C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	5	1	0	7	9	2

C O M P A N Y   N A M E

XELEB INC. (A Wholly Owned Subsidiary of Fluxion, Inc.)

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

7th Floor, Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AFS	SEC	N/A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
info@xeleb.com	889-6467	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
5	June 15	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Raymond Gerard S. Racaza	raymond@xurpas.com	889-6467	N/A

CONTACT PERSON's ADDRESS

7th Floor, Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Xeleb Inc.
7th Floor, Cambridge Centre Building
108 Tordesillas St., Salcedo Village
Makati City

Report on the Interim Financial Statements

We have audited the accompanying interim financial statements of Xeleb Inc. (a wholly owned subsidiary of Fluxion, Inc.), which comprise the interim statements of financial position as of August 31, 2016 and December 31, 2015, and the interim statements of comprehensive income, interim statements of changes in equity and interim statements of cash flows for the eight-month period ended August 31, 2016 and for the period June 2, 2015 to August 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Interim Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Xeleb Inc.
7th Floor, Cambridge Centre Building
108 Tordesillas St., Salcedo Village
Makati City

We have audited the interim financial statements of Xeleb Inc. (the Company) for the eight-month period ended August 31, 2016, on which we have rendered the attached report dated October 7, 2016.

In compliance with Securities Regulation Code Rule 68, we are stating that the Company has one (1) stockholder owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321616, January 4, 2016, Makati City

October 7, 2016

XELEB INC.
(A Wholly Owned Subsidiary of Fluxion, Inc.)

INTERIM STATEMENTS OF FINANCIAL POSITION

	August 31, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash (Notes 4 and 14)	**₱2,789,737**	₱1,214,674
Accounts receivable (Notes 5, 11 and 14)	**14,552,491**	2,915,060
Other current assets (Note 6)	**7,696,078**	10,753,337
Total Current Assets	**25,038,306**	14,883,071
Noncurrent Asset		
Intangible assets (Note 7)	**7,879,926**	9,194,118
Deferred tax assets (Note 12)	**–**	4,894,679
Other noncurrent assets (Note 6)	**3,243,464**	8,374,183
Total Noncurrent Assets	**11,123,390**	22,462,980
	₱36,161,696	₱37,346,051
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 8, 11 and 14)	**₱11,256,030**	₱43,762,745
Income tax payable	**2,603,320**	–
Total Current Liabilities	**13,859,350**	43,762,745
Equity (Capital Deficiency) (Note 13)		
Capital stock	**5,000,000**	5,000,000
Retained earnings (Deficit)	**17,302,346**	(11,416,694)
Total Equity (Capital Deficiency)	**22,302,346**	(6,416,694)
	₱36,161,696	₱37,346,051

See accompanying Notes to Interim Financial Statements.

XELEB INC.
(A Wholly Owned Subsidiary of Fluxion, Inc.)

INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE EIGHT-MONTH PERIOD ENDED AUGUST 31, 2016 AND FOR THE PERIOD JUNE 2, 2015 TO AUGUST 31, 2015*

	2016 (Eight months)	June 2 to August 31, 2015
INCOME		
Service income (Notes 9 and 11)	**₱49,733,304**	₱949,922
Interest income (Note 4)	**2,988**	–
	49,736,292	949,922
COST AND EXPENSES (Note 10)		
Cost of services	**1,896,227**	658,095
General and administrative expenses	**6,813,292**	6,339,280
	8,709,519	6,997,375
INCOME (LOSS) BEFORE INCOME TAX	**41,026,773**	(6,047,453)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 12)	**12,307,733**	(1,812,082)
NET INCOME (LOSS)	**28,719,040**	(4,235,371)
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱28,719,040**	(₱4,235,371)

**The Company was incorporated and registered with the Securities and Exchange Commission on June 2, 2015 and has started commercial operations thereafter.*

See accompanying Notes to Interim Financial Statements.

XELEB INC.
(A Wholly Owned Subsidiary of Fluxion, Inc.)

INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE EIGHT-MONTH PERIOD ENDED AUGUST 31, 2016 AND
FOR THE PERIOD JUNE 2, 2015 TO AUGUST 31, 2015*

	2016 (Eight months)	June 2 to August 31, 2015
CAPITAL STOCK - ₱1 par value (Note 13)		
Authorized - 20,000,000 shares		
Issued and outstanding - 5,000,000 shares	**₱5,000,000**	₱5,000,000
RETAINED EARNINGS (DEFICIT) (Note 13)		
Balance at January 1	**(11,416,694)**	–
Net income (loss)	**28,719,040**	(4,235,371)
Balance at August 31	**17,302,346**	(4,235,371)
	₱22,302,346	₱764,629

**The Company was incorporated and registered with the Securities and Exchange Commission on June 2, 2015 and has started commercial operations thereafter.*

See accompanying Notes to Interim Financial Statements.

XELEB INC.
(A Wholly Owned Subsidiary of Fluxion, Inc.)

INTERIM STATEMENTS OF CASH FLOWS
FOR THE EIGHT-MONTH PERIOD ENDED AUGUST 31, 2016 AND FOR THE PERIOD JUNE 2, 2015 TO AUGUST 31, 2015*

	2016 (Eight months)	June 2 to August 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱41,026,773**	(₱6,047,453)
Adjustment for:		
Amortization of intangible assets (Notes 7 and 10)	**1,314,192**	166,886
Interest income (Note 4)	**(2,988)**	–
Net income (loss) before changes in working capital	**42,337,977**	(5,880,567)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	**(11,637,431)**	(1,063,912)
Other assets	**8,187,978**	(10,256,567)
Increase (decrease) in accounts and other payables	**(32,506,715)**	17,175,546
Net cash provided by (used in) from operations	**6,381,809**	(25,500)
Interest received	**2,988**	–
Income tax paid	**(4,809,734)**	–
Net cash provided (used in) operating activities	**1,575,063**	(25,500)
CASH FLOW FROM FINANCING ACTIVITY		
Issuance of shares of stock (Note 13)	–	5,000,000
NET INCREASE IN CASH	**1,575,063**	4,974,500
CASH AT BEGINNING OF PERIOD	**1,214,674**	–
CASH AT END OF PERIOD (Note 4)	**₱2,789,737**	₱4,974,500

**The Company was incorporated and registered with the Securities and Exchange Commission on June 2, 2015 and has started commercial operations thereafter.*

See accompanying Notes to Interim Financial Statements.

XELEB INC.
NOTES TO INTERIM FINANCIAL STATEMENTS

1. Corporate Information

Xeleb Inc. (the Company) is a domestic corporation registered with the Philippine Securities and Exchange Commission on June 2, 2015 primarily for the purpose of designing, developing, testing, buildings, marketing, distributing, maintaining, supporting, customizing, selling and/or re-selling applications, games, software, digital solutions, whether internet, mobile or other handheld applications, portals, hardware and other related products and services, except internet provider services, both for proprietary and custom development purposes.

On August 22, 2016, Fluxion, Inc. (the Parent Company) acquired 3,350,000 shares or 67% majority stake in the Company from Xurpas Inc. (the Ultimate Parent Company) at ₱1.00 per share or ₱3.35 million. On the same date, the Parent Company acquired the remaining 33% stake in the Company from various individuals for a total consideration of ₱1.65 million.

This resulted in the Company becoming a 100% owned subsidiary of the Parent Company.

The Parent Company is a subsidiary of Xurpas Inc. (the Ultimate Parent Company), a publicly listed company which is 71.59% owned by its directors and officers and the rest by the public. The Ultimate Parent Company's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

The Company's registered office address and principal place of business is at 7th Floor, Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City.

The accompanying interim financial statements were approved and authorized for issue by the Board of Directors (BOD) on October 7, 2016.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying interim financial statements have been prepared on a historical cost basis. The interim financial statements are presented in Philippine Peso (₱) which is also the Company's functional currency. All amounts have been rounded off to the nearest peso unless otherwise indicated.

