2017 INFORMATION
AMENDED AND RESTATED

AXION VENTURES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED
DECEMBER 31, 2018

Dated April 30, 2019

2017 RESTATEMENT NOTE

Certain information for the year ended December 31, 2017 has been amended and restated to reflect a restatement of the audited consolidated financial information of Axion Ventures Inc. (the "Company") as at and for the year ended December 31, 2017. That financial information has been amended and restated after the audit on the financial statements for the year ended December 2018 performed and completed by the Company's recently (January 8, 2019) appointed and current auditor. In connection with the 2017 financial information, the Company identified the following adjustments:

	31 December 2017 USD'000	Restatement 1 USD'000	Restatement 2 USD'000	31 December 2017 USD'000
Total non-current assets	10,226	-	-	10,226
Total current assets	4,986	-	-	4,986
Total assets	15,212	-	-	15,212
Total current liabilities	8,050	-	-	8,050
Net assets	7,162	-	-	7,162
Equity attributable to owners of the parent	7,283	-	-	7,283
Non-controlling interests	(121)	-	-	(121)
Total equity	7,162	-	-	7,162
Revenue	6,663	-	-	6,663
Gross profit	3,011	-	-	3,011
Loss from operations	(8,264)	-	(499)	(8,763)
Loss for the year	(7,749)	-	(499)	(8,248)

1. The Qualified Transaction ("QT"), described below and in Note 1 of audited consolidated financial statements of the Company as at and for the year ended December 31, 2018, was accomplished through an exchange of shares, which resulted in the former shareholders of Axion Games obtaining control of the Company. Accordingly, the QT was recorded as a reverse acquisition for accounting purposes, as Axion Games was deemed to be the acquirer and the Company the acquiree. Accordingly, the consolidated financial statements of the Company were presented as a continuation of the financial statements of Axion Games, whereby the consolidated financial statements include the historical operations and assets and liabilities of Axion Games, and those of Axion Ventures from May 11, 2016. As the shareholders of Axion Games obtained control of the Company, the share exchange had been recognized 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 assets, liabilities and equity balances of Axion Games continued to be recognised at their carrying value and at the date of the QT, the assets and liabilities of Axion Ventures were included at fair value. At the date of the QT, the amounts recognised in equity comprised the share capital of Axion Ventures (the legal parent) and the accumulated reserves of Axion Games (the legal subsidiary).

   During 2018, the Company re-assessed the accounting for the QT completed in May 2016. In accounting for the QT, the Company erroneously recognised the value of the common shares issued to acquire shares to the former shareholders of Axion Games, pursuant to which the Company acquired an interest of 51.01% of Axion Games (tacking 2016 acquisitions subsequent to the May QT initial acquisition), in addition to the carrying value of the share capital in Axion Games. Therefore, the share capital balance was not presented as a continuation of that of Axion Games, but overstated for the value of common shares issued. It has been determined that additional value added to share capital and other reserve (deficit) should not have been recognized.

The correction affects the consolidated statement of financial position of the Company as at January 1, 2017 and December 31, 2017 by (i) decreasing share capital by $34,536,000; (ii) increasing the foreign currency translation reserve of $993,000 and (iii) increasing the reverse acquisition reserve by $33,543,000.

2. The Company grants stock options that usually vest over time. Under IFRS (as defined herein), when options vest over time, in the Company's case, typically over three years, the share-based payment expense related to each year ('tranche') is required to be recognized over the corresponding vesting period (i.e., tranche one over one year, tranche two over two years, and tranche three over three years). In accounting for share-based payment expense, the Company erroneously recognised the share-based payment expense on a straight-line vesting method. Accordingly, this resulted in the share-based payment expense being understated for the year ended December 31, 2017.

   The effect of the restatement on the consolidated statement of financial position of the Company as at December 31, 2017 was to (i) increase share-based payment reserve by $515,000; ii) increase accumulated losses by $499,000 and iii) decrease foreign currency translation reserve by $16,000. The effect on the consolidated statement of comprehensive income (loss) for the year ended December 31, 2017 was to increase share-based payments by $499,000 and decrease other comprehensive income by $16,000.

   The errors described above have been corrected by restating each of the affected consolidated financial statement line items for prior periods.

   Restatement 3. The Company excluded all shares in escrow in arriving at the weighted average number of common shares outstanding during the year-ended December 31, 2017. Under IFRS, shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty and as such, are included in the calculation of the weighted average number of ordinary shares.

   The correction affects the loss per share for the year-ended December 31, 2017 and management restated the amount from 4.18 cents to 3.40 cents.

INTRODUCTION

The following management discussion and analysis ("MD&A") of the financial condition and results of the operations of Axion Ventures Inc. ("Axion Ventures" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2018. This MD&A was written to comply with the requirements of National Instrument 51-102 *Continuous Disclosure Obligations* and Form 51-102F1 *Management's Discussion and Analysis.*

This MD&A should be read in conjunction with the audited consolidated financial statements of the Company as at and for the year ended December 31, 2018, along with related notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All figures are in United States Dollars ("US$") unless otherwise noted. References to C$ are to Canadian Dollars.

The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at this date, unless otherwise indicated. For the purposes of preparing this MD&A, management, in conjunction with the board of directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) if it would significantly alter the total mix of information available to investors.

Additional information about Axion Ventures is available at www.sedar.com ("SEDAR").

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Please also make reference to those risk factors referenced in the "Risk Factors" section below.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the business of Axion Ventures, Axion Games (as defined herein), TAI (as defined herein) and the Company's other portfolio companies; the video game market; actions of Tencent (as defined herein); management's outlook regarding future trends; sensitivity analysis on financial instruments, which may vary from amounts disclosed; any revenue projections; strategies regarding VR and AR (both as defined herein); uniqueness of cetain video *games; TAI's initial game release projections; Innovega's (as defined herein) test and launch projections; Red Anchor's (as defined herein) ability to understand user spending habits; and general business and economic conditions. Readers are cautioned that the forward-looking statements above do not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.*

All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

NATURE OF BUSINESS AND CORPORATE DEVELOPMENTS

Axion Ventures

The Company was incorporated under the British Columbia *Business Corporations Act* on June 21, 2011 and was classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange ("TSXV" or "Exchange"). The principal business of the Company was the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction ("QT") as defined in Policy 2.4 of the TSXV. On May 11, 2016, the Company completed the transactions for its QT and on May 17, 2016, the Company received final TSXV approval by way of the Final Exchange Bulletin, which constituted "Completion of the Qualifying Transaction" under the TSXV policies. Since completion of the QT, the Company has been an investment company focused primarily on investments in online video gaming and other information technology sectors.

