

**Indicator Minerals Inc.**  
(Formerly Dev Investments Inc.)

**Interim Management Discussion and Analysis**  
For the Three and Nine Month Periods ended AUGUST 31, 2004

Dated October 29, 2004

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Management's Discussion and Analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of the Company and the notes thereto for the interim period ended August 31, 2004. Consequently, the following discussion and analysis of the financial condition and results of operations for Indicator Minerals Inc. ("Indicator" or the "Company"), should be read in conjunction with the unaudited interim financial statements for the period ended August 31, 2004 and related notes therein, which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied.

Additional information, including audited financial statements, and the notes thereto, for the year ended November 30, 2003, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in the following Management's Discussion and Analysis (MD&A) and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below. Aside from factors identified in the annual MD&A, additional important factors, if any, are identified here.

## **GENERAL**

During the prior years ended November 30, 2002 and 2003 and the first quarter ended Feb 29, 2004, the Company operated as a Capital Pool Corporation ("CPC") called Dev Investments Inc. in accordance with TSX-V policy 2.4 with its Common Shares having been listed and posted for trading on the TSX Venture Exchange under the symbol "DIN.P" on October 24, 2001.

On February 27, 2004, the Company announced the completion of its Qualifying Transaction as set out in Policy 2.4 and became a junior resource exploration company under new management. Shareholders approved amending the name from Dev Investments Inc. to Indicator Minerals Inc. and the Company commenced trading on the TSX Venture Exchange Inc. (the "Exchange" or "TSX-V") under the symbol "IME" effective March 2, 2004.

Indicator Minerals Inc. now operates as a well financed publicly traded Canadian diamond exploration company focused on the discovery of economic diamond deposits. Management has a proven track record in the discovery and development of diamond bearing kimberlites as well as the financing and administration of junior exploration companies. The Company is technically driven and committed to the efficient and systematic evaluation of its projects.

Indicator is exploring for diamonds on more than seven million acres of mineral claims and prospecting permits in Canada's eastern arctic. The land package was specifically targeted for acquisition based on research of historical information and the recovery of kimberlite indicator minerals from regional heavy mineral samples collected in 2003. This represents a dominant land position in an area where more than 70 million acres of prospecting permits and mineral claims have been acquired by diamond exploration companies in 2004.

More information about the Management and Projects of Indicator can be found on the Company's website at [www.indicatorminerals.com](http://www.indicatorminerals.com).

## **RESULTS OF OPERATIONS**

### **Qualifying Transaction – Aylmer Lake**

The Company's Qualifying Transaction on February 27, 2004, was an arm's length acquisition of an option to acquire up to a 60% working interest in the mineral claims comprising the Aylmer Lake Property (the "Property") from Shear Minerals Ltd. ("Shear"), Mantle Minerals Inc. ("Mantle") and 974134 NWT Ltd. (the "Option Agreement"). The Property is located in the Mackenzie district of the Northwest Territories approximately 70km east of the Diavik Diamond Mine and immediately west of the diamond bearing Nicholas Bay kimberlite. The mineral claims comprising the Property are owned jointly by Shear and Mantle on a 60%/40% basis, are registered in the name of 974134 NWT Ltd. (a wholly owned subsidiary of Shear) and are subject to 1.5% Gross Overriding Royalty on all diamonds produced from the Property in favour of Kennecott Canada Exploration Inc., which royalty is to continue in perpetuity.

As consideration for entering into the Option Agreement, Indicator issued 50,000 common shares to each of Shear and Mantle at a deemed price of \$0.10 per share for aggregate consideration of \$10,000. In addition, Indicator issued 250,000 common shares to 660327 BC Ltd. at a deemed price of \$0.10 as a finders fee in connection with the Qualifying Transaction. 660327 BC Ltd. is a company wholly owned by Bruce Counts, the President and Chief Executive Officer of Indicator.

Pursuant to the Option Agreement, Indicator had the option to earn up to a 60% working interest in the Property over two stages. During the first stage, Indicator would have earned an option to acquire a 51% working interest in the Property by expending a minimum of \$300,000 in exploration costs with respect to the Property within 18 months of the effective date of the Option Agreement (the "First Stage Option"). In the event Indicator exercised the First Stage Option, Indicator would have issued to Shear and Mantle 100,000 Common Shares each at a deemed price of \$0.10 per share upon the exercise of this option. To obtain the Second Stage Option to acquire an additional 9% working interest in the Property, Indicator would have had to spend an additional \$500,000 on exploration of the Property within 18 months of exercising its First Stage Option.

