

## FORM 7

### **MONTHLY PROGRESS REPORT**

Name of CNSX Issuer: GENOVATION CAPITAL CORP. (the "Issuer").

Trading Symbol: GEC

Number of Outstanding Listed Securities: 11,318,528

Date: October 5, 2016

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the CNSX Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the CNSX.ca website.

This report is intended to keep investors and the market informed of the Issuer's ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the CNSX Policies. The discussion in this report must be factual, balanced and non-promotional.

#### **General Instructions**

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

#### **Report on Business**

1. Provide a general overview and discussion of the development of the Issuer's business and operations over the previous month. Where the Issuer was inactive disclose this fact.

The Company received conditional approval from the Canadian Securities Exchange (the "CSE") for its proposed acquisition (the "**Transaction**") of Valens Agritech Ltd. ("**Valens**") on July 8<sup>th</sup>. On Aug 29<sup>th</sup> the Company received final CSE approval following background checks of the proposed Valens nominees and newly created significant shareholder. However, the CSE requested a final

update to the Form 2A Listing Statement incorporating the Company's latest audited financial statements, as well as auditor-reviewed 6-month interim financials for Valens, which took a couple of weeks. That process was completed along with new management-prepared pro-forma financials for both the year end and 6-month interim periods on September 25. The CSE's newly appointed Manager of Financial Disclosure & Compliance assumed the file, and our auditor was brought in to help finalize the pro-forma to the CSE's acceptance thereof on October 4.

The Company is proceeding to close the Valens Transaction, just waiting for Valens' final Share Exchange Agreement sign-off. There are no outstanding issues at this point. Meanwhile final ancillary CSE filings and payment to the CSE of the \$10,000 plus tax reinstatement fee for the Fundamental Change and relisting is being administered.

During the past two years, Valens has been working on customizing the construction of a 17,000 sq. ft. facility to bring it to a (Health Canada) Level 10 security building requirements for the storage of controlled substances and cultivation of cannabis. The purpose of the buildout is to develop new strains of plant material that we can effectively extract various forms of CBD. The CBD will then be used in clinical trials to treat several different forms of epilepsy and other neurological disorders. Currently Valens has trials on the books, pending Health Canada approval, with Toronto Sick Kids Hospital.

One key business goal of Valens is to ultimately develop materials to obtain a Drug Index Number (DIN) and to enter into the pharmacology registry for prescribing our material. This process can only be done through extensive clinical trials.

Valens' 17,000 sq. ft. facility has been substantially complete for six months. Valens has expended over \$2.7M on the renovation and upgrades to the leased premises (two key shareholders own and lease the building to Valens at fair market value) to satisfy the stringent security requirements that the Office of Controlled Substances of Health Canada requires under the current Dealers License and Licensed Producer License application process.

All equipment and systems necessary to operate the facility are currently in place and ready to start production. Of the seven application stages for a Dealers Licence with Health Canada's Office of Controlled Substances, Controlled Substances Directorate Valens is presently at stage six, first in queue for inspection in western Canada. If no deficiencies are noted, we will progress to step seven which is the issuance of a license. This is then followed by an LP (License to Produce) as an add on to provide medicinal and eventually recreational-use products.

2. Provide a general overview and discussion of the activities of management.

Management was primarily focused on spearheading Valens' required auditor-reviewed 6-month interim financial statements, and construction of the required pro-forma financials to complete the prospectus-level disclosure of the Form 2A Listing Statement. Meetings with Valens management were held in Kelowna on Sept 23<sup>rd</sup>. Interviews commenced for an experienced potential president-level addition to the team to initiate/facilitate corporate development and finance initiatives.

