

# **ANDOVER VENTURES INC.**

## **Management's Discussion and Analysis For the Period Ended December 31, 2009**

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AOX (TSX Venture Exchange)

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## **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 consolidated financial statements for the period ended December 31, 2009 and the audited consolidated financial statements for the year ended March 31, 2009 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 an advanced stage exploration company and its primary business is the acquisition, exploration and development of advanced stage 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 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.

On March 24, 2009, the Company completed the acquisition of a controlling interest in Chief Consolidated Mining Company (“Chief”). See Note 6 to the Company’s audited financial statements for the year ended March 31, 2009. Chief is the owner of or has vested interests in approximately 16,000 acres of patented mining property in the Tintic Mining Districts in Utah County and Juab County, Utah, USA. Chief operates as a mineral resource company seeking to engage in the exploration and development of their mining claims and properties. These mining lands include the Burgin Mine and Trixie Mine, neither of which is currently in production.

**Outlook**

During the period ended December 31, 2009 the Company continued to evaluate its mineral holdings in the states of Alaska and Utah, USA.

**Mineral Properties**

**Sun Property, Alaska**

The Sun property continues to be the most advanced of the Company’s Alaska projects. Long term, the Company plans to complete a scoping study and a NI 43-101 compliant reserve and resource report for the Sun Property. The Company remains confident with continued investment and work the Sun Property will prove its positive economic potential.

Anaconda completed a pre-feasibility study on the Sun Property in 1980. Historic grades and resources, pre NI43-101, are indicated below:

	<u>Tons</u>	<u>Silver</u>	<u>Copper</u>	<u>Lead</u>	<u>Zinc</u>
Open Pit	2,399,000	2.39 opt	1.93%	1.20%	4.51%
Underground	17,891,000	2.37 opt	1.91%	1.18%	4.46%

**Chief Consolidated Mining Company**

The Tintic Mining District of Utah is host to numerous former producing mines. The Company’s strategy is multi pronged. The Company is focused on developing the Trixie Mine (Gold/ Silver/ Copper) back into production. It last produced in February 2002 and the mill and mine have been on stand by since that time.

Secondly, the Company continues to work on water permits, re-examining the “UPDATE of 1988 Burgin Mine Feasibility Study” completed by Mine Development Associates in 2001 and the “Estimates of the Mineable Reserves for the New Burgin Project Utah County, Utah” completed by Pincock, Allen and Holt in 1989 for the Burgin Mine.

**Trixie Mine**

The Trixie Mine is a fully permitted and bonded Gold/ Silver Mine that has been on stand-by since March of 2002, when last operated. The Mine processed 7,808 tons of ore in late 2001 until closure in February 2002 and produced some 4,460 ounces of gold. The total mining and milling cost to process the 7,808 tons was US\$694,591 or US\$88.96 per ton processed.

To start up the Trixie Mine the Company would initially process material located on the surface. The tonnage would come from various stock piles and the dry stack tailings left from the 2001 – 2002 operations at the Trixie Mine. Simultaneously, the Company plans to access the Trixie Mine to check and confirm the ore reserves estimated to be mineable above the 700 ft Level. This is the area that Chief was mining at the time of the mine closure in February 2002. The Company would also examine the resource at the 1400 ft level where Kennecott had historically mined.

The Company believes, based on the excellent condition of the processing and milling plant, that the plant can be re-commissioned with an initial expenditure of approximately US\$200,000. Subject to confirmation of these historic Pre-NI-43-101 resource estimates and the final evaluation of the economics of mining the resources, the Company plans on opening the Trixie Mine and recovering the contained gold and silver ounces as quickly as practical. The Company also plans further exploration of other precious metal targets within the Trixie Mine Complex.

### **Burgin Mine**

This rich silver, lead, zinc deposit is being re-examined to determine the feasibility of returning the Burgin Mine into production along with a comprehensive strategy to accomplish this. Firstly, the District is rich in exploration targets that are near to the Burgin Mine, for example, the Ball Park, the Sunshine Target, Zone A etc, which need to be examined closer. Secondly, the Company continues to work closely with the EPA to reach settlement.

Key Milestones set for 2010:

- Development of the Trixie Mine subject to confirmation of historic estimates
- Secure water permits for the development of the Burgin Deposits
- Systematic Exploration and Development Programs in East Tintic Mining District
- Strategic Ventures/ Partnerships

The Company's long term objectives are to optimize and fully develop its permitted mine and systematically explore our large land positions. Management believes it should focus on generating cash flow from production. The ability to generate free cash from mining operations would allow the Company to further enhance its mining assets. The Company plans to build on its management team and portfolio of projects to increase shareholder value.