On April 26, 2004, exploration commenced on the Aylmer Lake Diamond Project with drill testing of up to three kimberlite targets that were identified in detailed airborne electromagnetic (EM) data. Each of the targets slated for drilling had been surveyed with ground EM instruments to insure that the character of the anomaly is consistent with known kimberlites. In addition to the drilling program, ground EM surveys were to be conducted over three priority airborne anomalies in order to assess suitability for drilling.

EM has played an important role in the discovery of economic kimberlites in the Lac de Gras area. Many of the kimberlites in the Ekati and Diavik mine plan were initially located by their EM signatures. The

EM anomalies on the Aylmer Lake Diamond Project are similar to those associated with kimberlites elsewhere in the region and were considered high priority by the company.

By May 7, 2004, the initial exploration program on the Aylmer Lake Diamond Project, located approximately 300km northeast of Yellowknife, was completed. During the program three electromagnetic (EM) geophysical targets were drill-tested. No kimberlite was intersected. The targets were explained by the discovery of a thick layer of glacial-lacustrine clays within the overburden sequence. In addition to the drilling program, ground EM surveys were conducted over three priority airborne anomalies. The surveys performed did not produce compelling drill targets and no further work was contemplated on these anomalies.

Based on these results, Indicator elected to not exercise its option to earn a 51% interest in the project and has focussed its efforts on the properties included in the agreements entered into with Hunter Exploration Group and Committee Bay Resources Ltd.

#### **\$500,000 Non-Brokered Private Placement**

In conjunction with its Qualifying Transaction, the Corporation completed a financing of 5,000,000 units at a price of \$0.10 per unit for gross proceeds of \$500,000. Each unit consists of one common share and one warrant. Each warrant entitles the holder to acquire a common share at an exercise price of \$0.15 for a period of 24 months from issuance. The private placement was completed on February 3, 2004 with a restriction from trading the common shares until June 3, 2004.

#### **Acquisition of Diamond Rights on More than 3 Million Acres in Nunavut from Hunter**

On February 26, 2004, Indicator entered into a letter agreement to acquire an 80% interest in the diamond rights to several parcels of land that total 3,298,437.5 acres from Hunter Exploration Group (“Hunter”), an arms length vendor. Hunter retains a 20% carried interest in the Properties until a positive feasibility study is completed. The Properties consist of 54 prospecting permits and 340 mineral claims located near the communities of Kugaaruk and Taloyoak in Nunavut Territory. As consideration for the Properties, Indicator has issued 3,000,000 common shares at a deemed price of \$0.40 per share and must reimburse the vendor for property acquisition costs in the amount of \$1,056,677.78 and for work deposits on the permits of \$242,710.20. Management is reviewing regional data acquired by Hunter and will propose a program and budget to evaluate the Properties during 2004.

The Agreement was subject to a number of conditions, including Exchange approval, an appropriate geological report with respect to the Properties prepared in accordance with National Policy 43-101 and Indicator obtaining financing of a minimum of two million dollars. The outstanding conditions were cleared and the deal was closed effective July 19, 2004. The share issuance and reimbursement of costs were recorded during the second quarter ended May 31, 2004.

#### **\$3.09 Million Brokered Private Placement**

On April 16, 2004, Indicator completed a private placement of \$3,090,000 (the “Offering”), including an over-allotment issue of \$490,000, through Canaccord Capital Corporation (the “Agent”). Pursuant to the Offering, the Corporation issued 2,000,000 flow-through units (“FT Units”) at a price of \$0.55 per FT Unit and 3,980,000 non-flow-through units (the “NFT Units”) at a price of \$0.50 per NFT Unit. Each FT Unit consisted of one flow-through common share and one-half of one purchase warrant (the “FT Warrant”), while each NFT Unit consisted of one non-flow-through common share and one-half of one purchase warrant (the “NFT Warrant”). Each whole FT Warrant will entitle the holder to acquire a non-flow-through common share at an exercise price of \$0.75 for a period of one year from issuance. Each whole NFT Warrant will have the same terms, except they will expire 18 months from issuance.

