

**INDICATOR MINERALS INC.**

**(An Exploration Stage Company)**

**FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTH PERIODS ENDED MAY 31, 2010**  
**In Canadian Dollars**

## **NOTICE**

### **No Auditor Review of the Interim Financial Statements**

The accompanying unaudited interim financial statements of the Company for the three and six month periods ended May 31, 2010 have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Indicator Minerals Inc.**  
**(An Exploration Stage Company)**  
**Balance Sheets**

**As at May 31, 2010**  
*Canadian Dollars (Unaudited)*

<b>ASSETS</b>	<b>May 31, 2010 (Unaudited)</b>	<b>November 30, 2009 (Audited)</b>
<b>Current</b>		
Cash and cash equivalents	\$ 1,104,506	\$ 490,372
Cash calls receivable	-	40,142
Marketable securities <i>(Note 5)</i>	5,750	3,125
GST recoverable	18,736	100,036
Permit bonds receivable <i>(Note 6)</i>	41,814	17,395
Prepaid expenses	39,804	32,272
	<b>1,210,610</b>	<b>683,342</b>
<b>Permit Deposits</b> <i>(Note 6)</i>	<b>11,771</b>	<b>-</b>
<b>Equipment</b> <i>(Note 7)</i>	<b>111,015</b>	<b>121,900</b>
<b>Option Agreement</b> <i>(Note 8)</i>	<b>147,800</b>	<b>5,743</b>
<b>Resource Property Costs</b> <i>(Note 9)</i>	<b>9,736,485</b>	<b>9,342,216</b>
	<b>\$ 11,217,681</b>	<b>\$ 10,153,201</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 558,326	\$ 115,905

**SHAREHOLDERS' EQUITY**

Share Capital <i>(Note 10)</i>	18,275,767	17,510,855
Contributed Surplus	4,998,253	4,290,185
Accumulated Other Comprehensive Income	(21,750)	(24,375)
Deficit	(12,592,915)	(11,739,369)
	<b>10,659,355</b>	<b>10,037,296</b>
	<b>\$ 11,217,681</b>	<b>\$ 10,153,201</b>

Nature of Operations and Going Concern *(Note 1)*  
 Commitment and Contingency *(Note 8, 9 and 12)*  
 Subsequent Events *(Note 13)*

ON BEHALF OF THE BOARD:

"Bruce Counts", President & CEO, Director

"Craig Bentham", Director

- See Accompanying Notes -

**Indicator Minerals Inc.**  
(An Exploration Stage Company)  
**Statements of Loss and Comprehensive Loss**  
For the Three and Six Month periods Ended May 31, 2010 and 2009  
Canadian Dollars (Unaudited)

	For the three months ended		For the six months ended	
	May 31, 2010	May 31, 2009	May 31, 2010	May 31, 2009
<b>Expenses</b>				
Advertising and promotion	\$ 8,803	\$ 1,966	\$ 19,554	\$ 6,532
Amortization	7,694	12,595	15,034	24,371
Conference and meetings	31,102	12,538	37,460	42,098
Corporate listing and filing fees	11,686	-	18,836	5,000
Investor relations	66,981	39,681	81,834	86,318
Office and administration	45,830	53,793	77,296	63,170
Professional fees	150,486	75,854	267,494	107,813
Rent	18,471	17,333	37,254	28,269
Stock-based compensation (Note 10d)	127,828	91,006	127,828	95,940
Transfer agent fees	5,201	1,405	6,146	3,029
Wages and consulting fees	110,096	80,644	191,660	172,919
<b>Loss before the undernoted</b>	<b>(584,178)</b>	<b>(386,815)</b>	<b>(880,396)</b>	<b>(635,459)</b>
<b>Other Income (Expenses)</b>				
Equipment rental income	2,750	-	2,750	-
Interest	-	163	-	1,592
	<b>2,750</b>	<b>163</b>	<b>2,750</b>	<b>1,592</b>
<b>Loss before income taxes</b>	<b>(581,428)</b>	<b>(386,652)</b>	<b>(877,646)</b>	<b>(633,867)</b>
<b>Future income tax recovery (Note 10e)</b>	<b>-</b>	<b>-</b>	<b>24,100</b>	<b>82,350</b>
<b>Loss for the year</b>	<b>(581,428)</b>	<b>(386,652)</b>	<b>(853,546)</b>	<b>(551,517)</b>
<b>Other comprehensive income (loss)</b>				
Unrealized recovery (loss) on available for sale investments (Note 5)	-	-	2,625	(1,875)
<b>Comprehensive loss</b>	<b>\$ (581,428)</b>	<b>\$ (386,652)</b>	<b>\$ (850,921)</b>	<b>\$ (553,392)</b>
<b>Basic and Fully Diluted Loss per Share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>78,892,058</b>	<b>63,996,702</b>	<b>75,983,201</b>	<b>63,966,702</b>

- See Accompanying Notes -

**Indicator Minerals Inc.**  
(An Exploration Stage Company)  
**Statements of Shareholders' Equity**  
For the Six Month period Ended May 31, 2010 and the  
Year Ended November 30, 2009  
Canadian Dollars (Unaudited)

