

**Form 51-102F1  
KOKOMO ENTERPRISES INC.**

**Management's Discussion & Analysis  
Condensed Interim Financial Statements (Unaudited) for the  
Three Months Ended March 31, 2011**

*The following discussion and analysis of the financial condition and financial position and results of operations of Kokomo Enterprises Inc. (the "Company" or "Kokomo") should be read in conjunction with the condensed interim financial statements ("Unaudited") and notes thereto for the three months ended March 31, 2011 and the audited financial statements and the notes thereto for the years ended December 31, 2010 and 2009. The condensed interim unaudited financial statements and notes thereto for the three months ended March 31, 2011 have not been reviewed by the Company's Auditor. The following discussion and analysis has not been reviewed by the Company's Auditor.*

*These financial statements, including comparatives, have been prepared using accounting policies in compliance with International Financing Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company's financial statements are expressed in Canadian (CDN) Dollars. All amounts in this MD&A are in CDN dollars unless otherwise stated.*

**The following information is prepared as at June 24, 2011.**

**Forward-Looking Statements**

Certain statements contained herein are "forward-looking" and are based on the opinions and estimates of management, or on opinions and estimates provided to and accepted by management. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those expressed or implied. Readers are therefore cautioned not to place reliance on any forward-looking statement.

**Description of Business**

The Company is a junior mineral exploration company.

Kokomo is a reporting issuer in the Provinces of British Columbia, Alberta, Quebec and Ontario and files all public documents, including an AIF in its alternate form, on [www.Sedar.com](http://www.Sedar.com). The Company is a foreign private issuer in the United States of America and in this respect files, on EDGAR, its Annual Report on Form 20-F and other reports on Form 6K. The following link, <http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=825171> will give you direct access to the Company's United States Securities and Exchange Commission ("U.S. SEC") filings.

## **Results of Operations**

All financial figures presented herein are expressed in Canadian Dollars (CDN\$) unless otherwise specified.

On April 16, 2009, the Company changed its name from Zab Resources Inc. (“Zab”) to Kokomo Enterprises Inc. (“Kokomo”), and the Company consolidated its capital stock on the basis of 25 (old) shares of Zab for 1 (new) share of Kokomo. As a result, the shares of Kokomo commenced trading in Canada on the CNSX under the symbol “KKO”, and in the U.S.A. the shares of Kokomo commenced trading on the OTC Bulletin Board under the symbol “KKOEF”. The Cusip number of the Company’s common shares is 500323100.

All common shares and per share amounts have been restated to give retroactive effect to the 25:1 share consolidation, which took effect on April 16, 2009.

At the Annual General Meeting of the Company’s shareholders which was held on June 16, 2011, the shareholders received the Audited Consolidated Financial Statements for the year ended December 31, 2010 and 2009 and the Auditor’s Report thereon; fixed the number of Directors for the ensuing year at four; elected Bedo H. Kalpakian, Jacob H. Kalpakian, Gregory T. McFarlane and Fred A.C. Tejada as Directors of the Company; re-appointed the Company’s Auditor, Smythe Ratcliffe, Chartered Accountants, for the ensuing year and authorized the Directors to fix the remuneration to be paid to the Auditor and, re-approved the Company’s 2004 Stock Option Plan.

On May 6, 2011, the Company entered into a binding letter of intent (“LOI”) with Arqueana de Minerios E Metais Ltda. (“Arqueana”) and its shareholders (“Arqueana Group”) in respect to Arqueana’s mineral concessions and Arqueana’s real estate (“Arqueana’s Assets”). Pursuant to the LOI, the parties have agreed to enter into a Definitive Property Option Agreement within a period of 60 business days whereby the Company shall have the right to acquire up to a 75% right, title and interest in Arqueana’s Assets by making staged cash payments totaling \$800,000, issuing a total number of 7,000,000 common shares of the Company and incurring property related expenditures totaling \$8,000,000 over a period of three years. Should the Company elect to acquire a 75% right, title and interest in Arqueana’s Assets, then subsequently the Company, subject to certain terms and conditions, may have to issue an additional 3,000,000 common shares and may have to make additional payments totaling \$1,000,000.

The Company has hired the services of Wardrop, A Tetra Tech company, to prepare a technical report in accordance with NI 43-101 for a due diligence review on Arqueana’s Assets. On May 19, 2011, the Company made a deposit payment of \$13,772 to Wardrop which represents 50% of the total estimated costs of Wardrop.

