

**La Jolla Capital Inc.**  
**Management Discussion and Analysis**  
For the six months ended December 31, 2016

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This Management Discussion and Analysis (“MD&A”) of La Jolla Capital Inc. (the “Company” or “La Jolla”) (formerly MicroCoal Technologies Inc. and previous to that Carbon Friendly Solutions Inc. (“MicroCoal”), has been prepared by management as of February 15, 2017 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the six months ended December 31, 2016 and related notes thereto of the Company.

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Except as otherwise disclosed, all dollar figures included therein and in the following MD&A are quoted in the Company’s presentation currency which is Canadian dollars.

## **FORWARD LOOKING INFORMATION**

The following discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. These forward-looking statements may include, among other things, statements concerning plans, objectives and future economic prospect, expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements and industry result, to be materially different from what is said or implied with such forward-looking statements.

## **COMPANY OVERVIEW**

The Company was incorporated on April 6, 1990 as a provincial company under the laws of British Columbia, and on June 19, 1997 the Company continued as a federal corporation under the Canada Business Corporation Act. On September 2, 2008, the Company completed a share exchange with Global CO2 Reduction Inc. (Global CO2) and changed its name to Carbon Friendly Solutions Inc. On June 25, 2013 the Company changed its name to MicroCoal Technologies Inc. (“MicroCoal” or “MTI”). MicroCoal was listed on the Canadian Securities Exchange (“CSE”) under the symbol “MTI” and the Frankfurt Stock Exchange under the symbol “0FS-FRA” (“zero FS-FRA”). On May 21, 2015, pursuant to a Plan of Arrangement the Company transferred certain assets in exchange for shares of a new entity called Targeted Microwave Solutions Inc. (“TMS”). The common shares of MicroCoal were delisted from the CSE concurrent with the listing of the TMS common shares.

The Company changed its name to La Jolla Capital Inc. and continues to be a reporting issuer in the Provinces of British Columbia, Alberta and Ontario. The Company currently intends to apply to list the La Jolla Shares with the CSE once it has met the listing criteria.

Until May 2015, the Company was in the business of researching and developing a coal technology using patented technologies to dewater, decontaminate and upgrade low-rank coals for use by power utilities and coal companies. Subsequent to the Plan of Arrangement, the principal business is the exploration and development of mineral properties.

## **Plan of Arrangement**

On May 21, 2015, the Company completed a previously announced Plan of Arrangement under the Canada Business Corporations Act (the “Plan of Arrangement” or “Arrangement”) with its security holders and its wholly-owned subsidiary Targeted Microwave Solutions Inc. (“TMS”). Pursuant to the Arrangement, the Company caused substantially all of its business, operations, assets and liabilities to be transferred to TMS. Following completion of the Arrangement, the Company and TMS had substantially the same management and consultants as MicroCoal had prior to the Arrangement.

**La Jolla Capital Inc.**  
**Management Discussion and Analysis**  
For the six months ended December 31, 2016

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As a result of the Arrangement, among other things: (i) each holder of MicroCoal's common shares as at the effective time of the Arrangement was entitled to receive 1 common share of TMS for each common share of MicroCoal held at the effective time of the Arrangement; and (ii) the shareholders of MicroCoal received 100% of the common shares of TMS in the same proportion as they previously held in TMS and holders of warrants to purchase MicroCoal shares or units are entitled to receive warrants to purchase TMS shares or units.

Additional information related to the Plan of Arrangement is disclosed in Note 4 of the 2016 consolidated financial statements of the Company

### Share Consolidation

On May 21, 2015, pursuant to the Plan of Arrangement, the Company consolidated its issued and outstanding common shares on a 50:1 basis (the "Share Consolidation"). This Share Consolidation resulted in the pre-consolidation issued and outstanding total shares of 179,500,076 being consolidated on a 50:1 basis. After effecting all transactions, there were 3,589,990 issued and outstanding common shares which became the new share capital of the Company. The Share Consolidation affected all of MicroCoal's issued and outstanding common shares on May 21, 2015. Fractional shares were not issued. Pre-consolidation there were 32,913,886 MicroCoal warrants issued and outstanding. These warrants were transferred to TMS and do not exist post-consolidation. Prior to the Plan of Arrangement, there were 3,220,000 stock options all of which were cancelled. Certain comparative information regarding issued and outstanding common shares, warrants, stock options and weighted average number of share amounts have been re-presented on a post-consolidation basis.