	For the six months ended May 31, 2010 (Unaudited)	For the Year Ended November 30, 2009 (Audited)
<b>Share capital</b>		
Balance – beginning of year	\$ 17,510,855	\$ 17,080,540
Issued during the period, net of issuance costs	780,012	509,615
Issued under option agreement	9,000	
Flow-through income tax renunciation	(24,100)	(79,300)
Balance – end of period	18,275,767	17,510,855
<b>Contributed surplus</b>		
Balance – beginning of year	4,290,185	3,787,107
Fair value of share purchase warrants issued in private placement	580,240	398,222
Fair value of stock-based compensation on options vested	127,828	104,856
Balance – end of period	4,998,253	4,290,185
<b>Accumulated other comprehensive income</b>		
Balance – beginning of year	(24,375)	(22,500)
Unrealized loss on available for sale investments	2,625	(1,875)
Balance – end of period	(21,750)	(24,375)
<b>Deficit</b>		
Balance – beginning of year	(11,739,369)	(9,531,189)
Net loss for the period	(843,546)	(2,208,180)
Balance – end of period	(12,592,915)	(11,739,369)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 10,659,355</b>	<b>\$ 10,037,296</b>

- See Accompanying Notes -

**Indicator Minerals Inc.**  
**(An Exploration Stage Company)**  
**Statements of Cash Flows**

**For the Three and Six Month Periods Ended May 31, 2010 and 2009**

*Canadian Dollars (Unaudited)*

	For the three months ended		For the six months ended	
	May 31, 2010	May 31, 2009	May 31, 2010	May 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Cash Flows from (used in) Operating Activities</b>				
Net loss for the period	\$ (581,428)	\$ (386,652)	\$ (853,546)	\$ (551,517)
Items not affected by cash:				
Future income tax recovery	-	-	(24,100)	(82,350)
Stock-based compensation	127,828	91,006	127,828	95,940
Amortization	7,694	12,595	15,034	24,371
	<b>(445,906)</b>	<b>(283,051)</b>	<b>(734,784)</b>	<b>(513,556)</b>
Change in non-cash working capital:				
Cash calls receivable	-	229	40,142	(641)
GST recoverable	7,210	(11,931)	81,300	45,945
Permit bonds receivable	4,512	-	5,624	643,073
Prepaid expenses	(29,231)	20,221	(7,532)	20,221
Accounts payable and accrued liabilities	39,178	37,133	442,421	12,679
	<b>(69,237)</b>	<b>(237,399)</b>	<b>(171,829)</b>	<b>207,721</b>
<b>Cash Flows from (used in) Investing Activities</b>				
Equipment, net	(1,521)	(375)	(4,149)	(15,623)
Permit deposits	-	207,933	(41,814)	249,708
Resource property costs	(356,423)	(34,725)	(394,269)	(174,401)
Option Agreement	(40,191)	-	(142,057)	-
	<b>(398,135)</b>	<b>172,833</b>	<b>(552,246)</b>	<b>59,684</b>
<b>Cash Flows from Financing Activities</b>				
Issuance of share capital, net	1,369,252	-	1,369,252	-
<b>Net Increase (Decrease) in Cash and Cash Equivalents- Beginning of period</b>	<b>900,880</b>	<b>(64,566)</b>	<b>614,134</b>	<b>267,405</b>
<b>Cash and Cash Equivalents - End of period</b>	<b>\$ 1,104,506</b>	<b>\$ 363,807</b>	<b>\$ 1,104,506</b>	<b>\$ 363,807</b>

- See Accompanying Notes -

# Indicator Minerals Inc.

(An Exploration Stage Company)

## Notes to Financial Statements

For the Three and Six Month Periods Ended May 31, 2010 and 2009

Canadian Dollars (Unaudited)

### 1. Nature of Operations and Going Concern

Indicator Minerals Inc. ("Indicator" or the "Company") is an exploration stage enterprise and is currently exploring its mineral interests in Nunavut, Canada and Colombia with the objective of bringing the properties to the extraction and processing stage. The Company is listed on the TSX Venture Exchange ("TSX-V") and trades under the symbol IME.

The Company is in the process of exploring its mineral resource properties and has not yet determined whether these properties contain economically recoverable mineral reserves. The recoverability of the amounts capitalized to resource property costs is ultimately dependant upon the existence of economically recoverable ore reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to continue to explore and develop the properties, and upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown as resource property costs represent costs incurred to date, less amounts recovered from third parties and/or written-off, and do not necessarily represent present or future fair values.

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and on a basis which assumes that the Company will be able to continue its operation as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has a history of losses with no operating revenue, other than interest income which raises substantial doubt about the Company's ability to continue as a going concern. The Company has forecast financial results and cash flows for the next year. The forecast is based on management's best estimates of operating conditions in the context of current economic conditions and today's capital market climate. Based on its forecast, the Company expects that sufficient liquidity and equity financing is available to meet its obligations over the next year.

The ability of the Company to carry out its planned business objectives and continue as a going concern is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or generate operating profitability and positive cash flow from its mineral resource properties. There can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows from its future operations. If the Company is unable to obtain adequate additional financing, the Company would be required to curtail its planned operations, exploration and development activities.

The financial statements do not include any adjustments relating to the recorded amounts and classification of assets and liabilities should the Company be unable to continue as a going concern.

