
ANDEAN AMERICAN MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

MARCH 31, 2008 AND 2007

(Expressed in Canadian dollars)

The accompanying notes are an integral part of these consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
Andean American Mining Corp.

We have audited the consolidated balance sheets of **Andean American Mining Corp.** as at March 31, 2008 and 2007, and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada
July 29, 2008

Chartered Accountants

ANDEAN AMERICAN MINING CORP.
CONSOLIDATED BALANCE SHEETS
As at March 31

	2008	2007
	<u>\$</u>	<u>Restated Note 17</u> \$
ASSETS		
Current		
Cash and cash equivalents	5,973,166	174,484
Accounts receivable (Note 3)	843,756	714,350
Prepaid expenses	239,732	207,053
Mineral on pads and inventories (Note 4)	752,228	2,546,590
	<u>7,808,882</u>	<u>3,642,477</u>
Mineral on pads (Note 4)	-	3,454,861
Mineral properties and deferred costs (Note 5)	33,799,108	30,453,207
Property, plant and equipment (Note 6)	1,648,965	1,188,152
	<u>43,256,955</u>	<u>38,738,697</u>
LIABILITIES		
Current		
Bank indebtedness	92,048	218,715
Accounts payable and accrued liabilities	4,982,436	3,440,276
Deferred income	-	303,054
Loans payable (Note 7)	39,574	44,387
Current portion of long term debt (Note 8)	381,300	543,615
	<u>5,495,358</u>	<u>4,550,047</u>
Long term debt (Note 8)	-	101,217
Future income tax liabilities (Note 13)	6,080,372	5,723,679
Provision for reclamation and closure costs (Note 9)	127,085	130,159
	<u>6,207,457</u>	<u>5,955,055</u>
Minority interest	9,752,047	4,437,698
	<u>21,454,862</u>	<u>14,942,800</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	69,653,248	59,127,821
Contributed surplus (Note 11)	9,182,035	2,458,879
Deficit	(57,033,190)	(37,790,803)
	<u>21,802,093</u>	<u>23,795,897</u>
	<u>43,256,955</u>	<u>38,738,697</u>
Going concern (Note 1)		
Contingency (Note 16)		
Subsequent Events (Note 18)		

APPROVED BY THE DIRECTORS

“JOHN HUGUET”

 DIRECTOR

“BRYAN MORRIS”

 DIRECTOR

The accompanying notes are an integral part of these consolidated financial statements.

ANDEAN AMERICAN MINING CORP.
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED MARCH 31

	2008	2007
	<u>\$</u>	<u>Restated Note 17</u> \$
REVENUE		
Sales of metals	<u>5,829,730</u>	<u>5,901,665</u>
OPERATING EXPENSES	-	
Direct operating costs	6,981,507	6,215,261
Royalty expense	99,194	104,644
Amortization and depletion	860,175	864,670
Selling expenses	205,868	159,252
Stock based compensation	1,785,307	615,767
Provision for reclamation	3,495	22,486
	<u>9,935,546</u>	<u>7,982,080</u>
OPERATING LOSS	(4,105,816)	(2,080,415)
OTHER (INCOME) EXPENSE		
General and administrative expenses	2,466,739	1,679,082
Interest expense	(62,481)	107,103
Other (income) expense	(307,411)	(74,054)
Foreign exchange (gain) loss	(7,489)	440,519
Dilution (gain) loss on sale of shares by subsidiary	3,490,008	1,886,296
Loss on sale of mineral property	-	6,086,167
Write-down of mineral on leach pads	3,859,867	-
Write-down of mineral properties (Note 5)	5,132,844	7,715,233
Write-down of property, plant and equipment (Note 6)	589,888	1,286,674
Write-off of exploration properties (Note 5)	-	592,299
Current income tax provision (Note 16)	754,951	-
Minority interest	(780,345)	(366,156)
	<u>15,136,571</u>	<u>19,353,163</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(19,242,387)	(21,433,578)
DEFICIT, BEGINNING OF YEAR	(37,790,803)	(16,357,225)
DEFICIT, END OF YEAR	<u>(57,033,190)</u>	<u>(37,790,803)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
BASIC AND DILUTED	64,695,729	51,832,039
NET LOSS PER COMMON SHARE		
BASIC AND DILUTED	(0.30)	(0.41)

The accompanying notes are an integral part of these consolidated financial statements.

