

ANDOVER VENTURES INC.

Consolidated Financial Statements

MARCH 31, 2007

AUDITORS' REPORT

To the Shareholders of **Andover Ventures Inc.**:

We have audited the consolidated balance sheet of Andover Ventures Inc. as at March 31, 2007 and the consolidated statements of loss and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated July 18, 2006.

“Cinnamon Jang Willoughby & Company”

Chartered Accountants

Burnaby, BC, Canada
July 25, 2007

ANDOVER VENTURES INC.

Consolidated Balance Sheets

(In Canadian Dollars)

As at March 31

| | 2007 | 2006 |
|---|----------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 83,422 | \$ 258,912 |
| Marketable securities | - | 1,075 |
| Deferred share issuance costs | 19,128 | - |
| GST recoverable | 27,300 | - |
| Deposits | 55,900 | - |
| Advance on exploration work program | 174,147 | - |
| | <u>359,897</u> | <u>259,987</u> |
| Long-term deposit | 7,000 | - |
| Mineral Properties (Note 3) | 14,322,043 | 11,676 |
| | <u>\$ 14,688,940</u> | <u>\$ 271,663</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 2,000,610 | \$ 62,163 |
| Due to related party | 14,284 | - |
| | <u>2,014,894</u> | <u>62,163</u> |
| SHAREHOLDERS' EQUITY | | |
| Liability to issue shares (Note 3) | 8,337,498 | - |
| Capital Stock (Note 4) | | |
| Authorized: 200,000,000 common shares without par value; 50,000 Class A preferred shares without par value; and 50,000 Class B preferred shares without par value | | |
| Issued and fully paid: 17,300,000 common shares | 3,270,210 | 773,000 |
| Contributed surplus | 2,947,914 | 22,664 |
| Deficit, accumulated during the development stage | (1,881,576) | (586,164) |
| | <u>4,336,548</u> | <u>209,500</u> |
| | <u>\$ 14,688,940</u> | <u>\$ 271,663</u> |

Subsequent events (Note 9)

Commitment (Note 5)

On behalf of the Board:

“Robert Gardner”

Director

“Brian Smith”

Director

The accompanying notes are an integral part of these financial statements.

ANDOVER VENTURES INC.
Consolidated Statement of Loss and Deficit
(In Canadian Dollars)
Year Ended March 31

| | 2007 | 2006 |
|---|--------------------|---------------------|
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Consulting fees | 222,144 | 232,876 |
| Foreign exchange | 6,382 | - |
| Interest and bank charges | 1,872 | 2,644 |
| Management fees | 60,000 | - |
| Office expense | 44,065 | 10,522 |
| Professional fees | 218,795 | 18,426 |
| Stock-based compensation | 444,160 | - |
| Telephone and utilities | 8,957 | 2,157 |
| Transfer agent and filing fees | 105,004 | 12,648 |
| Travel and promotion | 183,893 | 32,390 |
| | <u>(1,295,272)</u> | <u>(311,663)</u> |
| LOSS BEFORE OTHER ITEMS | | |
| OTHER ITEMS | | |
| Cancellation of escrow shares | - | 50,000 |
| Interest income | 12,406 | 29,917 |
| Write-off of investments | (12,545) | - |
| | <u>139</u> | <u>79,917</u> |
| NET LOSS FOR THE YEAR | (1,295,411) | (231,746) |
| DEFICIT, BEGINNING OF YEAR | (586,164) | (354,418) |
| DEFICIT, END OF YEAR | (1,881,575) | \$ (586,164) |
| BASIC LOSS PER SHARE | \$ (0.12) | \$ (0.06) |
| DILUTED LOSS PER SHARE | \$ (0.12) | \$ (0.06) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | | |
| Basic | 10,435,123 | 3,748,333 |
| Diluted | 10,527,374 | 3,748,333 |

The accompanying notes are an integral part of these financial statements.

ANDOVER VENTURES INC.

