

**ANDEAN AMERICAN MINING CORP.**  
**Management's Discussion and Analysis**  
**For The Three Months Ended June 30, 2008**

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Note: The information contained herein is current to August 29, 2008.

## **INTRODUCTION**

This Management Discussion and Analysis ("MD&A") of the financial position and results of operations is for the three month period ending June 30, 2008 compared with the three month period ending June 30, 2007. It should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes for the year ended March 31, 2008. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the following MD&A are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or at the Company's website, [www.andeanamerican.com](http://www.andeanamerican.com).

## **DESCRIPTION OF BUSINESS**

Andean American Mining Corp. ("Andean" or the "Company") is a Canadian based acquisition, exploration and development company that concentrates its operations and exploration activities in Peru. This South American nation has a proud tradition of mining and infrastructure to support the mining industry. Peru currently stands as the largest gold producer and second largest copper producer in Latin America as well as the largest silver producer in the world. As a junior mining and exploration company operating in Peru, the Company benefits from its total focus on Peru and the unique skills of its 100% Peruvian workforce.

Andean is focused on precious metals, copper, lead, and zinc and has plans for growth both through acquisitions such as Invicta, as well as through the drill bit at Sinchao.

## **EXPLORATION AND DEVELOPMENT REVIEW**

Operations are focused on the Company's key assets:

- 1) The Invicta gold-silver-copper advanced project successfully completed a 14,000 metres diamond drill program and a 1,170 metre exploration adit. These results combined with the earlier 12,500 metres of diamond drilling form the basis of a revised Technical Report that is expected in the third quarter of 2008. A feasibility report is being completed, with strong third party involvement for mining methods, financial analysis by the Stanford group and Wardrop Engineers. The company is pursuing sources of debt financing vigorously to allow initiation of the production facility and mine development. This initial step cannot go forward without the completed feasibility study. A complete Mine development and Mill development schedule including all required site infrastructure indicates 15 months from commencement of construction as the early start date for commissioning, subject to receiving the necessary financing
- 2) The Sinchao copper-gold-silver-zinc-lead mineralization project, for which an initial resource estimate is expected in calendar 2008, is completing a further 5,000 metre drill program for inclusion in the resource estimate.
- 3) And to a lesser extent, operations at the micro producer Santa Rosa Mine, where recycled production is coming to a halt over the next business cycle.

## **INVICTA PROJECT: 41,500 HECTARES (102,549)**

### *Exploration and Development*

During the quarter ended June 30, 2008 several important geological developments occurred:

- Confirmation of a mesothermal deposit overprinted by an epithermal event (pulsing).

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- Confirmation of 2,700 metres (8,850 feet) of continuous structure (not veins) from the Dany, Atenea and Puccamina zones. Mineralization continues open to the west of the Dany zone and to the east of the Puccamina zone.

The Invicta Project is being executed by Andean Explorations (ANDEX) on behalf of Invicta Mining Corp. (IMC). While both companies are 100% wholly owned subsidiaries of Andean American Mining Corp., this organization separates the exploration and development activities from the operations activities.

The Invicta Mine Manager is on staff along with the Mine Engineer, and Chief Metallurgist. In January 2008 a design engineering group was put together under Les Tarnai, P.Eng, General Engineering Manager. These steps were taken to augment the capacity of the Company for the engineering, procurement and construction phases of the Invicta project.

In addition, Roger Robertson was brought on in January 2008 as the General Construction Manager overseeing the procurement and construction activities. The design team now totals 12 for the Invicta Project.

Prior to quarter ended June 30, 2008, the Grinding Bay was purchased consisting of:

- 11.5' x 18' Marcy Rod Mill, complete including 1200 HP synchronous drive motor, low voltage starter
- 10' x 13' Marcy Ball Mill, complete including 600Hp synchronous drive motor, low voltage starter
- 20 tonne, 90' span overhead crane, complete.

These purchases were done to take the delivery risk out of the project, and to fix project costing for the most expensive and longest delivery items. Subsequent to June 30, 2008, the company made down payments on the disc filters and vacuum pumps, in a move to protect schedule and project budget.

