



(FORMERLY ASEAN ENERGY CORP.)

FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)

APRIL 30, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Genovation Capital Corp.

We have audited the accompanying financial statements of Genovation Capital Corp., which comprise the statements of financial position as at April 30, 2016 and 2015 and the statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Genovation Capital Corp. as at April 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Genovation Capital Corp.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

August 26, 2016

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GENOVATION CAPITAL CORP.

Statements of Financial Position

(Expressed in Canadian Dollars)

As at April 30

	Notes	2016	2015
		\$	\$
ASSETS			
Current			
Cash and cash equivalents		70,720	10,539
Receivables		65,153	8,249
Advances receivable	4	-	93,650
Investment in MKHS, LLC	5	1,907,293	-
		2,043,166	112,438
Investment in Servomarin Industries Corp.	6	-	250,000
Equipment	7	2,222	3,661
TOTAL ASSETS		2,045,388	366,099
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current			
Accounts payable and accrued liabilities	10	827,583	239,006
Promissory note payable	11	-	132,160
Convertible debentures	12	618,261	-
		1,445,844	371,166
Shareholders' equity (deficiency)			
Share capital	8	6,418,003	5,125,795
Convertible debentures – equity component	12	50,157	-
Contributed surplus	8	989,635	936,485
Deficit		(6,858,251)	(6,067,347)
		599,544	(5,067)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		2,045,388	366,099

Nature and continuance of operations (Note 1)**Contingent liability (Note 17)****Subsequent events (Note 18)****Approved on behalf of the Board on August 26, 2016:**

Signed

"Robert van Santen"

Director

Signed

"John Binder"

Director

The accompanying notes are an integral part of these financial statements

GENOVATION CAPITAL CORP.
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
For the year ended April 30

	Notes	2016 \$	2015 \$
General and Administrative expenses			
Advertising and promotion		1,102	10,636
Consulting fees	10	85,341	70,150
Depreciation	7	1,439	2,178
Insurance		4,150	13,415
Interest and bank charges	10	6,949	35,101
Management fees	10	195,000	284,583
Office, rent and miscellaneous	10	40,760	54,495
Professional fees	10	34,448	107,619
Share-based compensation	8, 10	53,150	237,506
Telephone		8,658	12,664
Travel and business development		46,521	32,399
Transfer agent and filing fees		20,101	37,929
		497,619	898,675
Overseas project development			
Consulting fees		-	90,062
Management fees	10	-	34,500
Professional fees		-	8,685
Project investigation costs		-	-
Travel expenses		-	120,052
		-	253,299
		(497,619)	(1,151,974)
Accretion expense	12	(36,918)	-
Foreign exchange gain (loss)		188	(7,588)
Impairment on investment	6	(250,000)	-
Loss on debt settlement	8	(39,472)	-
Other income	5, 15	120,101	10,165
Write off of accounts payable		19,816	-
Write off of advances receivable		(107,000)	-
		(293,285)	2,577
Loss and comprehensive loss for the year		(790,904)	(1,149,397)
Basic and diluted loss per common share		(0.13)	(0.41)
Weighted average number of shares outstanding		6,025,632	2,773,113

The accompanying notes are an integral part of these financial statements

GENOVATION CAPITAL CORP.

Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian Dollars)

	<u>Share Capital</u>		Contributed Surplus	Convertible debenture- equity component	Subscriptions received in advance	Deficit	Total
	Number	Amount					
		\$	\$	\$	\$	\$	\$
Balance, April 30, 2014	2,265,725	3,950,730	698,979	-	562,010	(4,980,389)	231,330
Shares issued for cash	713,115	1,091,610	-	-	-	-	1,091,610
Shares issued to settle debt	34,166	87,125	-	-	-	-	87,125
Subscriptions received in advance	-	-	-	-	(562,010)	-	(562,010)
Share issuance costs	-	(3,670)	-	-	-	-	(3,670)
Divestiture of subsidiaries	-	-	-	-	-	92,000	92,000
Transaction costs relating to divestiture of subsidiaries (Note 15)	-	-	-	-	-	(29,561)	(29,561)
Share based compensation	-	-	237,506	-	-	-	237,506
Loss for the year	-	-	-	-	-	(1,149,397)	(1,149,397)
Balance, April 30, 2015	3,013,006	5,125,795	936,485	-	-	(6,067,347)	(5,067)
Shares issued for cash	4,668,650	1,035,626	-	-	-	-	1,035,626
Shares issued to settle debt	1,403,512	256,582	-	-	-	-	256,582
Convertible debentures – equity component	-	-	-	50,157	-	-	50,157
Share based compensation	-	-	53,150	-	-	-	53,150
Loss for the year	-	-	-	-	-	(790,904)	(790,904)
Balance, April 30, 2016	9,085,168	6,418,003	989,635	50,157	-	(6,858,251)	599,544

The accompanying notes are an integral part of these financial statements

GENOVATION CAPITAL CORP.

