purposes of basic earnings per share being the net loss attributable to the owners of the Company	(5,995)	(720)
Weighted average number of ordinary shares for the purposes of basic earnings per share	51,626,742	21,849,142
Basic and diluted earnings per share	(11.61) cents per share	(3.30) cents per share

Shares held in escrow are not included within the calculation of earnings per share as they are recallable.

The Group has a number of share options and warrants in issue which have not been included within the diluted earnings per share calculation, due to their anti-dilutive effect.

19 Other reserves

Foreign currency translation reserve

This reserve represents the cumulative gains and losses on the translation of the Group's net investment in its foreign operations.

Share-based payment reserve

This reserve represents the cumulative share-based payment expense for issued share-options that are unvested or unexercised at the reporting date.

Reverse acquisition reserve

This reserve has arisen on consolidation of the Company with its subsidiary undertakings as a result of the reverse acquisition.

Retained earnings

This reserve represents the cumulative profits and losses and gains and losses recognised in the statement of comprehensive income, together with any transfers from other reserves.

Notes to the financial statements

For the year ended 31 December 2016

20 Financial instruments

Fair value information

As at 31 December 2016, the Group's financial instruments comprise investments, cash and cash equivalents, trade and other receivables and trade and other payables.

The carrying values of these financial instruments approximates their fair values because of their current nature.

The categories of the fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

Level 1- Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2- Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3- Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

During the year ended 31 December 2016, the Group acquired preference shares in Innovega which were classified as available for sale and recognised at fair value through other comprehensive income. The investments were recognised at fair value at the transaction date, this being the equal to the consideration transferred in exchange for the investment. Due to the proximity of the acquisition to the reporting date, a further valuation exercise has not been performed at that date.

Financial instruments and related risks

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's exposures to financial risks and how the Group manages those risks are set out below.

Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The Group manages its liquidity needs by carefully monitoring forecast cash inflows and outflows due in day to day business. Liquidity needs are monitored in various time bands, on a day to day and week to week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows if available borrowing facilities are expected to be sufficient over the lookout period.

The Group maintains cash and short-term bank deposits to meet its liquidity requirements for 30 day periods at a minimum. Funding for longer-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell longer-term financial assets.

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

Notes to the financial statements

For the year ended 31 December 2016

20. Financial instruments (continued)

Analysed below is the Group's remaining contractual maturities for its non-derivative financial liabilities at each of the reporting dates. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay.

	On demand	Within one year	Total
	$'000	$'000	$'000
At 31 December 2016			
Trade payables	-	305	305
Amounts due to related parties (note 22)	573	-	573
Accrued salaries and benefits	-	1,703	1,703
Accrued expenses	-	1,921	1,921
Other payables	-	35	35
	573	3,964	4,537

	On demand	Within one year	Total
	$'000	$'000	$'000
At 31 December 2015			
Trade payables	-	23	23
Amounts due to related parties (note 22)	704	-	704
Accrued salaries and benefits	-	2,148	2,148
Accrued expenses	-	2,384	2,384
Other payables	-	190	190
	704	4,745	5,449

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular, its cash resources and other liquid assets that readily generate cash. The Group's existing cash resources and other liquid assets significantly exceed the cash outflow requirements.

Interest rate risk

The Group is exposed to interest rate risk on its variable rate term deposit investment which attracts interest at a rate of Prime -1.90%.

A 0.5% increase/decrease in Prime would have resulted in an increase/decrease to profit or loss and equity of $18k (2015: $nil).

Currency risk

Currency risk is the risk that the fair values or future cash flows of the Group's financial instruments will fluctuate because of changes in foreign exchange rates. Exchange rate fluctuations may affect the costs that the Group incurs in its operations

The operating subsidiary, Axion Games mainly operates in the PRC and majority of the transactions are settled in RMB. Foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. At 31 December 2016 the Group did not have significant foreign currency risk from its operations.