Prior to quarter ended June 30, 2008, two agreements were made with Wardrop Engineering for the Invicta Project, one for an updated NI 43-101 Technical Report, and one for an audit of our internal feasibility report. The NI 43-101 Technical Report will provide an updated resource estimate to include drill results from the 14,000 metre drill program. The technical report is expected to be completed in the third quarter of 2008.

During the period ended June 30, 2008, the structural control of the mineralization was clearly demonstrated at the 3,400 elevation. A 1,170 metre long, 3.5 metre by 3.5 metre Adit has been drifted to provide access to new drill targets and access for the first years of mining activity should all the requirements for feasibility and finance be met.

The 14,000-metre diamond drill program complemented with 1,170 m. of 3.5 m by 3.5 m dia. drifts is complete at the date of this report.

Activities during the quarter ended June 30, 2008, also included:

- a) To date, highlights of the news releases about the Invicta drill program include:
  - i. 11-13-07: Drill Results from holes AE-DDH-07 34 and 35 include 25.11 metres grading 4.45 g/t Gold, 100.66 g/t Silver and 0.64% Copper
  - ii. 11-14-07: Drill Results from holes 36 and 37 include 6.0 metres grading 1.20 g/t Gold, 76.38 g/t Silver and 5.81% Zinc
  - iii. 11-16-07: Additional 5,300 Hectares acquired, total now 22,200; Drill Results from Hole AE-DDH-07-31 include 8.7 metres grading 1.98 g/t Gold, 12.22 g/t Silver and 0.17% Copper
  - iv. 11-29-07: Drill Results from Sections 11NW and 8NW include 4m grading 24.80 g/t gold, 199.2 g/t silver and 3.30% copper
  - v. 12-11-07: 3400 Level Crosscut sampling results included 7.0 metres grading 5.74 g/t Gold and 6.0 metres grading 4.14 g/t Gold
  - vi. 01-07-08: Crosscut 1S sampling results include 14.0 metres grading 5.17 g/t Gold

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- vii. 01-30-08: Crosscuts 2S, 3S and 4S sampling intersects high grade Gold
- viii. 02-26-08: SW Crosscut returns sampling results including 7.70 metres grading 1.47 Gold and 39.3 g/t Silver
- ix. 03-19-08: AE DDH 07-33 drill results include 7.76 g/t Gold over 3.3 metres
- x. 04-29-08: Step out drilling intersects 14.75 metres grading 4.43 g/t Gold
- xi. 05-01-08: Step out drilling intersects 7.15 metres grading 3.82 g/t gold
- xii. 05-07-08: Crosscut 315 N confirms continuation of mineralization in adit
- xiii. 06-11-08: Atenea Structure connects with Dany Vein and Pucamina Vein over 2.7 kilometres

Please note, true widths have not yet been determined for drill intersections. For complete news releases please go to [www.sedar.com](http://www.sedar.com) or [www.andeanamerican.com](http://www.andeanamerican.com).

- b) A National Instrument 43-101 Technical Report dated July 24, 2007 reported the following mineral resources at a 1.0 g/t cut off:
  - i. Measured Resources: 1,103,984 tonnes averaging 3.88 g/t Au, 15.77 g/t Ag and 0.26% Cu.
  - ii. Indicated Resources: 3,635,540 tonnes averaging 2.39 g/t Au, 19.14 g/t Ag and 0.51% Cu.
  - iii. Inferred Resources: 6,088,700 tonnes averaging 1.44 g/t Au, 15.70 g/t Ag and 0.53% Cu.The complete report is available at [www.sedar.com](http://www.sedar.com).

*Development:*

At the time of writing a feasibility report is nearing completion awaiting the mineable reserves and financial analysis from Wardrop Engineering and the Stanford group, respectively. The Company has revised the basic engineering to assess the possibility of processing 5,000 to 8,000 tonnes per day of mineralization. Complete detailed engineering is currently underway in support of the 5000 tpd option. A variety of production start-up scenarios are also being studied, 4 options currently exist starting at 3,000 tpd up to 5,000 tpd. Power availability for 2010 may dictate only 20 hours per day of operation.

