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**ANDEAN AMERICAN MINING CORP.**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

MARCH 31, 2009 AND 2008

(Expressed in Canadian dollars)

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## 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, 2009 and 2008, 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada  
August 10, 2009

*Ernst & Young LLP*

Chartered Accountants

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

**See Note 1 – Nature of Operations and Going Concern Uncertainty**

	<b>2009</b>	2008
	<u>\$</u>	<u>(Restated - Note 4)</u> \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	28,358	5,973,166
Accounts receivable (Note 5)	287,037	843,756
Prepaid expenses	33,480	239,732
Mineral on pads and inventories (Note 6)	181,628	752,228
	<u>530,503</u>	<u>7,808,882</u>
<b>Mineral properties and deferred costs</b> (Note 7)	41,714,764	35,437,866
<b>Property, plant and equipment</b> (Note 8)	1,664,436	1,648,965
	<u>43,909,703</u>	<u>44,895,713</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness	28	92,048
Accounts payable and accrued liabilities	5,784,678	4,982,439
Loans payable (Note 9)	615,903	420,874
	<u>6,400,609</u>	<u>5,495,361</u>
<b>Future income tax liabilities</b> (Note 14)	787,159	678,693
<b>Provision for reclamation and closure costs</b> (Note 10)	155,942	127,085
	<u>943,101</u>	<u>805,778</u>
<b>Non-controlling interest</b>	12,300,403	12,473,015
	<u>19,644,113</u>	<u>18,774,154</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 11)	71,507,104	69,653,248
<b>Contributed surplus</b> (Note 12)	11,211,019	9,182,035
<b>Deficit</b>	(58,452,533)	(52,713,724)
	<u>24,265,590</u>	<u>26,121,559</u>
	<u>43,909,703</u>	<u>44,895,713</u>
<b>Contingencies</b> (Note 17)		
<b>Mineral Properties</b> (Note 7)		
<b>Share Capital</b> (Note 11)		
<b>Subsequent Events</b> (Note 20)		

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**

See Note 1 – Nature of Operations and Going Concern Uncertainty

	<b>2009</b>	2008
	<u>\$</u>	<u>(Restated - Note 4)</u> \$
<b>REVENUE</b>		
Sales of metals	<u>2,940,479</u>	<u>5,829,730</u>
<b>OPERATING EXPENSES</b>	-	-
Direct operating costs	3,523,848	6,981,507
Royalty expense	34,969	99,194
Amortization and depletion	181,532	860,175
Selling expenses	37,066	205,868
Stock based compensation (Note 11)	1,539,329	1,785,307
Provision for reclamation (Note 10)	<u>28,857</u>	<u>3,495</u>
	<u>5,345,601</u>	<u>9,935,546</u>
<b>OPERATING LOSS</b>	<b>(2,405,122)</b>	<b>(4,105,816)</b>
<b>OTHER (INCOME) EXPENSE</b>		
General and administrative expenses	2,071,709	2,466,739
Interest (income) expense	6,262	(62,481)
Other income	(13,060)	(307,411)
Foreign exchange loss	1,481,315	221,570
Dilution loss on subsidiary	-	3,994,497
Write-down of mineral on pads and inventories (Note 6)	146,228	3,859,867
Write-down of mineral properties and deferred costs (Note 7)	-	4,540,545
Write-down of property, plant and equipment (Note 8)	-	589,888
Write-off of exploration properties (Note 7)	198,234	592,299
Current income tax provision (Note 17)	-	754,951
Non-controlling interest	<u>(557,001)</u>	<u>(780,345)</u>
	<u>3,333,687</u>	<u>15,870,119</u>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(5,738,809)</b>	<b>(19,975,935)</b>
<b>DEFICIT, BEGINNING OF YEAR</b>	<b>(52,713,724)</b>	<b>(32,737,789)</b>
<b>DEFICIT, END OF YEAR</b>	<b>(58,452,533)</b>	<b>(52,713,724)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES</b>		
<b>OUTSTANDING - BASIC AND DILUTED</b>	<b>77,013,354</b>	<b>64,695,729</b>
<b>NET LOSS PER COMMON SHARE - BASIC AND DILUTED</b>	<b>(0.07)</b>	<b>(0.31)</b>

