

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**Three and Six Months Ended June 30, 2016 and 2015**

*(Unaudited - Expressed in Canadian Dollars)*

## **NOTICE TO READER**

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

The accompanying un-audited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

Vancouver, Canada

August 29, 2016

**CAPSTREAM VENTURES INC.**

## CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

*(Unaudited - expressed in Canadian Dollars)*

	Note	At June 30, 2016	At December 31, 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 447,413	\$ 222,880
Amounts receivable		28,742	5,392
Convertible promissory note	4	462,375	-
Loan receivable	5	196,800	-
Prepaid expenses		25,095	21,250
<b>Total Current Assets</b>		<b>1,160,425</b>	<b>249,522</b>
<b>Non-Current Assets</b>			
Investments in associate	3	30,060,136	-
<b>Total Non-Current Assets</b>		<b>30,060,136</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>\$ 31,220,561</b>	<b>\$ 249,522</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 134,216	\$ 32,473
<b>TOTAL LIABILITIES</b>		<b>134,216</b>	<b>32,473</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	6	31,665,859	636,574
Share-based payment reserve		431,712	73,912
Accumulated deficit		(1,011,226)	(493,437)
<b>TOTAL EQUITY</b>		<b>31,086,345</b>	<b>217,049</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES and EQUITY</b>		<b>\$ 31,220,561</b>	<b>\$ 249,522</b>

Going Concern of Operations – Note 2

Subsequent events – Note 10

**Approved on behalf of the Board:**

\_\_\_\_\_  
"Todd Bonner"  
Director

\_\_\_\_\_  
"Grant Kim"  
Director

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

**CAPSTREAM VENTURES INC.****CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS***(Unaudited - expressed in Canadian Dollars)*

		<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>Note</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>EXPENSES</b>					
Accounting and legal		38,348	4,000	83,020	13,170
Consulting and administration	8	16,943	8,000	29,243	8,000
Filing and transfer agent fees		39,310	1,929	52,003	4,322
Investor relations		740	-	740	-
Management fees	8	16,250	-	16,250	-
Office and rent expense	8	3,625	3,006	7,051	6,047
Share-based compensation expense	6(d)	242,000	-	242,000	-
Share of loss in associate	3	75,302	-	75,302	-
Travel and business development		38,852	-	38,852	-
<b>Total Expenses</b>		<b>(471,370)</b>	<b>(16,935)</b>	<b>(544,461)</b>	<b>(31,539)</b>
<b>Other items</b>					
Interest earned	4(a)(b)	6,181	-	7,322	-
Consulting income		19,350	-	19,350	-
<b>Comprehensive and net loss</b>		<b>\$ (445,839)</b>	<b>\$ (16,935)</b>	<b>\$ (517,789)</b>	<b>\$ (31,539)</b>
<b>Basic And Diluted Loss Per Share</b>		<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>
<b>Weighted Average Number Of Shares</b>					
<b>Outstanding, Basic and Diluted</b>		<b>74,617,543</b>	<b>7,079,800</b>	<b>40,848,671</b>	<b>7,079,800</b>

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

**CAPSTREAM VENTURES INC.**

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS

*(Unaudited - expressed in Canadian Dollars)*

		Six Months Ended June 30,	
	Note	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss		\$ (517,789)	\$ (31,539)
Items not affecting cash			
Share-based compensation	6(d)	242,000	-
Share of loss in associate	3	75,302	-
<b>Changes in non-cash working capital items:</b>			
(Increase) decrease in amounts receivable		(23,350)	1,433
Increase in prepaids		(3,845)	-
Increase in accounts payable and accrued liabilities		101,743	903
<b>Cash used in operating activities</b>		<b>(125,939)</b>	<b>(29,203)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Loan receivable	5	(196,800)	-
Convertible promissory note	4(a)	(462,375)	-
<b>Cash used by investing activities</b>		<b>(659,175)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of shares, for cash	6(b)	1,150,000	-
Share issue costs	6(b)	(140,353)	-
<b>Cash provided by financing activities</b>		<b>1,009,647</b>	<b>-</b>
<b>Increase (decrease) in cash during the period</b>		<b>224,533</b>	<b>(29,203)</b>
<b>Cash, beginning of the period</b>		<b>222,880</b>	<b>354,246</b>
<b>Cash, end of the period</b>		<b>\$ 447,413</b>	<b>\$ 325,043</b>
<b>Supplementary Cash Flow Information</b>			
Interest received		\$ 4,014	\$ -
Fair value of finder's warrants issued		\$ 101,700	\$ -
Fair value of agent's warrants issued		\$ 14,100	\$ -
Shares issued for investment in associate		\$ 30,033,738	\$ -