*Background: property holdings 41,500 hectares (102,549 acres)*

The initial property acquisition entailed 5,800 hectares obtained by Andean in early 2005. The Company then optioned the 3,700-hectare cornerstone property from a subsidiary of Barrick Gold Corporation in October 2005. This property had previously been drilled with 12,500 metres (over 40,000 feet) of diamond drilling by the then operator, Pangea Peru S.A. Having exercised its option and acquired additional ground through staking, Andean now holds 41,500 hectares in the Invicta Project.

*Environment*

The proposed Invicta mine has filed an EIA as part of the operating permitting process. The approach is zero liquid effluent from the mine, which would exceed the already high environmental standards of Peru. The communities have all signed off on the EIA. On June 3, 2008 the Environmental Impact Assessment ("EIA") was filed with the Peruvian Government which also included the community agreements for the three communities with interest in the project. The EIA had previously been reviewed by the Government. Under Peruvian law the government has 90 days in which to communicate observations on the submission. Cesel Engineers prepared most of the submissions. The initial submission is for a 5,100 tpd mining and milling facility.

**SINCHAO: 1,300 HECTARES (3,185 ACRES)**

*Exploration and Development*

Four mineralized systems have been identified on the Sinchao Property: the Skarn Zone, the Breccia Zone, the High Sulphidation Epithermal Zone and the Massive Sulphide Lenses.

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The 2008 drill program has focused on the Breccia Zone., where 12 holes totaling 4,285.5 metres have been completed. Highlights of this year's drilling include 188.55 metres grading 2.02% Copper, 1.07 g/t Gold and 11.3 g/t Silver in Hole SDH-37, and a 341.85 metres intersection in Hole SDH-34 grading 0.44% Copper, 0.32 g/t Gold and 6.1 g/t Silver. Copper-Gold-Silver mineralization has now been identified over an area of approximately 750 metres by 300 metres, and to a depth of approximately 400 metres, along two northeast-southwest sections. Step-out drilling continues to intersect mineralization, with drill rigs working 150 metres to the northwest and 300 metres to the southeast. The mineralization is hosted by breccia and skarn, and remains open in all directions. To date the Sinchao drill program totals 12,339 metres.

*Background*

The Sinchao property is located approximately 60 kilometres north of the city of Cajamarca in the district of Hualgayoc in northern Peru. The elevation of the property varies from 3,725 to 4,000 metres above sea level. Access to the property from Cajamarca is limited to a loose surface road, a trip that takes approximately 2 to 3 hours. The infrastructure in Cajamarca supports several other operating and potential mines and is steadily improving.

Initial geological mapping, surface sampling, induced polarization and ground magnetometre surveys were completed in 1996, followed by over 5,100 metres of drilling during 1997 and 1998. Although results were very encouraging, metal prices at the time were at all time lows and exploration was halted. Since 1998, Andean had consolidated its land position and in 2005 acquired 21 hectares contiguous with the existing Sinchao Property to complete its land acquisitions. The Sinchao Property area now totals 1300 hectares. In September 2006, Andean American Mining Corp. completed the arms length sale of its then wholly owned subsidiary, Corporacion Minera Sinchao, holder of the Sinchao Property, to Sinchao Metals Corp. Andean holds 61.5% of Sinchao Metals Corp., on a fully diluted basis.

*Environment*

The Company has designed and is implementing a remediation program in respect of naturally occurring acid rock drainage under an agreement with the local communities and has initiated fieldwork. Remediation of pre-existing environmental conditions is an example of one of the benefits coming to the community as a direct result of the application of responsible exploration and mining practices.

The communities have agreed and signed formal agreements to allow the exploration program to proceed. There is an ongoing need to build continuous understanding of all stakeholders' concerns.

**SANTA ROSA: 9,000 HECTARES (22,050 ACRES)**

*Operation Activities*

Due to the lack of agreement with the Virundo community on the access to fresh mineralized zones, all mining activities will be phased out over the coming business cycle. The Santa Rosa mine has lost money for the past two years and can no longer be supported financially given the absolute lack of local political support for mining. It is hard to accept that there will ever be a viable farming community at 4,000 metres above sea level in steep, granite-laden terrain, but the local mayor holds out this hope as he is well funded by NGO's to do so. Despite the community's apparent lack of support for the mayor, all Virundo-based employees of the mine will be terminated in the coming months.

