

# **ANDOVER VENTURES INC.**

## **Management's Discussion and Analysis For the Period Ended September 30, 2011**

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AOX (TSX Venture Exchange)

## **Andover Ventures Inc.**

### **MD&A**

**September 30, 2011**

September 28, 2011

#### **Introduction**

The following Management Discussion and Analysis (“MD&A”) of Andover Ventures Inc. (the “Company” “Andover”) should be read in conjunction with the Company’s Consolidated Financial Statements for the period ended September 30, 2011, together with the audited consolidated financial statements of the Company for the year ended March 31, 2011 and the accompanying Management Discussion and Analysis (“the Annual MD&A”) for the fiscal period. The referenced Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Figures from periods prior to and including March 31, 2011 are in accordance with Canadian generally accepted accounting principles (“CDN GAAP”). All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information relating to the Company including news releases and historical reports are available under the Company’s profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

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

The Company’s financial statements for the quarter ended September 30, 2011, and this accompanying MD&A contain statements that constitute “forward-looking statements” within the meaning of National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators.

It is important to note that, unless otherwise indicated, forward-looking statements in this MD&A describe the Company’s expectations as of November 29, 2011.

Forward-looking statements often, but not always, are identified by the use of words such as “seek”, “anticipate”, “believe”, “plan”, “estimate”, “expect”, “targeting” and “intend” and statements that an event or result “may”, “will”, “should”, “could”, or “might” occur or be achieved and other similar expressions. Forward-looking statements in this MD&A include statements regarding the Company’s future exploration plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. The forward-looking statements that are contained in this MD&A involve a number of risks and uncertainties. As a consequence, actual results might differ materially from results forecast or suggested in these forward-looking statements. Some of these risks and uncertainties are identified under the heading “RISKS AND UNCERTAINTIES” in this MD&A. Additional information regarding these factors and other important factors that could cause results to differ materially may be referred to as part of particular forward-looking statements. The forward-looking statements are qualified in their entirety by reference to the important factors discussed under the heading “RISKS AND UNCERTAINTIES” and to those that may be discussed as part of particular forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the actual results to differ include market prices, exploration success, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing

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for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

### **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 and development company and its primary business is the exploration and development of its advanced stage mineral properties.

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.

### **Outlook**

During the period ended September 30, 2011 the Company continued to evaluate its mineral holdings in the states of Alaska and Utah, USA.

### **Mineral Properties**

#### **Sun Property, Alaska**

The Sun property is an advanced stage Alaska project. Moving forward, 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 the late 1970's. Historic grades and resources, pre NI 43-101, are indicated below:

	Tons	Silver	Copper	Lead	Zinc
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**

On March 24, 2009, the Company completed the acquisition of a controlling interest in Chief Consolidated Mining Company ("Chief"). Chief is the owner of or has vested interests in approximately 16,000 acres of patented mining property in the East Tintic Mining District 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 and the Big Hill project that is joint ventured with Kennecott Exploration Company.

The Tintic Mining District of Utah is host to numerous former producing mines. The Company's

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strategy is multi pronged. The Company will be focusing on developing the Trixie Mine (Gold/ Silver/ Copper) back into production. The Trixie Mine 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 the Burgin Extension Deposit. Mine Development Associates completed a new NI 43101 Resource Calculation in July 2011 and are currently completing a Preliminary Economic Assessment for the Burgin Extension Deposit.

#### Big Hill Joint Venture with Kennecott Exploration Company

On August 20, 2010 Kennecott Exploration Company, a subsidiary of Rio Tinto and Chief signed a contract to develop the Big Hill porphyry copper project on the Companies land. This project is located in the East Tintic Mining District ,Utah, USA. The Big Hill project is focused on developing a porphyry copper-gold-molybdenum target located on claims presently owed by Chief or its wholly owned subsidiaries.

Kennecott can earn 51% by delivering a Pre-Feasibility Study for the Big Hill project or incurring aggregate expenditures of \$20,000,000 US, whichever comes first. Kennecott can earn a further 4% interest in the project by completing a Feasibility Study. Chief retains a 45% carried interest.