On June 1, 2011, the Company entered into an Investor Relations Agreement with an arm’s length party in Germany (the “Arm’s Length Party”) whereby the Arm’s Length Party shall provide its services to the Company for a period of four months. The consideration payable by the Company to the Arm’s Length Party is a cash payment of US \$750 and the granting of 120,000 incentive stock options which are exercisable at the price of \$0.15 per common share for a period of twelve months.

On February 8, 2010, the Company entered into a binding letter of intent (“LOI”) with an arm’s length party to acquire a 75% right, title and interest in the surface rights of the Zaniza Iron Ore Property, located in the Municipality of Sola De Vega in the State of Oaxaca in Mexico. The parties to the LOI had agreed to enter into a Definitive Agreement by March 31, 2010 (“The Deadline”). Subsequently, an Amending Agreement was entered into and was executed by the parties whereby The Deadline was extended to August 31, 2010. As the Company was unable to enter into a Definitive Agreement by the expiry of The Deadline, the Company decided not to proceed any further with this acquisition.

The Company was previously registered extra-provincially under the *Corporations Registration Act* in the Province of Nova Scotia, Canada in order to participate in a tender for a Special License in respect to the exploration of salt

and potash on certain claims. The Company participated in the tender, however, due to delays in being granted a Special License, the Company withdraw its participation from the tender and the Company decided not to renew its registration as an extra-provincially registered company under the *Corporations Regulations Act* in the Province of Nova Scotia, Canada.

For the three months ended March 31, 2011:-

- The Company’s operating expenses were \$51,165 as compared to \$109,169 for the corresponding period in 2010,
- The Company realized a net loss and comprehensive loss of \$51,165 as compared to \$109,169 for the corresponding period in 2010.
- The Company’s total assets were \$153,923 as compared to \$164,427 for the corresponding period in 2010.
- The Company’s total liabilities were \$171,724 as compared to \$52,132 for the corresponding period in 2010.
- The Company had a working capital deficiency of \$169,141 as compared to a working capital deficiency of \$38,782 for the corresponding period in 2010.

The Company is presently not a party to any legal proceedings whatsoever.

## **Mineral Properties**

### **1. Extra High Property**

As at January 1, 2008 the Company held a 66% interest in the Extra High Property, with the remaining 34% interest being held by Colt Resources Inc. (“Colt”), a company that was formerly related by certain common directors and officers. The property is subject to a 1.5% net smelter returns royalty (“NSR”), 50% of which, or 0.75%, can be purchased at any time by paying \$500,000 to the NSR holder.

On January 21, 2008, the Company entered into an Option Agreement (the “2008 Option Agreement”) with Colt whereby Colt was granted the right and option to acquire, in two separate equal tranches, the Company’s 66% undivided interest in the Extra High Property. Pursuant to the 2008 Option Agreement, Colt exercised the first tranche of the option by making a cash payment of \$250,000 to the Company thus acquiring from the Company a 33% undivided interest in the Extra High Property. As a result of exercising the first tranche of the option, Colt increased its undivided interest in the Extra High Property to 67% and has become the operator of the Extra High Property. .

In order to exercise the second tranche of the option, Colt was required to make a cash payment of \$250,000 to the Company on or before December 31, 2008. Colt did not exercise the second tranche of the option. Consequently, Colt now holds a 67% undivided interest in the Extra High Property and the Company now holds a 33% undivided interest in the Extra High Property. Pursuant to the Joint Venture which the Company and Colt have formed, each party shall henceforth contribute its proportionate share of property related expenditures. If any party fails to contribute its share of future property related expenditures, then its interest will be diluted on a straight-line basis. If any party’s interest is diluted to less than 10%, then that party’s interest in the Extra High Property will be converted into a 0.5% net smelter returns royalty.

As at the date of this MD&A, the Company holds a 33% undivided interest in the Extra High Property.

Investment in the Extra High Property consists of costs incurred as follows:

	2011	2010	2009	Cumulative to 2011
Acquisition (property option payments)	\$ 0	\$ 0	\$ 0	\$ 150,000
Staking	0	0	0	3,639
Assessment and miscellaneous Geological, geochemical, trenching and drilling	0	0	0	10,311
Colt property option payments	0	263	1,194	431,160
	0	0	0	(443,770)
	\$ 0	\$ 263	\$ 1,194	\$ 151,340

## 2. Lithium Properties (Mineral Leases)

During the year ended December 31, 2008, the Company sold all of its Ontario Lithium Properties (Mineral Leases) for gross proceeds of \$54,500. These properties were previously written off at the end of fiscal 2000. However, the Company retains a 0.50% gross receipts royalty after six months from the date of commencement of commercial production.