Notes to the financial statements

For the year ended 31 December 2016

20. Financial instruments (continued)

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The financial instruments that potentially subject the Group to credit risk comprise investments, cash and cash equivalents and trade receivables, the carrying value of which represents the Group's maximum exposure to credit risk.

The Group limits its exposure to credit loss by placing its cash, cash equivalents and short term investments with high credit quality financial institutions. The Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Group has receivables from customers and the general credit terms are from 60 days, and these amounts are generally not collateralised. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

21 Capital management

The objectives of the Group when managing capital are to safeguard the ability of the Group in continuing as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital by regularly reviewing the capital structure. As part of this review, the directors of the Group consider the cost of capital and the risks associated with the issued share capital. The Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debts.

Notes to the financial statements

For the year ended 31 December 2016

22 Related party transactions

The Group entered into the following related party transactions during the period.

Income in the period:

	2016 $'000	2015 $'000
Outsourcing services fee received from Epic Games International Ltd, a shareholder of the Group	483	315
	483	315

Expense in the period:

	2016 $'000	2015 $'000
License fee paid to Epic Games International Ltd, a shareholder of the Group	-	68
Office rent and administration charged to a private company controlled by the former CEO	40	-
	40	68

Key management personnel comprises the directors of the Company. Their aggregate remuneration comprised:

	2016 $'000	2015 $'000
Management fees	231	384
Consulting fees	17	-
Share-based payment	249	-
	497	384

Receivables:

	2016 $'000	2015 $'000
Shareholders of Epic Games International Ltd.	51	19
Shareholders of Axion Entertainment Holdings Ltd.	186	192
	237	211

Payables:

	2016 $'000	2015 $'000
Shareholders of Epic Games International Ltd.	524	650
Shareholders of Axion Entertainment Holdings Ltd.	49	54
	573	704

Notes to the financial statements

For the year ended 31 December 2016

23 Interests in subsidiary undertakings

The Company has the following interests in subsidiary undertakings:

Name	Country of incorporation	Proportion of issued capital effectively held	Nature of business
Axion Games Ltd	Cayman Islands	51%	Investment holding
Axion Entertainment Holdings Ltd	BVI	54%	Investment holding
Axion Entertainment International Holdings	BVI	65%	Investment holding
EGC Holdings Ltd.	BVI	100%	Investment holding
Mega Marble International Limited	BVI	100%	Investment holding
Mocool Limited	Hong Kong	100%	Investment holding
Ying Pei Digital Technology (Shanghai) Co., Ltd.	Shanghai, PRC	100%	Software development
Ying Pei Digital Technology (Suzhou) Co., Ltd.	Suzhou, PRC	100%	Software development
Digital Arts Academy International Group Limited (“DA BVI”)	BVI	100%	Investment holding
Taozhi Digital Technology (Shanghai) Co., Ltd.	Shanghai, PRC	70%	Game academy
Shanghai Zhenyou Network Technology Ltd.*	Shanghai, PRC	100%	Software development and game operation
Shanghai Ying Pei Software Co., Ltd.*	Shanghai, PRC	100%	Software development

* These interests represent contractual, rather than equity interests, in structured entities, over which management has determined that the Group has control. Further details in respect of these contractual interests are set out below.

Structured entities

The subsidiary, Ying Pei Digital Technology (Shanghai) Co., Ltd., has entered into Contractual Arrangements with Shanghai Zhenyou Network Technology Ltd., Shanghai Ying Pei Software Co., Ltd. and their respective equity holders, which enable Ying Pei Digital Technology (Shanghai) Co., Ltd. and the Group to:

- exercise effective financial and operational control over Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.;
- exercise equity holders’ voting rights of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.;