Pursuant to the Offering, the Agent received a cash commission of 8% of the gross proceeds and elected to receive 95,720 NFT Units in lieu of a portion of its cash commission. In addition, the Agent received 598,000 warrants (the "Agent's Warrants"). Each Agent's Warrant entitles the holder to acquire a common share of the Corporation at an exercise price of \$0.65 for a period of 12 months from closing. Furthermore, the Agent was paid an administration fee of \$5,000 and a corporate finance fee of 70,000 units (the "CF Units"). Each CF Unit consisted of one common share and one whole common share purchase warrant exercisable for a period of 12 months at a price of \$0.75.

The proceeds from the Offering are intended to assist Indicator in financing its proposed acquisition of an 80% interest in the diamond rights to several properties held by the Hunter Exploration Group. In addition, funds raised in the offering will be used for working capital and exploration expenditures.

### **Grant of Stock Options**

On April 19, 2004, subsequent to the completion of the brokered private placement, the Corporation granted 1,514,500 stock options at an exercise price of \$0.58, of which 1,164,500 were granted to directors and officers of the Corporation with the remaining 350,000 to employees and consultants.

### **Acquisition of Diamond Rights on 3 Million Acres in Nunavut from Committee Bay**

On April 22, 2004, Indicator entered a letter agreement with Committee Bay Resources Ltd. (CBR:TSX-V) ("CBR"), a company with common directors and management, whereby Indicator can earn up to a 70% interest in only the diamond rights of the CBR's areas of interest in Nunavut Territory, which total more than three million acres of land. The properties included in the deal are located in the Kivilliq region of Nunavut and comprise more than 400,000 acres of mineral claims and 2.6 million acres of prospecting permits. Under the terms of the agreement, Indicator can earn a 50% interest by spending \$3,000,000 on exploration by December 31, 2006, including a committed expenditure of \$500,000 by December 31, 2004. An additional 20% interest can be earned by spending a further \$2,000,000 by December 31, 2007. Furthermore, Indicator must issue 1,000,000 common shares at a deemed value of \$ 0.40 per share and reimburse approximately \$243,820 in work deposits posted by CBR to acquire prospecting permits. The properties are subject to a gross overriding royalty of up to 2%.

The Committee Bay land package, coupled with the ground acquired from the Hunter Exploration Group gives Indicator a dominant land position totalling more than six million acres in an area that has become an international focus for diamond exploration. In addition, much of the six million acres was specifically targeted for acquisition based on kimberlite indicator minerals recovered from regional heavy mineral samples collected in 2003. The proposed Acquisition is non-arm's length as John Williamson, Sean Mager and Craig Bentham are all insiders of Indicator and CBR. In addition, under the terms of the agreement, the Acquisition was subject to regulatory approval and to Indicator raising sufficient funds to meet its expenditure obligations. Of these, final regulatory approval remained outstanding until October 2004, but was expected without doubt. Therefore, the share issuance and reimbursement of permit costs were recorded during the quarter-ended May 31, 2004. The actual payment of cash and shares was made to CBR in October of 2004 to close the transaction – see Subsequent Events.

### **Exclusive Agreement with Hunter Exploration Group**

On May 19, 2004, Indicator entered into a letter agreement with the Hunter Exploration Group ("Hunter") of Vancouver, BC to provide diamond exploration services to Indicator on an exclusive basis.

Hunter is one of Canada's most successful private exploration groups and has an established track record in the mineral industry as an innovative group specializing in generative exploration projects. Hunter has

taken a leading role in regional diamond exploration in northern Canada since 1992 and has been involved in more than 24 kimberlite discoveries and the acquisition of over 30 million acres.

Previous initiatives by Hunter led to the acquisition of the Aviat Project on the Melville Peninsula and the subsequent discovery of the AV-1 kimberlite by partners Stornoway Diamond Corporation and BHP Billiton Diamonds. In addition, Hunter's regional work led Shear Minerals Ltd. to acquire the Churchill Diamond Project, where 15 kimberlites have been discovered. These discoveries precipitated the largest staking rush in Canadian history with more than 80 million acres being acquired in eastern Nunavut by several of the world's leading diamond explorers including Stornoway Diamond Corporation, BHP Billiton Diamonds, De Beers and Kennecott.

