

**ANDOVER VENTURES INC.**  
**Amended Management's Discussion and  
Analysis**  
**For the Period Ended December 31, 2010**

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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 Consolidated Financial Statements for the period ended December 31, 2010 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**

The Company's financial statements for the nine months ended December 31, 2010, 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.

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 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 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.

## **Outlook**

During the period ended December 31, 2010 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 1980's. 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**

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 strategy is multi pronged. The Company will be focusing on developing the Trixie Mine (Gold/Silver/ Copper) back into production. Which 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.

### Big Hill Joint Venture with Kennecott Exploration Company

On August 20, 2010 Kennecott Explorations Company, a subsidiary of Rio Tinto and Chief signed a contract to develop the Big Hill porphyry copper project on the Companies land. Kennecott can earn 51% by delivering a Pre-Feasibility Study for the Big Hill project or by incurring an aggregate of \$20,000,000 US on exploration, whichever comes first. Kennecott can earn a further 4% interest in the project by completing a Feasibility Study. Chief retains a 45% carried interest.

### **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 an initial expenditure of approximately US\$200,000. 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
- 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 112 claims, 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 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, 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.

### **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 September 30, 2010, the Company owned 27,287,605 common shares of Chief Consolidated Mining Company. This represents a 51.84% ownership in Chief. During the quarter, the company acquired a further 14,050,000 shares of Chief for \$ 3793,500 and Andover's ownership in Chief increased to 78.53%.

#### Burgin Mine

During the period ended March 31, 2010, the Company performed confirmation drilling on the Burgin extension deposit and \$427,822 of deferred exploration costs was incurred.

### **Results of Operations**

For detail of information which is discussed in this section please refer to December 31, 2010 financial statements The Company reported a loss and comprehensive loss of \$930,136 (December 31,2009 loss of \$493,736) and a loss per share of \$0.01 for the quarter ended December 31, 2010.

The Company's expenses in the three month current period was \$723,611 (December 31, 2009 \$520,570). The movement was mainly due to the stock based compensation, consulting fees for investor relations and travel expenses in order to raise additional funds. There was reduction in office expenses, management and professional fees.

"Amended and Restated"

	Three Months Ended December 31,2010	Three Months Ended December 31,2009
Amortization	\$ 24,200	\$ 23,856
Accounting and legal	34,396	46,058
Accretion expense	4,178	4,661
Consulting fees	150,218	29,694
General exploration	-	9,960
Insurance	3,868	-
Management and other professional fees	91,200	167,114
Office expenses	32,071	110,165
Salaries	20,838	7,609
Stock-based compensation(Note 13)	182,686	27,244
transfer agent and filing fees	60,597	24,171
Travel and promotion	119,361	70,037
	<u>(723,611)</u>	<u>(520,570)</u>

The expenses for nine months, ended December 31, 2010 is \$1,848,981 (December 31, 2009 \$1,719,397) and the movement is not material.

Further, in the nine month period ended December 31, 2010, the Company has recognized a foreign exchange gain of \$ 42,703 compared to a foreign exchange gain of \$344,642 in the comparable period of 2009.

Interest expense for the period ended December 31, 2010 decreased to \$171,322 from \$245,611 in the previous comparable period.

For a detailed break-down of the mineral property expenditures by property please see the Company's financial statements for the period ended December 31, 2010.

It is anticipated that losses will occur 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, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	\$	\$	\$	\$
Total interest and other income	(510)	(9,594)	928,949	-
Gain(Loss) and comprehensive	(724,121)	(769,578)	563,563	(240,113)
Gain(Loss) per share – basic and diluted	(0.01)	(0.01)	0.01	(0.01)

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

**Analysis of third quarter**

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. In this quarter stock based compensation was lower by \$ 188,963 which was partially offset by higher accounting and consulting fees of \$55,298 and 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 reduction of office expenses of \$52,991.

The Company reported a Gain and Comprehensive Gain of \$ 563,563 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 including 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.

