VALENCIA CAPITAL INC.

Financial Statements

Nine months ended March 31, 2022 and 2021

(Expressed in Canadian dollars)

(Unaudited)

VALENCIA CAPITAL INC.

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these condensed interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim financial statements by an entity's auditors.

Vancouver, Canada

May 6, 2022

VALENCIA CAPITAL INC.
Condensed Interim Statements of Financial Position
(Expressed in Canadian dollars)

	March 31, 2022 $	June 30, 2021 $
	(unaudited)	
Assets		
Current assets		
Cash	668,380	726,551
GST receivable	567	–
Advance receivable (Note 3)	–	31,500
Prepaid expenses	–	4,708
Total assets	668,947	762,759
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,803	28,137
Total liabilities	3,803	28,137
Shareholders' equity		
Share capital (Note 4)	839,585	839,585
Share-based payment reserve (Note 5)	155,267	155,267
Deficit	(329,708)	(260,230)
Total shareholders' equity	665,144	734,622
Total liabilities and shareholders' equity	668,947	762,759

Nature of operations and continuance of business (Note 1)

Approved and authorized for issuance by the Board of Directors on May 6, 2022:

/s/ "John D. MacPhail" — John D. MacPhail, Director

/s/ "Brock Daem" — Brock Daem, Director

(The accompanying notes are an integral part of these financial statements)

VALENCIA CAPITAL INC.
Condensed Interim Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Three months ended March 31, 2022 $	Three months ended March 31, 2021 $	Nine months ended March 31, 2022 $	Nine months ended March 31, 2021 $
Expenses				
Consulting fees (Note 3)	4,500	30,000	13,500	30,000
General and administrative	2,679	1,977	8,541	6,603
Professional fees	–	500	32,665	24,287
Share-based compensation	–	–	–	50,778
Transfer agent and filing fees	6,845	6,660	14,772	34,437
Total expenses	14,024	39,137	69,478	146,105
Net loss and comprehensive loss	(14,024)	(39,137)	(69,478)	(146,105)
Loss per share, basic and diluted	(0.00)	(0.00)	(0.01)	(0.01)
Weighted average shares outstanding	11,383,900	11,383,900	11,383,900	9,933,077

(The accompanying notes are an integral part of these financial statements)

VALENCIA CAPITAL INC.
Condensed Interim Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve	Deficit	Total shareholders' equity
	Number of shares	Amount $	$	$	$
Balance, June 30, 2020	2,550,000	127,500	–	(60,019)	67,481
Issuance of shares for cash	8,833,900	883,390	–	–	883,390
Share issuance costs	–	(116,121)	–	–	(116,121)
Fair value of agent's warrants issued	–	(55,184)	55,184	–	–
Fair value of stock options granted	–	–	50,778	–	50,778
Net loss for the period	–	–	–	(146,105)	(146,105)
Balance, March 31, 2021	11,383,900	839,585	105,962	(206,125)	739,422
Balance, June 30, 2021	11,383,900	839,585	155,267	(260,230)	734,622
Net loss for the period	–	–	–	(69,478)	(69,478)
Balance, March 31, 2022	11,383,900	839,585	155,267	(329,708)	665,144

(The accompanying notes are an integral part of these financial statements)

VALENCIA CAPITAL INC.
Condensed Interim Statements of Cash Flows
(Expressed in Canadian dollars)

	Nine months ended March 31, 2022 $	Nine months ended March 31, 2021 $
Operating activities:		
Net loss	(69,478)	(146,105)
Items not involving cash:		
Share-based compensation	–	50,778
Changes in non-cash operating working capital:		
GST receivable	(567)	(569)
Advance receivable	31,500	–
Prepaid expenses	4,708	17,187
Accounts payable and accrued liabilities	(24,359)	(5,466)
Due to related party	25	–
Net cash used in operating activities	(58,171)	(84,175)
Financing activities		
Proceeds from issuance of shares	–	883,390
Share issuance costs	–	(116,121)
Net cash provided by financing activities	–	767,269
Increase (decrease) in cash	(58,171)	683,093
Cash, beginning of period	726,551	48,431
Cash, end of period	668,380	731,524
Non-cash investing and financing activities		
Fair value of agent’s warrants issued	–	55,184

(The accompanying notes are an integral part of these financial statements)

1. Nature of Operations and Continuance of Business

Valencia Capital Inc. (the "Company") was incorporated in the province of the British Columbia on June 19, 2019. The Company's head office is located at Suite 1510, 789 West Pender Street, Vancouver, BC, V6E 1H2.

The Company completed an initial public offering ("IPO") on August 14, 2020 and is a capital pool company ("CPC") pursuant to the policies of the TSX Venture Exchange (the "Exchange"). The Company is in the development stage and its principal business is the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction as defined by the rules of the Exchange. Such a transaction will be subject to shareholder and regulatory approval.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company has not been significant, but management continues to monitor the situation.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. During the period ended March 31, 2022, the Company has not generated any revenues and has negative cash flow from operations. As at March 31, 2022, the Company has an accumulated deficit of $329,708. The Company's continuing operations are dependent upon its ability to identify and evaluate assets or businesses with a view to potential acquisition or participation by completing a Qualifying Transaction, as defined in Exchange Policy 2.4. Any acquisition or investment proposed by the Company will be subject to regulatory approval. The preceding indicates the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a going concern basis.