## 3. Hope Creek Property

On October 24, 2008, the Company entered into an Option Agreement (the “Hope Creek Option Agreement”) with two individuals, who are at arm’s length to the Company, in respect to certain mineral claims which are situated in the Lillooet Mining Division in British Columbia (the “Hope Creek Property”). Pursuant to the terms of the Hope Creek Option Agreement, the Company obtained the right to acquire a 100% undivided interest in the Hope Creek Property, subject to a 1% NSR royalty, by issuing 2,000 common shares, making staged cash payments totaling \$90,000 over three years, incurring not less than \$50,000 in exploration expenditures on the Hope Creek Property by December 31, 2008 and incurring additional optional exploration expenditures totaling \$250,000 over a period of three years. During the year ended December 31, 2008, the Company fulfilled its commitment and issued 2,000 common shares and incurred \$68,654 in exploration expenditures by December 31, 2008. The \$90,000 staged cash payments were optional and were payable as follows: (i) \$15,000 on or before December 31, 2009; (ii) \$25,000 on or before December 31, 2010; and (iii) \$50,000 on or before December 31, 2011.

The Company qualified for the BC Mineral Exploration Tax Credit in the amount of \$1,060 in 2009 and in the amount of \$7,178 in 2008 for exploration expenses incurred on the Hope Creek Property. These amounts have been credited against expenses incurred on this property.

Investment in the Hope Creek Property consisted of costs incurred as follows:

	2011	2010	2009	Cumulative to 2011
Acquisition (property option payments)	\$ 0	\$ 0	\$ 0	\$ 1,500
Geological and geochemical	0	0	2,340	70,994
Mineral exploration tax credit	0	0	(1,060)	(8,238)

Abandonment of property	0	0	(64,256)	(64,256)
	\$ 0	\$ 0	\$ (62,976)	\$ 0

The Company conducted a diamond drilling program as of October 28, 2008 on the Hope Creek Property which was completed prior to December 31, 2008.

As the results obtained from the diamond drilling program did not meet the Company’s expectations, on October 14, 2009, the Company formally terminated the Hope Creek Option Agreement and has written it off.

### **First Quarter (March 31, 2011)**

During the three months [first quarter] period ended March 31, 2011, the Company had a net loss and comprehensive loss of \$51,165 or \$0.00 per share as compared to a net loss and comprehensive loss of \$109,169 or \$0.01 per share for the same three months [first quarter] period ended March 31, 2010.

Operating costs decreased to \$51,165 as compared to \$109,169 for the same period in 2010. The reduction in Management fees contributed to the decrease of operating costs.

During the three months [first quarter] period ended March 31, 2011, the Company’s weighted average number of common shares were 13,963,278 as compared to 9,507,778 for the corresponding period in 2010.

### **Summary of Quarterly Results**

For the Quarterly Periods ended:		March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Total Revenues	\$	0	0	0	0
Loss before other items		(51,165)	(99,552)	(117,169)	(125,537)
Loss per common share before other items		(0.00)	(0.01)	(0.01)	(0.01)
Earnings / (loss) for the period		(51,165)	(99,544)	(117,413)	(125,274)
Basic earnings / (loss) per common share		(0.00)	(0.01)	(0.01)	(0.01)

For the Quarterly Periods ended:		March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Total Revenues	\$	0	0	0	0
Loss before other items		(109,169)	(131,714)	(112,540)	(130,338)
Loss per common share before other items		(0.01)	(0.03)	(0.03)	(0.12)
Earnings / (loss) for the period		(109,169)	(195,319)	(113,080)	(130,211)
Basic earnings / (loss) per common share		(0.01)	(0.05)	(0.03)	(0.12)

**Note:** Earnings (loss) per common share calculations in the above tables are based on the weighted average number of common shares outstanding for the periods and which **have been restated to give retroactive effect to the 25:1 consolidation described in Results of Operations of this MD&A and in note 1 to the Condensed Interim Financial Statements for the period ended March 31, 2011 and 2010 (Unaudited).**

The diluted loss per share calculations are not reflected as the effect would have been anti-dilutive.

The Company’s business is not of a seasonal nature.