*Background*

The Santa Rosa mine is located 550 kilometres southeast of Lima, Peru, an eight-hour drive from Cuzco in the department of Apurimac, province of Grau. Santa Rosa is a fully permitted 1,185,000 tonnes per annum heap leach processing facility producing a gold and silver concentrate. Open pit mining methods were used to extract the ore, which was trucked less than three kilometres to the crushing plant. From there the fines were

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agglomerated and precious metals were recovered as a concentrate using sixteen columns in an ADR circuit and an electrowinning cell.

*Production*

The operations and production for the Santa Rosa mine are all focused on recycling existing mineral on the pads. All development work in this area has been charged to cost of sales since commercial operations began. During the year process bottlenecks, including equipment rebuilds, were accomplished. However, without access to fresh mineralization and support for mining from the Virundo community, production will continue to diminish. Accordingly, management has reviewed the carrying value of the Santa Rosa mine and determined that it should be written down to a nil value.

*Environment*

There were no reportable violations of the environmental standards in the past 18 months. Some minor observations by inspectors during on-site visits have been promptly attended to.

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**SANTA ROSA**  
**MINE PRODUCTION DATA**  
**QUARTERLY GOLD AND SILVER MINE PRODUCTION**  
(Since inception to June 30, 2008)

<b>Quarter ending</b>	<b>Au ounces</b>	<b>Ag Eq. ozs<sup>1</sup></b>	<b>Total Au</b>
June 30, 2008	960	228	1,188
<b>Fiscal 2009</b>	960	228	1,188
March 31, 2008	1,062	250	1,312
December 31, 2007	1,933	445	2,378
September 30, 2007	1,891	378	2,269
June 30, 2007	1,599	275	1,874
<b>Fiscal 2008</b>	6,485	1,349	7,834
March 31, 2007	1,673	259	1,932
December 31, 2006	1,890	331	2,221
September 30, 2006	1,883	277	2,160
June 30, 2006	1,772	312	2,084
<b>Fiscal 2007</b>	7,218	1,179	8,397
March 31, 2006	2,528	197	2,725
December 31, 2005	2,923	233	3,156
September 30, 2005	4,245	471	4,716
June 30, 2005	5,852	522	6,374
<b>Fiscal 2006</b>	15,548	1,423	16,971
March 31, 2005	4,604	406	5,010
December 31, 2004	4,730	270	5,000
September 30, 2004	3,665	173	3,838
June 30, 2004	3,052	199	3,251
<b>Fiscal 2005</b>	16,051	1,048	17,099
March 31, 2004	2,627	136	2,763
December 31, 2003	2,275	83	2,358
September 30, 2003	1,440	58	1,498
June 30, 2003	1,385	65	1,450
<b>Fiscal 2004</b>	7,727	342	8,069
March 31, 2003	1,340	47	1,387
December 31, 2002	2,194	13	2,207
September 30, 2002	2,554	15	2,569
June 30, 2002	1,682	8	1,690
<b>Fiscal 2003</b>	7,770	83	7,853
March 31, 2002	536	4	540
<b>*Start up Production</b>	1,806	-	1,806
<b>Totals to Date</b>	64,101	5,655	69,756

<sup>1</sup> Quarterly gold equivalents from silver sales are the actual proceeds of silver sales divided by the actual gold price per ounce.

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**OUTLOOK**

Gold and silver prices are showing continued strength and at the date of this report are forecast by the major institutions to continue strengthening. Metal prices and currencies are subject to fluctuation due to changes in global economic conditions. The Company is experiencing rising production costs due to increasing prices for fuel, chemicals and maintenance supplies. These rising prices, driven by the global economic demand, are expected to continue into calendar 2009.

**CAPITAL EXPENDITURES**

Capital expenditures for the advancement of the Invicta project to a financed production decision are estimated to be \$3 millions bringing the total investment to date to more than 12 million US dollars. The Company is reviewing potential sources of debt financing for the Invicta project.

