

CAPSTREAM VENTURES INC.
MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended December 31, 2015

The following is a discussion and analysis of the operations, results, and financial position of Capstream Ventures Inc. (the “Company”) for the year ended December 31, 2015, and should be read in conjunction with the audited financial statements for the year ended December 31, 2015, which are prepared in Canadian dollars and using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

The effective date of this report is April 28, 2016.

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” or “QT”) 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.

Subsequent Event

Subsequent to December 31, 2015, pursuant to the completion of a Filing Statement in connection with a Qualifying Transaction (QT) under the TSX Venture Exchange (“the Exchange”) Policy for Capital Pool Companies, the Company announced that it intends to become an Investment Company in accordance with the rules of the Exchange.

In order to complete its QT, the Company has executed agreements with two companies: Axion Games Ltd. (“Axion”), a private company based in Shanghai, China that is an online video games development and publishing company and Innovega, Inc. (“Innovega”), a private company having operations in Bellevue, Washington and San Diego, California that is developing proprietary technology based on eyewear and contact lenses that enhance human vision allowing the wearer to access digital media while remaining engaged in daily activities.

Axion Games Ltd.

The Company and certain Axion shareholders have entered into a Share Exchange Agreement (“SEA”) whereby the Company will acquire an ownership interest of 29.29% of the outstanding common shares of Axion in exchange for 117,168,692 common shares of the Company.

The Company will also issue an additional 33,000,000 common shares (“Performance Escrow Shares”) to certain Axion Games Ltd. shareholders to be held in escrow. The Performance Escrow Shares will be released subject to the following financial performance targets being attained by Axion:

- Generating earnings before interest, taxes, depreciation and amortization (“EBITDA”) of US\$ 6,000,000 in any fiscal year ending December 31, 2016, 2017 or 2018
- Generating game pre-sales revenue in excess of US\$ 10,000,000 in any fiscal year ended December 31, 2016, 2017 or 2018.

The Company will also issue 1,000,000 share purchase warrants (“finders’ warrants”) with an exercise price of \$0.25 as a finders’ fee for the investment in Axion. Each finders’ warrant will be exercisable into one common share of Capstream and will expire two years from the date of issuance.

Innovega Inc.

The Company and Innovega have agreed that the Company will advance US\$350,000 to Innovega in exchange for a Convertible Note (“the Note”). The Note will have a term of one year and bear interest at 8% per annum. The Note and the accrued interest thereon will be convertible into shares of Innovega at a price equal to a 15% discount of an eligible future financing event up to a maximum of US\$16,500,000. On February 26th 2016, Capstream announced that in accordance with Section 8.5 of TSXV Policy 2.4 and with the approval of the TSXV, Capstream entered into an agreement with Innovega whereby Capstream made a bridge loan of US\$75,000 to Innovega (the “Loan”). The Loan is evidenced by a promissory note and bears interest at the rate of 12% per annum. Innovega will use the proceeds of the Loan to pay for general and administrative costs and expenses associated with the development of its business. If the Note investment is not completed between Innovega and the Company, the Loan will become payable in full on demand with a 120 day repayment period.

Equity Financing

In addition to the investments being made in Axion and Innovega, the Company will complete a concurrent financing (“the Concurrent Financing”) to raise up to \$1,150,000 through the issuance of up to 5,750,000 common shares of the Company at a price of \$0.20 per share. A minimum of \$500,000 of the Concurrent Financing will be completed by an Agent on a best efforts basis for which the Agent will receive a commission of 6% of the gross proceeds raised by the Agent and 2% of the remaining proceeds. The Agent will also receive 150,000 share purchase warrants exercisable at \$0.20 for a period of 12 months following the closing of financing. As of the filing date of this report, no funds had yet been raised in accordance with this planned financing.

The investments comprising the Company’s QT are subject to the approval of the Exchange and subject to the Company completing the Concurrent Financing.