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

**CAPSTREAM VENTURES INC.**

## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

*(Unaudited - expressed in Canadian Dollars)*

	Common shares		Share-based payment reserve	Deficit	Total
	Number of shares	Share capital			
<b>Balance, January 1, 2016</b>	<b>7,079,800</b>	<b>636,574</b>	<b>73,912</b>	<b>(493,437)</b>	<b>217,049</b>
Private placement financing	5,750,000	1,150,000			1,150,000
Share issuance costs		(154,453)	14,100	-	(140,353)
Shares issued for investment in associate	150,168,692	30,033,738	-	-	30,033,738
Share-based compensation	-	-	242,000	-	242,000
Fair value of finder's warrants issued	-	-	101,700	-	101,700
Net loss	-	-	-	(517,789)	(517,789)
<b>Balance, June 30, 2016</b>	<b>162,998,492</b>	<b>\$ 31,665,859</b>	<b>\$ 431,712</b>	<b>\$ (1,011,226)</b>	<b>\$ 31,086,345</b>

	Common shares		Share-based payment reserve	Deficit	Total
	Number of shares	Share capital			
<b>Balance, January 1, 2015</b>	<b>7,079,800</b>	<b>\$ 636,574</b>	<b>\$ 73,912</b>	<b>\$ (357,594)</b>	<b>\$ 352,892</b>
Net loss	-	-	-	(31,539)	(31,539)
<b>Balance, June 30, 2015</b>	<b>7,079,800</b>	<b>636,574</b>	<b>73,912</b>	<b>(389,133)</b>	<b>321,353</b>
Net loss	-	-	-	(104,304)	(104,304)
<b>Balance, December 31, 2015</b>	<b>7,079,800</b>	<b>636,574</b>	<b>73,912</b>	<b>(493,437)</b>	<b>217,049</b>

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

## **CAPSTREAM VENTURES INC.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016  
*(Unaudited - expressed in Canadian Dollars)*

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### **1. NATURE OF OPERATIONS**

Capstream Ventures Inc. ("Capstream" or the "Company") was incorporated under the British Columbia Business Corporations Act on June 21, 2011, is domiciled in Canada and was originally classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange ("TSX-V" or "Exchange"). On December 2, 2011, the shares of the Company commenced trading under the symbol "CSP". The principal business of the Company was the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction ("QT"). On March 24, 2014, the Company moved from the TSX-V to the NEX board trading under the symbol "CSP.H".

On May 11, 2016, pursuant to the completion and regulatory approval of a Filing Statement in connection with a QT under the TSX-V Policy for a CPC, the Company became an Investment Company in accordance with the rules of the Exchange. On May 18, 2016, the common shares of the Company began trading on the TSX-V as a Tier 2 Investment Issuer trading under the symbol "CSP".

Capstream is now an investment company focused on investments in the online video gaming and other IT sectors.

The address of the Company's corporate office and principal place of business is 530 – 625 Howe Street, Vancouver, British Columbia, V6C 2T6.

### **2. BASIS OF PREPARATION**

These unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted. These unaudited condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

The unaudited condensed interim financial statements of Capstream Ventures Inc. for the six months ended June 30, 2016 were approved and authorized for issue by the Board of Directors on August 29, 2016.

These unaudited financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The presentation and functional currency of the Company is the Canadian dollar.

The Company's interim results are not necessarily indicative of its results for a full year. All amounts are expressed in Canadian dollars, unless otherwise noted.