On October 25, 2018, the Company's common shares commenced trading on the OTCQX® Best Market, a public market in the United States, under the symbol "AXNVF".

The address of the Company's corporate head office is at 1400-400 Burrard Street, Vancouver, British Columbia, V6C 3A6 and its registered and records office is at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1. However, the Company also has offices in Bangkok, Thailand, and Shanghai, People's Republic of China ("PRC"), which is where most Company personnel currently reside.

INVESTMENTS/ACQUISITIONS

Axion Games

As part of the QT completed in May 2016, the Company acquired a beneficial interest of 29.29% of Axion Games Limited ("Axion Games"). Axion Games, a private Cayman Islands corporation with primary operations in Shanghai, PRC, is an online video game development and publishing company. The investment in Axion Games was completed through the acquisition of shares of Axion Games from Axion Entertainment Holdings Ltd. ("AEH") and Axion Entertainment International Holdings Limited ("AEIH"), both formed for the sole purpose of holding Axion Games' shares, pursuant to which the Company acquired the beneficial interest of 29.29% of Axion Games. In exchange for the foregoing interest in Axion Games, the Company issued a total of 150,168,692 Company common shares to the respective selling shareholders.

In August 2016, the Company closed eight additional share exchange agreements that were entered into between May 18, 2016 and August 4, 2016, whereby the Company acquired additional interests in AEIH, AEH and Axion Games directly. As a result, the Company acquired an aggregate additional 16.79% beneficial interest in Axion Games, resulting in a total beneficial interest of 46.08% of Axion Games. In exchange for the foregoing interest in Axion Games, the Company issued a total of 33,581,358 Company common shares to the selling shareholders.

In September 2016, the Company further increased its beneficial ownership of Axion Games from 46.08% to 51.01% through its cash participation in a rights offering by Axion Games to its existing shareholders. Axion Games raised US$4,000,000 by way of the rights offering, issuing 44,147,670 preference shares in the process, of which the Company acquired 30,686,275 preference shares for a purchase price of US$2,780,330.

In May 2018, the Company further increased its beneficial ownership of Axion Games from 51.01% to 54.22% by acquiring an additional interest of 6,734 shares of AEH, representing a beneficial interest of 6,734,000 shares of Axion Games, in exchange for assuming a US$392,000 shareholder loan owed to Axion Games by an ex-officer of Axion Games.

The Company's beneficial ownership of Axion Games is currently 54.22%.

Innovega

As part of the QT completed in May 2016, the Company also completed an investment of US$350,000 in Innovega Inc. ("Innovega"), a private Delaware company with offices in Bellevue, Washington, and San Diego, California, that is developing digital eyewear that leverages contact lens and nanotechnology to deliver virtual reality ("VR"), augmented reality ("AR"), and mixed reality experiences from stylish glasses. The Company currently holds approximately 6.1% of Innovega's issued and outstanding preference shares and approximately 1.4% of Innovega's total issued and outstanding shares and granted options (fully diluted basis). The fair value of Innovega as at December 31, 2018 is nil.

True Axion Interactive

On December 27, 2016, the Company and True Incube Co., Ltd. ("True Incube"), a subsidiary of True Corporation Public Company Limited ("True Corporation"), one of Southeast Asia's leading telecommunications, media enterprises and game publishers, agreed to form a joint venture 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 operates as a Thai company named "True Axion Interactive Ltd." ("TAI") with a wholly-owned subsidiary of the Company ("Axion Interactive") holding a 49% equity interest in TAI, True Incube holding a 40% equity interest in TAI and Red Anchor (Thailand) Co., Ltd. ("Red Anchor Thailand"), a limited and affiliated company organised and existing under Thai law, holding a 11% equity interest in TAI.

The terms of the JVA and other ancillary agreements include, but are not limited to, the following:

- *True Concurrent Investment*. True Incube agreed to invest C$10,000,000 into the Company by way of a non-brokered private placement (the "True Private Placement"), whereby the Company agreed to issue 20,000,000 common shares at a price of C$0.50 per share. The True Private Placement closed in the first quarter of 2017 (January 18, 2017) and the shares issued pursuant to the True Private Placement are subject to a three (3) year voluntary trading restriction without prior consent of the Company. In addition, in connection with the True Private Placement, True Incube has the right to appoint a director to the Board, which is currently unexercised.

- *Initial Contributions and Additional Capital*. The agreed capital contribution to TAI was a total of approximately US$5 million [Thai Baht of 177 million] from the Company. The initial capital contribution of approximately US$2.5 million [approximately Thai Baht of 89 million] was made on the incorporation and organisation of TAI in early February 2017. The second capital contribution of approximately US$2.5 million [approximately Thai Baht of 89 million] was due on the date that is 12 months from JVA and was completed in August 2018. If the board of directors of TAI determines that TAI requires additional capital, the JVA sets out the process for providing additional finance.

Red Anchor Trading/HotNow

On October 26, 2016, the Company entered into an 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. The parties closed the transaction on April 4, 2017 and received final TSXV approval on April 7, 2017, whereby in consideration for the US$1.5 million investment, Red Anchor issued 9,375 ordinary shares of Red Anchor to the Company at US$160 per share, representing 15% of the post-closing issued and outstanding voting shares of Red Anchor on a fully-diluted basis.

Axia Corporation

On May 2, 2017, the Company formed a joint venture with Coherent Asia, Limited ("Coherent") to research and develop a fintech risk allocation platform business intended to initially service Southeast Asia countries. Under the terms of the agreement, the joint venture initially operates as a Hong Kong company named "Axia Corporation Limited" ("Axia"), with Axion Interactive holding a 70% interest and Coherent holding a 30% interest in Axia. Through Axion Interactive and pursuant to the joint venture agreement, the Company funded an initial US$500,000 upon entering into the joint venture, US$500,000 at the beginning of the third and fourth quarters (July and October) of 2017 and the Company's last funding obligation of US$500,000 on March 1, 2018. The Company continues to fund on a monthly basis while Axia's team reviews third party financing opportunities.

