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OVERVIEW

The principal business activity of Indico is the exploration for and development of natural resources. Previously registered in Bermuda, the Company was extra-provincially registered in the Province of British Columbia under the Business Corporations Act on June 22, 2006. The Company changed domicile from Bermuda to British Columbia by way of a continuance under the Business Corporations Act (British Columbia) effective October 15, 2009. The Company is an exploration stage company.

OVERALL PERFORMANCE

On September 14, 2010, the Company entered into an agreement wherein the Company has been granted the exclusive option to acquire a 100% interest in the Ocaña Copper Gold Porphyry Project in South-Central Peru, by way of an option to acquire 100% issued and outstanding shares of Inversiones Minerales S.A.C. ("Inversiones") which holds an indirect 100% interest in the Ocaña property, by making, at its option, payments of cash and shares over a five-year period ending April 20, 2015. The property acquisition received regulatory approval on November 19, 2010.

On November 19, 2010, the Company completed a non-brokered private placement consisting of 10,000,000 units at a price of $0.40 per unit for gross proceeds of $4,000,000. Each unit comprises of one common share and one-half of one common share purchase warrant. Each full share purchase warrant entitles the holder to purchase one additional common share at a price of $0.60 until November 19, 2011. In connection with the financing, the Company paid finders' fee of $20,000 and issued 200,000 units ("Agent's Units") in share issuance costs. Each Agent's Unit consists of one common share and one-half of one common share purchase warrant, of which one whole warrant entitles the Agent to purchase one common share of the Company at a price of $0.65 until November 19, 2011. The Company also issued Agent's Warrants, which entitle the Agents to purchase up to 250,000 common shares of the Company at a price of $0.65 until November 19, 2011.

OUR BUSINESS

We have entered into an agreement with Manlio Bassino Pinasco and Percy Samaniego Pimentel of Lima Peru (the "Vendors") wherein the Company has been granted the exclusive option to acquire a 100% indirect interest in the Ocaña Copper Gold Porphyry Project, in South-Central Peru (the "Transaction"). The Ocaña property consists of 22 concessions (the "Mineral Claims"). As consideration for the Mineral Claims, we agreed to by way of an option to acquire 100% issued and outstanding shares of Inversiones which holds an indirect 100% interest in the Ocaña property, by making, at its option, payments of cash and shares over a five-year period ending April 20, 2015. The consideration due pursuant to the agreement is as follows:

i. Payment of US $17,750,000 over a five-year period as follows:
US $390,000 on or before November 29, 2010 (paid);
US $310,000 on or before April 20, 2011 (paid);
US $450,000 on or before April 20, 2012;
US $520,000 on or before April 20, 2013;
US $580,000 on or before April 20, 2014; and
US $15,500,000 on or before April 20, 2015.

ii. Issuance of 8,500,000 common shares of the Company over a five-year period as follows:
200,000 on or before April 20, 2011; (issued)
300,000 on or before April 20, 2012;
500,000 on or before April 20, 2013;
1,000,000 on or before April 20, 2014; and
6,500,000 on or before April 20, 2015.

Ocaña Copper Gold Porphyry Project

The Mineral Claims covers 110.24 km^2 and is located on the northwest extension of the Southern Peru Porphyry Copper Belt (Fig. 1 and Fig. 2), a trend defined in parts by the Toquepala, Quellaveco, Cuajone, and Cerro Verde Mines to the southeast. Recent exploration of the belt has resulted in discovery of the Zafranal copper porphyry deposit, located approximately 75km to the southeast of the Ocaña Project.

The Ocaña property targets an approximately 110 km^2 area with widespread color alteration anomalies typical of large porphyry copper-gold systems. Rock types, alteration and quartz veining on the property is consistent with the porphyry exploration model.

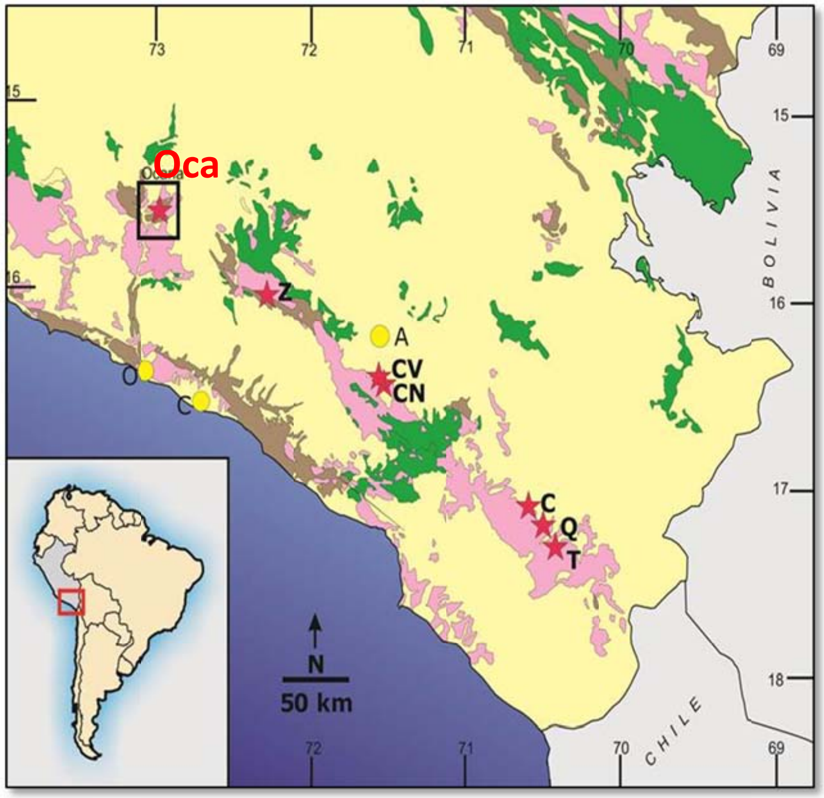

Figure 1:

Ocana Project Location.