Statement of Compliance

The accompanying interim financial statements of the Company as of August 31, 2016 and December 31, 2015 and for the eight-month period ended August 31, 2016 and for the period June 2, 2015 to August 31, 2015 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). These interim financial statements will be used for the Parent Company's plan to conduct an initial public offering.

The Company qualified to mandatorily adopt the PFRS for Small and Medium-sized Entities (PFRS for SMEs) that has been approved for adoption by the Philippine Financial Reporting Standards Council on October 13, 2009 and by the Securities and Exchange Commission (SEC) on December 3, 2009. The PFRS for SMEs is effective for annual periods beginning on or after January 1, 2010, and is required to be used by entities that meet the definition of an SME, which include among others, an entity with total assets of between ₱3.00 million and ₱350.00 million or total liabilities of between ₱3.00 million and ₱250.00 million.

However, the Company availed of the exemption to adopt PFRS for SMEs since it is a subsidiary of Fluxion, Inc., which is in the process of filing its interim financial statements for the purpose of issuing common shares to the public. The Ultimate Parent Company, is also a publicly listed entity reporting under full PFRS.

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the interim financial statements are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations which became effective beginning January 1, 2016. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the interim financial statements.

- Philippine Accounting Standards (PAS) 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
- PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities,* and PAS 28, *Investment in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception* (Amendments)

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
- PFRS 7, *Financial Instruments: Disclosures* - *Applicability of the Offsetting Disclosures to Condensed Financial Statements*
- PAS 19, *Employee Benefits - Regional Market Issue regarding Discount Rate*
- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Standards and Interpretations Issued but not yet Effective

The Company will adopt the following amended standards and interpretations when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the interim financial statements.

Effective 2017

- PAS 7, *Statement of Cash Flows - Disclosure Initiative* (Amendments)
- PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* (Amendments)

Effective 2018

- PFRS 9, *Financial Instruments*
  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The Company is currently assessing the impact of adopting this standard.

Effective 2019

- PFRS 16, *Leases*
  On January 13, 2016, the International Accounting Standards Board (IASB) issued its new standard, International Financial Reporting Standards (IFRS) 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations. On February 17, 2016, the Financial Reporting Standards Council (FRSC) locally adopted PFRS 16, *Leases.*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted the new revenue recognition standard. The Company is currently assessing the impact of adopting this standard.

Deferred Effectivity

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The following new standard issued by the IASB has not yet been adopted by the FRSC:

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Cash in Bank
Cash in bank earns interest at the prevailing bank deposit rates.

Financial Instruments
Date of recognition
The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Fair value measurement
The Company measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the interim financial statements are categorized within the fair value hierarchy (see Note 14).

For assets and liabilities that are recognized in the Company's interim financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Initial recognition of financial instrument
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities.

The Company classifies its financial assets as loans and receivables and financial liabilities as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, reevaluates such designation at every financial reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As at August 31, 2016 and December 31, 2015, the Company's financial instruments are of the nature of loans and receivables and other financial liabilities.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the profit or loss (interest income or interest expense and other financing charges accounts) unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount. Accounts receivable are recognized initially at original invoice amounts. These are subsequently carried at cost unless when it is collectible beyond one year, in which, they are carried at amortized cost using the effective interest method.

At the end of each reporting period, the carrying amount of receivables is reviewed to determine whether there is any objective evidence that the amount is not recoverable. Any impairment loss is recognized immediately in profit or loss. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy relates to “Cash” and “Accounts receivable” accounts in the statement of financial position.

After initial measurement, accounts receivable are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in “Interest income” account in the profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss as “Provision for impairment losses” under “General and administrative expenses” account. Accounts receivable are included in current assets if maturity is within 12 months from the reporting date.

Other financial liabilities
Other financial liabilities pertains to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Company’s “Accounts and other payables” (except “Deferred output VAT”, “Taxes payable” and statutory payables included as “Others”) and other obligations that meet the above definition (other than liabilities covered by other accounting standards).