### 2. Significant Accounting Policies

The Company prepares its interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual financial statements for the year ended November 30, 2009. The disclosures contained in these interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these interim financial statements should be read in conjunction with the annual financial statements for the year ended November 30, 2009. Certain comparative figures have been restated to conform to the current period's financial statements presentation.

# Indicator Minerals Inc.

(An Exploration Stage Company)

## Notes to Financial Statements

For the Three and Six Month Periods Ended May 31, 2010 and 2009

Canadian Dollars (Unaudited)

### 3. Adoption of New and Future Changes in Accounting Standards

#### Future Changes in Accounting Standards

International Financial Reporting Standards ("IFRS")

The CICA has announced it will transition Canadian GAAP for publicly accountable enterprises to IFRS. Under the terms of the transition rules, the Company's financial statements are to be prepared in accordance with IFRS for the fiscal year commencing on December 1, 2011 with restatement of the Company's November 30, 2011 comparative figures. While the Company has begun assessing the potential impact of the adoption of IFRS in 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 4. Capital Disclosures and Financial Instruments

#### a) Capital Disclosures

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to explore and develop its projects for the benefit of its shareholders and other stakeholders. The Company considers the components of shareholders' equity, and debt (if any), as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. Since the Company is in the exploration stage, the Company may issue new shares through private placements in order to maintain or adjust the capital structure.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company has completed an equity financing in 2010, which together with the existing working capital and further equity financings is expected to be sufficient to meet its corporate overhead expenses and required exploration expenditures through the end of fiscal 2010, based on current plans. (See also note 13).

There were no changes to the Company's approach to capital management during the three and six months ended May 31, 2010 and 2009. The Company is not subject to externally imposed capital requirements as at May 31, 2010.

#### b) Financial Instruments

The Company's financial instrument assets consist of cash and cash equivalents, which are designated as held for trading and measured at fair value (level one of the fair value hierarchy in CICA Section 3862); marketable securities, which are classified as available-for-sale and measured at fair value; and cash calls receivable, GST recoverable, and permit bonds receivable, which are designated as loans and receivables and are measured at amortized cost. Financial instrument liabilities are accounts payable and accrued liabilities which are designated as other liabilities and measured at amortized cost. The fair values of these financial instruments approximate their carrying values due to the short-term nature of these investments and/or the ability for prompt liquidation. Marketable securities are recorded at market value based on quoted market prices of the common shares held in another public company, which is consistent with level one of the fair value hierarchy.

# Indicator Minerals Inc.

(An Exploration Stage Company)

## Notes to Financial Statements

For the Three and Six Month Periods Ended May 31, 2010 and 2009

Canadian Dollars (Unaudited)

### 4. Capital Disclosures and Financial Instruments - Continued

#### b) Financial Instruments - Continued

The Company is exposed to credit and liquidity risk with respect to its financial instruments. It is management's opinion that the Company is not exposed to significant interest, foreign exchange or commodity risks arising from its financial instruments.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents, short-term investments and amounts receivable. The Company limits exposure to credit risk arising from its cash and cash equivalents by maintaining its cash and cash equivalents with high credit quality financial institutions.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they become due. The Company ensures that there is sufficient working capital in order to meet short term business requirements. The Company's cash and cash equivalents and short term investments are highly liquid and available on demand to meet the Company's ongoing obligations. The Company's accounts payable and accrued liabilities are all due within several months. See also note 1 to the financial statements.

### 5. Marketable Securities

	At May 31, 2010 (Unaudited)		At November 30, 2009 (Audited)	
	Market Value	Cost	Market Value	Cost
Common shares of a public company, representing less than a 5% interest in the company	\$5,750	\$27,500	\$3,125	\$27,500

### 6. Permit Deposits and Permit Bonds Receivable

Prospecting permit deposits are paid to the Receiver General for Canada and recoverable based on exploration spending and filing of requisite geological assessment reports. If the spending commitments are not met, the deposits are forfeited.

The Company has been filing reports with the federal authorities. These reports may result in a refund of amounts paid by the Company. Any such proceeds result in a reduction in the amount recorded for permits with any non-refunded amounts being either written off or transferred to resource property costs.

Permit bonds receivable reflects the amount of deposits receivable for geological assessment reports accepted by the federal authorities, for which refunds are anticipated in the current year.

**Indicator Minerals Inc.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**

**For the Three and Six Month Periods Ended May 31, 2010 and 2009**

*Canadian Dollars (Unaudited)*

**7. Equipment**

Details are as follows:

	At May 31, 2010 (Unaudited)			At November 30, 2009 (Audited)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 63,559	\$ 42,586	\$ 20,973	\$ 62,398	\$ 38,884	\$ 23,514
Computer software	76,962	75,467	1,495	73,973	73,973	-
Field equipment	90,880	41,970	48,910	90,880	36,534	54,346
Office furniture and equipment	72,089	43,399	28,690	72,089	40,212	31,877
Leasehold improvements	16,204	5,257	10,947	16,204	4,041	12,163
	<b>\$ 319,694</b>	<b>\$ 208,679</b>	<b>\$ 111,015</b>	<b>\$ 315,544</b>	<b>\$ 193,644</b>	<b>\$ 121,900</b>

**8. Option Agreement**

**Rio Verde Property**

On November 20, 2009 the Company entered into a Letter Agreement whereby it was granted the right to acquire a 60% interest in Rio Verde Enterprises Inc. ("Rio Verde"), a private Canadian Company entitled to acquire Colombian emeralds and export such emeralds.

