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# **Valencia Ventures Inc.**

## **Management's Discussion and Analysis**

**For the three months ended March 31, 2017- Unaudited**

(in Canadian dollars unless otherwise noted)

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**Date: May 29, 2017**

The following Management's Discussion and Analysis ("MD&A") of the financial position and results of operations for Valencia Ventures Inc. (the "Company" or "Valencia") should be read in conjunction with the interim financial statements and notes thereto for the three months ended March 31, 2017 and 2016. All amounts included in the MD&A are in Canadian dollars, unless otherwise specified. The Company's public filings can be reviewed on the SEDAR website, under the Company's profile at [www.sedar.com](http://www.sedar.com).

All financial statements discussed in this MD&A have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern and do not reflect the adjustments to the carrying value of assets and liabilities, reported revenue and expenses, and the statement of financial position classifications that would be necessary if the going concern assumption was no longer appropriate. These adjustments could be material.

The Audit Committee of the Company has reviewed this MD&A and the financial statements for the three months ended March 31, 2017 and the Company's Board of Directors approved these documents prior to their release.

### **FORWARD LOOKING INFORMATION**

This MD&A contains forward-looking information under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the Company's proposed acquisitions, dispositions and strategy, development potential and timetable of the Company's properties; the Company's ability to raise required funds; future mineral prices; mineralization projections; conclusions of economic evaluation; the timing and amount of estimated future exploration and development; costs of development; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Forward-looking information is based on the opinions and estimates of management as of the date such statements are made. Capital and operating cost estimates are based on extensive research of the Company, recent estimates of costs and other factors that are set out herein. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during exploration and development; acquisition risks; regulatory risks; revocation of government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of minerals; accidents, labour disputes and other risks of the mining industry. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update its forward-looking information, except in accordance with applicable securities laws.

### **BUSINESS STRATEGY AND OUTLOOK**

Valencia is a Canadian resource company with common shares that trade on the NEX Board of the TSX Venture Exchange ("NEX") under the symbol VVI.H.

The Company is primarily engaged in the acquisition, exploration and evaluation of natural resources properties in Canada. The Company is currently evaluating opportunities in an effort to build shareholder value.

## **SELECTED ANNUAL INFORMATION**

	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Cash (used in) from operations	\$ (95,289)	\$ (69,341)	\$ (664,936)
Comprehensive loss	(163,237)	(486,701)	(536,477)
Net income/(loss) per share- basic and diluted	(0.01)	(0.03)	(0.10)
Total Assets	94,007	38,454	362,399
Working Capital	(278,506)	(274,077)	212,624

## **SELECTED QUARTERLY INFORMATION**

(expressed in thousands, except per share amounts)

	<b>Q1-2017</b>	<b>Q4-2016</b>	<b>Q3-2016</b>	<b>Q2-2016</b>	<b>Q1-2016</b>	<b>Q4-2015</b>	<b>Q3-2015</b>	<b>Q2-2015</b>
Revenues	\$nil							
Net income/(loss)	(113)	(24)	(19)	(88)	(32)	(294)	(57)	(67)
Net income/(loss) per share- basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)	(0.00)	(0.02)	(0.00)	(0.00)
Total Assets	67	94	146	38	39	38	262	268

In all the periods shown above, the Company did not generate any revenues and the net (losses) result primarily from corporate overheads, stock based compensation expense, bad debt expense, and disposal of assets.

## **RESULTS OF OPERATIONS**

### **For the three months ended March 31, 2017**

The Company recorded a net and comprehensive loss of \$112,936 during the three months ended March 31, 2017, which resulted primarily from corporate overheads, consulting and management fees, and professional fees relating to the audit of the Company's financial statements. A net and comprehensive loss of \$32,460 was recorded during the same period of 2016, resulting from consulting, management and professional fees, office and general expenses, and shareholder communications and filing fees.

### **Cash Flows**

	<b>For the three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net cash (used in) operating activities	\$ (25,615)	\$ (450)
Increase (decrease) in cash and cash equivalents	\$ (25,615)	\$ (450)

On September 16, 2016, the Company completed a non-brokered private placement financing of 2,000,000 common shares at a purchase price of \$0.08 per share, for net proceeds of \$158,808.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company had no off-balance sheet arrangements at March 31, 2017.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company does not have any operating assets that generate revenues, The Company incurred a net loss of \$112,936 for the three months ended March 31, 2017 (March 31, 2016: net loss of \$32,460) and generated a net cash outflow of \$25,615 from its operating activities (March 31, 2016: \$450).

The Company has a need for equity capital and financing for working capital and exploration and evaluation of its properties. Because of continuing operating losses, negative working capital and a cumulative deficit as at March 31, 2017, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation.

## **Working Capital**

As at March 31, 2017, the Company had a working capital deficiency of \$391,442 (December 31, 2016: working capital deficiency of \$278,506).

## **CARRYING VALUE OF BALANCE SHEET ITEMS**

Total accounts payable and accrued liabilities as at March 31, 2017 were \$458,565 (December 31, 2016: \$372,513), of which \$4,072 (December 31, 2016: \$9,669) was owed to related parties.