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the Company's functional currency.

(b) Use of Estimates and Judgments

The preparation of these financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant area requiring the use of estimates includes the fair value of share-based payments and unrecognized deferred income tax assets.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

2. Significant Accounting Policies (continued)

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(d) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the statement of operations.

Fair value estimates are made at the statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

The Company has made the following classifications:

Cash	Amortized cost
Advance receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

<u>*Financial Assets*</u>

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

2. Significant Accounting Policies (continued)

(d) Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations. Loss allowances are based on the lifetime expected credit losses that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

2. Significant Accounting Policies (continued)

(e) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(f) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted losses per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at March 31, 2022, all outstanding stock options are anti-dilutive.

(g) Comprehensive Loss

Comprehensive income (loss) is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that are not included in the statement of operations.

(h) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended March 31, 2022, and have not been early adopted in preparing these financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

3. Related Party Transactions

(a) As at June 30, 2021, the Company had an advance receivable of $31,500 (2021 - $nil) from a company controlled by the former Chief Financial Officer of the Company, which has since been received.

(b) During the three months ended March 31, 2022, the Company incurred professional fees of $4,500 (2021 - $nil) to a company controlled by the Chief Financial Officer of the Company.

(Expressed in Canadian dollars)

4. Share Capital

Authorized: Unlimited number of common shares without par value

Issued and outstanding: There were no transactions affecting share capital during the nine months ended March 31, 2022.

Shares issued during the year ended June 30, 2021:

(a) On August 14, 2020, the Company issued 8,833,390 common shares at $0.10 per share for proceeds of $883,390 pursuant to its IPO. The Company incurred share issuance costs of $116,121 and issued 883,390 agents' warrants with a fair value of $55,184 in connection with the IPO. Each agents' warrant entitles the agent to purchase one common share of the Company at $0.10 per share for a period of two years.

5. Stock Options

On January 2, 2020, the Company adopted a stock option plan, pursuant to which the Company may grant stock options to directors, officers, and consultants. The maximum aggregate number of common shares which may be reserved for issuance may not exceed 10% of the issued and outstanding common shares of the Company at the time of granting the stock options. In connection to the foregoing, number of common shares which may be reserved for issuance to any individual director or officer may not exceed 5% and to all consultants may not exceed 2% of the issued and outstanding common shares. The exercise price of any stock options granted under the plan shall be determined by the Board of Directors, but may not be less than the market price of the common shares on the Exchange on the date of grant (less any discount permissible under Exchange rules to a minimum of $0.10 per common share). The term of any stock options granted under the plan shall be determined by the Board at the time of grant but may not exceed five years.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price $
Outstanding, June 30, 2021	1,138,390	0.10
Granted	–	–
Outstanding, March 31, 2022	1,138,390	0.10

Additional information regarding stock options outstanding as at March 31, 2022 was as follows:

	Outstanding and exercisable		
Range of exercise prices $	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price $
0.10	1,138,390	3.71	0.10

(Expressed in Canadian dollars)

5. Stock Options (continued)

The total fair value of the stock options granted during the year ended June 30, 2021 was $100,083 which was recorded as share-based payment reserve and charged to operations.

The fair values for stock options granted have been estimated using the Black-Scholes option-pricing model assuming no expected dividends, no forfeitures, and the following weighted average assumptions:

	2021	2020
Risk-free interest rate	0.48%	–
Expected volatility	125%	–
Expected option life (in years)	5.0	–

6. Share Purchase Warrants

The following table summarizes the continuity of the Company's agents' warrants:

	Number of agents' warrants	Weighted average exercise price $
Outstanding, June 30, 2021	889,390	0.10
Issued	–	–
Outstanding, March 31, 2022	883,390	0.10

As at March 31, 2022, the following agents' warrants were outstanding:

Number of agents' warrants outstanding	Exercise price $	Expiry date
883,390	0.10	August 14, 2022

The fair value of the agents' warrants issued during the year ended June 30, 2021 was $55,184 which was recorded as share-based payment reserve and share issuance costs.

The fair value of the agents' warrants has been estimated using the Black-Scholes option pricing model assuming no expected dividends, no forfeitures, and the following weighted average assumptions:

	2021	2020
Risk-free interest rate	0.38%	–
Expected volatility	125%	–
Expected life (in years)	2.0	–

The weighted average fair value of the agent's warrants issued during the year ended June 30, 2021 was $0.06 per warrant.

7. Financial Instruments and Risk Management

(a) Fair Values

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments, which include cash, advance receivable, and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and advance receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Advance receivable is due from a related party which was repaid to the Company subsequent to year end. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

The Company is not exposed to any significant foreign exchange rate risk.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk as it does not have any liabilities with variable rates.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

8. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and shareholders' equity.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.