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

The Valens Transaction's main objective is to take their unique product to the next level and move to acquire a Health Canada DIN number, thereby allowing it to pursue North American and European sales. As the worldwide market develops we will be focusing on deriving different strains to alleviate different neurological conditions through intensive plant breeding and to capitalize our position in the phyto-pharmaceutical world. Secondly we will have an LP for production of Medical Marijuana allowing Valens to sell material to Medical Marijuana users and potentially the lucrative world of recreational use once legalized. It should be noted that there will only be 54 production

LP's for all of Canada. Valens will hold both R&D/Dealer licensing and Medical Marijuana Production licensing, enabling us to capture a broad spectrum of the market.

The acquisition of Valens also opens up the opportunity for considerable synergies between Canadian and U.S.-based operations, and is a significant step towards our strategic focus: to become a global, vertically integrated medical cannabis company that spans the entire medical cannabis value chain from "Farm to Pharma", encompassing the spectrum of cultivation through to production of pharmaceuticals derived from Marijuana, and all the steps in between: extracts, testing, clinical trials, clinical development, proprietary therapeutics, licensing, marketing and delivery.

The Company has a significant investment in MKHS, LLC, which supplies medical Marijuana pursuant to the Arizona Medical Marijuana Act, operating two state-licensed "healing center" dispensaries, and distributes its own in-house prepared, branded line of edibles, concentrates and extracts. The proposed acquisition of MKHS has been put on hold. We intend to revisit MKHS and possibly restructure the relationship following the closing of the Valens Transaction. MKHS currently operates an 11,000 sf warehouse (Golf Links Road) cultivation, commercial kitchen and extraction facility, and a separate 3,000 sf automated greenhouse located on 9.5 acres (Littletown Road), zoned for expansion to 100,000 sf in Arizona.

The Company has funded MKHS for two 12,000 sf greenhouses at Littletown Road, and seven 1,500 sf greenhouse structures at Golf Links Road, and has secured the underlying land under option to purchase both properties. The Company maintains an interest in the MKHS expanded operations and resulting cash flow, to be overseen by the experienced Valens operations team.

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

None to report

5. Describe any new business relationships entered into between the Issuer, the Issuer's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

As detailed previously, 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., a company that has provided Genovation with several non-interest bearing loans. This arrangement met a critical condition precedent to the initial LOI and subsequent LOC with MKHS, to provide expansion capital for MKHS' operations. MKHS and Westland are 50/50 Members of MKV1, which is governed by the OA. However, in the event that MKHS terminates the LOC between MKHS and Genovation without grounds, or fails to execute a follow-on agreement as necessary (a redraft is currently in progress with new counsel) whereby Genovation acquires both MKHS and Valens under the terms as substantially announced in its news release of December 14, 2015, or MKHS fails to provide annual audited financial statements under IFRS, and as a result Genovation elects to terminate the MKHS-Genovation LOI, MKHS' 50% membership interest in MKV1 shall be deemed transferred to Genovation without the need for further documentation.

In the event a transaction between MKHS and Genovation substantially under the terms announced in its news release of December 14, 2015 does not close for any other reason, MKHS shall be deemed to have transferred ten percent (10%) (for greater clarity, that is a 10/50's or 1/5th interest) of its membership interest in MKV1 to Genovation without the need for further documentation, and Genovation shall be deemed admitted as a Member under the OA and remain a Member until such time as Genovation has received distributions from the greater of twelve (12) successful harvests or for two years of harvests from each of the additional funded greenhouses.

After the distribution requirements to Genovation under this subsection have been satisfied, 100%

of the Distributable Cash shall be distributed to MKHS and Genovation's membership interest in MKV Ventures 1, LLC shall be deemed transferred to MKHS or its designee without the necessity of further documentation.

To date MKHS has failed to provide the afore-mentioned follow-on agreement or necessary financial disclosure in accordance with the MKV1 OA. On April 17th Genovation and Westland Capital Advisors S.A. jointly requested, in accordance with the OA, the financial records and a reconciliation of all monies forwarded to MKV1, as administered through the trust accounts of its legal representative.

