

# **CAPSTREAM VENTURES INC.**

## **CONDENSED INTERIM FINANCIAL STATEMENTS**

**For the Three and Nine Months Ended September 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 Chartered Professional Accountants of BC for a review of interim financial statements by an entity's auditor.

Vancouver, Canada

November 29, 2016

**CAPSTREAM VENTURES INC.**

## CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

*(Unaudited - expressed in Canadian Dollars)*

		At September 30,	At December 31,
	Note	2016	2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 6,281,717	\$ 222,880
Amounts receivable		14,148	5,392
Convertible promissory note	4	469,957	-
Prepaid expenses		40,938	21,250
<b>Total Current Assets</b>		<b>6,806,760</b>	<b>249,522</b>
<b>Non-Current Assets</b>			
Investments in associate	3	50,114,818	-
<b>Total Non-Current Assets</b>		<b>50,114,818</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>\$ 56,921,578</b>	<b>\$ 249,522</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 94,452	\$ 32,473
<b>TOTAL LIABILITIES</b>		<b>94,452</b>	<b>32,473</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	5	57,974,493	636,574
Share-based payment reserve		420,355	73,912
Accumulated deficit		(1,567,722)	(493,437)
<b>TOTAL EQUITY</b>		<b>56,827,126</b>	<b>217,049</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES and EQUITY</b>		<b>\$ 56,921,578</b>	<b>\$ 249,522</b>

Going Concern of Operations – Note 2

Subsequent events – Note 9

**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)*

		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
	Note	2016	2015	2016	2015
<b>EXPENSES</b>					
Accounting and legal		4,675	6,360	87,694	19,530
Consulting and administration	7	121,154	18,200	146,397	26,200
Filing and transfer agent fees		28,422	4,303	80,426	8,625
Management fees	7	64,944	-	81,194	-
Office and rent expense	7	19,294	2,999	30,900	9,046
Share-based compensation expense	5(d)	-	-	242,000	-
Share of loss in associate	3	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	4	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>

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)*

		<b>Nine Months Ended September 30,</b>	
	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss		\$ (1,074,285)	\$ (64,677)
Items not affecting cash			
Interest accrued on convertible promissory note	4 (a)	(12,527)	-
Share-based compensation	5(d)	242,000	-
Share of loss in associate	3	294,557	-
<b>Changes in non-cash working capital items:</b>			
Increase in amounts receivable		(8,756)	(215)
Increase in prepaids	7	(19,688)	(20,000)
Increase in accounts payable and accrued liabilities		61,979	7,020
Cash used in operating activities		(516,720)	(77,872)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in Axion Games	3	(3,584,958)	-
Convertible promissory note	4(a)	(457,430)	-
Loan to Axion Games	4 (c)	(196,800)	-
Repayment of loan by Axion Games	4 (c)	196,800	-
Cash used by investing activities		(4,042,388)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of shares, for cash	5(b)	11,271,300	-
Proceeds from stock option exercise	5(d)	18,750	-
Share issue costs		(672,105)	-
Cash provided by financing activities		10,617,945	-
<b>Increase (decrease) in cash during the period</b>		<b>6,058,837</b>	<b>(77,872)</b>
<b>Cash, beginning of the period</b>		<b>222,880</b>	<b>354,246</b>
<b>Cash, end of the period</b>		<b>\$ 6,281,717</b>	<b>\$ 276,374</b>
<b>Supplementary Cash Flow Information</b>			
Interest received		\$ 10,317	\$ -
Fair value of finder's warrants issued		\$ 101,700	\$ -
Fair value of agent's warrants issued		\$ 14,100	\$ -
Shares issued for investment in associate		\$ 46,824,417	\$ -

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)

	Note	Common shares		Share-based	Deficit	Total
		Number of shares	Share capital	payment reserve		
<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>
Shares issued for investment in associate	3	183,750,050	46,824,417	-	-	46,824,417
Private placement financing	5(b)	25,992,600	11,271,300	-	-	11,271,300
Share issuance costs			(787,905)	14,100	-	(773,805)
Options exercised	5(d)	75,000	18,750	-	-	18,750
Fair value of options exercised		-	11,357	(11,357)	-	-
Share-based compensation	5(d)	-	-	242,000	-	242,000
Fair value of finder's warrants issued	5(e)	-	-	101,700	-	101,700
Net loss		-	-	-	(1,074,285)	(1,074,285)
<b>Balance, September 30, 2016</b>		<b>216,897,450</b>	<b>\$ 57,974,493</b>	<b>\$ 420,355</b>	<b>\$ (1,567,722)</b>	<b>\$ 56,827,126</b>