The Southern Peru Porphyry Copper Belt hosts the large porphyry copper deposits of Toquepala (3,734 million tonnes at 0.46% copper), Quellaveco (947 million tonnes @ 0.8% copper), Cuajone (2,765 million tonnes @ 0.47% copper), Cerro Verde (3,000 million tonnes @ 0.41% copper as well as the newly discovered Zafranal porphyry system 300 million tonnes @ 0.45% copper). The technical information with respect to the above deposits was obtained through the respective company's public disclosure documents and on SEDAR.

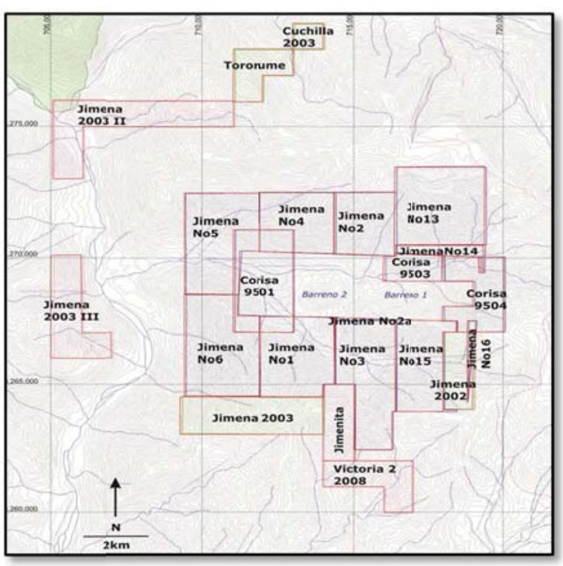

Figure 2: Indico Land Position

The Ocaña Project is underlain by Precambrian basement rocks intruded by multi-phase plutonic complex of the Coastal Batholith. These permissive intrusive rocks are not identified on existing published geologic maps and have been identified through field investigation. Alteration consists of widespread 'proximal' potassic (K-spar–magnetite) and silica alteration near the center of the system grading outward to sodic–calcic (chlorite–epidote–calcite) 'propylitic' alteration over a radial distance of 4 to 8 km. Gold-bearing quartz veins in the periphery of this new porphyry district are currently being mined by artisanal miners. The operating Arirahua Gold Mine is located 7 kilometres west of the project.

Exploration Activities

A new exploration camp has been established at the Ocana project and the project is fully staffed with three full-time geologists and support staff. An experienced chief geologist has been recently employed. Exploration activities during the reporting period have focused on geological mapping, rock sampling, trenching and talus fines sampling. A total of 177 rock samples, 139 trench-channel samples and 365 talus fines samples have been collected and submitted to the ACME laboratory for analysis. All results have been received and only the results for 60 rock chip samples are expected in the coming weeks. Copper anomalies range from 35 ppm to 1,187 ppm, which is highly anomalous despite the fact that copper would normally be leached at surface in this environment. Molybdenum ranges from 0.7 ppm to 46 ppm and gold ranges from below detection to 0.12 g/t (Fig.3 and Fig.4)).

The Ocaña prospect is interpreted as a large Copper-Molybdenum-Gold (Cu-Mo-Au) porphyry hydrothermal system. The potential size is indicated by the visually large spatial distribution of limonite-clay alteration zones. Also of considerable importance is the fact that peripheral gold –bearing veins contain considerable sphalerite and galena (peripheral base-metal zoning) and gold-bearing chalcopyrite samples that they exploit from near the east and southeast margin of the claims. Based on these observations, the total porphyry system may be more than 4km across – mapping over the coming months will be critical in determining the true dimensions of the alteration and mineralizing system. Based on the geological mapping and geochemical sampling results interpretation, two main targets have been generated, namely Jimena to the west and Waka Waka to the east.

