

# **ANDOVER VENTURES INC.**

Management's Discussion and Analysis  
For the Period Ended December 31, 2007

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AOX (TSX Venture Exchange)

MD&A 31-12-07

## **Introduction**

The following Management's Discussion and Analysis ("MD&A") of Andover Ventures Inc. (the "Company" "Andover") should be read in conjunction with the Company's interim financial statements for the period ended December 31, 2007 and the audited consolidated financial statements for the year ended March 31, 2007 which are available along with further information on the Company including news releases and historical reports referred to in this MD&A on the SEDAR website at [www.sedar.com](http://www.sedar.com).

All information contained in this MD&A was prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All dollar amounts are expressed in Canadian Dollars unless specifically stated otherwise.

## **Cautionary Note Regarding Forward Looking Statements**

This Management's Discussion and Analysis contains certain forward-looking statements that involve risks and uncertainties such as statements of the Company's plans, objectives, strategies, expectations, and intentions. The words "may", "would", "could", "will", "intend", "plan", "believe", "estimate", "expect" and similar expressions, as they relate to the Company, or its management, are intended to identify such forward-looking statements. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including those factors discussed below and in filings made with the Canadian securities regulatory authorities. Should one or more of these risk factors or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation to update these forward-looking statements.

Risks and uncertainties may include, but are not limited to, changes in general economic conditions, currency fluctuation, changes in the legal, social or political conditions, fluctuations in metals prices, changing costs of services and materials, difficulty in obtaining required equipment supplies and services in a timely manner, changes in reserve and resource estimates, access to capital, and other risks and uncertainties unique to the Company or common to public companies, mineral companies and companies doing business in multiple political jurisdictions.

## **Background**

Andover Ventures Inc. was incorporated under the laws of the province of British Columbia, Canada on February 12, 2003. The Company is a development stage company and its primary business is the acquisition, exploration and development of mineral properties. Mineral properties for evaluation are acquired through staking, direct acquisition, joint ventures or other participation agreements.

The Company was originally classified as a venture capital pool corporation under the rules of the TSX Venture Exchange ("TSX Venture"). Under such rules, to meet initial listing requirements for a publicly traded company, the Company was required to complete a Qualifying Transaction. The Company completed a Qualifying Transaction in August of 2006 and is now a listed and publicly traded company on the TSX Venture under the symbol AOX.

## **Mineral Properties**

### **Kamishak Property, Alaska**

On March 27, 2006 the Company entered into a property option agreement with Full Metal Minerals Ltd. (“FMM”) whereby the Company can earn a 60% interest in Full Metal’s Kamishak copper–gold property. 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 was 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 upon receipt by Andover of the acceptance of the Option Agreement by the Exchange (paid);
- (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 Andover must assume all obligations of FMM pursuant to the underlying Property Agreement including the payment of an annual fee of US\$20,000 to Alaska Earth Resources Inc. and claim maintenance fees to the State of Alaska estimated to be US\$3,300 per annum.

The Company paid a finder’s fee of 50,000 common shares to Golden Capital Securities in connection with this 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 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 10% of the defined profits of the Company once the property reaches commercial production.

The Kamishak Property is located 20 kilometres west of tidewater, approximately 440 kilometres southwest of Anchorage and approximately eight kilometres km south of Northern Dynasty’s Pebble Deposit. The primary target is an intrusive-related breccia pipe with iron oxide-hosted copper-gold mineralization: this mineralization may be related to an as-yet-undiscovered porphyry copper-gold system. During the nine month period the Company completed three 2.1 km I.P. lines.

For additional information on the Kamishak Property please see Company news releases dated April 3, 2006, June 30, 2006, August 14, 2006 and November 1, 2006.

Subsequent to December 31, 2007 the Company, FMM, Alaska Earth Resources Inc. and Alix Resources Corp. (“Alix”) reached an agreement by which Alix resources would acquire an 80% interest in the Kamishak Property and the Company would retain a 20% interest. After Alix spends US\$1,000,000 on the property the Company and Alix agree to pay their proportional share of all costs moving forward. The Company has no further exploration expenditure, option payment or share issuance obligations to FMM with regards to the Kamishak Property.

#### Bulk Gold Property, Alaska

On August 22, 2006 the Company signed a Letter of Agreement with Altar Resources Alaska to option the 1,150 acre Bulk Gold property located in the historic Nome Mining district of Alaska. The property is situated approximately 38 kilometres north of Nome and approximately two kilometres west of the Nome – Taylor highway. The Nome mining district produced over 4.5 million ounces of placer gold between 1899 and 1989.