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**

See Note 1 – Nature of Operations and Going Concern Uncertainty

	<b>2009</b>	<b>2008</b>
	<u>\$</u>	<u>(Restated - Note 4)</u> \$
<b>CASH PROVIDED FROM (USED FOR):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(5,738,809)	(19,660,252)
Adjustments for items not affecting cash:		
Amortization and depletion	181,532	1,425,694
Stock based compensation	1,539,329	1,785,307
Non-controlling interest	(557,001)	(780,345)
Provision for reclamation	28,857	3,495
Provision for current income tax payable	-	754,951
Unrealized foreign exchange (gain) loss	791,575	(101,885)
Write-down of mineral properties	-	5,132,844
Write-down of mineral on leach pads	146,228	3,859,867
Write-down of property plant and equipment	-	589,888
Write-down of exploration properties	198,234	-
Dilution loss on subsidiary	-	3,994,497
	<u>(3,410,055)</u>	<u>(2,995,939)</u>
Net changes in non-cash working capital items:		
Accounts receivable	556,719	(129,406)
Mineral on pads and inventories	(570,600)	1,389,356
Prepaid expenses	206,252	(32,679)
Accounts payable and accrued liabilities	802,239	787,209
Deferred income	-	(303,054)
	<u>(2,415,445)</u>	<u>(1,284,513)</u>
<b>INVESTING ACTIVITIES</b>		
Mineral properties and deferred costs	(5,560,860)	(8,537,752)
Shares of subsidiary acquired by private placement	-	(2,000,000)
Property, plant and equipment	(69,954)	(1,616,219)
	<u>(5,630,814)</u>	<u>(12,153,971)</u>
<b>FINANCING ACTIVITIES</b>		
Private placement of units, net of issue costs	1,998,442	12,709,393
Shares issued by subsidiary to minority interest, net of issue costs	-	6,922,785
Issue (payment) of loans payable	195,029	(268,345)
	<u>2,193,471</u>	<u>19,363,833</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<b>(5,852,788)</b>	<b>5,925,349</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>5,881,118</b>	<b>(44,231)</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>28,330</b>	<b>5,881,118</b>
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>		
Cash	28,358	5,973,166
Bank indebtedness	(28)	(92,048)
	<u>28,330</u>	<u>5,881,118</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, 2009 AND 2008**

**1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

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 Company is currently in the process of shutting the Santa Rosa Mine down due to its inability to generate fresh mineral resources that are economically viable. The Company is now focused on the exploration and development of the Invicta and Sinchao properties.

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.

The Company has a working capital deficiency as at March 31, 2009 of \$5,738,809 (March 31, 2008 - working capital of \$2,313,524) and an accumulated deficit of \$58,452,533 (March 31, 2008 - \$52,713,724). The Company has incurred a net loss of \$5,365,401 for the year ended March 31, 2009 (March 31, 2008 - \$19,660,252). These consolidated financial statements have been prepared under the assumptions of a going-concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company's ability to continue as a going concern is in substantial doubt and is dependent upon the continuing support of obtaining additional financing to meet its obligations, repaying its liabilities through settlement with its creditors and generating sufficient cash to meet its operating expenses in the future.

Failure to arrange adequate financing on acceptable terms and to achieve profitability would have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. Accordingly, these consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going-concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the consolidated financial statements.

The current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by private placements of shares. The junior resource industry has been severely impacted by the world economic situation, as it is considered to be a high-risk investment.

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2009 AND 2008**

**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"), a Peruvian Company (100% owned).
- Andean Exploraciones S.A.C ("AES"), a Peruvian Company (100% owned).

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

***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 commitments and contingencies at the date of the financial statements and the reported amount of revenues and expenses during the period.

Significant areas requiring the use of management estimates include assumptions and estimates relating to but not limited to, the recoverability of amounts receivable, the determining of defined ore bodies, mineral resources, fair values for purposes of impairment analysis, reclamation obligations, stock-based compensation and warrants, valuation allowances for future income tax assets, and future income tax liabilities.

***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***

Minerals on pads comprises the ore on the heap leach pads and metal-in-circuit ore and is valued at the lower of the weighted average cost of production and net realizable value. Net realizable value is calculated as the difference between the estimated future metal price based on prevailing and long-term metal prices and estimated costs to complete production into a saleable form. Costs are added to ore on the heap leach pads based on current mining costs and removed from the heap leach pad as ounces are recovered in process at the plant based on the average cost per recoverable ounce on the heap leach pad.

Although the quantities of recoverable gold placed on the heap leach pads are reconciled by comparing the grades of ore placed on the heap leach pads to the quantities of gold actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As such, engineering estimates are refined based on actual results over time.

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2009 AND 2008**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

***Minerals on Pads and Inventories - continued***

Finished goods are valued at the lower of average production costs or net realizable value.

