

# CAPSTREAM VENTURES INC.

## MANAGEMENT DISCUSSION & ANALYSIS

For the Three and Nine Months Ended September 30, 2016

### DATE

The effective date of this management's discussion and analysis ("MD&A") is November 29, 2016.

### INTRODUCTION

The following MD&A of the financial condition and results of the operations of Capstream Ventures Inc. ("Capstream" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2016. This MD&A was written to comply with the requirements of National Instrument 51-102 *Continuous Disclosure Obligations*.

This MD&A should be read in conjunction with the condensed interim financial statements for the three and nine months ended September 30, 2016 and related notes thereto which have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All figures are in Canadian dollars, unless otherwise noted. References to US\$ are to United States dollars. In the opinion of management all adjustments which consist only of normal recurring adjustments considered necessary for a fair presentation have been included.

The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at this date, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the board of directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) if it would significantly alter the total mix of information available to investors.

Additional information about Capstream is available at [www.sedar.com](http://www.sedar.com) ("SEDAR").

### CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

*This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's*

ability to predict or control. Please also make reference to those risk factors referenced in the “Risk and Factors” section below.

*Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the business of Axion; the video game market; management’s outlook regarding future trends; sensitivity analysis on financial instruments, which may vary from amounts disclosed; and general business and economic conditions. Readers are cautioned that the forward-looking statements above do not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.*

*All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.*

## **NATURE OF BUSINESS AND CORPORATE DEVELOPMENTS**

The Company was incorporated under the British Columbia *Business Corporations Act* on June 21, 2011, and was classified as a Capital Pool Company (“CPC”) as defined in Policy 2.4 of the TSX Venture Exchange (“TSXV”). On December 2, 2011, the common 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 TSXV to the NEX board trading under the symbol “CSP.H”.

In May 2016, pursuant to the completion and regulatory approval of a Filing Statement in connection with a QT under the TSXV Policy for a CPC, the Company became an investment company in accordance with the rules of the TSXV. On May 18, 2016, upon completion of the QT, trading resumed in the common shares of the Company on the TSXV as a Tier 2 Investment Issuer under the trading symbol “CSP”. Capstream is now an investment company focused primarily on investments in the online video gaming and other Information Technology (“IT”) sectors. On November 1, 2016, the Company was upgraded to a Tier 1 Investment Issuer by the TSXV.

## **Q3 HIGHLIGHTS**

In addition to the events described above under Nature of Business and Corporate Developments, the following significant events occurred during the three months ended September 30, 2016:

- (i) Further investments into Axion Games Limited; and
- (ii) Raised \$10,121,300 in new capital through a brokered and non-brokered private placement.

In its short existence as an investment company, the Company was able to expand the size of its investments in an area of particular focus, specifically in the online video gaming sector, in a company that management deems undervalued and expects contribution in maximizing future returns for the Company.

## **CORPORATE DEVELOPMENTS**

### **QT INVESTMENTS**

On May 11, 2016, the Company made investments as part of the QT into the following two companies:

#### **(i) Investment in Axion Games**

As part of the QT, the Company made investments into Axion Games Limited (“Axion” or “AG”), a Cayman Island private company with primary operations in the online video gaming space in Shanghai, People’s Republic of China. Axion focuses on cross platform development of high production value, triple-A quality online video games. Axion’s advantage lies in its rare combination of being a low cost provider with high quality production capabilities, traits evidenced by a track record of development contributions to numerous global franchise game titles for the top video gaming companies of the world. Axion has, however, been defocusing from this third party outsourcing development model, and is just now entering the next phase of its business plan from several years of preparation via intensive investments in proprietary games/intellectual properties (“IP”) and related supporting technologies. The portfolio of IP that has been created is expected to provide Axion with a strong foray into a potentially larger publishing and licensing business going forth. Axion’s main IP development, “Rising Fire”, a multiplayer online, third person shooting and role playing game, has been selected by Tencent Holdings Limited (“Tencent”) for co-development and publishing on the PC platform for the Chinese market. In the most recent Chinajoy game show, Rising Fire was on prominent display at Tencent’s booth, and is currently undergoing closed testing with the publisher. China is the largest market globally for PC online video games, in addition to her overall video gaming market which is expected to reach US\$24 billion in 2016, surpassing that of the U.S. at US\$23 billion.