**CAPSTREAM VENTURES INC.**

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**2. BASIS OF PREPARATION** (continued)

The accounting policies applied in the preparation of these unaudited condensed interim financial statements are consistent with policies applied and disclosed in Note 3 of the Company's audited financial statements for the year ended December 31, 2015, except for the following:

**Investments in Associates**

The Company conducts a portion of its business through equity interests in associates. An associate is an entity over which the Company has significant influence, and is neither a subsidiary nor a joint arrangement. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies. The Company accounts for its investments in associates and using the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the associate, after any adjustments necessary to give effect to uniform accounting policies, any other movement in the associate reserves, and for impairment losses after the initial recognition date. The total carrying amount of the Company's investments in associates also include any long-term debt interests which in substance form part of the Company's net investment. The Company's share of an associate losses that are in excess of its investment are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates are recognized in net earnings during the period. Dividends and repayment of capital received from an associate are accounted for as a reduction in the carrying amount of the Company's investment. The Company's investments in associates are included in on the Condensed Interim Statements of Financial Position.

Unrealized gains and losses between the Company and its associates are recognized only to the extent of unrelated investors' interests in the associates. Intercompany balances and interest expense and income arising on loans and borrowings between the Company and its associates are not eliminated.



**CAPSTREAM VENTURES INC.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
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**2. BASIS OF PREPARATION (continued)****Impairment of investments in associates**

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating there is a measurable decrease in the estimated future cash flows of the investee's operations. When there is objective evidence that an investment is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its fair value less costs of disposal ("FVLCD") and value-in-use ("VIU"). If the recoverable amount of an investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period in which the relevant circumstances are identified. When an impairment loss reverses in a subsequent period, the carrying amount of the investment is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings/loss in the period in which the reversal occurs.

**Financial Instruments – Classified as at fair value through profit and loss ("FVTPL")**

Financial assets and liabilities classified as at FVTPL are measured at fair value with changes in fair values recognized in net earnings. Financial assets and liabilities are classified as at FVTPL when: (i) they are acquired or incurred principally for short-term profit taking and/or meet the definition of a derivative (held-for-trading); or (ii) they meet the criteria for being designated as at FVTPL and have been designated as such on initial recognition. A contract to buy or sell non-financial items that can be settled net in cash, which include non-financial items that are readily convertible to cash, that has not been entered into and held for the purpose of receipt or delivery of non-financial items in accordance with the Company's expected purchase, sale or use meets the definition of a non-financial derivative.

A contract that will or may be settled in the entity's own equity instruments and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as a financial liability as at FVTPL.

**New accounting policies**

The Company has adopted the amendments to IFRSs included in the Annual Improvements 2012-2014 cycle and a number of narrow scope amendments to certain IFRSs and IASs which are effective for annual periods beginning on or after January 1, 2016. The amendments did not have an impact on the Company's unaudited condensed interim financial statements.

**CAPSTREAM VENTURES INC.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
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**2. BASIS OF PREPARATION (continued)****Significant Judgments and Estimates**

The Company's management makes judgements in its process of applying the Company's accounting policies in the preparation of these condensed financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates 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. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates and the resulting impact on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

In preparing the Company's unaudited condensed interim financial statements for the three and six months ended June 30, 2016, the Company applied the critical judgements and estimates disclosed in note 2 of its audited financial statements for the period ended December 31, 2015 and the following major estimate/judgment in applying accounting policies:

**Determination of control**

Judgment is required to determine when the Company has control. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making, financing of the investee, and the appointment, remuneration and termination of key management personnel; and when the decisions in relation to those activities are under the control of the Company or require unanimous consent from the investors.

**Going Concern of Operations**

These unaudited condensed financial statements were prepared on a going concern basis. The Company's ability to continue as a going concern is dependent upon its ability to continue raising equity financing. Realization values may be substantially different from carrying values as shown and these unaudited financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities if the Company is unable to continue as a going concern. As of June 30, 2016, the Company has accumulated losses of \$1,011,226 since inception, has no source of operating revenues and expects to incur further losses in the development of its business. On August 29, 2016, the Company raised \$10,121,300 of additional capital through new common share issuances conducted through a \$4,121,300 of brokered and \$6,000,000 of non-brokered private placement of shares. A total of 20,242,600 of common shares were issued at a price of \$0.50 per share. This provides adequate working capital and liquidity in order for the Company to remain as a going concern (Note 10 (b)).