ANDEAN AMERICAN MINING CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31

	2008	2007
	<u>\$</u>	<u>Restated Note 17</u> \$
CASH PROVIDED FROM (USED FOR):		
OPERATING ACTIVITIES		
Net income (loss) for the period	(19,242,387)	(21,433,578)
Adjustments for items not affecting cash:		-
Amortization and depletion	1,425,694	878,890
Stock based compensation	1,785,307	615,767
Minority interest	(780,345)	-
Provision for reclamation	3,495	22,486
Unrealized foreign exchange gain on long-term monetary assets and liabilities	(15,261)	249,896
Write-down of mineral properties	5,132,844	8,307,532
Write-down of mineral on leach pads	3,859,867	-
Write-down of property plant and equipment	589,888	1,286,674
Loss on sale of mineral property	-	6,086,167
Dilution loss on sale of shares by subsidiary	3,490,008	1,886,296
	<u>(3,750,890)</u>	<u>(2,099,870)</u>
Net changes in non-cash working capital items:		
Accounts receivable	(129,406)	106,073
Mineral on pads and inventories	1,389,356	979,172
Prepaid expenses	(32,679)	(137,352)
Accounts payable and accrued liabilities	1,542,160	(245,540)
Deferred income	(303,054)	116,639
	<u>(1,284,513)</u>	<u>(1,280,878)</u>
INVESTING ACTIVITIES		
Mineral properties and deferred costs	(8,537,752)	(2,966,625)
Shares of subsidiary acquired by private placement	(2,000,000)	-
Property, plant and equipment	(1,616,219)	(134,198)
	<u>(12,153,971)</u>	<u>(3,100,823)</u>
FINANCING ACTIVITIES		
Private placement of units, net of issue costs	12,709,393	835,155
Shares issued by subsidiary to minority interest, net of issue costs	6,922,785	3,006,862
Payment of long term debt	(263,532)	(314,492)
Payment of loans payable	(4,813)	(555)
	<u>19,363,833</u>	<u>3,526,970</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	5,925,349	(854,731)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(44,231)	810,500
CASH AND CASH EQUIVALENTS, END OF YEAR	5,881,118	(44,231)
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	5,973,166	174,484
Bank indebtedness	(92,048)	(218,715)
	<u>5,881,118</u>	<u>(44,231)</u>

The accompanying notes are an integral part of these consolidated financial statements.

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

1. NATURE OF OPERATIONS AND GOING CONCERN

Andean American Mining Corp. (the "Company") operates the Santa Rosa Mine, a heap leach facility to extract gold. Commercial production at the Santa Rosa Mine heap leach facility commenced in March 2002. The Company maintains an ownership interest in various other mineral properties in Peru, including the Sinchao properties, the Invicta properties, the Mamara properties and those properties adjacent to the Santa Rosa mine.

The amounts shown as mineral properties and deferred costs represent net costs to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The recoverability of these amounts and any additional amounts required to place these properties into commercial production are dependent upon certain factors. These factors include the existence of ore deposits sufficient for commercial production and the Company's ability to obtain the required additional financing necessary to develop its mineral properties.

As at March 31, 2008, the Company has an accumulated deficit of \$57,033,190. The Company is continuing in its efforts to generate sufficient cash from its operations or raise funds to meet its ongoing liabilities as they fall due. There can be no assurance that the Company will be successful in its efforts, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheet. The consolidated financial statements do not give effect to any adjustments that might be necessary if the Company were unable to meet its obligations or continue operations (see Note 18).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These consolidated financial statements include the accounts of the Company and all its subsidiaries. The significant subsidiaries are:

- Sinchao Metals Corp, a British Columbia company (58% owned*);
- El Misti Gold S.A.C. ("El Misti Peru"), a Peruvian company (100% owned);
- Invicta Mining Corp S.A.C. ("Invicta Peru"), (formerly Andean Explorations S.A.C.), a Peruvian Company (100% owned).

All significant inter-company balances and transactions have been eliminated.

*Capital transactions during the year in Sinchao Metals Corp. have decreased the ownership in the year from 73% in 2007.

Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash on deposit with banks and highly liquid short-term interest bearing investments with a term to maturity at the date of purchase of 90 days or less from the date of acquisition.

Minerals on Pads and Inventories

Inventories of supplies consist mainly of chemicals used in the leaching operation and are valued at the lower of average cost or market.

Inventories of mineral on pads consist of the estimated recoverable quantity of metals included in ore which has been mined, crushed, agglomerated and placed on the leaching pads, but has not yet been recovered by the leaching process. This inventory is valued at the lower of estimated cost to place this ore on the leaching pads and the estimated sales value of the metals, net of the cost of completing the processing for sale.

Mineral Properties

i) Producing Mineral Properties

Producing mineral properties are carried at cost, less accumulated amortization and depletion. Carrying values of producing mineral properties are reviewed when events or conditions occur that suggest possible impairment and, where necessary, are written down to their estimated recoverable amount, determined on a discounted cash flow basis. Depletion is provided over the estimated life of the asset on a unit-of-production basis. Management's estimates of gold price, recoverable reserves, and operating, capital and reclamation costs are subject to risks and uncertainties affecting the recoverability of the Company's investment in producing mineral properties. Although management has made its best estimate of these factors based on current conditions, it is possible that changes could occur in the near term which could adversely affect management's estimate of net cash flows expected to be generated from its operating properties and the need for possible asset impairment write-downs.

Mining operations may be temporarily suspended and a mine placed on a "care-and-maintenance" basis. In this event, all costs incurred are expensed as care and maintenance costs.

ii) Non-Producing Mineral Properties

Acquisition, exploration and development costs associated with a non-producing mineral property are capitalized until the property is producing, abandoned, impaired in value or placed for sale. The costs are transferred to producing mineral properties in the case of a property placed into production. The costs of abandoned properties are charged to earnings when the property is abandoned. Net revenue derived from ore processed up to the point of attaining commercial production is credited to the related deferred expenditures. The costs of properties in excess of their estimated net recoverable amount are charged to earnings if the decision is made to dispose of the property or if it is determined that the property is impaired in value.