### **Risks related to our Business**

The Company, and the securities of the Company, should be considered a highly speculative investment. The following risk factors should be given special consideration when evaluating an investment in any of the Company's securities.

The Company does not generate any revenues and does not anticipate generating any revenues in the foreseeable future. Should the Company at a future date generate any revenues, then the Company intends to retain its earnings in order to finance growth. Furthermore, the Company has not paid any dividends in the past and does not expect to pay any dividends in the future.

There are a number of outstanding securities and agreements pursuant to which common shares of the Company may be issued in the future. This will result in further dilution to the Company's shareholders.

The exploration of mineral properties involves significant risks which even experience, knowledge and careful evaluation may not be able to avoid. The prices of metals have fluctuated widely, particularly in recent years as it is affected by numerous factors which are beyond the Company’s control including international, economic and political trends, expectations of inflation or deflation, currency exchange fluctuations, interest rates fluctuations, global or regional consumptive patterns, speculative activities and increased production due to new extraction methods. The effect of these factors on the price of metals, and therefore the economic viability of the Company’s interests in mineral exploration properties cannot be accurately predicted. Furthermore, changing conditions in the financial markets, and Canadian Income Tax legislation may have a direct adverse impact on the Company’s ability to raise funds for its interests in mineral exploration properties. A drop in the availability of equity financings will likely impede spending on mineral properties. As a result of all these significant risks, it is quite possible that the Company may lose all its investments in the Company’s interests in mineral properties.

### **Liquidity and Capital Resources**

The Company has incurred operating losses over the past two fiscal years, has limited resources, and no sources of operating cash flow.

During 2011, the Company shall require at least \$500,000 so as to conduct its operations uninterruptedly. In order to meet this requirement, the Company intends to seek equity and/or debt financings through private placements and/or public offerings and/or loans. In the past, the Company has been successful in securing equity and debt financings in order to conduct its operations uninterruptedly. While the Company does not give any assurances whatsoever that in the future it will continue being successful in securing equity and/or debt financings in order to conduct its operations uninterruptedly, it is the Company’s intention to pursue these methods for future funding of the Company.

As at March 31, 2011:-

- The Company’s total number of issued and outstanding shares was 13,963,278 as compared to 9,870,278 for the corresponding period in 2010 (December 31, 2010: 13,963,278).
- The Company’s total assets were \$153,923 as compared to \$164,427 for the corresponding period in 2010 (December 31, 2009: \$168,807).
- The Company’s total liabilities were \$171,724 as compared to \$52,132 for the corresponding period in 2010 (December 31, 2010: \$135,443).

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- The Company had a working capital deficiency of \$169,141 as compared to a working capital deficiency of \$38,782 for the corresponding period in 2010 (December 31, 2010: \$117,976).

During the month of June 2011, a total number of 300,000 share purchase warrants have been exercised for total proceeds to the Company of \$30,000.

On May 10, 2011, the Company closed the non-brokered private placement, which was announced on March 6, 2011. The Company issued a total of 100,000 units of the Company’s securities at \$0.10 per unit for gross proceeds to the Company of \$10,000. Each unit consists of one common share in the capital of the Company and one share purchase warrant to purchase an additional common share in the capital of the Company exercisable at the price of \$0.15 until May 10, 2013. The securities issued are subject to a hold period expiring on September 11, 2011.

On April 15, 2011, the Company closed the second and final tranche of the non-brokered private placement, which was announced on March 30, 2011, and issued 500,000 units of the Company at the price of \$0.10 per unit for total proceeds to the Company of \$50,000. Each unit consists of one common share and one share purchase warrant, exercisable to acquire one common share at the price of \$0.15 until April 15, 2013. The securities issued are subject to a hold period expiring on August 16, 2011.

On April 1, 2011, the Company closed the first tranche of the non-brokered private placement, which was announced on March 30, 2011, and issued 500,000 units of the Company at the price of \$0.10 per unit for total proceeds to the Company of \$50,000. Each unit consists of one common share and one share purchase warrant, exercisable to acquire one common share at the price of \$0.15 until April 1, 2013. The securities issued are subject to a hold period expiring on August 2, 2011.

During 2010, a total of 1,043,000 share purchase warrants were exercised at \$0.10 per share for total proceeds to the Company of \$104,300.