To September 30, 2011, Kennecott incurred expenses of US \$ 766,746 on the Big Hill project. The completed work includes an Airborne Magnetic survey, IP and MT surveys, field work and assay costs. Kennecott is currently drilling on the Big Hill project.

#### 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 it 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.

In order 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. The Company would then plan 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 condition of the processing and milling plant, that the plant can be re-commissioned with a minimal initial expenditure. Subject to validating the 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 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.

Key Milestones that need to be reached:

- Development of the Trixie Mine subject to confirmation of historic estimates

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- 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 36,800 acres, on the south flank of the Brooks Range in north-central Alaska. The property hosts a copper, silver, lead, zinc gold VMS deposit first identified by the Sunshine Mining Company in the early 1970's. The property was subsequently explored by Noranda, Anaconda and 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 31 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, NovaGold's Arctic deposit in the centre and the Sun deposit on the east side of the district.

Andover has staked an additional 9,120 acres of State claims along the 16 kilometres of the highly prospective metavolcanic belt around the Smucker Deposit 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.

### **Chief Consolidated Mining Company**

#### Acquisition of Chief Consolidated Mining Company

As disclosed in Note 6 to these 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 East 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 and Big Hill Joint Venture, none of which is currently in production.

As at March 31, 2010, the Company owned 27,287,605 common shares of Chief Consolidated Mining Company. This represents a 51.84% ownership in Chief. During the year ended March 31, 2011, the company acquired a further 14,050,000 shares of Chief for \$ 3,793,500 and Andover's

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ownership in Chief increased to 41,337,605 shares.

During the quarter ended September 30, 2011, Andover exercised 7,151,445 outstanding Chief's warrants for a payment of \$ 1,096,424 (US \$1, 072,717). At the end of the quarter ended September 30, 2011, the company's ownership stake in Chief is 78.47%.

Burgin Mine

During the quarter ended September 30, 2011, the Company continued to work on the Burgin Extension Deposit and \$228,361 of deferred exploration costs were incurred. Chief also retained Mine Development Associate of Reno Nevada USA to complete a Preliminary Economic Assessment that should be completed before the end of 2011.

**Results of Operations**

For detail of information which is discussed in this section please refer to the September 30, 2011 Financial Statements. For the quarter ended September 30,2011, the Company reported a loss and comprehensive loss of \$782,160 (quarter ended September 30, 2010 loss of \$803,536) and a loss per share of \$0.01( September 30,2010- loss per share of \$0.01).The movement is primarily due to a decrease of \$223,933 in stock based compensation expense in the quarter ended September 30,2011compared to the same period in 2010.

The Company's operating expenses in the quarter ended September 30,2011 were \$480,947 (September 30, 2010 \$815,839). The decrease is primarily due to a decrease of \$223,933 in stock based compensation expenses (from \$371,649 to \$147,716) and a foreign exchange gain of \$226,437. The decrease in expenses was partially offset by the increasing consulting fees of \$80,145, transfer agent fees of \$17,394, office expenses of \$17,311 and an increase of \$27,744 in travelling expenses in the quarter ended September 2011 compared to the September 30, 2010. The increase in expenses reflects an increase in traveling to raise funds and raise awareness of the Company with in the investment community. The Following table shows the expenses for the six and three months ended September 30, 2011 and 2010.

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**For the Six Months Ended September 30,2011 and September 30,2010**

	Three Months Ended September 30,2011	Three Months Ended September 30,2010	Six Months Ended September 30,2011	Six Months Ended September 30,2010
<b>Expenses:</b>				
Depreciation	\$ 8,771	\$ 23,444	\$ 17,543	\$ 48,919
Accounting and legal	67,392	80,549	153,060	131,740
Consulting fees	128,911	48,766	251,149	88,699
Foreign exchange loss/(gain)	(166,295)	60,142	(147,759)	40,503
Insurance	4,111	8,205	5,646	11,422
Management and other professional fees	88,685	92,797	191,160	184,882
Office expenses	39,245	21,934	66,569	101,928
Salaries	29,981	21,061	54,365	29,709
Stock-based compensation(Note 12)	147,716	371,649	207,524	374,390
Transfer agent and filing fees	28,105	10,710	46,573	22,543
Travel and promotion	104,324	76,580	211,211	125,354
<b>Total Expenses</b>	<b>(480,947)</b>	<b>(815,839)</b>	<b>(1,057,041)</b>	<b>(1,160,089)</b>
<b>Other Items</b>				
Interest income (expense)	(30,985)	(43,424)	(56,871)	(114,685)
Gain on debt settlement and fair value of investment	(26,181)	33,061	(19,386)	1,064,681
Other income	(4)	1,034	1,461	1,034
Financing expenses	(7,138)	(4,287)	(14,311)	(8,525)
	<b>(64,307)</b>	<b>(13,616)</b>	<b>(89,106)</b>	<b>942,506</b>