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Properties

The recoverability of the amounts capitalized in respect of non-producing mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the properties, and upon future profitable production or proceeds from the disposition of the properties.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for this stage of exploration and development of such properties, these procedures, including confirmation by the government's Miner Registry Offices and National Cadastral Plans, do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Mineral Property Option Agreements

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Production plant and equipment	5 - 10 years
Vehicles	4 - 5 years
Office furniture and equipment	3 - 10 years

Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings. Fair value is generally determined using a discounted cash flow analysis.

Revenue Recognition

The Company recognizes revenue from the sale of gold at the time the concentrate is delivered to the independent refiner. Final sales proceeds are received when the concentrate is smelted and the precise content of recovered gold is known. The final settlement amount is included in revenue and in accounts receivable.

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Income Taxes

Future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted income tax rates. The effects of a change in income tax rates on future income tax liabilities and assets are recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

Translation of Foreign Currencies

Integrated foreign operations are translated using the temporal method. Under this method, the Company translates monetary assets and liabilities at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at average rates in effect during the period in which they were earned or incurred.

Revenue and expenses are translated at average rates in effect during the period except for depreciation and amortization, which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the consolidated statements of loss, comprehensive loss and deficit.

Reclamation and Closure Costs

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of that asset and the cost is amortized as an expense over the economic life of the related asset. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations by regulatory authorities, which affect the ultimate cost of remediation and reclamation.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share. The dilutive effect of the convertible securities is reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by application of the treasury stock method. Basic and diluted loss per share are the same as the effect of potential issuances of shares under warrants or share option arrangements would be anti-dilutive.

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based Compensation

The Company has a stock-based compensation plan as described in Note 10(f). The Company accounts for stock options and warrants at fair value as prescribed by CICA 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model. Warrants are recorded at estimated fair values using the Black-Scholes option pricing model.

Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Accounting Changes

Effective April 1, 2007, the Company adopted the revised Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506 "Accounting Changes", which requires that: a) a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information, b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

Comprehensive Income

The Company also adopted CICA Section 1530, Comprehensive Income effective April 1, 2007. This section requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes net income or loss and other comprehensive income. Other comprehensive income may include holding gains and losses on available-for-sale securities, gains and losses on certain derivative instruments and foreign gains and losses from self sustaining foreign operations. During the current period, the Company did not have any other comprehensive income components.

Financial Instruments – Recognition and Measurement

Effective April 1, 2007 the Company adopted the new accounting standards issued by the CICA relating to financial instruments. As required by the transitional provisions of these standards, these standards have been adopted on a prospective basis without restatement of prior period financial statements.

This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Unrealized changes in fair value are to be recognized in the statements of operation or comprehensive income.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Changes to the fair values of certain assets and liabilities as at April 1, 2007, are recognized by adjusting opening retained earnings or opening accumulated other comprehensive income.

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments – Recognition and Measurement (continued)

All financial instruments are classified into one of the following four categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

i) Held-to-maturity investments, loans and receivables are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.

ii) Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.

iii) Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.

iv) All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise, except for derivative instruments which represent a cash flow hedge, where the gain or loss is recognized in other comprehensive income.

Under adoption of this new standard, the Company designated its cash and cash equivalents, accounts receivable and accounts payable as held-for-trading which are measured at fair value.

Recent Canadian Accounting Pronouncements

The CICA issued three new accounting standards that are applicable to the Company: Section 1535, Capital Disclosures (“Section 1535”), Section 3031, Inventories (“Section 3031”), and Section 3862, Financial Instruments (Section 3862”). The Company will adopt these new accounting standards for the period beginning April 1, 2008.

Financial Instrument disclosures

New accounting recommendations for disclosure and presentation of financial instruments are effective for the Company beginning April 1, 2008. The new recommendations require disclosures of both qualitative and quantitative information that enables users of the financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed.

Capital disclosures

As a result of new Section 1535, Capital Disclosures, the Company will be required to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity’s objectives, policies and procedures for managing capital. This Section is applicable for the fiscal year beginning on April 1, 2008.

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Canadian Accounting Pronouncements (continued)

Inventories

In March 2007, the Canadian Accounting Standards Board (“AcSB”) approved a new standard with respect to inventories effective for fiscal years beginning on or after April 1, 2008. The new standard requires inventories to be measured at the lower of cost or net realizable value; disallows the use of last-in, first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This new standard is not expected to have a material impact on the Company’s earnings.

Goodwill and intangible assets

In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

International Financial Reporting Standards (“IFRS”)

In 2006, the 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 IRFS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for the publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011. 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.

3. ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
	\$	\$
Trade accounts	297,189	200,620
Refundable sales tax (IGV)	545,807	403,788
Others	760	109,942
	<u>843,756</u>	<u>714,350</u>

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

4. MINERAL ON PADS AND INVENTORIES

	<u>2008</u>	<u>2007</u>
	\$	\$
Mineral on leach pads	1,156,349	2,072,917
Non-current portion of mineral on leach pads	<u>2,703,518</u>	<u>3,454,861</u>
	3,859,867	5,527,778
Finished products	587,776	201,129
Supplies	164,452	272,544
Write-down	<u>(3,859,867)</u>	<u>-</u>
	<u>752,228</u>	<u>6,001,451</u>

Management has determined that the carrying value of the Santa Rosa mine has been impaired resulting in a write-down of mineral on pads inventory by \$3,859,867 (2007 - \$nil) (Note 5).

