# INDIGO EXPLORATION INC.

## Management's Discussion and Analysis of Financial Position and Results of Operations

The following information, prepared as of February 26, 2010, should be read in conjunction with the unaudited financial statements of Indigo Exploration Inc. for the three months ended December 31, 2009 and the audited financial statements and accompanying annual MD&A of Indigo Exploration Inc. (the "Company") for the year ended September 30, 2009, which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated.

## FORWARD-LOOKING STATEMENTS

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A and in particular the "Outlook" section, contains forward-looking statements, including, without limitation, statements about the mineral properties and financing activities. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. Information concerning the interpretation of property exploration results may also be considered a forward-looking statement, as such information constitutes a prediction of what mineralization might be found to be present if and when a project is actually developed.

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of February 26, 2010.

- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Such risks and other factors include, among others, risks related to integration of acquisitions; risks related to operations; actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metals; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risks and Uncertainties" Therefore, the Company cannot provide any assurance that forward-looking statements will materialize.

- The Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

**GENERAL**

The Company was incorporated on February 29, 2008 under the Business Corporations Act of British Columbia. The Company became a reporting issuer on November 20, 2009, closed its Initial Public Offering ("IPO") on December 29, 2009 and commenced trading on the TSX Venture Exchange ("TSXV") on December 31, 2009, under the trading symbol "IXI."

The Company is a junior natural resource company engaged in the acquisition, exploration and development of natural resource properties. The Company is yet to receive any revenue from its mineral exploration operations. Accordingly the Company has no operating income or cash flows. Its continued existence has relied almost exclusively upon equity financing activities, which is not expected to significantly change in the immediate future.

***Fredy Creek Project***

Indigo's primary asset is the 5868 hectare Fredy Creek Project located in North Central British Columbia approximately 360 miles northeast of Vancouver, British Columbia in the Cariboo Mining Division ("the Property"). The Company is exploring for a copper-molybdenum porphyry deposit on its Fredy Creek property. The Gibraltar copper-molybdenum mine lies 12.6 kilometres northwest of the Property.

Indigo has an option to earn a 100% interest in the Property subject to a 2% net smelter royalty ("NSR"), by issuing 4,000,000 shares to the Beneficial Owners and by incurring an aggregate of $2,000,000 in exploration expenditures over a period of five years from the date of the Option Agreement. Indigo also has the right, at any time, to purchase one-half (1%) of the NSR, for a one-time payment of $1,000,000.

**Geology**

With the exception of a single rock exposure in the northeast corner of the property there is no outcrop on the Fredy Creek property due to a thick mantle of glacial till. The property is suspected to be underlain by marine sediments and volcanics of the Permian to Triassic Cache Creek Group. Regional aeromagnetics indicate a subdued circular feature that corresponds approximately with the north-central portion of the Mobile Metal Ion ("MMI") soil grid.

The producing Gibraltar porphyry Cu-Mo Mine of Taseko Mines Limited lies 12.6 kilometres to the northwest of the Fredy Creek property. The northwest-southeast trending structural nature of mineralization at Gibraltar trends towards the Fredy Creek property.

**Previous Exploration**

The ground presently comprising the Fredy Creek property was initially explored in the early 1970's during the staking rush associated with the discovery of the Gibraltar porphyry copper – molybdenum deposits in the late 1960's.

Recent exploration has concentrated in the northwest corner of the present property, first with United Gunn Resources Ltd. in the early 1990's and later with Stikine Gold Corp. in 2006 and 2007. These programs concentrated largely on areas outside of the current Fredy Creek property boundary and consisted of geochemistry, geophysics and limited diamond drilling.

The property vendor completed an MMI soil survey in the southeastern part of the property in September 2007. These results are discussed below.

**2007 Exploration**

A 150 metre by 150 metre MMI soil survey was completed over the suspected "Gibraltar-like" northwest-southeast trend on the Fredy Creek property by the vendor in 2007. Two northwest-southeast copper anomaly trends were identified. These anomalies appear to exhibit a reticulate pattern with possible trends in an east-west and north-south direction as well as northwest-southeast direction. Molybdenum anomalies have a fairly well defined east-west and north-south reticulate pattern.

**2008 Exploration**

Indigo commissioned Quantec Geoscience Ltd. of Toronto, Ontario to conduct a 12 line kilometre Titan 24 DCIP and MT ground geophysical survey over the heart of the Fredy Creek MMI grid. Four 3 kilometre long lines spaced approximately 500 metres apart were cut and subsequently geophysically surveyed. The intent of the survey was to provide resistivity and chargeability mapping, providing targets that may be related to conducive and/or polarisable horizons, pod-like bodies and massive to disseminated zones of potential metallic mineralization.