The Investment in Axion occurred by way of a share exchange with certain Axion shareholders (the “Axion Shareholders”), whereby the Company acquired a beneficial interest in approximately 29.3% of the outstanding shares of Axion in exchange for 150,168,692 common shares of the Company, including 33,000,000 common shares to the Axion Shareholders in the form of Performance Escrow Shares, to be held in escrow until certain financial performance targets are attained by Axion such as realizing an earnings before interest, taxes, depreciation and amortization (“EBITDA”) of US\$6,000,000 or attaining game pre-sales revenue in excess of US\$10,000,000 in any audited fiscal year ending December 31, 2016, 2017 or 2018. The Company also issued 1,000,000 share purchase warrants at an exercise price of \$0.25 per share as a finder’s fee for the investment, which expire on May 11, 2018.

#### **(ii) Investment in Innovega**

In addition, the Company made a second investment associated with the QT in Innovega Inc. (“Innovega”), a private Delaware company with offices in Bellevue, Washington, and San Diego, California, that is developing digital eyewear that leverage contact lens and nanotechnology to uniquely deliver rich virtual reality, augmented reality, and mixed reality experiences from stylish glasses. The business model of Innovega is to supply proprietary components and licenses to digital media, consumer electronics, and contact lens OEMs. Innovega has completed clinical / human trials using its advanced lenses and glasses and recently submitted regulatory documents to the U.S. Food and Drug Administration.

The Company invested US\$350,000 in Innovega in exchange for a Convertible Promissory Note issued by Innovega (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 (the “QEF”), the principal of the Note and accrued interest thereon will automatically convert into new preferred shares, with the number of preferred shares being issued to be dependent upon whether a QEF takes place or not, as well as its timing. The total investment consisted of:

- (i) An outstanding bridge loan to Innovega of US\$75,000, which was applied towards the Note as part of the total on May 11, 2016 with the QT; and
- (ii) A payment of US\$275,000 to Innovega for the remaining consideration of the Note on May 11, 2016 associated with QT.

#### **CONCURRENT FINANCING WITH THE QT**

As part of the QT, the Company also completed a concurrent financing (the “Concurrent Financing”) for gross proceeds of \$1,150,000 from the issuance of 5,750,000 common shares at a price of \$0.20 per share. In addition, 150,000 share purchase warrants were issued to an agent at a price of \$0.20 and expire on May 11, 2017.

#### **CHANGE IN DIRECTORS AND OFFICERS**

In connection with the QT and the Annual General Meeting held on July 22, 2016, certain directors and officers of the Company resigned and were appointed, such that the directors and officers of the Company as of the date of this report are as follows:

Name	Position
John Todd Bonner	CEO and Director (Chairman of the Board)
Shogo Suzuki	CFO
Erin Walmesley	Corporate Secretary
Grant Kim	Director
Ravinder (Rob) Kang	Director
Stephen Willey	Director

The new and continuing directors and management of the Company have a broad range of business experience, including those in the relevant sectors of the Company’s potential areas of investments. They bring with them their acumen and own networks of business partners, financiers, venture capitalists, and finders to assist in uncovering appropriate investments for the Company. With respect to the Company’s current investments, the CEO, John Todd Bonner, is the founder and current board member of Axion, and the Company’s Director, Stephen Willey, is the founder and current CEO of Innovega. Both individuals are expected to serve a key role in helping to guide the Company’s investments in the respective investees.

#### **ACQUISITION OF ADDITIONAL INTERESTS IN AXION SUBSEQUENT TO QT**

The Company acquired additional direct and beneficial interests in Axion through both additional share exchanges and purchase of new shares of Axion through a rights issue of Axion as described below.

### Additional share exchanges of direct and beneficial interests in Axion

Between May 26 and August 4, 2016, the Company was presented with opportunities to make further investments into Axion, and consequently announced entering into 8 separate agreements to acquire additional direct and beneficial interests in the existing investee. All of the share acquisitions announced received TSXV approval and were completed on August 23, 2016 through share exchanges of Axion's shares and Axion Entertainment International Holdings Limited's ("AEIH") shares for newly issued common shares of the Company. 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.

<b>Date of Announcement</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>Sub Totals</b>	<b>AEIH</b>	<b>113,775</b>	<b>13,460,082</b>
	<b>AG</b>	<b>16,655,717</b>	<b>20,121,276</b>
<b>Total</b>			<b>33,581,358</b>

As a result of the foregoing, the balance of direct and beneficial interests in Axion increased from 48,488,579 to 76,286,679 shares, or 29.3% to 46.1% of the 165,553,290 issued and outstanding shares of Axion and its holding companies Axion Entertainment Holdings Limited ("AEH") and AEIH.

