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**ANDEAN AMERICAN MINING CORP.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**

*(Unaudited)*

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**ANDEAN AMERICAN MINING CORP.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
*(Expressed in Canadian Dollars, except where noted)*

	<b>December 31, 2008</b>	December 31, 2007 (Restated - Note 17)	March 31, 2008
	<b>(unaudited)</b>	(unaudited)	(audited)
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 238,911	\$ 10,182,396	\$ 5,973,166
Accounts receivable (Note 4)	874,127	733,756	843,756
Prepaid expenses	149,533	316,179	239,732
Mineral on pads and inventories (Note 5)	483,930	1,722,465	752,228
	<b>1,746,501</b>	12,954,796	7,808,882
<b>Mineral on pads</b> (Note 5)	-	3,609,726	-
<b>Mineral properties and deferred costs</b> (Note 6)	39,870,189	34,920,954	33,799,108
<b>Property, plant and equipment</b> (Note 7)	1,722,816	1,182,872	1,648,965
	<b>\$ 43,339,506</b>	\$ 52,668,348	\$ 43,256,955
<b>LIABILITIES</b>			
<b>Current</b>			
Bank indebtedness	\$ 316,319	\$ 88,484	\$ 92,048
Accounts payable and accrued liabilities	4,906,510	2,381,570	4,982,436
Deferred income	-	129,535	-
Loans payable (Note 8)	41,412	38,042	39,574
Current portion of long term debt (Note 9)	340,900	286,811	381,300
	<b>5,605,141</b>	2,924,442	5,495,358
<b>Long term debt</b> (Note 9)	-	101,217	-
<b>Future income tax liabilities</b>	5,903,726	5,057,959	6,080,372
<b>Provision for reclamation and closure costs</b> (Note 10)	150,589	111,553	127,085
	<b>11,659,456</b>	8,195,171	6,207,457
<b>Minority interest</b>	9,584,950	9,715,530	9,752,047
	<b>21,244,406</b>	17,910,701	21,454,862
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share capital</b> (Note 11)	71,507,912	69,067,549	69,653,248
<b>Contributed surplus</b> (Note 12)	10,896,914	6,479,037	9,182,035
<b>Deficit</b>	(60,309,726)	(40,788,939)	(57,033,190)
	<b>22,095,100</b>	34,757,647	21,802,093
	<b>\$ 43,339,506</b>	\$ 52,668,348	\$ 43,256,955
<b>Going concern</b> (Note 1)			
<b>Contingency</b> (Note 18)			
<b>Subsequent Events</b> (Note 19)			

APPROVED BY THE DIRECTORS

“JOHN HUGUET”  
DIRECTOR

“BRYAN MORRIS”  
DIRECTOR

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

**ANDEAN AMERICAN MINING CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS,**  
**COMPREHENSIVE INCOME (LOSS) AND DEFICIT**  
*(unaudited)*  
*(Expressed in Canadian Dollars, except where noted)*

	Three Months Ended December 31		Nine Months Ended December 31	
	2008	2007	2008	2007
		(Restated - Note 17)		(Restated - Note 17)
<b>REVENUE</b>				
Sales of metals	\$ 643,576	\$ 1,836,319	\$ 2,693,916	\$ 4,474,260
<b>OPERATING EXPENSES</b>				
Direct operating costs	748,538	1,442,659	2,923,728	4,265,432
Royalty expense	5,953	32,293	32,070	77,510
Amortization and depletion	21,474	231,152	35,128	1,004,292
Selling expenses	37,986	46,849	119,525	130,572
Stock based compensation	201,284	410,060	1,254,461	1,224,107
Provision for reclamation	-	(28)	-	3,412
	<b>1,015,235</b>	2,162,985	<b>4,364,912</b>	6,705,325
<b>GROSS PROFIT (LOSS)</b>	<b>(371,659)</b>	(326,666)	<b>(1,670,996)</b>	(2,231,065)
<b>OTHER (INCOME) EXPENSE</b>				
General and administrative expenses	395,734	525,607	1,458,992	1,536,229
Interest expense	2,059	10,948	3,552	33,593
Other (income) expense	(83,455)	(47,115)	(132,533)	(184,444)
Foreign exchange loss (gain)	294,036	68,046	448,963	(736,173)
Dilution loss on sale of shares by subsidiary	-	(163,592)	-	425,684
Minority interest	46,425	(255,653)	(173,434)	(307,818)
	<b>654,799</b>	138,241	<b>1,605,540</b>	767,071
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(1,026,458)</b>	(464,907)	<b>(3,276,536)</b>	(2,998,136)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(59,283,268)</b>	(40,324,032)	<b>(57,033,190)</b>	(37,790,803)
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (60,309,726)</b>	\$ (40,788,939)	<b>\$ (60,309,726)</b>	\$ (40,788,939)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>				
<b>BASIC AND DILUTED</b>	<b>73,620,017</b>	64,987,417	<b>73,620,017</b>	61,480,971
<b>NET LOSS PER COMMON SHARE</b>				
<b>BASIC AND DILUTED</b>	<b>\$ (0.01)</b>	\$ (0.01)	<b>\$ (0.04)</b>	\$ (0.05)