The loss for the quarter ended September 2009 was less than the previous quarter ended June 30, 2009, primarily due to the gain on the write-down of the Korea Zinc purchase option obligation for \$923,185 and the loss associated with the write down of an abandoned mineral property for \$737,846. This had the net effect of a gain of \$185,339 for the quarter ended September 30, 2009. For details please refer to note 8 of September 30 2009 financial statements. In comparison to the quarter ended June 30, 2009 the stock based compensation decreased to \$30,629 from \$270,083. In this period management and professional fees decreased from \$139,133 to \$97,332 and accounting and legal fees decreased to \$55,663 from \$150,460 compared to the quarter ended June 30, 2009.

The loss in the quarter ended June 30, 2009 increased primarily due to stock- based compensation expense of \$270,083 and a general increase in expenses for accounting and legal fees. These increased to \$150,460 from \$18,282 in the previous quarter ended March 31, 2009.

The loss of \$196,606 in the quarter ended March 31, 2009 compared to previous quarter ended Dec 31, 2008 (\$143,324) was not material.

### **Financial Position**

At December 31, 2010, total assets employed by the Company were \$29,613,212 (March 31, 2010 \$29,393,434).

At December 31, 2010, the Company had total current liabilities of \$4,135,663 compared to \$6,211,105 as at March 31, 2010. The decrease is primarily due to payment and reduction of notes payable to Genco of \$ 3,000,000 and the payment of \$675,135 due under the EPA obligation, to long-term liabilities and payment of \$242,595 (US\$ 225,000) of the liability. Genco had a note payable in the amount of \$5,000,000 due September 24, 2010. Andover and Genco agreed to following terms. Genco received \$1,300,000 cash payment on July 19, 2010, forgave \$1,000,000 and received a note payable for \$700,000 due on or before October 31, 2010 and a note payable for \$2,000,000 due September 24, 2011. The parties also acknowledged that the 6,477,241 convertible common shares of Chief Consolidated Mining Co. have been converted into 6,477,241 common shares of Chief Consolidated Mining Co. and registered in the name of Andover Ventures Inc. The company paid \$700,000 and related interest to Genco in the current period.

Shareholders' equity was \$24,802,415 as of December 31, 2010 compared to \$21,182,329 at March 31, 2010. The movement is primarily due to the closing two private placement in the quarter ended December 31, 2010 for proceed of \$5,183,940, \$280,000 for exercised of 700,000 share purchase warrants, and a gain of \$1,000,000 on the forgiveness of Genco's debt in that amount.

During nine months ended December 31, 2010, the Company closed five private placements for total gross proceeds of \$7,576,285 as follows:

1. On April 21, 2010 the Company issued 1,200,000 units at a price of \$0.25 per unit (proceeds of \$300,000). Each unit consisted of one common share and one share purchase warrant with the exercise price of \$0.35 with an expiry date of April 21, 2012.

2. On June 8, 2010 the Company issued 248,500 units at a price of \$0.25 per unit (proceeds of \$62,125). Each unit consisted of one common share and one share purchase warrant with the exercise price of \$0.35 and expiry date of May 12, 2012.
3. On July 12, 2010 the Company issued 9,228,272 units at a price of \$0.22 per unit (proceeds of \$2,030,220). Each unit consisted of one common share and one share purchase warrant with the exercise price of \$0.30 and expiry date of July 12, 2012.
4. On October 27, 2010 the Company issued 14,287,000 units at a price of \$0.27 per unit (proceeds of \$3,857,500).
5. On October 29, 2010 the Company issued 4,145,125 units at a price of \$0.32 per unit (proceeds of \$1,326,440). Each unit consisted of one common share and one half share purchase warrant with the exercise price of \$0.40 and expiry date of October 29, 2012.

The company issued 700,000 shares for the exercise of warrants at \$.40 per share for total proceeds of \$280,000.

Subsequent to the period ended December 31, 2010, the company issued 2,205,000 shares from the exercise of the warrants at \$0.40 per share for total proceeds of \$882,000 and 120,834 shares from the exercise of the warrants at \$0.45 per share for total proceeds of \$54,375.