Consolidated Statement of Cash Flows
(In Canadian Dollars)
Year Ended March 31

| | 2007 | 2006 |
|---|--------------------|------------------|
| CASH PROVIDED BY (USED FOR): | | |
| OPERATING ACTIVITIES | | |
| Loss for the period | \$ (1,295,411) | \$ (231,746) |
| Items not affecting cash: | | |
| Stock-based compensation | 444,160 | 5,666 |
| Write-off of investments | 12,545 | - |
| Cancellation of escrow shares | - | (50,000) |
| Changes in non-cash working capital items: | | |
| Increase in accounts receivable | (27,300) | - |
| Increase in deposits and deferred share issuance costs | (75,028) | - |
| Increase in long term deposit | (7,000) | - |
| Increase in accounts payable and accrued liabilities | 129,652 | 47,721 |
| Cash used for operating activities | <u>(818,382)</u> | <u>(228,359)</u> |
| FINANCING ACTIVITIES | | |
| Shares issued for cash, net of issue costs | 2,129,800 | 220,000 |
| Due to related party | 14,284 | - |
| Due to broker on margin-secured | - | (57,332) |
| Cash provided by financing activities | <u>2,144,084</u> | <u>162,668</u> |
| INVESTING ACTIVITIES | | |
| Mineral property expenditures | (1,386,680) | (11,676) |
| Advance on exploration work program | (115,587) | - |
| Purchase of marketable securities | - | - |
| Proceeds on sale of marketable securities | 1,075 | 112,146 |
| Cash provided by (used for) investing activities | <u>(1,501,192)</u> | <u>100,470</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (175,490) | 34,779 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 258,912 | 224,133 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | 83,422 | 258,912 |

Supplemental disclosure with respect to cash flow activities (Note 8)

The accompanying notes are an integral part of these financial statements

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

NOTE 1. NATURE OF OPERATIONS

Andover Ventures Inc. (“The Company”) was incorporated under the Laws of British Columbia, Canada on February 12, 2003. The Company’s common shares trade on the TSX Venture Exchange.

The Company is a development stage company and engages principally in the acquisition, exploration and development of resource properties, mainly in Alaska, USA. The recovery of the Company’s investment in its resource properties is dependent upon the discovery, development and ultimate sale of ore resources and the ability to raise sufficient capital to finance this operation.

These financial statements have been prepared on a “going concern” basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. As at March 31, 2007 the Company incurred a deficit of \$1,881,576 (2006: \$586,164)

These consolidated financial statements do not reflect adjustments that would be necessary if the “going concern” assumption were not appropriate because management believes that the actions already taken and or planned, as described above, will mitigate the adverse conditions and events that raise doubts about the validity of the “going concern” assumption used in preparing these consolidated financial statements.

If the “going concern” assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported expenses, and the balance sheet classifications used.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Andover (Alaska) Inc., which was incorporated for nominal share capital in the State of Alaska. Significant inter-company transactions have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The Company's subsidiary is an integrated foreign operation. Monetary assets and liabilities are translated at the rate of exchange at the balance sheet date and non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations.

Cash and cash equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to insignificant risk of change in value.

Marketable securities

Marketable securities are recorded at the lower of average cost or market value. Realized gains or losses on sale of securities are determined based on the specific cost basis.

Mineral properties

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. The recoverability of the mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and obtaining permits necessary to complete the development and future profitable production or proceeds from the disposition thereof.

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties and its option agreements are in good standing.

Asset retirement obligations

The Company's mineral exploration and development activities are subject to various laws and regulations regarding protection of the environment. As a result the Company incurs expenses from time to time to discharge its obligations under these laws and regulations. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company does not have any significant asset retirement obligations.

Stock-based compensation

The Company has adopted the new recommendations of CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments", effective April 1, 2004. This Section establishes accounting standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. This Section sets out a fair value based method of accounting and is required for certain stock-based transactions and applied to awards granted on or after April 1, 2004. The Company, as required by Handbook Section 3870, accounts for all stock options granted to non-employees and employees by applying the fair value based method of accounting.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Financial instruments

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

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Basic and diluted loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants or similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at an average market price during the year.