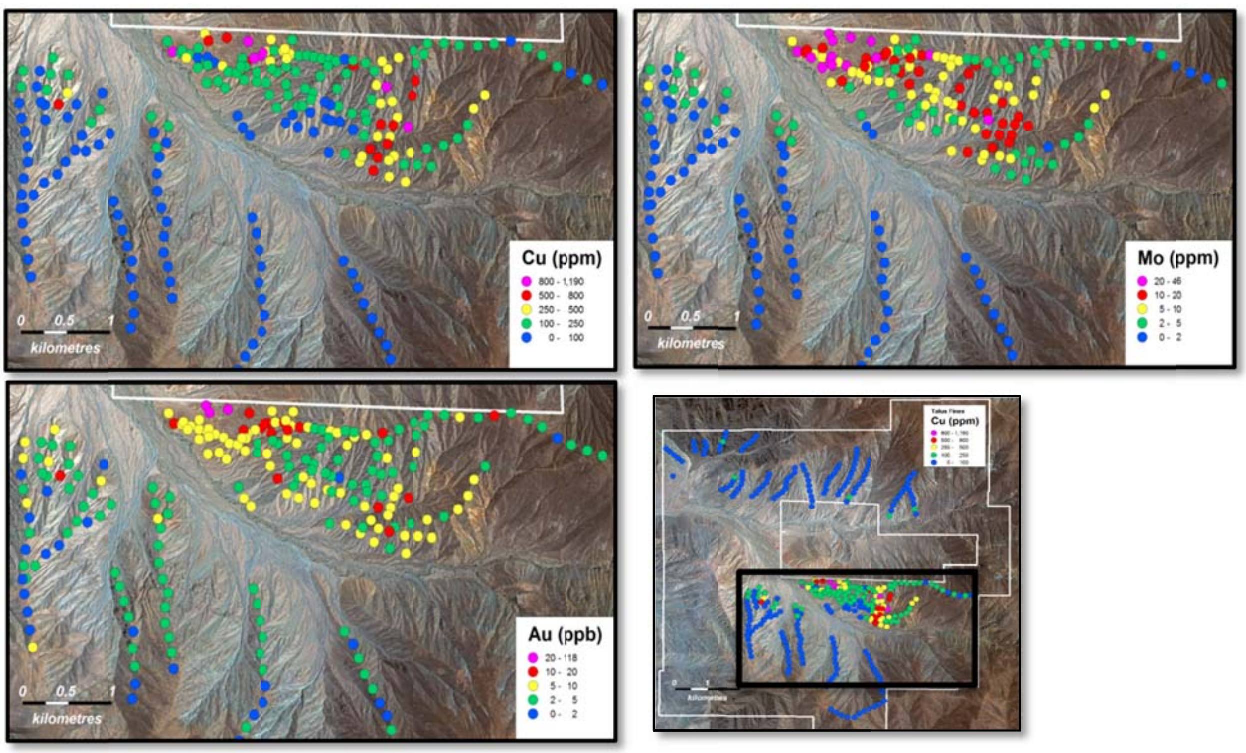

Figure 3: Talus Fines Results

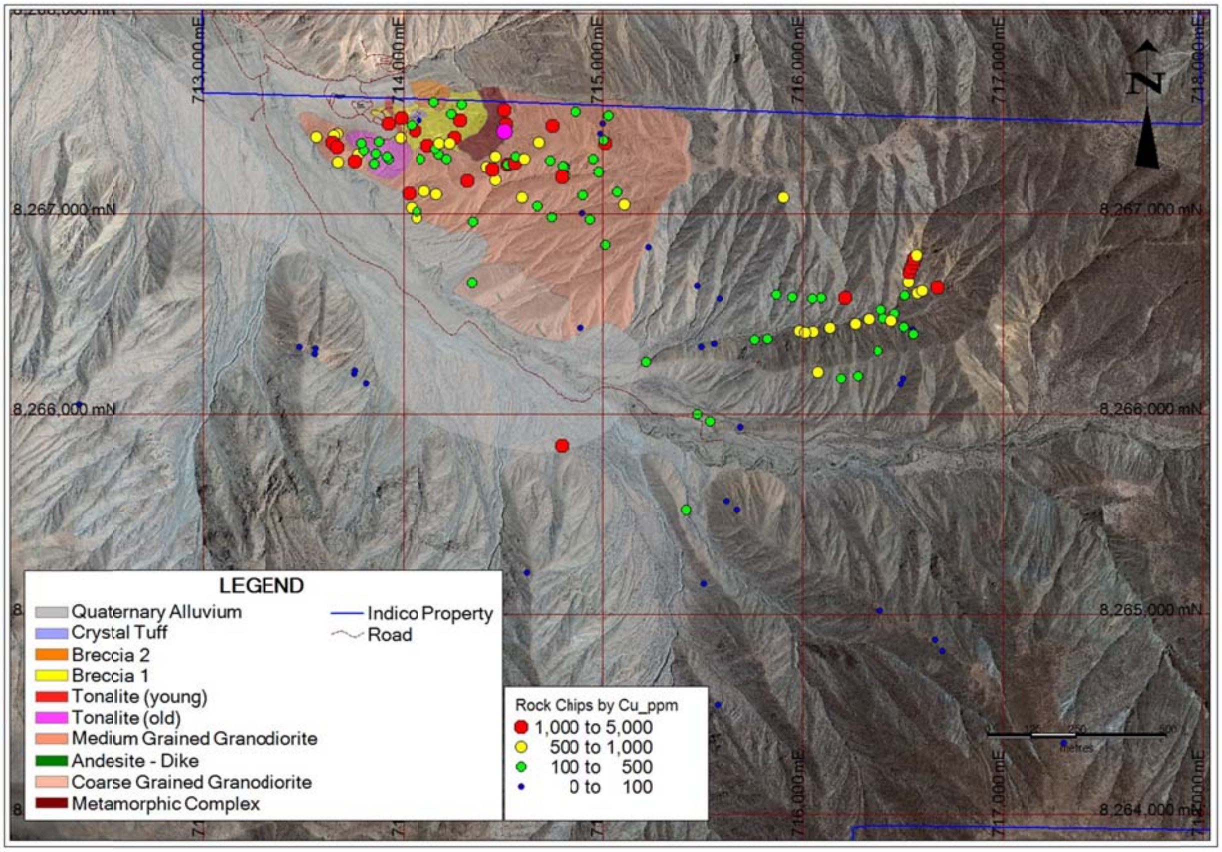

Figure 4: Jimena Rock Sample Results

Jimena Target

Geological mapping of the Jimena area shows that variably altered medium-grained porphyritic granodiorite is the main lithology underlying the region of Indico's claims. This is punctuated by a small body of altered tonalite and a breccia complex. The most prominent feature at Jimena is a large area of "advanced argillic" alteration represented by intense pervasive silicification together with quartz stockwork, and remnant vestiges of hydrothermal biotite. A collection of 23 hand samples from the "advanced argillic" altered rocks were selected for spectral (TerraSpec) mineral analysis. Results are expected by the end of April. Chloritic alteration was mapped outboard of silicification and suggests peripheral hydrothermal conditions. For a silicified lithocap, the presence of "A" type quartz veins, the widespread occurrences of Cu-oxides, and the remnant hydrothermal biotite within intense silicified zones regarded as a silica lithocap, together imply a strongly telescoped hydrothermal system (Fig.5). As such, at least part of the porphyry copper system can be expected to lie beneath the lithocap, as a legitimate drill target. Even if this is not bona fide advanced argillic alteration lithocap, the large intensely altered zone justifies drilling to determine what the hypogene copper grades are at depth. The widespread occurrence of Cu-oxide at Jimena attests to the migration of copper-bearing meteoric solutions, consequently supergene enriched copper mineralization is a possible target here. Other deposits in the South Peru Porphyry Copper Belt are known to contain enriched Cu-ores. If the telescoped hydrothermal system interpretation is true, then enriched copper mineralization beneath an advanced argillic lithocap could be a prime target. Widespread minor Cu-oxide and the rare presence of chalcocite coatings on pyrite at low elevations in creek outcrops, are encouraging indications that supergene solutions were active in this region, possibly depositing an economic concentration of supergene copper under the right conditions. A large composite breccia body underlying much of the low-lying terrain in the campsite valley. The breccia is inhomogenous, in that two breccia types and a small inlier of tuff were mapped at Jimena. While no doubt clastic in nature, it may also be, in part, andesite or dacite volcaniclastic succession, much of it hydrothermally altered nearly beyond recognition. In places the rock looks more convincingly like true breccia, possibly phreatic, but at other localities, a vague but persistent banding of finer sandy beds (?) is apparent in fresh stream bed outcrops. Locally the breccia has a fine tuffaceous appearance and has been variably altered, locally intensely pervasively silicified (with martitized disseminated magnetite) and with