



Axion Ventures Inc.

Condensed Consolidated Interim Financial Statements

(Expressed in United States Dollars)

June 30, 2019

(Unaudited)

Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Axion Ventures Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Vancouver, Canada

August 28, 2019

Axion Ventures Inc.
Condensed Consolidated Interim Financial Statements (Unaudited)
(Expressed in United States Dollars)

Condensed Consolidated Interim Statement of Loss and Comprehensive Loss

		Three months ended June 30,		Six months ended June 30,	
	Notes	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Revenue	4	1,196	1,850	2,375	3,068
Cost of sales		<u>(838)</u>	<u>(1,134)</u>	<u>(1,703)</u>	<u>(2,292)</u>
Gross profit		358	716	672	776
Research and development expenses		(684)	(412)	(1,369)	(787)
Selling and distribution expenses		(167)	(188)	(346)	(360)
General and administrative expenses		<u>(2,176)</u>	<u>(2,690)</u>	<u>(4,124)</u>	<u>(5,143)</u>
Loss from operations		(2,669)	(2,574)	(5,167)	(5,514)
Other income		97	11	99	22
Finance expense	14	(246)	(128)	(481)	(124)
Fair value gain on FVTPL investments		-	240	-	240
Fair value (loss)/gain on derivative financial instruments		242	(49)	(37)	(360)
Foreign currency exchange loss		<u>(59)</u>	<u>(35)</u>	<u>(116)</u>	<u>(74)</u>
Loss before income tax		(2,635)	(2,535)	(5,702)	(5,810)
Income tax expense		<u>(24)</u>	-	<u>(55)</u>	-
Loss for the period		(2,659)	(2,535)	(5,757)	(5,810)
Other comprehensive (loss)/income:					
<i>Item that will or may be reclassified to profit or loss:</i>					
Exchange difference arising on translation of foreign operations		<u>35</u>	<u>(214)</u>	<u>(57)</u>	<u>(71)</u>
Other comprehensive (loss)/income for the period, net of tax		<u>35</u>	<u>(214)</u>	<u>(57)</u>	<u>(71)</u>
Total comprehensive loss		(2,624)	(2,749)	(5,814)	(5,881)

Axion Ventures Inc.
Condensed Consolidated Interim Financial Statements (Unaudited)
(Expressed in United States Dollars)

Condensed Consolidated Interim Statement of Loss and Comprehensive Loss

	Notes	Three months ended June 30,		Six months ended June 30,	
		2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Loss for the period attributable to:					
Owners of the Company		(2,613)	(2,483)	(5,535)	(5,032)
Non-controlling interests		(46)	(52)	(222)	(778)
		<u>(2,659)</u>	<u>(2,535)</u>	<u>(5,757)</u>	<u>(5,810)</u>
Total comprehensive loss attributable to:					
Owners of the Company		(2,551)	(2,654)	(5,476)	(5,124)
Non-controlling interests		(73)	(95)	(338)	(757)
		<u>(2,624)</u>	<u>(2,749)</u>	<u>(5,814)</u>	<u>(5,881)</u>
Loss per share attributable to owners of the Company					
	8				
Basic		(1.23 cents)	(1.21 cents)	(2.64 cents)	(2.48 cents)
Diluted		(1.23 cents)	(1.21 cents)	(2.64 cents)	(2.48 cents)

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

Axion Ventures Inc.
Condensed Consolidated Interim Financial Statements (Unaudited)
(Expressed in United States Dollars)