Basic loss per common share is calculated using the weighted-average number of shares outstanding during the year.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

NOTE 3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

| | March 31, 2006 | Net Expenditures | March 31, 2007 |
|--------------------------------|----------------|---------------------|----------------|
| | \$ | \$ | \$ |
| Kamishak Property | | | |
| Acquisition costs | 11,676 | 95,149 | 106,825 |
| Deferred exploration costs | | | |
| Sundry | - | 29,933 | 29,933 |
| Geological consulting | - | 98,367 | 98,367 |
| Exploration salaries and wages | - | 10,486 | 10,486 |
| Field camp & exploration costs | - | 168,628 | 168,628 |
| Sample analysis | - | 10,027 | 10,027 |
| Drilling | - | 215,694 | 215,694 |
| Professional fees | - | 24,085 | 24,085 |
| Accommodation and travel | - | 6,174 | 6,174 |
| Fuel | - | 15,301 | 15,301 |
| | <u>11,676</u> | <u>673,844</u> | <u>685,520</u> |
| Bulk Gold Property | - | | |
| Acquisition costs | - | 102,210 | 102,210 |
| Deferred exploration costs | | | |
| Sundry | - | 6,082 | 6,082 |
| Geological consulting | - | 27,635 | 27,635 |
| Exploration salaries and wages | - | 5,571 | 5,571 |
| Field camp & exploration costs | - | 10,240 | 10,240 |
| Sample analysis | - | 7,128 | 7,128 |
| Drilling | - | 51,808 | 51,808 |
| Professional fees | - | 635 | 635 |
| Accommodation and travel | - | 2,217 | 2,217 |
| Vehicles | - | 5,849 | 5,849 |
| Fuel | - | 1,724 | 1,724 |
| | <u>-</u> | <u>221,099</u> | <u>221,099</u> |
| | | | |
| | March 31, 2006 | Net Expenditures | March 31, 2007 |
| | \$ | \$ | \$ |
| Bristol Bay Property | | | |
| Acquisition costs | - | 122,540 | 122,540 |
| Deferred exploration costs | | | |
| Geological consulting | - | 52,271 | 52,271 |
| Exploration salaries and wages | - | 41,605 | 41,605 |
| Field camp & exploration costs | - | 39,014 | 39,014 |
| Assay | - | 531 | 531 |
| Professional fees | - | 29,867 | 29,867 |
| Accommodation and travel | - | 14,503 | 14,503 |
| | <u>-</u> | <u>14,503</u> | <u>14,503</u> |
| Total | <u>-</u> | <u>300,331</u> | <u>300,331</u> |

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

NOTE 3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (continued)

| Sun Property | | | |
|--------------------------------|---------------|-------------------|-------------------|
| Acquisition costs | - | 13,018,686 | 13,018,686 |
| Deferred exploration costs | - | | |
| Sundry | - | 8,261 | 8,261 |
| Geological consulting | - | 32,379 | 32,379 |
| Exploration salaries and wages | - | 16,037 | 16,037 |
| Professional fees | - | 23,808 | 23,808 |
| Field camp & exploration costs | - | 10,686 | 10,686 |
| Accommodation and travel | - | 5,236 | 5,236 |
| | - | <u>13,115,093</u> | <u>13,115,093</u> |
| Total | <u>11,676</u> | <u>14,310,367</u> | <u>14,322,043</u> |

Kamishak Property

The Company entered into a property option agreement dated March 27, 2006 with Full Metal Minerals Ltd. ("FMM") whereby the Company can earn a 60% interest in the Kamishak Property, which is located approximately 440 kilometers southwest of Anchorage, Alaska. In consideration for its interest in the Kamishak Property, the Company must incur the following exploration expenditures:

- (a) in the amount of at least US\$300,000 on or before April 1, 2007 (incurred);
- (b) in the cumulative amount of at least US\$800,000 on or before April 1, 2008;
- (c) in the cumulative amount of at least US\$1,300,000 on or before April 1, 2009; and
- (d) in the cumulative amount of at least US\$2,000,000 on or before April 1, 2010.

Additionally, the Company must issue and deliver to FMM:

- (a) 150,000 shares (issued) in the capital of the Company on or before the earlier of April 1, 2006 and the date that is three business days following the acceptance for filing of the Option Agreement by the Exchange;
- (b) a further 125,000 shares on or before April 1, 2007;
- (c) a further 125,000 shares on or before April 1, 2008; and
- (d) a further 125,000 shares on or before April 1, 2009.

Further, the Company must pay to FMM:

- (a) US \$10,000 upon the signing of the option agreement (paid) plus an additional US \$10,000 (paid) upon receipt by The Company of the acceptance of the Option Agreement by the Exchange;
- (b) a further US \$20,000 on or before April 1, 2007;
- (c) a further US \$20,000 on or before April 1, 2008; and
- (d) a further US \$20,000 on or before April 1, 2009.