5. MINERAL PROPERTIES AND DEFERRED COSTS

	<u>2008</u>	<u>2007</u>
	\$	\$
Producing mineral property		
Santa Rosa Mine	16,344,495	16,287,721
Accumulated amortization and depletion	(3,496,418)	(2,644,882)
Write-down to fair value	<u>(12,848,077)</u>	<u>(7,715,233)</u>
Total Santa Rosa Mine	<u>-</u>	<u>5,927,606</u>
Non-producing mineral properties		
Sinchao Property		
Acquisition and deferred exploration costs	25,735,740	22,202,906
Invicta	7,878,811	2,130,278
Other properties	776,856	784,716
Write-off of certain other properties	<u>(592,299)</u>	<u>(592,299)</u>
Total non-producing mineral properties	<u>33,799,108</u>	<u>24,525,601</u>
Total mineral properties and deferred costs	<u>33,799,108</u>	<u>30,453,207</u>

The Company has acquired mineral claims in Peru through option agreements and direct staking. As at March 31, 2008, the Company's property portfolio comprises approximately 55,200 hectares. The Santa Rosa property consists of 9,000 hectares and the Sinchao property consists of 1,300 hectares. The Invicta property comprises 41,500 hectares, of which 3,700 hectares were acquired under an option agreement from a subsidiary of Barrick Gold Corporation, Minera ABX Exploraciones S.A.

ANDEAN AMERICAN MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

5. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Santa Rosa Mine

Accumulated costs included in the Santa Rosa mine costs are acquisition, exploration and development costs all of which are amortized or depleted using the units-of-production method.

Management has determined that the carrying value of the Santa Rosa mine has been impaired. The net present value to be derived from the processing of resources that are currently accessible and from mineral on the pads to be recycled is estimated to be \$nil resulting in a write-down of \$9,582,599 (2007 - \$9,001,907). Of this amount \$5,132,844 (2007 - \$7,715,233) was allocated to mineral properties and deferred costs, \$589,888 (2007 - \$1,286,674) to property, plant and equipment (Note 7) and \$3,859,867 (2007 - \$nil) in mineral on leach pads and inventory (Note 4). Exploration properties with a carrying value of \$592,299 were written off in the prior year due to poor geological results.

Sinchao Property

The viability of the Sinchao property has not yet been determined and the costs associated with the project are not being amortized.

In March 2004, the Peruvian land registry granted the Company good title to Valle de Sinchao numbers 1 and 3. The Company now also has the title to Valle de Sinchao numbers 2 and 4. Following receipt of Valle de Sinchao numbers 2 and 4, the Company reinitiated the development of the Sinchao property to allow further resource definition.

On June 30, 2006, the Company sold its interest in its wholly owned subsidiary, Corporacion Minera Sinchao, holder of the Sinchao property, to Sinchao Metals Corp., and received 36,000,000 common shares and 3,000,000 transferable warrants. As a result of this transaction, the Company's interest in the Sinchao property was reduced to 64% on a fully diluted basis.

On December 15, 2006 Sinchao Metals Corp. ("Sinchao Metals") was amalgamated with Dolce Enterprises Inc. ("Dolce"), a capital pool company, to form a new company named Amalco.

As contemplated in the Amalgamation Agreement, the shareholders of Dolce received one share of Amalco for every six shares of Dolce held by them and shareholders of Sinchao Metals received one share of Amalco for every one share of Sinchao Metals held by them. Similarly, outstanding share purchase warrants of Sinchao Metals were exchanged on a one for one basis for warrants in Amalco and Dolce warrants were exchanged on a six for one basis. Amalco subsequently changed its name to Sinchao Metals Corp.

The Company incurred a loss on the sale of the Sinchao property of \$nil (2007 - \$6,086,167).

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5. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Invicta Property

The acquisition agreement with Minera ABX (Barrick) dated October 17, 2005 required the issuance of 500,000 shares to Barrick and payment of US\$315,000 in cash upon exercise of the option. The Company issued the 500,000 shares in October 2005 and paid US\$115,000 in November 2005 and the remaining US\$200,000 in April 2006.

The Company will also pay a 1% NSR, capped at US\$1 million, and a production payment of US\$50,000 per quarter capped at US\$800,000.

In order to maintain / earn its interest in its current portfolio of mineral properties, the Company:

- i) Pursuant to the original Santa Rosa property purchase agreement, made the final option payments of \$734,226 during the year ended March 31, 2008.
- ii) Must pay a net smelter royalty (“NSR”) of 0.8213% to the Production Debenture holders from the time of commercial production from the Santa Rosa Mine. In addition, for gold produced in excess of 175,000 ounces from the Santa Rosa Mine, the Company has agreed to pay a floating NSR of between US\$6.00 to US\$10.00 per ounce of gold produced, if the price of gold is higher than US\$320 per ounce, to the original claims holders from the Minera Paraccay acquisition within the Santa Rosa Property. It is expected that the floating NSR will not be payable before fiscal 2010.
- iii) Must pay annual fees of US\$3 per hectare to governmental authorities. The calendar 2008 holding costs are estimated to be approximately US\$60,000 (2007 - US\$60,000).