Condensed Consolidated Interim Statement of Financial Position

		June 30, 2019	December 31, 2018
	<i>Notes</i>	US\$'000	US\$'000
Assets			
Non-current assets			
Intangible assets	9	14,434	12,525
Property, plant and equipment	10	736	780
Loan to related parties	15	291	279
Right-to-use assets	3	325	-
Total non-current assets		15,786	13,584
Current assets			
Trade and other receivables	11	2,172	2,216
Derivative financial instruments	14	4	129
Cash and cash equivalents	12	1,049	2,689
Total current assets		3,225	5,034
Total assets		19,011	18,618
Liabilities			
Current liabilities			
Trade and other payables	13	6,050	3,895
Loans from related parties	15	6,959	7,894
Deferred revenue		4,049	4,035
Derivative financial instruments	14	550	638
Total current liabilities		17,608	16,462
Net current liabilities		(14,383)	(11,428)
Non-current liabilities			
Convertible debentures	14	3,512	3,061
Deferred tax liabilities		55	22
Lease liabilities	3	324	-
Total non-current liabilities		3,891	3,083
NET ASSETS/(LIABILITIES)		(2,488)	(927)

Axion Ventures Inc.
Condensed Consolidated Interim Financial Statements (Unaudited)
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Condensed Consolidated Interim Statement of Financial Position

	June 30, 2019 US\$'000	December 31, 2018 US\$'000
Issued capital and reserves attributable to owners of the Company		
Share capital	34,197	30,157
Foreign currency translation reserve	480	421
Share-based payment reserve	2,274	2,085
Accumulated losses	<u>(39,802)</u>	<u>(33,326)</u>
	(2,851)	(663)
Non-controlling interests	363	(264)
TOTAL EQUITY	<u>(2,488)</u>	<u>(927)</u>

General information and going concern (Note 1)

Events after reporting date (Note 17)

See accompanying notes to these unaudited condensed consolidated interim financial statements.

The unaudited condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 28, 2019 and were signed on its behalf by:

/s/ John Todd Bonner
John Todd Bonner
Chairman and CEO

/s/ Stephen Willey
Stephen Willey
Director

Axion Ventures Inc.
Condensed Consolidated Interim Financial Statements (Unaudited)
(Expressed in United States Dollars)

Condensed Consolidated Interim Statement of Changes in Equity

	Equity attributable to the owners of the Company						Non-controlling interests \$'000	Total equity \$'000
	Share capital \$'000	Foreign currency translation reserve \$'000	Share-based payment reserve \$'000	Other reserve \$'000	Accumulated losses \$'000	Total \$'000		
At January 1, 2019	30,157	421	2,085	-	(33,326)	(663)	(264)	(927)
Comprehensive income for the period								
Loss for the period	-	-	-	-	(5,535)	(5,535)	(222)	(5,757)
Exchange difference arising on translation of foreign operations	-	59	-	-	-	59	(116)	(57)
Total comprehensive income for the period	-	59	-	-	(5,535)	(5,476)	(338)	(5,814)
Contributions by and distributions to owners								
Issuance of new shares	4,040	-	-	-	-	4,040	-	4,040
Recognition of equity-settled share-based payments	-	-	207	-	-	207	-	207
Transactions with non-controlling interest	-	-	-	-	(959)	(959)	965	6
Forfeiture of share options	-	-	(18)	-	18	-	-	-
Total contributions by and distributions to owners	4,040	-	189	-	(941)	3,288	965	4,253
At June 30, 2019	34,197	480	2,274	-	(39,802)	(2,851)	363	(2,488)

Axion Ventures Inc.
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Condensed Consolidated Interim Statement of Changes in Equity

	Equity attributable to the owners of the Company						Non-controlling interests \$'000	Total equity \$'000
	Share capital \$'000	Foreign currency translation reserve \$'000	Share-based payment reserve \$'000	Other reserve \$'000	Accumulated losses \$'000	Total \$'000		
At January 1, 2018	29,203	374	1,524	-	(23,818)	7,283	(121)	7,162
Comprehensive income for the period								
Loss for the year	-	-	-	-	(5,032)	(5,032)	(778)	(5,810)
Exchange difference arising on translation of foreign operations	-	(92)	-	-	-	(92)	21	(71)
Total comprehensive income for the year	-	(92)	-	-	(5,032)	(5,124)	(757)	(5,881)
Contributions by and distributions to owners								
Recognition of equity-settled share-based payments	-	-	380	-	-	380	-	380
Transactions with non-controlling interest	-	-	-	-	(429)	(429)	37	(392)
Forfeiture of share options	-	-	(35)	-	35	-	-	-
Issuance of new shares	350	-	(88)	-	-	262	-	262
Total contributions by and distributions to owners	350	-	257	-	(394)	213	37	250
At June 30, 2018	29,553	282	1,781	-	(29,244)	2,372	(841)	1,531