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

**ANDEAN AMERICAN MINING CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(unaudited)*  
*(Expressed in Canadian Dollars, except where noted)*

	Three Months Ended December 31		Nine Months Ended December 31	
	2008	2007	2008	2007
<b>CASH PROVIDED FROM (USED FOR):</b>		(Restated - Note 17)		(Restated - Note 17)
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ (1,026,458)	\$ (464,907)	\$ (3,276,536)	\$ (2,998,136)
Adjustments for items not affecting cash:				
Amortization and depletion	21,474	231,152	35,128	1,004,292
Stock based compensation	201,284	410,060	1,254,461	1,224,107
Minority interest	46,425	(255,653)	(173,434)	(307,818)
Dilution loss on sale of shares by subsidiary	-	(163,592)	-	425,684
Provision for reclamation	-	(28)	-	3,412
Unrealized foreign exchange gain on long-term monetary assets and liabilities	572,051	89,225	451,666	(772,817)
	<u>(185,224)</u>	<u>(153,743)</u>	<u>(1,708,715)</u>	<u>(1,421,276)</u>
Net changes in non-cash working capital items:				
Accounts receivable	22,207	92,269	(30,371)	(19,406)
Mineral on pads and inventories	(31,293)	299,537	268,298	669,260
Prepaid expenses	34,470	(19,337)	90,199	(109,126)
Accounts payable and accrued liabilities	(4,782)	(663,969)	(224,271)	(1,058,707)
Deferred income	-	40,895	-	(173,519)
	<u>(164,622)</u>	<u>(404,348)</u>	<u>(1,604,860)</u>	<u>(2,112,774)</u>
<b>INVESTING ACTIVITIES</b>				
Mineral properties and deferred costs	(819,925)	(2,311,098)	(6,071,081)	(4,895,966)
Shares of subsidiary acquired by private placement	-	(2,000,000)	-	(2,000,000)
Property, plant and equipment	(132,334)	(172,641)	(243,273)	(318,947)
	<u>(952,259)</u>	<u>(4,483,739)</u>	<u>(6,314,354)</u>	<u>(7,214,913)</u>
<b>FINANCING ACTIVITIES</b>				
Private placement of units, net of issue costs	-	5,997,550	1,999,250	12,692,420
Shares issued by subsidiary to minority interest	-	6,234,436	-	6,946,936
Payment of long term debt	26,424	(85,399)	(40,400)	(173,526)
Payment of loans payable	5,229	-	1,838	-
	<u>31,653</u>	<u>12,146,587</u>	<u>1,960,688</u>	<u>19,465,830</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>(1,085,228)</b>	<b>7,258,500</b>	<b>(5,958,526)</b>	<b>10,138,143</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>1,007,820</b>	<b>2,835,412</b>	<b>5,881,118</b>	<b>(44,231)</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ (77,408)</b>	<b>\$ 10,093,912</b>	<b>\$ (77,408)</b>	<b>\$ 10,093,912</b>
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>				
Cash	\$ 238,911	\$ 10,182,396	\$ 238,911	\$ 10,182,396
Bank indebtedness	(316,319)	(88,484)	(316,319)	(88,484)
	<u>\$ (77,408)</u>	<u>\$ 10,093,912</u>	<u>\$ (77,408)</u>	<u>\$ 10,093,912</u>