The ground IP survey suggests the Fredy Creek property is underlain by a thin (<100 metre) conductive layer that probably represents till and overburden underlain by northwest – southeast trending bedrock geology. Five distinct bedrock IP anomalies were identified.

Three of the IP anomalies are coincident with the MMI copper anomalies and represent high priority drill targets. Two of the three drill targets are areas of coincident chargeability and resistivity highs along the MMI copper trends. The third target is an area of coincident resistivity high with anomalous MMI Cu and Mo.

In the spring of 2010, Indigo plans on conducting the phase one exploration program, as recommended in the National Instrument 43-101 Technical Report prepared by Stephen B. Butrenchuk, P.Geol, the Qualified Person, which is a minimum of 900 metres of diamond drilling to test the three high priority drill targets.

## RESULTS OF OPERATIONS

The Company recorded a net loss of $23,249 ($0.00 per share) for the three months ended December 31, 2009 as compared to a net loss of $8,691 ($0.00 per share) for the three months ended December 31, 2008. The increase to the net loss recorded the three months ended December 31, 2009 is the net result of different increases and decreases to various expenses. Of note are the following items:

- accounting and audit fees ($12,569 vs. $741) increased significantly due to the accounting and audit services provided in connection with the IPO;

- consulting fees ($8,950 vs. $1,050) increased due to work related to the IPO;

- management fees ($1,400 vs. $ 2,000) There were no management fees recorded in 2009. There were, however, administration fees of $1,400 related to the IPO and the flow-through financing;

- rent (($2,169) vs. $3,150) – a rent recovery was recorded in 2009 due to the receipt of rental payments under the sublease of office space, which had not previously been accrued.

**QUARTERLY INFORMATION**

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being the three months ended December 31, 2009.

| | Three Months Ended ($) | | | |
|---|---|---|---|---|
| | Dec. 31, 2009 | Sept. 30, 2009 | June 30, 2009 | Mar. 31, 2009 |
| Total Revenues | - | - | - | - |
| Net Loss | (23,429) | (80,853) | (21,666) | (5,608) |
| Net Loss Per Share (basic and diluted) | (0.00) | (0.01) | (0.00) | (0.00) |
| Total Assets | 731,716 | 375,105 | 353,113 | 359,883 |

| | Three Months Ended ($) | | | |
|---|---|---|---|---|
| | Dec. 31, 2008 | Sept. 30, 2008 | June 30, 2008 | Mar. 31, 2008 |
| Total Revenues | - | - | - | - |
| Net Loss | (8,691) | (31,032) | (26,555) | (489) |
| Net Loss Per Share (basic and diluted) | (0.00) | (0.00) | (0.01) | (0.00) |
| Total Assets | 370,287 | 379,951 | 354,485 | 20,812 |

During the quarter ended September 30, 2009, the Company recorded stock-based compensation of $61,818 that was not recorded in any other quarter.

During the quarter ended December 31, 2009, the Company closed an Initial Public Offering for net proceeds of $409,101.

## FINANCING ACTIVITIES AND CAPITAL EXPENDITURES

Pursuant to an agency agreement with Union Securities Ltd. (the "Agent") the Company filed a prospectus in British Columbia, Alberta and Ontario with respect to its IPO for 4,000,000 common shares at a price of $0.15 per share for gross proceeds of $600,000. The IPO closed on December 29, 2009 and the Company commenced trading on the TSXV on December 31, 2009. In connection with the IPO, the Company paid the Agent a commission of $60,000 and paid a corporate finance fee of $16,000. The Agent was reimbursed for its legal fees and disbursements of $17,962. The Company has also issued the Agent share purchase warrants to purchase up to 400,000 common shares, at $0.15 per share, exercisable up to December 29, 2010.

In January 2010, the Company closed a non-brokered private placement of 580,000 flow-through units at $0.25 per unit for gross proceeds of $145,000. Each unit is comprised of one flow-through common share and one-half of one non-flow-through common share purchase warrant. Each whole warrant entitles the holder thereof to purchase an additional non-flow-through common share of the Company at $0.35 per share up to January 6, 2011. In conjunction with the flow-through private placement, a finder's fee of $6,500 was paid and 26,000 finder's warrants were issued. Each finder's warrant entitles the holder thereof to purchase an additional common share of the Company at $0.35 per share up to January 6, 2011.

During the year ended September 30, 2009, pursuant to a share exchange agreement with directors and officers of the Company and companies controlled by directors and officers of the Company, the Company agreed to exchange 800,000 common shares issued at $0.01 per share for 159,997 common shares at $0.05 per share.