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

The company acquired a further 14,050,000 shares of Chief for \$3,793,500. As at December 31, 2010, the Company owned 41,337,605 common shares of Chief. This represents a 78.53% ownership stake in Chief.

The amount of \$3,793,500 was presented as a deficit under the equity section of the balance sheet.

**Liquidity and Capital Resources**

On December 31, 2010, the Company had current assets of \$154,767 (March 31, 2010 - \$69,856) and a net working capital deficiency of \$3,980,896 (March 31, 2010 there was a deficiency of \$6,141,249). The movement is due to the payment of \$2,000,000 to Genco, \$1,000,000 forgiveness of Genco's notes payable and the payment of \$242,595 (US\$225,000) to the EPA and the transfer of \$675,135 of EPA debt to long-term liabilities. 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.

Since the company does not have any income source, it relies on its financing activities to maintain its business. The proceeds of private placements are used for the company's operating expenses including mining exploration expenses. In the quarter ended December 31, 2010, the company raised \$5,657,347 from financing activities which were used to repay notes payable of \$700,000, acquire 14,050,000 Chief's share for \$3,793,500 and the balance for operating expenses.

### **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 December 31, 2010, the Company paid or accrued management and consulting fees of \$195,375 (2009 - \$268,166).

As at December 31, 2010, the company has balances payable of \$8,626 (March 31, 2010 \$50,077) 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.

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

In February 2008, the Accounting Standards Board ("AcSB") announced that generally accepted accounting principles in Canada ("GAAP") are to converge with International Financial Reporting Standards ("IFRS"), and that public companies will be required to present their financial statements, with comparative data, under these standards for fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to report under IFRS for its 2011 fiscal year starting January 1, 2011 for interim and annual financial statements. In addition, 2010 comparative data will need to be reprocessed so that it may be presented according to the same accounting rules. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. The Company has completed diagnosis, and is in the process of detailed evaluation including a detailed analysis of the differences between Canadian GAAP and IFRS and accounting policy choices under IFRS. The Company foresees that it will be completed in time for the production of the quarterly reports of 2011, the first financial statements drawn up according to IFRS, as well as for the annual report for the financial period ending December 31, 2011.

### **Progress towards completion of the Company's IFRS changeover plan**

The Company is completing the diagnosis phase of its IFRS changeover plan. The consequences of first time adoption of the IFRS will be detailed initially, followed by the expected resulting implications on subsequent financial statements. The items and comments below should not be regarded as a complete list of changes that will result from the transition to IFRS. It is intended to highlight the areas that the Company believes to be most significant. Additionally, the present IFRS may undergo modifications until December 31, 2011, following recommendations made by the International Accounting Standards Board ("IASB"), the organization responsible for continuous updates of the IFRS. The Company actively monitors the IASB's schedule of projects, giving

consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and Canadian GAAP.

IFRS 1 "First-time adoption of International Financial Reporting Standards" is a financial reporting standard that provides the framework for the transition to IFRS. The general principle under IFRS 1 is retroactive application, such that the opening balance sheet for the comparative year financial statements is to be restated as though the Company had always applied IFRS, with the net impact shown as an adjustment to opening retained earnings. However, IFRS 1 contains certain mandatory exceptions and permits certain optional exemptions from full retroactive application. The mandatory exceptions include among others, a revision of accounting estimates previously made by the Company. Past accounting estimates cannot be revised as a result of information obtained a posteriori during the application of the IFRS. With regards to the optional exemptions, the Company has decided to apply certain exemptions, hereafter described.

**Share-based payment transactions**

A first-time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted on or before November 7, 2002. A first-time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The company intends to apply this exemption to equity instruments that were granted on or before November 7, 2002 and those granted after November 7, 2002 and vested before the date of opening IFRS balance sheet.

**Decommissioning liabilities included in the cost of property, plant and equipment**

This exemption permits the Company not to comply with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities, which requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates. The Company intends to use this exemption.