Overview – Summary of Businesses at December 31, 2018

<u>Axion Games</u>

Axion Games owns two studios in PRC, one in Shanghai and a smaller one in Suzhou, with a combined total of approximately 292 employees as of December 31, 2018. Axion Games commenced operations in 2006 and for several years focused primarily on providing premium outsourcing services and licensing game development technology to third-party customers. Axion Games was originally formed as a joint venture between Epic

Games International Ltd. (USA) ("Epic Games") and AEH, a holding company established by Axion Games' founders. Initially, Axion Games provided outsourcing services to Epic Games and worked on several of Epic Games' major hits. Axion Games subsequently expanded its reach and became an outsourcing developer to numerous other high-profile game developers and publishers. Axion Games and its team have delivered tens of thousands of premium game assets (including small assets such as virtual weapons or characters; larger assets such as game levels, maps or prototypes to show game dynamics; and even complete games) to dozens of clients, and its assets have contributed to several major global titles.

Outsourcing has been critical in training and conditioning Axion Games' developers. Axion Games' outsourcing clients are mostly premium international publishers and have stringent requirements with respect to quality, cost, and prompt delivery. In order to meet these requirements, Axion Games' developers must use the latest techniques and technologies, and by continually challenging Axion Games' developers to meet stringent requirements of its outsourcing clients, Axion Games believes its outsourcing business has both served as an excellent training platform for its developers and also created a culture of excellence, efficiency and accountability. In addition, Axion Games' engineering capabilities have benefitted from its partnership with Epic Games and Epic Games' UnReal Engine, a leading global software platform for game developers that includes advanced physics and graphics engines. As a result of this prior licensing relationship, Axion Games' engineers have a high degree of competency in advanced game engine design, which has allowed Axion Games to develop proprietary technology, called Atlas, that enables massively multiplayer online games, including server management tools and game asset generators, to populate large virtual worlds with game objects. A key strategy of Axion Games going forth is to lead PRC and Southeast Asia (via TAI) in the development of VR games and augmented reality AR applications.

In addition to outsourcing, Axion Games also develops its own games, which has been the company's focus in recent years. As a result of Axion Games' advanced development know-how, efficiencies and capabilities gained by providing services to its outsourcing clients, Axion Games is able to develop premium games at a much lower cost than its competitors in developed countries.

Products

To date, Axion Games has made three commercially viable games, Fat Princess (Sony PS3, action strategy), MARS (PC online shooting), and Kingdom (mobile action role playing), all of which have generated revenues of more than 200% of their development costs. Axion Games derives profits from its proprietary games in three ways:

- publishing (operating) the game itself;
- pre-selling the rights to its games (licensing); and
- royalties from publishers around the world who have purchased the rights to Axion Games' games.

Since 2015, Axion Games has focused on its current large-scale online game, "Rising Fire", a multiplayer online, third-person shooting and a role-playing game which has been selected by Tencent Holdings Limited ("Tencent") for publishing on the PC platform for the Chinese market. Large-scale online games published by Tencent are extensively tested during the commercialisation process. As a result, in May 2016 and September 2016, Alpha 1 and Alpha 2 testing on Rising Fire were completed, whereby technical and commercial viability were tested on 2,000 and 4,000 users, respectively. From late May 2017 until mid-July 2017, Closed Beta 1 testing of Rising Fire was completed, whereby over 61,000 users participated, and user behaviour was analysed. From late December 2017 until March 10, 2018, Closed Beta 2 testing of was completed, whereby over 100,000 users participated. Rising Fire was made commercially available on June 28, 2018 on selected Tencent platform and continues to progress through the early stages of its strategic launch cycle through Tencent's "WeGame" network. Axion Games has delivered Rising Fire content payloads to Tencent approximately every five weeks since the initial launch of the game on June 28th, 2018. These updates included content ranging from player skins, weapons, and maps to more technical augmentations to satisfy the market. Axion Games and Tencent have increased the amount of time in between content payloads in order to provide mass content updates, with the next expected delivery scheduled for the first two weeks of June 2019.

True Axion Interactive

As discussed earlier (see "INVESTMENTS/ACQUISITIONS – True Axion Interactive"), in December 2016, the Company and True Corporation (through their respective subsidiaries/affiliates) agreed to form a joint venture.

True Axion Interactive ("TAI") commenced operations in March 2017 and has grown to approximately 75 as of December 31, 2018 (current: 80), comprised of experienced game designers, 2D & 3D artists, animators, and software engineers. Like Axion Games, TAI has focused its resources on the development of innovative online PC and mobile games. Currently, TAI has one notable game in its pipeline, called "Invictus: Lost Soul", which is the first AAA quality, eSports focused mobile game made in Thailand and developed by TAI. Invictus is the first mobile game released by TAI and is anticipated to be fully available for the Thai market on Apple's App Store and Google Play within the first two weeks of May 2019. Invictus is a real-time, card-controlled PvP fighting game geared for the bulk, 18-35 year-old player market. TAI recently hosted a commercial launch press conference for Invictus.

Axia Corporation

With respect to technology development, Axia continues extensive development of the core insurance risk-transfer technology making significant improvements in both speed and scalability. It also added its own Know-Your-Customer (KYC) micro service using the data from Thailand and United Nation sanctions list.

During the 2018 fiscal year, Axia was in communications with strategic investors and partners to assist the company with licensing matters and go-to-market strategies. In partnership with SCB Life and RGA as the reinsurer, Axia conducted a workshop to work on a new health product. As a result, Axia developed a fully customizable health insurance policy (first in industry) including pricing and policy wordings. Furthermore, Axia is in early stage of developing highly customizable travel insurance policy.

Red Anchor Trading/HotNow

Red Anchor is 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. HotNow is one of Thailand's Top 10 list of free lifestyle applications on iOS App Store.

The next development step remains focused on expansion of core features into POS, CRM, and a customer loyalty program to help merchants further strengthen relationships with their customers. These new features are expected to enable the HotNow team to understand further user spending habits, which in turn is expected to allow the team to expand the revenue model into collecting service fees in the form of commission taken out from the top line of sales.

