

**Andover Ventures Inc.**  
Consolidated Financial Statements  
June 30, 2010

(Unaudited)

NOTICEOFNOREVIEWBYAUDITOR

In accordance with National Instrument 51-102 *Continuous Disclosure Obligations* of the Canadian Securities Administrators **WE HEREBY GIVE NOTICE THAT** our financial statements for the three month period ended June 30, 2010, which follow this notice, have not been reviewed by an auditor.

**ANDOVER VENTURES INC.**  
**Consolidated Balance Sheets**

(Unaudited)

As at June 30, 2010

	June 30, 2010	March 31, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 78,580	\$ 11,457
Marketable securities	9	19
Accounts receivable	5,076	7,740
Prepaid expenses and advances	41,536	50,640
	<u>125,201</u>	<u>69,856</u>
Property and equipment, net (Note 7)	1,567,787	1,593,263
Other long term assets	511,934	496,015
Mineral Properties (Note 8)	27,187,200	27,234,300
	<u>\$ 29,392,122</u>	<u>\$ 29,393,434</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank overdraft	\$ 36,918	\$ 5,187
Accounts payable and accrued liabilities	1,154,808	1,074,094
Loan payable (Note 9)	116,703	114,294
Asset retirement obligation (Note 10)	584,827	562,454
Short term portion of EPA settlement obligation (Note 11)	235,890	1,142,775
Short term portion of notes payable (Note 12)	2,000,000	3,000,000
Due to related parties (Note 14)	-	78,801
Subscription received in advance	211,400	233,500
	<u>4,340,546</u>	<u>6,211,105</u>
<b>Long-term</b>		
Note payable	2,000,000	2,000,000
Long term portion of EPA settlement obligation (Note 11)	943,560	
	<u>\$ 7,284,106</u>	<u>\$ 8,211,105</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 13)	20,192,305	19,830,180
Authorised:		
200,000,000 common shares without par value		
50,000 Class A preferred shares without par value		
50,000 Class B preferred shares without par value		
Issued and outstanding:		
64,230,287 (March 31, 2010 - 62,781,787 common shares)		
<b>Contributed surplus</b>	8,757,899	8,757,899
<b>Deficit</b>	(6,842,188)	(7,405,750)
	<u>22,108,016</u>	<u>21,182,329</u>
	<u>\$ 29,392,122</u>	<u>\$ 29,393,434</u>

- See Accompanying Notes-

**ANDOVER VENTURES INC.**  
**Consolidated Statements of Loss, Comprehensive**  
**Loss and Deficit**

For the Three Months Ended June 30, 2010

(Unaudited)

	2010	2009
<b>Expenses:</b>		
Amortization	\$ 25,475	\$ 23,857
Accounting and legal	51,191	150,460
Accretion expense	4,238	4,677
Consulting fees	39,933	29,333
General exploration	-	8,952
Insurance	3,217	-
Management and other professional fees	92,085	139,133
Office expenses	79,994	52,927
Salaries	8,648	8,687
Stock-based compensation (Note 13)	-	270,083
Transfer agent and filing fees	11,833	4,963
Travel and promotion	48,774	83,819
<b>Total Expenses</b>	<b>(365,386)</b>	<b>(776,891)</b>
<b>Other Items</b>		
Foreign exchange gain (loss)	(31,410)	125,973
Interest income (expense)	(71,262)	(103,526)
Gain on debt settlement	1,031,631	-
Loss on disposition of property, plant and equipment	-	(15,224)
Fair value loss on investments held	(11)	-
	928,949	7,223
<b>Gain (Loss) and Comprehensive Gain (Loss) for the Year</b>	<b>563,563</b>	<b>(769,668)</b>
Deficit, Beginning of Period	(7,405,750)	(5,715,350)
<b>Deficit, End of Period</b>	<b>\$ (6,842,187)</b>	<b>\$ (6,485,018)</b>
<b>Gain (Loss) per Share - Basic and Diluted</b>	<b>\$ 0.01</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares</b>	<b>55,752,867</b>	<b>47,117,739</b>

- See Accompanying Notes-

# ANDOVER VENTURES INC.

## Consolidated Statements of Cash Flows

For the Three Months Ended June 30, 2010

(Unaudited)

	2010	2009
<b>Cash Resources provided by (used in):</b>		
<b>Operating Activities:</b>		
Gain (Loss) and comprehensive Gain (loss) for the period	\$ 563,563	\$ (769,668)
Items not affecting cash:		
Amortization	25,475	23,857
Accretion expense and interest expense		4,677
Stock-based compensation (Note 13)	-	270,083
Fair value loss on investments held	11	
Loss on property, plant and equipment disposal	-	15,224
Gain on debt settlement	(1,031,631)	
Foreign exchange- translation	38,130	
	<u>(404,452)</u>	<u>(455,827)</u>
Changes in non-cash operating assets and liabilities		
Accounts receivable	2,664	20,237
Prepaid expenses and advances	9,104	24,104
Other Long-term assets	(15,919)	45,656
Accounts payable and accrued liabilities	80,714	33,198
Asset retirement obligation	22,373	(50,315)
EPA obligation	36,676	(100,513)
	<u>(268,840)</u>	<u>(483,460)</u>
<b>Investing Activities</b>		
Mineral property expenditures	(31,865)	
Investment in Chief Consolidated Mining Company	78,965	
	<u>47,100</u>	<u>-</u>
<b>Financing Activities:</b>		
Increase in bank overdraft	31,731	58,085
Due to related parties	(78,801)	87,958
Loan payable	2,409	27,425
Note payable	-	(5,034)
Share capital paid from Subscription advance	(240,000)	-
Share capital issued for cash net	362,125	130,000
Proceeds from subscriptions in advance	211,400	-
	<u>288,864</u>	<u>298,434</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>67,123</b>	<b>(185,026)</b>
Cash and Cash Equivalents, Beginning of Period	11,457	236,807
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 78,580</b>	<b>\$ 51,781</b>

