

INDICO RESOURCES LTD
(An Exploration Stage Company)

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

August 31, 2008

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INDICO RESOURCES LTD
BALANCE SHEETS
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

	August 31, 2008	May 31, 2008
		(Unaudited)
ASSETS		
Current		
Cash	\$ 958,892	\$ 600,738
Prepaid expenses	19,082	30,842
Investment held for trading (Note 5)	8,974	8,077
	986,948	639,657
Equipment (Note 4)	-	-
Resource properties (Note 6)	660,000	-
	\$ 1,646,948	\$ 639,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 30,673	\$ 77,756
Shareholders' equity		
Capital stock (Note 7)	316,677	301,787
Contributed surplus (Note 7)	14,815,796	13,609,271
Deficit	(13,516,198)	(13,349,157)
	1,616,275	561,901
	\$ 1,646,948	\$ 639,657

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 12)

On behalf of the Board:

Leonard Harris (signed) Director
Leonard Harris

Michael Kinley (signed) Director
Michael Kinley

The accompanying notes are an integral part of these financial statements.

INDICO RESOURCES LTD
(An Exploration Stage Company)
STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)
THREE MONTH PERIOD ENDED AUGUST 31

	2008	2007
Expenses		
Accounting and auditing	\$ 7,898	\$ 5,942
Administration (Note 9)	2,284	6,175
Amortization	-	264
Bank charges and interest	196	474
Consulting (Note 9)	124,504	32,765
Investor relations (Note 9)	34,058	17,084
Legal	3,352	2,912
Listing and filing fees	3,082	938
Office	688	2,240
Property investigations	-	37,227
Rent	1,292	1,542
Telecommunications	-	1,436
Travel	391	6,173
Loss Before Other Items	(177,745)	(115,172)
Other Items		
Interest income	2,770	3,186
Foreign exchange gain	7,037	722
Unrealized gain on held for trading investment (note 5)	897	-
	10,704	3,908
Net Loss and Comprehensive Loss for the Period	(167,041)	(111,264)
Deficit, Beginning of Period	\$ (13,349,157)	\$ (12,505,892)
Deficit, End of Period	(13,516,198)	(12,617,156)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding	9,048,535	6,551,396

The accompanying notes are an integral part of these financial statements.

INDICO RESOURCES LTD
(An Exploration Stage Company)
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)
THREE MONTH PERIOD ENDED AUGUST 31

	2008	2007
CASH PROVIDED BY (USED IN):		
Operating Activities		
Net loss for the period	\$ (167,041)	\$ (111,264)
Items not affecting cash:		
Amortization	-	264
Unrealized gain on held for trading investment	(897)	-
Stock based compensation	96,843	-
Changes in non-cash working capital items:		
Prepaid expenses	11,760	(1,806)
Accounts payable and accrued liabilities	(47,083)	(27,433)
Cash used in operating activities	(106,418)	(140,239)
Investing Activities		
Resource property expenditures	-	-
Cash used in investing activities	-	-
Financing Activities		
Proceeds from common shares issued	464,572	-
Cash provided by financing activities	464,572	-
Increase (decrease) in cash during the period	358,154	(140,239)
Cash, beginning of period	600,738	551,635
Cash, end of period	\$ 958,892	\$ 441,396

Supplemental disclosure with respect to cash flows (Note 10)

The accompanying notes are an integral part of these financial statements.

INDICO RESOURCES LTD
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2008 and 2007

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was originally incorporated under the laws of Alberta and was previously engaged in the medical technology industry. The Company discontinued in Alberta in fiscal 2002 and continued to Bermuda. The Company abandoned its remaining inactive wholly owned subsidiary in September, 2002. The Company applied to the TSX Venture Exchange (the "Exchange") for a change of business to that of a Tier 2 mining issuer, including a change of the Company's name to Indico Resources Ltd, which received final acceptance effective September 1, 2006. On June 22, 2006, the Company was extra-provincially registered in the Province of British Columbia under the Business Corporation Act.