**CAPSTREAM VENTURES INC.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
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**3. INVESTMENTS IN ASSOCIATE**Axion Games Ltd. ("Axion" or "Axion Games")

On May 11, 2016, as part of the QT, the Company and certain shareholders of Axion Games entered into a Share Exchange Agreement ("Exchange Agreement") whereby the Company acquired an ownership interest of 29.29% of the outstanding shares of Axion through investments in the following entities in exchange for 117,168,692 common shares of the Company:

<b>Investee</b>	<b>Domicile</b>	<b>Primary Business</b>
Axion Games ("Axion" or "AG")	Cayman Islands	Online video games development, licensing, and publishing in People's Republic of China
Axion Entertainment Holdings Ltd ("AEH")	British Virgin Islands	Special purpose vehicle to hold shares in Axion. Non-operating company
Axion Entertainment International Holdings Ltd ("AEIH")	British Virgin Islands	Special purpose vehicle to hold shares in Axion. Non-operating company

The Company also issued an additional 33,000,000 common shares ("Performance Escrow Shares" (see note 6(c)) and issued 1,000,000 share purchase warrants ("finder's warrants") (see Note 6(e)) related to the acquisition of this investment.

At June 30, 2016, the Company had investments in 29.29% direct and beneficial interests in Axion Games. Management has determined that the Company has significant influence over Axion and its holding companies and as such these investments are accounted for using the equity method. The Company adjusts each associates financial results, where appropriate, to give effect to uniform accounting policies.

The following table summarizes the change in the carrying amount of the Company's investments in associate:

	<u>Axion Games</u>
Balance, January 1, 2016	\$ -
Capital investment	30,033,738
Transactions cost directly attributable to investment	101,700
Company's share of net loss of associate	(75,302)
<b>Balance, June 30, 2016</b>	<b><u>\$ 30,060,136</u></b>

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**3. INVESTMENTS IN ASSOCIATE (continued)**

Summarized financial information for the Company's investments in associates on a 100% basis and reflecting adjustments made by the Company including fair value adjustments at the time of acquisition and adjustments for differences in accounting policies will be presented in the 2016 annual financial statements. The net assets of Axion Games, which is a private company, were US\$2,337,903 at June 30, 2016 of which the Company's share was US\$684,772. The difference between the cost of the investment and the fair value of the net assets is considered goodwill and will not be amortized but is subject to impairment. For the period from acquisition of the Axion interest, revenues were \$1,519,881 (US\$1,174,817) of which the Company's interest was \$445,173 (US\$344,104), and net loss was \$257,092 (US\$198,306) of which the Company's interest is \$75,302 (US\$58,084). Axion Games does not hold any debt instruments and only has normal course commitments under non-cancellable operating leases.

**4. CONVERTIBLE PROMISSORY NOTE AND PROMISSORY NOTE****a) Convertible Promissory Note - Innovega**

On May 11, 2016, as the second part of the QT, the Company acquired US\$350,000 of Innovega Inc.'s ("Innovega") Convertible Promissory Note ("the Note"), which bears interest at 8% per annum and has a maturity date of October 19, 2016 (the "Maturity Date"). Upon the earlier of the Maturity Date or successful equity financing of US\$1,000,000 or more in new preferred shares of Innovega (the "Qualified Equity Financing" or "QEF"), the principal of the Note and accrued interest on the date of conversion (the "Consideration") will automatically convert into new preferred shares, with the number of preferred shares being issued determined by one of the following calculations:

*Automatic Conversion on Maturity:*

The Consideration divided by the price per share calculated from US\$16,500,000 divided by the number of fully diluted shares of Innovega immediately prior to the Maturity Date, rounded to the nearest whole share.

*Automatic Conversion on Closing of Qualified Equity Financing:*

- i. If converted prior to Maturity and by August 11, 2016, the greater of the Consideration divided by (a) US\$16,500,000 divided by the number of fully diluted shares immediately prior to the closing of the QEF, or (b) the issue price of the new preferred shares sold in the QEF.