### Operations

La Jolla intends to focus on the exploration and development of mineral properties and/or considering a range of opportunities across various industry segments to create shareholder value.

### **SUMMARY OF QUARTERLY RESULTS**

	Q2 2017	Q1 2017	Q4 2016	Q3 2016
	\$	\$	\$	\$
Total assets	2,564	12,749	20,334	83,246
Net income (loss)	(39,773)	(24,501)	(84,335)	(28,018)
Earnings (loss) per share - post consolidation	(0.01)	(0.00)	(0.01)	(0.01)

	Q2 2016	Q1 2016	Q4 2015	Q3 2015
	\$	\$	\$	\$
Total assets	84,554	51,856	5,222	11,973,753
Net income (loss)	(110,509)	(10,887)	30,112,621	(413,445)
Earnings (loss) per share - post consolidation	(0.02)	(0.00)	8.40	(0.13)

## **RESULTS OF OPERATIONS**

### **Three and six months ended December 31, 2016**

The above quarterly results are not indicative of the future operations of La Jolla as they represent both the coal and microwave technology businesses which will not be carried forward in this company. During the six months ended December 31, 2016, the Company accrued consulting fees of \$48,000 and accounting fees of \$18,000 to related parties. The Company also incurred other operating expenses including investor relations, agents and fees of \$11,026 for a total loss from operations of \$77,026.

During the three months ended December 31, 2016, the Company accrued consulting fees of \$24,000 and accounting fees of \$9,000 to related parties. Total loss from operations for the three months was \$39,773.

The Company continues to minimize its office expenses in an attempt to preserve cash.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company had cash of \$214 at December 31, 2016 (June 30, 2015 - \$15,101) and working capital deficiency of \$536,567 (June 30, 2016 – deficiency of \$469,793).

The Company's is currently not generating any cash flows; as such, the Company is dependent on external and related party financing to fund its costs. The Company does not have any working capital and will need to raise additional amount in order to meet its obligations. Companies in this stage typically rely upon equity and debt financing to fund operations. The Company is not listed on a stock exchange at December 31, 2016. There is no certainty with respect to the Company's ability to raise capital.

As at December 31, 2016, the Company had loans in the aggregate amount of \$84,709 payable to various unrelated parties. The loans are unsecured, non-interest bearing and are due on demand.

At December 31, 2016, the Company expects that it will be able to obtain funding from investors in order to meet its obligations. Additional financing will need to be obtained for the planned development and exploration of the mining interest and normal course operations.

### **Outstanding Share Data**

The authorized share capital consists of an unlimited number of common shares without par value. As at February 15, 2017, there were 5,983,324 common shares outstanding.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not utilize off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

During the six months ended December 31, 2016, the Company accrued accounting fees of \$18,000 to a company controlled by a director of the Company.

During the six months ended December 31, 2016, the Company accrued consulting fees of \$48,000 to directors of the Company.

As at December 31, 2016, the Company owed \$213,965 to various directors and their companies, which is included in accounts payable and accrued liabilities.

## **BASIS OF PRESENTATION**

The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the IASB. Accordingly, certain disclosures included in the annual financial statements prepared in accordance with IFRS have been condensed or omitted. The Company's unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2016.

The accounting policies applied in the preparation of the Company's unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended June 30, 2016.

The preparation of financial statements in compliance with IFRS requires management to make certain critical judgements and accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Actual results may differ from this estimate as the estimation process is inherently uncertain.