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

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**  
*(unaudited)*  
*(Expressed in Canadian Dollars, except where noted)*

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**1. Nature of Operations and Going Concern**

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

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

As at December 31, 2008, the Company has negative working capital of \$3,858,640, negative cash flows from operations before changes in non-cash working capital of \$1,708,715 recorded a loss of \$3,276,536 for the nine months and has an accumulated deficit of \$60,309,726. The Company is continuing in its efforts to generate sufficient cash from its operations or raise funds to meet its ongoing liabilities as they fall due. There can be no assurance that the Company will be successful in its efforts, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheet. The consolidated financial statements do not give effect to any adjustments that might be necessary if the Company were unable to meet its obligations or continue operations.

**2. Basis of Presentation**

These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim consolidated financial statements do not include all of the disclosure required by Canadian generally accepted accounting principles ("Canadian GAAP") for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2008. They have been prepared using the same accounting policies and methods as those used in the annual consolidated financial statements for the year ended March 31, 2008. These consolidated financial statements include the accounts of the Company and all its subsidiaries. The significant subsidiaries are:

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

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

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

(unaudited)

(Expressed in Canadian Dollars, except where noted)

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### 3. Adoption of New 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:
  - 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 April 1, 2011. The transition date of April 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.

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

(unaudited)

(Expressed in Canadian Dollars, except where noted)

### 4. Accounts Receivable

	<u>December 31, 2008</u>	<u>December 31, 2007</u>	<u>March 31, 2008</u>
Trade accounts	\$ 294,260	\$ 5,041	\$ 297,189
Employees		929	-
Refundable sales tax (IGV)	513,548	585,025	545,807
Others	66,319	142,761	760
	<u>\$ 874,127</u>	<u>\$ 733,756</u>	<u>\$ 843,756</u>

### 5. Minerals on Pads and Inventories

	<u>December 31, 2008</u>	<u>December 31, 2007</u>	<u>March 31, 2008</u>
Mineral on leach pads	\$ -	\$ 887,322	\$ 1,156,349
Non-current portion of mineral on leach pads	-	3,609,726	2,703,518
	-	4,497,048	3,859,867
Finished products	338,985	636,697	587,776
Supplies	144,945	198,446	164,452
Write-down	-	-	(3,859,867)
	<u>\$ 483,930</u>	<u>\$ 5,332,191</u>	<u>\$ 752,228</u>

### 6. Mineral Properties and Deferred Costs

	<u>December 31, 2008</u>	<u>December 31, 2007</u>	<u>March 31, 2008</u>
<b>Producing mineral property</b>			
<b>Santa Rosa Mine</b>	\$ -	\$ 8,604,823	\$ 16,344,495
Accumulated amortization and depletion	-	(3,329,491)	(3,496,418)
Write-down to fair value	-	-	(12,848,077)
<b>Total Santa Rosa Mine</b>	<u>-</u>	<u>5,275,332</u>	<u>-</u>
<b>Non-producing mineral properties</b>			
<b>Sinchao Property</b>			
Acquisition and deferred exploration costs	29,149,228	23,838,016	25,735,740
<b>Invicta</b>	10,410,408	1,331,311	7,878,811
<b>Other properties</b>	310,553	1,341,875	776,856
Write-off of certain other properties	-	-	(592,299)
<b>Total non-producing mineral properties</b>	<u>39,870,189</u>	<u>26,511,202</u>	<u>33,799,108</u>
<b>Total mineral properties and deferred costs</b>	<u>\$ 39,870,189</u>	<u>\$ 31,786,534</u>	<u>\$ 33,799,108</u>

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**  
*(unaudited)*  
*(Expressed in Canadian Dollars, except where noted)*

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**6. Mineral Properties and Deferred Costs (Continued)**

The Company has acquired mineral claims in Peru through option agreements and direct staking. As at December 31, 2008, the Company's property portfolio comprises approximately 55,200 hectares. The Santa Rosa property consists of 9,000 hectares, the Mamara property consists of 3,400 hectares and the Sinchao property consists of 1,300 hectares. The Invicta property comprises 41,500 hectares, of which 3,700 hectares were acquired under an option agreement from a subsidiary of Barrick Gold Corporation, Minera ABX Exploraciones S.A.