During 2010, the Company issued an aggregate of 4,500,000 Units of the securities of the Company to various investors at the price of \$0.06 per Unit for total proceeds to the Company of \$270,000 of which the amount of \$180,814 was allocated to capital stock and the amount of \$89,186 was allocated to warrants. Each Unit consists of one common share in the capital of the Company and one warrant to purchase an additional common share in the capital of the Company at \$0.10 per common share for a period of two years from closing date. The securities issued pursuant to this private placement are subject to four month and a day hold period from the issuance date. Subsequently, on April 1 and 15, 2011 the Company issued in aggregate 1,000,000 Units of the securities of the Company to various investors at the price of \$0.10 per Unit for total proceeds to the Company of \$100,000. Each Unit consists of one common share in the capital of the Company and one warrant to purchase an additional common share in the capital of the Company at \$0.15 per common share for a period of two years from closing date. The securities issued pursuant to this private placement were subject to a hold period expiring on August 2, 2011 as to the first tranche and on August 16, 2011 as to the second and final tranche.

If any warrants are exercised in the future, then any funds received by the Company from the exercising of warrants shall be used for general working capital purposes. However, there are no assurances whatsoever that any warrants will be exercised before their expiry.

During 2009, the Company issued an aggregate of 7,325,333 units in the securities of the Company to various investors for total proceeds to the Company of \$518,150. Each Unit consists of one common share in the capital of the Company and one warrant to purchase an additional common share in the capital of the Company. .Of the 7,325,333 units sold, 5,242,000 share purchase warrants entitle the holders to purchase one common share at a price of \$0.10 for a period of two years from closing date, and the remaining 2,083,333 share purchase warrants entitle the holders to purchase one common share at a price of \$0.10 for a period of five years from closing date. All securities issued were subject to a four-month hold period.

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During 2008, the Company issued to arm’s length parties 2,000 common shares at a market value of \$0.75 per common share for a total value of \$1,500 in accordance with the Hope Creek Option Agreement.

During the three months period ended March 31, 2011, there were no stock options granted to Directors, Officers, Employees and Consultants. As at March 31, 2011, there are 164,242 stock options outstanding exercisable at \$1.25 per share (December 31, 2010: 164,242; 2009: 178,242) which have been granted to Directors, Officers, Employees and Consultants. On June 15, 2011, the 164,242 stock options expired unexercised. Pursuant to an Investor Relations Agreement with an Arm’s Length Party, the Company has granted 120,000 incentive stock options to the Arm’s Length Party which may be exercised for a period of twelve months at the price of \$0.15 per common share. If any stock options are exercised in the future, then any funds received by the Company from the exercising of stock options shall be used for general working capital purposes. However, there are no assurances whatsoever that any stock options will be exercised before their expiry. As at March 31, 2011, there were no stock options exercised.

As at March 31, 2011:-

- the Company had \$994 in cash as compared to \$7,443 for the corresponding period in 2010 (December 31, 2010: \$5,073).
- the Company’s GST/HST receivables as at March 31, 2011 were \$1,589 as compared to \$4,847 for the corresponding period in 2010 (December 31, 2010: \$12,394).
- Mineral exploration tax credit receivable as at March 31, 2011 was \$nil as compared to \$1,060 for the corresponding period in 2010 (December 31, 2010: \$nil).

### **Significant Accounting Policies**

The Condensed Interim Financial Statements (Unaudited) have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting which includes the significant accounting policies as described in Note 4 of the Condensed Interim Financial Statements (Unaudited).

### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

### **Trends**

Commodity prices have increased significantly, and should this trend continue then companies such as Kokomo will have difficulty in acquiring mineral properties of merit at reasonable prices.

### **Related Party Transactions**

The Company shares office space with Las Vegas From Home.com Entertainment Inc. (“Las Vegas”), a company related by certain common officers and directors. Effective as of March 1, 2007, Las Vegas invoices the Company \$1,500 plus GST or HST per month for providing office space, telephone and photocopy services, office supplies, reception, accounting, secretarial and other miscellaneous services for as long as such services are required by the Company. As at March 31, 2011, Las Vegas charged the Company for its share of (i) office expenses of \$3,600 (March 31, 2010 - \$3,600); (ii) rent of \$900 (March 31, 2010 - \$900) and (iii) other expenses paid on behalf of the Company of \$nil (March 31, 2010 - \$35);

Las Vegas is related to the Company by virtue of the fact that Las Vegas’ CEO and President, namely Jacob H. Kalpakian, is the Vice-President of the Company, and the Chairman and CFO of Las Vegas namely Bedo H.