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**4. CONVERTIBLE PROMISSORY NOTE AND PROMISSORY NOTE (continued)**

a) **Convertible Promissory Note – Innovega (continued)**

*Automatic Conversion on Closing of Qualified Equity Financing (continued):*

- ii. If converted prior to maturity but after August 11, 2016, the greater of the Consideration divided by (a) US\$16,500,000 divided by the number of fully diluted shares immediately prior to the closing of the QEF, or (b) 85% of the issue price of the new preferred shares sold in the QEF.

The Company elected to treat this financial asset at fair value through profit and loss and determined that the fair value approximately the face value plus accrued interest to date. Subsequent changes in fair value will be charged to the Statement of Comprehensive Loss. During the three months ended June 30, 2016, interest of \$4,947 (US\$3,836) was accrued and included in the Note balance.

b) **Bridge Loan – Innovega**

On February 26, 2016, Capstream entered into an agreement with Innovega whereby Capstream made a bridge loan of US\$75,000 to Innovega (the “Innovega Loan”). The Innovega Loan was evidenced by a loan agreement and bears interest at the rate of 12% per annum. Innovega used the proceeds of the Innovega Loan to pay for general and administrative costs and expenses associated with the development of its business. The Innovega Loan was applied to convertible note purchased from Innovega as per Note 4 above and was therefore extinguished with the Company’s purchase of the convertible note. Interest of \$2,375 (US\$1,825) was earned on the Innovega Loan and was received subsequent to June 30, 2016.

**5. BRIDGE LOAN – Axion**

On June 27, 2016, the Company entered into an agreement to provide a non-revolving bridge loan (the “Axion Loan”) not exceeding US\$150,000 to one of Capstream’s current associates. The full Axion Loan bears interest at 6% per annum calculated annually and payable on maturity. The Axion Loan matures one year from the date of original advance, at which time the principal and any accrued interest will be paid.

**6. SHARE CAPITAL**

a) **Authorized Share Capital**

At June 30, 2016, the authorized share capital consisted of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
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**6. SHARE CAPITAL** (continued)

**b) Issued and Outstanding**

At June 30, 2016, there were 162,998,492 common shares of the Company issued and outstanding. Of this amount, 122,745,333 common shares were issued but subject to future release under escrow agreements as described below in Note 6(c).

During the six months ended June 30, 2016:

- i. The Company issued 117,168,692 common shares of the Company to acquire an ownership interest of 29.29% of the outstanding common shares of Axion (See Note 3).
- ii. The Company issued 33,000,000 common shares ("Performance Escrow Shares") to certain Axion shareholders to be held in escrow (Note 3). These shares are contingently callable and are not included as outstanding in the earnings (loss) per share calculation on the Statements of Comprehensive Loss.
- iii. The Company completed a financing concurrent ("the Concurrent Financing") with the closing of the QT which raised \$1,150,000 through the issuance of 5,750,000 common shares of the Company at a price of \$0.20 per share. \$500,000 of the Concurrent Financing was completed by an Agent for which the Agent received a commission of 6% of the gross proceeds raised by the Agent and 2% of the remaining proceeds which totaled \$43,000. The Agent also received 150,000 share purchase warrants exercisable at \$0.20 for a period of 12 months following the closing of financing. In addition, the Agent received a corporate finance fee of \$35,000. The Company also paid \$10,000 (4%) in finders' fees on a portion of the \$650,000 not raised by the Agent. All shares issued in the Concurrent Financing are subject to a hold period that expires on September 11, 2016.

During the year ended December 31, 2015:

No shares were issued.

**c) Escrow Shares**

**i. CPC Escrow**

As at June 30, 2016, 1,273,500 common shares (December 31, 2015 – 1,415,000) are subject to an escrow agreement under which the common shares will be released in accordance with CPC policy guidelines. Under the escrow agreement, 10% of the shares were released on the issuance of the Final Exchange Bulletin (the Exchange's acceptance of the QT) on May 17, 2016 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.