Write-downs of inventory resulting from net impairments are reported as a component of current period costs. Variances between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value are accounted for on a prospective basis. The ultimate recovery of gold from each heap leach pad will not be known until the leaching process is concluded.

***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.

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.

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2009 AND 2008**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Mineral Properties - continued*

On a periodic basis, senior management reviews the carrying values of mineral property and deferred exploration expenditures with a view to assessing whether there have been any circumstances indicating that the carrying amount may not be recoverable. In the event that it is determined there is an impairment in the carrying value of the property, the carrying value will be compared to the fair value, and written down or written off, as appropriate. Management considers the guidance in Emerging Issues Committee EIC-174 "Mining Exploration Costs" to determine whether there are conditions that indicate a potential impairment and if a write-down may be required.

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 Peruvian 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
Software	2 years

*Impairment of Long-Lived Assets*

The Company monitors and tests for the recoverability of long-lived assets, whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Indicators considered include current metals prices, future asset utilization, and business climate. The Company's policy is to record an impairment loss in the year when it is determined that the carrying amount of the assets may not be recoverable. An impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the related asset. For purposes of recognition and measurement of an impairment loss, long-lived assets are grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2009 AND 2008**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

***Revenue Recognition***

Revenue from the sale of metals contained in concentrates is recognized when title and the significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customers, collection is reasonable assured and the price is reasonable determinable. Revenue from the sale of metals in concentrate may be subject to adjustment upon final settlement of estimated metal prices, weights and assays. These differences create an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of sales. Refining charges are netted against revenue for sales of metal concentrates.

***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 substantively 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 earnings.

***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.

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2009 AND 2008**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Earnings (Loss) per Share*

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Earnings per share calculations are based on the weighted average number of common shares and common share equivalents issued and outstanding during the year. Diluted earnings per share are calculated using the treasury method which requires the calculation of diluted earnings per share by assuming that outstanding stock options, and warrants with the average market price that exceeds the average exercise prices of the options and warrants for the year, are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of the common shares for the year.

*Stock-based Compensation*

The Company has a stock-based compensation plan as described in Note 11(f). The Company accounts for stock options 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. The Company accounts for forfeitures as they happen.

*Comparative Figures*

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

*Comprehensive Income*

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*

The Company's financial instruments comprise primarily cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, loans payable, and due to/from related parties. The Company has designated cash and cash equivalents and bank indebtedness as held-for-trading, which are measured at fair value. Accounts receivable are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, loans payable, and due to related parties are designated as other liabilities, which are measured at amortized cost.

*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 adopted these new accounting standards for the year beginning April 1, 2008.

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2009 AND 2008**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

***Financial Instrument – Disclosure and Presentation***

The Company has adopted Sections 3862 and 3863 “Financial Instruments – Disclosure” and “Financial Instruments – Presentation” of the CICA Handbook. These standards replace CICA Handbook Section 3861, “Financial Instruments – Disclosure and Presentation”. They expand current disclosure requirements in order to enable users of financial statements to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures relating to fair value. In addition, disclosure is required of qualitative and quantitative information regarding exposure to risks arising from financial instruments, including specified minimum disclosures of credit risk, liquidity risk and market risk. The quantitative disclosures must provide information on the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel. (Note 19)

***Capital Disclosures***

The Company has adopted Section 1535, Capital Disclosures. This standard requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. (Note 18)

***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 did not have a material impact on the Company’s earnings.

***Mining exploration costs***

On March 27, 2009 the Emerging Issues Committee of the CICA issued EIC-174, “Mining Exploration Costs”, which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The Company has applied this new abstract for the year ended March 31, 2009. There was no impact on the financial statements.

***Future Canadian Accounting Pronouncements***

***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 as assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and the Company is currently assessing the impact of the new standard on its consolidated financial statements.

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2009 AND 2008**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Future Canadian Accounting Pronouncements - continued*

*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 publicly-listed companies to use IFRS, replacing Canadian 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, 201. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

*Business Combinations (Section 1582)*

In January 2009, the CICA issued Handbook Section 1582, “Business Combinations”, which requires that all assets and liabilities of an acquired business be recorded at fair value at acquisition. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the period after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

*Consolidations (Section 1601) and Non-Controlling Interest (Section 1602)*

In January 2009, the CICA issued Handbook Section 1601, “Consolidations” (“CICA 1601”), and Section 1602, “Non-Controlling Interests” (“CICA 1602”). CICA 1601 establishes standards for preparing consolidated financial statements and CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC Abstract 173)*

In January 2009, the CICA issued EIC Abstract 173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. The EIC requires the Company to take into account the Company’s own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The abstract applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2010. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. REVERSE TAKEOVER OF SINCHAO METALS CORP.**