Finally, the Company must assume all obligations of FMM pursuant to the Underlying Property Agreement, including payment of an annual fee of US \$20,000 payable to Alaska Earth, and payment of annual fees to the State of Alaska estimated to be US \$3,300 per year to maintain the claims.

The Company paid a finder's fee of 50,000 common shares (issued) to Golden Capital Securities in connection with the agreement.

The Company is subject to two royalty agreements. The first royalty agreement, assumed as part of the obligations of FMM, requires the Company to pay a 1% net smelter royalty ("NSR") which can be purchased by the Company for US \$1,000,000. The second royalty agreement is a Net Profits Royalty agreement which entitles the payee to receive up to

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

10% of the defined profits of the Company once it reaches commercial production.

Bulk Gold Property

On August 22, 2006, the Company entered an agreement whereby it can earn a 100% interest in the Bulk Gold Property, which is located approximately 38 kilometers north of Nome, Alaska. In consideration for the interest in the Bulk Gold property the Company must incur the following exploration expenditures:

- (a) in the amount of at least US\$150,000 on or before September 1, 2007;
- (b) in the cumulative amount of at least US\$650,000 on or before September 1, 2008;
- (c) in the cumulative amount of at least US\$1,400,000 on or before September 1, 2009; and
- (d) in the cumulative amount of at least US\$2,900,000 on or before September 1, 2010.

Additionally, the Company must issue and deliver to the vendors of the Bulk Gold Property:

- (a) 150,000 shares (issued) in the capital of the Company on or before August 22, 2006;
- (b) a further 250,000 shares on or before August 22, 2007; and
- (c) a further 350,000 shares on or before August 22, 2008;

Further, the Company must pay to the vendors:

- (a) US\$15,000 (paid) on or before August 22, 2006;
- (b) a further US\$25,000 on or before August 22, 2007;
- (c) a further US\$45,000 on or before August 22, 2008;
- (d) a further US\$65,000 on or before August 22, 2009;
- (e) a further US\$100,000 on or before August 22, 2010; and
- (f) a further US\$250,000 on or before August 22, 2011.

Upon commencement of commercial production of the mineral properties, the Company is subject to a maximum 4.5% NSR based on the price of gold. The Company is also subject to minimum royalty payments that begin with a US \$75,000 payment on the sixth anniversary of the agreement.

Bristol Bay Properties

On August 23, 2006, the Company entered into an Exploration Agreement with Option to Lease with the Bristol Bay Native Corporation ("BBNC"), whereby the Company can earn a 100% interest in the Bristol Bay Properties located in the Iliamna Lake area of southwest Alaska. In consideration for this interest, the Company has agreed to a seven year exploration agreement with the option to lease or purchase the properties in the event of a major mineral discovery. In consideration for the interest in the Bristol Bay Properties, the Company must incur the following exploration expenditures:

- (a) in the amount of at least \$200,000 on or before August 23, 2007;
- (b) in the cumulative amount of at least \$500,000 on or before August 23, 2008;
- (c) in the cumulative amount of at least \$900,000 on or before August 23, 2009;
- (d) in the cumulative amount of at least \$1,400,000 on or before August 23, 2010;
- (e) in the cumulative amount of at least \$2,150,000 on or before August 23, 2011;
- (f) in the cumulative amount of at least \$3,150,000 on or before August 23, 2012; and
- (g) in the cumulative amount of at least \$4,150,000 on or before August 23, 2013.

Further, the Company must pay to BBNC:

- (a) \$90,000 upon signing of the agreement (paid);

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

Bristol Bay Properties (continued)

- (b) a further \$85,000 on or before September 15, 2007;
- (c) a further \$120,000 on or before September 15, 2008;
- (d) a further \$145,000 on or before September 15, 2009;
- (e) a further \$200,000 on or before September 15, 2010;
- (f) a further \$250,000 on or before September 15, 2011; and
- (g) a further \$300,000 on or before September 15, 2012.

In addition, the Company is required to make annual scholarship donations to the Bristol Bay Native Corporation Education Foundation over the seven year life of the agreement as follows:

- (a) \$20,000 upon signing of this agreement (paid);
- (b) a further \$20,000 on or before September 15, 2007; and
- (c) annual payments of \$40,000 over each of the remaining five years of the agreement on or before September 15, 2008 through to 2011.

Any of the claims that are, or become, subject to the agreement may be purchased outright by the Company during the option period for \$5,000,000 subject to a net smelter royalty.

