

INDICO RESOURCES LTD
(An Exploration Stage Company)

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

May 31, 2009 and 2008

INDICO RESOURCES LTD
(An Exploration Stage Company)

Financial Statements
May 31, 2009

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STS PARTNERS LLP
CHARTERED ACCOUNTANTS

AUDITOR'S REPORT

To the Shareholders of Indico Resources Ltd.
(An Exploration Stage Company)

We have audited the balance sheets of Indico Resources Ltd. (an exploration stage company) as at May 31, 2009 and 2008 and the statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at May 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, British Columbia
September 25, 2009

STS PARTNERS LLP

Chartered Accountants

INDICO RESOURCES LTD
BALANCE SHEETS
(Expressed in Canadian Dollars)
AS AT MAY 31

	2009	2008
ASSETS		
Current		
Cash	\$ 483,425	\$ 600,738
Prepaid expenses	4,609	30,842
Investment held for trading (note 5)	1,518	8,077
	489,552	639,657
Leasehold improvements (note 4)	14,989	-
Resource properties (note 6)	-	-
	\$ 504,541	\$ 639,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (note 9)	\$ 26,828	\$ 77,756
Shareholders' equity		
Share capital (note 7)	316,677	301,787
Contributed surplus (note 7)	14,861,667	13,609,271
Deficit	(14,700,631)	(13,349,157)
	477,713	561,901
	\$ 504,541	\$ 639,657

Nature and continuance of operations (note 1)

Commitments and contingencies (note 12)

Subsequent event (note 13)

On behalf of the Board:

Leonard Harris (signed) Director
Leonard Harris

Michael Kinley (signed) Director
Michael Kinley

INDICO RESOURCES LTD

(An Exploration Stage Company)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

YEARS ENDED MAY 31

	2009	2008
Expenses		
Accounting and auditing	\$ 37,448	\$ 64,687
Administration (note 9)	5,578	12,049
Amortization	2,925	735
Bank charges and interest	1,230	1,318
Consulting (note 9)	390,233	249,260
Investor relations (note 9)	141,099	48,361
Legal	30,748	50,158
Listing and filing fees	27,781	61,409
Office	16,290	10,372
Property investigations	-	48,876
Rent	13,139	5,617
Telecommunications	4,582	1,990
Travel	35,798	11,667
Loss Before Other Items	(706,851)	(566,499)
Other Items		
Interest income	4,807	10,642
Foreign exchange gain	17,128	1,823
Unrealized loss on held for trading investment (note 5)	(6,558)	(18,799)
Write off of fixed assets	-	(2,789)
Write off of resource property (notes 6 and 13)	(660,000)	(294,518)
	(644,623)	(303,641)
Net Loss and Comprehensive Loss for the Year	(1,351,474)	(870,140)
Basic and diluted loss per common share	\$ (0.14)	\$ (0.11)
Weighted average number of common shares outstanding	9,572,259	7,059,069

INDICO RESOURCES LTD
(An Exploration Stage Company)
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
YEARS ENDED MAY 31

	2009	2008
Operating Activities		
Net loss for the year	\$ (1,351,474)	\$ (870,140)
Items not affecting cash:		
Amortization	2,925	735
Unrealized loss on held for trading investment	6,558	18,799
Stock based compensation	142,714	142,184
Write off of resource property	660,000	249,518
Write off of fixed assets		2,789
	(539,277)	(456,115)
Changes in non-cash working capital items:		
Prepaid expenses	26,233	(28,687)
Accounts payable and accrued liabilities	(50,927)	25,989
Cash Used in Operating Activities	(563,971)	(458,813)
Investing Activities		
Leasehold expenditures	(17,914)	-
Resource property expenditures	-	(20,000)
Cash Used in Investing Activities	(17,914)	(20,000)
Financing Activities		
Proceeds from common shares issued	464,572	527,916
Cash Provided by Financing Activities	464,572	227,916
(Decrease) increase in cash during the year	(117,313)	49,103
Cash, beginning of year	600,738	551,635
Cash, end of year	\$ 483,425	\$ 600,738

Supplemental disclosure with respect to cash flows (Note 10)

INDICO RESOURCES LTD
(An Exploration Stage Company)
STATEMENTS OF SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)
MAY 31, 2009

	Number of Shares	Common Shares Issued and Fully Paid	Contributed Surplus	Deficit Accumulated During Exploration Stage	Total
Balance: May 31, 2007	6,551,396	\$ 284,703	\$ 12,926,254	\$ (12,505,892)	\$ 705,065
Issuance of shares for cash:					
Exercise of warrants	1,558,333	15,584	489,833	-	505,417
Exercise of options	50,000	500	22,000	-	22,500
Shares issued for property	100,000	1,000	29,000	-	30,000
Stock-based compensation (note 7)		-	142,184	-	142,184
Change in accounting policy (note 2)		-	-	26,875	26,875
Net loss for the year		-	-	(870,140)	(870,140)
Balance: May 31, 2008	8,259,729	301,787	13,609,271	(13,349,157)	561,901
Issuance of shares for cash:					
Exercise of warrants	489,023	4,890	459,682	-	464,572
Shares issued for property (notes 6, 9 and 13)	1,000,000	10,000	650,000	-	660,000
Stock-based compensation (note 7)		-	142,714	-	142,714
Net loss for the year		-	-	(1,351,474)	(1,351,474)
Balance: May 31, 2009	9,748,752	\$ 316,677	\$ 14,841,667	\$ (14,700,631)	\$ 477,713