	Common shares		Share-based	Deficit	Total
	Number of shares	Share capital	payment reserve		
<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	-	-	-	(64,677)	(64,677)
<b>Balance, September 30, 2015</b>	<b>7,079,800</b>	<b>636,574</b>	<b>73,912</b>	<b>(422,271)</b>	<b>288,215</b>
Net loss	-	-	-	(71,166)	(71,166)
<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 NINE MONTHS ENDED SEPTEMBER 30, 2016  
(Unaudited - expressed in Canadian Dollars)

---

### **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 November 1, 2016, the Company was granted an upgrade to a Tier 1 Investment Issuer status by the TSX-V.

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.

#### **Basis of Measurement**

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.

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

**CAPSTREAM VENTURES INC.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)*

---

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

**Significant Accounting Policies**

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, with the exception of the following:

**(a) 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.

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.



**CAPSTREAM VENTURES INC.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)*

---

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

**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.

**Significant judgements 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 nine months ended September 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 material estimates or 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.

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)*

---

**2. BASIS OF PREPARATION** (continued)**Going concern of operations**

These unaudited condensed interim 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 September 30, 2016, the Company has accumulated losses of \$1,567,722 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 additional 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. At September 30, 2016, cash and cash equivalents were \$6,281,717 and working capital was \$6,712,308. The Company has adequate working capital and liquidity in order for the Company to remain as a going concern.

**Changes in accounting standards**

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. In addition to the accounting standards issued but not yet effective as disclosed in Note 4 of its audited financial statements for the period ended December 31, 2015 and the following additional standards were issued but are not 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.

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***3. INVESTMENT IN ASSOCIATE**

Axion Games Limited ("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 29.3% of the outstanding shares of Axion through the following entities:

<b>Investee</b>	<b>Domicile</b>	<b>Primary Business</b>
Axion Games Limited	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.

Axion Games, a private Cayman Islands company, is an online video games development, licensing and publishing company with primary business operations in Shanghai, People's Republic of China. In exchange for this 29.3% interest in Axion, the Company issued 150,168,692 common shares of the Company including 33,000,000 "Performance Escrow Shares" (Note 5(c)). In addition, the Company issued 1,000,000 share purchase warrants ("Finder's Warrants") associated with the investment in Axion and 150,000 agents warrants ("Agent's Warrants") associated with the concurrent financing related to the acquisition of this investment (Note 5(e)).

Between May 26 and August 4, 2016, the Company entered into 8 separate agreements to acquire additional direct and beneficial interests in Axion. These agreements received TSX-V approval and were completed on August 23, 2016 through share exchanges of Axion's shares and AEIH shares for 33,581,358 newly issued common shares of the Company. This resulted in an additional 16.8% direct and beneficial interest in Axion from arm's length shareholders of Axion or AEIH.

<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>

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***3. INVESTMENT IN ASSOCIATE (continued)**

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

The balance of direct and beneficial interests in Axion Games 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.

<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>

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). As a result, the Company's ownership interest in Axion increased to 51.0%. The balance of direct and beneficial interests in Axion Games increased from 76,286,679 to 106,972,954 shares, or 46.1% to 51.0% of the 209,700,960 issued and outstanding shares of Axion.

<b>Company</b>	<b>Shares Held Post QT</b>	<b>Share Exchanges</b>	<b>Rights Issue Pref Share Acquisitions</b>	<b>Total Shares Held</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	30,686,275	53,967,722	25.7%	53,967,722	25.7%
AEH	26,866	-	-	26,866	53.7%	26,866,000	12.8%
AEIH	153,133	113,775	-	266,908	65.5%	26,139,232	12.5%
<b>Total</b>						<b>106,972,954</b>	<b>51.0%</b>

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.

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***3. INVESTMENT IN ASSOCIATE (continued)**

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	\$ -
May 11, 2016 purchase of 29.3%	30,033,738
August 23, 2016 purchase of 16.8%	16,790,679
September 7, 2016 purchase of 4.9%	3,584,958
Company's share of net loss of associate	<u>(294,557)</u>
<b>Balance, September 30, 2016</b>	<b><u>\$ 50,114,818</u></b>

Summarized financial information for the Company's investments in associate 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. 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 Games 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 intellectual property. 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 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 invested US\$350,000 in Innovega Inc. ("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 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.