Selected Financial Information

Annual Information

	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Revenue	-	-	-
General and administrative expenses	(135,843)	(70,758)	(79,859)
Net loss and comprehensive loss for the year	(135,843)	(66,570)	(79,859)
Basic and diluted loss per share	(0.02)	(0.01)	(0.01)
Total Assets	249,522	358,419	440,781
Total long term liabilities	-	-	-
Shareholders' equity	217,049	352,892	419,462

Quarterly Results

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

For the Quarters ended:	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	\$	\$	\$	\$
Total revenues	-	-	-	-
Comprehensive loss for the period	(71,166)	(33,138)	(16,935)	(14,604)
Loss per share, basic and diluted	(0.01)	(0.01)	(0.00)	(0.00)

For the Quarters ended:	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	\$	\$	\$	\$
Total Revenues	-	-	-	-
Comprehensive Loss for the period	(6,396)	(5,768)	(13,581)	(40,825)
Loss per share, basic and diluted	(0.00)	(0.00)	(0.00)	(0.01)

Results of Operations for the Year Ended December 31, 2015

During the year ended December 31, 2015, the Company continued working towards completing its qualifying transaction. The net loss was \$135,843 compared to \$66,570 during the year ended December 31, 2014, an increase of \$69,273. The significant expenses for the period include the following:

- Accounting and legal fees were \$31,035 (2014 - \$32,200) in the current year which were comprised mainly of legal costs associated with the QT disclosed above as well as the Annual General Meeting as well as annual audit fees;
- Consulting and administration fees increased to \$64,700 (2014 – \$nil) comprised mainly of fees related to the pending QT ;
- Filing and transfer agent fees of \$23,566 (2014 - \$14,603) for standard regulatory fees as well as additional fees related to the AGM and QT;
- Office and rent expenses of \$12,380 (2014 - \$12,755);
- Travel and business development expenses of \$4,162 (2014 - \$11,200) incurred on QT due diligence.
- Interest earned of \$nil (2014 - \$4,188) as the Company held all its cash in a non-interest bearing chequing account in the current year.

Results of Operations for the Fourth Quarter Ended December 31, 2015

During the three months ended December 31, 2015, the Company continued working towards completing its qualifying transaction. The net loss was \$71,166 compared to \$6,396 during the three months ended December 31, 2014, an increase of \$64,770. The significant expenses for the period include the following:

- Accounting and legal fees of \$11,505 (2014 - \$2,511) increased in the current period due to additional legal costs associated with the QT disclosed above;
- Consulting and administration fees increased by \$38,500 (2014 – \$nil) due to consulting fees related to the pending QT;
- Filing and transfer agent fees of \$14,941 (2014 - \$809) for standard regulatory fees as well as additional fees related to the QT;
- Office and rent expenses of \$3,334 (2014 - \$3,000);
- Travel and business development expenses of \$2,886 (2014 - \$nil) incurred on QT due diligence.

Liquidity and Capital Resources

As of December 31, 2015, the Company had \$222,880 (December 31, 2014 - \$354,246) in cash, \$5,392 (December 31, 2014 - \$2,923) in GST receivable, and \$21,250 (December 31, 2014 - \$1,250) in prepaid expenses. The Company's accounts payable and accrued liabilities were \$32,473 (December 31, 2014 - \$5,527).

As of December 31, 2015, the Company had working capital of \$217,049 (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. However, to complete the QT as disclosed in the Subsequent Event section above, it will require additional financing as disclosed therein.

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 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

Effective January 1, 2015, the Company adopted the following new and revised IFRSs that were issued by the IASB.

- Amended standard 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. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

- Amended standard IAS 32 Financial Instruments

The amendments to IAS 32 clarify the requirements for offsetting financial assets and liabilities, the right of offset must be available on the current date and cannot be contingent on a future date. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

The following new standards, amendments and interpretations, which 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 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

- IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company is in the process of evaluating the impact of the new standard.

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 \$222,880 at December 31, 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) Liquidity Risk

The Company is subject to liquidity risk with respect to its financial obligations. Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due. The Company has not generated any revenue since inception. As at December 31, 2015, the Company has incurred losses since inception and has working capital of \$217,049.

(e) 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.

(f) 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 year ended December 31, 2015 (December 31, 2014 - \$nil). A director was reimbursed \$7,000 (December 31, 2014 - \$12,000) for rent expense for the Company's previous office location. A private company controlled by the President & CEO of the Company was reimbursed \$4,000 (2014 - \$nil) for office rent expense for the new location and charged \$6,500 (2014 - \$nil) for consulting and administration fees for the preparation of the quarterly financial filings, the AGM material and filings related to the QT. A private company controlled by the Corporate Secretary of the Company charged \$6,200 for fees related to the QT. The former CFO charged \$4,000 (2014 - \$8,000) during the current year for preparation of the quarterly financial reports.

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, 2015.

Summary of Share Data – as at April 28, 2016

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
Warrants	-
Agent's Warrants	-
Stock Options	-
<u>Fully Diluted Shares</u>	<u>7,079,800</u>

Escrow shares:

As at December 31, 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 audited financial statements for the year ended December 31, 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.