

CAPSTREAM VENTURES INC.
MANAGEMENT DISCUSSION & ANALYSIS

For the Six Months Ended June 30, 2015

The following is a discussion and analysis of the operations, results, and financial position of Capstream Ventures Inc. (the “Company”) for the six months ended June 30, 2015, and should be read in conjunction with the condensed interim financial statements for the six months ended June 30, 2015, which are prepared in Canadian dollars and using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard 34 (“IAS 34”).

The effective date of this report is Aug 31, 2015.

Nature of Business and Overall Performance

The Company was incorporated on June 21, 2011, under the laws of British Columbia and is a Capital Pool Company (“CPC”) as defined by Policy 2.4 of the TSX Venture Exchange (“TSX-V”). On December 2, 2011, the shares of the Company commenced trading under the symbol “CSP”.

The Company’s principal business activity as a CPC is to identify and evaluate business opportunities with the objective of completing a qualifying transaction (“Qualifying Transaction”) under TSX-V rules. Under these rules, a Qualifying Transaction must be entered into within 24 months of listing and must be accepted by the TSX-V, being March 2, 2014. As the Company did not complete the QT in the allotted time frame, it received shareholder approval at the annual general meeting on March 14, 2014 to transfer to the NEX board. NEX is a separate board of the TSX.V for companies previously listed on the TSX.V or the Toronto Stock Exchange which have failed to maintain compliance with ongoing financial listing standards of those markets. NEX has been designed to provide a forum for the trading of publically listed shell companies while they seek and undertake transactions in furtherance of their reactivation as Companies which will carry on an active business. The Company now trades on the NEX under the symbol CSP.H.

The funds raised from the Company’s IPO and subsequent private placement financing are to be utilized only for the identification and evaluation of Qualifying Transactions and to the extent permitted by the TSX-V and NEX.

The Company is a reporting issuer in British Columbia and files all public documents on www.sedar.com.

Proposed Qualifying Transaction

On May 12, 2015, the Company announced that it plans to become an Investment Company under the rules of the TSX Venture Exchange ("TSX-V"). The Company further announces that it has entered into a Letter of Intent ("LOI") with certain Shareholders ("First Shareholders") of Axion Games Limited ("AG") (formerly Epic Games China Limited) which outlines the general terms and conditions of a proposed transaction pursuant to which Capstream proposes to acquire a minimum ownership interest of 21.9% of the issued and outstanding shares of AG in exchange for common shares of Capstream (the "First Transaction") by directly acquiring 9,455,301 and 26,866,667 shares, respectively, of two holding companies, Axion Entertainment International Holdings Ltd., British Virgin Islands, ("AEIH") and Axion Entertainment Holdings Ltd., Singapore, ("AEH") whose only investments are shares in AG. As part of the First Transaction, the Company may acquire additional shares of AEIH and AEH in order to increase its interest in AG. The LOI was negotiated at arm's length and is effective as of May 8, 2015.

The Company has also entered into a second LOI (the "Second Transaction") with certain shareholders (the "Second Shareholders") of Red Anchor Trading Corp. ("Red Anchor") which outlines the terms and conditions of a proposed transaction, pursuant to which the Company will acquire a minimum of 65% of the issued and outstanding shares of Red Anchor in exchange for common shares of the Company. The LOI with Red Anchor was negotiated at arm's length and is effective as at May 8, 2015.

A finder's fee may be payable subject to TSX-V guidelines.

The First and the Second Transactions, if completed, will constitute the Company's "Qualifying Transaction", as defined in TSX-V policies. Sponsorship of a Qualifying Transaction is generally required by the TSX-V, unless exempted in accordance with TSX-V policies. The Company intends to retain an investment banker to serve as the sponsor for the acquisition, if required, however, a sponsor has not yet been engaged. Upon completion of the Qualifying Transaction, the Company's primary focus will be to seek superior returns by making investments in online video games or applications.

The Company may also invest in projects or in equity, debt or other securities of public or private companies in the high growth online PC and mobile gaming and applications sector. The Company's geographical focus is emerging Asia.

Axion Games Limited

AG is uniquely positioned as one of the lowest cost and highest quality video independent game studios in the world. The Company is based in Shanghai, and China is now considered the world's largest PC online game market and quickly becoming a major market for online mobile games. AG specializes in high production-value, online (multiplayer) games, both on mobile and PC platforms. The Company believes online games offer the highest growth opportunity in the video game industry on all platforms. The Company's products have been showcased in technological demonstrations at the China Joy Game Show by major industry players such as Nvidia (for its graphic processors) and Microsoft (for X-Box One).