Certain of the mineral properties, if taken to production, are subject to various royalties as a percentage of either net profits from production or of net smelter returns.

6. PROPERTY, PLANT AND EQUIPMENT

Equipment is recorded at cost. Amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

	2008			
	Cost	Accumulated Amortization	Write-down to Fair Value	Net Book Value
	\$	\$	\$	\$
Production plant and equipment	4,350,388	2,394,507	589,888	1,365,993
Vehicles	302,270	181,570	-	120,700
Office furniture and equipment	345,013	188,047	-	156,966
Construction in progress	5,306	-	-	5,306
	<u>5,002,977</u>	<u>2,764,124</u>	<u>589,888</u>	<u>1,648,965</u>

ANDEAN AMERICAN MINING CORP.
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6. PROPERTY, PLANT AND EQUIPMENT (continued)

	2007			
	Cost	Accumulated Amortization	Write-down to Fair Value	Net Book Value
	\$	\$	\$	\$
Production plant and equipment	4,089,254	1,835,162	1,286,674	967,418
Vehicles	229,768	148,154	-	81,614
Office furniture and equipment	336,751	215,289	-	121,462
Construction in progress	17,658	-	-	17,658
	<u>4,673,431</u>	<u>2,198,605</u>	<u>1,286,674</u>	<u>1,188,152</u>

Management has determined that the carrying value of the Santa Rosa mine has been impaired resulting in a write-down of property, plant and equipment by \$589,888 (2007 - \$1,286,674) (Note 5).

7. LOANS PAYABLE

The Company has entered into a number of joint venture funding agreements, as follows:

	<u>2008</u>	<u>2007</u>
	\$	\$
Loan payable US\$34,000 (March 2008 – US\$34,000)	34,949	39,199
Loan payable US\$4,500 (March 2007 – US\$4,500)	4,625	5,188
	<u>39,574</u>	<u>44,387</u>

The loans payable are each non-interest bearing and have no fixed terms of repayment.

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8. LONG TERM DEBT

	2008	2007
	\$	\$
Long term debt	381,300	644,832
Less: Current portion	(381,300)	(543,615)
	-	101,217

The long-term debt arises from the conversion of an option agreement for the subsurface mining rights on approximately 10,214 hectares of the Santa Rosa properties into an asset purchase agreement. The long-term debt is non-interest bearing and, in accordance with the schedule of payments, the Company was paying US\$27,890 per month until September 30, 2006 and a final payment of US\$37,652 at October 30, 2006. Only in the event of non-payment, a 10% per annum interest rate shall apply.

On August 16, 2006, the repayment terms for a portion of the debt were renegotiated and extended to October 2008. In accordance with the revised schedule of payments the Company is paying US\$12,582 per month until September 30, 2008 and a final payment of US\$12,298 at October 30, 2008.

9. PROVISION FOR RECLAMATION AND CLOSURE COSTS

All of the Company's operations are subject to reclamation and closure requirements. Although the ultimate amount of site restoration costs is uncertain, on a regular basis the Company monitors these costs and together with third party engineers prepares internal estimates to evaluate their bonding requirements. The estimates prepared by management are then reconciled with the requirements of the Peruvian mining regulations.

At March 31, 2008, the accrued site closure liability amounted to \$127,085 (March 2007 - \$130,159). This was calculated using the fair market value of \$199,052, discounted at 10%.

In view of the uncertainties concerning future removal and site restoration costs, as well as the applicable laws and regulations, the ultimate costs to the Company could differ materially from the amounts estimated by management.

Future changes, if any, due to their nature and unpredictability, could have a material impact and would be reflected prospectively as a change in accounting estimate.

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10. SHARE CAPITAL

(a) Authorized

The Company has authorized an unlimited number of common shares, with no par value.

(b) Issued and Outstanding

A summary of issued and outstanding shares activity for the year ended March 31, 2008 is as follows:

	Number of Shares	Amount
		\$
Balance, March 31, 2006	51,512,189	58,371,791
Allocation of private placement proceeds to common shares	810,000	810,000
Share issue costs paid in cash	-	(41,150)
Fair value of broker warrants issued pursuant to private placement	-	(101,205)
Stock options exercised	86,300	66,305
Reallocation of grant date fair value on exercise of stock options and warrants of Andean American Mining Corp.	-	22,080
Balance, March 31, 2007	52,408,489	59,127,821
Allocation of private placement proceeds to common shares	20,439,538	13,285,700
Share issue costs paid in cash	-	(713,307)
Share issue costs paid in stock	626,990	(407,544)
Fair value of broker warrants issued pursuant to private placement	-	(256,811)
Fair value of warrants issued pursuant to private placement	-	(1,576,434)
Stock options exercised	145,000	137,000
Reallocation of grant date fair value on exercise of stock options and warrants of Andean American Mining Corp.	-	56,823
Balance, March 31, 2008	73,620,017	69,653,248

(c) During fiscal year 2008, the Company completed the following share capital transactions:

- i) On May 30, 2007 the Company announced the completion of a private placement of 11,332,538 units at a price of \$0.65 per unit consisting of one common share of the Company and one half of one common share purchase warrant. Each whole warrant is exercisable at \$0.85 and expires on May 29, 2009.