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Kalpakian, is the CEO, CFO and President of the Company. Furthermore, Gregory T. McFarlane is a director of both the Company and Las Vegas.

Giyani Gold Corp. (formerly 99 Capital Corporation) (“Giyani”) was related to the Company by virtue of the fact that the Company’s President, CEO and CFO namely Bedo H. Kalpakian, was the Chairman and CFO of Giyani from November 2009 up to June 2010 and the Company’s Vice-President namely Jacob H. Kalpakian was the President and CEO of Giyani from November 2009 up to June 2010. Giyani was charged by the Company for its share of certain expenses paid by the Company on behalf of Giyani of \$nil (March 31, 2010: \$3,175).

Pursuant to the Management Services Agreement with Kalpakian Bros. of B.C. Ltd. dated November 1, 2001, as amended on August 18, 2003 and on July 31, 2005 and pursuant to the Addendum to the Management Services Agreement dated November 1, 2010, the total amount for Management Fees was \$30,000 during the three months period ended March 31, 2011 (March 31, 2010: \$90,000). The principals of Kalpakian Bros. of B.C. Ltd. are Bedo H. Kalpakian and Jacob H. Kalpakian, both of whom are directors and officers of the Company. The Management Services Agreement is renewable on an annual basis, and either party may terminate the Management Services Agreement at anytime by giving three months notice to the other party.

On January 21, 2008, the Company entered into an option agreement for the Extra High Property with Colt (see Mineral Properties – 1. Extra High Property in this MD&A). During 2008, pursuant to the 2008 Option Agreement, Colt exercised the first tranche of the option by making a cash payment of \$250,000 however Colt did not exercise the second tranche of the option.

Colt was previously related to the Company by virtue of the fact that Bedo H. Kalpakian was the President and CEO of Colt and is the President, CEO and CFO of the Company, and Jacob H. Kalpakian was the Vice President and Director of Colt and is the Vice President and Director of the Company. Furthermore, J. Wayne Murton was a former Director of the Company and was also a director of Colt.

In connection with the 2010 non-brokered private placement (see Liquidity and Capital Resources in this MD&A), a total of 3,250,000 Units in the capital of the Company were subscribed for by a company owned by two directors of the Company. As at December 31, 2010, a total of 1,010,000 share purchase warrants at \$0.10 per share were exercised by a company owned by two directors of the Company for total proceeds to the Company of \$101,000.

In connection with the 2009 non-brokered private placement (see Liquidity and Capital Resources in this MD&A), an aggregate of 4,176,333 Units in the capital of the Company were subscribed for by the family of two directors of the Company. In addition, a total of 37,500 Units were subscribed for by an officer of the Company.

### **Financial Instruments**

The Company has classified its cash as held-for-trading; and accounts payable and accrued liabilities and due to related parties, as other financial liabilities.

The carrying values of cash and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these financial instruments. The fair value of due to related parties cannot be reliably measured as there is no market for such instruments.

The Company’s risk exposure and the impact on the Company’s financial instruments are summarized below:

**(a) Credit risk**

Credit risk arises from the non-performance of counterparties of contractual financial obligations.

The Company’s concentration of credit risk and maximum exposure thereto is as follows relating to funds held in Canada:

	March 31, 2011	March 31, 2010
Bank accounts	\$ 994	\$ 7,443

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At March 31, 2011, the Company had accounts payable excluding accrued liabilities of \$58,011 (March 31, 2010 - \$15,829), which are due within 30 days, and amounts payable to related parties of \$102,713 (March 31, 2010 - \$14,903), which are due on demand.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk. The Company is not exposed to foreign currency risk.

(i) Interest rate risk

The Company’s cash consists of cash held in bank accounts earning interest at variable interest rates. Fluctuations in market rates do not have a significant impact on estimated fair values as of March 31, 2011. The Company is not exposed to significant interest rate risk.

(ii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to other price risk.

**Analysis of expenses**

For a breakdown of general and administrative expenditures, please refer to the Company’s Condensed Interim Statement of Comprehensive Loss (Unaudited) for the three month period ended March 31, 2011.

**Disclosure over Internal Controls**

Disclosure controls and procedures (“DC&P”) are designed to provide reasonable assurance that all relevant information is gathered and reported within the time periods required by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting (“ICFR”) are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Venture Issuers are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in National Instrument NI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishments and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded and reported within the time periods specified in securities legislation and (b) a

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process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP. The issuer’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding absence of misrepresentations and fair disclosure of financial information. 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.