INDICO RESOURCES LTD
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
May 31, 2009 and 2008

1. NATURE OF OPERATIONS AND GOING CONCERN

The principal business activity of Indico Resources Ltd. (the “Company”) is the exploration for and development of petroleum and natural gas (“P&NG”) properties, primarily in Argentina. Previously registered in Bermuda, the Company was extra-provincially registered in the Province of British Columbia under the Business Corporation Act on June 22, 2006. Shareholders of the Company approved a change of domicile from Bermuda to British Columbia by way of a continuance under the Business Corporations Act (British Columbia) at the annual general meeting held on February 17, 2009. The Company is an exploration stage company.

These consolidated financial statements were prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Several adverse conditions cast substantial doubt on the validity of this assumption. The Company has incurred significant operating losses over the past fiscal years (2009 - \$1,351,474; 2008 - \$870,140), is currently unable to self-finance operations, has working capital of \$462,724 (2008 - \$561,901), a deficit of \$14,700,631 (2008 - \$13,349,157), limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property projects.

The Company does not generate sufficient cash flow from operations to adequately fund its activities and has therefore relied principally upon the issuance of securities for financing. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Although these consolidated financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation would have a material adverse effect on the Company's business, results of operations and financial condition.

The business of oil and natural gas exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its petroleum property interests. The recoverability of amounts shown for properties is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash

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

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Accounts specifically requiring the use of management's best estimates and assumptions in determining carrying values are accounts receivable, long-term asset, amortization rate of equipment, accounts payable and accrued liabilities, the carrying value of resource properties, asset retirement obligations and reclamation costs, the variables used in the calculation of stock-based compensation and the effects of future income taxes.

INDICO RESOURCES LTD
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NOTES TO THE FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Leasehold improvements

Leasehold improvements are recorded at cost and are amortized over 4 years, being the term of the underlying lease, using the straight line method.

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.

P&NG properties

The Company follows the Canadian full cost method of accounting whereby all costs relating to the exploration for, and development of, P&NG properties are capitalized into a single cost centre. Such costs include lease acquisitions, geological and geophysical surveys, drilling and completion, both tangible and intangible, and production facility costs and overheads related to exploration and development activities. Substantially all of the Company's oil activities are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities. Proceed received on the sale of property interests are deducted from the full cost pool without recognition of a gain or loss, unless such a disposition would alter the rate of depletion and depreciation by 20% or more.

Depletion and depreciation

Depletion of P&NG properties and depreciation of production equipment and facilities is calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by independent engineers. For purposes of the calculation, P&NG reserves and production are converted to equivalent volumes based upon relative energy content whereby one barrel of oil equals six thousand cubic feet of natural gas. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the cost of undeveloped properties until it is determined that proved reserves are attributable to the property or impairment has occurred.

Ceiling test

The Company performs a ceiling test calculation annually to determine the recoverability of its P&NG properties. The carrying value is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows based on expected prices. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments. The cash flows are estimated using expected future prices and costs and are discounted using a credit adjusted risk-free interest rate.

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived assets is increased by the same amount as the liability.

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

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.

Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the option is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached, or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are exercised, the applicable amounts from contributed surplus are transferred to capital stock.

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 financial statements.

Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. 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 calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

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

Financial instruments and comprehensive income

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from operations calculated in accordance with Canadian GAAP. Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

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

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

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.

iii) Business combinations

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary.

Section 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new section apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

iv) Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, consolidated financial statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

v) Non controlling interests

In January 2009, the CICA issued Handbook Section 1602, Non-controlling interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

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3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet commitments. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company normally maintains sufficient cash and cash equivalents to meet the Company's business requirements.

(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.

i. 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.

ii. Foreign currency 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.

iii. Other price risk

Other price risk is the risk that the fair 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 exchange risk. The Company's investments are carried at market value, and are therefore directly affected by fluctuations in the market value of the underlying securities.

4. LEASEHOLD IMPROVEMENTS

	May 31, 2009			May 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Leasehold Improvements	\$ 17,914	\$ 2,925	\$ 14,989	\$ -	\$ -	\$ -

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5. INVESTMENTS

Investment held for trading

	May 31, 2009			May 31, 2008		
	Carrying amount	Fair value (a)	Number of shares held	Carrying amount	Fair value (a)	Number of shares held
Clearant Inc.	\$ 1	\$ 1,518	44,871	\$ 1	\$ 8,077	44,871

(a) Based upon closing price of US\$0.03,(2008-US\$0.18) on the OTCBB.