ANDEAN AMERICAN MINING CORP.
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10. SHARE CAPITAL (continued)

Total gross proceeds from the private placement of \$7,366,150 has been allocated \$6,297,936 to common shares and \$1,068,214 to contributed surplus based on the fair value of the warrants. The fair value of the warrants has been estimated using the Black-Scholes option-pricing model. The assumptions used in the Black-Scholes option pricing model were: dividend yield: 0%; expected volatility 67%; a risk-free interest rate of 4.58% and an expected life of 2 years. The Company paid finder's fees in cash of \$589,292 and incurred additional cash issuance costs of \$124,015. The Company also issued 566,627 broker warrants under the same terms as the private placement with a fair value of \$106,821.

- ii) On December 28, 2007 the Company announced the completion of the second tranche of a private placement. In total, 9,107,000 units at a price of \$0.65 per unit consisting of one common share of the Company and one half of one common share purchase warrant were issued under the private placement. Each whole warrant is exercisable at \$0.85 and expires after two years. The first tranche of the private placement (3,077,000 units) expires on December 17, 2009. The second tranche of the private placement (6,030,000 units) expires on December 21, 2009.

Total gross proceeds from the private placement of \$5,919,550 has been allocated \$5,431,330 to common shares and \$508,220 to contributed surplus based on the fair value of the warrants. The fair value of the warrants has been estimated using the Black-Scholes option-pricing model. The assumptions used in the Black-Scholes option pricing model were: dividend yield: 0%; expected volatility 61.81%; a risk-free interest rate of 3.91% and an expected life of 2 years. The Company issued 626,990 units in finder's fees with a fair value of \$407,544 and issued 716,560 broker warrants under the same terms as the private placement with a fair value of \$149,990.

- iii) Issued 145,000 common shares pursuant to the exercise of options for total cash proceeds of \$137,000.
- (d) During fiscal year 2007, the Company completed the following share capital transactions:
- i) Issued 86,300 common shares pursuant to the exercise of options for total cash proceeds of \$66,305.
 - ii) Issued 810,000 shares in a private placement at a price of \$1.00 per unit consisting of one share and a half non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional share at \$1.00 expiring on November 28, 2007. The Company also paid a finder's fee of \$36,600. The value assigned to the warrants was \$101,205, which has been estimated using the Black Scholes option-pricing model. The assumptions were dividend yield: 0%; expected volatility 67%; a risk-free interest rate of 4.58% and an expected life of 1 year.

ANDEAN AMERICAN MINING CORP.
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10. SHARE CAPITAL (continued)

(e) Warrants

A summary of share warrants activity for the year ended March 31, 2008 is as follows:

	<u>Number of Warrants</u>	<u>Amount</u>
		\$
Balance, March 31, 2006	2,551,112 **	-
Issued pursuant to private placement	405,000	101,205
Expired	(2,551,112)	-
Balance, March 31, 2007	<u>405,000</u>	<u>101,205</u>
Issued pursuant to private placement	10,219,769	2,118,694
Broker warrants issued pursuant to private placement	1,596,682	664,355
Expired	<u>(405,000)</u>	<u>(101,205)</u>
Balance, March 31, 2008	<u>11,816,451</u>	<u>2,783,049</u>

** No value was attributed to warrants issued prior to 2007.

As at March 31, 2008, the issued and outstanding warrants to purchase common shares of the Company is as follows:

<u>Expiry Date</u>	<u>Exercise price</u>	<u>Number</u>
	\$	
May 29, 2009	0.85	5,666,269
May 29, 2009	0.85	566,627
December 17, 2009	0.85	1,538,500
December 21, 2009	0.85	3,015,000
December 22, 2009	0.90	716,560
December 22, 2009	0.85	313,495
		<u>11,816,451</u>

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10. SHARE CAPITAL (continued)

(f) Stock options

The Company grants share options in accordance with the policies of the TSX Venture Exchange. Under the general guidelines of the TSX Venture Exchange, the Company may reserve up to 10% of its issued and outstanding shares for issue to its employees, directors or consultants.

A summary of stock options outstanding and exercisable as at March 31, 2008 is as follows:

Number Outstanding March 31 2007	Issued	Exercised	Forfeited	Number Outstanding March 31 2008	Exercise Price Per Share	Expiry date
5,000			(5,000)	-	\$ 0.76	June 1, 2007
500,000			(500,000)	-	\$ 0.80	September 17, 2007
739,365			(739,365)	-	\$ 0.70	October 21, 2007
250,000			(250,000)	-	\$ 1.00	October 27, 2007
300,000				300,000	\$ 0.85	August 19, 2008
200,000				200,000	\$ 1.25	November 29, 2008
30,000				30,000	\$ 1.00	August 24, 2008
100,000			(100,000)	-	\$ 0.92	March 14, 2008
166,000		(40,000)	(30,000)	96,000	\$ 1.10	March 1, 2009
846,700		(40,000)	(20,000)	786,700	\$ 0.85	September 8, 2009
65,000		(25,000)		40,000	\$ 1.00	November 3, 2009
40,000		(40,000)		-	\$ 0.85	January 5, 2010
30,000				30,000	\$ 1.00	January 15, 2010
250,000			(100,000)	150,000	\$ 0.75	March 13, 2010
	200,000			200,000	\$ 0.75	April 23, 2010
	125,000			125,000	\$ 0.75	April 23, 2010
	250,000			250,000	\$ 0.65	May 25, 2010
	300,000			300,000	\$ 0.76	November 22, 2010
	250,000			250,000	\$ 0.62	January 11, 2011
	163,000			163,000	\$ 0.73	March 7, 2011
-	300,000	-	-	300,000	\$ 0.74	March 15, 2011
	2,460,000			2,460,000	\$ 0.71	October 29, 2012
3,522,065	4,048,000	(145,000)	(1,744,365)	5,680,700	\$ 0.66 - \$ 1.00	June 1, 2007 - October 29, 2012

