6. SHARE CAPITAL (continued)

c) Share-based payments reserve (continued)

The following stock options are in existence as of December 31, 2017, 2016 and 2015

					Black-Scholes inputs			
Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
4,000,000	4,000,000	18-Jul-17	18-Jul-21	$ 0.25	100%	4	0%	1.48%
4,000,000	4,000,000							

7. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of share capital. The Company manages its capital structure and makes adjustments based on the funds available to support the development of its operations. The board of directors has not established quantitative return on capital criteria for management and relies on the expertise of management and the board of directors to sustain future development of the business.

The Company is dependent upon external financing to fund its activities. To continue to carry out the Company's planned development and funding of ongoing administrative expenses the Company will utilize its existing working capital and will raise additional capital as appropriate.

The management and board of directors of the Company review its capital management approach on an ongoing basis and believe it reflects a reasonable approach given the relative size of the Company's assets. There were no changes to the approach of management and the board of directors to capital management for the year ended December 31, 2017, 2016 and 2015. The Company is not subject to externally imposed capital requirements.

8. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including market risk (including currency, commodity and cash flow interest rate risk), fair value risk, credit risk, liquidity risk and capital risk.

Fair value hierarchy

The three levels of the fair value hierarchy with respect to required disclosures about the inputs to fair value measurements are:

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

As at December 31, 2017, 2016 and 2015, the Company's cash, classified as assets at fair value through profit and loss, have been classified as Level 2 financial instruments.

The carrying value of cash, amounts receivable, and accounts payable and accrued liabilities reflected in the statement of financial position approximate fair value because of the relatively short-term maturities.

Foreign currency risk

The Company funds the operations and maintains a head office in Canada. A portion of the Company's expenses are denominated in U.S. dollars and Canadian dollars. Consequently, the Company is exposed to fluctuations in foreign exchange rates. The Company has not used derivative instruments to reduce its exposure to foreign exchange fluctuations.

8. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

The Company's credit risk is primarily attributable to cash and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of cash held in financial institutions from which management believes the risk of loss to be remote.

Liquidity risk

As at December 31, 2017, 2016 and 2015, the Company had negative net working capital. The Company expects to complete future equity or other debt financings, as required and available.

9. COMMITMENTS AND CONTINGENCIES

Management Contract Contingencies

The Company is party to certain management contracts. These contracts contain minimum commitments and additional contingent payments upon the occurrence of a change of control. As the likelihood of a change of control is not determinable, the contingent payments have not been reflected in these financial statements.

Legal Contingencies

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect the Company, results of operations or cash flows. There were no material outstanding legal proceedings as of December 31, 2017, 2016 and 2015.

Environmental Contingencies

The Company's activities are subject to laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its activities are materially in compliance with all applicable laws and regulations.

10. SUBSEQUENT EVENTS

Valencia Ventures Inc. ("Valencia") entered into an agreement to acquire all of the outstanding equity securities of 2292055 Ontario Inc., which carries on business under the name EarthRenew.

Valencia has entered into an amalgamation agreement with EarthRenew and a newly incorporated, wholly owned Valencia subsidiary, dated December 1, 2017, pursuant to which Valencia will acquire all of the issued and outstanding shares of EarthRenew. It is expected that the transaction will be effected by way of a three-cornered amalgamation pursuant to which a wholly owned subsidiary of Valencia will amalgamate with EarthRenew, and all of the holders of shares of EarthRenew will receive one Valencia common share for each EarthRenew common share held. Following completion of the transaction, the newly amalgamated company, which will hold all of EarthRenew's assets, will be a wholly owned subsidiary of Valencia.

The transaction will constitute a reverse takeover and a change of business for the company under the policies of the TSX Venture Exchange. If required pursuant to Exchange Policy 2.2, the company will retain a sponsor in connection with the transaction.

Although Ryan Ptolemy is considered to be a non-arm's-length party to the transaction as he is the chief financial officer of each of Valencia and EarthRenew, the transaction constitutes an arm's-length transaction as defined by the policies of the TSX Venture Exchange. Valencia and EarthRenew are not paying any finders' fees in connection with the transaction.

(Expressed in Canadian Dollars)

11. Income Tax

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2016 - 26.5%; 2015 - 26.5%) were as follows:

	2017 $	2016 $	2015 $
Income (loss) before income taxes	2,297,170	(572,997)	(710,266)
Expected income tax provision (recovery) based on statutory rate	609,000	(152,000)	(188,000)
Adjustment to expected income tax benefit:			
Share-based payments	183,000	-	-
Benefit of tax assets not recognized	(792,000)	152,000	188,000
Deferred income tax provision (recovery)	-	-	-

b) Deferred Income Tax

Deferred tax assets have not been recognized in respect of the following temporary differences:

	2017 $	2016 $	2015 $
Non-capital loss carry-forwards	1,760,000	4,750,000	4,518,000
Plant and equipment	7,000	7,000	(3,000)
Total	1,767,000	4,757,000	4,515,000

The potential future benefit of these losses has not been recognized in the financial statements because it is not probable that future taxable profit will be available against which the Company can use the benefits.

c) Tax loss carry-forwards

As at December 31, 2017, the Company has non-capital tax losses for Canadian income tax purposes of approximately $1,760,000, available to use against future taxable income. The non-capital losses expire as follows:

Year of Expiry	Amount $
2034	441,000
2035	1,087,000
2036	232,000
	1,760,000