Innovega

Innovega is developing proprietary display technology based on eyewear and contact lenses that enhances human vision, allowing the wearer to simultaneously access digital media while remaining fully engaged in their normal activities. Specifically, Innovega's display technology aims to enhance the user's normal vision to make it possible to view VR and AR images in the same way the user views the real world. The business model provides for licensing patented video eyewear technology and platforms to digital media and consumer product companies, enabling them to deliver high-performance personal displays in a more compact and less invasive form-factor. The resulting products and platforms are intended to offer unique benefits that include transparent optics, panoramic fields of view, and full HD/3D performance while enabling stylish and highly functional eyewear designs.

As at December 31, 2018, the Company held approximately 6.1% of Innovega's issued and outstanding preference shares and approximately 1.4% of Innovega's total issued and outstanding shares and granted options (fully diluted basis).

OVERALL PERFORMANCE

Axion Ventures

As the Company's most significant asset is Axion Games with TAI considered as the Company's second most significant asset, the Company's operating activities are attributable to a single reportable and operating segment focusing primarily on the development and operation of PC and mobile games. As a result, Axion Games is consolidated in the financial statements. In addition, the QT and subsequent acquisitions were accomplished through an exchange of shares which resulted in the former shareholders of Axion Games, AEH and AEIH obtaining control of the Company. Accordingly, the QT was recorded as a reverse acquisition for accounting purposes, as Axion Games was deemed to be the accounting acquirer and Axion Ventures the accounting acquiree. Therefore, the consolidated financial statements are a continuation of the financial statements of Axion Games, while the capital structure is that of the Company. The video game operating segment has been identified on the basis of internal management reports viewed by the chief operating decision maker, being the senior executive officers of the Company. The chief operating decision maker reviews the revenue analysis by outsourcing, licensing, game operation and training, and the profit from operation of the Company as a whole when making decisions about allocating resources and assessing performance of the Company.

With respect to other parts of the business that may have a disproportionate effect on revenue, profit or loss or cash needs, outsourcing, licensing, and game operation can all have such effect. For example, when Axion Games was established in 2006, its primary business purpose was providing game development services to publishers of online games on an outsourcing basis. The company gradually began changing its primary focus to proprietary game development. However, Axion Games' premium game outsourcing business served three important purposes: (i) to provide cash flows to fund the development of Axion Games' proprietary games; (ii) to provide ample practice and training opportunities for development staff; and (iii) to provide the infrastructure for managing a development studio at scale. As a result, outsourcing historically had a disproportionate effect on revenue and may in the future if Axion Games refocuses on increasing that revenue stream. When MARS, a PC online shooting game of Axion Games, was commercially launched in China in November 2011, the part of the business that began having a disproportionate effect on revenue became game operation. This shift was a result of Axion Games self-publishing MARS and the game eventually ranking as one of the top 10 PC online games in China in 2014, according to the China Game Weight Rank. As a result, revenue from MARS began accounting for the majority of Axion Games' revenue. As a result of the success of MARS and as the product coming to a more mature stage of its life cycle in 2015, Axion Games entered into a licensing agreement with Tencent in 2015 to develop Rising Fire. See "INVESTMENTS/ACQUISITIONS - Overview – Summary of Businesses at December 31, 2018 – Axion Games". As a result, a disproportionate effect on revenue may shift again but to the rights sales and royalties parts of the business.

With respect to parts of the business where there are any legal or other restrictions on the flow of funds from one part of the company's business to another, Axion Games operates the online games business in China through variable interest entities. As a result, although flow of funds may not be affected from one part of the business to another, Axion Games must take the appropriate tax planning measures to ensure funds can flow to parent and subsidiary operating companies with nominal adverse tax consequences.

The company faces typical video game industry and economic factors that can affect performance. There is fierce competition in the gaming industry. Axion Games and TAI compete with other developers, publishers and operators of games in China and elsewhere globally. The Company believes there are numerous different types of market players using various strategies to compete for a share of the online game market. These include extremely large game developers who focus on individual massive projects, to more traditional retailers and online publishers to large volume publishers who develop or purchase a large number of games with lower production value with the aim of finding one or two hits among them. The Company's strategy to compete is to leverage its existing skill base in sophisticated game technologies and to control production costs to produce high quality online games across platforms. The Company's comparatively low-cost structure competes well against the large competitors in developed economies and the company's skill base in sophisticated technologies creates barriers to entry for the small competitors in developed economies and the competitors in developing economies. The Company currently focuses on the development of premium-quality 3D online games for PC, mobile and console platforms. The Company's portfolio of games and strong pipeline provides a strong base for the Company's proprietary development business.

In general, and as discussed in more detail below, the changes that have occurred or expected changes that have not occurred in the Company's financial condition and financial performance are a result of resources allocated to Rising Fire's success and the delayed launch of Rising Fire. Rising Fire is a 600+ man-year project and China hosts the largest video game market of any country in the world and Tencent is its' leading video game distributor. Axion Games continues creating new content and optimizing Rising Fire based on continuous feedback that has been provided by Tencent from a current subset of the approximately 1.5 million players that have been able to download the game thus far. As a result of the resources required to successfully launch Rising Fire and the delayed launch (soft-launch commenced June 2018), the Company's financial performance has been adversely affected with increased expenses. Axion Games and Tencent continue to work on the appropriate player retention to merit top tier Tencent marketing resources for its full commercial launch in China.

With respect to the effect of discontinued operations on current operations, although certain parts of the business have received reduced emphasis, there have been no discontinued operations. The following is a more detailed analysis of the Company's financial condition, financial performance, and cash flows.

Revenue from external customers and non-current assets are divided into the following geographical areas:

	December 31, 2018 (US$'000s)	December 31, 2017 (US$'000s)
By country/region		
Canada (Place of domicile)	-	-
China	8,083	5,025
Rest of the world	832	1,638
Total Revenue	8,915	6,663

	December 31, 2018 (US$'000s)	December 31, 2017 (US$'000s)
By country/region		
Canada	345	314
China	10,015	7,352
Rest of the world	3,224	2,560
Non-current assets	13,584	10,226

As at December 31, 2018, the Company had US$2,689 thousand (December 31, 2017 – US$3,699 thousand) of cash and cash equivalents and total current assets of US$5,034 thousand (December 31, 2017 – US$4,986 thousand). The decrease in cash and cash equivalents was primarily due to the net cash flows used for the operations during the year. The increase in total current assets was mainly because of the increase in trade receivable in relation to Wanda project.