Statements of Cash Flows

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Loss for the year	(790,904)	(1,149,397)
Adjustment for non-cash items:		
Depreciation	1,439	2,178
Write-down of advances receivable	107,000	-
Impairment of investment	250,000	-
Share-based compensation	53,150	237,506
Interest expenses	-	20,160
Foreign exchange	-	7,602
Accretion expense	36,918	-
Loss on debt settlement	39,472	-
Other income	-	(165)
	<u>(302,925)</u>	<u>(882,116)</u>
Working capital adjustments		
Accounts receivable	(56,904)	67,380
Advances receivable	(35,490)	(293,650)
Prepaid expenses	-	47,000
Accounts payable and accrued liabilities	680,457	219,953
	<u>(285,148)</u>	<u>(841,433)</u>
INVESTING ACTIVITIES		
Equipment sale	-	1,784
Investment in MKHS, LLC	(1,907,293)	-
	<u>(1,907,293)</u>	<u>1,784</u>
FINANCING ACTIVITIES		
Proceeds from share issuance	1,035,626	495,105
Proceeds from convertible debenture	631,500	-
Transaction costs relating to divestiture of subsidiaries	-	(29,561)
Proceeds from promissory note payable	15,200	112,000
	<u>1,682,326</u>	<u>577,544</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	60,181	(262,105)
Cash and cash equivalents, beginning of year	10,539	272,644
Cash and cash equivalents, end of year	70,720	10,539
Supplemental disclosure with respect to cash flows:		
Equipment purchases accrued through accounts payable and accrued liabilities	-	1,146
Share issuance costs accrued through accounts payable and accrued liabilities	-	3,670
Advances settled through investment in subsidiary	-	250,000

(See next page for additional supplemental disclosure)

The accompanying notes are an integral part of these financial statements

GENOVATION CAPITAL CORP.

Statements of Cash Flows

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

Cash flow supplemental disclosure– additional items:

	2016	2015
	\$	\$
Due from related parties offsetting accounts payable	-	25,783
Divestiture of subsidiaries	-	92,000
Issuance of bonus shares on behalf of a spin-out subsidiary	-	50,000
Shares issued to settle accounts payable and accrued liabilities	69,750	163,620
Shares issued to settle promissory note payable	147,360	-
Share subscriptions received in advance	-	562,010

The accompanying notes are an integral part of these financial statements

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

1. NATURE AND CONTINUANCE OF OPERATIONS

Genovation Capital Corp. (the “Company”) was incorporated under the laws of British Columbia on January 14, 1981. The Company’s common shares trade under the trading symbol “GEC” on the Canadian Securities Exchange (“CSE”).

On March 16, 2015, in accordance with a March 5, 2015 final order from the Supreme Court of British Columbia, the Company completed a plan of arrangement whereby three wholly-owned subsidiaries and the Company’s oil and gas sector assets were spun out in consideration for the issuance of common shares of the Spincos to Company shareholders (Note 15). The Company is transitioning from the oil and gas sector with two proposed transactions (Note 5 and 16), each of which constitutes a Fundamental Change pursuant to CSE Policy 8, whereby a major acquisition transaction results in a change of control, commonly referred to as a reverse take-over.

The address of the Company’s registered and records office and head office address is 14th Floor, 1040 West Georgia Street, Vancouver, British Columbia, Canada V6E 4H1.

The financial statements were prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”), with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation.

The Company has incurred losses since its inception and had an accumulated deficit of \$6,858,251 as at April 30, 2016. The Company’s ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from its operations. Management of the Company does not expect that cash flows for the Company’s operations will be sufficient to cover all of its operating requirements, financial commitments and business development priorities during the next twelve months. Accordingly, the Company expects that it will need to obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

On July 15, 2016 the Company completed a consolidation of its share capital on a 3:1 basis approved by shareholders on April 29, 2016. All share and per share amounts have been restated to reflect the consolidation.