## **Mineral Properties**

### **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 \$3,000,000 and the seller retains a 1.5% NSR royalty. The Company also retained an option to acquire the remaining 50% interest in the Sun property for \$10,000,000. On March 30, 2007, the Company exercised its option to acquire the remaining 50% of the Sun Property. The total purchase price for the 100% interest in the Sun Property was \$13,000,000.

The Sun property consisted of 25 claims, on the south flank of the Brooks Range in north-central Alaska. The property hosts a copper, silver, lead, zinc VMS deposit first identified by the Sunshine Mining Company in the early 1970's. 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 four 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 rock, gossans and geochemical anomalies that have not been drill tested and will be the focus of Andover's future work programs on the property.

### **Kamishak Property**

The Company entered into a property option agreement, dated March 27, 2006, with Full Metal Minerals Ltd. ("FMM") whereby the Company could earn a 60% interest in the Kamishak Property, which is located southwest of Anchorage, Alaska. The Company and Full Metal Minerals terminated this agreement and on January 24, 2008 the Company and Alix Resources Corp. reached an agreement, by which the Company would retain a 20% interest in the Kamishak property and Alix would acquire the remaining 80% interest in the property. 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. In the current period the Company decided to terminate the project. No further obligations exist.

## **Chief Consolidated Mining Company**

### **Acquisition of Chief Consolidated Mining Company**

As disclosed in Note 6 to these interim financial statements, the Company purchased a controlling interest in Chief on March 24, 2009.

Chief is the owner of or has vested interests in approximately 16,000 acres of patented mining property in the Tintic Mining Districts in Utah County and Juab County, Utah, USA. Chief operates as a mineral resource company seeking to engage in the exploration and development of their mining claims and properties. These mining lands include the Bergin Mine and Trixie Mine, neither of which is currently in production.

### **Korea Zinc Agreement**

On August 27, 2008, Andover, Chief and Korea Zinc Co. Ltd. ("Korea Zinc") entered into an agreement ("Tintic Utah Option Agreement") by which Andover would purchase Korea Zinc's 25%

interest in Tintic Metals LLC (“Tintic Utah”) and an agreement known as the “Operating Agreement of Tintic Utah Metals LLC” (“Operating Agreement”). Tintic Utah and the Operating Agreement are a partnership between Chief and Korea Zinc under which Chief owns 75% and Korea Zinc owns 25%.

In the current period the Company decided to terminate the agreement. No further obligations exist. The Company recognized a gain of \$923,185 (US\$850,000) on the write down of its purchase option obligation.

#### Burgin Mine

During the current period ended December 31, 2009, the Company performed confirmation drilling on the Burgin extension deposit. \$427,822 of deferred exploration costs was incurred.

#### Results of Operations

The Company reported a loss and comprehensive loss of \$493,736 (December 31, 2008 – \$143,324) and a loss per share of \$0.01 (December 31, 2008 - \$0.01) for the quarter.

Management and other professional fees have increased from \$129,000 in the nine month period ended December 31, 2008 to \$403,579 in the current period. This reflects an overall increase in senior management within the Company necessary to develop its mineral properties to its full potential. Travel and promotion expenses have increased from \$83,030 for the nine months ended December 31, 2008 to \$189,729 for the comparable period of 2009. This reflects expenses incurred in promoting the Company in Toronto and Europe. Office expenses have also significantly increased from \$78,230 in the nine months ended December 31, 2009 to \$285,552 for the comparable period of 2009. This movement is attributable to the consolidation of Chief since its acquisition in March 2009. Legal and accounting expenses are \$206,123 for the six months ended September 30, 2009 compared to \$157,702 for the comparable period of 2008. The increase is primarily due to Securities and Exchange Commission requirements for Chief as an OTCBB company.

Further, in the three months to December 31, 2009, the Company has recognized a foreign exchange gain of \$96,858 compared to a foreign exchange gain of \$49,319 in the comparable period of 2008. For the nine months ended December 31, 2009, the Company has recognized a foreign exchange gain of \$344,642 compares to a foreign exchange gain of \$40,598 in the comparable period of 2008. The Company is at risk from foreign exchange fluctuations again the U.S. dollar due to its Chief liabilities being predominantly in this currency.

Interest expense for the three months to December 31, 2009 of \$70,005 has arisen mainly due to interest payable on the \$5,000,000 promissory note. Interest expense for the nine months to December 31, 2009 was \$245,611.

For a detailed break-down of the mineral property expenditures by property please see the Company’s financial statements for the nine month period ended December 31, 2009.

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.