Current liabilities and related party loans as at December 31, 2018 totalled US$16,462 thousand (December 31, 2017 - US$8,050 thousand). The increase in current liabilities was due to the increase in loans from related parties and deferred revenue, and the recognition of derivative financial instruments.

As at December 31, 2018, shareholders' equity was comprised of share capital of US$30,157 thousand (December 31, 2017 - US$29,203 thousand), foreign currency translation reserve of negative US$421 thousand (December 31, 2017 - US$374 thousand), share-based payment reserve of US$2,085 thousand (December 31, 2017 - US$1,524 thousand) and accumulated losses of US$33,326 thousand (December 31, 2017 - US$23,818 thousand). Total equity attributable to the owners of Axion Ventures was negative US$663 thousand (December 31, 2017 - US$7,283 thousand).

Working capital, which was comprised of current assets less current liabilities, was negative US$11,428 thousand as at December 31, 2018, compared to a working capital of negative US$3,064 thousand as at

December 31, 2017. The decrease in working capital was primarily due to the net cash flows used for the operations during the period.

During the year ended December 31, 2018, the Company reported a net loss of US$9,320 thousand (negative US$0.045 basic and diluted loss per share) compared to a net loss of US$8,248 thousand (negative US$0.034 basic and diluted loss per share) during the year ended December 31, 2017.

The Company's revenue increased by US$2,252 thousand for the year ended December 31, 2018, compared to the year ended December 31, 2017. The increase was mainly due to the increase in revenue from outsourcing upon the completion of Wanda project.

For further discussion and analysis of the Company's financial condition, financial performance, and cash flows, please see "DISCUSSION OF OPERATIONS" and "CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES" below.

SELECTED ANNUAL INFORMATION

The following table sets out selected annual information for the years ended December 31, 2018, 2017, and 2016:

	December 31, 2018 (US$'000s)	**December 31, 2017 (US$'000s)**	**December 31, 2016 (US$'000s)**
Revenue	8,915	6,663	7,105
Gross profit	4,157	3,011	3,236
Operating expenses	(11,990)	(11,774)	(8,510)
Other (expenses)/income	(1,463)	515	(1,006)
Income tax	(24)	-	(13)
Net loss	(9,320)	(8,248)	(6,293)
Total assets	18,618	15,212	13,561
Non-current financial liabilities	3,083	-	-
Total liabilities	19,545	8,050	7,142
Basic and diluted loss per share	(4.47) cents	(3.40) cents	(0.99) cents

The Company did not pay any dividends in respect of the years ended December 31, 2018, 2017, and 2016 and does not expect the payment dividends in the current year.

See "Discussion of Operations" below for discussion and analysis.

DISCUSSION OF OPERATIONS

The following table sets out revenue, profit and expenses of the Company and includes variances and percentage changes for the years ended December 31, 2018 and 2017:

	Year Ended December 31			
	2018 US$'000	**2017 US$'000**	**Variance US$'000**	**% of change**
Revenue	8,915	6,663	2,252	34%
Gross profit	4,157	3,011	1,146	38%
Research and development expenses	(1,451)	(1,625)	174	(11%)
Selling and distribution expenses	(701)	(1,116)	415	(37%)
General and administrative expenses	(9,838)	(9,033)	(805)	9%
Other income	39	505	(466)	(92%)
Finance income	19	20	(1)	(5%)
Finance expense	(450)	(55)	(395)	718%
Fair value loss on other investments	(1,465)	-	(1,465)	N/A
Fair value gain on derivative financial instruments	460	-	460	N/A
Foreign currency exchange gain	(66)	45	(111)	(247%)
Loss before taxation	**(9,296)**	**(8,248)**	**(1,048)**	**(13%)**
Income tax	(24)	-	(24)	N/A
Net loss	**(9,320)**	**(8,248)**	**(1,072)**	**13%**

Revenue

Revenue for the year ended December 31, 2018 was US$8,915 thousand compared to US$6,663 thousand in the prior year and included the following segment details:

	Year Ended December 31			
	2018 US$'000	**2017 US$'000**	**Variance US$'000**	**% of change**
Outsourcing:				
Wanda	4,373	1,027	3,346	325%
Non-Wanda outsourcing	2,174	2,371	(197)	(8%)
Licensing	101	487	(386)	(79%)
Game operation	2,095	2,444	(349)	(14%)
Training	172	334	(162)	(49%)
	8,915	**6,663**	**2,252**	**34%**

Outsourcing Revenue. Wanda outsourcing revenue for the year ended December 31, 2018 was US$4,373 thousand (For the year ended December 31, 2017 - US$1,027 thousand). The increase was because revenue was fully recognized upon the completion of the project in the fourth quarter of 2018.

Non-Wanda Outsourcing. Non-Wanda outsourcing revenue decreased approximately US$197 thousand as demand slightly decreased in smaller-contract outsourcing activities with other customers. This revenue source varied from period to period when customer needs and demands changed.

Licensing Revenue. Licensing revenue from game publishers was US$101 thousand for the year ended December 31, 2018 (for the year ended December 31, 2017 - US$487 thousand). The decrease was attributable to the decrease in royalties received from the game publishers of MARS as the product cycle reached decline stage and because Axion Games continues to update Rising Fire before Tencent marketing resources are allocated and resulting revenue in connection therewith.

Game Operation Revenue. Game operation revenue (or "self-publishing" - primarily MARS revenue generated in China) was US$2,095 thousand for the year ended December 31, 2018 (for the year ended December 31, 2017 - US$2,444 thousand). This change was primarily attributable to the decrease in in-game sales of MARS as the product cycle reached decline stage.

Training Revenue. Training revenue was US$172 thousand for the year ended December 31, 2018 (year ended December 31, 2017 - US$334 thousand). The decrease of US$162 thousand came as the result of the decrease of student enrollment during the year.