tourmaline vugs and small aggregates, and it is cut by weak quartz stockwork. Several late-mineral (?) tonalite porphyry dykes cut the clastic unit and are cut by limonite-quartz veinlets. Some parts of the breccia are unmineralized, and have terminated quartz veins at clast margins, and are probably post-mineral. Other parts of the breccia complex are mineralized. Since a large part of the breccia complex lies in the low terrain and is covered, its evaluation will depend upon IP and magnetic surveys to define potential drill targets within the breccia complex. There is also a possibility of development of exotic secondary copper mineralization beneath the alluvial cover in this region, because the groundwater gradient here is westward from copper mineralized rock towards the alluvial cover.

Waka Waka Target

Much of the region is underlain by metamorphic complex rock (schist, gneiss, amphibolite and gabbroic injections) with distinctly well-bedded meta-sedimentary rock in the eastern part which have been altered to hornblende- and pyroxene-hornfels, the weathering of which has produced a limonitic colour anomaly visible on the satellite image. Along the slopes a hornblnde monzonite intrusion was observed, and may be the causative heat source for the extensive contact metamorphism immediately to the northeast. A number of feldspar porphyry (tonalite) dykes are present, with varying degrees of mainly pyritic hydrothermal alteration, and these dykes occur over a large area but may be clustered around the central part of the Waka Waka target. The copper mineralization at Waka Waka occurs mainly as fracture-controlled and disseminated chalcopyrite, which is subordinate to pyrite in amount, and associated with hydrothermal magnetite. The dominant alteration along the trail is weak propylitic with a small zone, perhaps 100m wide of biotitic altered metamorphic rock near the north end of the trail, more or less at the centre of the target. Locally widely scattered malachite with associated hydrothermal magnetite veinlets and dissemination occurs in intense biotite-altered metamorphic host rock, some with skarn-like mineral assemblage where minor red-brown garnet was observed in places. Chalcopyrite is associated with mafic (amphibolitic and gabbroic) basement host rock. Several scattered veins of sphalerite-galena with calcite, quartz and gypsum were encountered and may indicate peripheral base metal zoning around a small porphyry target at Waka Waka. An unusual single occurrence of stibnite float was observed at in the stream gully. Here the strongly clay-altered intrusive rock along the gully is presumed to be hornblende monzonite. The upper part of the Waka Waka system may have been eroded by the main gully, with improved copper grades possibly existing at greater depth and north of the trail beneath the extensive malachite, +/chalcopyrite, magnetite mineralized metamorphic host rock in the area above the existing trail.