**(a) 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.

**(b) Sinchao Property**

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

**(c) Invicta Property**

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

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

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

- Pursuant to the original Santa Rosa property purchase agreement, made the final option payments of \$734,226 during the year ended March 31, 2008.
- Pay a net smelter royalty ("NSR") of 0.8213% to the Production Debenture holders from the time of commercial production from the Santa Rosa Mine. In addition, for gold produced in excess of 175,000 ounces from the Santa Rosa Mine, the Company has agreed to pay a floating NSR of between US\$6.00 to US\$10.00 per ounce of gold produced, if the price of gold is higher than US\$320 per ounce, to the original claims holders from the Minera Paraccay acquisition within the Santa Rosa Property. It is expected that the floating NSR will not be payable before fiscal 2009.
- Pay annual fees of US\$3 per hectare to governmental authorities. The calendar 2007 holding costs are estimated to be approximately 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.

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

*(unaudited)*

*(Expressed in Canadian Dollars, except where noted)*

### 7. Property, Plant and Equipment

	December 31, 2008			
	Cost	Accumulated Amortization	Write-down to Fair Value	Net Book Value
Production plant and equipment	\$ 1,516,946	\$ (75,782)	\$ -	\$ 1,441,164
Vehicles	302,270	(224,497)	-	77,773
Office furniture and equipment	434,911	(238,760)	-	196,151
Construction in progress	7,728	-	-	7,728
	\$ 2,261,855	\$ (539,039)	\$ -	\$ 1,722,816

	December 31, 2007			
	Cost	Accumulated Amortization	Write-down to Fair Value	Net Book Value
Production plant and equipment	\$ 4,205,023	\$ (2,064,037)	\$ (1,286,674)	\$ 854,312
Vehicles	326,538	(171,351)	-	155,187
Office furniture and equipment	391,818	(241,743)	-	150,075
Construction in progress	23,298	-	-	23,298
	\$ 4,946,677	\$ (2,477,131)	\$ (1,286,674)	\$ 1,182,872

	March 31, 2008			
	Cost	Accumulated Amortization	Write-down to Fair Value	Net Book Value
Production plant and equipment	\$ 4,350,388	\$ (2,394,507)	\$ (589,888)	\$ 1,365,993
Vehicles	302,270	(181,570)	-	120,700
Office furniture and equipment	345,013	(188,047)	-	156,966
Construction in progress	5,306	-	-	5,306
	\$ 5,002,977	\$ (2,764,124)	\$ (589,888)	\$ 1,648,965

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

(unaudited)

(Expressed in Canadian Dollars, except where noted)

### 8. Loans Payable

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

	December 31, 2008	December 31, 2007	March 31, 2008
Loan payable US\$34,000 (March 2007 – US\$34,000)	\$ 41,412	\$ 33,595	\$ 34,949
Loan payable US\$4,500 (March 2007– US\$4,500)	–	4,447	4,625
	<u>\$ 41,412</u>	<u>\$ 38,042</u>	<u>\$ 39,574</u>

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

### 9. Long Term Debt

	December 31, 2008	December 31, 2007	March 31, 2008
Long term debt	\$ 340,900	\$ 388,028	\$ 381,300
Less: Current portion	(340,900)	(286,811)	(381,300)
	<u>\$ -</u>	<u>\$ 101,217</u>	<u>\$ -</u>

### 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 December 31, 2008, the accrued site closure liability amounted to \$150,589 (March 2008 - \$127,085). This was calculated using the fair market value of \$199,052, discounted at 10%.

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

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

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

(unaudited)

(Expressed in Canadian Dollars, except where noted)

### 11. Share Capital

#### (a) Authorized

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

#### (b) Issued and Outstanding

	Number of Shares	Amount
Balance, March 31, 2007	52,408,489	\$ 59,127,821
Allocation of private placement proceeds to common shares	20,439,538	13,285,700
Share issue costs paid in cash	-	(713,307)
Share issue costs paid in stock	626,990	(407,544)
Fair value of broker warrants issued pursuant to private placement	-	(256,811)
Fair value of warrants issued pursuant to private placement	-	(1,576,434)
Stock options exercised	145,000	137,000
Reallocation of grant date fair value on exercise of stock options and warrants of Andean American Mining Corp.	-	56,823
Balance, March 31, 2008	73,620,017	69,653,248
Allocation of private placement proceeds to common shares	4,545,454	2,000,000
Share issue costs paid in cash	-	(10,750)
Fair value of warrants issued pursuant to private placement	-	(147,584)
Stock options exercised	31,250	10,000
Reallocation of grant date fair value on exercise of stock options and warrants of Andean American Mining Corp.	-	2,998
Balance, December 31, 2008	78,196,721	\$ 71,507,912

On July 3, 2008 the Company announced the completion of a private placement of 4,545,454 Units at a price of \$0.44 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 \$0.55 and expires on July 3, 2010.