Cost of Sales / Gross Margin

Cost of sales for the year ended December 31, 2018 was US$4,758 thousand compared to US$3,652 thousand for year ended December 31, 2017. The increase of approximately US$1,106 thousand was in line with the increase in revenue.

Expenses, other income and fair value changes

	Year Ended December 31			
	2018 US$'000	**2017 US$'000**	**Variance US$'000**	**% of change**
Research and development expenses	(1,451)	(1,625)	174	(11%)
Selling and distribution expenses	(701)	(1,116)	415	(37%)
General and administrative expenses	(9,838)	(9,033)	(805)	9%
Other income	39	505	(466)	(92%)
Finance income	19	20	(1)	(5%)
Finance expense	(450)	(55)	(395)	718%
Fair value loss on other investments	(1,465)	-	(1,465)	N/A
Fair value gain on derivative financial instruments	460	-	460	N/A
Foreign currency exchange gain	(66)	45	(111)	(247%)
	(13,453)	**(11,259)**	**(2,194)**	**19%**

Expenses, other income and fair value changes were US$13,453 thousand for the year ended December 31, 2018, compared to US$11,259 thousand for the year ended December 31, 2017. Details of significant items are as follows:

- Research and development expenses were US$1,451 thousand for the year ended December 31, 2018 (for the year ended December 31, 2017 - US$1,625 thousand). The decrease was because several games were capitalized as intangible assets when they reached the capitalization criteria of accounting standards during the year.

- Selling and distribution expenses were US$701 thousand for the year ended December 31, 2018 (for the year ended December 31, 2017 - US$1,116 thousand). The decrease was because less marketing expenses were allocated to MARS, as the Company believes the game has reached its decline stage of product cycle.

- General and administrative expenses were US$9,838 thousand for the year ended December 31, 2018 (for the year ended December 31, 2017 - US$9,033 thousand). The increase was mostly attributable to the increase in the expenses arising from the expansion of operations of Axion Ventures, Axion Interactive, TAI and other subsidiaries.

- The decrease in other income was because there was a decrease in government subsidies during the year.

- Finance expense comprised of interest expenses paid to convertible debentures and loans from related parties.

- Fair value loss on other investments during the year resulted from recognition of fair value loss on the investment in Red Anchor (for the year ended December 31, 2017 - US$ nil).

- Fair value gain on derivative financial instruments during the year was attributable to the appraisal of fair values of the conversion and call options of the convertible debentures at the reporting date (for the year ended December 31, 2017 - US$ nil).

- Foreign currency exchange gain was recognized during year because of the appreciation of Renminbi against US dollars during the year.

SUMMARY OF QUARTERLY RESULTS

Axion Ventures

Selected unaudited condensed consolidated interim financial statements published of operations for the Axion Ventures during the last eight quarters are as follows:

Quarter ended	Total revenue US$'000	Gross profit US$'000	Net gain/(loss) US$'000	Earnings per share US$
December 31, 2018	4,644	3,037	930	(0.0018)
September 31, 2018	1,203	344	(4,440)	(0.0182)

Quarter ended	Total revenue US$'000	Gross profit US$'000	Net gain/(loss) US$'000	Earnings per share US$
June 30, 2018	1,850	716	(2,535)	(0.0121)
March 31, 2018	1,218	60	(3,275)	(0.0127)
December 31, 2017 (restated)	2,146	1,191	(2,759)	(0.0139)
September 30, 2017	1,605	579	(2,084)	(0.0112)
June 30, 2017	1,512	624	(1,567)	(0.0096)
March 31, 2017	1,400	617	(1,838)	(0.0117)

Revenue in the fourth quarter of 2018 increased due to the completion of Wanda project.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

Axion Ventures

The Company's consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has experienced significant losses since completing its QT on May 11, 2016, has a working capital deficiency, and negative cash flows from operations. These circumstances indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern, and therefore, the Company may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Company's primary sources of capital available for financing its acquisitions and day-to-day operations are existing working capital, funds generated from the operations of its subsidiaries, equity from the capital markets and related party debt.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to prudently manage its financial position, cash generated from operations and related party debt in such a manner so as to ensure it will have sufficient liquidity to pay its obligations when due.

Management believes that the Company is presently able to meet its working capital requirements, including obligations as they become due, and currently knows of no reason why this should not continue to be the case.

In particular, the directors of the Company have considered the following: (1) cashflow generated from the launch of Rising Fire, Invictus and Fighter Royale in the following year sufficient to support the Company's operations in the coming twelve months; (2) loans from significant shareholders and related parties sufficient to support the Company's operating in the coming twelve months along with their continued financial support; and (3) financing in Q1 2019.

	December 31, 2018 US$'000	December 31, 2017 US$'000	Variance US$'000	% of Change
Current Assets				
Cash and cash equivalents	2,689	3,699	(1,010)	(27%)
Trade and other receivables	2,216	1,287	929	72%
Derivative financial instruments	129	-	129	N/A
	5,034	4,986	48	0%
Current Liabilities				
Trade and other payables	3,895	4,657	(762)	(16%)
Loans from related parties	7,894	559	7,335	1314%
Deferred revenue	4,035	2,834	1,201	42%
Derivative financial instruments	638	-	638	N/A
	16,462	8,050	8,412	104%
Working Capital	**(11,428)**	**(3,064)**	**(8,364)**	**(272%)**

As of December 31, 2018, the Company had US$2,689 thousand in cash and cash equivalents (December 31, 2017 - US$3,699 thousand) and working capital of negative US$11,428 thousand (December 31, 2017 - negative US$3,064 thousand). The decrease in working capital was primarily due to the net cash flows used for the operations during the year.

Management believes that the Company has sufficient working capital to meet its current financial obligations and working capital needs from the continuous financial support obtained from the major shareholders if necessary.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

TRANSACTIONS BETWEEN RELATED PARTIES

Axion Ventures

During the year ended December 31, 2018, the Company had the following transaction with related parties:

- Wages and salaries of US$179 thousand (year ended December 31, 2017 – US$132 thousand) paid to Ms. Nithinan Boonyawattanapisut, spouse of Mr. Todd Bonner who is Chief Executive Officer and Chairman of the Company, for being the Chief Executive Officer of TAI.

