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## **INTRODUCTION**

This Management Discussion and Analysis (“MD&A”) provides a detailed analysis of the business of Indico Resources Ltd. (“Indico” or the “Company”) and compares its financial results for the year ended May 31, 2009 to the previous year. This MD&A should be read in conjunction with the Company’s audited financial statements for the year ended May 31, 2009. The Company’s reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Company reports its financial position, results of operations and cash-flows in accordance with Canadian generally accepted accounting principles.

This MD&A contains certain statements that may constitute “forward-looking statements”. Forward-looking statements include but are not limited to, statements regarding future anticipated exploration programs and the timing thereof, and business and financing plans. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company’s ability to identify one or more economic deposits on its properties, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

Historical results of operations and trends that may be inferred from this MD&A may not necessarily indicate future results from operations. In particular, the current state of the global securities markets may cause significant reductions in the price of the Company’s securities and render it difficult or impossible for the Company to raise the funds necessary to continue operations. See “Risk Factors – Insufficient Financial Resources/Share Price Volatility”.

All of the Company’s public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) and readers are urged to review these materials, including the technical reports filed with respect to the Company’s mineral properties.

## **DATE**

This MD&A is made as of September 18, 2009.

## **OVERALL PERFORMANCE**

On July 3, 2008, the Company received final TSXV approval for the assignment agreement dated November 1, 2007, for an 18% carried interest in two exploitation concessions located in northwest Argentina, with OxiPetro-Petroleros De Occident S.A., and South American Hedge Fund LLC. On July 25, 2008, the Company issued 1,000,000 shares to South American Hedge Fund LLC, the first requirement in the assignment agreement.

The assignment 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.

## **EXPLORATION ACTIVITIES**

No exploration or joint venture activities were carried out during the year, as the transaction concerning the acquisition of the carried interest in the Argentinean oil & gas property was not completed.

## **RISK FACTORS**

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties. Due to the nature of the Company's proposed business and the present stage of exploration of its resource properties, the following risk factors, among others, will apply:

***Resource Industry is Intensely Competitive:*** The Company's business is the acquisition, exploration and development of resource properties. The resource industry is intensely competitive and the Company will compete with other companies that have far greater resources.

***Resource Exploration and Development is Generally a Speculative Business:*** Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover resource deposits but from finding resource deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of resources and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. The vast majority of exploration projects do not result in the discovery of commercial oil and natural gas targets.

***Fluctuation of Prices:*** Even if commercial quantities of resource deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the product produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of oil and natural gas have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved exploration and production methods. The supply of and demand for oil and natural gas are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any commodities will be such that any of the properties in which the Company has, or has the right to acquire, an interest may be mined at a profit.

***Permits and Licenses:*** The operations of the Company will require consents, approvals, licenses and/or permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary consents, approvals, licenses and permits that may be required to carry out exploration, development and production operations at its projects.

***No Assurance of Profitability:*** The Company has no history of earnings and due to the nature of its business there can be no assurance that the Company will ever be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Company is from the sale of its common shares or, possibly, from the sale or optioning of a portion of its interest in its resource properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercial deposit exists. While the Company may generate additional working capital through further equity offerings or through the sale or possible syndication of its properties, there can be no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

***Uninsured or Uninsurable Risks:*** The Company may become subject to liability for pollution or hazards against which it cannot insure or against which it may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

**Government Regulation:** Any exploration, development or production operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, resource taxes and labour standards. In addition, the profitability of any petroleum prospect is affected by the market for oil and natural gas which is influenced by many factors including changing production costs, the supply and demand, the rate of inflation, the inventory of oil and natural gas producing corporations, the political environment and changes in international investment patterns.

**Environmental Matters:** Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted and which may well be beyond the capacity of the Company to fund. The Company's right to exploit any petroleum property is and will continue to be subject to various reporting requirements and to obtaining certain government approvals and there can be no assurance that such approvals, including environment approvals, will be obtained without inordinate delay or at all.

**Insufficient Financial Resources:** The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of all of any significant exploration and development programs. The development of the Company's properties will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing or other means. There can be no assurance that the Company will be successful in obtaining the required financing. Failure to raise the required funds could result in the Company losing, or being required to dispose of, its interest in its properties. In particular, failure by the Company to raise the funding necessary to maintain in good standing the various option agreements it has entered into could result in the loss of the rights of the Company to such properties.