Under the terms of the Letter Agreement (as amended), the Company had until February 28, 2010 for initial due diligence. On March 4, 2010 the Company announced it had completed its due diligence review and has elected to proceed with the Letter Agreement subject to financing. There is no formal commitment to this funding.

Under the terms of the Letter Agreement on April 5, 2010, the Company issued 100,000 common shares to Rio Verde and must by August 31, 2011 fund an aggregate of \$1,000,000 including \$500,000 on exploration and development and \$500,000 on marketing and sales.

Upon completion of the initial 18 month period on August 31, 2011, Indicator will have the right to purchase a 60% share ownership of Rio Verde by investing \$5,000,000 into Rio Verde and issuing a further 2.4 million common shares to Rio Verde. In addition, the Company will have a onetime right to extend the Evaluation Period by an additional 18 months under certain conditions that include an additional \$1,000,000 evaluation expenditure.

**Indicator Minerals Inc.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**

**For the Three and Six Month Periods Ended May 31, 2010 and 2009**

*Canadian Dollars (Unaudited)*

**9. Resource Property Costs**

- a) The following provides a summary of the costs capitalized and written off with respect to our resources properties:

	<b>At May 31, 2010 (Unaudited)</b>			<b>At November 30, 2009 (Audited)</b>		
	Acquisition Costs	Deferred Exploration	Total	Acquisition Costs	Deferred Exploration	Total
<b>Mineral Interests</b>						
<b>Hunter Properties</b>						
Balance, beginning of year	\$ 1,297,059	\$ 6,431,508	\$ 7,728,567	\$ 1,259,937	\$ 6,446,856	\$ 7,706,793
Acquisition costs	-	-	-	50,000	-	50,000
Claims and staking	-	1,399	1,399	-	32,742	32,742
Analytical and sampling	-	-	-	-	24,113	24,113
Consulting	-	8,168	8,168	-	45,881	45,881
Fieldwork	-	335,084	335,084	-	86,878	86,878
Write-off	-	-	-	(12,878)	(204,962)	(217,840)
Balance, end of year	1,297,059	6,776,159	8,073,218	1,297,059	6,431,508	7,728,567
<b>North Country Gold Corp. (formerly CBR Gold Corp.)</b>						
Balance, beginning of year	288,934	630,449	919,383	288,934	502,602	791,536
Claims and staking	-	1,075	1,075	-	13,715	13,715
Analytical and sampling	-	1,132	1,132	-	62,255	62,255
Fieldwork	-	6,851	6,851	-	51,877	51,877
Balance, end of year	288,934	639,507	928,441	288,934	630,449	919,383
<b>Indicator Properties</b>						
Balance, beginning of year	322,813	371,453	694,266	322,813	1,177,670	1,500,483
Claims and staking	-	-	-	-	-	-
Analytical and sampling	-	29,540	29,540	-	21,175	21,175
Consulting	-	-	-	-	32,082	32,082
Fieldwork	-	11,020	11,020	-	195	195
Write-off	-	-	-	-	(859,669)	(859,669)
Balance, end of year	322,813	412,013	734,826	322,813	371,453	694,266
<b>TOTAL</b>	<b>\$ 1,908,806</b>	<b>\$ 7,827,679</b>	<b>\$ 9,736,485</b>	<b>\$ 1,908,806</b>	<b>\$ 7,433,410</b>	<b>\$ 9,342,216</b>

Amounts written off during the year ended November 30, 2009 related to cost capitalized on certain claims where the Company has chosen not to renew its prospecting permits.

b) **Hunter Properties**

**General**

The Company owns an 80% interest in the diamond rights of several properties, acquired from Hunter Exploration Group ("Hunter"), an arm's length party. Hunter retains a 20% carried interest in the properties until a feasibility study is completed. The properties are located near the communities of Kugaaruk and Taloyoak in Nunavut Territory. The properties are subject to a gross overriding royalty of up to 2%. The Company pays an annual advance royalty of \$25,000 to each of Hunter and Royal Gold Inc. (formerly International Royalty Corp.), should the Company elect to retain any of the original properties subject to the Hunter agreement.

**Indicator Minerals Inc.**  
(An Exploration Stage Company)  
**Notes to Financial Statements**

For the Three and Six Month Periods Ended May 31, 2010 and 2009

Canadian Dollars (Unaudited)

**9. Resource Property Costs - Continued**

b) **Hunter Properties - Continued**

**Darby**

On June 2, 2006 the Company entered into an agreement with Teck Resources Ltd. (formerly Teck Cominco Limited ("Teck") whereby Teck has the option to earn a 51% interest in the diamond rights of the Company's 80% owned Darby Project, which is part of the Hunter properties, by spending \$14 million over four years, including reimbursement of limited expenditures by the Company on the property, prior to June 2, 2009. The Company had been operating the exploration activities on the Darby properties for Teck under a service contract that was renewable annually and was incurring the exploration expenditures and being reimbursed by Teck monthly. The Company was receiving a 10% administrative fee on all disbursements in addition to payment for all overhead directly attributable to the project. As of February 26, 2007, Teck became the operator of the project. It is estimated that during the year ended November 30, 2008, Teck surpassed the \$14,000,000 in aggregate exploration spending required for it to earn an undivided 51% interest in the Darby Project; however, no accounting of expenditures has been received by the Company for review and therefore no interest in the project has been assigned to Teck as at May 31, 2010.