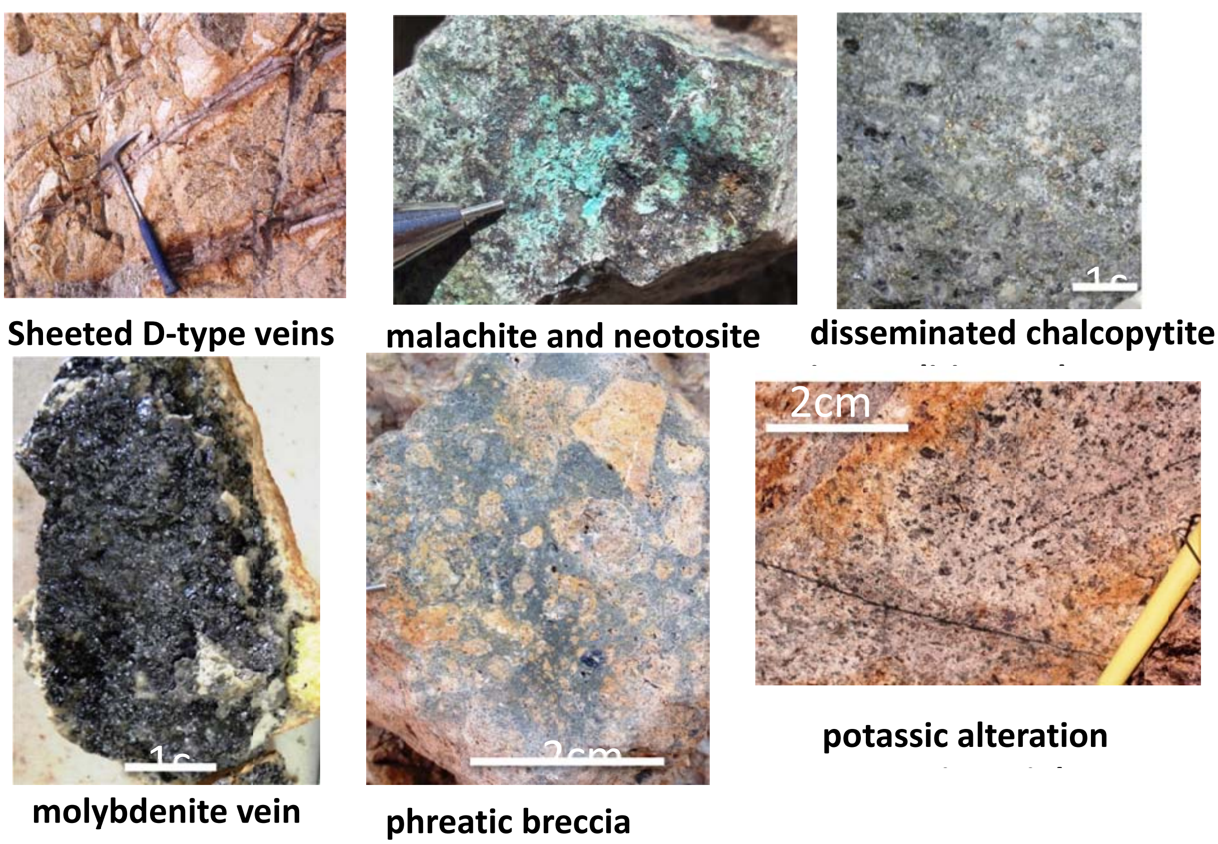

Figure 5: Jimena & Waka Waka Rock Photographs

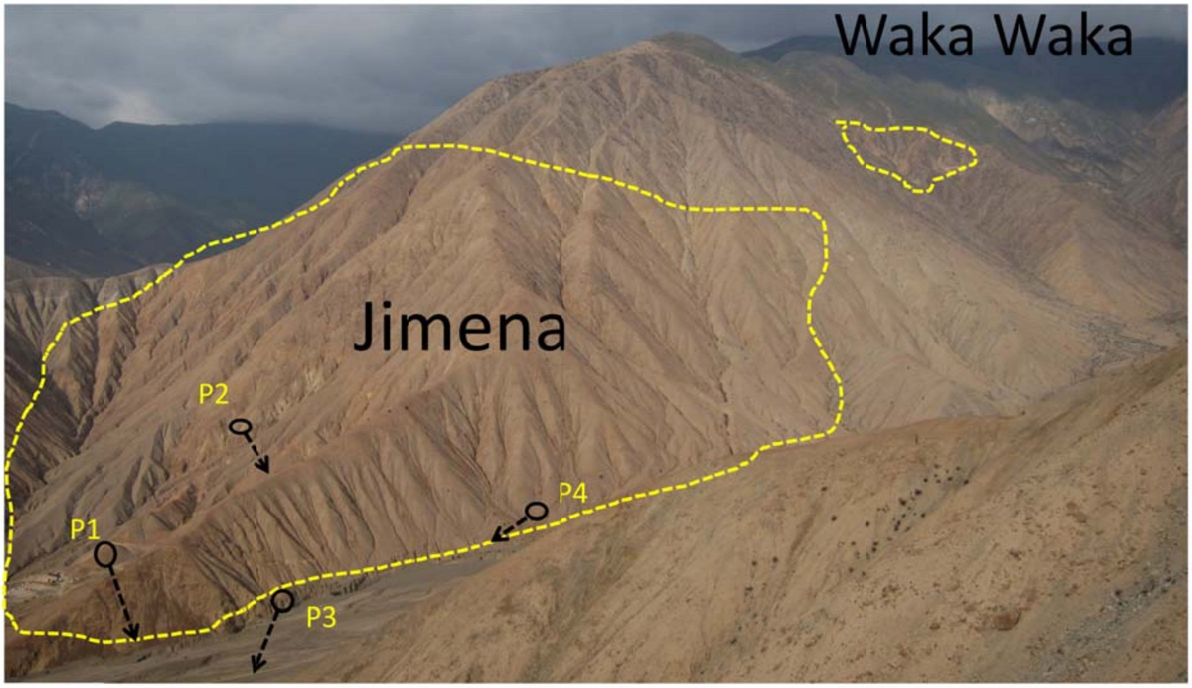

Figure 6: Initial Drill Targets

Planned Work Program

- Rock channel sampling at Jimena target
- Detailed 1:2,500 scale geological/alteration mapping of Waka Waka target, along with rock chip and channel sampling. The terrain at Waka Waka is too rugged to complete useful geophysical surveys, so that an evaluation of this target will have to rely upon geological mapping and samples along the creek gullies
- Induced Polarisation (IP) geophysical survey over Jimena target.
- Extension of ground magnetic geophysical survey over and south and east of Waka Waka and south Jimena targets
- Initial drilling of four drillholes (~2,000m) at Jimena target (Fig. 6)