The financial statements of the Company for the year ended April 30, 2016 were authorized for issue by the Board of Directors on August 26, 2016.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of preparation

These financial statements have been prepared on the accrual basis of accounting except for cash flow information, and on a historical cost basis except for certain financial assets measured at fair value. The financial statements are presented in Canadian Dollars, which is also the Company’s functional currency, unless otherwise indicated.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

2. BASIS OF PREPARATION-continued

Critical accounting estimates

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The inputs used in calculating the fair value for share-based compensation expense included in profit or loss.
- ii) The valuation of shares issued in non-cash transactions, including the settlement of debt. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.
- iii) The treatment of accounts payable and accrued liabilities written off through the statements of comprehensive loss requires certain management judgments. Management believes that the related vendors will not pursue payment from the Company or its former subsidiary. Further, these accounts payable relate to operations in a geographical segment the Company is no longer active in.
- iv) Going concern presentation of the financial statements which assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These financial statements include the financial statements of the Company. A subsidiary is included in the financial statements from the date control commences until the date control ceases. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A former subsidiary is included in the financial statements from the date control commenced until March 11, 2015 when control ceased.

All intra-company transactions, balances, income and expenses were eliminated in full on consolidation.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Functional and presentation currency

The functional currency of the Company (and its former subsidiary) is the Canadian dollar as this is the principal currency of the economic environment in which they operate. The Canadian dollar is also the Company's presentation currency. Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position are comprised of cash and short-term deposits held at major financial institutions, which are readily convertible into known amounts of cash. The Company's cash and cash equivalents are invested in business and savings accounts which are available on demand by the Company for its operations.

Cash and cash equivalents consist of:

	April 30, 2016	April 30, 2015
Cash	\$ 64,970	\$ 4,789
Term deposits	5,750	5,750
Total	\$ 70,720	\$ 10,539

Financial instruments

i. Financial assets

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Financial instruments-*continued*

Available-for-sale - Non-derivative financial assets not included in the above categories and investment in entities that are not subsidiaries, joint ventures or investments in associates are designated as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

ii. Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method.

The Company has classified its cash and cash equivalents as fair value through profit and loss, its investment in MKHS, LLC and Servomarin Industries Corp. as available-for-sale, its receivables and advance receivable as loans and receivables and its accounts payable and accrued liabilities, promissory note payable and convertible debentures as other financial liabilities.

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is calculated using a declining balance method to write off the cost of the assets. The depreciation rates applicable to each category of property and equipment are as follows:

Computer equipment	55% Declining balance
Office equipment	20% Declining balance

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provisions

i. Environmental rehabilitation provision

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an environmental rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs). The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated.

Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss. The Company had no rehabilitation obligations as at April 30, 2016 or April 30, 2015.

ii. Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible fixed assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of the options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. The fair value is recognized as an expense with a corresponding increase in contributed surplus. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion of share-based compensation previously recorded in contributed surplus. Consideration paid for the shares on the exercise of stock options is credited to share capital.

Share-based compensation arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity settled share-based payment transactions and measured at the fair value of goods or services received. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is calculated by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

3. SIGNIFICANT ACCOUNTING POLICIES-continued

Loss per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the net earnings (loss) available to common shareholders of the Company by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Accounting standards not yet effective

IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018.

IFRS 11, Joint Arrangements

IFRS 11 is amended to provide specific guidance on accounting for acquisition of an interest in a joint operation that is a business. The amended standard is effective for annual periods beginning on or after January 1, 2016.

IAS 16, Property, plant and equipment and IAS 38 – Intangibles

IAS 16 and IAS 38 were issued in May 2014 and prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

4. ADVANCES RECEIVABLE

Advances receivable related to funds advanced to Servomarin Sdn. Bhd (“SSB”), a Malaysian-based oil and gas service provider acquired by former Company subsidiary Servomarin Industries Corp. (“SIC”), was unsecured, and repayable on demand. Management is of the opinion that the amount is unlikely to be collectible. As a result, the total balance of \$107,000 (April 30, 2015 - \$93,650) was written off to \$nil as at April 30, 2016.

5. INVESTMENT IN MKHS, LLC

During the year the Company advanced \$1,907,293 (US\$1,379,283) to MKHS LLC (“MKHS”), a fully licensed, Arizona-based marijuana cultivation, extraction and medicinal dispensary business. MKHS supplies medical marijuana pursuant to the Arizona Medical Marijuana Act, operates two state-licensed “healing center” dispensaries and distributes its own in-house prepared, branded line of edibles, concentrates and extracts.

The Company’s advances were arranged to satisfy the terms and conditions of the Company’s initial Letter of Intent (the “LOI”) with MKHS dated October 30, 2015 and the superseding binding Letter of Commitment (the “LOC”) of November 24, 2015, whereby MKHS committed to be acquired by the Company through a share exchange transaction.