Notes to the financial statements

For the year ended 31 December 2016

23. Interests in subsidiary undertakings (continued)

- receive substantially all of the economic interest returns generated by Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. in consideration for the exclusive consulting services provided by Ying Pei Digital Technology (Shanghai) Co., Ltd., at the discretion of Ying Pei Digital Technology (Shanghai) Co., Ltd. The consideration of the consulting services payable by Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. to Ying Pei Digital Technology (Shanghai) Co., Ltd. under the agreement shall be calculated on a quarterly basis, taking into account the costs and expenses incurred by Ying Pei Digital Technology (Shanghai) Co., Ltd. and the operation performance of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.. Upon request by Ying Pei Digital Technology (Shanghai) Co., Ltd., up to 100% of the net income of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. shall be paid as the consideration of the services to Ying Pei Digital Technology (Shanghai) Co., Ltd., and shall be payable on a quarterly or an annual basis;
- obtain an irrevocable and exclusive right to purchase all or part of equity interest in and/or assets of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. from the respective equity holders at a minimum purchase price permitted under the PRC laws and regulations. Ying Pei Digital Technology (Shanghai) Co., Ltd. may exercise such options at any time until it has acquired all equity interests and/or all assets of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.;
- obtain a pledge over the entire equity interest of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. from their respective equity holders as collateral security for all of payments of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. due to Ying Pei Digital Technology Shanghai Co., Ltd. and to secure performance of the obligations of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. under the Contractual Arrangements.

The Group does not have any equity interest in Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. and has the ability to affect those returns through its power over Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. and is considered to control Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.. Consequently, the Group regards Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. as indirect subsidiaries under IFRSs. The Group has consolidated the financial position and results of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. in the consolidated financial statements during the years.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. and uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Ying Pei Digital Technology (Shanghai) Co., Ltd., Shanghai Zhenyou Network Technology Ltd., Shanghai Ying Pei Software Co., Ltd. and their respective equity holders are in compliance with relevant PRC laws and regulations and are legally enforceable. However, uncertainties in the PRC legal system could limit the Group’s ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of PRC laws and regulations, the PRC government could:

Notes to the financial statements

For the year ended 31 December 2016

23. Interests in subsidiary undertakings (continued)

- Revoke the business and operating licenses of Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.;
- Discontinue or restrict the operations of any related-party transactions among Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.;
- Impose fines or other requirements on Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.;
- Require the Group or Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. to revise the relevant ownership structure or restructure operations; and/or
- Restrict or prohibit the Group's use of the proceeds of the additional public offering to finance the Group's business and operations in China.

The Group's ability to conduct its business may be negatively affected if the PRC government were to carry out any of the aforementioned actions. As a result, the Group may not be able to consolidate Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd. in its consolidated financial statements as it may lose the ability to exert effective control over Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd., and it may lose the ability to receive economic benefits from Shanghai Zhenyou Network Technology Ltd. and Shanghai Ying Pei Software Co., Ltd.

Material non-controlling interest

The following tables list out the information related to the subgroup of Axion Games Ltd., the subsidiary of the Group which has material non-controlling interests.

	Non-controlling interest	
	2016	**2015**
	$'000	**$'000**
At 1 January	-	-
Share of loss for the year	(2,574)	-
Share of other comprehensive income for the year	(5)	-
Reverse acquisition	2,234	-
Transactions with the owners of the parent company	(619)	-
At 31 December	(964)	-
% of non-controlling interest	49%	0%

Notes to the financial statements

For the year ended 31 December 2016

23. Interests in subsidiary undertakings (continued)

The summarised financial information below sets out the results and financial position of the subgroup.

	Non-controlling interest 2016 $'000	2015 $'000
Non-current assets	6,557	-
Current assets	5,498	-
Current liabilities	(9,946)	-
Net assets	2,109	-
Revenue	9,192	-
Loss after tax	(5,007)	-
Total comprehensive loss	(5,018)	-
Cash inflow	1,570	-

24 Operating leases

The Group as a lessee

The Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases as at the reporting date as follows:

	Land and buildings 2016 $'000	2015 $'000
Not later than one year	1,169	1,029
Later than one year and not later than five years	1,813	761
Total future minimum lease payments	2,982	1,790