Impairment of Financial Assets
The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk

characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Accounts receivable, together with associated allowance accounts, are written off when there is no realistic prospect of the future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, credit history, past-due status and terms.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the right to receive cash flows from the asset have expired;
b. the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
c. the Company has transferred its right to receive cash flows from the asset and either; (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

<u>Other Current Assets</u>
Other current assets consist of expenses not yet incurred but are already paid in cash. Other current assets are measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level.

The estimated useful lives of intangible assets with finite lives are assessed at their individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The estimated useful life of intangible assets pertaining to internally developed software is five (5) years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Research and development costs
Research costs are expensed as incurred and are included under "Costs of services" in the statement of comprehensive income. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets
The Company assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The Company also determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Company calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the associate company and recognizes the difference in the statement of comprehensive income.

In assessing impairment indicators, the Company considers, as a minimum, the following indicators: (a) dividends exceeding the total comprehensive income of the associate in the period the dividend is declared; or (b) the carrying amount of the investment in the separate financial statements exceeding the carrying amount of the associate's net assets, including goodwill.

Equity

Capital stock

Capital stock is measured at par value for all shares issued.

Retained earnings

Retained earnings represent the cumulative balance of net income or loss.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and sales taxes, if any. The Company assesses its revenue recognition arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Service income

Service income is recognized when the service has been rendered through distribution of content services.

Interest income

Interest income is recognized as it accrues.

Costs and Expenses

"Cost of services" and "General and administrative expenses" are expenditures that arise in the course of the ordinary operations of the Company. The following specific recognition criteria must also be met before costs and expenses are recognized.

Cost of services

Cost that includes all expenses associated with the specific sale of services. Cost of services include outsourced services, prizes and winnings and amortization of intangible assets. Such costs are recognized when the related service income have been recognized. This also includes research costs that are expensed outright.

General and administrative expense

General and administrative expenses constitute expenses of administering the business and are recognized in the profit or loss as incurred.

Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred tax
Deferred tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic associates and interests in joint ventures.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date. Movements in deferred tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

<u>Foreign Currency Transactions</u>
Transactions denominated in foreign currencies are initially recorded in Philippine Peso at the exchange rate based on the Philippine Dealing and Exchange (PDEx) rate at the date of transaction. Foreign currency-denominated monetary assets and liabilities are retranslated at the closing PDEx rate at reporting date. Exchange gains or losses arising from foreign currency transactions are recognized in profit or loss.

<u>Value-Added Tax (VAT)</u>
Revenue, expenses and assets are recognized net of the amount of VAT except:

- Where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- Receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the tax authority is included as part of other current assets or payables in the statement of financial position.

<u>Provisions</u>
Provisions are recognized when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies
Contingent liabilities are not recognized in the interim financial statements but are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the interim financial statements but are disclosed in the notes when an inflow of economic benefits is probable.

Events after the Reporting Period
Post year-end events up to date when the interim financial statements are authorized for issue that provide additional information about the Company's position at the reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the interim financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying interim financial statements in compliance with PFRS requires management to make judgments and estimates that affect the amounts reported in the interim financial statements and accompanying notes. The judgments and estimates used in the accompanying interim financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the interim financial statements. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the interim financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the interim financial statements:

Determining functional currency
The Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine Peso. It is the currency of the economic environment in which the Company primarily operates.

Management's Use of Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating allowance for impairment losses
The Company maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts.

These factors include, but are not limited to, the length of the Company's relationship with the customer, the customer's payment behavior and other known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying value of the Company's accounts receivables amounted to ₱14.55 million and ₱2.92 million as of August 31, 2016 and December 31, 2015, respectively (see Note 5).

Estimating useful lives of intangible assets
The Company estimates the useful lives of intangible assets based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives would increase the recorded amortization expense and decrease noncurrent assets.

The net book value of intangible assets amounted to ₱7.88 million and ₱9.19 million as of August 31, 2016 and December 31, 2015, respectively (see Note 7).

Evaluating impairment of nonfinancial assets
The Company assesses impairment on its intangible assets and other assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The factors that the Company considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results and significant changes in the manner of use of the acquired assets or the strategy for overall business.