**Capital Stock**

**Authorized share capital:** Unlimited number of common shares without nominal or par value  
 Unlimited number of preferred shares without nominal or par value

<b>Outstanding Share Data as of June 24, 2011</b>	<b>No. of Common Shares</b>	<b>No. of Preferred Shares</b>	<b>Exercise Price per Share</b>	<b>Expiry Date</b>
<b>Issued and Outstanding as at June 24, 2011</b>	<b>15,363,278</b>	<b>Nil</b>	<b>N/A</b>	<b>N/A</b>
<b>Warrants as at June 24, 2011</b>	3,667,000 1,140,000 102,000 2,000,000 83,333 440,000 550,000 500,000 2,000,000 500,000 500,000 100,000	<b>Nil</b>	Cdn \$0.10 Cdn \$0.10 Cdn \$0.10 Cdn \$0.10 Cdn \$0.10 Cdn \$0.10 Cdn \$0.10 Cdn \$0.10 Cdn \$0.10 Cdn \$0.10 Cdn \$0.15 Cdn \$0.15 Cdn \$0.15	July 3, 2011 July 29, 2011 Sept 3, 2011 Dec 2/2014 Dec 22/2014 Mar 11/2012 April 16, 2012 May 4, 2012 August 16, 2012 April 1, 2013 April 15, 2013 May 10, 2013
<b>Stock Options as at June 24, 2011</b>	<b>120,000</b>	<b>Nil</b>	<b>Cdn \$0.15</b>	<b>June 1, 2012</b>
<b>Fully Diluted as at June 24, 2011</b>	<b>27,065,611</b>	<b>Nil</b>		

**Basis of Presentation, Adoption of IFRS, and Comparative Figures**

As stated in Note 3 of the Condensed Interim Financial Statements (Unaudited), these are the Company’s first interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS. An explanation of how the transition from previous GAAP to IFRS has affected the Company’s financial position and comprehensive loss is set out in this note.

The accounting policies set out in Note 3 of the Condensed Interim Financial Statements (Unaudited) have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information

presented in these financial statements for the period ended March 31, 2011 and in the preparation of an opening IFRS balance sheet at 1 January 2010 (the Company’s date of transition).

*IFRS 1, “First-time Adoption of International Financial Reporting Standards” (IFRS 1)*

IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle.

The Company has elected under IFRS 1 to not apply IFRS 2 to options that were granted on or before November 7, 2002 or to options that were granted subsequent to November 7, 2002 but vested before the date of transition to IFRS.

#### *Adjustments on transition to IFRS*

IFRS has many similarities to Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regards to recognition, measurement and disclosure. While adoption of IFRS did not change the Company’s actual cash flows, it resulted in changes to the Company’s balance sheet, statement of comprehensive loss and statement of shareholders’ equity as set out below:

#### (a) Share options

On transition to IFRS the Company changed its accounting policy for the treatment of share-based payments whereby amounts recorded in contributed surplus for unexercised share options are transferred to deficit upon their expiration. Previously, the Company’s Canadian GAAP policy was to leave such amounts in contributed surplus.

- (i) As of January 1, 2010, \$213,850 of contributed surplus related to options that were no longer outstanding as of that date and, therefore, the \$213,850 related to the expired options, has been transferred from contributed surplus to deficit.
- (ii) During the three months ended March 31, 2010, 10,000 options expired and the carrying balance of \$12,250 in contributed surplus has been transferred to deficit. The cumulative amount, including the adjustment as of January 1, 2010, transferred to deficit is \$226,100.
- (iii) In the fourth quarter of the year ended December 31, 2010, 4,000 options expired and the carrying balance of \$4,900 in contributed surplus has been transferred to deficit. The cumulative amount, including January 1, 2010, and the three months period ended March 31, 2010 adjustments, transferred to deficit is \$231,000.

#### (b) Warrants

The Company has changed its accounting policy for the treatment of unit offerings to the residual value method, whereby proceeds exceeding the fair value of the common shares are allocated to the share purchase warrants. Previously, the Company’s Canadian GAAP policy was to allocate proceeds based on the relative fair value method.

During the year ended December 31, 2009, the Company issued 7,325,333 units that consisted of one common share and one common share purchase warrant. Under Canadian GAAP, \$182,294 was allocated to the warrants based on the relative fair value method. As a result of the change to the residual value method, \$150,410 has been re-allocated from warrants to capital stock effective January 1, 2010.