Further, in the quarter ended September 30, 2011, the Company has recognized a foreign exchange gain of \$166,295 compared to a foreign exchange loss of \$60,142 in the comparable period in 2010. The Foreign exchange previously under GAAP was presented under other items, but according to IFRS it is presented under operational expense and under Unrealized Foreign Currency. Interest expense for the quarter ended September 30, 2011 decreased to \$30,985 from \$43,424 in the previous comparable period.

For the detailed break – down of the mineral property expenditures by property please see the Company's Financial Statements for the period ended September 30, 2011.

It is anticipated that losses will occur for the foreseeable future as the Company continues to develop its existing mineral properties.

**Summary of Quarterly Results**

The following table summarizes selected Company financial information for the last eight completed fiscal quarters. The data for the quarters ending June 30, 2011 and September 30, 2011 and same periods in 2010 were prepared in accordance with IFRS and other periods are in accordance with Canadian Generally Accepted Accounting Principles and the reporting currency is the Canadian dollar.

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	Three Months Ended			
	September 30,	June 30,	March 31,	December 31,
	2011	2011	2011	2010
	\$	\$	\$	\$
Total interest and other income	(64,307)	(24,799)	70,183	(510)
Gain(Loss) and comprehensive loss	(782,160)	(586,028)	(749,298)	(724,121)
Gain(Loss) per share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)

  

	Three Months Ended			
	September 30,	June 30,	March 31,	December 31,
	2010	2010	2010	2009
	\$	\$	\$	\$
Total interest and other income	(13,616)	956,121	-	-
Gain(Loss) and comprehensive loss	(803,536)	599,275	(240,113)	(493,736)
Gain(Loss) per share – basic and diluted	(0.01)	0.01	(0.01)	(0.01)

**Analysis of first quarter ended September 30, 2011**

The Company reported a loss and comprehensive loss of \$782,160 for the quarter ended September 30, 2011. The decrease in operating expenses in this quarter over the June 30, 2011 quarter was \$95,147. This decrease was primarily due to a decrease in foreign exchange loss of \$184,831 and a decrease in legal fees of \$18,285.

**Analysis of previous quarters**

The Company reported a loss and comprehensive loss of \$511,203 (June 30, 2010 – gain of \$563,563) and a loss per share of \$0.01 (June 30, 2010 – gain per share of \$0.01) for the quarter ended June 30, 2011. The movement from gain to loss was primarily due to gain on debt settlement of \$6,796 compared to \$1,031,631 which occurred in the period ended June 30, 2010. The travel expenses in the current period compared to the same period in 2010 increased from \$48,774 to \$106,887 and consulting fees increased from \$39,993 to \$122,238 and the interest expense decreased from \$71,262 to \$25,886

The Company reported a loss and comprehensive loss of \$749,298 (March 31, 2010 - \$240,113) and a loss per share of \$0.01 (March 31, 2010 - \$0.01) for the quarter ended March 31, 2011. The loss was primarily due to \$216,559 in stock-based compensation expenses \$205,945 of travel and promotion expenses and \$148,979 of managerial and professional fees.

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The Company reported a Comprehensive loss of \$ 724,121 for the quarter ended December 31, 2010. The difference between the December and September quarter was not material. The expenses of the quarter ended December 31, 2010 were lower by \$36,373 compared to September quarter. The December 31,2010 stock based compensation was lower by \$ 188,963 which was partially offset by higher accounting and consulting fees of \$55,298, higher transfer agent costs of \$49,887 and higher travel expenses of \$42,861.