**CAPSTREAM VENTURES INC.**

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**6. SHARE CAPITAL** (continued)

c) **Escrow Shares** (continued)

ii. Value Escrow

Upon completion of the QT, a total of 41,634,797 common shares were issued subject to a Value Escrow Agreement. Under the Value Escrow Agreement, 10% of the shares were released on the issuance of the Final Exchange Bulletin (the Exchange's acceptance of the QT) on May 17, 2016 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. As at June 30, 2016, 37,471,318 common shares remained subject to this Value Escrow Agreement.

iii. Surplus Escrow

Upon completion of the QT, a total of 53,684,753 common shares were issued subject to a Surplus Escrow Agreement. Under the Surplus Escrow Agreement, 5% of the shares were released on the issuance of the Final Exchange Bulletin (the Exchange's acceptance of the QT) on May 17, 2016. An additional 5% will be released 6 months after the initial release followed by 10% released 12 months and 18 months following the initial release. 15% will be released 24 months and 30 months following the initial release. The final 40% will be released 36 months following the initial release. As at June 30, 2016, 51,000,515 common shares remained subject to this Surplus Escrow Agreement.

iv. Performance Escrow

Upon completion of the QT, the Company issued 33,000,000 Performance Escrow Shares to certain Axion Games Ltd. shareholders. The Performance Escrow Shares will be released subject to the following financial performance targets being attained by Axion in any year:

- 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; or
- Generating game pre-sales revenue in excess of US\$ 10,000,000 in any fiscal year ending December 31, 2016, 2017 or 2018.

If neither of these financial performance targets is achieved by Axion in any of the above years, the Performance Escrow Shares will be returned to the treasury.

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**6. SHARE CAPITAL (continued)****d) Stock Options**

The Company has established a stock option plan for its directors, officers and technical consultants under which the Company may grant options from time to time to acquire a maximum number of common being 10% of the total number of issued Common Shares of the Company (calculated on a non-diluted basis) at the time an Option is granted. The number of Optioned Shares granted under the Plan cannot exceed the number of Plan Shares. The exercise price of each option granted under the plan shall be determined by the Board of Directors. Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option. Unless otherwise stated, the options fully vest when granted. The stock option plan is subject to regulatory approval.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number	Weighted Average Exercise Price
Balance, at January 1, 2015	105,000	\$ 0.10
Cancelled	(105,000)	0.10
Balance, at January 1, 2016	-	
Granted	1,200,000	0.33
Balance, at June 30, 2016	1,200,000	\$ 0.33
Exercisable at June 30, 2016	1,200,000	\$ 0.33



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**6. SHARE CAPITAL (continued)****d) Stock Options (continued)**

For the three and six months ended June 30, 2016, share-based compensation was \$242,000 in each period, which was included in Share-based compensation expense in the condensed interim financial statements. At June 30, 2016, the Company had the following stock options outstanding entitling the holders thereof to acquire the following common shares in the Company:

Number of shares	Exercise Price	Expiry Date
700,000	\$0.25	May 11, 2021
500,000	\$0.45	June 6, 2021
<u>1,200,000</u>		

The weighted average fair value of stock options granted during the six months ended June 30, 2016 of \$0.20 per option was calculated as of the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

Expected life of options	5 years
Risk-free interest rate	0.68%
Annualized volatility	75.00%
Dividend rate	0.00%
Forfeiture rate	0.00%
<u>Weighted average share price</u>	<u>\$0.33</u>

At June 30, 2016, the weighted average remaining contractual life of the outstanding stock options was 4.90 years.

Share purchase warrant transactions are summarized as follows:

	Number	Weighted Average Exercise Price
Balance, at January 1, 2016	-	\$ -
Issued	1,150,000	0.24
<u>Balance, at June 30, 2016</u>	<u>1,150,000</u>	<u>\$ 0.24</u>

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**6. SHARE CAPITAL (continued)****e) Share Purchase Warrants**

The following table summarizes warrants outstanding at June 30, 2016:

Number of Shares	Exercise Price	Expiry Date
150,000	\$0.20	May 11, 2017
1,000,000	\$0.25	May 11, 2018
<u>1,150,000</u>		

At June 30, 2016, all warrants are exercisable. However, any shares issued upon the exercise of the warrants are subject to a hold period that expires on September 11, 2016.