As newly developed games (PC and mobile) have a high failure rate, AG's strategy is to continue to build a high production-value portfolio of online games at the lowest possible cost. In making games of higher complexity (production value), AG has a distinct competitive advantage versus studios in developed countries with respect to cost and versus studios in emerging markets with respect to skill.

AG was formed as a Cayman Islands holding company in 2006 and is a joint venture between Epic Games International Ltd. (USA), ("Epic"), and AEHL, a holding company established by

AG's founders. Early on, AG provided outsourcing services to Epic and worked on several of Epic's major games. AG expanded its reach and became an outsourcing provider to numerous other game developers. AG has successfully delivered tens of thousands of premium game assets to dozens of outsourcing clients. AG's game assets have contributed to major global titles. AG believes that as an outsourcing partner it has established a reputation for quality, cost control and on-time completion. In 2009 the Company developed and sold its first game, Fat Princess, to Sony. Fat Princess was an immediate hit. Beginning in 2011 AG began developing games for the Asian market and currently has a forward portfolio of six games (over 500 development man-years), which it plans to exploit in the next two to three years. AG has also begun acquiring rights to higher production value, online games for its publishing business in China.

AG's primary assets are investments in its portfolio of online PC and mobile video games and game assets, a wholly-owned server management software, content generation technology named Atlas, and two video game studios. AG's primary online games operations are based in Shanghai, China, and it intends to expand its development and publishing operations into other Asian regions.

Subject to regulatory approval, Capstream has negotiated an acquisition valuation of US \$16 million for 20% of AG. Subject to the final definitive agreement, Capstream will acquire each 1% of AG for 4,000,000 shares of Capstream, valued at US \$0.20 per share.

Red Anchor Trading Corp.

Red Anchor is a Thailand based developer of a social application ("APP") called "HotNow", the company's first commercially viable APP. HotNow is a social application that identifies popular places by the frequency of user posts, super-imposed upon a map (heat-map). It incentivizes users to visit shops and restaurants by offering users SmartCoupons, which are programmed into the platform by the shops themselves. If you visit Bangkok ("Current Test Market"), for example, you may not know where to get the best lunch or Pad Thai. You can lower your search cost by utilizing HotNow users' posts to see what kind of people visit a certain area or shop and, if the local shops participate, take advantage of discounts. HotNow is in advanced alpha build and available on Google Playstore. Based on preliminary assessments, and subject to the final definitive agreement, Capstream has valued 100% of Red Anchor at US \$600,000 and has negotiated an acquisition valuation of US \$390,000 for a 65% interest in Red Anchor. Capstream will issue 1,950,000 shares of Capstream, valued at US \$0.20 per share, or acquire each 1% of Red Anchor for 30,000 shares of Capstream.

In connection with the proposed Qualifying Transaction, the Company intends to adopt an investment policy to govern its investment activities and investment strategy. A copy of the investment policy will be posted on the Company's profile on Sedar (www.sedar.com).

In light of the new strategic direction, the Company intends to appoint Mr. John Todd Bonner as a Director of the Company. Mr. Bonner is one of the founders of Epic Games China Limited (now Axion Games Limited) and has served as a director since January 2007. Mr. Bonner co-founded and was an executive director of PCCW Limited, a telecommunications, media, IT solutions, property development and investment company listed on the Hong Kong Stock Exchange, which acquired Hong Kong Telecommunications Limited in 2000. Mr. Bonner retired from PCCW group companies in 2003 and co-founded NorthStar Pacific Partners in 2003, an Indonesian based merchant bank. Upon closing the Company further intends to appoint additional directors with the requisite skill to advance its investment activities.

The transaction terms outlined in both LOIs are non-binding on the parties and the LOIs are expected to be superseded by definitive agreements (the "Definitive Agreements") to be signed between the parties. The transactions are subject to regulatory approval, including the approval

of the TSX-V and standard closing conditions, including the approval of the Definitive Agreement by the directors of the Company and the target shareholders and completion of due diligence investigations to the satisfaction of each of the Company and the respective First and Second Shareholders. The LOIs contemplate the completion of a concurrent financing of \$2 - \$3 million on terms to be determined. The legal structure for the Qualifying transaction will be determined after the parties have considered all relevant tax, securities law, and accounting considerations. However, there is no assurance that the Definitive Agreements will be successfully negotiated or entered into and there is no assurance that the financing as described above will be completed. In accordance with the TSX-V policies, the Company's shares are currently halted and will remain halted until a subsequent News Release with additional information is issued by the Company.