These financial statements are presented on the basis that the Company is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business over a reasonable length of time. The Company has incurred operating losses since its inception and no recurring sources of revenue. These conditions raise substantial doubt as to the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon the raising of additional financing, if, as, and when required, and, ultimately, the attainment of profitable operations. There are no assurances, however, with respect to the future success of these plans. The financial statements do not contain any adjustments, which might be necessary, if the Company is unable to continue as a going concern.

Unless otherwise indicated, amounts provided in these notes to the financial statements pertain to continuing operations.

	August 31, 2008	May 31, 2008
Deficit	\$ 13,516,198	\$ 13,349,157
Working capital	956,275	561,901

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company are prepared in accordance with accounting principles generally accepted in Canada and applied on a consistent basis. A summary of the Company's significant policies is set out below:

Cash

Cash is deposited with high credit quality financial institutions where there is minimal risk.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equipment and amortization

Computer equipment is recorded at cost and is being amortized over its estimated useful life using the declining balance method at the annual rate of 30%.

INDICO RESOURCES LTD
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Investments

Investments are classified as held for trading and are carried at quoted market value where applicable or at an estimate of fair value. Resulting realized and unrealized gains or losses, net of applicable income taxes, are included in operations.

Resource properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

If a project is unsuccessful, or if exploration ceases because continuation is not economically feasible, the capitalized costs are written off.

All capitalized costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

Capitalized costs are depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the applicable mineral rights are allowed to lapse.

Title to mineral properties involves inherent risk due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently unreliable conveyance of historical characteristics of many mineral properties. The Company has investigated title to all of its mineral properties and to the best of its knowledge all of its properties are in good standing.

Asset retirement obligations

The Company has applied the recommendations of the CICA Handbook Section 3110, "Asset Retirement Obligations", which requires that the fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. A corresponding increase in the carrying amount of the related assets is generally recorded and depreciated over the life of the asset. The amount of liability is subject to re-measurement at each reporting period. The Company has no material reclamation obligation with respect to its properties.

Foreign currency translation

Transactions that are denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains and losses arising on the translation are included in the Statement of Operations.

INDICO RESOURCES LTD
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(Expressed in Canadian Dollars)
August 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Stock-based compensation

Stock options awarded to employees and non-employees are measured and recognized in the statement of operations and deficit or added to mineral properties at the fair value of the award. The fair value of all forms of stock based compensation is charged to the consolidated statement of operations and deficit or capitalized to mineral properties over the vesting period of the options granted.

Income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Capital Disclosures

In February 2007, the Canadian Institute of Chartered Accountants' ("CICA") issued Handbook Section 1535, "Capital Disclosures", which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and procedures for managing capital. The new section is effective for years beginning on or after October 1, 2007. Other than the additional disclosure in Note 11, the adoption of this Section has had no impact on the Company's consolidated financial statements.

Financial Instruments

Effective June 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' ("CICA") under Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories; held-for-trading, held-to-maturity investments, loans and receivables, available-for sale assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is de-recognized or impaired. Any changes to the fair values of assets and liabilities prior to June 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Financial instruments not classified as held-to-maturity or as trading are classified as available-for-sale. Receivables are classified as loans and receivables, and accounts payable and accrued liabilities and due to related parties are classified as other liabilities, all of which are measured at amortized cost. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale.

On the date of adoption, the Company re-measured its financial assets and liabilities as appropriate. There was no impact on the financial statements arising from the adoption of the standard and, accordingly, prior period financial statements have not been restated.

Future accounting changes

i) Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". These sections establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new sections are effective for years beginning on or after October 1, 2008. The Company has concluded that the adoption of this policy has no impact on its financial statements.

ii) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles ("GAAP") with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the years ended December 31, 2010 and earlier where applicable. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. To date, this calculation has proved to be anti-dilutive. Basic loss per share is calculated using the weighted-average number of shares outstanding during the period.

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3. FINANCIAL INSTRUMENTS

Fair value

The carrying values of cash, investments held for trading, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments. The investment is carried at quoted market value.

Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

Credit risk

The Company is exposed to very little credit risk as cash is on deposit with a major Canadian financial institution.