- i. The Company issued 1,000,000 share purchase warrants (“finder’s warrants”) with an exercise price of \$0.25 as a finder’s fee for the investment in Axion. Each finder’s warrant is exercisable into one common share of Capstream and will expire two years from the date of issuance. The fair value of the finder’s warrants was calculated to be \$101,700 using the Black-Scholes option pricing model.
- ii. The Company issued 150,000 agent’s warrants (“agent’s warrant”) with an exercise price of \$0.20 associated with brokering some portion of the concurrent equity financing. Each agent warrant is exercisable into one common share of Capstream and will expire 12 months from the date of issuance. The fair value of the agent’s warrants was calculated to be \$14,100 using the Black-Scholes option pricing model.

The weighted average fair value of warrants issued during the six months ended June 30, 2016 of \$0.10 per warrant was calculated as of the date of issue using the Black-Scholes option pricing model using the following weighted average assumptions:

Expected life of warrants	1.74 years
Risk-free interest rate	48.00%
Annualized volatility	75.00%
Dividend rate	0.00%
Forfeiture rate	0.00%
Weighted average share price	\$0.24

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**7. FINANCIAL INSTRUMENTS**

a) **Fair value information**

As at June 30, 2016, the Company's financial instruments consist of cash, amounts receivable, convertible promissory note, loan receivable, and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values because of their current nature.

All financial assets and financial liabilities are recorded at fair value on initial recognition. Transaction costs are expensed when they are incurred, unless they are directly attributable to the acquisition of qualifying assets, in which case they are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale.

The categories of the fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

- Level 1- Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2- Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3- Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

During the six months ended June 30, 2016, the Company entered into a convertible promissory note which was accounted for at fair value through profit and loss. This instrument was recorded using a Level 3 input and determined to approximate the carrying value. There were no transfers in or out of Level 1 or 2 in the period.

b) **Financial instruments and related risks**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's exposures to financial risks and how the Company manages those risks are described in note 6 to the Company's audited financial statements for the year ended December 31, 2015. There were no significant changes to the Company's exposures to those risks or the Company's management of its exposures during the three and six months ended June 30, 2016 except as noted below.

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**7. FINANCIAL INSTRUMENTS** (continued)b) **Financial instruments and related risks** (continued)

## i. Liquidity risk

During the six months ended June 30, 2016, the Company used operating cash flows of \$125,939 (six months ended June 30, 2015 – \$29,203). At June 30, 2016, Capstream held cash of \$447,413 (December 31, 2015 – \$222,880) and had working capital of \$1,026,209 (December 31, 2015 - \$249,522) which the Company defines as current assets less current liabilities.

## ii. Interest rate risk

During the three months ended June 30, 2016, the Company entered into interest bearing financial instruments and is now exposed to interest rate risk from this source in addition to the interest on cash. As these instruments are at fixed rates over the term their exposure to risk is minimal.

**8. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with officers, directors and companies controlled by directors of the Company.

	Six Months Ended June 30	
	2016	2015
Administration	4,000	-
Consulting fees	12,800	-
Management fees	16,250	-
Share-based compensation	200,357	-
Rent	6,000	6,000
	<u>239,407</u>	<u>6,000</u>

At June 30, 2016, the Company owed a total of \$16,250 to officers, directors and companies controlled by directors of the Company which was included in accounts payable and accrued liabilities. These amounts were unsecured, non-interest bearing and have no fixed terms of repayment.

**9. SEGMENTED INFORMATION**

The Company operates in a single reportable operating segment. At June 30, 2016, the Company's only non-current asset is its Investment in Associate which is located in the Cayman Islands (Note 3).

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**10. SUBSEQUENT EVENTS**

## a) Acquisition of Additional Interests in Axion Games

Between May 26 and August 4, 2016, the Company announced entering into 8 separate agreements to acquire additional direct and beneficial interests in Axion Games. All the share acquisitions announced received Exchange approval and were completed on August 23, 2016 through share exchanges of Axion' shares and AEIH shares for newly issued shares of the Company. Capstream common shares issued in exchange for the interests in Axion were issued at a price of \$0.40 per share.