Results of Operations

During the six months ended June 30, 2015, the Company continued working towards completing a qualifying transaction. The net loss for the six months ended June 30, 2015 was \$31,539 compared to \$54,406 during the six months ended June 30, 2014, a decrease of \$22,867. The significant expenses for the period include the following:

- Accounting and legal fees of \$13,170 (2014 - \$26,066) decreased in the current period due to additional legal costs associated with a target QT with MagPower Systems Inc. in the prior year's period, which ultimately did not complete;
- Filing and transfer agent fees of \$4,322 (2014 - \$10,467) for standard regulatory fees which have decreased due to the transfer from the TSX-V to the NEX.
- Office and rent expenses of \$6,000 (2014 - \$6,645); and
- Travel and promotion expenses of \$nil (2014 - \$11,200) incurred for travel and accommodation related to the review of a potential QT target in the prior year's period.

Selected Financial Information

Quarterly Results

The following are the results for the eight most recent quarters:

For the Quarters ended:	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
	\$	\$	\$	\$
Total Revenues	-	-	-	-
Comprehensive Loss for the period	(16,935)	(14,604)	(6,326)	(5,838)
Loss per share, basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)

For the Quarters ended:	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
	\$	\$	\$	\$
Total Revenues	-	-	-	-
Comprehensive Loss for the period	(13,581)	(40,825)	(18,146)	(20,551)
Loss per share, basic and diluted	(0.00)	(0.01)	(0.00)	(0.00)

Liquidity and Capital Resources

As of June 30, 2015, the Company had \$325,043 (December 31, 2014 - \$354,246) in cash, \$1,490 (December 31, 2014 - \$2,923) in GST receivable, and \$1,250 (December 31, 2014 - \$1,250) in prepaid expenses. The Company's accounts payable and accrued liabilities were \$6,430 (December 31, 2014 - \$5,527).

As of June 30, 2015, the Company had working capital of \$321,353 (December 31, 2014 - \$352,892). The Company has no assets other than cash deposits, GST receivable, and prepaid expenses, and has not pledged any of its assets as security for loans or otherwise and is not subject to any debt covenants. Management believes that the Company has sufficient working capital to meet its current financial obligations.

On November 29, 2011 the Company, based on an agreement with Union Securities Inc. (the "Agent"), completed an IPO by issuing 2,000,000 common shares at \$0.10 per share for gross proceeds of \$200,000. The Company paid a 10% cash commission to the Agent on gross proceeds from the IPO and related expenses. Under the agency agreement, the Agent was granted 200,000 agent's options to acquire common shares at a price of \$0.10 per share, exercisable for a period of twenty-four months from the date the common shares are first listed for trading.

As of December 31, 2011, the Company had issued 2,200,000 common shares at a value of \$0.05 per share and 2,000,000 common shares at a value of \$0.10 per share for total proceeds of \$310,000.

During the year ended December 31, 2012, the Company completed a private placement and issued 3,550,000 common shares at a value of \$0.10 per share for gross proceeds of \$355,000. In addition, 315,000 stock options were exercised at a value of \$0.10 per share for gross proceeds of \$31,500.

On March 17, 2014, 1,100,000 escrow shares were cancelled without consideration, following the Company's listing shifting from the TSX-V to NEX. The carrying value related to these shares (\$55,000) was reclassified to contributed surplus

The Company entered into stock option agreements, pursuant to which the Company granted stock options to officers and directors to collectively acquire 420,000 of the outstanding common shares of the Company, at a price of \$0.10 per share and expiring ten years from the closing date of the Company's IPO, 315,000 of these options were exercised during 2012.

Capital Resources

Upon the identification of a potential business or asset acquisition with a view to completing a Qualifying Transaction, the Company may, in order to finance the Company's future development and expansion, seek to raise additional funds until such time as cash flow from its potential acquisition is sufficient to fund internal growth. The timing and ability of the Company to fulfill this objective will depend on the liquidity of the financial markets as well as the willingness of investors to finance such a business. Such future financing may be completed by the issuance of the Company's securities.

Risks Related to Our Business

Investment in the Company is highly speculative due to the proposed nature of the Company's business and its present stage of development. The Company was only recently incorporated and has no active business or assets other than cash. The Company does not have a history of earnings, nor has it paid any dividends and will not generate earnings or pay dividends.

Investors must be prepared to rely entirely on the directors and management of the Company and can afford to risk the loss of their entire investment.