On July 28 MKHS / MKV1 management reiterated their intent to provide audited MKHS financials, and stated that their CPA's have completed their work, and should be ready for audit. We are still waiting for those financials to be forwarded in order to have Davidson & Company recommend their path to completion of an acceptable IFRS-standard audit.

Discussions were held to mitigate the 50%-forfeiture penalty limited to 12 crops under the original OA, to a straight 10% interest into perpetuity for Genovation, which Westland and the Valens group have approved in principle, pending MKHS entering into the necessary updated agreements.

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

In July the Company and Westland agreed to extend the conversion period of the remaining issued and outstanding US\$250,000 principal amount Zero Coupon \$100.00 Convertible Debentures to coincide with the closing date of the Valens Transaction.

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

None to report

8. Describe the acquisition of new customers or loss of customers.

None to report

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trade-marks.

None to report.

10. Report on any employee hirings, terminations or lay-offs with details of anticipated length of lay-offs.

None to report

11. Report on any labour disputes and resolutions of those disputes if applicable.

None to report

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if

the proceedings are being contested, and the present status of the proceedings.

None to report.

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

None to report other than per section 15 below.

14. Provide details of any securities issued and options or warrants granted.

| Security | Number Issued | Details of Issuance | Use of Proceeds <sup>(1)</sup> |
|----------|---------------|---------------------|--------------------------------|
| None     |               |                     |                                |

(1) State aggregate proceeds and intended allocation of proceeds.

15. Provide details of any loans to or by Related Persons.

Agilis Capital Corp., the CEO's consulting company, advanced a further \$21,380 to the Company during September as demand loans without specific terms for repayment, as well as continuing to defer its monthly consulting fee.

16. Provide details of any changes in directors, officers or committee members.

None to report.

17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

In 2001, Canada became the second country in the world to recognize the medicinal benefits of marijuana and to implement a government-run program for medical marijuana access. Health Canada replaced the prior regulatory framework and issued the Marihuana for Medical Purposes Regulations ("MMPR") in June 2013 to replace government supply and home-grown medical marijuana with highly secure and regulated commercial operations capable of producing consistent, quality medicine. The MMPR regulations issued in June 2013 covered the production and sale of dried cannabis flowers only. A court injunction in early 2013 preserves the production and access methods of the prior legislation for those granted access prior to the injunction.

Under the MMPR, patients are required to obtain a medical approval from their healthcare practitioner and provide a medical document to the licensed producer from which they wish to purchase marijuana. Since the requirements under the new regulations are both simpler and involve fewer obstacles to access than the previous regulatory regime, it is anticipated that the growth in the number of approved patients will accelerate. Moreover, the new system allows for competition among licensed producers on a host of factors including product quality, customer service, price, variety and brand awareness, allowing for well-positioned and capitalized producers to leverage their position in the marketplace.

On July 8, 2015 Health Canada issued certain exemptions under the Controlled Drugs and Substances Act (Canada) ("CDSA"), which includes a Section 56 Class Exemption for Licensed Producers under the MMPR to conduct activities with cannabis (the "Section 56 Exemption"), which permits Licensed Producers to apply for a supplemental license to produce and sell cannabis oil and fresh marijuana buds and leaves, in addition to dried marijuana (this does not permit Licensed Producers to sell plant material that can be used to propagate marijuana).

On February 24, 2016, the Federal Court of Canada rendered a decision in the Allard et al v the Federal Government of Canada case. This case began as a result of the government's decision to repeal the Marihuana Medical Access Regulations ("MMAR") and enact the Marihuana for Medical Purposes Regulations ("MMPR"). The plaintiffs in the Allard case argued that the MMPR violates

their Charter rights and the court, in a lengthy and detailed judgment, agreed with the plaintiffs.