- Receivable from Red Anchor Thailand, a company controlled by Ms. Nithinan Boonyawattanapisut, amounting to US$279 thousand as of December 31, 2018 (December 31, 2017: US$297 thousand). The balance due was unsecured, interest-bearing at 1% per annum and repayable in year 2022. This receivable is related to the captial structure of TAI to comply with Thai law.

- Receivable from Coherent, a company controlled by a major shareholder of Axia, amounted US$15 thousand as of December 31, 2018 (December 31, 2017: US$15 thousand). The balance due was unsecured, interest-free and repayable on demand and loaned to offset a payable to Coherent noted below.

- Loans from Red Anchor and Cern One Limited, companies controlled by Ms. Nithinan Boonyawattanapisut), totalled US$6,837 thousand (December 31, 2017: US$ nil). The balance due was unsecured, interest-free and repayable on demand.

- Loan from AEH, a company controlled by a major shareholder of Axion Games, amounted US$1,058 thousand (December 31, 2017: US$559). The balance due was unsecured, interest-bearing at 8% per annum and repayable on demand. The business reason for these loans is to provide working capital to Axion Games to meet its operating obligations. Both the Company and this shareholder have provided loans on equal terms to meet these obligations.

- Payable to Coherent amounted US$83 thousand as of December 31, 2018 (December 31, 2017: US$83 thousand). The balance due was unsecured, interest-free and repayable on demand and the business reason was a result of an early regulatory capitalization requirement prior to the Company and Coherent establishing the joint venture.

- Payables to True Digital Plus Co. Ltd., a company controlled by a major shareholder of TAI, totalled US$2 thousand as of December 31, 2018 (December 31, 2017: US$70 thousand). The balance due was unsecured, interest-free and repayable on demand evidenced by basic promissory notes.

The transactions and balances were considered in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

FOURTH QUARTER

No fourth quarter events or items affected the Company's financial condition, financial performance or cash flows, year-end and other adjustments, seasonal aspects of the Company's business, or dispositions of business segments.

During three months ended December 31, 2018, the Company recorded revenue of US$4,644 and operating expenses of US$1,680, achieving a net income of US$930, compared to revenue of US$2,146, operating expenses of US$4,336 and a net loss of US$2,758 for the three months ended December 31, 2017. The significant factors affecting the comparability of the Q4 result are described elsewhere in this MD&A.

PROPOSED TRANSACTIONS

The Company has no pending transactions expected to affect financial condition, financial performance, and cash flows not otherwise discussed in this MD&A.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Adoption of new or revised accounting policies - effective January 1, 2018

In the current year, the Company has applied for the first time the following new or revised standards issued by the IASB, which are relevant to and effective for the Company's financial statements for the annual period beginning on January 1, 2018:

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of Hong Kong Financial Reporting Standards
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
IFRIC - Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

IFRS 9 - Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments*, which replaced IAS 39 *Financial Instruments: Recognition and Measurement.* The comparative information has not been adjusted. IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL"). The Company has assessed that its financial assets currently measured at amortised cost and will continue with their respective classification and measurements upon the adoption of IFRS 9.

With respect to the Company's financial assets classified as "available-for-sale" previously, these were investments in equity investments, which the Company has determined to classify as FVTPL on transition to IFRS 9.

At December 31, 2017, the Company held available-for-sale equity investments at cost, which approximated fair value, amounting to $1,521,000. At December 31, 2017, as there was no balance in the available-for-sale reserve, there was no IFRS 9 transition adjustment required as at January 1, 2018.The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month ECL or a lifetime expected credit loss, depending on the asset and the facts and circumstances. There was no impairment adjustment required as at January 1, 2018 to reflect the new impairment requirements under IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 was adopted using the cumulative effect method, without practical expedients whereby the cumulative effect of the change determined by applying the principles and practices in IFRS 15 for contracts that are incomplete on the date of adoption, if any, is recognized in retained earnings at January 1, 2018. There was no cumulative effect adjustment required to be recognized at January 1, 2018 to recognize the impact of applying the new revenue standard. There was also no material impact on recognized revenue in the year ended December 31, 2018 from the adoption of the new revenue standard. The comparative information has not been adjusted.

New or revised IFRSs that have been issued but are not yet effective

At the date of authorization of these financial statements, the following new/revised IFRSs, potentially relevant to the Company's consolidated financial statements, have been issued but are not yet effective and have not been early adopted by the Company. The Company's current intention is to apply these changes on the date they become effective.

IFRS 16	Leases[1]
IFRS 17	Insurance Contract[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRS 3	Definition of a Business[2]
IFRIC - Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after January 1, 2019
2 Effective for annual periods beginning on or after January 1, 2020
3 Effective for annual periods beginning on or after January 1, 2021
4 Effective date not yet determined

The Company anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Company's accounting policies is provided below.

Other new and amended IFRSs are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 16 – Leases

IFRS 16, which will supersede IAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right-to-use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.In respect of the lessor accounting, 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.

As at December 31, 2018, the Company has total future minimum lease payments under non-cancellable operating lease of $1,277 thousand. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Company will recognize a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirement may result changes in measurement, presentation and disclosure as indicated above.

FINANCIAL INSTRUMENTS, OTHER INSTRUMENTS AND RISK EXPOSURE

Axion Ventures

Classification and initial measurement of financial assets

All financial assets are initially measured at fair value, and in the case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets are classified into the following categories:

- amortised cost;
- FVTPL; or
- fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or other income, except for expected credit losses ("ECL") of trade receivables which is presented within administrative expenses.

Subsequent measurement of financial assets

Debt investments

<u>Financial assets at amortized cost</u>

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Company's trade and other receivables, excluding prepaid expenses, loans to related companies, short term bank deposits and cash and cash equivalents fall into this category of financial instruments.

<u>Financial assets at FVTPL</u>

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell' are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements under IFRS 9 apply. The Company's derivative financial instruments and FVTPL investments fall into this category of financial instrument.

Fair value information

As at December 31, 2018, the Company's financial instruments were comprised of FVTPL investments, cash and cash equivalents, trade and other receivables, trade and other payables and derivative financial instruments.

The carrying values of these financial instruments approximate their fair values because of their current nature unless otherwise noted.

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; and

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).