QUALIFIED PERSON

EurGeol Keith J. Henderson, P.Geo., Indico's Chief Scientific Officer, a Director, and a qualified person as defined by National Instrument 43-101, has reviewed the scientific and technical information that forms the basis for all public disclosures. Mr. Henderson is not independent of the Company as he is a director and a shareholder.

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.

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. Commodity prices 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 commodities is 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 commodity is affected by the market for those commodities which is influenced by many factors including changing production costs, the supply and demand, the rate of inflation, the inventory of commodity 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 resource 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 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 exploration 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 exploration 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 exploration 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, 2010 and 2009

The Company's financial statements are prepared in conformity with Canadian GAAP, 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, 2010, 2009 and 2008. For more detailed information, refer to the accompanying Financial Statements.

	Years Ended May 31		
	2010	**2009**	**2008**
Total revenues (interest)	$ -	$ 4,807	$ 10,642
Loss before other items	(689,811)	(706,851)	(566,499)
Net loss	(690,146)	(1,351,474)	(870,140)
Basic and diluted loss per share	(0.06)	(0.14)	(0.11)
Total assets	575,715	504,541	630,657
Weighted average common shares outstanding	11,400,807	9,572,259	7,059,069
Cash dividends	-	-	-

QUARTERLY FINANCIAL INFORMATION

	February 28, 2011	**November 30, 2010**	**August 31, 2010**	**May 31, 2010**
Revenue	$ -	$ -	$ -	$ -
Operating expenses	215,033	157,424	137,102	73,846
Property write-off	-	-	-	-
Loss for the period	264,606	140,979	137,170	72,823
Loss per common share	$ 0.01	$ 0.01	$ 0.01	$ 0.01

	February 28, 2010	**November 30, 2009**	**August 31, 2009**	**May 31, 2009**
Revenue	$ -	$ -	$ -	$ -
Operating expenses	333,752	139,597	142,616	189,943
Property write-off	-	-	-	-
Loss for the period	334,654	138,914	143,755	854,313
Loss per common share	$ 0.02	$ 0.01	$ 0.02	$ 0.09

Nine months ended February 28, 2011 compared to nine months ended February 28, 2010

During the nine months ended February 28, 2011, the Company had a net loss of $542,755 as compared to a net loss of $617,323 for the same period in 2010. The slight decrease in net loss was mainly due to decreases in various expenditures as a result of cost containment policies implemented by the Company during the period ended February 28, 2011 offset by an increase in property investigations as a result of early stage reconnaissance field work on potential resource properties and increase in general operating expenses due to the incorporation of the Peruvian subsidiary on August 24, 2010.

Property investigations of $61,277 was incurred in the current period compared to $Nil in the same period of prior year. The increase was due to the Company undertaking early stage reconnaissance field work to further investigate potential resource property acquisitions and due diligence fees for the potential resource property acquisition which resulted in the exclusive option to acquire 100% interest in the Ocaña Copper Gold Porphyry Project in South-Central Peru.

Consulting fees of $261,230 (2010 - $460,023) decreased mainly due to a consulting fee of $66,834 paid to a consultant to improve relations with our former joint venture oil and gas partners in Argentina and conduct due diligence procedures in the same period of the prior year when compared to $Nil in the current period. As well, there was a general decrease in fees charged by consultants as a result of cost containment policies implemented by the Company during the 2010 fiscal year. This was offset by stock-based compensation expenses of $94,895 in the current period compared to $272,051 in the same period of the prior year.

Legal expenses of $19,013 (2010 - $39,846) decreased due to the change of domicile from Bermuda to British Columbia offset by an increase in legal expenses due to the incorporation of the Peruvian subsidiary and the acquisition of the mineral property.

Investor relations expenses of $3,035 (2010 - $31,683) decreased due to the termination of an existing contractual arrangement.

Listing and filing fees of $26,673 (2010 - $7,286) increased due to filing fees related to the acquisition of the Ocaña Copper Gold Porphyry Project in South-Central Peru.

Office expenses of $63,811 (2010 - $25,403) increased due to increase expenses in computer software upgrade combined with an increase in office expenses incurred by the newly-incorporated Peruvian subsidiary.

Travel expenses of $31,329 (2010 - $7,970) increased due to more travelling involved relating to the newly-incorporated Peruvian subsidiary.

Due to changes in the value of the Canadian dollar relative to the United States and Peruvian currencies, the Company also recorded an exchange loss of $34,039 during the current period compared to a loss of $548 in the same period of prior year.

Three months ended February 28, 2011 compared to three months ended February 28, 2010

During the three months ended February 28, 2011, the Company had a net loss of $264,606 as compared to a net loss of $334,654 for the same period in 2010. The slight decrease in net loss was mainly due to decreases in various expenditures as a result of cost containment policies implemented by the Company during the period ended February 28, 2011 offset by an increase in expenditures as a result of the incorporation of the Peruvian subsidiary on August 24, 2010.