- See Accompanying Notes-

**ANDOVER VENTURES INC.**  
**Notes to Consolidated Financial Statements**  
June 30, 2010

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**1. Nature of Operations**

Andover Ventures Inc. ("the Company") was incorporated under the Laws of British Columbia, Canada on February 12, 2003. The Company's common shares trade on the TSX Venture Exchange.

The Company is a development stage company and engages principally in the acquisition, exploration and development of resource properties, in Alaska and Utah, USA. The recovery of the Company's investment in its resource properties is dependent upon the discovery, development and ultimate sale of ore resources and the ability to raise sufficient capital to finance this operation.

**2. Going Concern**

These financial statements have been prepared on a "going concern" basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

	<b>June 30 2010 \$</b>	<b>March 31 2010 \$</b>
Deficit	(6,842,187)	(7,405,750)
Working capital (deficit)	(4,215,345)	(6,141,249)

These consolidated financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate because management believes that the actions already taken and or planned, will mitigate any adverse conditions and events that raise doubts about the validity of the "going concern" assumption used in preparing these consolidated financial statements.

If the "going concern" assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used.

**3. Significant Accounting Policies**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

***Basis of presentation***

These 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 (51.84%). All significant inter-company accounts and transactions have been eliminated upon consolidation.

***Use of estimates***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 materially from those estimates.

Amounts recorded for amortization are based on the estimated lives of property, plant and equipment. Stock-based compensation is based upon expected volatility and option life estimates. Asset retirement obligations are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. Provision for income taxes is based on judgments in applying income tax law and estimates on the timing and likelihood of reversal of temporary differences between the accounting and tax basis of assets and liabilities.

**3. Significant Accounting Policies (continued)**

***Foreign currency translation***

The Company's functional and reporting currency is the Canadian Dollar. The Company uses the temporal method of foreign currency translation, as the Company's subsidiaries are integrated foreign operations. Monetary assets and liabilities are translated at the rate of exchange at the balance sheet date and non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations.

***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.

***Marketable securities***

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

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

***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 life of five years.

***Mineral properties***

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the units of production method. When a property is abandoned, all related costs are written off to operations. 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. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. The recoverability of the mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and obtaining permits necessary to complete the development and future profitable production or proceeds from the disposition thereof.

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties and its option agreements are in good standing.

### **3. Significant Accounting Policies (continued)**

#### ***Asset retirement obligations***

The Company's mineral exploration and development activities are subject to various laws and regulations regarding protection of the environment. As a result the Company incurs expenses from time to time to discharge its obligations under these laws and regulations. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

#### ***Stock-based compensation***

The Company follows the recommendations of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-based compensation and other stock-based payments". 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. The Company, as required by Handbook Section 3870, accounts for all stock options granted to non-employees and employees by applying the fair value based method of accounting.

#### ***Future income taxes***

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

#### ***Financial instruments***

Fair value

CICA Sections 3855, *Financial Instruments – Recognition and Measurement*, 3865, Hedges and 1530, *Comprehensive Income*, address the classification, recognition, and measurement of financial instruments and hedges in the financial statements and inclusion of other comprehensive income.

The Sections require financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when the Company becomes a party to contractual provisions of the financial instrument or derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held to maturity, loans and receivables or other liabilities.

Held-for-trading financial assets and liabilities are measured at fair value with gains and losses recognized in the Company's loss for the period. Financial assets held-to maturity, loans and receivables and financial liabilities, other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, are recognized in other comprehensive income upon adoption.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts. Changes in fair values of derivative instruments are recognized in the Company's loss for the period.

### **3. Significant Accounting Policies (continued)**

#### ***Financial instruments (continued)***

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

Cash and cash equivalents	Held-for-trading Fair Value
Marketable securities	Held-for-trading Fair Value
Accounts receivable	Amortized cost
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

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

The Company uses the treasury stock method to compute the dilutive effect of options, warrants or similar instruments. Under this method, the dilutive effect on loss 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 an average market price during the year.

Basic loss per common share is calculated using the weighted-average number of shares outstanding during the period.

### **4. Adoption of New Accounting Policies**

#### ***Goodwill and intangible assets***

Effective April 1, 2009, the Company adopted CICA Section 3064, "Goodwill and Intangible Assets", which replaces CICA Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs", as well as EIC-27, "Revenues and Expenditures During the Pre-operating Period", and part of Accounting Guideline 11, "Enterprises in the development stage". The provisions relating to the definition and initial recognition of intangible assets under these new standards reduce the differences with International Financial Reporting Standards ("IFRS") in accounting for intangible assets. The objectives of CICA 3064 are: 1) to reinforce the principle-based approach to the recognition of assets; 2) to establish the criteria for asset recognition; and 3) to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing items that do not meet the recognition criteria is eliminated. The standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The portions in the standard relating to goodwill remain unchanged. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at June 30, 2010.