The Company can earn a 100% interest in the Bulk Gold Property by incurring the following exploration expenditures:

- (a) in the amount of at least US\$150,000 (incurred) 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 January 5, 2008; 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 January 5, 2008;
- (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.

During the nine month period ended December 31, 2007 the Company drilled 650 meters in seven HQ holes on the Bulk Gold Property. The drilling focused on testing the down dip potential of the old Hed & Strand vein as well as the Dorothy Creek soil anomaly.

### Bristol Bay Properties, Alaska

On August 23, 2006 the Company entered into an Exploration Agreement with an Option to Lease with the Bristol Bay Native Corporation (“BBNC”), an Alaskan Native Regional Corporation. The agreement will allow Andover to acquire 100% interest in mineral rights to five individual properties covering approximately 18,000 hectares in the Iliamna Lake area. The properties are a combination of private lands owned by the BBNC and claims staked on state-owned lands. The properties located south of Iliamna Lake are similar in geological setting to the Kamishak property. The properties to the north of the lake are porphyry copper-gold targets in settings similar to Northern Dynasty’s Pebble porphyry copper-gold deposit. The Kemuk property, northwest of the lake, is a platinum group metals target hosted in a base intrusive sequence.

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

Further, the Company must pay the following option payments to the BBNC:

- (a) US\$90,000 upon signing of the agreement (paid);
- (b) a further US\$60,000 on or before November 15, 2007 (paid);
- (c) a further US\$75,000 on or before November 15, 2008;
- (d) a further US\$100,000 on or before November 15, 2009;
- (e) a further US\$125,000 on or before November 15, 2010;
- (f) a further US\$150,000 on or before November 15, 2011; and
- (g) a further US\$200,000 on or before November 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) US\$20,000 upon signing of this agreement (paid);
- (b) a further US\$20,000 on or before November 15, 2007 (paid); and
- (c) annual payments of US\$40,000 over each of the remaining five years of the agreement on or before November 15, 2008 through 2011.

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

The Company has the option to lease other mineral lands owned by BBNC. All 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 to Full Metal Minerals Ltd. as follows:

- (a) 29,073 common shares (issued) upon Exchange acceptance for filing;
- (b) a further 73,340 common shares (issued) on or before September 2, 2007;
- (c) a further 47,587 common shares on or before September 2, 2008; and
- (d) a further 150,000 common shares provided the Company receives a positive recommendation for economic production on the property.

On July 25, 2007 the Company entered into an agreement with Alix Resources Corp. Pursuant to the agreement, Alix will acquire an undivided 50% interest in the exploration and option to lease agreement with the Bristol Bay Native Corporation.

In consideration for the 50% interest Alix must incur the following exploration expenditures:

- (a) in the amount of at least US\$300,000 (incurred) on or before August 1, 2007;
- (b) in the cumulative amount of at least US\$1,000,000 on or before August 1, 2008;
- (c) in the cumulative amount of at least US\$2,000,000 on or before August 1, 2009; and
- (d) in the cumulative amount of at least US\$3,500,000 on or before August 1, 2010.

In addition Alix must pay the Company:

- (a) 250,000 Alix common shares (paid) on Exchange acceptance;
- (b) a further 250,000 common shares on or before August 1, 2008;
- (c) a further 250,000 common shares on or before August 1, 2009; and
- (d) a further 250,000 common shares on or before August 1, 2010.

The Company has adjusted the carrying value of the Bristol Bay Properties to reflect the Alix investment to date.

The principal properties making up the Bristol Bay Properties are: the KUY property which is an epithermal gold-silver target located near the village of Kokhanok; the Fog Lake property which is a copper-gold target located east of KUY and northeast of the Kamishak property; the Kemuk Property; the Chilikat Property which is a copper-gold target comprised of two claim blocks and the Samuelsen Property which is a copper-gold target. The Company plans to concentrate its near-term efforts on the KUY property. For more information on the KUY property see the Company news releases dated August 24, 2006, September 13, 2006, November 13, 2006 and July 6, 2007.

Work on the Bristol Bay Properties during the nine months ended December 31, 2007 focused on the KUY property. At the KUY two 2.1 km I.P. lines were completed and 793 meters of core drilling in four holes was completed. The Company is waiting final analytical results from the seasons drilling.

In addition to work done at the KUY the Company continued to analyze the potential of other properties included in the Bristol Bay Properties. Work during the period included reanalysis of historic drill core, surface sampling, geochemical analysis and geological mapping.