Axion Ventures Inc.
Condensed Consolidated Interim Financial Statements (Unaudited)
(Expressed in United States Dollars)

Condensed Consolidated Interim Statement of Cash Flows

	Notes	Three months ended June 30,		Six months ended June 30,	
		2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Cash flows from operating activities					
Loss before income tax		(2,635)	(2,535)	(5,702)	(5,810)
Adjustments for:					
Depreciation of property, plant and equipment		77	60	130	100
Depreciation of right of use asset		109	-	109	-
Amortisation of intangible assets		77	4	83	7
Share-based payment		45	202	207	380
Provision for impairment of trade receivables		-	1	-	1
Finance expense		246	128	481	124
Fair value loss on derivative financial instruments		(242)	49	37	360
Fair value gain on FVTPL investments		-	(240)	-	(240)
		<u>(2,323)</u>	<u>(2,331)</u>	<u>(4,655)</u>	<u>(5,078)</u>
(Increase)/Decrease in trade and other receivables		(136)	(389)	44	25
Increase/(Decrease) in trade and other payables		1,091	1,386	2,155	3,342
(Decrease)/Increase in deferred revenue		<u>(93)</u>	<u>(95)</u>	<u>14</u>	<u>774</u>
Cash used in operations		<u>(1,461)</u>	<u>(1,429)</u>	<u>(2,422)</u>	<u>(937)</u>
Income taxes paid		-	-	-	-
Net cash flows used in operating activities		<u>(1,461)</u>	<u>(1,429)</u>	<u>(2,422)</u>	<u>(937)</u>
Investing activities					
Purchase of intangible assets	9	(852)	(931)	(1,814)	(1,860)
Purchase of property, plant and equipment	10	23	(73)	(8)	(139)
Lease payments	3	(127)	-	(127)	-
Acquisition of non-controlling interests		-	(392)	-	(392)
Interest received/(paid)		<u>(5)</u>	<u>-</u>	<u>(3)</u>	<u>4</u>
Net cash used in investing activities		<u>(961)</u>	<u>(1,396)</u>	<u>(1,952)</u>	<u>(2,387)</u>

Axion Ventures Inc.
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Condensed Consolidated Interim Statement of Cash Flows

	Notes	Three months ended June 30,		Six months ended June 30,	
		2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Financing activities					
Issue of shares, net of transaction costs		-	197	4,040	217
Issue of convertible debentures, net of transaction costs		-	-	-	909
Increase/(decrease) in loans from related parties		(313)	1,825	(935)	1,825
Net cash flows generated from financing activities		(313)	2,022	3,105	2,951
Net decrease in cash and cash equivalents		(2,735)	(803)	(1,289)	(373)
Cash and cash equivalents at the beginning of the period		3,969	4,245	2,689	3,699
Exchange difference on cash and cash equivalents		(185)	(90)	(351)	26
Cash and cash equivalents at the end of the period		1,049	3,352	1,049	3,352

See accompanying notes to these unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2019

1. General Information and going concern

Axion Ventures Inc. (“Axion Ventures” or the “Company”) was incorporated under the British Columbia *Business Corporations Act* on June 21, 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 the “Exchange”).

On May 11, 2016, the Company completed its Qualifying Transaction (“QT”) as defined under the policies of the TSX-V and as particularly described in its TSX-V filing statement previously filed with Canadian regulatory authorities. As a result of the completion of the QT, 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 May 18, 2016 under the symbol “CSP”.

On November 1, 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 are governed by the release provisions of Tier 1 Issuer’s escrow.