The Company reported a Comprehensive loss of \$ 769,578 for the quarter ended September 30, 2010. The increase in expenses in this quarter over the June 30, 2010 quarter was \$394,596. This was primarily due to an increase in the stock based compensation expenses of \$371,649, an increase in accounting and consulting fees of \$38,192 and a reduction of office expenses of \$52,991.

The Company reported a Gain and Comprehensive Gain of \$ 599,275 for the quarter ended June 30, 2010. The gain occurred primarily due to the debt settlement gain of \$1,031,631 including a \$1,000,000 gain on notes payable and forgiven by Genco .The interest payable decreased to \$71,262 in the current period compared to \$103,526 in period ended June 30, 2009, as the result of lower liabilities.

The loss of \$240,113 in the quarter ended March 31, 2010 was slightly less than the previous quarter due to the gain on debt settlement of \$67,468 and a \$50,790 gain on the fair value adjustment of the EPA settlement obligation and a general reduction in expenses. This included a \$65,448 reduction in management and accounting fees and a reduction in office expenses of \$69,917.

The loss for the quarter ended December 31, 2009 included total expenses which were \$239,415 lower than total expenses of previous quarter ended September 30, 2009. This included stock based compensation of \$27,244 when compared with the September 30, 2009 figure of \$ 371,649.This figure was partially offset by the higher management and consulting fees (\$74,317). The reason for the increase in the loss compared to the previous quarter has been explained in the following paragraph.

### **Financial Position**

As at September 30, 2011, total assets employed by the Company were \$32,441,500 (March 31, 2011-\$29,756,713). The movement is primarily due to an increase of \$1,720,076 in mineral property including the Sun property (\$1,113,285) and Chief (\$1,720,076) and increase of \$655,327 in cash.

As at September 30, 2011, the Company had total current liabilities of \$4,657,788 compared to \$4,092,777 at March 31, 2011. The increase is primarily due to an increase of \$579,500 in notes payable (convertible note with face value of US \$2,500,000 or CAD\$2,579,500 compared to \$2,000,000 notes payable at March 31, 2011) and an increase of \$192,315 in accounts payable (\$1,175,422 compared to \$987,107 at March 31, 2011).

Shareholders' equity was \$27,162,154 as of September 30, 2011 compared to \$25,088,545 at March 31, 2011. The movement is primarily is due to \$2,413,875 being received for the exercised of 5,945,834 share purchase warrants,\$140,000 of shares issued for a loan settlement , \$292,000 received for the exercising of 1,020,000 stock options and is partly offset by the operating loss of \$1,368,188 for the current period .

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During six months ended September 30, 2011, 5,945,834 share purchase warrants were exercised for total proceeds of \$2,413,875 as follows:

Date of issue	Number of Warrants	Exercise price	Expiry date
September 21,2009	5,235,000	\$0.40	September 21,2011
December 10, 2009	710,834	\$0.45	June 10,2011
	<u>5,945,834</u>		

Subsequent to period ended September 30, 2011, 60,000 stock options exercisable at a price of \$0.50 per share expired.

***Deficit on acquisition of further shares in subsidiary***

During quarter ended September 30, 2011, Chief issued 7,151,445 shares to Andover for the exercise of their outstanding warrants. The new ownership stake in Chief is 78.47%.

**Liquidity and Capital Resources**

On September 30, 2011, the Company had current assets of \$1,451,899 (March 31, 2011 - \$551,127) and a net working capital deficiency of \$3,205,889 (March 31, 2011 there was a deficiency of \$3,541,650). The movement in cash asset is primarily due to increase in cash and movement in working capital is primarily due to payments of exploration expenses on the Companies mineral properties which were more active in current period. In the current period cash increased to \$1,206,454 from \$424,187 and accounts payable increased to \$1,175,422 from \$987,107 at March 31, 2011.

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.

Since the company does not have any income source, it relies on its financing activities to maintain its business. In the quarter ended September 30, 2011, the company raised \$1,810,800 from financing activities including the exercise of share purchase warrants (\$1,588,800) and option exercise (\$222,000). In the current period the proceeds are used for the company's operating expenses including mining exploration expenses. The company expended \$340,436 on the Sun project in the current quarter and expended \$228,361 on exploration cost on the Chief property.