The carrying values of these nonfinancial assets follow:

	August 31, 2016	December 31, 2015
Intangible assets (Note 7)	**₱7,879,926**	₱9,194,118
Other assets (Note 6)	**10,939,542**	19,127,520
	₱18,819,468	₱28,321,638

Recognizing deferred tax assets
The Company reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The Company looks at its projected performance in the sufficiency of future taxable income.

Also, the Company does not recognize certain deferred taxes on deductible temporary differences where doubt exists as to the tax benefits they will bring in the future. There were no unrecognized deferred tax assets as of August 31, 2016 and December 31, 2015.

The Company's recognized deferred tax assets amounted to nil and ₱4.89 million as of August 31, 2016 and December 31, 2015, respectively (see Note 12).

4. Cash

This account consists of:

	August 31, 2016	December 31, 2015
Cash on hand	**₱774**	₱–
Cash in banks	**2,788,963**	1,214,674
	₱2,789,737	₱1,214,674

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to ₱2,988 and nil for the eight-month period ended August 31, 2016 and for the period June 2, 2015 to August 31, 2015, respectively.

5. Accounts Receivable

This account consists of:

	August 31, 2016	December 31, 2015
Trade receivables (Note 11)	**₱14,544,491**	₱2,915,060
Financial assets	**8,000**	–
	₱14,552,491	₱2,915,060

Trade receivables mainly arise from the mobile content development services rendered by the Company to the Ultimate Parent Company. These are noninterest-bearing and are generally settled on a 30 to 60-day term.

Others are noninterest-bearing and are generally collectible within one year.

6. Other Assets

This account consists of:

	August 31, 2016	December 31, 2015
Prepaid professional fees	**₱10,939,542**	₱16,070,261
Deferred input VAT	–	2,966,350
Creditable withholding tax	–	90,909
	10,939,542	19,127,520
Less: Noncurrent portion of prepaid professional fees	**3,243,464**	8,374,183
	₱7,696,078	₱10,753,337

Prepaid professional fees represent prepayments for the use of celebrities' voice, name and image to be integrated in the games and promotional appearances during press briefings, product launches and player days. This is amortized over the lock-in period agreed by the Company and the celebrities which ranges from two to three years. The amortization is recognized as

“Professional fees” under “General and administrative expenses” (see Note 10).

Deferred input VAT represents input VAT related to unpaid balances for the services availed by the Company. These will be recognized as input VAT and applied against output VAT upon payment. Any remaining balance is recoverable in the future periods.

Creditable withholding tax represents amount of taxes withheld or deducted by various customers and to be claimed as tax credit to income tax due thereon.

7. Intangible Assets

This account pertains to casual games developed and launched by the Company in 2015. Amortization expense is recognized under “Cost of services” in relation to these games. The rollforward analysis of this account follows:

	August 31, 2016	December 31, 2015
Cost	**₱9,856,438**	₱9,856,438
Accumulated amortization		
At beginning of period	**(662,320)**	–
Amortization	**(1,314,192)**	(662,320)
At end of period	**(1,976,512)**	(662,320)
	₱7,879,926	₱9,194,118

Developed games considered to be significant to the total intangible assets recognized have remaining useful lives ranging from three to four years.

8. Accounts and Other Payables

This account consists of:

	August 31, 2016	December 31, 2015
Payable to a related party	**₱8,266,794**	₱41,786,915
Deferred output VAT	**1,558,338**	312,328
Trade payables	**710,412**	1,547,630
Taxes payable	**703,811**	107,182
Others	**16,675**	8,690
	₱11,256,030	₱43,762,745

Payable to a related party is noninterest-bearing and is due and demandable (see Note 11).

Deferred output VAT represents deferral of output VAT related to trade receivables for the services rendered by the Company. These will be recognized as output VAT upon collection of trade receivables.

Trade payables represent the unpaid subcontracted services and other cost of services to third parties. These are noninterest-bearing and are normally settled within one year.

Taxes payable consists of withholding taxes due to tax authorities. These are noninterest-bearing and are normally settled on a 30-day term.