The directors and officers of the Company will devote only part of their time and attention to the affairs of the Company and there are potential conflicts of interest to which some of the directors and officers of the Company will be subject in connection with the operations of the Company.

There can be no assurance that an active and liquid market for the Company's Common Shares will develop and an investor may find it difficult to resell the Common Shares. Until completion of a Qualifying Transaction, the Company will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction.

The Company has only limited funds with which to identify and evaluate possible Qualifying Transactions and there can be no assurance that the Company will be able to identify or complete a suitable Qualifying Transaction.

The Qualifying Transaction may involve the acquisition of a business or assets located outside of Canada. It may therefore be difficult or impossible to effect service of notice to commence legal proceedings upon any directors, officers and experts outside of Canada and it may not be possible to enforce against such persons or companies judgments obtained in Canadian courts predicated upon the civil liability provisions applicable to securities laws in Canada.

Significant Accounting Judgments and Estimates

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's

experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the financial statements were limited to the inputs used in assessing the recoverability of deferred income tax assets to the extent that the deductible temporary differences will reverse in the foreseeable future and that the Company will have future taxable income.

New accounting pronouncements

The following new standards, amendments and interpretations, that have not been early adopted in these annual financial statements, will or may have an effect on the Company's future results and financial position:

- IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is effective January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

- IAS 24 Related Party Disclosures

The amendments to IAS 24 clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

- IAS 32 Financial Instruments

IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date. The amendments apply to annual periods beginning on or after January 1, 2014. The change in accounting standard will not have a significant impact on the Company's financial statements.

Financial Risk Management

(a) Overview

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments.

This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

(b) Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits its exposure to credit risk on liquid financial assets through investing its cash with high-credit quality financial institutions.

The carrying value of the Company's cash represents the maximum exposure to credit risk. The Company held cash totalling \$325,043 at June 30, 2015 (December 31, 2014 - \$354,246).

(c) Interest Rate Risk

The Company is subject to interest rate risk with respect to its investments in cash. The Company's current policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates when cash mature impact interest income earned.

(d) Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit. The Company manages its capital structure through the preparation of operating budgets, which are approved by the Board of Directors.

There were no changes in the Company's approach to capital management during the period.

(e) Fair Value

The fair value of the Company's financial assets and liabilities approximate their carrying value due to their short term nature.

Related Party Transactions

Management did not receive any compensation during the six months ended June 30, 2015 (June 30, 2014 - \$nil). A director was reimbursed \$6,000 (June 30, 2014 - \$6,000) for rent expense for the Company's office for the six months ended June 30, 2015.

As at June 30, 2015, \$nil (December 31, 2014 - \$nil) was due to a director of the Company.

On April 16, 2015, the Company announced that Mr. Paul Larkin has joined the Company in the role of President, CEO, and Director. Mr. Robert Thast, former President and CEO, will remain as a director. Mr. Andy Bowering resigned as a director of the Company.

Significant Accounting Policies

All significant accounting policies are fully disclosed in Notes 3 and 4 of the annual audited financial statements for the year ended December 31, 2014.

Summary of Share Data – as at August 31, 2015

The Company has an authorized share capital of an unlimited number of common shares without par value. The following table describes the issued and outstanding share capital of the Company:

Common shares	7,079,800
Stock Options	105,000
<u>Fully Diluted Shares</u>	<u>7,184,800</u>

Escrow shares:

As at June 30, 2015, 1,415,000 (December 31, 2014 – 1,415,000) common shares, being all of the escrowed common shares, are subject to an escrow agreement to be released in accordance with the CPC policy guidelines. Under the escrow agreement, 10% of the shares will be released on the issuance of the Final TSX-V Bulletin (the TSX-V's acceptance of the Qualifying Transaction) and an additional 15% will be released on each of the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the initial release. On March 17, 2014, 1,100,000 of the original escrow shares were cancelled when the Company's share listing was transferred from the TSX-V to the NEX board.

For additional details of outstanding share capital and escrow shares, refer to the condensed interim financial statements for the six months ended June 30, 2015.

Off-Balance Sheet Arrangements

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

Forward-Looking Statements

Certain statements contained herein are “forward-looking” and are based on the opinions and estimates of management, or on opinions and estimates provided to and accepted by management. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those expressed or implied. Readers are therefore cautioned not to place reliance on any forward-looking statement.

Additional Information

Additional information about the Company can be found on www.sedar.com.

Approval

The Board of Directors of Capstream Ventures Inc. has approved the disclosure contained in this MD&A.