On March 15, 2006, the Company and Sinchao Metals Corp. (“Sinchao”) entered into an agreement (the “Share Exchange Agreement”), as amended and restated on June 15, 2006, whereby the Company agreed to sell a 100% ownership interest in its subsidiary Corporacion Minera Sinchao (“Minera Sinchao”) through the issuance of 36 million common shares of Sinchao and 3 million transferable share purchase warrants. The Share Exchange Agreement also required Sinchao to reimburse the Company for all costs incurred on the Sinchao mineral properties during the period from January 1, 2006 to the closing date (“Closing”) plus 100% mark-up in recognition of Andean’s administrative costs incurred relating to the mineral property of \$534,064. These amounts have been expensed.

Since this transaction resulted in the former shareholders of Minera Sinchao acquiring control of Sinchao the acquisition has been treated, for accounting purposes, as a reverse takeover in accordance with EIC-10. As Sinchao does not meet the criteria for an acquired business per EIC-124, the reverse takeover transaction is not considered to be a business combination, but a capital transaction.

As a result, the transaction is equivalent to the issuance of shares by Minera Sinchao to Sinchao. Per EIC-10, the \$2,267,139 of Sinchao’s share capital present on the date of the transaction has been offset against the retained earnings of Minera Sinchao.

Minera Sinchao, is considered the acquiring company and the continuing entity for accounting purposes.

The expenses associated with the reverse takeover are \$179,075 plus the fair value of warrants issued of \$184,079. These costs are reflected in the reverse takeover accounting as a charge to deficit.

In accounting for this transaction:

- (i) Minera Sinchao is deemed to be the purchaser for accounting purposes. Accordingly, its net assets are included in the consolidated balance sheets of Sinchao at their historical book value.
- (ii) Control of the net assets and business of Sinchao was acquired effective June 30, 2006. Minera Sinchao has accounted for the transaction as a purchase of the assets and liabilities of Sinchao. The assets and liabilities of Sinchao have been recorded at their fair values, as follows:

Cost of net assets acquired consists of:

	\$
Share capital	2,267,139
Deficit	(2,690)
Net assets received	2,264,449

**4. RESTATEMENT**

Management has determined that as at March 31, 2007, Sinchao Metals Corp. a subsidiary of the Company should have accounted for the acquisition of Minera Sinchao as a reverse takeover (Note 3) whereby Sinchao Metals Corp was for accounting purposes being acquired. Previously the transaction was recorded as a purchase acquisition of Minera Sinchao by Sinchao Metals Corp., the difference in accounting treatments has resulted in a restatement of the years ended March 31, 2007 and 2008. The effect of the restatement on the years ended March 31, 2007 and 2008 consolidated financial statements for the Company and its subsidiary Sinchao Metals Corp. respectively, are as follows:

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**4. RESTATEMENT - continued**

(a) Restatement of Andean American Mining Corp.

Details for the year ended March 31, 2007 as follows:

	As previously reported	As restated
	\$	\$
Mineral properties	30,453,207	31,769,965
Future income tax liability	5,723,679	-
Minority interest	4,437,698	6,321,786
Dilution loss on subsidiary	1,886,297	4,147,071
Loss on sale of mineral property	6,086,167	-
Net loss for the year	21,433,578	16,380,563
Deficit	37,790,803	32,737,789
Net loss per share - basic and diluted	(0.41)	(0.32)

Details for the year ended March 31, 2008 as follows:

	As previously reported	As restated
	\$	\$
Mineral properties	33,799,108	35,115,865
Future income tax liability	6,080,372	356,693
Minority interest	9,752,047	12,473,015
Dilution loss on subsidiary	3,490,008	3,994,497
Net loss for the year	19,242,387	19,975,935
Deficit	57,033,190	52,713,724
Net loss per share - basic and diluted	(0.30)	(0.31)

(b) Restatement of Sinchao Metals Corp.