**Dependence Upon Others and Key Personnel:** The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability to design and carry out appropriate exploration programs on its resource properties; (ii) the ability to produce resources from any resource deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the properties held by the Company. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company and its consultants and employees. There can be no assurance of success with any or all of these factors on which the Company's operations will depend, or that the Company will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities. This is especially true as the competition for qualified geological, technical and petroleum personnel and consultants is particularly intense in the current marketplace.

**Price Fluctuations and Share Price Volatility:** In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual and extreme fluctuations in price will not occur.

**Surface Rights and Access:** Although the Company acquires the rights to some or all of the resources in the ground subject to the tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its resource tenures. In such cases, applicable laws usually provide for rights of access to the surface for the purpose of carrying on oil and natural gas activities, however, the enforcement of such rights can be costly and time consuming. In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access. However, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the right at law to access the surface and carry on petroleum activities, the Company will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out petroleum activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdiction

**Title:** Although the Company has taken steps to verify the title to the resource properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from

whom the Company may be acquiring its interest). Title to resource properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

**SELECTED FINANCIAL INFORMATION**

**Selected Annual Information**

**Years ended May 31, 2009 and 2008**

The Company's financial statements are prepared in conformity with Canadian generally accepted accounting principles, and are expressed in Canadian dollars. All foreign currency amounts are converted into Canadian dollar equivalents using the temporal method as explained in the notes accompanying the Company's financial statements.

The following table provides a brief summary of the Company's financial operations for the years ended May 31, 2009 and 2008. For more detailed information, refer to the accompanying Financial Statements.

	Years Ended May 31	
	2009	2008
Total revenues (interest)	\$ 4,807	\$ 10,642
Loss before other items	(706,851)	(566,499)
Net loss	(1,351,474)	(870,140)
Basic and diluted loss per share	(0.14)	(0.11)
Total assets	504,541	639,657
Weighted average common shares outstanding	9,572,259	7,059,069
Cash dividends	-	-

During the year ended May 31, 2009 the Company incurred a loss of \$1,351,474 compared to \$870,140 in the previous year. On May 31, 2009 the Company wrote off its interest in the Argentinean oil and gas joint venture (\$660,000) as a result of a subsequent event. On August 25, 2009, the Company entered into an agreement (the "Rescission Agreement") with, inter alia, 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. The assignment agreement provided that the Company could elect not to issue any of the second tranche 6,000,000 shares but would forfeit its interest (see note 6 to audited financial statements). 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. In the previous fiscal year the Company wrote off its interest in the Metlin claims in Atlin, British Columbia (\$294,518).

Other factors affecting the loss are the increase in consulting (2009 - \$390,233, 2008 - \$249,260) which was significantly impacted by fees of \$117,292 paid to a related party to improve relations with our joint venture oil & gas partners in Argentina and conduct due diligence procedures. Travel expense (2009 - \$35,798, 2008 - \$11,667) was also affected by these activities.

Investor relations (2009 - \$141,099, 2008 - \$48,361) increased year over year due to the timing of the commencement of a investor relations contract. Increased office expenses (2009 - \$16,290, 2008 - \$10,372) and rent (2009 - \$13,139, 2008 - \$5,617) were more than offset by cost savings in administration and property investigation .

Stock based compensation of \$142,714 (2008 - \$142,184) was expensed to consulting fees (2009 - \$80,552, 2008 - \$110,588), investor relations (2009 - \$61,162, 2008 - \$nil) and accounting fees (2009 - \$nil, (2008 - \$31,596).

**QUARTERLY FINANCIAL INFORMATION**

	<b>May 2009</b>	<b>February 2009</b>	<b>November 2008</b>	<b>August 2008</b>
Revenue	\$ -	\$ -	\$ -	\$ -
Operating expenses	189,943	186,173	152,990	177,745
Write offs in the period	660,000	-	-	-
Loss for the period	854,313	187,447	142,673	167,041
Loss per common share	\$0.09	\$0.02	\$0.01	\$0.02
	<b>May 2008</b>	<b>February 2008</b>	<b>November 2007</b>	<b>August 2007</b>
Revenue	\$ -	\$ -	\$ -	\$ -
Operating expenses	165,558	205,962	98,606	115,172
Write offs in the period	297,307	-	-	-
Loss for the period	441,721	212,785	104,370	111,264
Loss per common share	\$0.02	\$0.03	\$0.01	\$0.02

**Three months ended May 31, 2009 compared to three months ended May 31, 2008**

In the three months ended May 31, 2009 the Company had a net loss for the period of \$854,313 as compared to a net loss of \$441,245 for the same period in 2008. In addition to the write off of properties as explained in the selected annual information, other factors affecting the loss are the increase in consulting (2009 - \$95,823, 2008 - \$59,995), investor relations (2009 - \$30,278, 2008 - \$11,522), office expenses (2009 - \$5,326; 2008 - \$2,776), rent (2009 - \$3,857; 2008 - \$1,475) and travel (2009 - \$7,585; 2008 - \$5,098).