In 2003, Hunter conducted an independent regional sampling program and recovered kimberlite indicator minerals from several areas in eastern Nunavut. Based on these results, Hunter acquired more than three million acres of prospecting permits and mineral claims in eastern Nunavut near the communities of Kugaaruk and Taloyoak. On March 1, 2004 Indicator announced that it had entered into an agreement with Hunter to acquire an 80% interest in the diamond rights to these properties. Hunter's work, together with recent announcements by Diamonds North Resources Ltd. and BHP Billiton Diamonds, point toward the presence of a new kimberlite district in the eastern Arctic.

Under the terms of this agreement, Indicator will fund regional generative exploration programs proposed by Hunter and pay \$75,000 annually to cover their overhead costs. In return, Indicator will have an exclusive option to acquire an 80% interest in the diamond rights to any projects created as a result of the regional work. Hunter will retain a 20% interest and a 2% Gross Over-riding Royalty (GORR) in any projects and will be carried by Indicator to the conclusion of a positive feasibility study.

#### **Joint Venture with International Samuel**

On May 31, 2004, Indicator entered into a letter agreement with International Samuel Exploration Corp. (SAZ: TSX-V) ("Samuel") to jointly explore approximately 1.36 million acres of prospecting permits and mineral claims located southwest of Wager Bay, Nunavut Territory. This joint venture pools their respective interests on two adjoining projects. The Naniruaq Project consists of 12 prospecting permits totalling 490,000 acres and is part of the land package that Indicator has acquired from Hunter (see Hunter Properties above). Qulliq Project is composed of approximately 870,000 acres of mineral claims that were recently staked by Samuel (80%) and Hunter (20%) under a letter agreement dated May 4th, 2004.

Under the terms of the agreement, which is subject to regulatory approval, Hunter will retain a 20% interest and a 2% Gross Over-riding Royalty (GORR) in the projects and will be carried equally by Indicator and Samuel to the conclusion of a positive feasibility study. Indicator and Samuel will each have a 40% participating interest in the diamond rights to the combined properties and will share the acquisition and exploration costs equally. Indicator and Samuel have each paid their \$425,000 share of the acquisition costs for the Qulliq claims and Indicator and Samuel will fund future exploration expenditures equally on the combined properties. Indicator will be operator.

#### **First Closing on \$1.47 Million Brokered Private Placement**

On July 9, 2004, Indicator announced a brokered private placement with Canaccord Capital Corporation to raise up to \$1,800,000 by issuing up to 4,500,000 Flow-Through Shares at a price of \$0.40 per Share. In addition, Canaccord had an over allotment option to acquire up to 500,000 additional shares for additional gross proceeds of \$200,000, exercisable at any time until the closing date. The Agents were to

be paid a cash fee equal to 8% of the gross proceeds raised in the Offering. The Agents were also to receive broker warrants (the "Broker Warrants") entitling them to purchase that number of Common Shares, which is equal to 10% of the number of Units sold. The Broker Warrants were to expire eighteen months after the Closing Date and have an exercise price of \$0.40 per Common Share. The Flow-Through shares and the Broker Warrants were subject to a hold period of four months from the Closing Date, which will be on or about August 6th, 2004.

August 18, 2004, the first of two closings was completed on gross proceeds of \$1,370,000 from the sale of 3,425,000 flow-through common shares at a price of \$0.40 per share. The financing was arranged by Canaccord Capital Corporation as agent for the Company with Pacific International Securities and RBC Dominion Securities acting as selling agents. In addition to a cash commission, the agents received 70,000 common shares as a corporate finance fee and agent's warrants entitling the agent's to acquire, in aggregate, 342,500 common shares at a price of \$0.40 until February 18, 2006. The flow through common shares and the securities issued to the agents shares are subject to a hold period and are restricted from trading under applicable securities laws in Canada and the policies of the TSX Venture Exchange until December 19, 2004.

See Subsequent Events for the second of two closings.

The proceeds of the private placement will be used to advance the Company's projects in eastern Nunavut. Particular emphasis will be placed on those areas that produced the most promising regional heavy mineral sample results. This includes the 735,000 acres of mineral claims located near the community of Pelly Bay and within the BHP Billiton - Diamonds North Resources Ltd. joint venture area.

#### **2004 Exploration Plans for Qulliq and Naniruaq Properties in Nunavut**

On Aug 20, 2004, exploration plans were announced for the Qulliq and Naniruaq properties, Chesterfield Inlet area, Nunavut. The program will entail collecting more than 500 regional till samples to evaluate the kimberlite potential of the area. The work program commenced September 2004 with a total budget estimated at \$500,000.