As at December 31, 2018, the Company held investments consisting of common shares in Red Anchor and preference shares of Innovega, which were classified as fair value through profit or loss (FVTPL) and recognized at fair value. Fair value of derivative financial instruments is a level 2 instrument under the fair value hierarchy.

Financial instruments and related risks

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

Liquidity risk

Liquidity risk relates to the risk that the Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to liquidity risk in respect of settlement of trade and other payables, and in respect of its cash flow management. The Company'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 Company manages its liquidity needs by carefully monitoring forecast cash inflows and outflows due in the 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 Company 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 Company since prior years and are considered to have been effective in managing liquidity risks.

Analysed below is the Company'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 Company can be required to pay.

At December 31, 2018	Within one year or on demand US$'000
Trade payables	292
Accrued salaries and benefits	1,788
Accrued expenses	617
Other payables	889
Loans from related parties	7,894
	14,541

At December 31, 2017	Within one year or on demand US$'000
Trade payables	451
Accrued salaries and benefits	1,638
Accrued expenses	227
Other payables	325
Loans from related parties	559
	3,200

The Company 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.

Interest rate risk

The Company is exposed to interest rate risk on its variable rate term deposit investment which attracts interest at a rate of prime minus 2.10%.

Currency risk

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

The operating subsidiary, Axion Games mainly operates in the PRC, and the majority of the transactions are settled in RMB (Chinese Yuan Renminbi). As at December 31, 2018, the Company did not have significant foreign currency risk from its operations. As at December 31, 2018, the Company's beneficial ownership of Axion Games was 54.22%.

Another operating subsidiary, TAI mainly operates in Bangkok, Thailand and the majority of the transactions are settled in THB (Thai Baht). As at December 31, 2018, the Company did not have significant foreign currency risk from its operations. As at December 31, 2018, the Company, and its affiliates beneficially owned 60% of TAI.

As at December 31, 2018, the third operating associate company, Innovega, operates from Bellevue, Washington, and San Diego, California and the majority of the transactions are settled in USD (U.S. Dollars). As at December 31, 2018, the Company did not have significant foreign currency risk from its operations. As at December 31, 2018, the Company held approximately 6.1% of Innovega's issued and outstanding preference shares and approximately 1.4% of Innovega's total issued and outstanding shares (common and preference).

As at December 31, 2018, the fourth operating associate company, Red Anchor, mainly operates in the Bangkok, Thailand and the majority of the transactions are settled in THB (Thai Baht). As at December 31, 2018, the Company did not have significant foreign currency risk from its operations. The Company currently holds issued and outstanding preference shares and 15% of Red Anchor total issued and outstanding common shares.

As at December 31, 2018, the fifth operating subsidiary company, Axia, mainly operated in Hong Kong and in Bangkok, Thailand and the majority of the transactions are settled in HKD (Hong Kong Dollars) and THB (Thai Baht). As at December 31, 2018, the Company did not have significant foreign currency risk from its operations. The Company currently holds issued and outstanding preference shares and 70% of Axia's total issued and outstanding common shares.

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 Company.

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

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

OTHER MD&A REQUIREMENTS - DISCLOSURE OF OUTSTANDING SHARE DATA

Axion Ventures Inc.

Common Shares

Axion Ventures' authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. There are no preferred shares issued and outstanding. As at January 1, 2018, there were 237,122,450 common shares issued and outstanding. As at December 31, 2018 and April 30, 2019, there were 239,392,241 and 245,142,241 common shares issued and outstanding, respectively, as a result of the following:

	Issued Common Shares
As at January 1, 2018	237,122,450
Shares issued in connection with ex-director option exercise (Apr 3)	100,000
Shares issued in connection with QT finder warrant exercise (May 11)	1,000,000
Shares issued in connection with payment in kind interest (June 30)	65,594
Shares issued in connection with officer option exercise (Nov 29)	1,000,000
Shares issued in connection with payment in kind interest (Dec 31 issuance but effective issued Jan 4, 2019)	104,197
As at December 31, 2018	**239,392,241**
Shares issued in connection with March 21, 2019 private placement	5,750,000
As at April 30, 2019	**245,142,241**

Escrow

Performance Escrow: Pursuant to the QT, 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.

On April 29, 2019, the performance escrow deadline was extended to include audited fiscal years ending 31 December 2019 and 2020 described in detail under "Particulars of Other Matters to be Acted Upon – Amendment to Performance Escrow Agreement" on pages 26-29 of the Company's Management Information Circular dated November 16, 2018 and filed on www.sedar.com on November 20, 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.

Stock Options

As at December 31, 2017 there were a total of 16,442,678 stock options outstanding. Since December 31, 2017: (i) an Ex-director exercised 100,000 stock options in January 2018; (ii) 2,000,000 stock options were granted to incoming management in May 2018; (iii) 500,000 stock options were granted to an incoming director in June 2018; (iv) 75,000 stock options were granted to a consultant investor relations firm in July 2018; (v) 350,000 stock options were granted to employees in September 2018; (vi) 500,000 stock options were granted to a consultant in October 2018; and (vii) an officer exercised 1,000,0000 stock options in October 2018. As a result, there are currently 17,627,678 stock options outstanding.

Warrants

There are currently no issued and outstanding warrants.

RISK FACTORS

Axion Ventures Inc.

A detailed discussion of the Company's risks can be found under "Description of the Business – Axion Ventures – Risk Factors" and "Description of the Business – Axion Games, Foreign Operations & Regulatory Environment and True Axion Interactive – Risk Factors" on pages 11-14, pages 27-36 and pages 36-60, respectively, of the Company's Annual Information Form ("AIF") dated December 5, 2018 and filed on SEDAR on December 7, 2018.

Investors should carefully consider when making an investment decision concerning the common shares of the Company. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial may also impair the operations of the Company. If any such risks actually occur, the financial condition, liquidity, and results of operations of the Company could be materially adversely affected, and the ability of the Company to implement its growth plans could be adversely affected. An investment in the Company is speculative.

An investment in the Company will be subject to certain material risks and investors should not invest in securities of the Company unless they can afford to lose their entire investment.

ADDITIONAL INFORMATION & APPROVAL

Additional information relating to the Company, including the Company's AIF, is on SEDAR at www.sedar.com.

The Board has approved the disclosure contained in this MD&A as of April 30, 2019.