Under the LOC, the Company agreed to advance US\$200,000 secured and guaranteed under separate agreements and private arrangement with a Director and shareholder of the Company, US\$200,000 to be arranged by or on behalf of the Company or by one of its consultants via any combination of debt and/or equity, US\$450,000 to be arranged subsequent to the above described US\$400,000, either on a fully secured basis, acceptable to the lender, and/or through an interim equity raise by the Company, and US\$3.15 million to be raised through a mutually acceptable combination of equity and/or debt in due course.

Upon execution of the LOC, MKHS agreed to accrue \$50,000 payable to the Company as cost recoveries. \$10,000 was deemed earned upon execution, \$20,000 upon the Company receiving shareholder approval of the transaction (received April 26, 2016) and \$20,000 upon receiving conditional acceptance from the CSE. Amounts will be immediately payable if the agreement is terminated and the condition has been met. At April 30, 2016, \$30,000 was included in receivables and recognized as other income for the year.

An Operating Agreement (the “OA”) under a newly formed entity, MKV Ventures 1, LLC (“MKV1”), was entered into between MKHS, and Westland Capital Advisors S.A. (“Westland”), whereby the funded expansion is separately administered and controlled. In the event that MKHS terminates the LOC between MKHS and the Company without grounds, or fails to execute a follow-on agreement whereby the Company acquires MKHS under the terms as substantially agreed upon, or MKHS fails to provide annual audited financial statements under IFRS to the Company, and as a result the Company elects to terminate the LOC, MKHS’ fifty percent membership interest in MKV1 shall be deemed transferred to the Company without the need for further documentation.

In the event the transaction between MKHS and the Company does not close for any other reason, MKHS shall be deemed to have transferred ten percent of its membership interest in MKV1 to the Company without the need for further documentation, and the Company shall be deemed admitted as a member under the OA and remain a member until such time as the Company has received distributions from the greater of twelve successful harvests or for two years of harvests from the additional funded greenhouse capacity.

The terms of the transaction will be more particularly set forth in a definitive agreement to be entered into by the two parties.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

6. INVESTMENT IN SERVOMARIN INDUSTRIES CORP.

Under the terms of its Letter of Intent with SSB, the Company advanced \$250,000 (the "Loan") to SSB towards the costs of implementing its business plan. SIC subsequently acquired SSB and the Loan was settled in full, with no deemed interest or bonus, through the issue of 5 million shares of SIC to the Company, resulting in the ownership of 7% of SIC. The SIC shares were designated as available-for-sale and subject to impairment assessment. As at April 30, 2016 a full \$250,000 impairment on investment was taken in recognition of SIC's failure to file audited financial statements for its year ended December 31, 2015 and the resulting issue of a cease trade order to SIC by the British Columbia Securities Commission.

7. EQUIPMENT

	Computer Equipment
Cost:	
At April 30, 2014	\$ 9,225
Additions	1,146
Disposition	(2,000)
At April 30, 2015 and 2016	\$ 8,371
Depreciation:	
At April 30, 2014	\$ 2,912
Change for the year	2,178
Disposition	(380)
At April 30, 2015	4,710
Change for the year	1,439
At April 30, 2016	\$ 6,149
Net book value:	
At April 30, 2015	\$ 3,661
At April 30, 2016	\$ 2,222

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital

The Company is authorized to issue an unlimited number of common and preferred shares with no par value.

Issued shares:

On May 7, 2014 the Company completed a non-brokered private placement of 336,672 units at a price of \$1.80 per unit for gross proceeds of \$606,010, of which \$44,000 was exchanged for payables. Each unit consisted of one common share and one half common share purchase warrant, with one full warrant entitling the holder to purchase one common share of the Company for \$6.00 up to May 7, 2015, subject to acceleration conditions.

On June 23, 2014 the Company entered into a shares-for-debt agreement with an arm's length creditor. The Company issued 34,166 shares at a price of \$2.55 per share settling \$87,124 of the Company payables.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS-*continued*

Issued shares-*continued*

On August 29, 2014 the Company completed a non-brokered private placement of 43,110 units at a price of \$1.80 per unit for gross proceeds of \$77,600. Each unit consisted of one common share and one-half of a common share purchase warrant, with one full warrant entitling the holder to purchase one common share at a price of \$6.00 up to August 29, 2015, subject to acceleration conditions.

On December 2, 2014 the Company completed a non-brokered private placement of 180,000 units at a price of \$1.50 per unit for gross proceeds of \$270,000 of which \$12,500 was exchanged for payables. Each unit consisted of one common share of the Company, one-half of a common share of SIC, and the right to acquire for no additional consideration a one-half share purchase warrant of SIC, with each full SIC warrant exercisable to acquire one additional common share of SIC at a price of \$3.00 for a period of one year from closing of a Plan of Arrangement ("POA") (Note 15).

