

MOEN AND COMPANY

CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Andover Ventures Inc.

We have audited the Balance Sheets of Andover Ventures Inc. as at March 31, 2005 and March 31, 2004 and the Statements of Income, Retained Earnings (Deficit) and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, these financial statements referred to above present fairly, in all material respects, the financial positions of the Company as at March 31, 2005 and March 31, 2004 and the results of its operations and the changes in its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles, applied on a consistent basis.

“Moen and Company”

Chartered Accountants

Vancouver, British Columbia, Canada

July 28, 2005

“Independent Accountants and Auditors”

ANDOVER VENTURES INC.
(A Development Stage Company)

Balance Sheet

March 31, 2005

(In Canadian Dollars)

(Audited)

(With Comparative Figures at March 31, 2004)

ASSETS	<u>2005</u>	<u>2004</u> (Restated)	<u>2003</u> (Restated)
Current Assets			
Cash (Note 2)	\$ 224,133	\$ 370,384	\$ 149,993
Marketable securities, at lower of cost or market value (market value 2005 - \$113,890; 2004 - \$54,110) pledged as security in 2005 for Broker Margin account	113,221	48,278	-
GST receivable	-	2,309	-
Total assets	\$ 337,354	\$ 420,971	\$ 149,993

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Accounts payable and accrued	\$ 14,442	\$ 2,455	\$ 1,645
Due to Broker on margin account - secured	57,332	-	-
Total current liabilities	71,774	2,455	1,645

Shareholders' Equity

Capital Stock (Note 3)			
Authorized: 200,000,000 common shares without par value			
50,000,000 Class A preferred shares without par value			
50,000,000 Class B preferred shares without par value			
Issued and fully paid: 3,665,000 common shares (2004 - 2,500,000 common shares)	573,000	440,000	-
Shares subscribed but unissued	30,000	150,000	150,000
Contributed surplus - stock-based compensation	16,998	11,332	5,666
Deficit, accumulated during the Development stage	(354,418)	(182,816)	(7,318)
Total shareholders' equity	265,580	418,516	148,348
Total liabilities and shareholders' equity	\$ 337,354	\$ 420,971	\$ 149,993

Commitment: Note 5

Approved on Behalf of the Board:

Subsequent Events: Note 7

"Frank R. Underhill" (Signed) , Chief Executive Officer, Director

"Walter Brenner" (Signed) , Chief Financial Officer, Director

See Accompanying Notes and Auditors' Report

ANDOVER VENTURES INC.
(A Development Stage Company)
Statement of Income
For the Year Ended March 31, 2005
(With Comparative Figures for Year Ended March 31, 2004)
(In Canadian Dollars)
(Audited)

	Cumulative From Date of Incorporation and Inception on February 12, 2003 to March 31, 2005	Year Ended March 31,	
	<u>2005</u>	<u>2005</u>	<u>2004</u> (Restated)
Interest and other income	\$ 11,992	\$ 9,187	\$ 2,784
General and Administration Expenses			
Accounting fees	2,675	1,400	1,275
Audit fees	7,890	4,000	2,890
Casual labour	3,445	2,445	1,000
Consulting fees	228,522	127,290	101,232
Incorporation costs written off	665	-	-
Interest and bank charges	2,573	2,247	318
Legal fees	10,807	-	10,807
License, dues & insurance	445	-	445
Office expense	9,657	8,545	1,112
Stock-based compensation Note 4(a)	16,998	5,666	5,666
Telephone and utilities	2,544	2,232	312
Transfer agent and filing fees	24,478	4,058	20,420
Travel and promotion	55,711	22,906	32,805
Total General and Administration Expenses:	366,410	180,789	178,282
Net Loss for the Year	\$ (354,418)	\$ (171,602)	\$ (175,498)
Basic and Diluted Loss per Share		\$ (0.06)	\$ (0.14)
Weighted Average Number of Common Shares used to Compute Loss Per Share			
Basic		3,082,500	1,250,000
Diluted		3,082,500	1,250,000