### Sun Property, Alaska

On November 29, 2006 the Company acquired a 50% interest in the Sun mining claims located in the Ambler District of Alaska. The purchase price was \$3 million and the seller Hastings Base Metal Corp. (“Hastings”) retains a 1.5% NSR royalty. The Company also retained an option to acquire the remaining 50% interest in the Sun property from Hastings for the sum of \$10 million. On March 30, 2007 the Company exercised its option to acquire the remaining 50% of the Sun Property. Total purchase price for the 100% interest in the Sun Property was \$13 million.

The Sun property consisted of 25 claims, the 13 SUN claims and 12 HOT claims, on the south flank of the Brooks Range in north-central Alaska. The property hosts an important zinc-copper-silver deposit first identified by the Sunshine Mining Company in the early 1970s. The property was subsequently explored by Noranda, Anaconda and Teck Cominco. As defined by historical drilling, the Sun property extends approximately three kilometres along strike. Mineralization consists of up to three volcanogenic massive sulphide (“VMS”) horizons up to 11.5 metres thick. The host rocks consist of schistose meta-morphosed felsic volcanics, tuffs and sediments occurring in an isoclinally folded linear belt that extends over 100 kilometres. The Ambler District hosts several VMS deposits which include Teck Cominco’s Smucker deposit to the west, Rio Tinto /NovaGold’s Arctic deposit in the centre and the Sun deposit on the east side of the district.

Andover has staked an additional sixty-eight, 160-acre, State claims along the 16 kilometres of the highly prospective metavolcanic belt around and to the west of the Sun project. Historical work in the area has identified favourable rocks, gossans and geochemical anomalies that have not been drill tested, which will be the focus of Andover’s future work programs on the property.

Work during 2007 included the completion of 500 meter airstrip, erection of a 20 man camp, construction of fuel depots and winter storage facilities. Over 4,490 meters were drilled in 20 NQ2 holes. Please see news releases dated October 11, October 31, December 4, December 12, 2007 and January 16, 2008 for additional information regarding work done at the Sun Property during 2007.

### Selected Annual Information

The following table provides financial data from the Company’s three most recently completed financial years. The data was prepared in accordance with Canadian Generally Accepted Accounting Principals.

	March 31, 2007	March 31, 2006	March 31, 2005
	\$	\$	\$
Total interest and other income	12,406	29,917	9,187
Net loss	1,295,411	231,746	171,602
Net loss per-share	0.12	0.06	0.06
Net loss per-share – diluted	0.12	0.06	0.06
Total assets	14,688,940	271,663	337,354
Total long-term liabilities	Nil	Nil	Nil
Cash dividends per-share	Nil	Nil	Nil

## **Results of Operations**

The Company reported a net loss of \$1,605,211 (December 31, 2006 - \$941,786) and a net loss of \$0.04 (December 31, 2006 - \$0.06) per basic and fully diluted share for the period ended December 31, 2007. The Company's loss increased as a result of increased administrative, legal, consulting and other professional costs related to increased exploration activities as well as stock compensation expenses and foreign exchange losses. It is anticipated that losses will continue for the foreseeable future as the Company continues to explore its existing mineral properties and evaluate additional properties.

For the nine month period ended December 31, 2007 the Company expended \$55,521 (December 31, 2006 -\$630,158) on the Kamishak Property; \$164,249 (December 31, 2006 – \$219,934) on the Bulk Gold Property and \$4,153,716 (December 31, 2006 – 3,026,333) on the Sun Property. During the period \$803,659 was spent on the Bristol Bay Properties with \$700,000 of these costs being assumed by Alix Resources Corp. and the remaining \$103,659 being assumed by the Company. Costs incurred during the period for each property include acquisition costs and exploration costs. For a detailed breakdown of the mineral property expenditures by property please see the Company's financial statements for the interim period ended December 31, 2007.

The Company and its partners are developing long term plans and budgets for each of the individual properties. At this time the Company intends to continue gathering geological data to assist in long term planning on the Bulk Gold and Bristol Bay properties. At the Sun property the Company has initiated a 50,000 metre drill program which is planned to recommence in the spring of 2008.

The Company's mineral properties are located in the State of Alaska where the remote location and difficult weather conditions make on site collection of geological data difficult and costly during the winter months. The Company has elected to operate seasonal exploration programs running from approximately mid April to late September and use the remainder of the year for analysis and planning. As a result the Company reports higher exploration related expenses during the first two quarters of the fiscal year.

## **Summary of Quarterly Results**

The following table summarizes selected Company financial information for the last eight completed fiscal quarters. The data was prepared in accordance with Canadian Generally Accepted Accounting Principles and the reporting currency is the Canadian dollar.