The Company has the option to lease other mineral lands owned by BBNC. Leases are subject to annual cash payments and a net smelter royalty on production. Base metal royalties, after an optional buy-down payment, will be 1%. Precious metal royalties are on a sliding scale tied to the price of gold, and, after an optional buy-down payment, will range between 2% and 3%.

Also, the Company will pay a finder's fee of 150,000 common shares to Full Metal Minerals Ltd. upon TSX Venture Exchange approval and a further 150,000 shares upon receipt of a feasibility study, should that happen, on the properties contained in the Agreement. The finder's fee will be paid in stages.

Sun Property

On November 29, 2006, the Company acquired a 50% interest in the Sun Property located in the Ambler District of Alaska. The purchase price was \$3,000,000 (paid \$300,000 cash and issued 5,400,000 units at a deemed price of \$0.50 per unit (each unit consisted of one common share and one share purchase warrant which gives the right to purchase one common share for a period of two years) and the seller, Hastings Base Metals Corp. ("Hastings ") retains a 1.5% net smelter royalty. On March 30, 2007 the Company exercised its option to acquire the remaining 50% of the Sun Property by issuing to the seller 12,826,920 units at a deemed price of \$0.65 per unit (each unit consisted of one common share and one half warrant with one whole warrant giving the right to purchase one common share for \$0.75 for a period of two years) which were issued on April 17, 2007, plus \$1,662,502 paid on April 17, 2007. Since the actual shares were issued subsequent to the year end, the units issued have been presented as an obligation to issue shares. The total purchase price for the 100% interest in the Sun Property was \$13,000,000. Hastings, the seller of the property, is controlled by two Directors of the Company.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

NOTE 4. CAPITAL STOCK

- (a) Authorized: 200,000,000 common shares without par value; 50,000,000 Class A preferred shares without par value; and 50,000,000 Class B preferred shares without par value.
- (b) Issued:

| | Number of Shares | Amount | Contributed Surplus |
|--------------------------------------|---------------------|--------------|------------------------|
| Balance, March 31, 2005 | 3,665,000 | \$ 573,000 | \$ 16,998 |
| Shared issued for: | | | |
| Stock-based compensation | | - | 5,666 |
| Private Placement | 150,000 | 30,000 | |
| Private Placement | 2,000,000 | 220,000 | |
| Cancellation of escrow shares | (500,000) | (50,000) | - |
| Balance, March 31, 2006 | 5,315,000 | \$ 773,000 | \$ 22,664 |
| Shared issued for: | | | |
| Private Placement (1) | 2,000,000 | 259,781 | 240,219 |
| Private Placement (2) | 1,700,000 | 466,825 | 383,175 |
| Private Placement (3) | 7,600,000 | 1,906,840 | 1,893,160 |
| Mineral properties interest (Note 3) | 350,000 | 169,500 | - |
| Exercise of stock options | 150,000 | 61,964 | (35,464) |
| Warrants exercised | 185,000 | 97,800 | - |
| Share issuance costs | | (465,500) | - |
| Stock-based compensation | - | - | 444,160 |
| Balance, March 31, 2007 | 17,300,000 | \$ 3,270,210 | \$ 2,947,914 |

- (1) On April 3, 2006, the Company completed a non-brokered private placement of 2,000,000 shares at a price of 25 cents per unit for total proceeds of \$500,000 less agent commission costs of \$12,500. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.48 per share for two years. The net proceeds has been allocated between share capital and contributed surplus based on the relative fair value of the common shares and the warrants.
- (2) October 16, 2006, the Company completed a private placement for 1,700,000 units at a price of \$0.50 per unit for total proceeds of \$850,000 less agent commission costs of \$75,500. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.60 for a period of one year, then at \$0.70 for an additional year. If, following the date that is four months and one day after the closing date of the financing, the closing price of the Company's common shares exceeds \$1 for 20 consecutive trading days, then the warrant term will be automatically reduced and the share purchase warrants will expire on the date that is 30 days following the issuance of a news release disclosing the reduced warrant term.
- In addition, 151,000 broker warrants were issued in connection with this private placement. Each broker warrant entitles the holder to acquire one common share of the Company at \$0.50 per share for two years. The net proceeds of the private placement has been allocated between share capital and contributed surplus based on the relative fair value of the common shares and the warrants.
- (3) During the period, the Company completed a private placement of 7,600,000 units at a price of \$0.50 per unit totaling \$3,800,000 less agent commission costs of \$377,500. Of this private

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

placement, 5,400,000 units were subscribed for by shareholders of Hastings Based Metals Corp. as consideration for the payment of a 50% interest in the Sun Property. Each unit consists of one common share and one share common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.60 for a period of one year, then at \$0.70 for an additional year. There is a four-month hold period on the shares expiring on March 21, 2007. The net proceeds of the private placement has been allocated between share capital and contributed surplus based on the relative fair value of the common shares and the warrants.