### Rights Issue of Axion

On September 7, 2016, the Company participated in a rights offering of Axion whereby the Company acquired an additional 4.9% beneficial interest in Axion through the purchase of 30,686,275 Axion preference shares for an aggregate price of \$3,584,958 (US\$2,780,330). The Company increased its direct and beneficial ownership of Axion to 106,972,954 shares or from 46.1% to 51.0% of the 209,700,960 issued and outstanding shares of Axion on an undiluted basis as of September 30, 2016.

At September 7, 2016, the Company held 51.0% of the issued and outstanding shares of Axion. Management made significant judgements and estimates in determining that the Company does not have control of Axion despite this ownership. Capstream does not have the voting rights required to nominate the majority of board members of Axion. Furthermore, Capstream does not have control of the relevant activities of Axion. Management has determined that the Company holds significant influence over the interest in Axion as they do have the power to participate in the financial and operating policy decisions and as such the investment is accounted for using the equity method.

At September 30, 2016, Axion's 100% statement of financial position included Canadian equivalent net assets of \$8,010,056 comprised of current assets of \$9,027,666, non-current assets of \$6,107,036 and current liabilities of \$7,124,646. The Company's share of net assets of Axion was \$4,085,930. The difference between the carrying value of the investment and the share of net assets represents

intangible assets of Axion including IP. For the three months ended September 30, 2016, revenues were \$2,664,564 (US\$2,041,777) and net loss was \$536,442 (US\$411,059) of which the Company's interest is \$219,255. For the period from acquisition of the original Axion interest, revenues were \$4,184,445 (US\$3,216,594) and net loss was \$793,534 (US\$609,365) of which the Company's interest is \$294,557. Axion does not hold any debt instruments and only has normal course commitments under non-cancellable operating leases.

No further direct or beneficial interests in Axion have been acquired as of November 29, 2016.

#### **NEW COMMON SHARE ISSUANCE THROUGH BROKERED AND NON-BROKERED PRIVATE PLACEMENT**

On August 29, 2016, the Company announced that it had raised \$10,121,300 of new capital through a \$4,121,300 brokered and \$6,000,000 non-brokered private placement of 20,242,600 common shares at a price of \$0.50 per share. This represents 9.3% of outstanding common shares on an undiluted basis and 9.2% on a fully diluted basis as at November 29, 2016. Commissions of \$247,728 were paid an agent for the brokered portion of the private placement. No commission was paid for the non-brokered portion. The capital raised will be used for general corporate purposes of the Company and to pursue additional investments in accordance with the Investment Policy with the aim of maximizing the returns for the Company over the long term.

#### **INVESTMENT IN RED ANCHOR TRADING CORP.**

On October 26, 2016, the Company entered into an investment agreement (the "Investment Agreement") with Red Anchor Trading Corp. ("Red Anchor"), a company engaged in the business of developing an application known as "HotNow", which is a marketing automation platform for retailers to offer various promotions. Under the terms of the Investment Agreement, the Company has agreed to invest US\$1.5 million in Red Anchor to acquire 15.9% of the voting shares of Red Anchor. A member of key management and an associated related party shareholder of the Company are each the beneficial owners of 38.18% of the issued and outstanding voting shares of Red Anchor and as such this investment transaction is considered to be non-arm's length.

Consummation of the Investment is subject to a number of customary conditions of closing, including that no material adverse change with respect to Red Anchor shall have occurred and that the Red Anchor's representations and warranties made under the Investment Agreement are accurate at closing of the proposed Investment. The Investment Agreement is subject to final TSXV approval.

## SELECTED FINANCIAL INFORMATION

### Quarterly Results

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

For the Quarters Ended:	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
	\$	\$	\$	\$
Total Assets	56,921,578	31,220,561	188,578	249,522
Comprehensive and net loss	(556,497)	(445,839)	(71,950)	(71,166)
Loss per Share, basic and diluted	(0.00)	(0.01)	(0.01)	(0.01)

For the Quarters Ended:	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
	\$	\$	\$	\$
Total Assets	300,762	327,784	351,163	358,419
Comprehensive and net loss	(33,138)	(16,935)	(14,604)	(6,396)
Loss per Share, basic and diluted	(0.01)	(0.00)	(0.00)	(0.00)

### Total Assets

Total assets have primarily been made up of cash with the exception of the three months ended June 30 and September 30, 2016 which included the Company's investment in its associate Axion with a carrying value of \$50,114,818 and \$30,060,136 of the total assets, respectively, at September 30 and June 30, 2016.