	Three Months Ended			
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
	\$	\$	\$	\$
Total interest and other income	409	19,156	7,910	1,655
Net loss	455,117	400,984	749,110	353,486
Net loss per-share	0.01	0.01	0.02	0.03
Net loss per-share – diluted	0.01	0.01	0.02	0.03

	Three Months Ended			
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
	\$	\$	\$	\$
Total interest and other income	4,353	4,509	1,889	27,178
Net loss	448,947	332,381	160,458	63,260
Net loss per-share	0.03	0.04	0.02	0.02
Net loss per-share – diluted	0.03	0.04	0.02	0.02

### **Liquidity and Capital Resources**

On December 31, 2007 the Company had current assets of \$553,598 (March 31, 2007 - \$359,897) and a net working capital deficit of \$213,081 (March 31, 2007 – deficit \$1,652,463). The Company's ability to continue as a going concern is dependent on its ability to raise funds to meet current and future financial commitments.

The Company has significant obligations under the property acquisition agreements for the Kamishak, Bulk Gold and Bristol Bay property acquisition agreements. These obligations are summarized elsewhere in this MD&A.

At this time the Company does not know of any demands, commitments, or events which will materially affect its liquidity. As in many small resource companies, cash flows are directly affected by the success and failure of exploration and development work. Until such time that mineral production commences at a level sufficient to support planned exploration and development work the Company will be required to look for alternate sources of financing. No assurance can be given that if additional funding is required it will be available, or if available, will be on terms acceptable to the Company.

### **Transactions with Related Parties**

During the period ended December 31, 2007 the Company paid management and consulting fees of \$167,000 (2006- \$39,000) to directors and an officer of the Company. It also paid consulting fees of \$22,496 (2006 - nil) to a former director and officer 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.

The Company issued 675,000 incentive stock options at an exercise price of \$0.90 and 65,000 incentive stock options at an exercise price of \$0.67 to directors and officers during the period.

Two directors of the Company took part in the private placement which closed on April 17, 2007 acquiring a total of 2,240,359 units at a deemed price of \$0.65. Each unit consists of one common share and one share purchase warrant exercisable for a period of two years at a price of \$0.75.

The Company acquired the Sun Property from Hastings Base Metal Corp. for a purchase price of \$13 million and Hastings retains a 1.5% NSR royalty. Two directors of the Company are also directors of Hastings.

### **Critical Accounting Policies**

The Company's critical accounting policies are summarized in Note 2 to its consolidated financial statements. In the preparation of its consolidated financial statements the Company uses Canadian Generally Accepted Accounting Principles, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosure. Estimates are based on Management's knowledge of current events and actions the Company may undertake in the future, actual results may differ from these estimates.

### **Changes in Accounting Policy**

The Company's accounting policy is described in the notes to the Company's consolidated financial statements for the period ended December 31, 2007. During the period ended December 31, 2007 there were no changes in the accounting policy.

### **Financial Instruments and Other Instruments**

The Company held cash and cash equivalents at December 31, 2007 as shown in the Company's consolidated financial statements. There were no off-balance sheet or other instruments.

### **Disclosure of Outstanding Share Data**

The Company has an unlimited number of common shares authorized, with 41,812,286 outstanding on December 31, 2007 and 41,812,286 as of the date of this MD&A. On December 31, 2007 options to purchase 1,994,000 common shares and warrants to purchase 23,106,072 common shares were outstanding. As of the date of this MD&A options to purchase 1,986,500 common shares and 21,567,072 warrants were outstanding.

### **Controls and Procedures**

The Company has developed controls and procedures relating to information and financial resources. Information controls have been developed to ensure material information requiring public disclosure is disseminated in a timely and fair manner. Financial controls have been developed to protect the Company's assets and insure accurate and timely reporting of material financial information. Management is aware that controls and procedures can offer only reasonable assurance and not absolute assurance that the objectives of the controls and procedures will be met. There were no significant changes to the Company's controls or procedures during the period ended December 31, 2007.

### **Outlook**

During the period ended December 31, 2007 the Company continued to evaluate its mineral holdings in the state of Alaska. Management believes that each of the Companies properties has the potential to host significant mineralization and will continue to analyze data relating to each property to formalize long term property plans and budgets.

The Sun property continues to be the most advanced of the Company's projects and in fiscal 2008 the Company plans an aggressive exploration program which includes core drilling, soil sampling, airborne and ground geophysics and review of past geological data including the re-examining historic drill core.