Both properties are located southwest of Wager Bay and immediately west of Dunsmuir's Nanuk Project and were acquired based on kimberlite indicator minerals recovered from regional heavy mineral samples collected by the Hunter Exploration Group (Hunter). The Naniruaq property consists of 12 prospecting permits totalling 490,000 acres and is part of the land package that Indicator acquired from Hunter. The Qulliq property is composed of approximately 870,000 acres of mineral claims staked by Samuel under a letter agreement dated May 04, 2004. To earn an 80% interest in the Qulliq property, Samuel agreed to pay the staking costs of approximately \$825,000 (which sum has been paid), and issue to Hunter 300,000 units upon regulatory acceptance; each unit shall consist of one common share and one non-transferable share purchase warrant to purchase an additional share at a price of \$0.25 per share for a period of one year.

Subsequent to the two separate property agreements noted above, Indicator and Samuel formed a joint venture (dated May 29, 2004) whereby each have a 40% participating interest in the diamond rights to the combined properties and share in the acquisition and exploration costs equally. Under the terms of the joint venture agreement, Hunter will retain their 20% interest and 2% Gross Over-riding Royalty (GORR) in the projects and will be carried equally by Indicator and Samuel to the conclusion of a positive feasibility study.

## **SUBSEQUENT EVENTS**

### **Second closing on \$1.47 Million Brokered Private Placement**

On September 8, 2004, the second tranche of the \$1.47 Million Brokered Private Placement closed on gross proceeds of \$100,000 from the sale of 250,000 flow-through common shares at a price of \$0.40 per share. In addition to a cash commission, the agents received agent's warrants for the second tranche entitling the agents to acquire, in aggregate, 25,000 common shares at a price of \$0.40 until March 3, 2006. The flow through common shares and the securities issued to the agents are subject to a hold period and are restricted from trading under applicable securities laws in Canada and the policies of the TSX Venture Exchange until January 4, 2004.

### **Formal Option Agreement Signed Between Indicator and Committee Bay**

On Oct 7, 2004, it was announced that pursuant to the April 22, 2004 letter agreement, regulatory approval was obtained for Indicator to enter into a formal option agreement with Committee Bay Resources Ltd. in which Indicator can earn a 70% interest in the diamond rights to more than three million acres of land held by Committee Bay in the Nunavut Territory.

As described above, under the terms of the agreement, Indicator can earn a 50% interest in the properties by spending \$3 million on exploration by December 31, 2006, including a committed expenditure of \$500,000 by December 31, 2004. Indicator can earn an additional 20% interest in the properties by incurring another \$2 million in exploration expenses by December 31, 2007. Furthermore, Indicator must issue 1,000,000 common shares to Committee Bay and reimburse the costs incurred in the acquisition of the prospecting permits included in the deal. The properties are subject to a Gross Over-Riding Royalty of up to two percent.

### **Strategic Mineral Claims Staked**

On October 12, 2004, Indicator announced that Hunter Exploration Group staked approximately 34,000 acres of strategically located mineral claims in Nunavut Territory (the "Claims"). The Claims are located adjacent to the northern boundary of the Nanuq Diamond Project held by Dunsmuir Ventures Ltd. The Claims were staked to capture the potential source(s) of a kimberlite indicator mineral train with diamond inclusion chemistry identified by Dunsmuir over the last three field seasons. The area had been temporarily withdrawn from mineral exploration by an Order in Council. On October 1st, 2004 this Order was rescinded and the area was reopened for mineral exploration activity.

According to documentation filed by Dunsmuir (see SEDAR Filing July 16, 2003 Engineering Report and Certificate of Qualification), till sampling identified that the head of a well-defined kimberlite indicator mineral train was located near their northeastern property boundary. Indicator minerals recovered from the 36km long train include eclogitic garnets and chromites with diamond inclusion chemistry. Pyrope garnets with kelyphite rims were recovered from several samples collected by Dunsmuir and one sample (X02-135) yielded a pyrope garnet with a kimberlite mantle.

The Claims were physically staked on October 1st, 2004 by Hunter and recorded on October 8, 2004. Title to the Claims is subject to approval by the Nunavut Mining Recorder's Office and is not guaranteed. The Claims, if awarded, will fall under the exploration agreement between Indicator Minerals Inc. and the Hunter Exploration Group (see news release dated May 19, 2004) whereby Indicator Minerals Inc. has an exclusive right to acquire an 80% interest in the diamond rights to projects identified by Hunter.