See Accompanying Notes and Auditors' Report

ANDOVER VENTURES INC.
(A Development Stage Company)
Statement of Retained Earnings (Deficit)
For the Year Ended March 31, 2005
(With Comparative Figures for Year Ended March 31, 2004)
(In Canadian Dollars)
(Audited)

	Cumulative From Date of Incorporation and Inception on February 12, 2003 to March 31, 2005	<u>Year Ended March 31,</u>	
	<u>2005</u>	<u>2005</u>	<u>2004</u>
			(Restated)
Retained Earnings (Deficit), beginning of Year	\$ -	\$ (182,816)	\$ (7,318)
Net profit (loss) for the Year	(354,418)	(171,602)	(175,498)
Retained Earnings (Deficit), end of Year	\$ (354,418)	\$ (354,418)	\$ (182,816)

See Accompanying Notes and Auditors' Report

ANDOVER VENTURES INC.
(A Development Stage Company)
Statement of Cash Flows
For the Year Ended March 31, 2005
(With Comparative Figures for Year Ended March 31, 2004)
(In Canadian Dollars)
(Audited)

	Cumulative From Date of Incorporation and Inception on February 12, 2003 to		
	March 31, 2005	Year Ended March 31,	
		2005	2004
			(Restated)
Cash Provided by (Used for)			
Operating Activities			
Net loss for the year	\$ (354,418)	\$ (171,602)	\$ (175,498)
Changes in non-cash working capital items			
Stock-based compensation	16,998	5,666	5,666
GST receivable	-	2,309	(2,309)
Accounts payable and accrued	14,442	11,987	1,455
Cash used for operating activities	(322,978)	(151,640)	(170,686)
Financing Activities			
Capital stock subscribed and paid	663,000	13,000	500,000
Commission expenses	(50,000)	-	(50,000)
Financing costs	(10,000)	-	(10,000)
Due to Broker on margin account - secured	57,332	57,332	-
Advance from related party (repaid)	-	-	(645)
Cash derived from financing activities	660,332	70,332	439,355
Investing activities			
Marketable securities	(113,221)	(64,943)	(48,278)
Cash used for investing activities	(113,221)	(64,943)	(48,278)
Cash Increase (Decrease)			
During the Period	224,133	(146,251)	220,391
Cash, Beginning of the Year	-	370,384	149,993
Cash, End of the Year	\$ 224,133	\$ 224,133	\$ 370,384
Supplemental non cash transaction			
Stock-based compensation	\$ 16,998	\$ 5,666	\$ 5,666

See Accompanying Notes and Auditors' Report

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 1. BUSINESS OF THE COMPANY

Andover Ventures Inc. (“The Company”) is incorporated under the Laws of British Columbia, Canada on February 12, 2003, and is the date of inception of the Company.

The Company is a Capital Pool Company pursuant to TSX Venture Exchange policy and currently has no business operations. Accordingly, the deficit has been accumulated during the development stage.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”)

General and Administration Expenses

General and Administration Expenses are written off to operations as incurred.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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.

Concentration of credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with a high credit quality financial institution.

Financial instruments

The Company’s financial instruments consist of cash, marketable securities accounts payable and accrued and due to Broker. 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, except for marketable securities carried at cost of \$48,278 with a market value of \$56,558 at March 31, 2005.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash

Cash consists of funds on deposit with the Company's bankers.

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 permitted by Handbook Section 3870, has elected to account for all stock options granted to non-employees and employees by applying the fair value based method of accounting.

Earnings (Loss) Per Share

Net income per common share is computed by dividing net income by the weighted average of shares outstanding during the year.