**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**

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In addition to related party transactions disclosed elsewhere in these financial statements, during the quarter ended September 30, 2011, the Company paid or accrued management , legal, and consulting fees of \$97,518 (2010 - \$193,781) .

As at September 30, 2011, the company has balances payable of \$ 89 ,999 (March 31, 2011 \$45,220) 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.

**Significant Accounting Policies**

The significant accounting principles applied in the September 30, 2011 condensed interim consolidated financial statements are as follows:

***Principles of consolidation***

The Consolidated Interim Consolidated Financial Statements include the accounts of the Company and its subsidiaries, Andover (Alaska) Inc., which was incorporated in the State of Alaska and Chief Consolidated Mining Company (78.47%). All significant inter-company accounts and transactions have been eliminated upon consolidation.

Non-controlling interests in subsidiaries are identified separately from the Company's equity in the subsidiaries. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquirer's identifiable net assets. The choice of measurement basis is made on an acquisition by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

***Foreign currency***

Management determines the functional currency of the Company and each subsidiary as the currency of the primary economic environment in which the entity operates.

The Company's presentation currency is the Canadian dollar. The functional currencies of the Company and its subsidiaries are the Canadian dollar and the US dollar. These consolidated financial statements have been translated into the Canadian dollar in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates. This standard requires that assets and liabilities be translated using the exchange rate at the period end, and income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period).

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All resulting translation differences are reported as a separate component of shareholders' equity titled "Accumulated other comprehensive income (loss)".

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the dates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in the consolidated statement of comprehensive income.

***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.

***Property, plant and equipment***

Property, plant and equipment are recorded at cost. The Company provides for amortization on office equipment and leasehold improvements using the straight-line method over their useful lives of three to five years. Land is periodically assessed for impairment of value and any losses are expensed to the income statement at the time of impairment. Property and equipment is amortized over its estimated useful live of three to five years (Leasehold improvement and office equipment five years, computer equipment and other equipment three years).

***Mineral property interests and exploration and evaluation assets***

All costs related to the acquisition of mineral properties are capitalized as Mineral Property interest. The recorded cost of mineral property interests is based on cash paid and the value of share consideration issued for mineral property interest acquisitions.

All pre-exploration costs, i.e. costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on an area of interest, are expensed as incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized in respect of each identifiable area of interest until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred include appropriate technical and administrative overheads. Exploration and evaluation assets are carried at historical cost, less any impairment losses recognized.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable for an area of interest, the company stops capitalizing exploration and evaluation costs for that area, tests recognized exploration and evaluation assets for impairment and reclassifies any unimpaired exploration and evaluation assets either as tangible or intangible mine development assets according to the nature of the assets. Mineral properties are reviewed for

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impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. 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. When a property is abandoned, all related costs are written off to operations.

#### *Impairment*

(i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of equipment are reviewed at each reporting date to determine whether there is any indication of impairment.

The carrying amounts of mining properties and exploration and evaluation assets are assessed for impairment only when indicators of impairment exist, typically when one of the following circumstances

applies:

- Exploration rights have / will expire in the near future;
- No future substantive exploration expenditures are budgeted;
- No commercially viable quantities of ore are discovered and exploration and evaluation activities will be discontinued;
- Exploration and evaluation assets are unlikely to be fully recovered from successful development or sale. If any such indication exists, then the asset's recoverable amount is estimated.

Mining properties and exploration and evaluation assets are also assessed for impairment upon the transfer of exploration and evaluation assets to development assets regardless of whether facts and circumstances indicate that the carrying amount of the exploration and evaluation assets is in excess of their recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market

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assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually

are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The level identified by the Company for the purposes of testing exploration and evaluation assets for impairment corresponds to each mining property.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

***Decommissioning, Restoration and Similar Liabilities***

Provisions are recorded for legal and constructive obligations associated with the future costs of rehabilitating the Company's operating sites. Such costs are associated with decommissioning and restoration activities such as dismantling and removing structures, rehabilitating mines and tailings, and reclamation and re-vegetation of affected areas. For further information refer to Note 3 of financial statement.