Translation risk

The Company translates the results of transactions in foreign currencies into Canadian currency using the method described in Note 2. Translation risk is not considered to be material to the Company's overall operations.

4. EQUIPMENT

	August 31, 2008			May 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture & equipment	\$ 8,642	\$ 8,642	\$ -	\$ 8,642	\$ 8,642	\$ -
Computer equipment	1,357	1,357	-	1,357	1,357	-
Total equipment	\$ 9,999	\$ 9,999	\$ -	\$ 9,999	\$ 9,999	\$ -

At May 31, 2008, the Company wrote off the value of the computer. All other fixed assets have been fully depreciated.

5. INVESTMENTS

	August 31, 2008			May 31, 2008		
	Carrying amount	Fair value (a)	Number of shares held	Carrying amount	Fair value (a)	Number of shares held
Clearant Inc.	\$ 1	\$ 8,974	44,871	\$ 1	\$ 8,077	44,871

(a) Based upon closing price of US\$0.20 (2007-US\$0.042) on the OTCBB.

A reverse stock split of the common stock of Clearant occurred effective as of the close of business on August 23, 2007. Each fourteen shares of common stock of Clearant issued and outstanding was converted into one share of Clearant common stock. Due to fractional shares of post-split Clearant common stock being rounded up to the nearest whole share, the Company now holds 44,871 shares of Clearant common stock.

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5. INVESTMENTS (cont'd...)

Pursuant to the change in accounting policy (note 2), the carrying value of the investment was increased to fair value at June 1, 2007 with the corresponding increase reflected in an adjustment to deficit. Fair value adjustments for the period ended August 31, 2008 amounted to an unrealized gain of \$897.

6. RESOURCE PROPERTIES

The Company incurred acquisition and exploration expenditures on its resource properties as follows:

	August 31, 2008	May 31, 2008
Opening balance:	\$ -	\$ 199,518
Acquisition costs		
Cash payments	-	65,000
Common shares issued	660,000	30,000
	<u>660,000</u>	<u>95,000</u>
Total expenditures	<u>660,000</u>	<u>95,000</u>
Write off of mineral property	-	(294,518)
Ending balance	\$ 660,000	\$ -

Metla claims, Atlin Mining Division, British Columbia

Pursuant to an option agreement dated March 9, 2006, the Company may acquire a 100% interest in certain mining claims located in the Atlin mining division, British Columbia (the "Metla Claims"), subject to a 2% net smelter return royalty. The property is comprised of 9 mineral claims which expire on June 14, 2009.

Under the terms of the option agreement, the Company has the option to acquire a 100-per-cent interest in the claims in exchange for the payment to the vendors of \$80,000 and the issuance to the vendors of 400,000 common shares of the Company as follows:

- a) Payment of \$20,000 (paid) and the issuance of 100,000 common shares (issued) within 10 days of regulatory approval (received September 1, 2006)
- b) Payment of \$20,000 (paid) and the issuance of 100,000 common shares (issued) on September 20, 2007.
- c) Payment of \$20,000 and the issuance of 100,000 common shares on September 1, 2008 and on September 1, 2009 respectively.

Under the terms of the option agreement, the Company is obligated to pay the vendors \$45,000 upon termination of the option agreement. This agreement was terminated on May 31, 2008. The termination fee was accrued at that time and was subsequently paid (June 4, 2008). The property was written off as at May 31, 2008.

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6. RESOURCE PROPERTIES (cont'd...)

Argentinean Oil and Gas Joint Venture, Salta Province, Argentina

On November 1, 2007, the Company entered into an assignment agreement for a 18% carried interest in two exploitation concessions located in Argentina for the purpose of exploring and developing hydrocarbons in exchange for the issuance of 7,000,000 Indico common shares payable, subject to TSX Venture Exchange acceptance, (received July 3, 2008) as follows:

- a) Issuance of 1,000,000 common shares by January 1, 2008, (issued July 25, 2008),
- b) Issuance of 6,000,000 common shares in the event of a commercial oil and gas well being completed within 60 days of such commercial well completion of 2,000,000 shares issued for each \$7,000,000 of oil and gas exploration expenditures incurred on the Concessions, to a maximum of 6,000,000 shares.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Contributed Surplus	Capital Stock
Authorized			
100,000,000 voting common shares with a par value of \$0.01 per share.			
100,000,000 preferred shares, issuable in series, with a par value of \$0.001 per share			
The Directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares.			
Common shares issued			
Balance, May 31, 2007	6,551,396	12,926,254	284,703
Shares issued for property acquisition	100,000	29,000	1,000
Shares issued for exercise of stock options	50,000	22,000	500
Shares issued for exercise of warrants	1,558,333	489,833	15,584
Stock-based compensation	-	142,184	-
Balance, May 31, 2008	8,259,729	\$ 13,609,271	\$ 301,787
Shares issued for property acquisition	1,000,000	650,000	10,000
Shares issued for exercise of warrants	489,023	459,682	4,890
Stock-based compensation	-	96,843	-
Balance, August 31, 2008	9,748,752	\$ 14,815,796	\$ 316,677

INDICO RESOURCES LTD
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NOTES TO THE FINANCIAL STATEMENTS
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Private Placements

On March 9, 2006, the Company completed a non-brokered private placement consisting of 2,500,000 units at a price of \$0.22 per unit for total proceeds of \$550,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.30 for a period of two years. Finder's fees of 36,667 shares (issued) and \$11,000 were paid. During the year ended May 31, 2008, 1,500,000 warrants were exercised and 1,000,000 warrants expired.

On June 23, 2006, the Company completed a non-brokered private placement consisting of 1,234,836 units at a price of \$0.61 per unit for total proceeds of \$753,250. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.95 for a period of two years. There was no finder's fee payable in connection with this private placement. In the event that the closing price of the Company's common shares on the TSX Venture Exchange is greater than \$1.90 for 10 consecutive trading days, the Company may, by providing written notice to the warrant holders accelerate the expiry date of the warrants to the date that is 30 days from the date such written notice is mailed to the holder. During the year ended May 31, 2008, 58,333 warrants were exercised. During the period ended August 31, 2008 489,023 warrants were exercised for a value of \$464,572. An additional 687,480 warrants expired unexercised, following which, the Company had no outstanding warrants.

Stock Options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

On November 16, 2006, the Company granted 325,000 stock options to directors of the Company. The options are exercisable at a price of \$0.45 per share and can be exercised for a period of two years. During the year ended May 31, 2007, stock-based compensation of \$149,584 was incurred. During the year ended May 31, 2008, 50,000 options were exercised and 125,000 options expired.

On February 22, 2008, the Company granted 225,000 stock options to directors and consultants of the Company. The options are exercisable at a price of \$1.05 per share and can be exercised for a period of two years. During the year ended May 31, 2008, stock-based compensation of \$142,184 was incurred.

On July 28, 2008, the Company granted 350,000 stock options to directors and consultants of the Company. The options are exercisable at a price of \$0.66 per share and can be exercised for a period of two years. During the period ended August 31, 2008, stock-based compensation of \$96,843 was incurred.

The Company uses the fair value method for determining compensation expense for options granted. The fair values were determined using the Black-Scholes option pricing model based on the following assumptions.

	July 28, 2008	February 22, 2008	November 16, 2006
Expected life (years)	2.0	2.0	2.0
Risk free interest rate	3.06	3.14%	4.0%
Volatility	120.52	116.29%	186.1%
Dividend yield	0.0%	0.0%	0.0%

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, May 31, 2007	347,500	0.73
Options expired	(147,500)	1.11
Options exercised	(50,000)	0.45
Options granted: February 22, 2008	225,000	1.05
Balance, May 31, 2008	375,000	0.81
Options granted: July 28, 2008	350,000	0.66
Balance, August 31, 2008	725,000	0.74
Number of options currently exercisable	612,500	\$ 0.75

At August 31, 2008, incentive stock options were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
	150,000	\$0.45	November 16, 2008
	225,000	\$1.05	February 28, 2010
	350,000	\$0.66	July 28, 2010
	725,000		