Once Teck has earned its 51% interest a joint venture is to be formed and the following items will apply:

- While Teck owns at least a 51% interest in the Darby Project, it will be obliged to carry Indicator's remaining 29% share of exploration expenses through to mine production on a project loan basis. Indicator will be required to repay the loan only in the event of cash flow from the project.
- Teck will propose a minimum program of \$2.5 million per year to advance the project.
- Indicator will have the right to purchase Teck interest in the project, under certain circumstances, if Teck elects not to develop a mine.

**Nanuq North**

Under the terms of a letter agreement entered into in 2005, the Company has a 40% interest in 16 core claims covering 11,605 hectares (the "Core Claims"). Peregrine Diamonds Ltd. ("Peregrine") has a 40% interest and Hunter a 20% interest. Exploration costs on the Core Claims are currently funded on a 50/50 basis by Peregrine and the Company. Hunter's 20% interest is carried through to completion of a scoping study. Peregrine and the Company each have an undivided 50% interest in the remaining 21,451 hectares of claims at Nanuq North.

On July 7, 2009 the Company, as operator of the Nanuq North Project gave notice to Peregrine and Hunter of its intention to proceed with a 2009 exploration program with a budget of \$2.34 million. On July 12, 2009 Peregrine advised Indicator that it has commenced arbitration proceedings to assess whether the Company has the right to unilaterally implement the program and require Peregrine to contribute 50% of planned expenditures.

The Statement of Claim submitted by Peregrine to the Arbitration Centre asserts that the Company does not have the right to set exploration programs and budgets on Nanuq North without the approval of Peregrine. Peregrine is also seeking an award of costs, in an amount that cannot be quantified at this time.

**Indicator Minerals Inc.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**

**For the Three and Six Month Periods Ended May 31, 2010 and 2009**

*Canadian Dollars (Unaudited)*

**9. Resource Property Costs - Continued**

**Nanuq North - Continued**

On July 24, 2009 the Company and Hunter each filed a statement of defense and counterclaim. In its counterclaim, the Company asserts that the Letter Agreement between the Company, Hunter and Peregrine is unenforceable and should be set aside. Hunter is seeking the same outcome in an independent counterclaim.

On April 30, 2010 the Company announced that it has reached an agreement with Peregrine Diamonds Ltd. to adjourn arbitration hearings scheduled for May 2010 involving the Nanuq North Project in order to allow Indicator and Peregrine to negotiate a Joint Venture Agreement with respect to the Nanuq North Project. As a term of the Adjournment Agreement, Indicator and Peregrine have agreed to conduct a \$2.0 million exploration program at Nanuq North in 2010. This exploration program was conducted in late May and June 2010.

**Grail**

The Grail Project (a combination of the Sanagak and Mayo Projects) is located on the Boothia Peninsula and includes approximately 1.1 million acres of prospecting permits. In 2004, heavy mineral samples were collected on the project on a 3km by 3km grid. Kimberlite indicator minerals have been recovered in five spatially separate locations.

In fall of 2009, Indicator staked an additional 16 claims encompassing 41,320 acres of land contiguous to the Grail property. This acquisition was for the purposes of securing strategic ground in close proximity to positive results returned from previous exploration campaigns.

**c) North Country Gold Corp.**

The Company and North Country Gold Corp. (formerly CBR Gold Corp.), a company with directors in common, finalized agreements in 2006 for three properties, named Borden, Kellet and TIM. In order to earn a 51% interest in the Borden and Kellet properties and a 35% interest in the TIM property, the Company is required to incur costs equal to or greater than the performance bond required over the term of the subject prospecting permits and to incur the staking costs for the associated mineral claims in the final year of the permits. The TIM and Kellet properties have since been abandoned.

The Company can then earn a further 19% interest in the Borden property by spending \$6 per acre over the first two years after staking the claims in December 2008. Upon earning a 70% interest in the Borden property, the Company and CBR will split diamond exploration costs 80%/20% respectively. The property included in the agreement is located in the Kivalliq region of Nunavut. The Borden property is subject to a gross overriding royalty of up to 1% of production.

**d) Indicator Properties**

The Company has several 100% owned grass roots properties across the Nunavut Territory. The most notable of these properties is the Dorset Project located on the Foxe Peninsula of Baffin Island. As at May 31, 2010, the Company has capitalized \$343,070 on the Dorset Project. Each of the grassroots properties held by the Company is being evaluated with heavy mineral sampling in an effort to confirm the presence of kimberlite, the primary source of diamond, and to isolate the general location of the kimberlites.