**LIQUIDITY AND CAPITAL RESOURCES**

The Company has no revenue generating operations from which it can internally generate funds. To date, the Company's ongoing operations have been predominantly financed by the sale of its equity securities by way of private placements and the subsequent exercise of share purchase warrants issued in connection with such private placements. However, the exercise of warrants/options is dependent primarily on the market price and overall market liquidity of the Company's securities at or near the expiry date of such warrants/options (over which the Company has no control) and therefore there can be no guarantee that any existing warrants/options will be exercised. When acquiring an interest in mineral properties through purchase or option the Company will sometimes issue common shares to the vendor or optionee of the property as partial or full consideration for the property interest in order to conserve its cash.

At the present time the Company does not contemplate that it will be necessary to institute any specific cost saving measures or reductions in staff or consultants in response to current conditions in the equity or credit markets. The Company also anticipates that the current slow-down in the junior resource exploration sector may also serve to reduce the cost of external services such as drilling, helicopter support and expediting, as the Company looks forward to acquiring additional resource interests.

The Company expects that it will operate at a loss for the foreseeable future, and that it will require additional financing to fund to the acquisition of additional resource properties and to continue its operations (including general and administrative expenses) beyond the second quarter of 2010. The Company currently has no funding commitments or arrangements for additional financing at this time and there is no assurance that the Company will be able to obtain additional financing on acceptable terms, if at all. There is significant uncertainty that the Company will be able to secure any additional financing in the current equity markets – see "Risk Factors – Insufficient Financial Resources/Share Price Volatility". The quantity of funds to be raised and the terms of any proposed equity financing that may be undertaken will be negotiated by management as opportunities to raise funds arise. Specific plans related to the use of proceeds will be devised once financing has been completed and management knows what funds will be available for these purposes.

As at May 31, 2009, the Company reported cash of \$483,425 compared to \$600,738 as at May 31, 2008. The change in cash is comprised of funds provided from financing activities of \$464,572, less investing activities of \$17,914, and \$563,971 of cash used in operations. As at May 31, 2009, the Company had working capital of \$462,724, compared to working capital of \$561,901 at May 31, 2008.

The Company has no exposure to any asset-backed commercial paper. All of the Company's cash reserves are on deposit with a major Canadian chartered bank. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of the current market conditions. However, in order to achieve greater security for the preservation of its capital, the Company has, of necessity, been required to accept lower rates of interest which has also lowered its potential interest income.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any significant off-balance sheet arrangements or commitments.

#### **RELATED PARTY TRANSACTIONS**

During the year the Company entered into the following transactions with related parties:

- 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) to the audited financial statements. 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 to the audited financial statements). 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.

#### **PROPOSED TRANSACTIONS**

Although the Company is currently investigating a number of additional property acquisitions, and is entertaining proposals for the sale or option/joint venture of one or more of its properties, as at the date of this MD&A there are no proposed transactions where the board of directors, or senior management who believe that confirmation of the decision by the board is probable, have decided to proceed with.

#### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for equipment, the recoverability of resource property interests, the assumptions used in the

determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets and accruals. Management believes the estimates are reasonable; however, actual results could differ from those estimates and would impact future results of operations and cash flows.

### **ACCOUNTING POLICIES**

Effective June 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”) relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

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.

### **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, investments, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

### **CONTROLS AND PROCEDURES**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted as part of the Company's continuous disclosure requirements is recorded, processed, summarized and reported, within the time periods specified by applicable regulatory authority. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have not been any changes in the Company's internal control over financial reporting or any other factors during the year ended May 31, 2009, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

### **SHARE DATA**

As at May 31, 2009 and to the date of this report, there were 9,748,752 shares issued and outstanding.

There were no share purchase warrants outstanding as of the date of this report.

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

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

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. Completion of this is pending authorization from Bermuda. Shareholders have also 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).