- (i) During the three months ended March 31, 2010, the Company issued 1,450,000 units with \$19,453 of proceeds being allocated to the warrants under Canadian GAAP. Under the residual value method, the warrants would have a fair value of \$nil and, therefore, the \$19,453 has been re-allocated from warrants to capital stock. The cumulative adjustment, including the January 1, 2010 adjustment, is \$169,863.
- (ii) During the second quarter and up to the fourth quarter of the year ended December 31, 2010, warrants were issued by the Company in conjunction with unit offerings and under Canadian GAAP, \$69,733 of proceeds was allocated to warrants. Under the residual value method, the warrants would have a \$nil value and, therefore, the \$69,733 has been re-allocated from warrants to capital stock. In addition, a total of \$20,541 was transferred to capital stock from warrants on the exercise of warrants during the year ended December 31, 2010 under Canadian GAAP. Using the residual value method, those warrants would have had a carrying value of \$nil. Therefore the net re-allocation from warrants to capital stock is \$49,192. The cumulative effect of the adjustments from January 1, 2010 to December 31, 2010 total \$219,055.

***Reconciliation of Assets, Liabilities and Equity***

The table below provides a summary of the adjustments to the Company’s balance sheets at December 31, 2010, March 31, 2010 and January 1, 2010:

	<b>December 31, 2010</b>	<b>March 31, 2010</b>	<b>January 1, 2010</b>
<b>Total Assets per Canadian GAAP</b>	\$ 168,807	\$ 164,427	\$ 162,205
Adjustments required on adoption of IFRS	0	0	0
<b>Total Assets per IFRS</b>	\$ 168,807	\$ 164,427	\$ 162,205
<b>Total Liabilities under Canadian GAAP</b>	\$ 135,443	\$ 52,132	\$ 51,741
Adjustments required on adoption of IFRS	0	0	0
<b>Total Liabilities under IFRS</b>	135,443	52,132	51,741
<b>Shareholders’ Equity</b>			
<b>Total Equity under Canadian GAAP</b>	33,364	112,295	110,464
Adjustments required on adoption of IFRS			
Capital stock	219,055	169,863	150,410
Warrants	(219,055)	(169,863)	(150,410)
Contributed surplus	(231,000)	(226,100)	(213,850)
Deficit	231,000	226,100	213,850
<b>Total Equity under IFRS</b>	33,364	112,295	110,464
<b>Total Liabilities and Equity under IFRS</b>	\$ 168,807	\$ 164,427	\$ 162,205

***Reconciliation of Net Income and Comprehensive Income***

The table below provides a summary of the adjustments to net income for the year ended December 31, 2010 and for the three months ended March 31, 2010:

	<b>December 31, 2010</b>	<b>March 31, 2010</b>
<b>Net Loss and Comprehensive Loss per Canadian GAAP</b>	\$ (451,400)	\$ (109,169)
Adjustments required on adoption of IFRS	0	0
<b>Net Loss and Comprehensive Loss per IFRS</b>	<b>\$ (451,400)</b>	<b>\$ (109,169)</b>

***Reconciliation of Cash Flow***

The table below provides a summary of the adjustments to cash flow for the year ended December 31, 2010 and for the three months ended March 31, 2010:

	<b>December 31, 2010</b>	<b>March 31, 2010</b>
<b>Operating Activities per Canadian GAAP</b>	\$ (375,182)	\$ (108,715)
Adjustments required on adoption of IFRS	0	0
<b>Operating Activities per IFRS</b>	<b>\$ (375,182)</b>	<b>\$ (108,715)</b>
<b>Investing Activities per Canadian GAAP</b>	\$ 797	\$ 0
Adjustments required on adoption of IFRS	0	0
<b>Investing Activities per IFRS</b>	<b>\$ 797</b>	<b>\$ 0</b>
<b>Financing Activities per Canadian GAAP</b>	\$ 374,300	\$ 111,000
Adjustments required on adoption of IFRS	0	0
<b>Financing Activities per IFRS</b>	<b>\$ 374,300</b>	<b>\$ 111,000</b>

**Outlook**

Management is anxiously awaiting to receive from Wardrop the technical report which is presently being prepared by Wardrop in accordance with NI 43-101 in respect to Arqueana’s assets. It is expected that this technical report shall be completed sometime during August 2011.