**Fair value or revaluation as deemed cost**

This exemption allows a first-time adopter to initially measure an item of property, plant and equipment upon transition to IFRS at fair value or a previous GAAP valuation (i.e. historical cost). The Company may elect to apply this exemption.

**Borrowing costs**

IFRS 1 allows a first-time adopter to apply the transitional provisions of IAS 23 Borrowing Costs. Under these provisions, an entity may elect to apply IAS 23 to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the date of transition to IFRS.

The Company may elect to apply this exemption from its transition date of January 1, 2010, and may apply IAS 23 from this date onwards to properties for which the commencement date for capitalization is January 1, 2010 or later. The company does not expect any significant impact on the opening balance sheet as a result of this election.

**Impact on key financial statement areas**

The Company has identified the differences between its current accounting policies and those required or expected to apply in preparing IFRS financial statements during the first phase of the conversion plan.

The key areas where the Company expects accounting policies may differ and where accounting policy decisions are necessary that may impact the Company's consolidated financial statements

are summarized below. The impact from IFRS 1 exemption choices is not included in following summary.

**Property, plant and equipment ("PP&E")**

IFRS requires entities to value PP&E using a cost or a revaluation model subsequent to initial recognition. Under IFRS, where part of an item of PP&E has a cost that is significant in relation to the cost of the item as a whole, it must be depreciated separately from the remainder of the item.

IFRS and Canadian GAAP contain the same basic principles of accounting for property, plant and equipment; however, differences in application do exist. Upon transition to IFRS, an entity has the elective option to reset the cost of its property, plant and equipment based on fair value in accordance with the provisions of IFRS 1, and to use either the cost model or the revaluation model to measure its property, plant and equipment subsequent to transition. The Company may elect the cost model for the measurement. The impact is not expected to be significant to the opening IFRS balance sheet and post-conversion financial results and position.

**Exploration for evaluation of mineral resources ("E&E")**

IFRS allows previous GAAP policy regarding E&E expenditures to be carried forward to post-conversion period if entity chooses to do so and requires entities to value E&E assets using a cost or a revaluation model subsequent to initial recognition. E&E assets may be disclosed as either tangible or intangible asset under IFRS. Entities may test impairment of E&E assets on a multiple cash-generating unit basis under IFRS, as long as such policy is established. The Company intends to elect the cost model for subsequent measurement of E&E assets and to disclose E&E assets as tangible asset. E&E policies and related impairment testing policy are in the process of being finalized.

**Provision, contingent liabilities and contingent assets (including asset retirement obligations) ("ARO")**

IFRS requires a provision be recognized when there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. Under Canadian GAAP, a provision is recognized when an outflow of resources is "likely", which is a higher threshold than "probable". IFRS measures the provisions using a mid-point of a range, whereas Canadian GAAP uses the lowest value. For material provisions, IFRS requires the provisions to be discounted. IFRS requires recognition of both legal and constructive AROs, whereas only the legal obligations are recognized under Canadian GAAP. Under IFRS, ARO is measured based on management's best estimate, whereas Canadian GAAP measures it based on the fair value of the obligation. Cash flow estimates are discounted to present value using a discount rate which is based on the risks specific to the liability, unless those risks have been built into the cash flow estimates. Canadian GAAP requires the use of a credit adjusted risk free rate to discount cash flow estimates. The Company will review existing and possible legal actions against the Company and evaluate whether additional provisions need to be recognized under IFRS. The Company does not believe there are constructive obligations relating to ARO to be recognized based on the preliminary review of its communications to the public (e.g. Company's website) and past actions. The Company may need to recognize constructive obligations depending on its future activities until the conversion date. The change in discount rate used in ARO calculation will have impact on the opening IFRS balance sheet. Quantification work is to be performed in the future.