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### **Notes to Financial Statements**

**For the Three and Six Month Periods Ended May 31, 2010 and 2009**

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#### **9. Resource Property Costs - Continued**

##### **e) Marketing Agreement**

On March 12, 2008 the Company signed an agreement with Munic Gems N.V. ("Munic Gems") under which Munic Gems will use its best efforts to bring project opportunities to the Company for review with a particular focus on India and Brazil. Munic Gems will retain the following rights on certain projects that they have brought to the Company:

- The right to act as agent on the sale of 50% of Indicator's share of diamond production at a commission of 5%
- A Net Profits Interest (NPI) of 5%.

The Company will continue to generate and acquire projects through its own efforts. Munic Gems will have the following rights on these projects as long as it earns and maintains a 9.9% ownership interest in the common shares of the Company:

- The right to act as agent on 20% of the Company's share of diamond production at a commission of 5%
- The first right-of-offer to underwrite 100% of the Company's share of debt financing for capital costs incurred after the completion of a bankable feasibility study. In exchange, Munic Gems will have the right to market 100% of the Company's share of diamond production for the term of the debt at a commission of 5%.

Under the terms of the Agreement, Munic Gems was required to earn a 9.9% ownership interest in the Company through Private Placement financings at the Company's discretion, beginning with the purchase of 2.5 million units of the Company within 60 days of the Agreement being signed. This initial financing was completed in May 2008 and each unit consisted of one common share and one warrant to purchase one common share. Each unit in the initial financing was priced at \$0.29, with the exercise price of each warrant being \$0.36.

Once Munic Gems has earned a 9.9% interest in the Company, it is to maintain the 9.9% ownership through the exercise of anti-dilution right on subsequent financings. Munic Gems maintains the anti-dilution right so long as it does not skip more than three financings in total and does not skip two consecutively. Although Munic Gems is in default of this agreement, the Company has not at this time exercised the dilution right.

At May 31, 2010 the Company has not acquired any projects under the terms of this agreement.

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**Notes to Financial Statements**

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**10. Share Capital**

a) Details are as follows:

	Number		Amount
Authorized:			
Unlimited number of common voting shares without par value			
Unlimited number of preferred shares			
Issued:			
Balance – November 30, 2008	63,966,702	\$	17,080,540
Private placement, net of issuance costs	9,043,000		509,615
Future income taxes on renoucement of flow-through shares issued ( <i>Note 10e</i> )	-		(79,300)
Balance – November 30, 2009	73,009,702	\$	17,510,855
Private placement, net of issuance costs	16,381,725		780,012
Issued under terms of option agreement ( <i>Note 8</i> )	100,000		9,000
Future Income Taxes on renoucement of flow-through shares issued ( <i>Note 10e</i> )			(24,100)
Balance – May 31, 2010	89,491,427	\$	18,275,767

b) **Private Placements**

*Private Placement April and May 2010*

During April and May 2010 the Company completed two tranches of a non-brokered private placement. The private placement consisted of 10,288,750 non flow-through units at a price of \$0.08 per unit for total gross proceeds of \$823,100 and 5,985,000 flow-through units at a price of \$0.10 per unit for total gross proceeds of \$598,500. Each non flow-through unit consisted of one common share and one non transferable share purchase warrant entitling the holder to purchase one common share at \$0.12 per share. 8,997,500 of these warrants expire on April 28, 2012 and 1,291,250 on May 5, 2012. An amount of \$327,366 was allocated to these warrants on a pro-rata basis. Each flow-through unit consisted of one common share and one non transferrable share purchase warrant entitling the holder to purchase one common share at \$0.15 per share. 4,270,000 of these warrants expire on April 28, 2012 and 1,715,000 on May 5, 2012. An amount of \$232,906 was allocated to the fair value of the warrants on a pro- rata basis.

The fair value of agents fees and expenses related to the private placement totalled \$162,701, of which \$97,774 was allocated to the proceeds from the share issuance and the remaining \$64,927 was allocated to contribute surplus as a cost of the warrants issued. The agents fees and expenses are comprised of \$61,348 in cash payments, 1,032,288 warrants (with a fair value of \$84,894), and 107,975 common shares (with a fair value of \$16,459). Each Agent Warrant entitles the holder to purchase one common share at a price of \$0.15. 773,900 of the Agent Warrants expire on April 28, 2012 and 258,388 expire on May 5, 2012.

*Private Placement August 2009*

During August 2009, the Company completed the first tranche of a non-brokered private placement. The private placement consisted of 8,330,000 non flow-through units at a price of \$0.10 per unit, for total gross proceeds of \$833,000 and 713,000 flow-through units at a price of \$0.13 per unit for total gross proceeds of \$92,690. Each non flow-through unit consisted of one common share and one non transferrable share purchase warrant entitling the holder to purchase one common share at \$0.20 per share until August 10, 2011. An amount of \$374,462 was allocated to the fair value of the warrants on a pro rata basis. Each flow-through unit consisted of one common share and one half of one non transferrable share purchase warrant entitling the

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## Notes to Financial Statements

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### 10. Share Capital – Continued

#### b) Private Placements – Continued

holder to purchase one half of one common share at \$0.20 per share until August 10, 2011. An amount of \$16,026 was allocated to the fair value of the warrants on a pro rata basis.

Agents fees and expenses relating to the issue were paid in cash totalling \$17,853 and 172,060 agents warrants were issued which had a fair value of \$7,734. The agents warrants entitle the holder to purchase one common share at \$0.20 until August 10, 2011.