Capital expenditures for Exploration and Remediation at the Sinchao Project are estimated to be US\$4 million and will be funded from the cash resources of Sinchao Metals Corp. and the proceeds from the exercise of its warrants.

**FINANCIAL REVIEW**

*Three Months Ended June 30, 2008 compared to the Three Months Ended June 30, 2007*

For the three months ended June 30, 2008, the Company recorded a net loss of \$988,614 (2007 – net loss of \$1,086,321) and loss per share of \$0.013 (2007 - \$0.018 net loss per share). Stock based compensation expense, general and administrative expenses and direct operating costs increased over the same period in the prior year. This increase was offset by decreases in amortization and depletion. For the three months ended June 30, 2008, the production of gold equivalents was 1,188 ounces (2007 – 1,874 ounces). Quarterly financial information for the past eight quarters is shown in Table 1.

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**Table 1 - Quarterly Financial Data**

	<b>June 30 2008</b>	<b>March 31 2008</b>	<b>December 31 2007</b>	<b>September 30 2007</b>
	\$	\$	\$	\$
<b>Earnings and Cash Flow</b>				
Net income (loss)	(988,614)	(15,654,975)	(1,054,183)	(1,446,908)
Cash flow from operations	(917,537)	831,896	(404,349)	(332,846)
Earnings (loss) per share	(0.013)	(0.243)	(0.016)	(0.023)
Diluted earnings per share	(0.013)	(0.243)	(0.016)	(0.023)
Capital expenditures	2,700,019	4,939,058	4,483,739	2,033,250
<b>Balance Sheet</b>				
Total assets	42,544,381	43,256,955	52,668,348	43,363,206
Long term debt	-	-	101,217	101,217
	<b>June 30 2007</b>	<b>March 31 2007</b>	<b>December 31 2006</b>	<b>September 30 2006</b>
	\$	\$	\$	\$
<b>Earnings and Cash Flow</b>				
Net income (loss)	(1,086,321)	(3,433,098)	(1,147,529)	(7,495,800)
Cash flow from operations	(1,375,579)	110,430	(508,286)	(943,273)
Earnings (loss) per share	(0.018)	(0.204)	(0.022)	0.002
Diluted earnings per share	(0.018)	(0.204)	(0.022)	0.002
Capital expenditures	697,924	746,515	913,446	-
<b>Balance Sheet</b>				
Total assets	44,381,591	38,738,697	43,227,931	48,312,051
Long term debt	101,217	101,217	125,541	163,288

At June 30, 2008, the Company had an available cash balance of \$2,237,810.

**Revenues**

Revenues are determined by sales volumes, metal prices and currency exchange rates. The average metal prices and exchange rates for the US dollar compared to Canadian dollars are shown in Table 2. Comparative quarterly data for sales volumes and revenues for the last eight quarters are presented in Table 3.

*Three Months Ended June 30, 2008 compared to the Three Months Ended June 30, 2007*

Revenues for the three months ended June 30, 2008 were \$1,020,212 compared with \$1,128,552 in the comparative period in 2007. The revenue decrease in the present quarter was impacted by the decrease in the volume of sales and the strengthening of the Canadian dollar.

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**Table 2 - Metal Prices and Exchange Rates**

	<b>2009 Q1</b>	<b>2008 Q1</b>	<b>2007 Q1</b>
Gold (Average London PM fix-US\$/ounce)	896.29	660.08	626.37
Silver (Average NY spot-US\$/ounce)	17.18	12.62	11.85
Canadian/US\$ exchange rate	1.01	1.10	1.14
Gold (Canadian \$/ounce)	905.25	725.53	713.61
Silver (Canadian \$/ounce)	17.35	13.93	13.49
Peruvian Sol/US\$ exchange rate	2.81	3.15	3.26