#### ***Fair value hierarchy and liquidity risk disclosure***

In June 2009, the CICA issued an amendment to Handbook Section 3862 to provide improvements in fair value and liquidity risk disclosures. The amendment applies to the Company's fiscal year ending March 31, 2010. This adoption resulted in additional disclosure as provided below.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP.

Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

**ANDOVER VENTURES INC.**  
**Notes to Consolidated Financial Statements**  
June 30, 2010

**4. Adoption of New Accounting Policies (continued)**

	Level 1 \$	Level 2 \$	Level 3 \$
Cash		-	-
Marketable securities		-	-

The fair value of other financial instruments, which include amounts due to related parties, accounts payable and other accrued liabilities, notes payable, and loan payable approximates their carrying amounts due to the relatively short period to maturity.

***EIC – 174, “Accounting by Mining Enterprises for Exploration Costs”***

Effective April 1, 2009, the Company adopted CICA Emerging Issues Committee (“EIC”) 174, “Accounting by Mining Enterprises for Exploration Costs”, which replaces EIC-126, “Accounting by Mining Enterprises for Exploration Costs”, to provide additional guidance for mining exploration enterprises on the accounting for capitalization of costs and when an impairment test of these costs is required. The adoption of this standard did not have a material effect on the Company’s financial statements.

***EIC – 173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”***

The guidance requires that an entity’s own credit risk and credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The adoption of this new standard did not have a material impact on the Company’s financial statements.

**5. Management of Capital**

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of the capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders’ equity, as well as the cash and cash equivalents and marketable securities. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. The Company is not subject to any externally imposed capital requirements.

**6. Acquisition of Controlling Interest in Chief Consolidated Mining Company**

During the three months ended December 31, 2008, the Company advanced funds to Chief Consolidated Mining Company (“Chief”) of \$670,858 (US\$544,145). These advances were converted into 5,441,445 common shares of Chief at a deemed value of US\$0.10 per Chief common share.

On December 2, 2008 the Company participated in a Chief Private Placement. 210,000 Units were purchased at a cost of \$26,126 (US\$21,000). Each Unit consisted of one common share in Chief and one share purchase warrant exercisable at a price of US\$0.15 per common share of Chief over a period of 36 months from the date of closing of the Private Placement.

The investment was recorded at cost.

On March 24, 2009, the Company reached a settlement with Genco Resources Ltd. (“Genco”), a publicly traded company listed on the TSX. Under the terms of the settlement, Genco agreed to terminate all previous agreements and sell its Chief common shares for \$2,672,500 in cash and Andover common shares received prior to the settlement and a \$5,000,000 note, payable by September 24, 2010.. The shares purchased by the

Company comprises of 6,477,242 shares of Chief’s convertible common shares and 13,034,769 shares of Chief’s common shares. Chief is a publicly traded company based in Eureka, Utah.

The Company currently owes Genco \$700,000 on October 31, 2010 and \$ 2,000,000 on September 24, 2011.

**ANDOVER VENTURES INC.**  
**Notes to Consolidated Financial Statements**  
June 30, 2010

**6. Acquisition of Controlling Interest in Chief Consolidated Mining Company (continued)**

This acquisition was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair market prices at the date of acquisition. Due to a shareholders' deficit in Chief, the

Company does not reflect a non-controlling interest in its records. Accordingly, the Company has reflected the fair value of Chief's assets and liabilities in its records as if it were a wholly owned subsidiary.

The following sets forth the purchase price allocation to the assets acquired and liabilities assumed:

	\$
Purchase Price:	
Common shares	672,500
Cash	2,783,764
Note payable (Note 12)	5,000,000
	<u>8,456,264</u>
Net assets acquired:	
Cash	115,021
Mineral interests	9,016,431
Property, plant and equipment	827,170
Other assets	340,308
Current liabilities	(840,385)
Reclamation obligation	(334,126)
EPA settlement obligation (Notes 11)	(668,155)
	<u><u>8,456,264</u></u>

As at June 30, 2010, the Company owned 27,287,605 common shares of Chief Consolidated Mining Company. This represents a 51.84% ownership in Chief. On August 10, 2010 the Company has agreed to acquire an additional 14,250,000 common shares of Chief or approximately 27.1% of the issued and outstanding shares of Chief and then Andover's ownership of Chief will increase to approximately 78.91%.

**7. Property, Plant and Equipment**

	Cost	Accumulated Amortization	June 30, 2010	March 31, 2010
Computers	\$ 5,587	\$ 5,535	\$ 52	\$ 518
Furniture and Fixtures	56,001	34,534	21,467	24,267
Land	1,491,700	-	1,491,700	1,491,700
Plant and equipment	147,103	100,566	46,537	67,783
Leasehold Improvements	19,277	11,246	8,031	8,995
	<u>\$ 1,719,668</u>	<u>\$ 151,881</u>	<u>\$ 1,567,787</u>	<u>\$ 1,593,263</u>

The Land and Plant and equipment were acquired as part of the acquisition of Chief Consolidated Mining Company. They are recorded at their fair value at the date of acquisition. The increase in the plant and equipment is related to purchase of equipment for Chief. Amortization of property, plant and equipment amounted to \$25,475 (2009 - \$23,857).