The number of shares exchanged for each of the transactions and the total of the transactions are shown below. All transactions were consummated with arm's length individuals and entities. Of the total 33,581,358 common shares issued, 23,448,169 of the shares will be released as to: 25% on the date of issuance, and thereafter 25% on each of 6 months, 12 months and 18 months from the date of issuance unless a change of control of Capstream occurs before these dates in which case all shares would be released. The remaining 10,133,189 shares will be released on February 10, 2017 in one tranche subject to the same change of control terms.

<b>Date of Exchange</b>	<b>Shares of Entity Exchanged</b>	<b>Number of Shares Exchanged</b>	<b>New Capstream Shares Issued</b>
May 26 2016	AEIH	85,655	10,133,189
June 10 2016	AG	1,119,554	1,352,500
June 10 2016	AG	2,468,750	2,982,423
July 6 2016	AG	12,445,163	15,034,631
July 6 2016	AG	622,250	751,722
August 4 2016	AEIH	7,030	831,723
August 4 2016	AEIH	2,340	276,847
August 4 2016	AEIH	18,750	2,218,323
<b>Total</b>		<b>113,745 AEIH Shares</b>	<b>33,581,358</b>
		<b>16,655,717 AG Shares</b>	

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The Company issued a total of 33,581,358 new common shares. The Company's shares outstanding after giving effect to the QT were 162,998,492 and after giving effect to the additional share exchanges the shares outstanding were 196,579,850 on an undiluted basis and 198,929,850 on a fully diluted basis, both which included the Performance Escrow Shares.

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**10. SUBSEQUENT EVENTS (continued)**

## a) Acquisition of Additional Interests in Axion Games (continued)

The balance of direct and beneficial interests in Axion Games increased from 48,488,579 to 76,286,679 shares, or 29.29% to 46.08% of the 165,553,290 issued and outstanding shares of Axion.

<b>Company</b>	<b>Shares Held Post QT</b>	<b>Share Exchanges</b>	<b>Shared Held Post Share Exchange</b>	<b>% of Company</b>	<b>Direct / Beneficial Interest in AG</b>	<b>Direct / Beneficial % Interest in AG</b>
AG	6,625,730	16,655,717	23,281,447	14.1%	23,281,447	14.1%
AEH	26,866	-	26,866	53.7%	26,866,000	16.2%
AEIH	153,133	113,775	266,908	65.5%	26,139,232	15.8%
<b>Total</b>					<b>76,286,679</b>	<b>46.1%</b>

## b) New Common Share Issuance through Brokered and Non-Brokered Private Placement

On August 29, 2016, the Company raised gross proceeds of \$10,121,300 through new common share issuances conducted through a \$4,121,300 of brokered and \$6,000,000 of non-brokered private placement of shares. A total of 20,242,600 of common shares were issued at a price of \$0.50 per share, which represents 9.3% of outstanding common shares on an undiluted basis and 9.2% on a fully diluted basis as at August 29, 2016. Commissions of 6% totaling \$247,278 were paid to PI Financial Corp. acting as the agent for the brokered portion of the private placement. No commission was paid on the non-brokered portion. The proceeds will be used to make further investments in the online video gaming and related spaces in addition to other IT sectors in accordance with the Investment Policy of the Company. Additionally, the funds will also be used for general corporate purposes. The balance of the Company's common shares outstanding after giving effect to the QT, giving effect to the additional share exchanges, and giving effect to the private placement, is as follows:

<b>Event</b>	<b>Undiluted Basis</b>	<b>Fully Diluted Basis</b>
Common Shares Issued and Outstanding Post QT May 11, 2016	162,998,492	165,348,492
Additional Shares Issued with Share Exchange Transactions (Note 10 (a))	33,581,358	33,581,358
Common Shares Issued and Outstanding August 23, 2016	196,579,850	198,929,850
Additional Shares Issued with Private Placement Transaction (Note 10(b))	20,242,600	20,242,600
<b>Common Shares Issued and Outstanding August 29, 2016</b>	<b>216,822,450</b>	<b>219,172,450</b>