On January 16, 2015 the Company completed a non-brokered private placement of 153,333 units at a price of \$1.50 per unit for gross proceeds of \$230,000, of which \$20,000 was exchanged for payables and \$50,000 was paid on behalf of SIC as a signing bonus to a consultant. Each unit consisted of one common share of the Company, and the right to acquire for no additional consideration one-half of a common share of SIC, and a one-half share purchase warrant of SIC, with each full SIC warrant exercisable to acquire one additional common share of SIC at a price of \$3.00 for a period of one year from closing of the POA. A change to deficit of \$92,000 resulted from the issuance of the SIC share rights and warrants pursuant to the January 16, 2015 share issuance.

On April 15, 2015 the Company completed a share consolidation, consolidating its issued and outstanding common shares on the basis of one (new) post consolidation share for each ten (old) pre-consolidation shares. The Company had 90,391,049 common shares issued and outstanding. Following the consolidation, the Company had 9,039,101 common shares issued and outstanding.

On June 16, 2015 the Company closed a non-brokered private placement of 2,115,734 shares at a price of \$0.15 per share. The Company received cash proceeds of \$120,000, settled the promissory note payable of \$147,360 (Note 11) and settled accounts payable of \$50,000. The Company recognized a \$39,472 loss on the debt settlements which represented the difference between the trading price and the settlement price on the issuance date.

On September 22 and October 23, 2015 the Company closed two tranches of a non-brokered private placement of 944,444 units at a price of \$0.225 per unit. The Company received cash proceeds of \$192,750 and settled accounts payable of \$19,750. Each unit consisted of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share at a price of \$0.75 up to September 22 and October 23, 2017 respectively, subject to acceleration conditions.

On February 16, 2016 the Company closed a non-brokered private placement of 3,011,984 shares at a price of \$0.24 per share for gross proceeds of \$722,876 (US\$500,000), to meet the terms and conditions associated with the acquisition of MKHS (Note 5).

On July 15, 2016 the Company completed a share consolidation, consolidating its issued and outstanding common shares on the basis of one (new) post consolidation share for each three (old) pre-consolidation shares. As at April 30, 2016, prior to accounting for the share consolidation, the Company had 27,255,586 common shares issued and outstanding. Retroactively accounting for the consolidation, the Company had 9,085,168 common shares issued and outstanding.

The exercise or conversion price and the number of common shares issuable under any of the Company's outstanding warrants and stock options have been proportionately adjusted to reflect the consolidation in accordance with their respective terms thereof. No fractional common shares were issued pursuant to the consolidation, and any fractional common shares that would otherwise be issued were rounded down or up to the nearest whole number.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS-continued**Warrants**

The Company's warrant transactions are summarized as follows:

	April 30, 2016		April 30, 2015	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance, beginning of year	189,891	6.00	950,583	3.90
Issued	944,444	0.75	189,891	6.00
Expired	(189,891)	6.00	(950,583)	3.90
Balance, end of year	944,444	0.75	189,891	6.00

The following table summarizes the warrants outstanding as at April 30, 2016:

Warrants outstanding	Exercise price \$	Expiry date ⁽¹⁾
622,222	0.75	September 22, 2017
322,222	0.75	October 23, 2017

⁽¹⁾ The Company is entitled to accelerate the expiry date of all the outstanding \$0.75 warrants to the date that is 30 days following the date the Company issues a news release announcing that the published closing price of the common shares on the CSE has been equal to or greater than \$0.90 for any 10 consecutive trading days after the statutory hold period prior to the expiry date.

Stock options

The Company has an incentive stock option plan which permits the Board of Directors of the Company to grant options to directors, employees and non-employees to acquire common shares of the Company at fair market value on the date of approval by the Board of Directors. A portion of the stock options vests immediately on the grant date and the balance vests over a period of up to five years from grant date.