**ANDOVER VENTURES INC.**  
**Notes to Consolidated Financial Statements**  
June 30, 2010

**8. Mineral Properties**

	March 31, 2010	Expenditures	June 30, 2010
<b>Sun Property</b>			
Acquisition costs	\$ 13,039,794	\$ -	\$ 13,039,794
Deferred exploration costs:			
Accommodation and travel	65,118		65,118
Assays	45,475	-	45,475
Drilling	1,165,144	-	1,165,144
Exploration salaries and wages	542,785	-	542,785
Field, camp and exploration costs	2,338,432	-	2,338,432
Geological consulting	33,523	-	33,523
Professional fees	188,700	-	188,700
Other	8,261	-	8,261
	<u>17,427,232</u>		<u>17,427,232</u>
<b>Kamishak Property</b>			
Acquisition costs	106,825	-	-
Deferred exploration costs:			
Assays	10,384	-	-
Drilling	215,694	-	-
Exploration salaries and wages	16,362	-	-
Field, camp and exploration costs	229,991	-	-
Geological consulting	98,367	-	-
Professional fees	24,085	-	-
Other	36,138	-	-
Write-down of mineral interests	(737,846)		-
	<u>-</u>		
<b>Chief Consolidated Mining Interests</b>			
Acquisition costs	9,150,000	(78,965)	9,071,044
Deferred exploration costs:			
Accommodation and travel	18,830		18,830
Assays	239		239
Drilling	505,528		505,528
Exploration salaries and wages	62,100	7,557	69,657
Field, camp and exploration costs	81,250	24,000	105,250
Geological consulting	18,651	308	18,959
Foreign exchange	(29,531)		(29,531)
	<u>9,807,067</u>	<u>(47,100)</u>	<u>9,759,967</u>
<b>Total</b>	<u>\$ 27,234,300</u>	<u>\$ (47,100)</u>	<u>\$ 27,187,200</u>

**ANDOVER VENTURES INC.**  
**Notes to Consolidated Financial Statements**  
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**8. Mineral Properties (continued)**

	March 31, 2009	Expenditures	March 31, 2010
<b>Sun Property</b>			
Acquisition costs	\$ 13,039,794	\$ -	\$ 13,039,794
Deferred exploration costs:			
Accommodation and travel	65,118	-	65,118
Assays	45,475	-	45,475
Drilling	1,165,144	-	1,165,144
Exploration salaries and wages	542,785	-	542,785
Field, camp and exploration costs	2,321,310	17,122	2,338,432
Geological consulting	33,523	-	33,523
Professional fees	188,700	-	188,700
Other	8,261	-	8,261
	<u>17,410,110</u>	<u>17,122</u>	<u>17,427,232</u>
<b>Kamishak Property</b>			
Acquisition costs	106,825	-	106,825
Deferred exploration costs:			
Assays	10,384	-	10,384
Drilling	215,694	-	215,694
Exploration salaries and wages	16,362	-	16,362
Field, camp and exploration costs	229,991	-	229,991
Geological consulting	98,367	-	98,367
Professional fees	24,085	-	24,085
Other	36,138	-	36,138
Write-down of mineral interests	-		(737,846)
	<u>737,846</u>		<u>-</u>
<b>Chief Consolidated Mining Interests</b>			
Acquisition costs	9,150,000	-	9,150,000
Deferred exploration costs:			
Accommodation and travel	-	18,830	18,830
Assays	-	239	239
Drilling	-	505,528	505,528
Exploration salaries and wages	-	62,100	62,100
Field, camp and exploration costs	-	81,250	81,250
Geological consulting	-	18,651	18,651
Foreign exchange	-	(29,531)	(29,531)
	<u>9,150,000</u>	<u>657,067</u>	<u>9,807,067</u>
<b>Total</b>	<u>\$ 27,297,956</u>	<u>\$ 674,189</u>	<u>\$ 27,234,300</u>

**Sun Property**

On November 29, 2006, the Company acquired a 50% interest in the Sun Property located in the Ambler District of Alaska. The purchase price was \$3,000,000 and the property has a 1.5% net smelter royalty. 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.

**8. Mineral Properties (continued)**

***Kamishak Property***

The Company entered into a property option agreement, dated March 27, 2006, with Full Metal Minerals Ltd. ("FMM") whereby the Company could earn a 60% interest in the Kamishak Property, which is located southwest of Anchorage, Alaska. The Company and Full Metal Minerals terminated this agreement and on January 24, 2008 the Company and Alix Resources Corp. ("Alix") reached an agreement, by which the Company would retain a 20% interest in the Kamishak property and Alix would acquire the remaining 80% interest in the property. After Alix spends US\$1,000,000 on the property the Company and Alix agree to pay their proportional share of all costs moving forward. In the year ended March 31, 2010 Alix and the Company decided to terminate the project, resulting in a write-down of the asset of \$737,846. No further obligations exist.

**Chief Consolidated Mining Interests**

The Company purchased a controlling interest in Chief on March 24, 2009 (see No 6).

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

*(a) Korea Zinc*

On August 27, 2008, the Company, Chief and Korea Zinc Co. Ltd. ("Korea Zinc") entered into an agreement ("Tintic Utah Option Agreement") by which the Company would purchase Korea Zinc's 25% interest in Tintic Metals LLC ("Tintic Utah") and an agreement known as the "Operating Agreement of Tintic Utah Metals LLC" ("Operating Agreement"). Tintic Utah and the Operating Agreement are a partnership between Chief and Korea Zinc under which Chief owns 75% and Korea Zinc owns 25%. Chief accrued US \$850,000 related to this option agreement.