Details for the year ended March 31, 2007 as follows:

	As previously reported	As restated
	\$	\$
Mineral properties	22,202,906	23,519,664
Future income tax liabilities	5,723,679	-
Share capital	17,214,223	2,454,587
Net loss for the year	1,368,248	1,179,634
Retained earnings (Deficit)	(1,368,248)	20,431,825

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**4. RESTATEMENT - continued**

(b) Restatement of Sinchao Metals Corp. - continued

Details for the year ended March 31, 2008 as follows:

	As previously reported	As restated
	\$	\$
Mineral properties	25,735,740	27,052,498
Future income tax liabilities	6,080,372	356,693
Share capital	21,922,243	7,162,607
Retained earnings (Deficit)	(3,247,916)	18,552,157

**5. ACCOUNTS RECEIVABLE**

	<b>2009</b>	2008
	\$	\$
Trade accounts	<b>4,916</b>	297,189
Refundable sales tax (GST receivable and IGV)	<b>278,536</b>	545,807
Others	<b>3,585</b>	760
	<b>287,037</b>	843,756

**6. MINERAL ON PADS AND INVENTORIES**

	<b>2009</b>	2008
	\$	\$
Mineral on leach pads	-	1,156,349
Non-current portion of mineral on leach pads	-	2,703,518
	-	3,859,867
Finished products	<b>225,038</b>	587,776
Supplies	<b>102,818</b>	164,452
Write-down	<b>(146,228)</b>	(3,859,867)
	<b>181,628</b>	752,228

In the prior year management had determined that the carrying value of the Santa Rosa mine has been impaired resulting in a write-down of mineral on pads inventory by \$Nil (2008 - \$3,859,867); a write-down of finished products of \$43,410 (2008 - \$Nil) and a write-down of supplies of \$102,818 (2008 - \$Nil) (Note 7).

Subsequent to the year ended March 31, 2009 a supplier seized the finished goods shipment from the Company for unpaid accounts payable.

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**7. MINERAL PROPERTIES AND DEFERRED COSTS**

	<b>2009</b>	2008
	<u>\$</u>	<u>(Restated - Note 4)</u> \$
<b>Producing mineral property</b>		
<b>Santa Rosa Mine</b>	-	16,344,495
Accumulated amortization and depletion	-	(3,496,418)
Write-down to fair value	-	(12,848,077)
<b>Total Santa Rosa Mine</b>	<u>-</u>	<u>-</u>
<b>Non-producing mineral properties</b>		
<b>Sinchao Property</b>	<b>30,464,292</b>	27,052,498
<b>Invicta</b>	<b>11,250,472</b>	8,200,811
<b>Other properties</b>	<b>198,234</b>	776,856
Write-off of other properties	<u>(198,234)</u>	<u>(592,299)</u>
<b>Total non-producing mineral properties</b>	<u><b>41,714,764</b></u>	<u>35,437,866</u>
<b>Total mineral properties and deferred costs</b>	<u><b>41,714,764</b></u>	<u>35,437,866</u>

The Company has acquired mineral claims in Peru through option agreements and direct staking. As at March 31, 2009, the Company's property portfolio comprises approximately 46,200 hectares. 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.

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 royalty 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. 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 2009 holding costs are estimated to be approximately US\$60,000 (2008 - 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.

**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.

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**7. MINERAL PROPERTIES AND DEFERRED COSTS - continued**

**Santa Rosa Mine - continued**

Management determined during fiscal 2008 that the carrying value of the Santa Rosa mine had been impaired. The net present value to be derived from the processing of resources that were currently accessible and from mineral on the pads to be recycled was estimated to be \$nil resulting in a write-down in fiscal 2008 of \$9,582,599. Of this amount \$5,132,844 was allocated to mineral properties and deferred costs, \$589,888 to property, plant and equipment (Note 8) and \$3,859,867 in mineral on leach pads and inventory (Note 6). The total accumulated write-down of the Santa Rosa property was \$12,848,077.

Exploration properties with a carrying value of \$198,234 (2008 - \$592,299) were written off 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.

**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.

**8. 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:

	2009			2008			
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Write-down to Fair Value	Net Book Value
	\$	\$	\$	\$	\$	\$	\$
Production plant and equipment	3,934,978	2,528,256	1,406,722	4,355,694	2,394,507	589,888	1,371,299
Vehicles	154,970	84,826	70,144	302,270	181,570	-	120,700
Office furniture and equipment	430,515	242,945	187,570	345,013	188,047	-	156,966
	<b>4,520,463</b>	<b>2,856,027</b>	<b>1,664,436</b>	5,002,977	2,764,124	589,888	1,648,965

In the prior year, management had determined that the carrying value of the Santa Rosa mine has been impaired resulting in a write-down of property, plant and equipment by \$Nil (2008 - \$589,888).