Consulting fees of $139,142 (2010 - $308,026) decreased mainly due to the stock-based compensation expenses of $59,062 (2010 – $272,051) and this decrease is offset by a slight increase in fees as a result of appointment of a new director and the increase in fees charged by the President as well as a consultant beginning January 2011.

Legal expenses of $12,040 (2010 - $1,190) increased due to the change of the record office and addition legal costs associated with the Peruvian subsidiary and the acquisition of the mineral property.

Office expenses of $24,895 (2010 - $8,429) increased mainly due the incorporation of the Peruvian subsidiary.

Travel expenses of $22,573 (2010 - $2,439) increased due to more travelling involved relating to the newly-incorporated Peruvian subsidiary.

Due to changes in the value of the Canadian dollar relative to the United States and Peruvian currencies, the Company also recorded an exchange loss of $49,685 during the current period compared to a gain of $47 in the same period of prior year.

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 additional cost saving measures or reductions in staff or consultants in response to current conditions in the equity or credit markets. The Company is however reducing costs for other business reasons. 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 a resource property and to continue its operations (including general and administrative expenses) beyond the first quarter of 2011. Additional financing will be required for the Company to maintain its existing level of operations and / or acquire, explore or develop any resource property.

As at February 28, 2011, the Company reported cash of $2,575,094 compared to $561,811 as at May 31, 2010. At February 28, 2011, the Company had working capital of 2,604,513 compared to $494,240 as of May 31, 2010. The increase in cash on hand and working capital was the result of shares issued for cash of $3,967,939, net of costs, less cash used in exploration activities of $1,383,507, for purchase of property and equipment of $2,946, and in operating activities of $535,182.

The Company has not entered into any long-term lease commitments nor is the Company subject to any mineral property commitments other than those outlined under Note 6 in the Company's consolidated financial statements for the period ended February 28, 2011.

The Company has no exposure to any asset-backed commercial paper. Other than cash held by its subsidiary for their immediate operating needs in Peru, the majority 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 three months ended February 28, 2011, the Company incurred the following related party expenditures. These figures do not include stock-based compensation.

Name	Relationship	Purpose of transaction	Amount
Leonard Harris	Director of the Company	Director's fees	$ 2,500
Keith Henderson	Director of the Company	Director's fees	$ 2,500
Michael Kinley	Director of the Company	Director's fees	$ 2,500
Coille Van Alphen	Director of the Company	Director's fees	$ 2,500
GF Consulting Corp.	Company controlled by the President and CEO of the Company	Consulting	$ 25,000
Winslow Associates Inc.	Company controlled by a Director and former CFO (resigned on October 15, 2010) of the Company	Consulting	$ 3,500
Blue Pegasus Consulting Inc.	Company controlled by the CFO of the Company (appointed on October 15, 2010)	Consulting	$ 2,947
Marla Ritchie	Corporate Secretary of the Company	Consulting	$ 6,000
Acuitas Consulting Ltd.	Company controlled by a Director of the Company	Consulting	$ 3,100
Cardero Resource Corp.	Company with common officers and directors	Mineral property expenditures	$ 23,981
Cardero Resource Corp.	Company with common officers and directors	Office	$ 5,897
Cardero Resource Corp.	Company with common officers and directors	Administration	$ 912

These transactions with related parties have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

PROPOSED TRANSACTIONS

As at the date of this MD&A there are no proposed transactions where the board of directors or senior management believes that confirmation of the decision by the board is probable or with which the board and senior management have decided to proceed.

CRITICAL ACCOUNTING 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 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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In March 2009, the Canadian Accounting Standards Board reconfirmed in its second omnibus Exposure Draft that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for interim and annual financial statements relating to fiscal years beginning on or after June 1, 2011. Companies will be required to provide IFRS comparative information for the previous year, starting in the first quarter of 2011. The Company commenced its IFRS conversion project in 2009, and expects to be completed prior to June 2011.

The Company's IFRS conversion project will be governed by members of the audit committee and the Board of Directors to monitor the progress and make critical decisions in the transition to IFRS, and to approve all transition policies. This project will consist of three main phases:

> Preliminary planning and scoping: This phase includes the development of a work plan and a review of the major differences between Canadian GAAP, IFRS, and the IFRS requirements based on their financial reporting impact, business impact and complexity.
>
> Assessment and design: This phase will involve determining the specific impacts to the Company based on the application the IFRS requirements. This will include the design and development of detailed solutions and work plans by each key area to address implementation requirements. In addition, impact analysis will be performed on all areas of business, including tax. Accounting policies will be finalized, first –time adoption exemptions will be considered, and a detailed implementation plan will be developed.
>
> Implementation: This phase will include implementing the required changes for IFRS compliance. All IFRS conversion impacts will be approved and finalized to allow for the conversion of tax policies and the preparation of opening IFRS balances.

Currently, the Company has completed the preliminary planning stage. During this phase of the conversion project it was determined that due to the Corporations nature of business at this time, no differences between new IFRS requirements and the current application of Canadian GAAP were identified. However, due to the uncertainty surrounding what IFRS will exist at the changeover date, management cannot reasonably assess the financial impact that IFRS will have on our financial statements at this time and it may not be able to do so with any certainty at any time prior to conversion.

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

There have been no changes in accounting policies since June 1, 2010, being the start of the Company's most recently completed fiscal year.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company classifies its cash and investment held-for-trading as held-for-trading; accounts payable and accrued liabilities and due to related party as other financial liabilities.