**Impairment of assets**

Under Canadian GAAP, the impairment test for assets or asset groups is a two-step process. The first step involves comparing undiscounted future cash flows of an asset or asset group to the carrying value. If the undiscounted cash flows are below its carrying value, the second step is

required whereby an impairment charge is calculated as the difference between the asset or asset group discounted future cash flows, and its carrying amount. Impairments under IAS 36 "Impairment of assets" only require a one-step impairment test. Using this test, the carrying value of an asset or asset group (referred to as a Cash Generating Unit) is compared to its recoverable amount, which is the higher of fair value less costs to sell, and value-in-use, which involves discounted future cash flows. Also, unlike Canadian GAAP, IFRS require impairment charges to be reversed when circumstances indicate that the impairment no longer exists. In the short term, the Company does not expect significant financial impact from the application of this IFRS.

**Activities in progress**

The Company is in the progress of detailed evaluation including a detailed analysis of the differences between Canadian GAAP and IFRS and accounting policy choices under IFRS. The CFO and internal accounting personnel have been working in conjunction with a consultant to evaluate the specific impacts of IFRS conversion to the Company and to develop recommendations and accounting policies. Overall, a significant amount of effort will be put on the presentation of financial statements, as IFRS requires more disclosure.

The Company is also assessing the impact of the adoption of the IFRS on information technology and data systems. Although new reports will likely be required to determine new information required for reporting, presentation and disclosure under IFRS, the Company currently do not expect the transition to IFRS to require significant changes to the information technology systems and reports. The Company also expects that the systems will be adequate for generating the comparative fiscal 2010 information, required in accordance with IFRS.

For all the identified accounting changes, the Company also plans to assess impact on the design and effectiveness of its controls. According to a preliminary examination of environmental controls, the Company does not foresee important changes to its internal controls. Similarly, no impact has been identified on commercial activities to date. These changes will come into effect during implementation of the conversion. The changes identified will be implemented, and tests will be carried out to ensure that differences, should there be any, will be resolved. Subsequently, the Company will be able to develop its first interim financial statements and accompanying notes for the year ending March 31, 2011.

**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 92,590,684 common shares outstanding on December 31, 2010.

On December 31, 2010 stock options to purchase 6,625,000 common shares and warrants to purchase 22,166,003 common shares were outstanding.

Subsequent to the period, the Company issued shares for share purchase warrant which exercised as follows:

1. Subsequent to period ended December 31, 2010 the company issued 2,205,000 shares from the exercise of warrants at \$0.40 per share for total proceeds of \$882,000.
2. Subsequent to period ended December 31, 2010 the company issued 120,834 shares from the exercise of warrants at \$0.45 per share for total proceeds of \$54,375.

Subsequent to the period ended December 31, 2010, the company granted 250,000 stock options

to a director at an exercise price of \$0.70 per share with an expiry date of Jan 12, 2016,

As at the date of this MD&A, the Company has 98,270,518 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 period ended December 31 2010 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.

We warn readers that (a) the company is a venture issuer and is not required to certify the design and evaluation of our Internal Controls over Financial Reporting or our Disclosure Controls and Procedures and (b) inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis Internal Controls over Financial Reporting or our Disclosure Controls and Procedures for the our company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **Subsequent Events**

Since the company has refilled this MD&A, the following subsequent events have transpired.

- 1) Subsequent to the period ended December 31, 2010, the company issued 3,960,834 shares for warrants which were exercised as follows: 3,420,000 warrants at an exercise price of \$0.40 per share, 490,834 warrants at an exercise price of \$0.45 per share, and 50,000 warrants at an exercise price of \$ 0.30 per share.
- 2) Subsequent to the period, the company granted 950,000 options as follows:

### **Option granted subsequent to December 31, 2010**

<b>Option grant date</b>	<b>Number granted</b>	<b>Exercise price</b>	<b>Expiry date</b>
January 12, 2011	250,000	0.70	January 12, 2016
March 11, 2011	150,000	0.80	March 11, 2016
March 31, 2011	100,000	0.80	March 31, 2016
April 21, 2011	450,000	0.70	April 21, 2016
Total	<u>950,000</u>		