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 amounted to an unrealized loss of \$6,558 (2008 - \$18,799).

6. RESOURCE PROPERTIES

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

	May 31, 2009	May 31, 2008
Opening balance:	\$ -	\$ 199,518
Acquisition costs		
Cash payments	-	65,000
Common shares issued	660,000	30,000
	660,000	95,000
Total expenditures	660,000	95,000
Write off of resource property	(660,000)	(294,518)
Ending balance	\$ -	\$ -

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 would 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:

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

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

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.

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 common shares payable, subject to TSX Venture Exchange acceptance, (received July 3, 2008) as follows:

- a) 1,000,000 common shares by January 1, 2008, (issued July 25, 2008) and valued at \$660,000, following which the property vendor became a related party; and
- b) 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.

The Agreement provided that the Company could elect not to issue any of the 6,000,000 shares but would forfeit its interest. The Company has elected not to proceed with the assignment due to the unsatisfactory results of its due diligence procedures and therefore no further shares will be issued. The property was written off as at May 31, 2009 resulting in a charge to operations of \$660,000 (see note 13).

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

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, none issued

The Directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares. Shareholders have approved an increase and change to the Company's authorized capital to an unlimited number of common shares of no par value, subject to the Company's continuation under the Business Corporations Act (British Columbia) (Note 1).

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

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

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 (the "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. During the year ended May 31, 2009, the remaining 150,000 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. During the year ended May 31, 2009 no stock options were exercised.

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 year ended May 31, 2009, stock-based compensation of \$142,714 was incurred. During the year ended May 31, 2009 no stock options were exercised.

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
Options expired	(150,000)	0.45
Balance outstanding and exercisable, May 31, 2009	575,000	\$ 0.81

At May 31, 2009, incentive stock options were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
	225,000	\$1.05	February 28, 2010
	350,000	\$0.66	July 28, 2010
	575,000		

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, May 31, 2009	-	\$ -

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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 (Note 13).

Canada

The Company commenced residency for Canadian income tax purposes effective June 1, 2006. A reconciliation of income taxes at Canadian statutory rates (33.45%; 2008 – 34.12%) is as follows for the year ended May 31:

	2009	2008
Loss before income tax expense	\$ 1,351,474	\$ 870,140
Expected income tax recovery	\$ (452,068)	\$ (291,062)
Effect of tax rate changes	9,055	5,656
Items not recognized for income tax purposes	49,931	53,849
Resource property write-down	220,770	-
Other timing differences	982	251
Unrecognized benefit of non-capital losses	171,330	131,862
	\$ -	\$ -

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

	2009	2008
Future income tax assets:		
Net operating loss carry-forwards	\$ 372,119	\$ 241,332
Resource properties	267,265	88,355
Equipment	1,980	1,244
	641,364	330,931
Valuation allowance	(641,364)	(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 \$1,329,000 (May 31, 2008 - \$804,000) which, if not used, will expire through to 2029. 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 \$335,651 (2008 - \$168,268) to directors and an officer of the Company. Included in these fees are stock-based compensation of \$50,970 (2008 - \$31,597).
- b) The Company paid directors fees of \$44,388 (2008 - \$65,193) to a director of the Company which includes stock-based compensation of \$20,388 (2008 - \$63,193).
- c) The Company paid rent and administration fees of \$18,717 (2008 - \$13,308) to Cardero Resource Corp., a public company related by common directors and officers. The Company also reimbursed administrative expenses to a former director totalling \$nil (2008 - \$12,048).

Included in accounts payable is \$4,095 (2008 - \$nil) due to a director, an officer or a company with a common director or officer.

During the year, the Company issued 1,000,000 shares pursuant to the terms of a carried interest assignment in an Argentinean project agreement referred to in note 6(a). Those shares have been held by the Company pending the return to a related party pursuant to a Rescission Agreement dated August 25, 2009, of an equal number of shares which the related party advanced on behalf of the Company to maintain the Company's rights to the carried interest pending its regulatory approval (notes 6 and 13). The party is related to the Company by virtue of provision of significant consulting services.

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

	May 31, 2009	May 31, 2008
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -
Shares issued for resource property acquisition	\$ 660,000	30,000

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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. The Company defines capital that it manages as share capital and cash.

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, 2009. 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.

13. SUBSEQUENT EVENT

On August 25, 2009, the Company entered into an agreement (the "Rescission Agreement") with the assignor of a carried interest and certain other parties to rescind the assignment agreement which transferred to the Company an 18% carried interest in two oil exploitation concessions located in Argentina (the "Transaction"). The Rescission Agreement terminates any further interest or obligation on the part of the Company with respect to this project (note 6). The Rescission Agreement also provides that the assignor will facilitate the return of 1,000,000 shares of the Company to a related party who had previously advanced an equivalent number of shares of the Company to the assignor for the purpose of completing the first tranche of the Transaction (note 6(a)) pending is regulatory acceptance.