### Comprehensive Loss for the Period

The rising trend of the net loss towards the three months ended June 30, 2016 was the result of the Company undertaking due diligence to evaluate the respective investments of the QT while it was a CPC. The QT was completed on May 11, 2016, and the related QT expenditures, concurrent financing costs, and share-based payment expense from stock options awarded to new directors and management were responsible for the increase in net loss for the three months ended June 30, 2016. During the three months ended September 30, 2016, the Company continued to evaluate various investments, including acquiring further shares in current investee Axion, in addition to conducting a private placement that increased expenditures and net loss.

**REVIEW OF QUARTERLY FINANCIAL RESULTS  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 COMPARED TO THREE AND NINE MONTHS  
ENDED SEPTEMBER 30, 2015**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>EXPENSES</b>				
Accounting and legal	4,675	6,360	87,694	19,530
Consulting and administration	121,154	18,200	146,397	26,200
Filing and transfer agent fees	28,422	4,303	80,426	8,625
Management fees	64,944	-	81,194	-
Office and rent expense	19,294	2,999	30,900	9,046
Share-based compensation expense	-	-	242,000	-
Share of loss in associate	219,255	-	294,557	-
Salaries and benefits	56,349	-	56,349	-
Travel and business development	57,187	1,276	96,223	1,276
<b>Total Expenses</b>	<b>(571,280)</b>	<b>(33,138)</b>	<b>(1,115,740)</b>	<b>(64,677)</b>
<b>Other items</b>				
Foreign exchange gain (loss)	(639)	-	(639)	-
Interest earned	15,422	-	22,744	-
Consulting income	-	-	19,350	-
<b>Comprehensive and net loss</b>	<b>\$ (556,497)</b>	<b>\$ (33,138)</b>	<b>\$ (1,074,285)</b>	<b>\$ (64,677)</b>
<b>Basic And Diluted Loss Per Share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Number Of Shares</b>				
<b>Outstanding, Basic and Diluted</b>	<b>150,932,783</b>	<b>7,079,800</b>	<b>77,811,220</b>	<b>7,079,800</b>

Net loss for the three and nine months ended September 30, 2016 increased by \$523,359 and \$1,009,608, respectively, compared to net loss for the three and nine months ended September 30, 2015. The net loss for the nine months ended September 30, 2016 was driven by:

- (i) The QT fees incurred during the three month period ended June 30, 2016 are included in the following sub captions and are mainly associated with: (a) \$8,000 in consulting fees; (b) \$34,683 in filing and transfer agent fees; and (c) \$42,935 in legal and audit fees. The total of these fees are lower than that stated in the QT Filing Statement as a result of classifying some of the costs into "Share Issuance Costs" in the Statement of Change in Equity.
- (ii) Consulting and administration fees for the three months ended September 30, 2016 primarily included consulting fees for identifying potential investment opportunities including investments in similar themes of the Company's current investment portfolio.
- (iii) The share-based compensation expense for the nine months ended September 30, 2016 related to instruments awarded under Capstream's stock option plan primarily to the new directors and management of the Company, which were non-existent in the same periods of the prior year. Share-based compensation is impacted by the number on instruments granted in a period, the fair value of those instruments and the vesting terms.

- (iv) The Company's share of loss in associate relates to the proportionate loss of the Axion investment recognized under the equity method for the period from May 11, 2016 to September 30, 2016.
- (v) The interest earned on the Company's bridge loans and convertible promissory which were entered into during the nine months ended September 30, 2016. The Company also received a one-time fee associated with providing certain consulting services in the nine months ended September 30, 2016.

## **FINANCIAL POSITION AND LIQUIDITY**

As of September 30, 2016, the Company had \$6,281,717 (December 31, 2015 - \$222,880) in cash and working capital of \$6,712,308 (December 31, 2015 - \$217,049).

Cash flow used in operating activities increased in the nine months ended September 30, 2016 by \$438,748 compared to the nine months ended September 30, 2015 mainly due to an increase in the net loss for the period offset by an increase in accounts payable and accrued liabilities.

Cash used in investing activities comprised of the following activities. On June 27, 2016, the Company entered into an agreement to provide a non-revolving bridge loan (the "Loan") not exceeding US\$150,000 to Axion, which bears interest at 6% per annum. The Loan has maximum maturity term of one year from the date of original advance of June 27, 2017, at which time the principal and any accrued interest will be paid. On May 11, 2016, the Company invested US\$350,000 in Innovega in exchange for the Innovega Note as explained in the section "QT Investments: (ii) Investment in Innovega" above. On September 7, 2016, the Company acquired 30,686,275 of Axion's preference shares via a rights offering for \$3,584,958 (US\$2,780,330) as explained in in the section "QT Investments: (i) Investment in Axion" above.