**CAPSTREAM VENTURES INC.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

(Unaudited - expressed in Canadian Dollars)

---

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

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

*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.
- 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 is approximately the face value plus accrued interest to date. Subsequent changes in fair value will be charged to the Statement of Comprehensive Loss. At September 30, 2016, interest of \$12,527 (US\$9,543) 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 towards the Note and was therefore extinguished. Interest of \$2,375 (US\$1,825) was earned on the Innovega Loan and was received in July 2016.

**c) 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 Axion. The full Axion Loan bears interest at 6% per annum calculated annually and payable on the earlier of the associate raising financing or maturity. The Axion Loan matures on a maximum term of one year from the date of original advance, at which time the principal and any accrued interest will be paid. Axion repaid the loan in September 2016, including interest of \$2,404 (US\$1,820).

**CAPSTREAM VENTURES INC.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)*

---

**5. SHARE CAPITAL**

**a) Authorized Share Capital**

At September 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.

**b) Issued and Outstanding**

At September 30, 2016, there were 216,897,450 common shares of the Company issued and outstanding. Of this amount, 150,464,655 common shares were issued but subject to future release under escrow agreements as described below in (c) below.

During the nine months ended September 30, 2016:

- i. The Company issued 117,168,692 common shares of the Company to acquire an ownership interest of 29.3% of the outstanding shares of Axion (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. An agent completed \$500,000 of the Concurrent Financing and 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.
- iv. On August 29, 2016, the Company raised gross proceeds of \$10,121,300 through new common share issuances conducted through \$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. Commissions of 6% totaling \$247,278 were paid to the agent for the brokered portion of the private placement. No commission was paid on the non-brokered portion. All shares issued in the private placement are subject to a hold period that expires on December 30, 2016.
- v. The Company issued 33,581,358 common shares of the Company to acquire additional ownership interest of 16.8% of the outstanding shares of Axion (Note 3).
- vi. In September, the Company issued 75,000 common shares on the exercise of stock options.

During the year ended December 31, 2015:

No shares were issued.

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***5. SHARE CAPITAL** (continued)c) **Escrow shares**

Certain of the issued and outstanding common shares issued are subject to Escrow Agreements as follows which requires a certain number of the common shares to be held in escrow to be released in accordance with TSX-V rules at various dates after issuance. During the nine months ended September 30, 2016, certain common shares were released on May 17, 2016 on the issuance of TSX-V's final exchange bulletin of the QT. In November 2016, the Company graduated to a Tier 1 Issuer listing which resulted in additional shares being released on a retrospective basis (Note 9). The following table presents the shares held in escrow at September 30, 2016 pursuant to Tier 1 and Tier 2 Issuer listing requirements. There were 1,415,000 CPC escrow shares at December 31, 2015.

	Tier 1	Tier 2
CPC escrow agreement (1)	1,061,250	1,273,500
Value escrow agreement (2)	31,226,099	37,471,319
Surplus escrow agreement (3)	48,316,278	51,000,516
Performance escrow agreement (4)	33,000,000	33,000,000
Pooling agreements (5)	27,719,320	27,719,320
	<u>141,322,947</u>	<u>150,464,655</u>

- (1) CPC Escrow Shares – Initial release on May 17, 2016 under Tier 1 would have been 25%, with additional 25% released on each of the dates which are 6 months, 12 months and 18 months following the initial release. Under Tier 2, initial release on May 17, 2016 was 10%, with additional 15% released on each of the dates which would have been 6 months, 12 months, 18 months, 24 months, and 36 months from the initial release.
- (2) Value Escrow Shares – Initial release on May 17, 2016 under Tier 1 would have been 25%, with additional 25% released on each of the dates which are 6 months, 12 months and 18 months following the initial release. Under Tier 2, initial release on May 17, 2016 was 10%, with additional 15% released on each of the dates which would have been 6 months, 12 months, 18 months, 24 months, and 36 months from the initial release.
- (3) Surplus Escrow Shares – Initial release on May 17, 2016 under Tier 1 would have been 10%, with additional 20%, 30% and 40% released on each of the dates which are 6 months, 12 months, and 18 months following the initial release, respectively. Under Tier 2 initial release was 5%, with additional 5% at 6 months, 10% released at 12 months and 18 months followed by 15% released at 24 months and 30 months with the final release of 40% at 36 months from initial release.
- (4) 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.