The following table summarizes the changes in the outstanding stock options:

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS-continued**Stock options-continued**

	April 30, 2016		April 30, 2015	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of the year	223,333	3.00	190,000	3.00
Granted	341,666	0.30	76,666	3.00
Expired/cancelled	(160,000)	2.44	(43,333)	3.00
Balance, end of year	405,000	0.94	223,333	3.00
Options exercisable, end of year	250,834	1.34	181,666	3.00

The following table summarizes the options outstanding as at April 30, 2016:

Options outstanding	Options exercisable	Exercise price \$	Expiry date
36,667	36,667	3.00	September 25, 2017
40,000	40,000	3.00	October 10, 2018
20,000	20,000	3.00	November 27/28, 2018
258,333	129,167	0.30	August 31, 2020
50,000	25,000	0.30	September 22, 2020
405,000	250,834		

The fair value of options granted is estimated using the Black-Scholes option pricing model with the following assumptions:

	April 30, 2016	April 30, 2015
Average dividend per share	-	-
Average forecasted volatility	176%	156%
Average risk-free interest rate	0.43%	1.03%
Average expected life	5 years	5 years
Fair value – weighted average of options issued	\$ 0.19	\$ 2.34

For the year ended April 30, 2016, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$53,150 (April 30, 2015 – \$237,506).

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

9. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2016	2015
	\$	\$
Loss for the year	(790,904)	(1,149,397)
Combined statutory tax rate	26%	26%
Expected income tax recovery at statutory tax rates	(206,000)	(299,000)
Impact of future income tax rates applied versus current statutory rate	(1,000)	1,000
Share issue costs	-	(1,000)
Adjustment to prior year provision versus statutory tax returns and expiry of non-capital losses	2,000	18,000
Change in unrecognized deductible temporary difference	189,000	215,000
Permanent difference	16,000	66,000
Income tax recovery	-	-

The Company has the following deferred tax assets for which no benefit has been recognized as they may not be used to offset taxable profits elsewhere in the group and they have arisen in companies that have a history of losses.

The significant components of the Company's deferred tax assets are as follows:

	2016	2015
	\$	\$
Share issue costs	3,000	6,000
Equipment	2,000	1,000
Allowable capital losses	36,000	3,000
Non-capital losses	1,273,000	1,148,000
Unrecognized deferred tax assets	(1,314,000)	(1,158,000)
Net deferred tax assets	-	-

Tax attributes are subject to review and potential adjustments by tax authorities.

Significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits that have not been included on the statement of financial position are as follows:

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

9. INCOME TAXES-continued

	2016	Expiry dates	2015
	\$		\$
Share issue costs	13,000	2035-2039	22,000
Equipment	6,000	No expiry date	5,000
Allowable capital losses	138,000	No expiry date	13,000
Non-capital losses	4,895,000	2017-2036	4,415,000

10. RELATED PARTY TRANSACTIONS

During the year ended April 30, 2016, the Company entered into the following transactions with related parties, not disclosed elsewhere in these financial statements:

- i. During the year ended April 30, 2016, \$27,200 (2015- \$13,000) rent was paid or accrued to a company controlled by a family member of a director and officer of the Company.
- ii. As at April 30, 2016, \$23,500 (2015-\$15,000) for consulting fees were paid or accrued for services performed by a company controlled by a family member of a director of the Company.
- iii. During the year ended April 30, 2016 \$nil (2015-\$20,160) of interest was paid on a promissory note and accrued as loan facility fees for working capital loans to a company controlled by a family member of a director and officer of the Company (Note 11).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include officers, directors, or companies with common directors of the Company.

Summary of key management personnel compensation is as follows:

	For the year ended April 30,	
	2016	2015
Share-based compensation*	\$ 35,997	\$ 41,836
Consulting, management and directors' fees	\$ 209,030	\$ 284,583
Overseas management, consulting and bonuses	\$ nil	\$ 34,500
Professional fees	\$ nil	\$ 13,158

* The estimated fair value of the stock options granted during the year was determined using the Black-Scholes option pricing model.

Included in accounts payable and accrued liabilities as at April 30, 2016 was \$771,827 (2015-\$80,679) due to a director, a company controlled by a director, a company controlled by a family member of a director, and a company a director is an officer of.

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

10. RELATED PARTY TRANSACTIONS-*continued*

Included in the promissory note payable as at April 30, 2016 was \$nil (2015-\$112,000) due to a company controlled by a family member of a director of the Company.

Included in the convertible debentures as at April 30, 2016 was \$618,261 (2015-\$nil) due to a company a director is an officer of.

11. PROMISSORY NOTE PAYABLE

The Company received cumulative working capital loans advanced between January and July 2015 totaling \$127,000 (April 30 2015 - \$112,000) from a company controlled by a family member of an officer of the Company. By agreement an 18% loan facility fee was charged on the basis that the entire loan and fee would be settled in full through participation in the next private placement financing undertaken by the Company. The entire loan facility and fee were settled in full through participation in the private placement completed in June 2015.