Others are noninterest-bearing and are normally settled within one year.

9. Service Income

Service income amounting to ₱49.73 million and ₱0.95 million for the eight-month period ended August 31, 2016 and for the period June 2, 2015 to August 31, 2015, respectively, pertains to revenues earned from mobile content services rendered by the Company to the Ultimate Parent Company.

10. Costs and Expenses

Cost of services consist of the following:

	2016 (Eight months)	June 2 to August 31, 2015
Amortization expense (Note 7)	**₱1,314,192**	₱166,886
Outsourced services	**320,834**	491,209
Prizes and winings	**261,201**	–
	₱1,896,227	₱658,095

Outsourced services pertain to services availed by the Company for development of the mobile contents and applications.

General and administrative expenses consist of the following:

	2016 (Eight months)	June 2 to August 31, 2015
Professional fees (Note 6)	**₱5,230,719**	₱1,055,556
Salaries and wages	**1,229,171**	–
Transportation	**104,880**	29,410
Taxes and licenses	**78,937**	110,224
Advertising and promotions	**76,645**	5,113,033
Entertainment, amusement and recreation	**12,981**	16,681
Office supplies	**8,200**	13,009
Others	**71,759**	1,367
	₱6,813,292	₱6,339,280

11. Related Party Transactions

The Company, in the regular conduct of business, has entered in transactions with related parties. Parties are considered to be related if, among others, one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions, the parties are subject to common control or the party is an associate or a joint venture. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash.

Details of transactions with related parties and their outstanding balances follow:

	Terms	Conditions	Amount/ Volume August 31, 2016	August 31,, 2015	Outstanding Balance August 31, 2016 Receivable	Payable	December 31, 2015 Receivable	Payable
Ultimate Parent Company								
Accounts receivable	Due and demandable	Unsecured,no impairment	**₱49,733,304**	₱949,922	**₱14,544,491**	**₱–**	₱2,915,060	₱–
Advances	One year; noninterest-bearing	Unsecured, no imparment	**68,437**	15,675,201	**–**	**8,266,794**	–	41,786,915
			₱49,801,741	₱16,625,123	**₱14,544,491**	**₱8,266,794**	₱2,915,060	₱41,786,915

The Company entered into a licensing and revenue share agreement with the Ultimate Parent Company wherein the Company shall grant the Ultimate Parent Company a right to distribute on its platform all games and applications created, developed and licensed by the Company. In return, the Ultimate Parent Company shall pay the Company a certain percentage of the revenues generated from such applications. Total service revenue earned from the said transaction amounted to ₱49.73 million and ₱0.95 million for the eight-month period ended August 31, 2016 and for the period June 2, 2015 to August 31, 2015, respectively. Pertinent outstanding trade receivable as of August 31, 2016 and December 31, 2015 amounted to ₱14.54 million and ₱2.92 million, respectively.

In addition, the Company has outstanding payable to the Ultimate Parent Company amounting to ₱8.27 million and ₱41.79 million as of August 31, 2016 and December 31, 2015, respectively, for the operational expenditures paid by the Ultimate Parent Company on its behalf.

Key management compensation
The key management personnel of the Company are employees of the Ultimate Parent Company. The compensation of the said employees is paid by the Ulitamate Parent Company and as such, the necessary disclosures required by PAS 24, *Related Party Disclosures*, are included in the financial statements of the Ultimate Parent Company.

12. Income Tax

Provision for (benefit from) income tax for the eight-month period ended August 31, 2016 and for the period June 2, 2015 to August 31, 2015 consists of the following:

	2016 (Eight months)	June 2 to August 31, 2015
Current	**₱7,412,456**	₱–
Deferred	**4,894,679**	(1,812,082)
Final	**598**	–
	₱12,307,733	(₱1,812,082)

The components of deferred tax assets represent the tax effects of the following:

	August 31, 2016	December 31, 2015
Deferred tax assets arising from:		
NOLCO	**₱–**	₱4,762,679
Accrued expenses	**–**	132,000
	₱–	₱4,894,679