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

Notes to the financial statements

For the year ended 31 December 2016

25 Restatement due to prior period errors

	1 January 2015	Adjustment 1	Adjustment 2	1 January 2015 (restated)
	$'000	$'000	$'000	$'000
Impact on the opening statement of financial position				
Currency translation reserve	205	25	-	230
Retained earnings	(10,963)	(25)	-	(10,988)

	31 December 2015	Adjustment 1	Adjustment 2	31 December 2015 (restated)
	$'000	$'000	$'000	$'000
Impact on the statement of financial position				
Currency translation reserve	799	(16)	(115)	668
Retained earnings brought forward	(10,965)	(23)	-	(10,988)
Profit for the year	589	41	(1,389)	(759)
Impact on the statement of comprehensive income				
Profit for the year - foreign currency exchange gains and losses	(51)	41	-	(10)
Profit for the year - general and administrative expenses	(3,265)	-	(1,389)	(4,654)
Other comprehensive income - foreign currency translation differences	582	(41)	(115)	426
Impact on basic and diluted earnings per share	(0.03) cents per share			(3.30) cents per share

Adjustment 1

To correct foreign currency exchange gains/losses arising on retranslation of intercompany balance into the functional currency, that were previously recognised directly in the currency translation reserve.

Adjustment 2

To accrue understated social welfare according to PRC regulation and to recognise foreign currency translation differences arising on translation to the presentational currency.

A third statement of financial position has not been presented as the only impact on the opening position was a reclassification between the currency translation reserve and retained earnings.

Notes to the financial statements

For the year ended 31 December 2016

26 Events after the reporting date

Investment in Red Anchor Trading Corp.

On 26 October 2016, the Group entered into an investment agreement (the "Investment Agreement") with Red Anchor Trading Corp. ("Red Anchor"), a company engaged in the business of developing an application known as "HotNow", which is a marketing automation platform for retailers to offer various promotions. Under the terms of the Investment Agreement, the Group has agreed to invest US$1.5 million in Red Anchor to acquire 15% of the voting shares of Red Anchor. As the CEO and Chairman of the board of directors of the Company is the beneficial owner of 38.18% of the issued and outstanding voting shares of Red Anchor, and his spouse and a controlling shareholder of the Company beneficially own an additional 38.18% of the issues and outstanding voting shares of Red Anchor, this investment transaction is considered to be non-arm's length.

Consummation of the investment is subject to a number of customary conditions of closing, including that no material adverse change with respect to Red Anchor shall have occurred and that the Red Anchor's representations and warranties made under the Investment Agreement are accurate at closing of the proposed investment. The Investment Agreement is subject to final TSXV approval as of 31 December 2016. Final approval of the Investment Agreement was 7 April 2017.

Joint Venture with True Incube

On 27 December 2016, the Group announced that it entered into an agreement to form a joint venture with True Incube Co., Ltd. ("True Incube"), a subsidiary of True Corporation Public Company Limited, to establish a video game academy and development studio in Thailand. Under the terms of a joint venture and shareholders' agreement (the "JVA"), the joint venture was contemplated to operate as a newly incorporated Thai company proposed to be named "True Axion Games Ltd." ("True Axion Games") with a wholly-owned subsidiary of Axion holding a 49% equity interest in True Axion Games, True Incube holding a 40% equity interest in True Axion Games and Red Anchor (Thailand) Co., Ltd., a limited company organised and existing under Thai law, holding a 11% equity interest in True Axion Games. Pursuant to the terms of the JVA and ancillary agreements, True Incube agreed to invest CAD$10 million into Axion whereby Axion issues 20 million common shares at a price of CAD$0.50 (the "Financing") and Axion agreed to contribute approximately US$5 million (US$2.5 million on incorporation and US$2.5 million 12 months from the JVA) to True Axion Games. The Financing was closed on 18 January 2017 and True Axion Games was formed and capitalized with the initial US$2.5 million in February 2017.