On March 9, 2017, the Company changed its name from “Capstream Ventures Inc.” to “Axion Ventures Inc.” and effective from March 10, 2017, the Company’s common shares are traded under the new name and new symbol “AXV” on the TSX-V.

After the completion of the QT, Axion Ventures became an Investment Issuer primarily focused on investments in the online video gaming sector, as well as other information technology (“IT”) sectors.

On October 25, 2018, the Company’s common shares commenced trading on the OTCQX® Best Market in the United States under the symbol “AXNVF”.

The address of the Company’s corporate office and principal place of business is Suite 1400 - 400 Burrard Street Vancouver, British Columbia, V6C 3A6, Canada.

These condensed consolidated interim 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 Qualifying Transaction 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 realize its assets and discharge its liabilities in the normal course of business.

The Company’s ability to continue as a going concern is dependent upon its ability to generate profits and positive cash flows from operations from the launch of personal computer (“PC”) and mobile games under development, to obtain additional funding from financing arrangements, if and when needed by the Company and the continued support by its related parties. However, there can be no assurance that these activities will be successful. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values and classification of assets and liabilities, and such adjustments could be material.

Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2019

These condensed consolidated interim financial statements for the periods ended June 30, 2019 and 2018 were authorized for issue by the Board of Directors of the Company on August 28, 2019.

2. Statement of compliance and basis of presentation

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) incorporating interpretations issued by the International Financial Reporting Interpretations Committee (“IFRICs”), applicable to preparation of interim financial statements including International Accounting Standard 34 - Interim Financial Reporting (“IAS 34”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018.

The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2018 except for the adoption of the new and amended IFRSs as disclosed in note 3.

These condensed consolidated interim financial statements are presented in United States Dollars (“US\$”), unless otherwise stated. References to Canadian Dollars are indicated by “CAD” or “C\$”.

3. Applications of new and amended IFRSs

On January 1, 2019, the Company and its subsidiaries (collectively referred to as the “Group”) adopted the following new and amended IFRS:

IFRS 16 – Leases

IFRS 16 Leases sets out the principles for recognition, measurement, presentation, and disclosure of leases. It eliminates the classification of leases as either operating or finance leases required by IAS 17 and introduces a single lessee accounting model.

The Company leases various office spaces. Up until December 31, 2018, all leases of the Company were classified as operating leases and payments made were charged directly to profit or loss.

From January 1, 2019, leases are recognized as a right-to-use asset with a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company’s incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2019

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a term of 12 months or less.

The Company adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules were therefore recognized in the opening balance sheet on January 1, 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard.

- Account for leases with a remaining term of less than 12 months as of January 1, 2019 as short-term leases;
- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease payments as an expense and not recognize a right-to-use asset if the underlying asset is of low dollar value; and
- Use hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to its office space leases. The Company estimated the term of all its leases based on their contractual provisions. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 8%. The associated right-of-use assets were measured at the value of the lease liability. As a result, on January 1, 2019, the Company recognized total lease liabilities and right-of-use assets of \$433,916.

A continuity of the Company's lease liabilities and right-of-use assets is as follows:

Lease Liabilities	Office Space US\$'000
Balance as at December 31, 2018	-
Adoption of IFRS 16	434
Payments	(127)
Finance expense	17
Balance as at June 30, 2019	324

Right-of-Use Assets	Office Space US\$'000
Balance as at December 31, 2018	-
Adoption of IFRS 16	434
Depreciation expense	(109)
Balance as at June 30, 2019	325

Axion Ventures Inc.
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Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2019

4. Revenue

	Three months ended June 30,		Six months ended June 30,	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Outsourcing	303	1,243	996	1,866
Licensing	311	28	331	58
Game operation	555	535	1,020	1,048
Training	27	44	28	96
	1,196	1,850	2,375	3,068

5. Segment information

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is defined on the basis of the internal management reporting information that is provided to and regularly reviewed by the executive directors in order to allocate resources and assess performance of the segment. During the year, executive directors regularly review revenue and operating results derived from outsourcing, licensing, game operation and training, which are considered as one single operating segment.