(i) As of March 31, 2008, 3,083,117 options are fully vested

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10. SHARE CAPITAL (continued)

(f) Stock options (continued)

A summary of stock options outstanding and exercisable as at March 31, 2007 is as follows:

Number Outstanding March 31 2006	Issued	Exercised	Forfeited	Number Outstanding March 31 2007	Exercise Price Per Share	Expiry date
10,000	-		(5,000)	5,000	\$ 0.76	June 1, 2007
500,000	-	-	-	500,000	\$ 0.80	September 17, 2007
920,000	-	(30,635)	(150,000)	739,365	\$ 0.70	October 21, 2007
100,000	-	-	-	100,000	\$ 0.92	March 14, 2008
300,000	-	-	-	300,000	\$ 0.85	August 19, 2008
30,000	-	-	-	30,000	\$ 1.00	August 24, 2008
250,000	-	-	(50,000)	200,000	\$ 1.25	November 29, 2008
166,000	-	-	-	166,000	\$ 1.10	March 1, 2009
-	882,000	(35,300)	-	846,700	\$ 0.85	September 8, 2009
-	65,000	-	-	65,000	\$ 1.00	November 3, 2009
-	250,000	-	-	250,000	\$ 1.00	October 27, 2007
-	40,000	-	-	40,000	\$ 0.85	January 5, 2010
-	30,000	-	-	30,000	\$ 1.00	January 15, 2010
-	250,000	-	-	250,000	\$ 0.75	March 13, 2010
2,276,000	1,517,000	(65,935)	(205,000)	3,522,065	\$0.75 - \$1.25	June 1, 2007 - March 13, 2010

(i) As of March 31, 2007, 2,463,715 options are fully vested

ANDEAN AMERICAN MINING CORP.
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10. SHARE CAPITAL (continued)

(g) Stock Based Compensation

The Company accounts for stock-based compensation, including stock options and warrants, using the fair value based method as prescribed by CICA 3870. Under this method, the fair value of stock options and warrants at the date of grant is amortized over the vesting period and the offsetting credit is recorded as an increase in contributed surplus.

During the year ended March 31, 2008, the Company granted 4,048,000 stock options to its employees and independent consultants with exercise prices ranging from \$0.62 to \$1.00 per share. All of the options vest between 0-24 months. For the year ended March 31, 2008, Andean American Mining Corp. recorded \$842,810 (2007 - \$256,588) for stock based compensation expense, of which \$142,388 (2007 - \$nil) was capitalized to resources properties and Sinchao Metals Corp., recorded \$1,378,282 (2007 - \$359,179) for stock based compensation expense, of which \$293,448 (2007 - \$nil) was capitalized to resource properties.

The fair value of each stock option granted has been estimated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 2.56% to 4.30%, dividend yield 0%, volatility of 65.12% to 69.18% and an expected life of 1 to 5 years.

11. CONTRIBUTED SURPLUS

A continuity of contributed surplus for the year ended March 31, 2008 is as follows:

	\$
Balance, March 31, 2006	1,571,349
Non-cash stock-based compensation of Andean American Mining Corp.	256,588
Contributed surplus of Sinchao Metals Corp.	369,217
Fair value of warrants issued pursuant to private placement	101,205
Fair value of warrants of Sinchao Metals Corp.	182,600
Reallocation of grant date fair value on exercise of stock options and warrants	<u>(22,080)</u>
Balance, March 31, 2007	<u>2,458,879</u>
Non-cash stock-based compensation of Andean American Mining Corp.	842,810
Contributed surplus of Sinchao Metals Corp.	1,345,290
Fair value of warrants issued pursuant to private placement	1,576,434
Fair value of broker units issued pursuant to private placement	407,544
Fair value of broker warrants issued pursuant to private placement	256,811
Fair value of warrants of Sinchao Metals Corp.	2,351,090
Reallocation of grant date fair value on exercise of stock options and warrants	<u>(56,823)</u>
Balance, March 31, 2008	<u>9,182,035</u>

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12. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2008, the Company was charged \$375,700 (2007 - \$274,700) for management, professional and consulting services provided by three directors of the Company. In addition, the Company was charged \$4,507 (2007 - \$2,945) for administrative and professional services by a company controlled by a director of the Company. Other related party transactions are disclosed elsewhere in these consolidated financial statements.