Computations of basic and diluted weighted average shares outstanding, are as follows:

	March 31,	
	2005	2004
Basic weighted average shares	3,082,500	1,250,000
Effect of dilutive securities		
Stock options	250,000	250,000
Dilutive potential common shares	3,332,500	1,500,000
Diluted / anti-dilutive	3,082,500	1,250,000
Earnings (loss) per share - Basic	(0.06) \$	(0.14)
Earnings (loss) per share - Diluted	(0.06) \$	(0.14)

Restatement of Comparative Figures

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

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 3. 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:

Nature of Issue	Number of Shares	Price per Share	\$
Balance, March 31, 2003	-	\$	-
Issuance for cash	2,500,000	\$ 0.20	500,000
Commission expenses and financing costs (1)	-		(60,000)
Balance, March 31, 2004	2,500,000		440,000
Issued for cash (2)	1,000,000	\$ 0.10	100,000
Issued for cash	100,000	\$ 0.20	20,000
Agent's options exercised	65,000	\$ 0.20	13,000
Balance, March 31, 2005	3,665,000		573,000

(1) The commission expenses and financing costs relate to the raising of share capital and are deducted from share capital. (CICA 3610.02)

(2) There are 1,000,000 escrow shares subscribed at \$0.10 per share,

(c) Escrow shares

The 1,000,000 common shares in (a) above 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
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 3. CAPITAL STOCK (Cont'd)

(d) Special rights and restrictions of shares:

(i) Common shares: The holders of the common shares are entitled:

- To vote at all meetings of members, except meetings at which only holders of another specified class of shares are entitled to vote;
- To receive any dividends declared by the Company on the common shares; and
- Subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, to receive the remaining property of the Company upon dissolution, liquidation or winding-up of the Company.

(ii) Class A preferred shares:

- The holders of Class A preferred shares, in the discretion of the directors of the Company, shall be entitled in any year, out of the profits or surplus available for dividends, to receive non-cumulative dividends in such amount as may be determined by the directors in any year, but not exceeding twelve percent (12%) per annum of the redemption price for such shares, payable on such terms and at such time as the same may be declared by the directors of the Company in their discretion.
- The term "redemption price" for any Class A preferred share shall mean: (1) Where such share was issued for money, the amount for which such share was issued; or (2) Where such share was issued in whole or in part for a consideration other than money, then the amount in money (if any) paid for the issue of such share, plus an amount equal to the fair market value of such other consideration received; such fair market value shall be calculated as at the date of issue of such share and shall be determined in accordance with recognized standards of valuation.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 3. CAPITAL STOCK (Cont'd)

(d) Special rights and restrictions of shares (Cont'd):

(ii) Class A preferred shares (Cont'd)

- In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of the Class A preferred shares shall receive, before any distribution of the assets of the Company is made among the holders of the Class B preferred shares and common shares of the Company, an amount equal to the redemption price for such shares plus an amount equal to any dividends declared thereon but unpaid.
- Each holder of one or more Class A preferred shares shall have the right, in his discretion and at all times, to demand that the Company redeem all or any of the said shares registered in the name of the holder in the books of the Company
- The Company may, upon giving notice as hereinafter provided, redeem, subject to the provisions of the Company Act (British Columbia), the whole or any part of the Class A preferred shares on payment for each share to be redeemed of an amount equal to the redemption price for such share plus all dividends declared on such share but unpaid.
- The Company shall have the right, at its option, at any option, at its option, at any time and from time to time, to purchase for cancellation the whole or any part of the Class A preferred shares outstanding by invitation for tenders addressed to all holders of record of the Class A preferred shares outstanding.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 3. CAPITAL STOCK (Cont'd)

(d) Special rights and restrictions of shares (Cont'd):

(iii) Class B preferred shares:

- The holders of Class B preferred shares, in the discretion of the directors of the Company, shall be entitled in any year, out of the profits or surplus available for dividends, to receive non-cumulative dividends in such amount as may be determined by the directors in any year, but not exceeding thirteen percent (13%) per annum of the redemption price for such shares, payable on such terms and at such time as the same may be declared by the directors of the Company in their discretion.
- The term “redemption price” for any Class B preferred share shall mean:
(1) Where such share was issued for money, the amount for which such share was issued; or (2) Where such share was issued in whole or in part for a consideration other than money, then the amount in money (if any) paid for the issue of such share, plus an amount equal to the fair market value of such other consideration received; such fair market value shall be calculated as at the date of issue of such share and shall be determined in accordance with recognized standards of valuation.
- In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of the Class B preferred shares shall rank junior to the Class A preferred shares but the holders thereof shall receive, before any distribution of the assets of the Company is made among the holders of the common shares of the Company, an amount equal to the redemption price for such shares plus an amount equal to any dividends declared thereon but unpaid.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 4. STOCK OPTIONS