## **CHANGES IN ACCOUNTING STANDARDS NOT YET EFFECTIVE**

### **Financial Instruments**

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

## **FINANCIAL INSTRUMENTS RISK EXPOSURE**

As at December 31, 2016, the Company's financial instruments consist of cash and accounts payable. The carrying values of these financial instruments approximate their fair values because of their current nature. All financial assets and financial liabilities are recorded at fair value on initial recognition. All financial assets and financial liabilities are recorded at fair value on initial recognition.

The categories of the fair value hierarchy that reflect the significance of inputs used in making fair value measurements are as follows:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity);

**La Jolla Capital Inc.**  
**Management Discussion and Analysis**  
For the six months ended December 31, 2016

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At December 31, 2016 and June 30, 2016, all financial assets and liabilities were classified in the fair value hierarchy as level 1. There were no transfers between levels during the six months ended December 31, 2016.

#### Liquidity Risk

At December 31, 2016, the Company held cash of \$214 (June 30, 2016 - \$15,101), had negative working capital of \$536,567 (June 30, 2016 - \$469,793). At December 31, 2016, the Company expects that it will be able to obtain funding from investors in order to meet its obligations.

#### Interest rate Risk

Interest rate risk is the result that the fair values and future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company was not exposed to significant interest rate risk as loans payable were at fixed interest rates with short-term maturities.

#### Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company was mainly exposed to credit risk from holding cash, which it mitigates from holding balances with major financial institutions.

#### Currency Risks

The Company is exposed to currency risk related to certain accounts payable and accrued liabilities and other payable amounts which were denominated in US\$. As at December 31, 2016, there were US\$59,820 denominated in US\$ (June 30, 2016 – US\$59,820).

### **OTHER RISKS AND UNCERTAINTIES**

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risk, including but not limited to, environmental, metal prices, political and economical.

The mineral exploration business is risky and most exploration projects will not become mines. The Company may offer an opportunity to a mining company to acquire an interest in a property in return for funding all or part of the exploration and development of the property. For the funding of property acquisitions and exploration that the Company conducts, the Company depends on the issue of shares from the treasury to investors. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record and the experience of management.

The Company has no significant source of operating cash flow and no revenues from operations. The Company has not yet determined whether its mineral property contains mineral reserves that are economically recoverable. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish reserves.

There is no guarantee that the Company will be able to contribute or obtain all necessary resources and funds for the exploration and exploitation of its permits, and may fail to meet its exploration commitments. The property that the Company has an option to earn an interest in is in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, that are explored, are ultimately developed into producing mines.

Exploration of the Company's mineral property may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters.

## **FINANCIAL AND DISCLOSURE CONTROLS AND PROCEDURES**

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for establishing and maintaining appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. They are also responsible for establishing adequate internal controls over financial reporting to provide sufficient knowledge to support the representations made in this MD&A and the Company's interim financial statements of the Company for the six months ended December 31, 2016 (together the "Interim Filings").

The Chief Executive Officer and Chief Financial Officer of the Company have filed the Venture Issuer Basic Certificate with the Interim and Annual Filings on SEDAR at [www.sedar.com](http://www.sedar.com).

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the venture issuer basic certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

## **TRENDS**

Trends in the industry can materially affect how well any junior exploration company is performing and by the capital markets which have made the raising of finance difficult. Under the current economic conditions, the Company is advancing its property as quickly as possible while still remaining prudent when considering large cost items such as drilling and geophysics.

## **CAUTIONARY STATEMENT**

This document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. All statements other than statements of historical fact herein, including, without limitation, statements regarding exploration plans and our other future plans and objectives are forward-looking statements that involve various risks and uncertainties. Such forward-looking statements include, without limitation, (i) estimates of exploration investment and scope of exploration programs, and (ii) estimates of stock-based compensation expense. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statement. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date of statements are made, and the Company endeavours to update corporate information and material facts on a timely basis. Forward-looking statements are subject to risks, uncertainties and other actors, including risks associated with mineral exploration, price volatility in the mineral commodities we seek, and operational and political risks.