Total gross proceeds from the private placement of \$2,000,000, has been allocated \$1,852,416 to common shares and \$147,584, 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%; a risk-free interest rate of 3.05% and an expected life of 2 years. The Company incurred cash issuance costs of \$10,750.

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

(unaudited)

(Expressed in Canadian Dollars, except where noted)

### 11. Share Capital (Continued)

#### (c) Warrants

A summary of share warrants activity for the nine months ended December 31, 2008 is as follows:

	<b>Number of Warrants</b>	<b>Amount</b>
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	(405,000)	(101,205)
Balance, March 31, 2008	11,816,451	2,783,049
Issued pursuant to private placement	2,272,727	147,584
Balance, December 31, 2008	14,089,178	\$ 2,930,633

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

<b>Expiry Date</b>	<b>Exercise price</b>	<b>Number</b>
May 29, 2009	\$0.85	5,666,269
May 29, 2009	\$0.85	566,627
December 17, 2009	\$0.85	1,538,500
December 21, 2009	\$0.85	3,015,000
December 22, 2009	\$0.90	716,560
December 22, 2009	\$0.85	313,495
July 3, 2010	\$0.55	2,272,727
		<u>14,089,178</u>

#### (d) 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.

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### 11. Share Capital (Continued)

#### (e) Stock options (continued)

During the nine months ended December 31, 2008, 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 over 12 months. For the nine months ended December 31, 2008, Andean American Mining Corp. recorded \$1,570,292 (2007 - \$1,480,498) for stock based compensation expense, of which \$315,831 (2007 - \$256,392) was capitalized to resources properties, included in these amounts, Sinchao Metals Corp. recorded \$620,307 (2007 - \$1,055,210) for stock based compensation expense, of which \$99,643 (2007 - \$197,521) was capitalized to resource properties. The fair value of each stock option granted has been estimated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 2.56% to 4.31%, dividend yield 0%, volatility of 63% to 74% and an expected life of 1 to 2 years.

A summary of stock option activity at December 31, 2008 and the changes for the period then ended is as follows:

Number Outstanding March 31 2008	Issued	Exercised	Forfeited	Number Outstanding December 31 2008	Exercise Price Per Share	Expiry date
300,000	-	-	(300,000)	-	\$ 0.85	August 19, 2008
30,000	-	-	(30,000)	-	\$ 1.00	August 24, 2008
200,000	-	-	(200,000)	-	\$ 1.25	November 29, 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)	-	\$ 0.75	April 23, 2010
125,000	-	-	(125,000)	-	\$ 0.75	April 23, 2010
250,000	-	-	(250,000)	-	\$ 0.65	May 25, 2010
300,000	-	-	-	300,000	\$ 0.76	November 22, 2010
250,000	-	-	(250,000)	-	\$ 0.62	January 11, 2011
163,000	-	-	-	163,000	\$ 0.73	March 7, 2011
300,000	-	-	-	300,000	\$ 0.74	March 15, 2011
2,460,000	-	-	(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 December 31, 2008, 3,312,167 options are fully vested

**ANDEAN AMERICAN MINING CORP.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**  
*(unaudited)*  
*(Expressed in Canadian Dollars, except where noted)*