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Trade payables	\$ 337,565	\$ 347,513
Accruals	121,000	25,000
	<u>\$ 458,565</u>	<u>\$ 372,513</u>

## **COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE COMPANY**

The remuneration of directors and other members of key management personnel during the reporting period were as follows:

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Short-term benefits	\$ 7,500	\$ 7,500

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2017. Many are not applicable or do not have a significant impact to the Company and have therefore been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company:

IFRS 2- Share-based Payment (“IFRS 2”) was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of

the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

## **FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities as at March 31, 2017 and December 31, 2016 were as follows:

<b>March 31, 2017</b>	<b>Cash, loans and receivables</b>	<b>Financial liabilities</b>	<b>TOTAL</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	65,863	-	65,863
Accounts payable and accrued liabilities	-	458,565	458,565

  

<b>December 31, 2016</b>	<b>Cash, loans and receivables</b>	<b>Financial liabilities</b>	<b>TOTAL</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	91,478	-	91,478
Accounts payable and accrued liabilities	-	372,513	372,513

The carrying value of amounts receivable and accounts payable and accrued liabilities reflected in the statement of financial position approximate fair value because of the limited term of these instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the three months ended March 31, 2017 and 2016.

### Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At March 31, 2017, the Company had a cash balance of \$65,863 (December 31, 2016: \$91,478) to settle current liabilities of \$458,565 (December 31, 2016: \$372,513). All of the Company's financial liabilities at March 31, 2017 and December 31 2016 have contractual maturities of less than 30 days and are subject to normal trade terms.

### Market risk

#### (a) Interest rate risk

The Company has cash balances at March 31, 2017. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company considers interest rate risk to be minimal as investments are short term, the Company does not carry interest-bearing debt, and expects future financings will be primarily secured from private placements.

#### (b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Currently, the Company does not hedge its foreign exchange risk. The Company does not carry significant balances in foreign currencies that would give rise to a significant foreign currency risk.

#### (c) Fair value

A fair value hierarchy prioritizes the methods and assumptions used to develop fair value measurements for those financial assets where fair value is recognized on the balance sheet. These have been prioritized into three levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data.

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment.

At March 31, 2017, the Company has financial instruments that are carried at fair value, with an estimated fair value of \$nil.

## **RISKS AND UNCERTAINTIES**

There are several risk factors that could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking information relating to the Company.

### *Liquidity Concerns and Future Financings*

To remain solvent, the Company will require additional funds. There can be no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms, if at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone or slow down its development plans, or reduce or terminate some or all of its activities.

### *Exploration Stage Company/No History of Earnings*

The Company presently does not own any properties, business or other related assets of merit and is pursuing an acquisition to reactivate its business. There is no guarantee that the Company will be able to complete any acquisition. The Company has no history of earnings or the provision of a return on investment, and there is no assurance that any of its properties will generate earnings, operate profitably or provide a return on investment in the future. The Company has not declared or paid any dividends on its common shares.

### *Nature of Mining, Mineral Exploration and Development Projects*

Mineral exploration is highly speculative in nature. There is no assurance that exploration efforts will be successful. Even when mineralization is discovered, it may take several years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable mineral reserves through drilling. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of mineral resources or mineral reserves. There is no certainty that any expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

Exploration and development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, reserve and resource estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, ground conditions, the configuration of the ore body, expected recovery rates of minerals from the ore, estimated operating costs, anticipated climatic conditions and other factors. As a result, actual production, cash operating costs and economic returns could differ significantly from those estimated. Indeed, there have been a number of mining operations that have ceased or been suspended or delayed because of operations costs that are greater than the projected price of production. Current market conditions are forcing many mining operations to increase capital and operating cost estimates. It is not unusual for new mining operations to experience problems during the start-up phase, and delays in the commencement of production often can occur.

### *Licenses and Permits, Laws and Regulations*

Exploration and development activities, including mine, mill, road, rail and other transportation facilities, require permits and approvals from various government authorities, and are subject to extensive federal, provincial, state and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards,

occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly.

### *Competition*

The Company competes with many other mining companies that have substantially greater resources than the Company. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund operations and develop properties. The Company's inability to compete with other mining companies for these resources would have a material adverse effect on the Company's results of operation and business.

### *Share Price Fluctuations*

The market price of securities of many companies, particularly exploration stage companies, experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies.

### *Conflicts of Interest*

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting such participation.

### *Dependence on Key Personnel*

The Company is dependent on a relatively small number of key personnel. The Company currently does not have key person insurance on these individuals. Due to the Company's relatively small size, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees required for the operation of the Company's activities may have a material adverse effect on the Company's business or future operations.

## **COMMITMENTS AND CONTINGENCIES**

### Management contracts

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to approximately \$15,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements.

### Discontinued operations

Valencia has discontinued mining operations in various jurisdictions and has written down the carrying value of the related assets to nominal amounts. An estimate of the total liability, if any, for which the Company might become obligated as a result of its role as operator or guarantor is not determinable, nor expected to be material, and no amount has been provided in the accounts of the Company.

## **OUTSTANDING SHARE DATA**

As at the date of this MD&A, the Company has:

- 1) 18,473,219 common shares outstanding
- 2) 35,000 stock options outstanding and exercisable with exercise prices ranging from \$0.80 to \$0.96, with expiry dates ranging between August 15, 2017 and May 2, 2018. If exercised, 35,000 shares would be issued, generating proceeds of \$29,600.