In the last year the Company decided to terminate the agreement. No further obligations exist. The Company recognized a gain of \$928,226 (US\$850,000) on the reversal of its purchase option obligation.

*(b) Tintic Utah Metals Joint Ventures*

The Company owns a 75% interest in Tintic Utah Metals LLC ("Tintic"). The Company's Burgin Mine and Mill are located on property owned by Tintic. The remaining 25% is owned by Korea Zinc and is subject to dilution for non payment of operating costs.

*(b) Big Hill Joint Venture with Kennecott Exploration Co.*

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. Kennecott can earn 51% by delivering a Pre-Feasibility Study for the Big Hill project or incurring an aggregate explanation 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.

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**9. Loan Payable**

In September, 2008, SNS provided the Company with a \$2,000,000 bridge loan secured by all of the assets of Andover. On March 16, 2009, both parties agreed to extend the maturity date of the loan to September 22, 2009.

In addition to the original terms of the loan agreement, the Company and SNS agreed to the following terms for the loan extension:

1. The Company warrants that 50% of all funds raised, either debt or equity, will be forwarded to SNS to reduce funds due under the Loan Agreement including both principal and interest, until the entire debt is retired.
2. The Company agrees to raise the interest cost of the loan by one (1%) percent from the current borrowing rate of prime plus two percent.
3. SNS will have the option of appointing one nominee to the Andover Board of Directors.
4. The Company will pay an Extension Fee of Two Hundred and Fifty (250,000) thousand common shares of Company to SNS subject to the approval of the TSX Venture Exchange.

On March 25, 2009, TSX Venture Exchange approval was obtained. Interest of \$56,986 has been accrued in the year ended March 31, 2009.

On September 1, 2009, the Company and SNS agreed to the settlement of the principal loan of \$2,000,000 as follows:

1. 4,000,000 common shares in the Company were issued to SNS at a deemed value of \$0.25 per share. These common shares were issued on September 18, 2009 (see Note 13).
2. A cash payment of \$1,000,000. The Company paid cash of \$225,000 on September 22, 2009. The remaining principal loan amount of \$775,000 was paid on October 23, 2009.
3. Interest accrued and due on the loan to be repayable by March 31, 2010.

On October 1, 2009, the Company and SNS agreed to extend the due date for the interest accrued from March 31, 2010 to January 30, 2011. As at June 30, 2010 \$116,703 of interest (as of March 31, 2010 \$114,293) was accrued.

**10. Asset Retirement Obligation**

	June 30, 2010	March 31, 2010
Balance, beginning of period	\$ 562,454	\$ -
Accretion expense	4,238	-
Foreign exchange	18,135	-
Asset retirement obligation acquired	-	562,454
Balance, ending of year	<u>\$ 584,827</u>	<u>\$ 562,454</u>

The asset retirement obligation was acquired as part of the acquisition of Chief (Note 6). The Company has a reclamation obligation relating to the Burgin Mine. In addition, the Company also holds a small mining permit and reclamation obligation in connection with its Chief Gold properties.

#### **10. Asset Retirement Obligation (continued)**

The Company has cash held in escrow in the form of reclamation bonds with the State of Utah to settle the obligations when all mining efforts have been abandoned. The Company has issued a bond to the State of Utah totalling \$511,934 (\$496,015 –March 31, 2010) as of June 30, 2010. The difference is due to foreign exchange revaluation.

The asset retirement obligation is based upon the following assumptions:

1. The Company's undiscounted cash flow required to settle the obligation is approximately \$726,993
2. The obligation payments are expected to occur based on the Company's individual property closure plans.
3. A credit adjusted risk-free rate of 3% has been used to discount cash flows.

#### **11. EPA settlement Obligation – Chief Consolidated Mining Company (Note 6)**

During 2001, the U.S. Environmental Protection Agency ("EPA") placed the "Eureka Mills Superfund Site" (the "Site") on the National Priorities List. According to the EPA, samples indicate that, approximately 150 acres of soil in the Town of Eureka, Utah, the location of Chief's principal operations, were contaminated with lead and, to a lesser extent, arsenic.

On February 9, 2005, Chief agreed to a judgment with the EPA in the amount of US\$60 million. The judgment will remain in effect until the Company has complied with all the requirements of the related consent decree. However, as outlined below, such judgment will be satisfied by Chief complying with all material obligations under the consent decree, namely:

- Chief must provide a report to the EPA each year for five years listing insurance claims, the action the Company is taking to recover the amounts, and any recovery obtained.
- Chief agrees to use its best efforts to sell its property, other than any geologically prospective properties and the Burgin and Trixie Mines, and pay the EPA 100% of net sales proceeds up to US\$350,000, and then 50% thereafter.
- Chief agrees to pay the EPA 15% of its net income in excess of US\$2 million during any calendar year until February 2010.
- Chief agrees to pay the EPA 15% of any proceeds in excess of US\$2 million for a sale of Chief or all or substantially all of its assets until February 2010.

The Company has renegotiated the settlement with the EPA and the United States District Court approved the agreement in May 2010. Under the court approved agreement, Chief must pay to the EPA five payments each \$225,000 per year the first payment to be made before November 30, 2010, and the remaining four payments to be made on before November 30<sup>th</sup> of each year thereafter. That value is reflected in the total cash payment to be made to the EPA of US \$1,125,000.