**Table 3 – Sales Volumes and Revenues by Quarter**

	<b>2009 Q1</b>	<b>2008 Q4</b>	<b>2008 Q3</b>	<b>2008 Q2</b>
<b>Sales Prices</b>				
Gold (Canadian \$/ounce)	907.54	962.48	817.54	727.64
Silver (Canadian \$/ounce)	16.61	16.98	14.07	13.02
<b>Sales Volumes</b>				
Gold (ounces)	968	1,148	2,010	1,803
Adjustment in respect of Q1	-	-	-	(228)
Silver (ounces)	8,555	17,078	18,920	17,258
Adjustment in respect of Q1	-	-	-	1,014
Gold (equivalent ounces)	157	301	326	309
Adjustment in respect of Q1	-	-	-	18
<b>Revenues \$</b>	1,020,212	1,355,470	1,836,319	1,509,389

**Table 3 – Sales Volumes and Revenues by Quarter**

	<b>2008 Q1</b>	<b>2007 Q4</b>	<b>2007 Q3</b>	<b>2007 Q2</b>
<b>Sales Prices</b>				
Gold (Canadian \$/ounce)	725.53	764.55	696.31	687.89
Silver (Canadian \$/ounce)	13.93	14.82	13.83	12.41
<b>Sales Volumes</b>				
Gold (ounces)	1,529	1,964	1,870	1,864
Silver (ounces)	12,620	13,219	16,021	15,121
Gold (equivalent ounces)	242	255	314	273
<b>Revenues \$</b>	1,128,552	1,678,849	1,523,550	1,469,786

**COSTS AND EXPENSES**

**Direct Operating Costs**

*Three Months Ended June 30, 2008 compared to the Three Months Ended June 30, 2007*

Direct operating costs for the quarter ended June 30, 2008 were \$1,274,676 compared with \$1,180,438 in the same quarter in 2007. The increased costs were mainly due to much higher waste to ore ratios, the poor recoveries from recycled mineral and lower volumes of mineral processed which increased the unit cost of production.

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**Administration Expenses**

Details of administrative costs for the quarters ended June 30, 2008 and 2007 are as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
	\$	\$
Administrative & management services	82,304	136,274
Bank charges	9,099	4,634
Depreciation	6,664	-
Investor relations	178,956	121,476
Office salaries and sundry	107,733	57,582
Office rent, parking, storage	8,848	8,668
Professional fees	43,143	50,066
Regulatory and transfer agent fees	25,565	5,868
Telecommunications	2,074	2,764
Travel and accommodation	35,544	15,594
	<u>499,930</u>	<u>402,926</u>

Andean American's role as operator of the Sinchao project includes a services agreement for certain services supplied to Sinchao Metals. The agreement provides for the reimbursement of direct costs plus 100% for indirect costs. Administration expenses in the quarter ended June 30, 2008 compared with the quarter ended June 30, 2007 have increased due to increases in investor relations activities, salary expenses and regulatory and transfer agent fees.

**Income and Resource Taxes**

The Company is subject to income taxes in Canada with the statutory income tax rate at 33.34%. The Company's operating subsidiary, El Misti Gold, is subject to relevant income tax laws applicable in Peru with the statutory income tax rate at 30%.

Peruvian tax laws require that advanced income tax amounting to 2% of sales be paid each month which is recoverable when income tax becomes payable.

A valuation allowance has been recorded to reduce to nil the net benefit recorded in the financial statements related to future income tax assets. The valuation allowance is deemed necessary as a result of the uncertainty associated with the ultimate realization of these tax assets.

El Misti Gold, the Company's Peruvian subsidiary, has approximately \$4,400,000 in tax losses carried forward. These tax losses expire at December 31, 2011, if they are not utilized before that date.

The Company has accumulated losses for Canadian tax purposes of approximately \$17,200,000, which expire in various years to 2028.

As a result of the transfer of Corporacion Minera Sinchao to Sinchao Metals Corp., Sinchao Metals incurred a future income tax liability of \$5,723,679 representing the difference between the accounting and tax basis of costs incurred to date on the project.

The Company is subject to assessment by Canadian and Peruvian authorities, which may interpret tax legislation in a manner different from the Company. These differences may affect the final amount or the timing of the payment of taxes. When such differences arise the Company makes provision for such items based on management's best estimate of the final outcome of these matters.