**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***5. SHARE CAPITAL** (continued)c) **Escrow shares** (continued)

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.

(5) Pooling agreements. Escrow shares subject to pooling agreements were associated with the issuance of Capstream shares related to the additional acquisition of the Axion interest at August 23, 2016. Pursuant to the escrow agreements, 23,448,169 of shares will be released as to: 25% on the date of issuance (subject to a statutory hold period of 4-month plus one day from closing), and thereafter 25% on each date that is 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 will be released. The remaining 10,133,189 shares will be released in one tranche on February 10, 2017 subject to the same change in control rules.

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 shares 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.

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
Exercised	(75,000)	0.25
Balance, at September 30, 2016	1,125,000	\$ 0.34
Exercisable at September 30, 2016	1,125,000	\$ 0.34

For the three and nine months ended September 30, 2016, share-based compensation was \$242,000, which was included in Share-based compensation expense in the condensed interim financial statements.

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***5. SHARE CAPITAL (continued)****d) Stock Options**

At September 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
625,000	\$0.25	May 11, 2021
500,000	\$0.45	June 6, 2021
<b>1,125,000</b>		

The weighted average fair value of stock options granted during the nine months ended September 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%
Weighted average share price	\$0.33

At September 30, 2016, the weighted average remaining contractual life of the outstanding stock options was 4.65 years.

**e) Share Purchase Warrants**

Share purchase warrant transactions are summarized as follows:

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

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

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

At September 30, 2016, all warrants are exercisable.

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***5. SHARE CAPITAL** (continued)**e) Share Purchase Warrants**

- 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 nine months ended September 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

**6. FINANCIAL INSTRUMENTS****a) Fair value information**

As at September 30, 2016, the Company’s financial instruments consist of cash, accounts receivable, convertible promissory note, 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;

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***6. FINANCIAL INSTRUMENTS** (continued)

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 nine months ended September 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 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 – \$77,872). 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 exposures to risk in minimal.

**7. RELATED PARTIES**

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

	Nine Months Ended September 30	
	2016	2015
Administration	11,500	4,000
Consulting fees	16,100	-
Management fees	81,194	-
Share-based compensation	242,000	-
Rent	6,000	8,000
	<u>356,794</u>	<u>12,000</u>

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***7. RELATED PARTIES** (continued)

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. These amounts were unsecured, non-interest bearing and have no fixed terms of repayment.

**8. SEGMENTED INFORMATION**

The Company operates in a single reportable operating segment.

**9. SUBSEQUENT EVENTS****(a) 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 TSX-V approval.

**(b) Upgrade from a Tier 2 Investment Issuer to a Tier 1 status**

On November 1, 2016, the Company was approved for graduation from a Tier 2 Investment Issuer to a Tier 1 Issuer status by the TSX-V. With the graduation to a Tier 1 listing, the common shares of Capstream previously deposited into escrow pursuant to the rules of the TSX-V will be governed by the release provisions of Tier 1 Issuer's 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 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.

**CAPSTREAM VENTURES INC.**

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

*(Unaudited - expressed in Canadian Dollars)***9. SUBSEQUENT EVENTS** (continued)(c) Common Shares Subject to Escrow and Pooling Agreement

On November 17, 2016, certain common shares subject to escrow agreements (Note 5(c)) were released to the market. In addition, as a result of the upgrade from Tier 1 to Tier 2 additional common shares were released on a retrospective basis as indicated in Note 9(b) above. The following common shares were subject to escrow agreements as of November 29, 2016:

Shares held subject to CPC escrow agreement	707,500
Shares held subject to value escrow agreement	20,817,401
Shares held subject to surplus escrow agreement	37,579,328
Shares held subject to performance escrow agreement	33,000,000
Shares held subject to pooling agreements	27,719,320
<b>Balance, November 29, 2016</b>	<b>119,823,549</b>

With the graduation to a Tier 1 listing, the common shares previously deposited into escrow pursuant to the rules of the TSX-V will now be governed by the release provisions of Tier 1 Issuer escrow and released as follows. 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.