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Exercise Price
Balance, May 31, 2007	3,734,836	0.51
Warrants exercised	(58,333)	(0.95)
Warrants exercised	(1,500,000)	(0.30)
Warrants expired	(1,000,000)	(0.30)
Balance, May 31, 2008	1,176,503	0.54
Warrants exercised	(489,023)	(0.95)
Warrants expired	(687,480)	(0.95)
Balance, August 31, 2008	-	\$ -

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Shareholder Rights Plan

The Company has adopted a shareholder rights plan whereby the Board of Directors authorized the issuance of (1) one right in respect to each common share outstanding on January 14, 2002 and (ii) one right in respect to each common share issued after January 14, 2002 and prior to the earlier of the Separation Time and January 14, 2006. The Separation Time is the eighth trading day after the earlier of (i) the first public announcement of beneficial ownership of 20% or more of the outstanding common shares of the Company and (ii) the commencement of a take-over bid. Each right entitles the holder, after the Separation Time, to purchase a common share of the Company at an exercise price of \$15. Subject to certain conditions, the rights may be redeemed by the Company at a redemption price of \$0.0001 per right.

8. INCOME TAXES

Bermuda

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2016.

Canada

The Company commenced residency for Canadian income tax purposes effective June 1, 2006. A reconciliation of income taxes at Canadian statutory rates (32.21%; 2007 – 34.10%) is as follows for the period ended August 31:

	2008	2007
Loss before income tax expense	\$ (167,041)	\$ (111,264)
Expected income tax recovery	\$ (53,804)	\$ (37,941)
Effect of tax rate changes	3,157	-
Items not recognized for income tax purposes	30,904	-
Other timing differences	-	90
Unrecognized benefit of non-capital losses	19,743	37,851
	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	2008	May 31, 2008
		(audited)
Future income tax assets:		
Net operating loss carry-forwards	\$ 260,016	\$ 241,332
Mineral properties	286,355	88,355
Equipment	1,244	1,244
	547,615	330,931
Valuation allowance	(547,615)	(330,931)
Net future income tax assets	\$ -	\$ -

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8. INCOME TAXES (cont'd...)

The Company has not recorded the potential future income tax benefits of non-capital losses totaling approximately \$867,000 (May 31, 2008 - \$804,000) which, if not used, will expire through to 2028. Subject to certain restrictions, the Company has further resource deductions totaling approximately \$954,518 (May 31, 2008 - \$294,518) available to reduce taxable income of future years. Future tax benefits which may arise as a result of these losses and resource deductions have been offset by a valuation allowance and have not been recognized in these financial statements.

9. RELATED PARTY TRANSACTIONS

These financial statements include transactions with related parties in addition to those disclosed elsewhere as follows:

- a) The Company paid consulting fees of \$77,728 (2007 - \$32,765) to directors of the Company. Included in these fees are stock-based compensation of \$40,776(2007 - \$nil).
- b) The Company paid directors fees of \$26,388 (2007 – \$nil) to a director of the Company which includes stock-based compensation of \$20,388 (2007 - \$nil).
- c) The Company paid rent and administration fees of \$3,575 (2007 - \$1,542) to Cardero Resource Corp., a public company related by common directors. The Company also reimbursed administrative expenses to a former director totalling \$nil (2007 \$6,175).

Included in accounts payable is \$3,562 (2007-\$992) due to a director and an officer or a company with a common director or officer.

The transactions were in the normal course of operations and were measured at the exchange amount which represented the amount of consideration established and agreed to by the related parties.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	August 31, 2008	August 31, 2007
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -
Cost of shares issued for resource property acquisition	\$ 660,000	-
Shares issued for share issuance cost	\$ -	\$ -

11. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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11. CAPITAL MANAGEMENT (cont'd...)

The Company currently has no source of revenues; as such the Company is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended May 31, 2008. The Company is not subject to externally imposed capital requirements.

12. COMMITMENTS AND CONTINGENCIES

The Company has entered into a month to month office lease arrangement with no annual lease commitments.

The Company has also entered into an agreement with its president in which a monthly remuneration of US\$7,000 is paid for consulting services for a period of one year.