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**FINANCIAL POSITION AND LIQUIDITY**

**Operating Cash Flow**

*Three Months Ended June 30, 2008 compared to the Three Months Ended June 30, 2007*

Cash flow used by operations in the quarter ended June 30, 2008 before changes to non-cash working capital was a deficit of \$787,437 compared with a deficit of \$273,841 in the comparative quarter for 2007. The decrease was primarily due to lower revenues and increases in direct operating costs and general and administrative expenses.

**Investing Activities**

*Three Months Ended June 30, 2008 compared to the Three Months Ended June 30, 2007*

Capital expenditures in the quarter amounted to \$2,700,019 mainly for exploration in the Invicta and Sinchao projects and equipment and property acquisitions. In the same quarter for 2007 capital expenditures were \$697,924 mainly for exploration and plant modifications.

**Financing Activities**

*Three Months Ended June 30, 2008 compared to the Three Months Ended June 30, 2007*

During the quarter ended June 30, 2008, the Company did not issue any common shares. During the quarter ended June 30, 2007, the Company issued 11,367,538 common shares for net proceeds of \$6,331,436; Sinchao Metals Corp. also issued 4,697,500 shares for net proceeds of \$705,000.

**Cash Resources and Liquidity**

At June 30, 2008, the Company had net cash available of \$2,237,810 (2007 - \$5,245,904) and long-term debt of \$nil (2007 - \$101,217).

<b>Table 4 - Quarterly Earnings and Cash Flow</b>	<b>2009 Q1</b>	<b>2008 Q4</b>	<b>2008 Q3</b>	<b>2008 Q2</b>
	\$	\$	\$	\$
Revenues	1,020,212	1,355,470	1,836,319	1,509,389
Operating profit	(849,982)	(1,874,751)	(326,666)	(960,517)
Net earnings (loss)	(988,614)	(15,654,975)	(1,054,183)	(1,446,908)
Earnings (loss) per share	(0.013)	(0.243)	(0.016)	(0.023)
Cash flow from continuing operations	(917,537)	831,896	(404,349)	(332,846)

<b>Table 4 - Quarterly Earnings and Cash Flow</b>	<b>2008 Q1</b>	<b>2007 Q4</b>	<b>2007 Q3</b>	<b>2007 Q2</b>
	\$	\$	\$	\$
Revenues	1,128,552	1,678,849	1,523,550	1,469,786
Operating profit	(943,882)	(585,985)	(927,686)	(696,444)
Net earnings	(1,086,321)	(3,433,098)	(1,147,529)	(7,495,800)
Earnings (loss) per share	(0.018)	(0.204)	(0.022)	(0.150)
Cash flow from continuing operations	(1,375,579)	4,247	(508,286)	(943,273)

**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

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in Peru. This participant failed to register its interests in Peru and thus is considered to have abandoned any interest in the Invicta project. The Company believes the claim is without merit.

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.

## **OTHER INFORMATION**

### **Off - Balance Sheet arrangements**

The Company has no off-balance sheet arrangements.

## **FINANCIAL INSTRUMENTS**

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

The Company's financial instruments are comprised of cash and cash equivalents, amounts receivable, amounts receivable from and payable to related parties, GST receivable, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of the Company's cash and cash equivalents, accounts receivable, GST receivable, and accounts payables and accrued liabilities approximate their carrying values.

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

## **CHANGES IN ACCOUNTING POLICIES**

### ***Current Changes in Accounting Policies***

On April 1, 2008, the Company adopted the following provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

- (a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories (see Note 16).
- (b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows (see Note 16).
- (c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed (see Note 15). Under this standard, the Company will be required to disclose the following:

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- qualitative information about its objectives, policies and processes for managing capital;
  - summary quantitative data about what it manages as capital;
  - whether during the period it complied with any externally imposed capital requirement to which it is subject; and
  - when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.
- (d) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity's ability to continue as a going concern (see Note 1).

***Future Changes in Accounting Policies***

- (a) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for 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.

- (b) 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. The adoption of this new section is not expected to have a material impact on the Company's earnings and financial position.