Cash provided by financing activities in the nine months ended September 30, 2016 was \$10,617,945 (2015 - \$nil). The increase was the results of (a): \$1,150,000 of proceeds from the Concurrent Financing associated with the QT; and (b) \$10,121,300 of proceeds related to the completion of a private placement which closed on August 29, 2016 as explained in the section "New Common Share Issuance Through Brokered and Non-Brokered Private Placement" above. Both transactions were offset by total cash share issue costs of \$617,010.

Management believes that the Company has sufficient working capital to meet its current financial obligations and working capital needs.

## **OFF BALANCE SHEET ARRANGEMENTS**

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

## **RELATED PARTY TRANSACTIONS**

During the nine months ended September 30, 2016, the Company completed the following transactions with related parties:

- (i) Paid or accrued management fees of \$81,194 (2015 - \$Nil) to key management of the Company;

- (ii) Paid or accrued \$8,100 (2015 - \$Nil) in consulting fees for work related to the QT to a private company controlled by the Corporate Secretary of the Company;
- (iii) Paid or accrued \$8,000 (2015 - \$Nil) in consulting fees related to the QT to a Director of the Company;
- (iv) Paid or accrued \$17,500 (2015 - \$12,000) for office rent expense and consulting and administration fees for the preparation of the quarterly financial filings, to a private company controlled by former directors or officers of the Company; and
- (v) Accrued \$242,000 (2015 - \$Nil) for share-based compensation on granting of stock options under the Company's stock option plan to existing directors and officers of the Company.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties. At September 30, 2016, the Company owed a total of \$16,378 (December 31, 2015 - \$Nil) to an officer of the Company which was included in accounts payable and accrued liabilities. The Company also advanced \$19,370 (December 31, 2015 - \$Nil) to an officer for travel expenses at September 30, 2016 which was included in prepaid expenses. The Company also entered into an agreement which will result in related party transactions as described above under "Investment in Red Anchor Trading Corp."

#### **FINANCIAL INSTRUMENTS RISK EXPOSURE**

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

##### **(i) Liquidity risk**

During the nine months ended September 30, 2016, the Company used operating cash flows of \$516,620 (nine months ended September 30, 2015 - \$29,203). At September 30, 2016, Capstream held cash of \$6,281,727 (December 31, 2015 - \$222,880) and had working capital of \$6,712,308 (December 31, 2015 - \$217,049) which the Company defines as current assets less current liabilities.

##### **(ii) Interest rate risk**

During the nine months ended September 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.

## SUMMARY OF SHARE DATA – AS AT NOVEMBER 29, 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, outstanding warrants and stock options at November 29, 2016:

	Number of Shares	Exercise Price C\$	Remaining Life (years)
Common shares, issued and outstanding	216,897,450		
Warrants	1,150,000	0.20 - 0.25	0.40 - 1.40
Stock Options	925,000	0.25 - 0.45	4.4 - 4.5
<b>Fully Diluted Shares</b>	<b>218,972,450</b>		

Common shares subject to escrow agreements are presented in the following table. On November 1, 2016, the Company was approved for upgrade to Tier 1 Issuer status from Tier 2 by the TSXV.

Balance, January 1, 2016	1,415,000
Shares released subject to CPC escrow agreement	(141,500)
Shares held subject to value escrow agreement	37,471,319
Shares held subject to surplus escrow agreement	51,000,516
Shares held subject to performance escrow agreement	33,000,000
Shares held subject to pooling agreements	27,719,320
<b>Balance, September 30, 2016</b>	<b>150,464,655</b>
Shares released subject to CPC escrow agreement	(566,000)
Shares released subject to value escrow agreement	(16,653,918)
Shares released subject to surplus escrow agreement	(13,421,188)
<b>Balance, November 29, 2016</b>	<b>119,823,549</b>

As a result of the graduation to TSXV Tier 1 the common shares of Capstream previously deposited into escrow pursuant to the rules of the TSXV will now be governed by the release provisions of Tier 1 Issuer escrow. As such, an aggregate of 9,141,708 common shares were immediately released from escrow on November 4, 2016 to retroactively apply the Tier 1 escrow requirements. The remaining shares in escrow was or will be released on November 17, 2016, May 17, 2017 and November 17, 2017 subject to the terms of the surplus, value, or CPC escrow agreements. Performance escrow shares will not be released until performance conditions are met. The following provides additional details on the release by category. There was no impact to the performance escrow shares or pooling agreements as a result of graduation to Tier 1.