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**9. LOANS PAYABLE**

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Loan payable (March 2008 - \$Nil) (i)	<b>220,000</b>	-
Loan payable US\$34,000 (March 2008 – US\$34,000)	<b>42,884</b>	34,949
Loan payable US\$279,900 (March 2008 - US\$370,900) (ii)	<b>353,019</b>	381,300
Loan payable (March 2008 – US\$4,500)	-	4,625
	<u><b>615,903</b></u>	<u>420,874</u>

- (i) During the year the Company entered into a Bridge Loan Agreement for \$220,000 (March 2008 - \$Nil) to fund ongoing operating costs. The Company has agreed to issue 700,000 bonus shares (issued subsequent to the year-end after receiving TSX-V approval). Related parties provided \$110,000 of the funding. The bridge loans are secured by a general security interest in all of the Company's assets and are repayable upon the Company obtaining the next IGV refund or upon completion of an equity financing.

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

- (ii) The loan amount of \$353,019 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. Subsequent to October 2008 the Company renegotiated to begin repaying the balance once the Company has overcome its cash shortfall. As at March 31, 2009 there are no specific repayment terms.

**10. 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, 2009, the accrued site closure liability amounted to \$155,942 (March 2008 - \$127,085). This was calculated using the fair market value of \$199,052, discounted at 10% over 10 years. During the year the Company recognized a provision for reclamation of \$28,857 (March 2008 - \$3,495).

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.

**ANDEAN AMERICAN MINING CORP.**  
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**11. 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, 2009 is as follows:

	<b>Number of Shares</b>	<b>Amount</b>
		\$
Balance, March 31, 2007	52,408,489	59,127,821
Allocation of private placement proceeds ascribed 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
Fair value assigned to stock options exercised	–	56,823
<b>Balance, March 31, 2008</b>	<b>73,620,017</b>	<b>69,653,248</b>
Allocation of private placement proceeds ascribed to common shares	4,545,454	2,000,000
Share issue costs paid in cash	–	(11,558)
Fair value of warrants issued pursuant to private placement	–	(147,584)
Stock options exercised	31,250	10,000
Fair value assigned to stock options exercised	–	2,998
<b>Balance, March 31, 2009</b>	<b>78,196,721</b>	<b>71,507,104</b>

**(c) During fiscal year 2009, the Company completed the following share capital transactions**

On July 3, 2008 the Company announced the completion of 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.

The fair value of the warrants has been estimated using the Black-Scholes option-pricing model and has been allocated \$1,852,416 to common shares and \$147,584 to contributed surplus based on the fair value of the warrants. The assumptions used in the Black-Scholes option pricing model were: dividend yield: 0%; expected volatility 60.99%; a risk-free interest rate of 3.05% and an expected life of 2 years.

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**11. SHARE CAPITAL - continued**

(d) 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.

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.

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**11. SHARE CAPITAL - continued**

**(e) Warrants**

A summary of share warrants activity for the year ended March 31, 2009 is as follows:

	<u>Number of Warrants</u>	<u>Amount</u>
Balance, March 31, 2007	405,000	\$ 101,205
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	11,816,451	2,783,049
Issued pursuant to private placement	<u>2,272,727</u>	<u>147,584</u>
Balance, March 31, 2009	<u>14,089,178</u>	<u>\$ 2,930,633</u>

As at March 31, 2009, 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 (i)
May 29, 2009	\$0.85	566,627 (i)
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
July 3, 2010	\$0.55	2,272,727
		<u>14,089,178</u>

(i) expired subsequent to year end

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**11. 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, 2009 is as follows:

Number Outstanding March 31 2008	Issued	Exercised	Forfeited/ Cancelled	Number Outstanding March 31 2009	Exercise Price Per Share	Expiry date
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
96,000	-	-	(96,000)	-	\$ 1.10	March 1, 2009
786,700	-	-	(786,700)	-	\$ 0.85	September 8, 2009
40,000	-	-	(15,000)	25,000	\$ 1.00	November 3, 2009
30,000	-	-	(30,000)	-	\$ 1.00	January 15, 2010
150,000	-	-	(50,000)	100,000	\$ 0.75	March 13, 2010
200,000	-	-	(200,000)	-	\$ 1.00	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	-	-	(90,000)	2,370,000	\$ 0.71	October 29, 2012
-	31,250	(31,250)	-	-	\$ 0.32	August 22, 2009
-	1,350,000	-	-	1,350,000	\$ 0.30	September 26, 2013
5,680,700	1,381,250	(31,250)	(2,422,700)	4,608,000	\$0.30 - \$1.00	August 19, 2008 - September 26, 2013

(i) As of March 31, 2009, 3,933,000 options are fully vested

(ii) 1,082,700 options were cancelled, 960,000 options were forfeited and 380,000 options expired during the year.