**OUTSTANDING SHARE DATA**

As at August 29, 2008, there were 78,196,721 issued common shares, 5,361,950 stock options outstanding and exercisable at prices ranging from \$0.32 to \$1.25 per share and 14,089,177 warrants outstanding with an expiration period between May 29, 2009 and July 3, 2010 with exercise prices ranging from \$0.55 to \$0.90 per share.

**RISK AND UNCERTAINTIES**

**Exploration and Development**

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 Mine 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. The costs and results of the exploration and development programs affect the Company's profitability and value. Exploration for minerals involves many risks and may not result in any new economically viable mining operations or yield new reserves. Acquiring title to mineral properties is a detailed and time-consuming process. The Company takes steps to verify and secure legal title to mineral properties in which the

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Company has or is seeking an interest. Although the Company takes every precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured on every property. The legal title to our properties depends on the appropriate and consistent application of the laws in the countries in which we operate.

**Capital and Operations**

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. The business of mining involves many operational risks and hazards.

Through high operational standards, an emphasis on hiring and training appropriately skilled personnel and operational improvements, the Company works to reduce the risks associated with our projects. The Company maintains adequate insurance to cover normal business risk. The Company also relies on a number of key employees. The Company's success depends on attracting and retaining qualified personnel in a competitive labour environment. Further exploration and development of mineral resource properties or acquisitions beyond our current operations may require additional capital. Accordingly, the continuing development of projects will depend on the Company's ability to obtain financing through joint venture projects, debt financing and equity financing or other means. There is no assurance that the Company will be successful in obtaining the required financing.

**Environment**

The Company is in compliance of the material regulations applicable to its exploration activities. Existing and possible future environmental regulations might cause additional expenses, capital expenditures and delays in the operations of the company, the extent of which cannot be predicted. The Company's activities are subject to extensive federal, provincial, state and local laws and regulations governing environmental protection and employee health and safety. The Company must obtain governmental permits and provide associated financial assurance to carry on certain activities. The Company is also subject to various reclamation-related conditions imposed under federal, state or provincial air, water quality and mine reclamation rules and permits. While the Company has budgeted for future capital and operating expenditures to maintain compliance with environmental laws and permits, any future changes to these laws could adversely affect the Company's financial condition, liquidity or results of operations.

**Laws and Regulations**

The Company's exploration activities are subject to extensive federal, provincial, state and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. These laws and regulations are subject to change, which may restrict our ability to operate. The Company draws on the expertise and commitment of its management team, advisors, employees and contractors to ensure compliance with current laws, and fosters open communication and co-operation with regulatory bodies.

**Legal Proceedings**

The nature of the business may subject the Company to regulatory investigation, claims, lawsuits and other proceedings in the ordinary course of business. The Company cannot predict the outcome of any legal proceedings with certainty.

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**Currency Fluctuations**

The Company operates in Canada and Peru. The main transactions in Peru are in US dollars and, to a lesser extent, Peruvian soles. The Company is therefore affected by currency fluctuations among the Canadian dollar, the US dollar and the Peruvian sol.

**Political Risk**

The Company conducts operations outside of North America, namely in Peru. These operations are potentially subject to a number of political, economic and other risks that may affect its future operations and financial position.

**CAUTION ON FORWARD-LOOKING STATEMENTS**

The Management's Discussion and Analysis contains forward-looking statements concerning anticipated developments for the Company in future periods. Forward-looking statements often, but not always, contain words such as "believes", "intends", "anticipates", "estimates", "intends", "potential" and similar words or statements that certain conditions or results "may", "should" or "could" happen or occur. These forward-looking statements are found primarily under the heading "Outlook". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or other future events, including forecast production, earnings and cash flows, to be materially different from any future results, performances or achievements or other events expressly or implicitly predicted by such forward-looking statements. Andean American's forward-looking statements are based on the expectations and opinions of management on the date that the statements are made and the Company does not assume any obligation to update forward-looking statements if circumstances change. For the above reasons, investors should not place undue reliance on forward-looking statements.

**QUALIFIED PERSON**

The technical disclosure in this Management's Discussion and Analysis has been reviewed and approved by Mr. Andrew Gourlay, P. Geol., President of Andean American Mining Corp., and a Qualified Person as defined by National Instrument 43-101.