#### **12. Note payable**

As disclosed in Note 6 of these financial statements, the Company has a \$5,000,000 note payable to Genco. The note is interest bearing at a rate of Unites States prime plus 2%, subject to a minimum rate of 4% per year, with interest payable quarterly and secured against the Chief shares. Repayment is at any time prior to September 22, 2010.

Interest of \$64,726 was recorded and paid in the period ending June 30, 2010 (\$261,780 in year ended March 31, 2010).

Subsequent to the period ended June 30, 2010, the Company made payments of \$1,300,000 on the note and reached an agreement to reduce the balance owing by \$1,000,000. The balance remaining after the settlement agreement was \$2,700,000, of which \$700,000 is due on Oct 31, 2010 and \$2,000,000 is due on Sept 24, 2011.

#### **13. Share Capital**

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**Details are as follows:**

	Number of Shares	Amount	Contributed Surplus	Total
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:				
Balance: March 31, 2008	41,812,286	\$ 14,507,942	\$ 7,510,959	\$ 22,018,901
Units issued for private placements	2,766,667	1,219,928	127,572	1,347,500
Shares issued as finder's fees	24,500	12,250	-	12,250
Shares issued for purchase of Chief (Note 6)	2,000,000	857,500	-	857,500
Share issuance costs	-	(76,705)	-	(76,705)
Shares issued for SNS loan extension (Note 10)	250,000	42,500	-	42,500
Stock-based compensation	-	-	48,253	48,253
Balance: March 31, 2009	46,853,453	16,563,415	7,686,784	24,250,199
Exercise of stock options	650,000	222,105	(92,105)	130,000
Shares issued for SNS loan settlement (Note 10)	4,000,000	1,000,000	-	1,000,000
Units issued for private placements	11,233,334	2,150,510	769,490	2,920,000
Share issuance costs		(120,850)		(120,850)
Share issued for debt	45,000	15,000	-	15,000
Stock-based compensation	-	-	393,730	393,730
Balance : March 31, 2010	62,781,787	19,830,180	8,757,899	28,588,079
Units issued for private placements	1,448,500	240,070	122,055	362,125
Balance June 30, 2010	64,230,287	\$ 20,071,250	\$ 8,878,954	\$ 28,950,204

On May 2, 2008, the Company closed a private placement for a total of 716,667 shares priced at \$0.45 totalling \$322,500. A finder's fee of 7% was paid to Nighthawk Capital Corp.

On July 31, 2008, the Company closed a private placement for a total of 1,920,000 units at a price of \$0.50 per unit totalling \$960,000. Each unit consisted of one common share and one half of one share purchase warrant. Each full warrant will entitle the holder to purchase one common share of the Company at a price of \$0.75 per share for a period of 18 months from the closing date. A 7% finder's fee was paid in a combination of cash and shares.

The fair value attributable to the common shares and warrants was \$840,381 and \$119,619 respectively.

The fair value of the common share purchase warrants was determined using the Black-Scholes pricing model using the following assumptions

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**13. Share Capital (continued)**

Average risk-free interest rate	3.28% to 4.34%
Expected dividend yield	0%
Expected stock price volatility	80% to 108%
Expected life of warrants	2 years

On August 5, 2008, the Company closed a private placement for a total of 130,000 units at a price of \$0.50 per unit totalling \$65,000. Each unit consisted of one common share and one half of one share purchase warrant. Each full warrant will entitle the holder to purchase one common share of the Company at a price of \$0.75 per share for a period of 18 months from the closing date. A 7% finder's fee was paid in a combination of cash and shares.

The fair value attributable to the common shares and warrants was \$57,048 and \$7,952 respectively.

The fair value of the common share purchase warrants was determined using the Black-Scholes pricing model using the following assumptions:

Average risk-free interest rate	3.28% to 4.34%
Expected dividend yield	0%
Expected stock price volatility	80% to 108%
Expected life of warrants	2 years

On November 9, 2009, the Company closed a non-brokered private placement for gross proceeds of \$2,250,000. The Company issued 9,000,000 units at a price of \$0.25 per unit. 3,460,000 units were issued and fully paid on September 21, 2009 with the remaining units being used and fully paid on November 9, 2009. Each unit consisted of one common share and one share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 per share for a period of 24 months from the closing date.

A finder's fee of \$87,050 was paid. The fair value attributable to the warrants was \$677,700.

The fair value of the common share purchase warrants was determined using the Black-Scholes pricing model using the following assumptions:

Average risk-free interest rate	3.85%
Expected dividend yield	0%
Expected stock price volatility	83% to 91%
Expected life of warrants	2 years

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

A finder's fee of \$20,440 was paid. The fair value attributable to the warrants was \$91,790.

The fair value of the common share purchase warrants was determined using the Black-Scholes pricing model using the following assumptions:

Average risk-free interest rate	3.85%
Expected dividend yield	0%
Expected stock price volatility	83% to 91%
Expected life of warrants	2 years

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**13. Share Capital (continued)**

On December 16, 2009, the Company issued 45,000 common shares to a supplier at a deemed price of \$0.333 per common share to settle outstanding debt of \$15,000. TSX Venture Exchange approval was obtained.

During Three months ended June 30, 2010, the Company closed two private placements for total gross proceeds of \$362,123. 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 and expiry date of twenty months. 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 twenty months.

The fair value of the common share purchase warrants was determined using the Black-Scholes pricing model using the following assumptions:

Average risk-free interest rate	1.67% to 2.05%
Expected dividend yield	0%
Expected stock price volatility	75% to 79%
Expected life of warrants	2 years

Subsequent to the period, on July 12, 2010 the Company closed a private placement for gross proceeds of \$1,831,720. The Company issued 8,326,000 units at a price of \$0.22 per unit. Each unit consisted of one common share and one share purchase warrant with the exercise price of \$0.30 and expiry date of twenty months.