The capital expenditures of the Company during the three months ended December 31, 2009 included mineral property expenditures of $223 incurred on the Fredy Creek Project.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's operations consumed approximately $23,000 of cash (before working capital items) for the three months ended December 31, 2009 (2008 - $9,000) with an additional approximate $223 (2008 - $Nil) used on mineral property deferred exploration expenditures. The cash requirement was fulfilled in the current period primarily from cash on hand at the beginning of the period and from the proceeds of the Company's IPO.

The Company's aggregate operating, investing and financing activities during the three months ended December 31, 2009 resulted in a net increase in its cash balance from $36,214 at October 1, 2009 to $446,013 at December 31, 2009. The Company's working capital increased to $412,749 at December 31, 2009, by virtue of the Company having closed its IPO for gross proceeds of $600,000.

Aside from property acquisition payments and exploration commitments described under the Mineral Properties note to the financial statements, the Company does not have any commitment for material capital expenditures over the near term or long term and none are presently contemplated in excess of normal operating requirements.

The Company has not as yet put into commercial production its mineral property and as such has no operating revenues or cash flows. Accordingly, the Company is dependent on the equity markets as its sole source of operating working capital, and the Company's capital resources are largely determined by the strength of the junior resource capital markets and by the status of the Company's project in relation to these markets, and its ability to compete for investor support of its projects. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to it.

## TRANSACTIONS WITH RELATED PARTIES

During the periods ended December 31, 2009 and 2008, the Company incurred the following expenditures charged by directors and officers of the Company and companies controlled by directors and officers of the Company:

| | 2009 | 2008 |
|---|---|---|
| Accounting fees | $ 7,070 | $ 741 |
| Consulting fees | 8,950 | 1,050 |
| Management fees | - | 2,000 |
| | $ 9,225 | $ 3,791 |

During the three months ended December 31, 2009, the Company sublet a portion of its office space to a company with common directors and received rent income of $3,454 (2008: $nil) from the related party.

These expenditures were measured at the exchange amount which is the amount agreed upon by the transacting parties.

As at December 31, 2009, accounts payable and accrued liabilities includes an amount of $4,790 (2008 - $6,463) due to companies controlled by directors and officers of the Company.

## CRITICAL ACCOUNTING ESTIMATES

The Company's financial statements are impacted by the accounting policies used, and the estimates and assumptions made, by management during their preparation. The Company's accounting policies are described in Note 2 to the audited financial statements for the year ended September 30, 2009. The accounting estimates considered to be significant to the Company include the carrying values of mineral properties and deferred exploration; the computation of stock-based compensation expense; the computation of the value of agent's warrants, and the computation of future income tax assets and liabilities.

Management reviews the carrying values of its mineral property and deferred exploration on at least an annual basis to determine whether an impairment of carrying value should be recognized. In addition, capitalized costs related to abandoned properties are written-off in the period of abandonment. During the period the Company determined that no impairment was required on the mineral property and deferred exploration expenditures.

The Company uses the fair-value method of accounting for stock-based compensation related to incentive stock options granted, modified or settled. Under this method, compensation cost attributable to all incentive stock options granted to employees is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. With respect to stock options granted to consultants and other non-employees that have vesting terms, the compensation cost is revalued at each respective vesting date or period end, as the case may be. In determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated discount rate. Changes to these estimates could result in the fair value of the stock-based compensation being less than or greater than the amount recorded. The Company did not record any stock-based compensation expense during the three months ended December 31, 2009.

The Company uses the fair-value method of accounting for the value of agent's warrants issued in connection with security offerings completed. Under this method, the agent's warrants are measured at fair value at the date of issue and recorded to contributed surplus. In determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated discount rate. Changes to these estimates could result in the fair value of the agent's warrants being different than the amount recorded. In the three-month period ended December 31, 2009, the Company completed its IPO and in connection with the same issued 400,000 agent's warrants. A value of $23,027 ($0.057 per agent's warrant) was attributed to these agent's warrants based on the Black-Scholes pricing model and was credited to contributed surplus.

Management computes the future income tax asset liability based on the amount of qualifying flow-through expenditures that have been renounced to investors during the fiscal year and after taking into account the estimated corporate income tax rate during such fiscal period and the availability of unrecorded income tax assets. During the fiscal year ended September 30, 2009 an amount of $52,000 was recorded as a future income tax liability to the Company's accounts (2008 - $nil).

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

***<u>Future accounting changes</u>***

*Business combinations, consolidated financial statements and non-controlling interest*

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-controlling Interests”. These sections replace the former CICA Handbook Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date.