The reconciliation between the statutory and effective income tax rates follows:

	2016 (Eight months)	June 2 to August 31, 2015
Provision for (benefit from) income tax computed at statutory income tax rate	**₱12,308,032**	(₱1,814,236)
Tax effect of interest income already subjected to final tax	**(299)**	
Nondeductible entertainment, amusement and recreation expense	–	2,154
	₱12,307,733	(₱1,812,082)

13. Equity

Capital stock
The Company has an authorized capital stock of ₱20.00 million divided into 20,000,000 shares at ₱1.00 par value. As of August 31, 2016 and December 31, 2015, total number of shares subscribed, issued and outstanding totaled 5,000,000 shares for a total amount of ₱5.00 million.

Capital management
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

The Company's sources of capital follow:

	August 31, 2016	December 31, 2015
Capital stock	**₱5,000,000**	₱5,000,000
Retained earnings	**17,302,346**	
	₱22,302,346	₱5,000,000

The Company is not subject to externally-imposed capital requirements.

14. Financial Instruments

Fair Value
The carrying amounts of cash, accounts receivable and accounts and other payables (excluding "Deferred output VAT", "Taxes payable" and statutory payables included as "Others") approximate fair values due to the relatively short-term maturities of these instruments.

Fair value hierarchy
The Company uses the following hierarchy for determining the fair value of financial assets and financial liabilities:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of August 31, 2016 and December 31, 2015, the Company does not have financial instruments carried at fair value.

<u>Financial Risk Management and Objectives and Policies</u>
The Company's financial instruments comprise cash, accounts receivable and accounts and other payables (excluding taxes payable and statutory payables), which arise directly from operations. The main purpose of these financial instruments is to finance the Company's operations and to earn additional income on excess funds.

Exposure to credit risk, liquidity risk and foreign currency risk arise in the normal course of the Company's business activities. The main objectives of the Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Company's risk management policies are summarized below:

Credit risk
Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation.

The Company's credit risk is primarily attributable to cash and accounts receivable. To manage credit risk, the Company monitors its exposure to credit risk on a continuous basis. The Company's cash is considered as high grade since these are maintained with banks of good credit standing. Receivables which are high grade pertain to receivables with no default in payment; medium grade pertains to receivables with up to three defaults in payment; and low grade pertains to receivables with more than three defaults in payment.

The Company has a long term Licensing and Revenue Share Agreement with the Ultimate Parent Company. The agreement allows the Ultimate Parent Company to distribute the mobile games developed by the Company through all telecommunication companies (Globe Telecommunication Inc., Smart Communications), Xurpas' portals, Google play and other distribution channels. The Company has concentration of credit risk with receivable from the Ultimate Parent Company as its main source of receivable representing 100% of its total accounts receivable as at December 31, 2016 (see Note 5).

The credit quality of the financial assets was determined as follows:

Cash in bank - held by a counterparty bank with good credit rating in terms of resources, profitability and credit standing, and is therefore classified as high grade.

Accounts receivable - due from a related party with no default in payment. Accordingly, these are considered high-grade financial assets.

As of August 31, 2016 and December 31, 2015, the Company's financial assets are neither past due nor impaired.

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due. The Company seeks to manage its liquidity risk to be able to meet its operating cash flow requirement, finance capital expenditures and service maturing debts. To cover its short-term and long-term funding requirements, the Company intends to use internally generated funds and available short-term and long term credit facilities.

The maturity profile of the Company's financial assets and financial liabilities as of August 31, 2016 and December 31, 2015 is based on contractual undiscounted payments.

As of August 31, 2016 and December 31, 2015, the Company's financial assets and financial liabilities have a maturity of less than one year.

Opinion

In our opinion, the interim financial statements present fairly, in all material respects, the financial position of Xeleb Inc. as of August 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the eight-month period ended August 31, 2016 and for the period June 2, 2015 to August 31, 2015 in accordance with Philippine Financial Reporting Standards.

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PTR No. 5321616, January 4, 2016, Makati City

October 7, 2016