**11. Share Capital (Continued)**

**(d) Stock options (continued)**

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

Number Outstanding March 31 2007	Issued	Exercised	Forfeited	Number Outstanding December 31 2007	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
100,000	-	-	-	100,000	\$ 0.92	March 14, 2008
300,000	-	-	-	300,000	\$ 0.85	August 19, 2008
30,000	-	-	-	30,000	\$ 1.00	August 24, 2008
200,000	-	-	-	200,000	\$ 1.25	November 29, 2008
166,000	-	(40,000)	(30,000)	96,000	\$ 1.10	March 1, 2009
846,700	-	(40,000)	(5,000)	801,700	\$ 0.85	September 8, 2009
65,000	-	(25,000)	-	40,000	\$ 1.00	November 3, 2009
250,000	-	-	(250,000)	-	\$ 1.00	October 27, 2007
40,000	-	(20,000)	-	20,000	\$ 0.85	January 5, 2010
30,000	-	-	-	30,000	\$ 1.00	January 15, 2010
250,000	-	-	(150,000)	100,000	\$ 0.75	March 13, 2010
-	125,000	-	-	125,000	\$ 0.75	April 23, 2010
-	200,000	-	-	200,000	\$ 1.00	April 23, 2010
-	250,000	-	-	250,000	\$ 0.65	May 25, 2010
-	300,000	-	-	300,000	\$ 0.76	November 22, 2010
-	2,460,000	-	-	2,460,000	\$ 0.71	October 29, 2012
3,522,065	3,335,000	(125,000)	(1,679,365)	5,052,700	\$0.65 - \$1.25	June 1, 2007 - October 29, 2012

(i) As of December 31, 2007, 2,246,450 options are fully vested

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

(unaudited)

(Expressed in Canadian Dollars, except where noted)

### 12. Contributed Surplus

A continuity of contributed surplus for the six months ended September 30, 2008 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
Reallocation of grant date fair value on exercise of stock options and warrants	(56,823)
Balance, March 31, 2008	<u>9,182,035</u>
Non-cash stock-based compensation of Andean American Mining Corp.	949,986
Net Change to Contributed surplus of Sinchao Metals Corp.	* 620,307
Fair value of warrants issued pursuant to private placement	147,584
Reallocation of grant date fair value on exercise of stock options and warrants	(2,998)
Balance, December 31, 2008	<u>\$10,896,914</u>

\* includes reallocation of fair value of warrants expired in Sinchao of \$10,356

### 13. Related Party Transactions

Related party transactions not disclosed elsewhere in these financial statements are as follows:

During the nine months ended December 31, 2008, the Company was charged \$237,000 (2007 - \$274,700) for management, professional and consulting services provided by directors and officers of the Company. In addition, the Company was charged \$1,153 (2007 - \$2,945) for administrative and professional services by a company controlled by a director of the Company.

As at December 31, 2008, \$10,437 (2007 - \$Nil) was due to director and officers of the Company for services and expenses incurred on behalf of the Company.

During the nine months ended December 31, 2008, the Company received and or accrued amounts from a related company, Sinchao Metals Corp., and its subsidiaries \$283,969 (2007 - \$208,466) for geological and administrative services including a 100% mark-up in accordance with the Share Exchange Agreement.

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

### 14. Segmented Information

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

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

(unaudited)

(Expressed in Canadian Dollars, except where noted)

### 15. 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.

### 16. Financial Instruments

#### Categories of financial assets and liabilities

As at December 31, 2008, the carrying and fair value amounts of the Company's financial instruments are the same. The carrying value of the Company's financial instruments is classified into the following categories:

	December 31, 2008	March 31, 2008
Held for trading	(\$4,109,791)	\$1,742,438

The fair values of the Company's cash and cash equivalents, 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.

#### (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 functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

(unaudited)

(Expressed in Canadian Dollars, except where noted)

### 16. 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.

#### (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.

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.

### 17. Restatement

As at December 31, 2007, the Company should have recorded a Minority Interest of \$9,715,530. This has resulted in an increase in the reported deficit as at December 31, 2007. The effect of the restatement on the period ended December 31, 2007 consolidated financial statements is as follows:

	As previously reported	As restated
	\$	\$
Minority interest	7,829,234	9,715,530
Deficit beginning of period	35,904,507	37,790,803
Deficit end of period	37,848,460	40,788,939

# ANDEAN AMERICAN MINING CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

*(unaudited)*

*(Expressed in Canadian Dollars, except where noted)*

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### 18. Contingency

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 thus is considered to have abandoned any interest in the Invicta project.

### 19. Subsequent Events

- (a) Subsequent to the nine months ended December 31, 2008, the Company received confirmation from the Peruvian Government that it would be eligible to receive an investment tax credit. The Company expects to receive these refunds early in 2009.