12. CONVERTIBLE DEBENTURE

	Liability Component \$	Equity Component \$
Balance, April 30, 2015	-	
November 9, 2015 convertible debenture issuance	246,714	21,286
January 21, 2016 convertible debenture issuance	334,629	28,871
Accretion	36,918	-
Balance, April 30, 2016	618,261	50,157

On November 9, 2015 the Company completed the first tranche of a convertible debenture offering of 2,680 \$100 convertible debentures (collectively the "CDs") for proceeds of \$268,000 (US\$200,000). On January 21, 2016 the second tranche was completed raising a further \$363,500 (US\$250,000) to provide funds to meet the initial terms of the Company's LOC with MKHS.

Each \$100 CD entitles the debenture holder (the "Holder") thereof to convert into 833 common shares of the Company, for a period of up to six months (the "Maturity Date"). The CDs are non-interest-bearing, however should the investor fail to convert any or all CDs by the maturity date a bonus payment of up to US\$40,000 shall be payable to the Holder. All securities issued in connection with the offering are subject to a statutory hold period of four months plus a day from the date of distribution in accordance with applicable securities legislation.

The debentures were subscribed for by Westland, a non-arm's-length party to the Company. A director and the Company's executive chairman and CEO is an officer of Westland.

13. CAPITAL RISK MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as shareholders' equity (deficiency).

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

13. CAPITAL RISK MANAGEMENT-continued

The Company has historically relied on the equity markets to fund its activities. Current financial markets are very difficult and there is no certainty with respect to the Company's ability to raise capital. The Company will continue to assess new properties and seek to acquire an interest in mineral properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- a. Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
- b. Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- c. Level 3 – inputs that are not based on observable market data.

	Financial assets at fair value			April 30, 2016
	Level 1	Level 2	Level 3	
Fair value through profit and loss financial asset				
Cash and cash equivalents	\$ 70,720	-	-	\$ 70,720
Investment in Servomarin Industries Corp.	-	-	-	-
Total financial assets at fair value	\$ 70,720	-	-	\$ 70,720

	Financial assets at fair value			April 30, 2015
	Level 1	Level 2	Level 3	
Fair value through profit and loss financial asset				
Cash and cash equivalents	\$ 10,539	-	-	\$ 10,539
Investment in Servomarin Industries Corp.	-	-	\$ 250,000	\$ 250,000
Total financial assets at fair value	\$ 10,539	-	\$ 250,000	\$ 260,539

The fair values of the Company's receivables, advances receivable, accounts payable and accrued liabilities and promissory note payable approximate their carrying values due to their short term nature and are classified as a Level 1 measurement.

As market prices were not available and the impact of the unobservable inputs was significant, the fair value measurement of investment in SIC was classified as a Level 3 measurement.

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of counterparty limits, controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the year ended April 30, 2016

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT-continued

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk. Cash is held in significant financial institutions and receivables are due from companies on contract to be acquired. The Company considers credit risk to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company currently does not have sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company is exposed to liquidity risk.

Market risk

The only market risk exposure to which the Company is exposed is interest rate risk. The Company's bank account earns interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

Foreign currency risk

The Company is nominally exposed to foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated US Dollars (USD or US\$).

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of raw materials, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

15. PLAN OF ARRANGEMENT

On October 13, 2014 the Company incorporated SIC as a wholly owned subsidiary. On December 14, 2014 the Company incorporated 1021916 B.C. Ltd. ("916") as a wholly owned subsidiary. On January 15, 2015 the Company incorporated 1024954 B.C. Ltd. ("954") as a wholly owned subsidiary. There was a transfer of certain assets to the Company's three wholly-owned subsidiaries SIC, 916 and 954 (collectively, the "Spincos") in consideration for the issuance of common shares of the Spincos, and the distribution of these common shares to the Company's shareholders on a pro rata basis.

At its March 2, 2015 AGM shareholders of the Company voted unanimously in favour of the POA.

On March 16, 2015 the Company announced completion of its POA. The Spincos were spun out in consideration for the issuance of common shares of the Spincos to Company shareholders, and the transfer of the Company's interests in and to each of its three letters of intent to the three Spincos. In accordance with the March 5, 2015 final order from the Supreme Court of British Columbia for the implementation of the Arrangement, the distribution of the Spincos' common shares (the "Distributed Shares") to the Company's shareholders of record has been completed on a pro rata basis as follows:

GENOVATION CAPITAL CORP.

Notes to the Financial Statements

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For the year ended April 30, 2016

15. PLAN OF ARRANGEMENT-continued

- For every 10 shares held of the Company, 1 share of SIC was issued;
- For every 25 shares held of the Company, 1 share of 916 was issued;
- For every 25 shares held of the Company, 1 share of 954 was issued.