## **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, 2009	September 30, 2009	June 30, 2009	March 31, 2009
	\$	\$	\$	\$
Total interest and other income	-	-	-	-
Loss and comprehensive loss	493,736	186,883	769,668	196,606
Loss per share – basic and diluted	(0.01)	(0.01)	(0.02)	(0.01)

  

	Three Months Ended			
	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
	\$	\$	\$	\$
Total interest and other income	-	-	-	8
Loss and comprehensive loss	143,324	1,059,644	253,317	575,673
Loss per share – basic and diluted	(0.01)	(0.03)	(0.01)	(0.01)

## **FINANCIAL POSITION**

At December 31, 2009, total assets employed by the Company were \$29,384,745 (March 31, 2009: \$29,969,969). The movement is primarily attributable due to a write-down of its mineral properties by \$737,846, further deferred development costs of \$464,944 and a reduction in Cash and cash equivalents from \$238,607 to \$120,785.

At December 31, 2009, the Company had total current liabilities of \$8,115,717 compared to \$6,430,086 as at March 31, 2009. The increase is primarily due to the note payable of \$5,000,000 now being due within 12 months (disclosed as long-term liabilities in the three month period ended June 30, 2009) against the settlement of the loan payable to SNS for \$2,000,000 principal.

Shareholders' equity was \$21,269,028 as of December 31, 2009 compared to \$18,534,849 as at March 31, 2009. The movement is due to the loss for the nine month period ended December 31, 2009 of \$1,450,287, stock-based compensation expense of \$327,956, the exercise of 650,000 stock options in the Company and the issuance of 10,896,667 Units as part of two private placements closed during the period.

## **Liquidity and Capital Resources**

On December 31, 2009, the Company had current assets of \$239,049 (March 31, 2009 - \$366,868) and a net working capital deficiency of \$7,876,668 (March 31, 2009 – deficiency of \$6,063,218). 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.

As in many 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 additional funding to meet the repayment of the note payable from Genco Resources Limited will be obtainable on terms acceptable to the Company.

### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition including, without limitation, such considerations as liquidity and capital resources.

### **Transactions with Related Parties**

In addition to related party transactions disclosed elsewhere in these financial statements, during the period ended September 30, 2009, the Company paid or accrued management and consulting fees of \$268,166 (2008 - \$123,190). The Company also paid consulting fees of Nil (2008 - \$4,747) to a former director and officer of the Company.

As at December 31, 2009, the company has balances payable of \$198,196 (March 31, 2009 - \$243,767) to directors and officers of the company or to companies controlled by common directors.

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.

### **Critical Accounting Policies**

The Company's critical accounting policies are summarized in Note 3 of its audited annual 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.

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

The Company's financial instruments and there financial statement designations are as follows:

Cash and cash equivalents	Held-for-trading
Marketable securities	Held-for-trading
Accounts payable and accrued liabilities	Other financial liabilities

Marketable securities are classified as held-for-trading financial instruments as the Company intends to sell them in the near future or due to their nature. Unrealized gains and losses related to held-for-trading investments are included in the statement of loss, comprehensive loss and deficit.

The Company estimates the fair value of marketable securities at the balance sheet date using quoted market prices for equity securities and the Black-Scholes pricing model for warrants held.

The Company's other financial instruments' carrying values approximate their fair values.

### **Transition to International Financial Reporting Standards**

In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011.

To be prepared for the conversion to IFRS, the Company has put in place an implementation plan. The Company has started the training phase and the evaluation of the impact which involved a high-level of review of the differences between current GAAP and IFRS. In the coming months, the Company will be reviewing the alternatives available on adoption; the Company will also, in the second phase of its plan, prepare a detailed impact assessment. As the implications of the conversion are identified, the impacts on the other key elements of our conversion plan will be assessed. These key elements include: accounting policy changes, information technology changes, training requirements, internal control over financial reporting and impacts on business activities.

The Company will continue to report on the key elements and timing of its IFRS implementation plan in its MD&A's throughout fiscal year 2009 and 2010.

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

The Company has 200,000,000 common shares, 50,000,000 Class A preferred shares and 50,000,000 Class B preferred shares authorized, with 62,445,120 common shares outstanding on December 31, 2009.

On December 31, 2009 and at the date of this MD&A stock options to purchase 2,645,000 common shares and warrants to purchase 10,973,334 common shares were outstanding.

On January 18, 2010, the Company closed a non-brokered private placement for gross proceeds of \$670,000. The Company issued 2,233,334 units at a price of \$0.30 per unit. 1,896,667 units were issued and fully paid by December 31, 2009 with the remaining units being used and fully paid on January 18, 2010. Each unit consisted of one common share and one-half share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.45 per share for a period of 18 months from the closing date.

As at the date of this MD&A, the Company has 62,781,787 common shares outstanding.

### **Internal Controls over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There was no significant change in the Company's internal control over financial reporting that occurred during the three month period ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the design of its internal control over financial reporting.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that the appropriate decisions can be made regarding public disclosure.