

VALENCIA CAPITAL INC.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2022 AND 2021

VALENCIA CAPITAL INC.

Management discussion & analysis

For the six months ended December 31, 2022 and 2021

1. Date

This management's discussion and analysis ("MD&A") of Valencia Capital Inc. ("Valencia" or the "Company") has been prepared by management as of February 28, 2023 and should be read in conjunction with the financial statements and related notes thereto of the Company for the six months ended December 31, 2022 and 2021, which were prepared in accordance with International Accounting Standards using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC").

This MD&A contains forward-looking information which reflects management's expectations regarding the Company's growth, results of operation, performance and business prospects and opportunities. The use of words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook", "forecast" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements in this MD&A include, but not limited to, the Company's expectation of future activities and results, of its working capital needs and its ability to identify, evaluate and pursue suitable business opportunity. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results of events to differ materially from those anticipated in these forward-looking statements. Readers should not put undue reliance on forward-looking information.

The Company undertakes no obligation to publicly update or review the forward-looking statements whether as a result of new information, future events or otherwise.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

2. Overall Performance

The Company was incorporated pursuant to the provisions of the *Business Corporations Act* (British Columbia) on June 19, 2019, under the name Valencia Capital Inc.

The Company completed its initial public offering ("IPO") on August 14, 2020 and is a Capital Pool Company 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 policies of the Exchange. Such a transaction will be subject to shareholder and regulatory approval.

On December 7, 2020, the Company entered into a letter of intent and, on July 7, 2021, an amalgamation agreement (the "TB Amalgamation Agreement"), with Terra Balacanica Resources Corp. (formerly 1250598 B.C. Ltd.) ("Terra Balacanica"), a privately held mineral exploration company incorporated under the *Business Corporations Act* (British Columbia) with a principal property in Bosnia and Herzegovina, known as the Viogor-Zanik Project. Subject to certain conditions and Exchange approval, the transaction would have resulted in the reverse takeover of the Company by Terra Balacanica and constituted Valencia's Qualifying Transaction. In August 2021, the Company terminated the TB Amalgamation Agreement.

Valencia continues to evaluate alternative acquisition opportunities with a view to completing its Qualifying Transaction.

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3. Selected Financial Information

	December 31, 2022	June 30, 2022
Net loss	\$ (35,868)	\$ (81,662)
Loss per share	(0.00)	(0.01)
Total assets	618,310	654,020

4. Results of Operations

Six months ended December 31, 2022 and 2021

During the six months ended December, 2022, the Company reported a net loss of \$35,868, or \$0.00 per share, as compared to a net loss of \$55,455, or \$0.00 per share, during the six months ended December 31, 2021, a decrease in net loss of \$19,587.

The decrease in net loss was primarily due to legal costs incurred in connection with the proposed Qualifying Transaction with Terra Balacanica in the comparative period and the Company's 2021 annual general meeting, costs not incurred in the current period. All other costs did not have significant changes.

5. Summary of Quarterly Results

The following is a summary of financial information concerning the Company for each of the eight last reported quarters.

Quarter ended	Loss	Loss per share
December 31, 2022	\$ (18,963)	\$ —
September 30, 2022	(16,905)	—
June 30, 2022	(12,184)	—
March 31, 2022	(14,024)	—
December 31, 2021	(25,202)	—
September 30, 2021	(30,253)	—
June 30, 2021	(84,105)	(0.01)
March 31, 2021	(9,137)	—
December 31, 2020	(20,643)	—

During the quarter ended December 31, 2022, the Company expensed audit fees of \$7,000, incurred ongoing professional, transfer agent and filing fees relating to general corporate matters and its ongoing reporting issuer obligations.

During the quarters ended September 30, June 30, and March 31, 2022, the Company incurred ongoing professional, transfer agent and filing fees relating to general corporate matters and its ongoing reporting issuer obligations.