**CPC Escrow:** Under the Tier 1 release schedule, 25% of the shares would have been released on the issuance of the Final Exchange Bulletin, and an additional 25% will be released on each of the dates which are 6 months, 12 months, and 18 months following the initial release. On November 4, 2016, 212,250 common shares were released from escrow to “catch-up” to the Tier 1 release schedule. Had the Tier 1 release schedule been applicable as of September 30, 2016, 1,061,250 common shares would have been subject to escrow versus 1,273,500 under previous Tier 2 status. As at November 29, 2016, 707,500 common shares remained subject to Tier 1 CPC Escrow Agreement.

**Value Escrow:** Under the Tier 1 release schedule, 25% of the shares would have been released on the issuance of the Final Exchange Bulletin, and an additional 25% will be released on each of the dates which are 6 months, 12 months, and 18 months following the initial release. On November 4, 2016, 6,245,220 common shares were released from escrow to “catch-up” to the Tier 1 release schedule. Had the Tier 1 release schedule been applicable as of September 30, 2016, 31,226,099 common shares would have been subject to escrow versus 37,471,319 under previous Tier 2 status. As at November 29, 2016, 20,817,401 common shares remained subject to Tier 1 Value Escrow Agreement.

**Surplus Escrow:** Under the Tier 1 release schedule, 10% of the shares would have been released on the issuance of the Final Exchange Bulletin, and an additional 20%, 30%, and 40% will be released on each of the dates which are 6 months, 12 months, and 18 months respectively, following the initial release. On November 4, 2016, 2,684,238 common shares were released from escrow to “catch-up” to the Tier 1 release schedule. Had the Tier 1 release schedule been applicable as of September 30, 2016, 48,316,278 common shares would have been subject to escrow versus 51,000,516 under previous Tier 2 status. As at November 29, 2016, 37,579,328 common shares remained subject to Tier 1 Surplus Escrow Agreement.

## **OTHER RISKS AND UNCERTAINTIES**

As a result of closing the QT and the related transactions the Company’s “*Risks Related to our Business*” as presented in the Company’s MD&A for the year ended December 31, 2015 have changed. A detailed discussion of the Company’s risks associated with its new structure can be found under the title “*Risk Factors*” on pages 20 to 31 of the Qualifying Transaction Filing Statement dated April 25, 2016 and filed on SEDAR on April 27, 2016. References to “Resulting Issuer” refer to Capstream. The risks represent those of the new business subsequent to the closing of the QT. In addition, this Filing Statement includes specific risks associated with the Axion Interest starting on page 24.

Investors should carefully consider when making an investment decision concerning the Company Shares. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial, may also impair the operations of the Company. If any such risks actually occur, the financial condition, liquidity and results of operations of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected.

An investment in the Company is speculative. An investment in the Company will be subject to certain material risks and investors should not invest in securities of the Company unless they can afford to lose their entire investment.

## **BASIS OF PRESENTATION**

The Company’s unaudited condensed interim financial statements have been prepared in accordance with IAS 34 as issued by the IASB. Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted. These unaudited condensed interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2015. The accounting policies applied in the preparation of these unaudited condensed interim financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2015, with the exception of 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 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.

### **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.

### **Changes in accounting policies**

The Company has adopted the amendments to IFRS included in the Annual Improvements 2012-2014 cycle and a number of narrow scope amendments to IFRS and IAS 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. In addition to the accounting standards issued but not yet effective as disclosed in Note 4 to the annual financial statements for the year ended December 31, 2015, the following accounting standards were issued but are not yet effective.

#### Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows*. The amendments are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

#### Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

### **CRITICAL JUDGEMENTS AND ESTIMATES**

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of the 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 nine months ended September 30, 2016, the Company applied the critical judgments 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. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. If a Company controls an investee, that investee is considered a subsidiary. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to

the effective date of disposition or loss of 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.

#### **ADDITIONAL INFORMATION**

Additional information about the Company can be found on [www.sedar.com](http://www.sedar.com) under "Company Profiles – Capstream Ventures Inc."

#### **APPROVAL**

The Board of Capstream Ventures Inc. has approved the disclosure contained in this MD&A as of November 29, 2016.