By virtue of the POA and having issued shares to the public, the Spincos are “Reporting Issuers” as defined by the provincial securities commissions.

During the year ended April 30, 2015, the Company recorded a \$nil gain or loss and incurred \$29,561 in transaction costs in connection with the POA.

16. LETTER OF COMMITMENT

On March 30, 2016 the Company entered into a Letter of Commitment (“LOC”) with Valens Agritech Ltd. (“Valens”) whereby Valens committed to be acquired by the Company through a share exchange transaction (the “Transaction”). Valens is a privately held biotechnology company based in the Okanagan Valley of British Columbia, focused on the Cannabinoid market.

The Transaction will be structured such that the shareholders of Valens will receive 36 million shares (“Transaction Shares”) of the Company (subject to specific vesting conditions) in exchange for all the issued and outstanding securities of Valens. The Company has also agreed to issue 650,000 finders’ shares on completion of the Transaction.

After the closing of the Transaction, the Company will undertake the following capital raising efforts:

- The Company will undertake to raise in aggregate \$6,000,000 before direct fees and expenses in support of Valens’s business plan, subject to Valens’s successful licensing and Health Canada approvals being achieved;
- In the event Valens has not yet achieved its full licensing objectives, the Company is obligated to raise capital equal to the percentage of vested Transaction Shares over the aggregate number of Transaction Shares (the “Initial Funding”);
- Within three months after closing of the Transaction, the Company will raise not less than \$1,200,000 of the Initial Funding to fund Valens’ business plan (“First Tranche”);
- Subsequent to the First Tranche, the Company will complete additional private placements and/or debt financings that satisfy the balance of the Initial Funding, on terms and conditions as agreed upon and directed by the new board of directors and appointed management; and
- Subsequent to the First Tranche, holders of Valens’s shareholder loans shall have a right of first refusal to participate in capital raising efforts to the extent of the outstanding balance of their respective shareholder loans.

In the event that the Company fails to complete the Initial Funding within six months after the closing of the Transaction, either the number of Transaction shares shall be adjusted to the mutual satisfaction of all parties and as approved by the Board or, at the option of Valens, the Company shall utilize its free cash flow (including cash flow generated by MKHS) to support the Valens business plan.

In the event the Initial Funding takes place at less than an average \$0.50 per share, the former shareholders of Valens (the “Vendors”) may at their option receive a pro rata adjustment to their purchase price shares such that, the greater dilution directly resulting from the failure to complete the financing at the minimum price is fully compensated for such that the Vendors are issued additional shares pro rata to attain the dilution realized should the financing have taken place at \$0.50.

Upon execution of the LOC, Valens agreed to accrue \$50,000 payable to the Company as cost recoveries. \$10,000 was deemed earned upon execution, \$20,000 upon the Company receiving shareholder approval of the transaction (received April 29, 2016) and \$20,000 upon receiving conditional acceptance from the CSE (Note 18). Amounts will be immediately payable if the agreement is terminated and the condition has been met. At April 30, 2016, \$30,000 was included in receivables and recognized as other income for the year.

The terms of the agreement will be more particularly set forth in a definitive agreement to be entered into by the two parties.

GENOVATION CAPITAL CORP.

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17. CONTINGENT LIABILITY

On July 16, 2014 a Civil Lawsuit was filed with the Supreme Court of British Columbia concerning a US\$50,000 payment made towards plaintiffs' participation in the Company's Indonesian oil field project. The claim resulted from the plaintiffs' desire to fund and participate in work-overs of onshore multi-reservoir oil fields, a project that was never completed. The Company filed a response and counterclaim on August 18, 2014 and sought to hold discoveries in June 2015, to which the plaintiffs failed to reply. Given the dormant nature of the claim, the Company has reversed the accrued US\$50,000 from accrued liabilities related to the claim, and has not accrued for interest or damages.

18. SUBSEQUENT EVENTS

On May 9, 2016 \$268,000 (US\$200,000) principal amount of the issued and outstanding \$100 CDs (Note 12) were exercised for conversion to 2,233,333 common shares of the Company.

On July 8, 2016 the Company and Westland agreed to extend the conversion period of the remaining issued and outstanding \$363,500 (US\$250,000) CDs (Note 12) to coincide with the closing date of the Valens Transaction.

On July 8, 2016 the Company received conditional approval from the CSE for its proposed Transaction with Valens (Note 16). CSE approval of the Company's proposed Valens board nominees and a proposed significant shareholder is the sole condition precedent to the Company's approval to complete the Transaction, change of business, and resume trading on the CSE.