(c) Stock options and warrants

The Company has an incentive stock option plan in place under the rules of the TSX pursuant to which it is authorized to grant options to executive officers and directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less an applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of five years with vesting provisions determined by the board of directors.

Stock option and share purchase warrant activity is summarized as follows:

| | Options | | Warrants | |
|-----------------------------|-----------|---------------------------------|------------|---------------------------------|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Outstanding, March 31, 2005 | - | - | - | - |
| Granted | 250,000 | \$ 0.20 | - | - |
| Outstanding, March 31, 2006 | 250,000 | \$ 0.20 | - | - |
| Granted | 356,500 | 0.32 | 2,000,000 | 0.48 |
| Granted | 200,000 | 0.50 | 1,700,000 | 0.60 |
| Granted | 170,000 | 0.50 | 7,600,000 | 0.60 |
| Granted | 510,000 | 0.50 | 151,000 | 0.60 |
| Exercised | (100,000) | 0.20 | (110,000) | 0.48 |
| Exercised | (50,000) | 0.32 | (75,000) | 0.60 |
| Cancelled | (75,000) | 0.20 | | |
| Outstanding, March 31, 2007 | 1,261,500 | \$ 0.20-0.50 | 11,266,000 | \$ 0.48-0.60 |
| Exercisable, March 31, 2007 | 1,261,500 | \$ 0.20-0.50 | 11,266,000 | \$ 0.48-0.60 |

The weighted average fair value per option granted was \$0.38.

(d) Escrow shares

The 500,000 common shares are held in escrow subject to release based upon terms of escrow agreements and approvals of regulatory authorities.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

(e) Stock-based compensation:

For stock options granted to employees, officers, directors and consultants, the Company recognizes as an expense the cost of the stock-based compensation based on the estimated fair value method of the stock options granted.

During the year ended March 31, 2007, the Company granted 1,236,500 (2006 - nil) stock options with a weighted average fair value of \$0.38 (2006 - \$nil) per option. For the year ended March 31, 2007 the Company recorded an expense of \$444,160 as stock-based compensation and the offset was credited to contributed surplus.

The fair value of stock options granted was estimated using the Black-Scholes Option Pricing Model with the following assumptions; risk-free interest rate – 3.96% (2006: 4.50%); expected dividend yield – Nil; expected stock price volatility – 55% to 104% (2006: 11%); expected option life in years – 5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. The Company's stock options are not transferable and cannot be traded. The Black-Scholes model also requires an estimate of expected volatility. The Company uses historical volatility rates of the Company to arrive at an estimate of expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore do not necessarily provide a reliable measure of the fair value of the Company's stock options.

NOTE 5. COMMITMENTS

Except as stated elsewhere mainly in relation to satisfying the Company's requirements for its property acquisition, on January 1, 2004, the Company entered into a Consulting Agreement with Magnus Management Ltd.

NOTE 6. TRANSACTIONS WITH RELATED PARTIES

During the year the Company issued 5,400,000 common shares and warrants at a deemed price of \$0.50 per share plus \$300,000 cash as consideration for the first 50% interest in the Sun Property. On March 30, 2007 the Company exercised its option to acquire the remaining 50% interest in the Sun Property by issuing 12,826,920 units, each unit consisting of one common share and one-half warrant, at a deemed price of \$0.65 per unit, plus an obligation to pay \$1,662,502 two weeks later. Included in accounts payable is \$1,108,335 owing to directors of the Company as part consideration for the payment of the remaining 50% interest in the Sun Property. The transactions to acquire the 100% interest in the property, for \$13,000,000 as disclosed in Note 3, was measured at the exchange amount, which was the amount agreed upon between the related parties. The seller of the property, Hastings Base Metals Corp., is a company controlled by two Directors of the Company.