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**11. SHARE CAPITAL - continued**

**(f) Stock options - continued**

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

Number Outstanding March 31 2007	Issued	Exercised	Forfeited/ Cancelled	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	\$ 1.00	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
					\$0.62 - June 1, 2007 - October	
3,522,065	4,048,000	(145,000)	(1,744,365)	5,680,700	\$1.25	29, 2012

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

(ii) 150,000 options were cancelled and 1,594,365 options expired during the year.

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**11. SHARE CAPITAL - continued**

**(g) Stock Based Compensation**

During the year ended March 31, 2009, the Company granted 1,381,250 stock options to its employees and independent consultants with exercise prices ranging from \$0.30 to \$0.32 per share. All of the options vest immediately to 12 months. For the year ended March 31, 2009, Andean recorded \$1,884,398 (2008 - \$2,221,143) of stock based compensation on a consolidated basis, of this amount \$1,539,329 (2008 - \$1,785,307) was for stock based compensation expense and \$345,067 (2008 - \$435,836) was capitalized to resources 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 2.76% to 3.13% (2008 - 2.56% to 4.30%), dividend yield of 0% (2008 - 0%), volatility of 72.42% to 74.38% (2008: 65.12 to 69.18%) and with an expected life of 1 to 5 years (2008 - 1 to 5 years).

**12. CONTRIBUTED SURPLUS**

A continuity of contributed surplus for the year ended March 31, 2009 is as follows:

	\$
Balance, March 31, 2007	2,458,879
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
Fair value assigned to stock options exercised	<u>(56,823)</u>
Balance, March 31, 2008	<u>9,182,035</u>
Non-cash stock-based compensation of Andean American Mining Corp.	969,477
Contributed surplus of Sinchao Metals Corp.	914,921
Fair value of warrants issued pursuant to private placement	147,584
Fair value assigned to stock options exercised	<u>(2,998)</u>
Balance, March 31, 2009	<u>11,211,019</u>

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**13. RELATED PARTY TRANSACTIONS**

Except as disclosed elsewhere in these financial statements, related party transactions are recorded at the exchange amount which is the amount of consideration paid or received as agreed by the parties. Related party transactions are as follows:

During the year ended March 31, 2009, the Company was charged \$288,000 (2008 - \$375,700) for management, professional and geological services provided by three directors of the Company. In addition, the Company was charged \$1,298 (2008 - \$4,507) for administrative and professional services by a company controlled by a director of the Company.

As at March 31, 2009, \$Nil (2008 - \$31,346) was due to directors of the Company for services expenses incurred on behalf of the Company.

**14. INCOME TAXES**

The Company is subject to income tax in Canada with the statutory income tax rate at 30.63% (2008-33.34%). The Company's operating Peruvian subsidiaries are subject to relevant income tax laws applicable in Peru with the statutory income tax rate at 30% (2008-30%) Significant components of the Company's future tax assets and liabilities, after applying enacted corporate tax rates, are as follows:

	<u>2009</u>	<u>2008</u>
Statutory tax rates	30.63%	33.34%
Recovery of income taxes at statutory rates	\$ (1,757,510)	\$ (6,415,412)
Non-deductible expenses and other	1,640	1,834
Loss on dilution and other	-	1,493,265
Stock-based compensation	401,157	595,221
Share issuance costs	-	(92,951)
Other	2,192,086	-
Effect of changes in tax rate	677,309	-
Change in valuation allowance	(1,514,682)	4,418,043
Future income taxes (recovery)	<u>\$ -</u>	<u>\$ -</u>

	<u>2009</u>	<u>2008</u>
<b>Future income tax assets:</b>		
Canadian operating loss carryforwards	\$ 1,721,549	\$ 4,494,011
Peruvian operating loss carryforwards	1,747,682	1,322,005
Excess of tax basis of property and equipment over book value	67,274	10,741
Excess of tax basis of mineral properties over book value, Peru	2,298,340	2,609,502
Share issuance costs and other	1,288,747	202,016
Total future income tax assets	<u>7,123,592</u>	<u>8,638,275</u>
Less valuation allowance	(7,123,592)	(8,638,275)
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

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**14. INCOME TAXES - continued**

**Future income tax liabilities:**

Excess of book value of mineral properties over tax basis, Peru	\$ 787,159	\$ 678,693
<b>Net future income tax liabilities</b>	<b>\$ 787,159</b>	<b>\$ 678,693</b>

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, 2009, the Company has non-capital loss carryforwards in Canada aggregating \$6,886,198 that are available to offset future taxable income and expire as follows:

2014	\$ 384,872
2015	1,300,241
2025	33,701
2026	322,769
2027	497,719
2028	2,558,486
2029	1,788,410
	<u>\$ 6,886,198</u>

**15. SEGMENTED INFORMATION**

The Company's only activities are the operations of the Canadian head office and the exploration and development of mineral properties and the operation of the Santa Rosa mine facility, all of which are in Peru.