As at March 31, 2008, \$31,346 (2007 - \$28,303) was due to directors of the Company for services expenses incurred on behalf of the Company.

The foregoing related party transactions are recorded at their exchange amount, which is the amount of consideration paid or received as established and agreed to between the related parties. The exchange amount was negotiated and established and agreed to by the related parties as if they were dealing at arm's length.

13. INCOME TAXES

The Company is subject to income tax in Canada with the statutory income tax rate at 33.34% (2007-34.7%). The Company's operating Peruvian subsidiaries are subject to relevant income tax laws applicable in Peru with the statutory income tax rate at 30% (2007-30%) Significant components of the Company's future tax assets and liabilities, after applying enacted corporate tax rates, are as follows:

	<u>2008</u>	<u>2007</u>
Statutory tax rates	33.34%	34.68%
Recovery of income taxes at statutory rates	\$ (6,415,412)	\$ (7,433,165)
Non-deductible expenses and other	1,834	40,178
Loss on dilution and other	1,493,265	2,076,600
Stock-based compensation	595,221	210,099
Share issuance costs	(92,951)	-
Change in valuation allowance	4,418,043	5,106,288
Future income taxes (recovery)	<u>\$ -</u>	<u>\$ -</u>
	<u>2008</u>	<u>2007</u>
Future income tax assets:		
Canadian operating loss carryforwards	\$ 4,494,011	\$ 3,891,201
Peruvian operating loss carryforwards	1,322,005	-
Excess of tax basis of property and equipment over book value	10,741	-
Excess of tax basis of mineral properties over book value, Peru	2,609,502	-
Share issuance costs and other	202,016	329,031
Total future income tax assets	<u>8,638,275</u>	<u>4,220,232</u>
Less valuation allowance	<u>(8,638,275)</u>	<u>(4,220,232)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

ANDEAN AMERICAN MINING CORP.
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13. INCOME TAXES (continued)

Future income tax liabilities:

Excess of book value of mineral properties over tax basis, Peru	\$ 6,080,372	\$ 5,723,679
Net future income tax liabilities	\$ 6,080,372	\$ 5,723,679

Future tax benefits, which may arise as a result of the future tax assets, have been offset by a valuation allowance as the realization of these future tax assets is not considered to be more likely than not.

At March 31, 2008, the Company has non-capital loss carryforwards in Canada aggregating \$17,284,656 that are available to offset future taxable income and expire as follows:

2014	\$ 384,872
2015	1,300,241
2026	356,470
2027	497,719
2028	14,745,354
	<u>\$ 17,284,656</u>

14. SEGMENTED INFORMATION

The Company's only activities are the exploration and development of mineral properties and the operation of the Santa Rosa mine facility, all of which are in Peru. The principal assets in Canada consist of cash, accounts receivable and head office capital assets.

15. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash investing and financing activities were conducted by the Company as follows:

	<u>2008</u>	<u>2007</u>
	\$	\$
Operating activities		
Income tax paid in advance	(87,723)	(11,430)
Interest paid in cash	(51,547)	(134,134)
	<u>(139,270)</u>	<u>(145,564)</u>
Financing activities	-	-
Issuance of common shares for finder's fee	(407,544)	-
	<u>(407,544)</u>	<u>-</u>

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16. CONTINGENCIES

A previous participant in the Invicta (previously Victoria) Project has advised the Company that they retain a minority interest in the project. No legal claim has been initiated and the Company disputes that this previous participant holds any interest in the project. There are no legal rights for this participant in government registries in Peru. This participant failed to register its interests in Peru and thus is considered to have abandoned any interest in the Invicta project.

SUNAT, the Peruvian tax authority, has completed its audit of the tax filings of the Company's Peruvian subsidiary for the years 2002 to 2004. SUNAT has challenged the deductibility of certain property write-offs and foreign exchange losses in those filings that may result in additional tax assessments and the imposition of fines and interest amounting in total to approximately US\$5,000,000. The Company's tax advisor is of the opinion that most of these deductions are legitimate and can be successfully defended in the appeals processes that are available under Peruvian law. These processes may take as long as five years to reach a conclusion. In the meantime the Company has made a provision in its accounts in the amount of US\$734,460 for potential taxes payable.

17. RESTATEMENT

As at March 31, 2007, the Company should have recorded a Minority Interest of \$4,437,698 and a dilution loss on sale of shares by subsidiary of \$1,886,297. As a result of these corrections net loss was increased by \$1,886,297. This has resulted in an increase in the reported deficit as at March 31, 2007. The effect of the restatement on the year ended March 31, 2007 consolidated financial statements is as follows:

	As previously reported	As restated
	\$	\$
Minority interest	2,642,331	4,437,698
Dilution loss on sale of shares by subsidiary	-	1,886,297
Net loss for the year	19,547,282	21,433,579
Deficit	35,904,507	37,790,804
Net loss per share - basic and diluted	(0.38)	(0.41)

18. SUBSEQUENT EVENTS

Subsequent to the year end the Company completed a non-brokered private placement of 4,545,454 units for gross proceeds of \$2,000,000. Each unit consists of one common share and one half non-transferable share purchase warrant. One whole warrant entitles the holder to purchase an additional common share at \$0.55 until July 3, 2010. No finder's fees were paid.