#### c) Share Purchase and Agents Warrants

Details of outstanding warrants are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding November 30, 2008	6,787,500	\$ 0.77
Issued	8,858,560	0.20
Expired without exercise	(3,420,000)	(1.19)
Outstanding November 30, 2009	12,226,060	\$ 0.24
Issued	17,306,038	0.13
Expired without exercise	(2,500,000)	(0.36)
Outstanding May 31, 2010	27,032,098	\$ 0.16

At May 31, 2010, the following warrants were outstanding:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life in Years
August 25, 2010	\$0.25	87,500	0.23
August 25, 2010	0.30	637,500	0.23
September 10, 2010	0.25	17,500	0.27
September 10, 2010	0.30	125,000	0.27
August 10, 2011	0.20	8,858,560	1.19
April 28, 2012	0.12	8,997,500	1.92
April 28, 2012	0.15	5,043,900	1.92
May 5, 2012	0.12	1,291,250	1.93
May 5, 2012	0.15	1,973,388	1.93
Weighted average of exercise price	\$0.16	27,032,098	1.63

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**Notes to Financial Statements**

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**10. Share Capital – Continued**

**c) Share Purchase and Agents Warrants – Continued**

**Period ended May 31, 2010 – Warrants**

The fair value of warrants issued during the period was estimated using the Black-Scholes option Pricing Model with the following assumptions:

Estimated risk-free rate	1.72% - 1.97%
Expected volatility	134% - 139%
Estimated dividend yield	0.0%
Expected life of warrants	2 years

**Year ended November 30, 2009 – Warrants**

The fair value of warrants issued during the period was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Estimated risk-free rate	1.41%
Expected volatility	131%
Estimated dividend yield	0.0%
Expected life of warrants	2 years

**d) Stock Options**

The Company has established a stock option plan (the "Plan") for directors, employees, and consultants of the Company. From time to time, shares may be reserved by the Board, in its discretion, for options under the Plan, provided that at the time of the grant, the total number of shares so reserved for issuance by the Board shall not exceed 10% of the issued and outstanding listed shares (on a non-diluted basis) as at the date of grant. No options shall be granted, without regulatory approval, entitling any single individual to purchase in excess of 5% of the then outstanding shares in the Company in any 12 month period and no more than 2% of the optioned shares may be issued to any one consultant in any 12 month period. If the option rights granted under the Plan shall expire or terminate for any reason without having been exercised such optioned shares may be made available for other options to be granted under the Plan. The shares so reserved by the Board under the Plan shall be authorized but unissued shares.

The options are non-transferable and will expire, if not exercised, immediately upon dismissal by the Company with cause or 90 days following the date the optionee otherwise ceases to be a director, officer, manager, consultant or employee of the corporation for reasons other than death, or one year after the death of an optionee. Pursuant to the policies of the TSX-V options granted pursuant to the Plan in excess of 10% of the issued and outstanding common shares at the time of the grant must be subject to vesting.

	Number	Weighted Average Exercise Price
Outstanding November 30, 2008	6,232,000	0.45
Expired	(1,964,500)	0.48
Granted	1,385,000	0.12
Outstanding November 30, 2009	5,652,500	0.35
Expired	(225,000)	0.23
Granted	1,100,000	0.15
Outstanding May 31, 2010	<b>6,527,500</b>	<b>\$ 0.32</b>

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## Notes to Financial Statements

For the Three and Six Month Periods Ended May 31, 2010 and 2009

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### 10. Share Capital – Continued

#### d) Stock Options – Continued

##### Period ended May 31, 2010 – Grants

During the quarter ended May 31, 2010 the Company granted 1,100,000 options to employees, directors and consultants and recorded stock based compensation expense of \$127,828. The fair value of the stock options was calculated using a Black-Scholes Pricing model with the following assumptions:

##### Period ended May 31, 2010 – Grants – Continued

Estimated risk-free rate	2.75%
Expected volatility	105%
Estimated annual dividend yield	0.0%
Expected life of options	5 years

##### Year ended November 30, 2009 – Grants

During the year ended November 30, 2009 the Company granted 1,385,000 options to employees, directors and consultants and recorded stock based compensation expense of \$104,856. The fair value of the stock options was calculated using a Black-Scholes Pricing model with the following range of assumptions:

Estimated risk-free rate	2.0% - 2.1%
Expected volatility	94.3 – 99.0%
Estimated annual dividend yield	0.0%
Expected life of options	5 years

The stock options vest immediately upon issuance.

Expiry Date	Weighted Average Exercise Price	Number of Options	Weighted Average Remaining in Years
October 23, 2010	\$ 0.32	805,000	0.40
December 19, 2010	0.28	100,000	0.55
April 11, 2011	0.58	360,000	0.86
August 2, 2011	0.75	837,500	1.17
October 1, 2011	0.79	25,000	1.33
November 20, 2011	0.40	150,000	1.47
March 13, 2012	0.45	175,000	1.78
September 17, 2012	0.40	955,000	2.30
February 28, 2013	0.25	100,000	2.75
November 12, 2013	0.10	535,000	3.45
February 1, 2014	0.10	160,000	3.68
May 20, 2014	0.12	1,125,000	3.97
June 15, 2014	0.12	100,000	4.04
May 31, 2015	0.15	1,100,000	5.00
	\$ 0.32	6,527,500	2.68

All options were fully vested and exercisable at May 31, 2010.