	March 31, 2009		March 31, 2008	
	Canada	Peru	Canada	Peru
	\$	\$	\$	\$
Cash	16,652	11,706	5,872,105	101,061
Accounts receivable	112,854	174,183	97,684	746,072
Prepays	18,758	14,722	119,969	119,763
Inventory	-	181,628	-	752,228
Property, plant and equipment	39,044	1,625,392	28,068	1,620,897
Mineral property	-	41,415,858	-	35,115,865
	<u>187,308</u>	<u>43,423,489</u>	<u>6,117,826</u>	<u>38,455,886</u>

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**15. SEGMENTED INFORMATION - continued**

	March 31, 2009		March 31, 2008	
	Canada	Peru	Canada	Peru
	\$	\$	\$	\$
Revenue	-	2,940,479	-	5,829,730
Operating expenses	1,592,002	4,140,476	2,654,121	7,281,425
Net Loss	3,276,800	2,663,579	7,193,248	12,467,004

**16. SUPPLEMENTARY CASH FLOW INFORMATION**

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Operating activities		
Income tax paid in advance	-	(87,723)
Interest paid in cash	<b>(92,962)</b>	(51,547)
	<b>(92,962)</b>	(139,270)
Financing activities		
Issuance of common shares for finder's fee	-	(407,544)
	-	(407,544)

**17. CONTINGENCIES**

A previous participant in the Invicta (previously Victoria) Project has advised the Company that they retain a minority interest in the project. The Company has been advised of legal action initiated in the Supreme Court of Ontario by the third party claiming an ownership interest in the Invicta Project. 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 the Company thus considers the participant 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 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. During the prior year the Company has made a provision in its accounts in the amount of \$754,951 (US\$734,460) for potential taxes payable.

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**18. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to bring its mineral interest projects in Peru to commercial production.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund operations. Management reviews its capital management approach on regular basis. The Company is not subject to externally imposed capital requirements.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments, such as cash, all held with major Canadian financial institutions.

**19. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities. For cash and cash equivalents, accounts receivables, bank indebtedness, accounts payable and accrued liabilities and loans payable, carrying value is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments.

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, foreign exchange, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and commodity price risk.

(a) Currency risk

The Company's property interests in Peru make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

The Company is exposed to foreign currency fluctuations to the extent cash, accounts receivable and accounts payable and accrued liabilities of the Company are not denominated in Canadian dollars. As at March 31, 2009 the Company had \$3,276 of cash denominated in US dollars (March 31, 2008 - \$110,236); and 16,937 in Peruvian Soles (March 31, 2008 - 14,758). As at March 31, 2009, there were \$124,571 of accounts receivable denominated in US dollars (March 31, 2008 - \$658,375); and 75,197 in Peruvian Soles (March 31, 2008 - 24,789). As at March 31, 2009 there were \$3,546,667 of liabilities denominated in US dollars (March 31, 2008 - \$3,870,893); and 914,767 in Peruvian Soles (March 31, 2008 - 894,644). These liabilities were included in accounts payable and accrued liabilities.

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**19. FINANCIAL INSTRUMENTS – continued**

(b) Credit risk

The Company's cash and cash equivalents are held in a Canadian and Peruvian financial institution (Peruvian Soles and US Dollar). The Company does not have any asset-backed commercial paper in its cash and cash equivalents. The Company's amount receivable consists primarily of goods and services tax due from the federal government of Canada and IGV tax due from the Peruvian government.

(c) 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 risk through the management of its capital structure (Note 18).

Accounts payable and accrued liabilities are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash and cash equivalents is limited because they are generally held to maturity.

(e) Commodity price risk

The ability of the Company to develop its mineral properties and the future profitability of the Company are directly related to the market price of gold. The Company has not hedged any of its future gold sales. The Company's input costs are also affected by the price of fuel. The Company closely monitors gold and fuel prices to determine the appropriate course of action to be taken by the Company.

**20. SUBSEQUENT EVENTS**

- (a) Subsequent to the year end the Company granted 300,000 stock options to independent consultants with an exercise price of \$0.25 per share. All of the options vested immediately.
- (b) Subsequent to the year end the Company increased the Bridge Loan from \$220,000 to \$400,000 to continue funding ongoing operating costs. The Company has agreed to issue bonus shares equal to 20% of the new financing and pay a finder's fee of 2.5% in shares of the total portion of the new funding.