Incentive stock options

(a) Directors and Officer stock options

On March 31, 2003, the Company granted 250,000 stock options to Directors (75,000 shares) and Executive Officers (175,000 shares). The exercise price is \$0.20 per share. The option holders have the right to exercise the options granted with respect to all or any portion of the optioned shares on or before five year after receipt by the Company of a final prospectus qualifying the common shares of the Company. These options are still outstanding at March 31, 2005.

Stock-Based Compensation

CICA Handbook Section 3870 established a fair value based method of accounting for stock-based compensation plans which the Company adopted from April 1, 2004.

For the year ended March 31, 2005, the Company has recorded Stock-based compensation expense of \$5,666 with an offsetting credit to contributed surplus. This change in accounting policy was applied retroactively and accordingly, the financial statements of prior periods were restated. For the year ended March 31, 2004, the change in policy had a negative impact on net earnings of \$5,666 (March 31, 2003 - \$5,666), which caused a \$Nil (March 31, 2003 - \$Nil) change in the basic net earnings and diluted earnings per share. The income statements were restated to reflect an increase in the general and administration expenses by \$5,666 for years ended March 31, 2004 and March 31, 2003, respectively. The cumulative effect of the change in policy on the balance sheet at March 31, 2005 was to increase contributed surplus by \$11,332 and decrease retained earnings by \$11,332.

Options Outstanding			
Number Outstanding at March 31, 2005	Weighted- Average Remaining Contractual Life (years)	Exercise Price	Number Exercisable at March 31, 2005
250,000	3.00	\$0.20	0

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 4. STOCK OPTIONS (Cont'd)

The fair value of these options is determined using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following assumptions:

Options not yet forfeited	250,000
Options granted during year ended 2005	0
Expected forfeiture next year	0
Stock price	\$0.26
Risk free interest rate	4.50%
Expected volatility	11%
Expected dividend yield	\$0

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.

(b) Agent's stock options

The Company has agreed to grant Canaccord Capital Corp. ("the Agent") the Agent's option entitling the Agent to purchase 10% of the number of shares sold hereunder, namely 125,000 shares in the event of the minimum subscription and up to 250,000 shares in the event of the maximum subscription, at any time up to the close of business 18 months from the day the Company's common shares are listed for trading on the TSX Venture Exchange, at a price of \$0.20 per share.

During the year ended March 31, 2005, Canaccord Capital Corp. exercised 65,000 options. The balance of the options on 185,000 shares subsequently expired on April 24, 2005. (Note 7)

NOTE 5. CONSULTANT AGREEMENT

On January 1, 2004, the Company entered into a Consulting Agreement with Magnus Management Ltd.

ANDOVER VENTURES INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Company)
March 31, 2005
(In Canadian Dollars)
(Audited)

NOTE 6. INCOME TAXES

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

<u>Year Ended March 31,</u>	<u>\$</u>
2010	\$ 1,652
2011	169,832
2012	190,545
	<u>\$ 362,029</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 and deferred tax liabilities on the accompanying consolidated balance sheets is a result of the following:

	<u>2005</u>	<u>2004</u>
Deferred tax assets	\$ 123,090	\$ 58,305
Valuation allowance	\$ (123,090)	(58,305)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</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, 2005 and March 31, 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Statutory federal income tax rate	-34.0%	-34.0%
Valuation allowance	34.0%	34.0%
Effective income tax rate	<u>0.0%</u>	<u>0.0%</u>

NOTE 7. SUBSEQUENT EVENTS

Expiry of Agent's Stock Options

Agent's stock options for 185,000 common shares, expired on April 24, 2005.