## FINANCIAL RESULTS

As Indicator did not commence operations as a junior resource exploration company until completing its Qualifying Transaction at the end of the first quarter of 2004, the comparison of 2004 quarterly financial results to operations of the former Capital Pool Corporation in prior periods is not a meaningful exercise.

Selected unaudited financial data for the first, second and third quarters of Indicator operations are as follows:

	3 months ended		
	Aug 2004	May 2004	Feb 2004
Current assets	2,110,286	2,819,546	646,545
Mineral properties and deposits	4,326,569	3,744,558	78,926
Current liabilities	626,197	1,836,532	108,981
Total revenue	0	0	0
Loss from operations	(105,475)	(108,865)	(81,230)
Write-off of mineral interest	(3,672)	(281,976)	0
Net loss	(109,147)	(390,841)	(80,411)
Basic loss per share	(0.005)	(0.025)	(0.0222)
Weighted Avg shares	19,784,998	15,509,988	3,617,582

Selected audited financial data for annual operations of the former Capital Pool Corporation during the years ended November 30, 2002 and 2003 are as follows:

Year ended	Nov 2003	Nov 2002
Current assets	191,409	218,111
Mineral properties and deposits	0	0
Current liabilities	9,508	4,172
Total revenue	0	0
Net loss	(32,038)	(104,814)
Basic loss per share	(0.0092)	(0.0299)
Weighted Avg shares	3,500,000	3,500,000

Key financial results of Indicator's operations during the nine-month interim period ending August 31, 2004 are as follows:

- \$ 4,960,000 raised through gross proceeds of two private placements;
- \$ 1,481,678 incurred on the acquisitions of mineral interests for payments of cash;
- \$ 1,635,000 incurred on the acquisitions of mineral interests for payments of shares;
- \$ 486,530 incurred for recoverable deposits on prospecting permits;
- \$ 1,007,122 spent on exploration activity;
- \$ 285,648 written off for capitalized costs on the termination of the Aylmer option;
- \$ 295,570 spent on general and administrative activity.

## SPENDING OBLIGATIONS RELATED TO FLOW-THROUGH SHARES

During 2004, the Company raised an aggregate of \$2,570,000 through issuance of common shares under the Flow-Through Share Program of the Canada Customs and Revenue Agency. Under this program, eligible exploration expenditures incurred after the date of subscription are renounced to the investors for the calendar tax year in which their investment was made. The Company must then spend the related funds on eligible exploration before the end of the calendar tax year following the investment. Accordingly, before December 31, 2005, Indicator is obligated to spend \$1,100,000 after April 16, 2004; \$1,370,000 after August 18, 2004; and \$250,000 after September 8, 2004 on eligible exploration costs. The Company does not anticipate any difficulties in meeting its flow-through spending obligations

through planned exploration.

## **SPENDING OBLIGATIONS RELATED TO ACQUISITIONS**

Pursuant to its Option Agreement with Committee Bay, Indicator is required to spend \$3 million on exploration by December 31, 2006, in order to earn a 50% interest in the diamond rights of CBR's Nunavut properties. A further \$2 million must be spent by December 31, 2007 in order to earn an additional 20% interest. Under the agreement, the minimum expenditure for 2004 is \$500,000 of which \$306,840 had been spent as of August 31, 2004, with exploration continuing in the fall to meet the first year obligation.

Indicator's mineral claims and prospecting permits have annual exploration spending obligations in order to maintain them in good standing. Mineral claims require annual exploration expenditures of \$2.00 per acre, based on the anniversary of the date that the claims were filed/recorded. In addition, a \$0.10 per acre filing fee is paid on the second anniversary date and every anniversary thereafter along with the submission of expenditure reports. Prospecting permits are approved annually on February 1 and the related exploration spending requirements are based on the anniversary of that date as well. Accordingly, prospecting permits located south of 68 degrees latitude require an exploration expenditure of \$0.10 per acre for the first year, \$0.20 per acre for the second year and \$0.40 per acre for the third year. After the third year, the permit is withdrawn and the holder has first refusal to stake (claim) any ground within the permit mineral. Prospecting permits located north of 68 degrees latitude are twice as large as those located south of 68 degrees and therefore require an exploration expenditure of \$0.10 per acre for the first and second years, \$0.20 per acre for the third and fourth years and \$0.40 per acre for the fifth year.