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**Notes to Financial Statements**

**For the Three and Six Month Periods Ended May 31, 2010 and 2009**

*Canadian Dollars (Unaudited)*

**10. Share Capital – Continued**

**e) Flow-Through Shares**

**2010 Issuance**

During the quarter ended May 31, 2010 the Company issued 5,985,000 flow-through common shares for total proceeds of \$598,500 which must be used for qualifying exploration expenditures. The unspent balance of this flow-through issuance at May 31, 2010 was \$583,725.

**2009 Issuance**

During the year ended November 30, 2009 the Company issued 713,000 flow-through common shares for total proceeds of \$92,690 which must be used for qualifying exploration expenditures. The future income tax liability estimated to be \$24,100 (by applying a future tax rate of 26%) resulting from the renunciation of these qualifying expenditures was recorded subsequent to November 30, 2009 when the renunciation tax forms were filed, in accordance with the pronouncement of the CICA Emerging Issues Committee Abstract 146, and share capital will be reduced accordingly.

The valuation allowance previously recorded against future income tax assets was reduced by \$24,100 at the time of renunciation to offset the future income tax liability. This resulted in a recovery being recorded in the statement of loss during the first quarter of the current year.

**2008 Issuance**

During the year ended November 30, 2008, the Company issued 1,525,000 flow-through common shares for total proceeds of \$305,000 which must be used for qualifying exploration expenditures and were renounced to the flow-through shareholders effective December 31, 2008. The future income tax liability estimated to be \$79,300 (by applying a future tax rate of

26%) resulting from the renunciation of these qualifying expenditures was recorded subsequent to November 30, 2008 when the renunciation tax forms were filed, in accordance with the pronouncement of the CICA Emerging Issues Committee Abstract 146, and share capital will be reduced accordingly.

The valuation allowance previously recorded against future income tax assets was reduced by \$79,300 at the time of renunciation to offset the future income tax liability. This resulted in a recovery being recorded in the statement of loss during the year ended November 30, 2009.

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## Notes to Financial Statements

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### 11. Related Party Transactions

The Company had the following transactions with the corresponding related parties:

		For the Three Months Ended		For the Six Months Ended	
		May 31, 2010	May 31, 2009	May 31, 2010	May 31, 2009
Relationship	Nature of Transaction	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Company of which the Director and VP Exploration is the majority shareholder	Geological Services	\$34,650	\$26,700	\$54,300	\$52,050
Company of which an independent Director is a shareholder	Marketing	\$22,735	\$7,930	\$22,735	\$15,280

Of these amounts \$57,385 was unpaid at May 31, 2010 (November 30, 2009 - \$11,273) and is included in accounts payable and accrued liabilities.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 12. Commitments

Lease Commitment:

The Company signed a lease for a period of 44 months for office premises effective April 1, 2009 and has lease commitments as follows:

Remainder of	2010	\$	43,000
	2011		73,139
	2012		68,399
		\$	<u>184,538</u>

### 13. Subsequent events

#### a) Private Placement June 2010

During June 2010 the Company completed the first tranche of non-brokered private placement. The private placement consisted of 10,000,000 flow-through units at a price of \$0.15 per flow-through unit. Each flow-through unit consisted of one flow-through common share and one share purchase warrant entitling the holder to purchase one common share at \$0.20 per share until June 17, 2012. Subject to an acceleration provision in the event the closing price of the Company's shares on the TSX Venture Exchange exceeds \$0.30 for at least 10 consecutive trading days.

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## Notes to Financial Statements

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### 13. Subsequent events - *Continued*

#### a) *Private Placement June 2010 – Continued*

Finder's fees and expenses relating to the issue were paid in cash totalling \$90,000 and 700,000 finder's options were issued. Each finder's option is exercisable to purchase one finder's unit at a price of \$0.15 per unit until June 17, 2012. Each finder's unit is comprised of one common share and one quarter of one non-transferable share purchase warrant of the Company, with each whole warrant exercisable to purchase one common share of the Company at a price of \$0.20 per share until June 17, 2012. The warrants are subject to an acceleration provision in the event the closing price of the Company's shares on the TSX Venture Exchange exceeds \$0.30 for at least 10 consecutive trading days.

#### b) *Private Placement July 2010*

During July 2010 the Company completed the second and final tranche of a non-brokered private placement. The final tranche consisted of 2,037,500 non flow-through units of a price of \$0.12 per unit for gross proceeds of \$244,500. Each unit consisted of one non flow-through common share and one share purchase warrant entitling the holder to purchase one common share at a price of \$0.16 per share until July 14, 2012. The warrants are subject to an acceleration provision in the event the closing price of the Company's shares on the TSX Venture Exchange exceeds \$0.24 for at least 10 consecutive trading days.

Finder's fees relating to the issue were paid in cash totalling \$714 and 5,950 non-transferable warrants were issued. Each warrant entitles the holder to purchase one common share at a price of \$0.10 per share until July 14, 2012.