The Group's revenue from external customers and information about its non-currents assets by geographical location are detailed below.

	Three months ended June 30,		Six months ended June 30,	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
By country/region				
China	1,066	1,455	1,840	2,565
Rest of the world	130	395	535	503
Total revenue	1,196	1,850	2,375	3,068

	June 30, 2019 US\$'000	December 31, 2018 US\$'000
By country/region		
Canada (Place of domicile)	364	345
China	11,153	10,015
Rest of the world	4,269	3,224
Non-current assets	15,786	13,584

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Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2019

6. Expenses by nature

	Three months ended June 30,		Six months ended June 30,	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Amortization of intangible assets [^]	73	3	85	6
Depreciation of property, plant and equipment*	77	59	130	97
Employee benefit expenses (Note 7)	2,948	3,068	6,229	5,955
Provision for bad debts	-	-	-	1
Operating lease expense - land and buildings	216	306	442	609

[^] Amortization expenses of \$920 (six months ended June 30, 2018: \$1,000), \$933 (six months ended June 30, 2018: \$1,000), \$83,032 (six months ended June 30, 2018: \$4,000) and \$nil (six months ended June 30, 2018: \$1,000) have been included in cost of sales, research and development expenses, general and administrative expenses and capitalization of intangible assets respectively.

* Depreciation expenses of \$4,769 (six months ended June 30, 2018: \$12,000), \$3,143 (six months ended June 30, 2018: \$2,000), \$122,211 (six months ended June 30, 2018: \$83,000) and \$1,926 (six months ended June 30, 2018: \$3,000) have been included in cost of sales, research and development expenses, general and administrative expenses and capitalization of intangible assets, respectively.

7. Employee benefit expense

Employee benefit expenses (including directors) comprise:

	Three months ended June 30,		Six months ended June 30,	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Wages and salaries	2,324	2,364	4,801	4,459
Social welfare costs	535	507	1,084	1,026
Share-based payment expense	45	147	207	380
Other benefits	44	50	137	90
	2,948	3,068	6,229	5,955

During the six months ended June 30, 2019, employee benefit expenses of approximately \$1,455,000, \$1,441,000, \$230,000, and \$2,747,000 had been included in cost of sales, research and development expenses, selling expenses, and general and administrative expenses, respectively (during the three months ended June 30, 2019 approximately \$724,000, \$726,000, \$117,000, and \$1,228,000, respectively), while approximately \$356,000 (three months ended June 30, 2019, approximately \$153,000) was capitalised to intangible assets.

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Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2019

8. Loss per share

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Numerator				
Loss for the period and loss used in basic and diluted EPS	(2,613)	(2,483)	(5,535)	(5,032)
Denominator				
Weighted average number of ordinary shares used in basic and diluted loss per share	212,142,241	204,789,117	209,618,630	203,007,150

The Company has a number of share options in which have not been included in the diluted loss per share calculation, due to their anti-dilutive effect.

9. Intangible assets

During the period, additions to intangible assets by acquisition and capitalization in respect of development costs amounted to approximately \$1,816,000 (six months ended June 30, 2018: \$1,860,000).

During the period, no intangible assets were disposed of (six months ended June 30, 2018: \$ nil).

10. Property, plant and equipment

During the period, the Group acquired property, plant and equipment of approximately \$37,000 (six months ended June 30, 2018: \$139,000).

During the period, \$27,000 of property, plant and equipment was disposed of (six months ended June 30, 2018: \$ nil).

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**Notes to the Condensed Consolidated Interim Financial Statements for the Six
Months Ended June 30, 2019**

11. Trade and other receivables

	June 30, 2019 US\$'000	December 31, 2018 US\$'000
Trade receivables	749	1,457
Less: Provision for impairment of trade recoveries	(13)	(11)
Trade receivables - net	736	1,446
Deposits	259	254
Prepaid expenses	240	210
Other receivables	915	284
Advances to employees	22	22
Total trade and other receivables	2,172	2,216

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.