During the quarter ended December 31, 2021, the Company expensed audit fees of \$7,000, legal fees of \$4,681, representing the balance of fees related to Company's AGM and general corporate matters, as well as \$5,547 for filing, regulatory and transfer agency fees.

During the quarter ended September 30, 2021, the Company incurred legal fees of \$20,984, \$13,295 of which relates to the proposed transaction with Terra Balacanica, \$8,801 of which relates to the Company's

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AGM and general matters, and \$1,111 in GST receivable incorrectly expensed in the quarter ended June 30, 2021.

During the quarter ended June 30, 2021, the Company incurred legal fees of \$24,892 in connection with the proposed transaction with Terra Balacanica, along with non-cash share-based compensation of \$49,305 as a result of issuing incentive stock options to certain directors and officers.

During the quarters ended December 31, 2020, and March 31, 2021, and June 30, 2021, the Company incurred ongoing professional, transfer agent and filing fees along with similar fees relating to its prospectus filing and reporting issuer obligations.

6. Liquidity and Capital Resources

The Company reported a cash position of \$615,265 at December 31, 2022, compared to cash of \$647,358 at June 30, 2022. The Company reported working capital \$617,092 at December 31, 2022 compared to a working capital position of \$652,960 at June 30, 2022, representing a decrease in working capital of \$35,868 as a result of operating activities.

On August 13, 2020, the Company completed its IPO and issued 8,833,900 common shares at \$0.10 per share for gross proceeds of \$883,390.

PI Financial Corp. acted as lead agent for the IPO (the "Agent"). The Company incurred issuance costs of \$116,121 to the Agent and issued 883,390 Agent's warrants exercisable at of \$0.10 per common share for a period of two years from the date that the common shares of Valencia began trading on the Exchange. These Agent's warrants have expired.

On August 14, 2020, the Company granted 605,000 incentive stock options to its officers and directors exercisable at a price of \$0.10 per common share expiring on August 14, 2025.

On May 6, 2021, the Company granted an additional 533,390 incentive stock options to certain of its officers and directors exercisable at a price of \$0.10 per common share expiring on May 5, 2026.

Current assets excluding cash as at December 31, 2022 consisted of GST receivable of \$2,218 (2021 - \$965) and prepaid insurance fees of \$827 (2021 - \$688).

Current liabilities as at December 31, 2022 consisted of trade payables and accrued liabilities of \$1,218 (2021 - \$3,715).

The continuing operations of the Company are dependent upon its ability to evaluate and complete a Qualifying Transaction. To date, the Company has not generated any revenues, has incurred losses since its inception and, at December 31, 2022, had an accumulated deficit of \$377,760 (2021 - \$315,685).

Operating activities

For the six months ended December 31, 2022, the Company's operating activities used cash of \$32,093 (2021 - \$45,322).

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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 equity comprised of issued share capital.

The Company manages its capital structure and makes adjustments, when required, considering certain 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.

7. Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

8. Financial Instruments & Risk Management

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, and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

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. The carrying amount of financial assets represents the maximum credit exposure.

Foreign Exchange Risk and Interest Rate Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

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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 adequate cash in excess of anticipated needs.

9. Transactions with Related Parties

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

10. Proposed Transactions

None.

11. Accounting Standards Issued But Not Yet Effective

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

12. Additional Disclosure for Venture Issuers Without Significant Revenue

An analysis of material components of the Company's general and administrative expenses is disclosed in the financial statements for the six months ended December 31, 2022 and 2021 to which this MD&A relates.

13. Disclosure of Outstanding Share Data

Common Shares

As at February 28, 2023, the Company has authorized an unlimited number of common shares without par value and has 11,383,900 common shares issued and outstanding.

Incentive Stock Options

As at February 28, 2023, the Company has 1,138,390 shares reserved for issuance upon the exercise of officer and directors' options.

Share Purchase Warrants

As at February 28, 2023, the Company has no share purchase warrants outstanding.

14. Additional Information

Additional disclosures pertaining to the Company's material change reports, press releases and other information are available on the SEDAR website at www.sedar.com.