***Stock-based compensation***

The Company applies the fair value method of accounting for all stock option awards. Under this method the Company recognizes a compensation expense for all stock options awarded to employees, based on the fair value of the options on the date of the grant which is determined by using the Black-Scholes option pricing model for stock option awards. The fair value of the options is expensed over the vesting period of the options. No expense is recognized for awards that do not ultimately vest.

***Financial instruments***

(i) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through income or loss ("FVTPL").

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Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through income and loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

(ii) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss).

The Company has classified all of its financial assets and liabilities as follows:

Cash and cash equivalents	Fair-value-through profit or loss
Marketable securities	Fair-value-through profit or loss
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Loan payable	Other financial liabilities
Note payable	Other financial liabilities
Due to related parties	Other financial liabilities
EPA settlement obligation	Other financial liabilities

(ii) De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in income or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in income or loss.

***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received net of direct issuance costs.

***Fair values of financial instruments***

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values of financial instruments traded in active markets are determined based on quoted market prices, where available. Bid prices are used for assets held or liabilities to be issued; asking prices are used for assets to be acquired or liabilities held.

For financial instruments not traded in an active market, fair values are determined based on appropriate valuation techniques. Such techniques may include discounted cash flow analysis, using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, and other valuation models.

The Company applies a hierarchy to classify valuation methods used to measure financial instruments carried at fair value. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable and have a significant effect on the recorded fair value as follows:

- Level 1 – Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

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- Level 3 – Values based on prices or valuation techniques that are not based on observable market data.

An analysis of fair values of financial instruments is provided in note 18

#### ***Basic and diluted loss per share***

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings 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 the average market price during the year. The weighted average number of common shares outstanding for the period ended September 30, 2011 and 2010 do not include the 12,699,335 (2010 – 20,793,440) warrants outstanding and the 6,091,000 (2010 – 6,000,000) stock options outstanding as the inclusion of these amounts would be anti-dilutive. Basic loss per share is calculated using the weighted-average number of common shares outstanding during the period.

#### ***Finance costs***

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the income statement using the effective interest method.

### **International Financial Reporting Standards (“IFRS”)**

The Accounting Standards Board (AcSB) adopted IFRS as Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. As such, the Company is reporting its first interim consolidated financial statements in accordance with IAS 34, Interim Financial Reporting, for the six months ended September 30, 2011, with comparative figures for the corresponding period for 2010. Due to the requirement to present comparative financial information, the effective transition date is April 1, 2010.

The Company identified three phases to the conversion process: scoping and diagnostics, analysis and development, and implementation and review. All three phases have now been completed. Note 20 of the consolidated interim financial statements for the quarter ended March 31, 2011 provide further details on the Company’s key Canadian GAAP to IFRS differences, the IFRS 1 First-Time Adoption of International Financial Reporting Standards optional exemption choices and our accounting policy decisions.

The Company has adopted IFRS effective April 1, 2010 (“the Transition Date”) and has prepared its opening IFRS statement of financial position as of that date. Prior to the adoption of IFRS, the

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Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Note 3 of the accompanying condensed consolidated financial statements provide details of the Company's accounting policy decisions. Note 20 provides details of the IFRS 1, First-Time Adoption of IFRS, exemption

**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 103,203,352 common shares outstanding on September 30, 2011.

On September 30, 2011 stock options to purchase 6,091,000 common shares and warrants to purchase 12,899,335 common shares were outstanding.

Subsequent to the quarter ended September 30, 2011, 60,000 stock options exercisable at \$0.50 expired.

As of the date of this MD&A, the Company has 103,203,352 common shares outstanding.

**Internal Control over Financial Reporting and Disclosure Controls and Procedures**

The Company assessed the changes necessitated to maintain the integrity of internal control over financial reporting and disclosure controls and procedures. The extent of the impact on these controls was immaterial. The Company applied its existing control framework to the IFRS changeover process. All accounting policy changes and financial statement impacts were reviewed by senior management and the Audit Committee of the Board of Directors.