It provides the Canadian equivalent to International Financial Reporting Standard (“IFRS”) 3, “Business Combinations” (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, “Consolidated and Separate Financial Statements” (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three-month period ended December 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company will develop an IFRS conversion plan comprised of three phases:

| **PHASE** | **DESCRIPTION AND STATUS** |
|---|---|
| | |
| *PRELIMINARY PLANNING* | The IFRS conversion plan will include consideration of the impacts of IFRS on the Company’s financial statements, internal control over |

| | |
|---|---|
| *AND SCOPING* | financial reporting, information systems and business activities such as foreign operations, if any, compensation metrics, and personnel and training requirements.<br><br>Based on Management's preliminary review of IFRS and current Company processes, minimal impact is expected on information systems and compensation metrics. |
| *DETAILED IMPACT ASSESSMENT* | This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company's financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company's conversion to IFRS and evaluation of the impact on outstanding operational elements such as debt covenants and budgeting. The Company expects to complete this phase by the end of fiscal 2010. |
| *IMPLEMENTATION* | This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective October 1, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects. |

## FINANCIAL INSTRUMENTS

Under CICA Handbook Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

Upon adoption of these standards, the Company has designated its cash as held-for trading, which is measured at fair value. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost. At December 31, 2009 and September 30, 2009, the Company had no available-for-sale, loans and receivables or held-to-maturity financial instruments. However, net smelter royalties with property vendors are derivative instruments. The fair value of these derivative instruments is not reliably determinable until proven economically recoverable reserves have been identified and as such are not recorded.

**Foreign Exchange Risk**

As at December 31, 2009 and September 30, 2009, all of the Company's cash was held in Canadian dollars, the Company's functional currency. The Company has no operations in foreign jurisdictions outside of Canada at this time and as such has no currency risk associated with its operations.

**Credit Risk**

Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is held with a large Canadian bank.

**Interest Rate Risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss is limited because at present the Company holds all of its surplus cash in an interest bearing account and has no other interest bearing financial assets or liabilities.

**Liquidity Risk**

The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. As at February 26, 2010, accounts payable and accrued liabilities are current.

**OUTSTANDING SHARE DATA**

a) Authorized:
Unlimited common shares without par value.

b) Issued and outstanding:
10,360,706 common shares as at February 26, 2010.

c) Outstanding warrants and options as at February 26, 2010:

| Type of Security | Number | Exercise Price | Expiry Date |
|---|---|---|---|
| Share purchase warrants | 400,000 | $0.15 | December 31, 2010 |
| Share purchase warrants | 316,000 | $0.35 | January 6, 2011 |
| Stock options | 550,000 | $0.15 | September 10, 2014 |

**DISCLOSURE CONTROLS AND PROCEDURES**

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer’s Annual and Interim Filings) (“NI 52-109”), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited financial statements for the three months ended December 31, 2009 and this accompanying MD&A.

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company on SEDAR at www.sedar.com.

**RISKS AND UNCERTAINTIES**

Certain risks are faced by the Company which could affect its financial position. In general they relate to the availability of equity capital to finance the acquisition, exploration and development of existing and future exploration and development projects. The availability of equity capital to junior resource companies is affected by commodity prices, global economic conditions and economic conditions and government policies in the countries of operation, among other things. These conditions are beyond the control of the management of the Company and have a direct effect on the Company’s ability to raise capital.

The Company's working capital and liquidity fluctuate in proportion to its ongoing equity financing activities. The Company requires a certain amount of liquid capital in order to sustain its operations and in order to meet various obligations as specified under the its resource property option agreement. Should the Company fail to obtain future equity financing due to reasons as described above, it will not be able to meet these obligations and may lose its interests in the property covered by the agreement. Further, should the Company be unable to obtain sufficient equity financing for working capital, it may be unable to meet its ongoing operational commitments.

The Company's Property is in the exploration stage and without known reserves. Exploration and development of natural resources involve substantial expenditures and a high degree of risk. Few properties which are explored are ultimately developed into producing properties. Accordingly, the Company has no material revenue, writes off its mineral properties from time to time, and operates at a loss. Continued operations are dependent upon ongoing equity financing activities.

**OUTLOOK**

The Company's primary focus for the foreseeable future will be on assessing the exploration and development of the Fredy Creek Project and acquiring other mineral properties. The ability of the Company to advance the Fredy Creek Project and to acquire other mineral properties is contingent upon its ongoing ability to raise the risk capital necessary. Subsequent to the three months ended December 30, 2009, the Company closed a flow-through financing for gross proceeds of $145,000, which will be used to fund a portion of the planned deferred exploration costs on the Fredy Creek Project.

**OTHER INFORMATION**

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com.