**Share Purchase Options**

The Company has an incentive stock option plan in place under the rules of the TSX pursuant to which it is authorized to grant options to executive officers and directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The options can be granted for a maximum term of five years with vesting provisions determined by the board of directors.

A summary of the Company's options at June 30, 2010 and March 31, 2010 and the changes for the periods ending are as follows:

	Number of Options	Weighted Avg. Exercise Price
March 31, 2008	1,836,500	\$ 0.70
Cancelled	(1,241,500)	0.67
March 31, 2009	595,000	0.74
Granted	3,100,000	0.21
Exercised	(650,000)	0.20
Cancelled	(200,000)	0.35
June 30, 2010	2,845,000	\$ 0.31

The following table summarizes information about the options outstanding and exercisable at June 30, 2010:

Exercise Prices	Options Outstanding	Options Exercisable	Expiry Dates
\$0.50	10,000	10,000	August 24, 2011
\$0.50	50,000	50,000	November 29, 2011
\$0.50	50,000	50,000	January 11, 2012
\$0.90	275,000	258,333	April 27, 2012
\$0.67	210,000	140,000	October 10, 2012
\$0.20	1,850,000	1,350,000	April 2, 2014
\$0.35	400,000	Nil	April 20, 2014
	2,845,000	1,875,000	

**ANDOVER VENTURES INC.**  
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**13. Share Capital (continued)**

On April 2, 2009, the Company granted 2,500,000 stock options to Directors and employees at an exercise price of \$0.20 per share. The share options vest over a period of up to three years.

On April 20, 2009, the Company granted 600,000 stock options to consultants of the Company at an exercise price of \$0.35 per share. 200,000 of these shares cancelled after one consultant left the company. The share options vest over three years.

On May 25, 2009, a Director of the Company exercised 350,000 stock options at an exercise price of \$0.20 per share, for gross proceeds of \$70,000. Also on this date, a consultant exercised 300,000 stock options at an exercise price of \$0.20 per share, for gross proceeds of \$60,000.

The fair value of the stock options granted was determined using the Black-Scholes Option Pricing Model and resulted in a value of \$159,860 based on the following assumptions: risk-free interest rate of 3.28%, expected term of 5 years, weighted average stock volatility of 95.32%, and expected future dividends of nil per share.

On May 25, 2009, a Director of the Company exercised 350,000 stock options at an exercise price of \$0.20 per share, for gross proceeds of \$70,000. Also on this date, a consultant exercised 300,000 stock options at an exercise price of \$0.20 per share, for gross proceeds of \$60,000

**Share Purchase Warrants**

A summary of the Company's share purchase warrants at March 31, 2010 and 2009 and the changes for the periods ending are as follows:

	Number of Warrants	Weighted Avg. Exercise Price
March 31, 2008	23,106,072	\$ 0.67
Issued	1,025,000	0.75
Exercised	(10,370,000)	0.66
March 31, 2009	13,761,072	0.74
Issued	10,116,668	0.41
Expired	(13,761,072)	0.74
Issued	1,448,500	0.35
June 30,2010	11,565,168	\$ 0.40

The following table summarizes information about the share purchase warrants outstanding and exercisable at June 30, 2010:

Exercise Prices	Warrants Outstanding	Expiry Dates
\$0.40	9,000,000	September 21,2011
\$0.45	948,334	June 10,2011
\$0.45	168,334	June 10,2011
\$0.35	1,200,000	April 21,2012
\$0.35	248,500	June 8,2012
	11,565,168	

During the current period 1,200,000 and 248,500 share purchase warrants with the exercise price of \$.35 and 24 months expiry date issued on April 21 and June 8, 2010 respectively. Subsequent to the period, 8,326,000, share purchase warrants are exercisable at \$0.30 with expiry date of 24 months issued on July 12, 2010.

**ANDOVER VENTURES INC.**  
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**13. Share Capital (continued)**

***Stock-Based Compensation***

The Company has established a share purchase option plan whereby the Company's directors may from time to time grant options to directors, employees or consultants. The maximum term of any option may be ten years, but generally options are granted for five years or less. The exercise price of an option must be determined by the board of directors and in accordance with the Plan and the policies of the TSX-V. Subject to the policies of the TSX-V, the board of directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist.

The fair value of options granted was estimated on their grant date using the Black-Scholes option-pricing model with the following assumptions:

	2010
Expected dividend yield	0.00%
Expected stock price volatility	91% to 108%
Risk-free interest rate	3.96%
Expected life of options	3-5 years

Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

As of June 30, 2010, the total stock-based compensation related to non-vested options was \$81,542 which is to be recognized over the next fiscal year.

**14. Related Party Transactions**

In addition to related party transactions disclosed elsewhere in these financial statements, during the period ended June 30, 2010, the Company paid or accrued management and consulting fees of \$132,078 (2009 - \$22,500) to directors and officers of the Company or to companies controlled by common directors.

As at June 30, 2010, the company has balances payable of \$17,048 (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.