A straight calculation of the spending obligations outlined above for permits and claims would be overstated, as exploration work will allow the company to evaluate the merit of its properties and reduce the size of the land package by dropping un-prospective ground, thereby reducing the expenditure requirements. Expenditures are allocated to the remaining target properties when expenditure reports are filed at the end of the exploration season. If spending commitments related to mineral claims are not met, the claims are forfeited. If spending commitments related to prospecting permits are not met, the permits are forfeited along with related work deposits, which total \$242,780 for Hunter properties and \$243,820 for Committee Bay properties.

Indicator will finance exploration on prospective ground through equity placements as share issuance and/or vending of interests in specific properties. If the company is unable to finance the minimum exploration expenditures, it can surrender the mineral rights and eliminate the related spending obligations altogether.

## **FINANCIAL CONDITION, LIQUIDITY and CAPITAL RESOURCES**

In 2004, Indicator engaged in an exploration program with planned expenditures of ~\$2.0 million. As at the quarter ended August 31, 2004, the Company had spent \$1,007,122 on exploration with the program continuing into the fall as planned.

Working capital as at August 31, 2004, was \$1,970,689 (versus \$181,901 at Nov.30, 2003) including prospecting permit deposits of \$486,600. Fully diluted working capital was \$6,451,944 (versus \$223,151 at Nov. 30, 2003). Indicator will have sufficient working capital to meet its anticipated general and administrative expenses over the next 24 months as well as exploration expenditure commitments for 2004. Nevertheless, due to the inherent nature of the junior mineral exploration industry, the Company will have a continuous need to secure additional funds through the issuance of equity or debt in order to support its corporate and exploration activities, as well as its share of obligations relating to mineral properties.

As Indicator is in the development phase and its properties are early stages of exploration, none of the Company's properties are in production. Mineral exploration expenditures are capitalized and losses are incurred as a result of administrative expenses relating to the operation of the Corporation's business. Consequently, the Company's net income is not a meaningful indicator of its performance or potential. The key performance driver for the company is the acquisition and development of prospective mineral properties. By acquiring and exploring projects of superior technical merit, the Company increases its chances of finding and developing an economic deposit.

At this time, the Corporation is not anticipating profit from operations. Until such time as the Corporation is able to realize profits from the production and marketing of commodities from its mineral interests, the Corporation will report an annual deficit.

## **RISK FACTORS**

The success of the Company's business is subject to a number of factors, including but not limited to those risks normally encountered in the mining industry, such as exploration uncertainty, operating hazards, increasing environmental regulation, competition with companies having greater resources, and lack of operating cash flow. In addition, there is no quoted market price for diamonds and the market price for rough diamonds is dependent on an efficient market management system.

The Company employs many strategies to minimize overhead and reduce financial risk in exploration, such as:

- Advancing its own properties and/or participating in the advancement of third party properties through joint venture and/or option agreements with third parties;
- Coordinating field work with other regional companies to reduce mobilization costs and take advantage of existing infrastructure;
- Closely monitoring industry developments and revisiting existing data to identify overlooked and/or new opportunities;
- Outsourcing corporate and field support capacity as needed, rather than employing fulltime staff;
- Sharing corporate office space in Vancouver (Canada's most significant financial market for junior mineral exploration) and Edmonton (the low-cost transportation gateway to the Company's northern operating locations).

## **RELATED PARTY TRANSACTIONS**

Transactions with related parties during the nine-month period ended Aug 31, 2004, include management, administration and consulting fees of \$136,708 (nil in 2003) paid to directors or companies controlled by directors, of which \$35,388 were capitalized as mineral property-exploration costs. No fees were paid to related parties in 2003, as the Company was a non-operating Capital Pool Corporation under different management prior to completing its Qualifying Transaction.

The acquisition of diamond rights from Committee Bay Resources Ltd. during the third quarter is non-arm's length as John Williamson, Sean Mager and Craig Bentham are all insiders of both Indicator and Committee Bay. This transaction was recorded at the estimated fair value of cash and share consideration given up by the Company.

These transactions were 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.

## **INVESTOR RELATIONS**

With respect to public relations, the Company provides information from its corporate offices to investors and brokers directly.

## **APPROVAL**

On behalf of the Board of Directors of the Company, the Audit Committee has approved the disclosure contained in this interim MD&A and a copy will be provided to anyone who requests it.