The Company's preliminary interpretation of the Federal Court's ruling is as follows:

- the decision reaffirms the right of Canadians to possess marijuana for medical purposes;
- the decision stipulates that the Marijuana for Medical Purposes Regulations ("MMPR"), under which current licensed producers operate, does not provide sufficient access to cannabis;
- the current MMPR regulations remain in force; and
- the decision gives the Canadian Federal Government until August 24, 2016 to determine how existing regulations should be amended to ensure that patients have the access to medical marijuana that they need;

Health Canada estimates that 40,000 patients in Canada used doctor prescribed medical marijuana in 2015, establishing a market worth \$80 million. By 2024, Health Canada estimates that the number of patients using medical marijuana will grow to 450,000, creating a market worth an estimated \$1.3 billion.

#### Legalization of Recreational Use of Marijuana in Canada

On April 20, 2016, the Canadian Federal Government announced its intention to introduce, by the spring of calendar 2017, legislation to legalize the recreational use of marijuana in Canada. At this time, the form that this legislation will take is not known. The Company believes that the legislation will allow for controlled and highly regulated production by licensed producers along with limited grow-at-home options. The Company believes that, in the event recreational use of marijuana is legalized, that the majority of people will choose to purchase from a regulated production source rather than growing marijuana in their homes.

As of August 24, 2016, the Access to Cannabis for Medical Purposes Regulations (ACMPR) will replace the MMPR. The ACMPR is Canada's response to the Federal Court of Canada's February 2016 decision in *Allard v. Canada*. This decision found that requiring individuals to get their marijuana only from licensed producers violated liberty and security rights protected by section 7 of the Canadian Charter of Rights and Freedoms. The Court found that individuals who require marijuana for medical purposes did not have "reasonable access".

The ACMPR are designed to provide an immediate solution required to address the Court judgement. Moving forward, Health Canada will evaluate how a system of medical access to cannabis should function alongside the Government's commitment to legalize, strictly regulate and restrict access to marijuana.

CIBC World Markets reports estimates of the potential value of the recreational marijuana market in Canada range from \$5 billion to \$10 billion per year. The lower market value of \$5 billion per year translates into yearly consumption of 770,000 kilograms of marijuana, assuming a price of approximately \$6.50 per gram. To put the potential size of the Canadian recreational market in context, Statistics Canada valued the beer market in Canada, in 2014, at \$8.7 billion.

#### International Development

Medical marijuana opportunities are becoming increasingly available as new jurisdictions move towards establishing new or improved medical marijuana systems. As Canada has developed an enviable regulatory model, companies acting within that framework have expertise, knowledge and potentially product to share with the global community.

## **Certificate of Compliance**

The undersigned hereby certifies that:

- a. The undersigned is a director and/or senior officer of the Issuer and has

been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.

- b. As of the date hereof there were is no material information concerning the Issuer which has not been publicly disclosed.
- c. The undersigned hereby certifies to CNSX that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all CNSX Requirements (as defined in CNSX Policy 1).
- d. All of the information in this Form 7 Monthly Progress Report is true.

Dated: October 5, 2016.

Robert van Santen, CPA, CA, CMT  
Name of Director or Senior  
Officer

"Rob van Santen"  
Signature

Chief Executive Officer  
Official Capacity

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|---|--|--|---|
| <b>Issuer Details</b>   |  | For Month End                                | Date of Report                                |
| Name of Issuer<br>Genovation Capital Corp.                          |  | September 30, 2016                           | YY/MM/DD<br>16/10/05                          |
| Issuer Address<br>12 <sup>th</sup> Floor, 1040 West Georgia Street, |  |  |   |
| City/Province/Postal Code<br>Vancouver, B.C. V6E 4H1                |  | Issuer Fax No.<br>(778) 379-9990             | Issuer Telephone No.<br>(604) 608-1999        |
| Contact Name<br>Rob van Santen, <i>CPA, CA, CMT</i>                 |  | Contact Position<br>Chairman/CEO             | Contact Telephone No.<br>Cell: (604) 649-1709 |
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