**15. Segmented Information**

The Company has one operating segment, which is mineral exploration. All of the Company's exploration expenses as disclosed on the exploration cost schedule are incurred in Alaska and Utah. All Land, Plant and equipment are located in Alaska and Utah. All of the Company's assets and other expenses are located or incurred in Canada

The Company has one operating segment, which is mineral exploration. The Company's long-lived assets by geographic location are as follows:

	June 30 2010 \$	March 31 2010 \$
Canada	29,550	33,779
United States	29,237,371	29,433,446

## 16. Subsequent Events

- 1) On July 12, 2010, the Company issued 8,326,000 units for gross proceeds of \$1,831,720. Each unit was issued at a price of \$0.22 and consisted of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$.30 per share, and expires on June 12, 2012.
- 2) On March 24, 2009, the Company reached a settlement with Genco Resources Ltd. ("Genco"), a publicly traded company listed on the TSX. Under the terms of the settlement, Genco agreed to terminate all previous agreements and sell its Chief common shares to the Company for \$2,672,500 in cash, Andover common shares received prior to the settlement and a \$5,000,000 note, payable by September 24, 2010. The shares purchased by the Company comprised 6,477,242 shares of Chief's convertible common shares and 13,034,769 shares of Chief's common shares. Chief is a publicly traded company based in Eureka, Utah (Notes 6 and 9).

During the current period, the Company renegotiated the agreement with Genco. Under the terms of the amended agreement, the Company paid to Genco \$1,300,000 and agreed to pay Genco a further \$700,000 plus quarterly interest on or before October 31, 2010 and \$2,000,000 plus quarterly interest on or before September 24, 2011. The agreement signed on July 1, 2010.

- 3) As at June 30, 2010, the Company owned 27,287,605 common shares of Chief Consolidated Mining Company. This represents a 51.84% ownership in Chief. On August 10, 2010 the Company has agreed to acquire an additional 14,250,000 common shares of Chief for the approximately 27.1% of issued and outstanding shares of Chief and then Andover's ownership of Chief increased to 78.91%.

## 17. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

## 18. Recent Accounting Pronouncements

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

CICA Handbook Section 1582 *Business Combinations*, replaces Section 1581 - *Business Combinations* and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - *Business Combinations*. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on January 1, 2011.

CICA Handbook Sections 1601 - *Consolidations* and Section 1602 - *Non-Controlling Interests* replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for noncontrolling interests. The Company will adopt this standard on January 1, 2011.

## 19. Financial Instruments

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are described below.

### Fair Value

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities, loans payable and notes payable. Management believes that the fair values of these financial instruments approximate their carrying values.

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

Cash and cash equivalents	Held-for-trading Fair Value
Marketable securities	Held-for-trading Fair Value
Accounts payable and accrued liabilities	Other financial liabilities
Loans payable	Other financial liabilities
Note payable	Other financial liabilities
Due to related parties	Other financial liabilities
EPA settlement obligation	Other financial liabilities

Held for trading financial assets and liabilities, including derivative financial instruments, are recorded at fair value as determined by active market prices and valuation models, as appropriate. Valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses readily observable market inputs. Changes in fair value of held for trading financial instruments are recorded in net earnings. Loans and receivables and other financial liabilities are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Changes in the fair values of derivative instruments are recognized in net income with the exception of derivatives designated in effective cash flow hedges.

### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial statement fails to meet its contractual obligations.

Financial instruments that are potentially subject to credit risk relate to cash. A significant portion of the Company's cash is held at one institution and as a result the Company is exposed to the risks of that institution. The carrying amount of cash and short-term investment held for trading represents the Company's maximum credit exposure.

### Foreign exchange risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company raises money primarily in Canadian dollars and has US Dollar denominated liabilities through its US subsidiaries. A significant change in the currency exchange rates between the Canadian Dollar relative to the US dollar could have an effect on the Company's results from operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

Financial instruments that subject the Company to a concentration of currency risk are accounts payable and accrued liabilities, asset retirement obligation, and EPA settlement obligation. Accounts exposed to foreign exchange risk as of June 30, 2010 are:

**ANDOVER VENTURES INC.**  
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**19. Financial Instruments (continued)**

	June 30, 2010 USD \$
Cash and Cash equivalents	5,520
Accounts payable and accrued liabilities	(669,962)
Due to related parties	Nil
EPA settlement obligation	(1,125,000)
<b>Total</b>	<b>(1,772,942)</b>

All US dollar balances are shown in Canadian dollar equivalents.

**Foreign currency exchange risk sensitivity analysis**

The following table details the Company's sensitivity analysis to a 10% strengthening in the US Dollar on foreign currency denominated monetary items and adjusts their translation at the balance sheet date for a 10% change in foreign currency rates. For a 10% weakening of the US Dollar against the Canadian Dollar, there would be an equal and opposite impact on net loss for the period.

Change in foreign exchange gain/(loss) resulting from currency fluctuations at June 30, 2010:

	June 30, 2010 USD \$
Cash and Cash equivalents	552
Accounts payable and accrued liabilities	(66,996)
Due to related parties	Nil
EPA settlement obligation	(112,500)
<b>Total</b>	<b>(177,694)</b>

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity by managing adequate cash and cash equivalent balances and by raising equity or debt financing. The Company has no assurance that such financing will be available on favourable terms. The Company believes it is subject to liquidity risk through its working capital deficit. In general, the Company attempts to avoid exposure to liquidity risk by obtaining corporate financing through the issuance of common shares.

**20. Supplementary cash flow information**

	June 30, 2010 \$
<b>Cash paid during the year for:</b>	
Interest	64,726