The Company also paid management and consulting fees of \$60,000 (2006- \$nil) to a director and officer of the Company. It also paid consulting fees of \$108,000 (2006 - \$27,500) to two former directors and officers of the Company. These transactions took place in the normal course of operations and measured at the exchange amount, which is the total consideration established and agreed between the related parties.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

NOTE 7. INCOME TAXES

The Company has accumulated losses, which may be carried forward to reduce income taxes as follows:

| Year Ended March 31 | \$ |
|---------------------|----------------------|
| 2010 | 1,652 |
| 2011 | 169,832 |
| 2012 | 190,545 |
| 2015 | 171,602 |
| 2016 | 231,746 |
| 2026 | <u>851,251</u> |
| Total | <u>1,616,628</u> |

The potential tax benefit of these tax losses is not disclosed in these financial statements as future taxation, as it is reduced by a valuation allowance, due to uncertainty of utilization of the losses.

The income tax effect of temporary differences comprising the deferred tax assets (non capital loss carry forwards) and deferred tax liabilities on the accompanying consolidated balance sheets is a result of the following:

| | <u>2007</u> | <u>2006</u> |
|-------------------------|------------------|------------------|
| | \$ | \$ |
| Deferred tax assets | 549,653 | 195,443 |
| Valuation allowance | <u>(549,653)</u> | <u>(195,443)</u> |
| Net deferred tax assets | <u>0</u> | <u>0</u> |

A reconciliation between the statutory federal income tax rate and the effective income rate of income tax expense for the years ended March 31, 2007 and March 31, 2006 is as follows:

| | <u>2005</u> | <u>2004</u> |
|-----------------------------------|--------------|--------------|
| Statutory federal income tax rate | -34.0% | -34.0% |
| Stock-based compensation | 11.0% | 0.0% |
| Valuation allowance | <u>23.0%</u> | <u>34.0%</u> |
| Effective income tax rate | <u>0.0%</u> | <u>0.0%</u> |

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
(In Canadian Dollars)

NOTE 8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company entered into certain non-cash investing and financing activities as follows:

| | 2007 | 2006 |
|--|-----------|------|
| Investing Activities: | \$ | \$ |
| Common shares issued for acquisition of properties | 2,848,500 | - |
| Shares issued for commissions as finders fees | 21,000 | - |
| Obligation to issue common shares for property | 8,337,498 | - |
| Interest paid | - | - |
| Income taxes paid | - | - |

NOTE 9. SUBSEQUENT EVENTS

On April 17, 2007 the Company completed the private placement of \$14,997,497 through the sale of 23,073,073 units at a price of \$0.65 per unit. \$6,500,000 of the private placement was brokered, co-lead by Pacific International Securities Inc. and Leede Financial Markets Inc. The remaining \$8,497,497 was non-brokered with \$8,337,498 of the non-brokered private placement closing on March 30, 2007. The non-brokered portion of the private placement has been reflected in these financial statements as an increase in mineral properties for \$10,000,000, being the amount used to purchase the remaining 50% of the Sun Property, and an offsetting increase in accounts payable of \$1,662,502 and \$8,337,498 as an obligation to issue shares.

Each unit consisted of one common share of the Company and one-half non-transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share at an exercise price of \$0.75 per share for a period of 24 months from closing of the private placement. The majority of the non-brokered portion of the private placement was purchased by directors of the Company or their associates and was used to acquire the remaining 50% interest in the Sun Property. The Company agreed to pay a commission of 7% in cash or units, at the election of the agents, on the brokered portion of the financing. Pacific International Securities Inc. was paid 215,800 units in lieu of a cash commission. An agents' option to purchase shares equal to 12% of the number of units sold by the agents at a price of \$0.65 was also be granted. The proceeds of the private placements were used by the Company to purchase the remaining 50% interest in its Sun Property located in the Ambler Mining District of Alaska, to carry out this year's work programs on the Sun Property, and for general working capital.

On April 27, 2007 the Company granted 1,000,000 stock options to officers and directors of the Company exercisable for a period of 5 years from the date of the grant at an exercise price of \$0.90 per common share.

NOTE 10. COMPARATIVE FIGURES

Certain of the prior years' figures have been reclassified to conform to the presentation adopted for the current year.

The comparative figures were audited by another firm of chartered accountants.