Investment held-for-trading is carried at fair value. The carrying values of cash, and accounts payable and accrued liabilities approximate their fair values due to the expected short-term maturity of these financial instruments. Included in accounts payable and accrued liabilities are amounts due to related parties. The fair values of amounts due to related parties have not been disclosed as their fair values cannot be reliably measured since the parties are not at arm's length.

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

(a) Credit risk

In respect to accounts receivable, the Company is not exposed to significant credit risk as the majority are due from governmental agencies.

Concentration of credit risk exists with respect to the Company's cash as all amounts are held at a single major Canadian financial institution, a major Bermudian financial institution, and a major Peruvian financial institution. The Company's concentration of credit risk and maximum exposure thereto in Canada follows. Similar risk in Bermuda and Peru are considered not significant:

Cash	February 28, 2011	May 31, 2010 (audited)
Canadian financial institution	$ 2,509,990	$ 561,217
Bermudian financial institution	465	594
Peruvian financial institution	64,639	-
	$ 2,575,094	$ 561,811

The credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with major Canadian, Bermudian and Peruvian financial institutions with strong investment-grade ratings by a primary ratings agency.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they fall due. 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 required by operations and anticipated investing and financing activities. At February 28, 2011, the Company had cash of $2,575,094, which will be sufficient to meet its obligations related to its accounts payable and accrued liabilities of $52,962 and due to related parties of $26,050.

All its non-derivative financial liabilities made up of accounts payable and accrued liabilities and due to related parties, are due within three months of the year-end as shown below. The Company does not have any derivative financial liabilities.

	0 to 3 months	3 to 6 months	6 to 12 months	Total
Accounts payable and accrued liabilities	$ 52,962	$ -	$ -	$ 52,962
Due to related parties	$ 26,050	$ -	$ -	$ 26,050
	$ 79,012	$ -	$ -	$ 79,012

(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's cash consists of cash held in bank accounts that earn interest at variable rates. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. The interest income earned on cash is minimal; therefore, the Company is not subject to interest rate risk.

ii. Foreign currency risk

The Company is exposed to foreign currency risk as certain monetary financial instruments are denominated in United States and Peruvian currency. At February 28, 2011, total assets and liabilities include cash of US $621,717 (May 31, 2010 – US $77,518) and Peruvian Soles $184,158 (May 31, 2010 - Peruvian Soles $Nil). The Company has not entered into any foreign currency contracts to mitigate this risk. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in the US dollar by 5% and Peruvian Soles by 2% would increase or decrease foreign exchange expense by $36,600 in these consolidated financial statements.

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 currency risk. The Company is not exposed to any other price risk.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

Disclosure controls and procedures are controls and other procedures that are designed to provide reasonable assurance that all relevant information required to be disclosed in the Company's reports filed or submitted as part of the Company's continuous disclosure requirements is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure and such information can be recorded, processed, summarized and reported within the time periods specified by applicable regulatory authorities.

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at February 28, 2011 as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of February 28, 2011, the disclosure controls and procedures were effective. However, Management and the Board recognize that no matter how well designed the Company's control systems are, such controls can only provide reasonable assurance, not absolute assurance, of detecting, preventing and deterring errors.

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 period ended February 28, 2011 , that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

DISCLOSURE OF OUTSTANDING SHARE DATA (As at April 28, 2011)

Authorized

Unlimited number of voting common shares without par value (2009 - 100,000,000 voting common shares with a par value of $0.01 per shares)

100,000,000 preferred shares, issuable in series, with a par value of $0.001 per share, none of which were issued and were eliminated effective October 15, 2009 (see below). 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 without par value and the Company changed domicile from Bermuda to British Columbia by way of a continuance under the *Business Corporations Act* (British Columbia) effective October 15, 2009. Accordingly, the Company re-allocated $14,269,781 from contributed surplus to share capital as of that date to reflect the change to its authorized capital.

Issued

Issued Common Shares	Value
23,256,252	$ 18,989,886

1. Incentive Stock Options Outstanding:

Number	Exercise Price	Expiry Date
625,000	$ 0.55	January 8, 2012
75,000	$ 0.70	October 19, 2012
100,000	$ 0.84	December 2, 2012
800,000		

2. Share Purchase Warrants Outstanding:

Number	Exercise Price	Expiry Date
1,392,500	$ 0.25	November 12, 2011
5,000,000	$ 0.60	November 19, 2011
100,000	$ 0.65	November 19, 2011
250,000*	$ 0.65	November 19, 2011
6,742,500		

* Agent`s Warrants

DISCLOSURE OF MANAGEMENT COMPENSATION

In accordance with the requirements of Section 19.5 of TSXV Policy 3.1, the Company provides the following disclosure with respect to the compensation of its directors and officers during the three months ended February 28, 2011:

Name of Director/Officer	Position	Category	Amount Paid/ Accrued
Leonard Harris	Director	Consulting Fees	$ 2,500
Keith Henderson	Director	Consulting Fees	$ 5,600
Michael Kinley	Director & former Chief Financial Officer	Consulting Fees	$ 6,000
Coille Van Alphen	Director	Consulting Fees	$ 2,500
Gary Freeman	President & Chief Executive Officer	Consulting Fees	$ 25,000
Peggy Wu	Chief Financial Officer	Consulting Fees	$ 2,947
Marla Ritchie	Corporate Secretary	Consulting Fees	$ 6,000

ADDITIONAL INFORMATION

Additional information relating to our company is available on SEDAR at www.sedar.com