12. Cash and cash equivalents

	June 30, 2019 US\$'000	December 31, 2018 US\$'000
Cash at banks	959	2,602
Short term deposits	90	87
	1,049	2,689

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.

13. Trade and other payables

	June 30, 2019 US\$'000	December 31, 2018 US\$'000
Trade payables	137	292
Accrued salaries and benefits	2,128	1,788
Other tax liabilities	377	309
Accrued expenses	786	617
Other payables	2,622	889
	6,050	3,895

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 their fair values.

Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2019

14. Derivative financial instruments and convertible debentures

Debenture A

On March 2, 2018, the Company closed a non-brokered private placement of convertible debentures in the principal amount of approximately \$909 thousand (the "Debenture A"). The Debenture A is convertible into common shares of the Company at a conversion price of C\$0.93 per Share. The Debenture A matures two years from the date of the closing and bears interest at the rate of 15% per annum, payable semi-annually in shares with the number of shares determined at the market price (as defined in the policies of the TSX-V) on the applicable interest payment date, unless the holder elects not to convert the interest into shares in which case the interest shall be calculated at a rate of 8% per annum and paid in cash.

During the period ended June 30, 2019, the Company recognized accretion expense of \$101 thousand with respect to Debenture A. Balance outstanding as at June 30, 2019 was \$920 thousand.

Debenture B

On July 19, 2018, the Company closed a non-brokered private placement of convertible debenture in the principal amount of \$3 million (the "Debenture B"). The Debenture B is convertible into common shares of the Company at a conversion price of C\$0.90 per share. The Debenture B matures two years from the date of the closing and bears interest at the rate of 8% per annum, payable annually.

During the period ended June 30, 2019, the Company recognized accretion expense of \$350 thousand with respect to Debenture B. Balance outstanding as at June 30, 2019 was \$2.59 million.

Derivative Financial Instruments

At any time after the date which is one year after the issue date, the then outstanding principal amounts of the debentures may be prepaid in whole or in part upon payment from the Company to the holder of an amount equal to 130% of the then outstanding principal (which amount includes payment of any accrued and unpaid interest). The holders have the option to exercise the holders' rights of conversion for a period of 30 days after receipt of notice from the Company regarding prepayment. In addition, instead of converting into Shares of the Company, the holders can elect to convert principal into shares of one of the Company's non-gaming portfolio assets at the lesser of (i) 130% the most recent price per portfolio company share paid by the Company or (ii) the effective price per portfolio company share based on the pre-money valuation of the portfolio company in the most recent arm's length financing prior to such conversion.

On initial recognition, embedded derivatives options were separated from their host contracts on the basis of the stated terms of the option feature. The initial carrying amount of the host instruments were the residual amount after separating the embedded derivative.

The liability components are classified as non-current liabilities and carried at amortized cost using the effective interest method. The derivative components are measured at fair value using the Monte Carlo Simulation Model method. The fair value changes were recognized in profit or loss.

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Management considers the Debentures A and B as hybrid instruments with main debt contract and embedded derivatives options. The Issuer's Call Option and the Holders' Conversion and Put Option are considered by management as derivative financial instruments in current liabilities measured at fair value through profit or loss.

	June 30, 2019 \$'000
Liability component	
Balance – Beginning of the period	3,061
Accrued effective interest charges	451
Balance – End of the period	3,512
Fair value of embedded derivative component in respect of the call option - financial assets	
Fair value – Beginning of the period	129
Changes in fair value	(125)
Balance – end of the period	4
Fair value of embedded derivative component in respect of the conversion and put option - financial liabilities	
Fair value – beginning of the period	638
Changes in fair value	(88)
Balance – End of the period	550

The key inputs used for the calculation of the fair value of the embedded derivative components of convertible note are as follows:

	Debenture A	Debenture B
Time to maturity	0.67 years	1.05 years
Share price (CAD)	\$0.910	\$0.910
\$/CAD exchange rate	1.3095	1.3095
Conversion price	\$0.710	\$0.687
Spread	25.84%	25.84%
Expected share price volatility	68.75%	61.64%
Risk-free rate	2.01%	1.93%
Discount rate	27.86%	27.77%

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15. Related party transactions

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

Income paid in the period:

	Three months ended June 30,		Six months ended June 30,	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Outsourcing services fees received from Epic Games International Ltd., a shareholder of Axion Games	-	-	-	38
	-	-	-	38

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

	Three months ended June 30,		Six months ended June 30,	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Wages and salaries	193	160	404	320
Social welfare costs	-	-	1	2
Share-based payment expense	74	58	180	116
	267	218	585	438

As at June 30, 2019, \$53,515 was owing to directors and officers of the Company.

Receivables:	June 30, 2019 US\$'000	December 31, 2018 US\$'000
<i>Loan to related parties</i>		
Red Anchor (Thailand) Co., Ltd.	291	279
<i>Other receivables</i>		
Coherent Asia, Limited	-	15
	291	294

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Payables:	June 30, 2019 US\$'000	December 31, 2018 US\$'000
<i>Loans from related parties</i>		
Red Anchor Trading Corp.	5,085	6,037
Shareholder of Axion Entertainment Holdings Ltd.	1,074	1,058
Cern One Limited (Note 17)	800	800
<i>Other payables</i>		
Epic Games, Inc.	260	260
Fighter Base Publishing Inc.	58	58
Coherent Asia, Limited	-	83
True Digital Plus Co., Ltd.	-	2
	<u>7,277</u>	<u>8,298</u>

16. Share-based payment transactions

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

	Number	Weighted Average Exercise Price CAD
At December 31, 2017	16,442,678	0.49
Granted	3,425,000	0.91
Lapsed/Forfeited	(1,140,000)	0.60
Exercised	(1,100,000)	0.48
At December 31, 2018	17,627,678	0.59
Granted	800,000	0.94
Lapsed/Forfeited	(1,270,000)	0.84
At June 30, 2019	<u>17,157,678</u>	<u>0.59</u>
Exercisable at June 30, 2019	<u>10,679,011</u>	<u>0.54</u>

During the six months ended June 30, 2019, an amortisation of share options over the vesting period of \$207,000 (six months ended June 30, 2018: \$380,000) was recognized in loss for the period.

Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2019

Fair value of share options granted during the six months ended June 30, 2019

On May 2, 2019, the Company granted 800,000 share options to a Corporate & Business Development consultant to purchase common shares of the Company exercisable at C\$0.94 per share, vesting over a three-year term.

The fair value of the share options granted is approximately \$276,577 in aggregate, was calculated as of the date of grant using the Binominal model, using the following weighted average assumptions:

	May 2, 2019
Exercise price	CAD0.94
Expected volatility	66.55%
Expected life of option	5 years
Dividend yield	0%
Risk-free rate	1.61%

17. Events after the reporting date

1. On July 3, 2019, the Company issued 97,248 common shares to settle semi-annual interest payment of \$67,621, on Debenture A.
2. The Company entered into additional loan agreements with Cern One Limited, whereby Cern One Limited loaned the Company \$873,000 to fund ongoing expenses. The loans are unsecured, bear interest at 8% per annum, and are payable on their first anniversary. Cern One Limited is a related party to the Company.
3. On August 22, 2019, the Company completed a non-brokered private placement of convertible debentures ("Debentures C") for proceeds of \$1,375,000. Debentures C are convertible into common shares of the Company at a conversion price of C\$0.90 per share, mature on August 22, 2020, and bear interest at the rate of 10% per annum.

The outstanding principal amount may be repaid in whole or in part upon payment from the Company to the holder of an early repayment penalty amount equal to 120% of the outstanding balance, including any accrued and unpaid interest.