

DIRECTORS REPORT TO THE SHAREHOLDERS

Vancouver, BC, July 30, 2002 - The challenges associated with operating a mine in a remote location in the Peruvian Andes at an elevation of 4,000 meters combined with limited operating capital have the ability, if left unmanaged, to add up to failure not success. However, by these measurements, the year ended March 31, 2002 added up to success: success against objectives, success through accomplishments, success despite disappointments and success through some failures.

The company, while still at risk, has taken a large step in the right direction. Through low cost production and continued strong management of Santa Rosa, particularly in the second half of the current year, the company should achieve commercial viability. Cash flow from the expanded production facility should be sufficient to allow debt service to our creditors and growth in value to our shareholders.

With the fiscal year end now well past and the operating results of the first quarter (June 30, 2002) now available, we are able to comment on the past year with the benefits of these facts.

The year over year results can be seen by reviewing our financial statements. What needs to be told here are the objectives set, the accomplishments, the disappointments, the successes, the failures over the past twelve months and the outlook for the next 12 months.

The news releases over the year ending March 31, 2002 provide the highlights of our growth and development.

March 2001	Equipment dispatched to site for Pilot Plant Project
June 2001	Trial runs of pilot plant
July 2001	Production initiated – start-up begins
August 2001	Continuous production in start up mode
October 2001	First gold sales
November 2001	Return of properties from Placer Dome Expansion decision taken
December 2001	Production debenture financing
January 2002	New exploration program commences
February 2002	Exploration success at Carelo
March 2002	Commercial production begins

The outlook for the project continues to improve. It speaks highly of this young organization from a maturation perspective, when obstacles are overcome in a short time frame. While many milestones of achievement are news worthy, we do not often have the opportunity to speak to the inherent risks and difficulties associated with our industry and your company. Fortunately, on balance all the events have unfolded as we had hoped and planned, but certainly not without setbacks or requiring serious problem solving sessions.

The problems overcome during the past year include:

Capital:

- Insufficient capital to complete the pilot plant
- Insufficient capital to expand mineral resources

- Insufficient capital to service debt load
- Insufficient capital to expand production facilities

Geology:

- Surprising presence and persistence of clays
- Perceived incontinuity of mineralization and grade
- Quality Assurance and controls
- Complex interpretation issues

Organizational Development:

- Growth of greater than 500% (growing from 15 employees to over 100)
- Development of Andean team culture
- Training programs
- Logistical supply lines
- Replacement of metallurgical, geological and Mine Managers.

Environmental:

- E.I.A. compliance with communities
- Heavy rains/major events provisions
- Contractor compliance with E.I.A.
- Community agreements and understandings

Operations:

- Contractor non performance
- Equipment breakdowns
- Cash Flow difficulties
- Expansion to plant facilities while operating
- Protracted learning curves
- Climactic changes of rainy season/hail/lightning

Technology:

- Applying initial concepts, learning from failures
- Changing treatment to match optimization
- Recovery in compacted leach piles
- Development planning for Pilot Plant
- Development planning for expanded production facility

Development:

- Permitting 3,250 TPD operations, environment and community relations activities
- Funding operational shortfalls
- Funding for expansion to a 3,250 TPD facility

2002 OBJECTIVES, ACCOMPLISHMENTS AND DISAPPOINTMENTS.

OBJECTIVES:

- To install and achieve commercial production through a pilot plant.
- To achieve commercial viability with a minimal budget
- To achieve full environmental and sustainability compliance.
- To expand our exploration program
- To broaden the understandings with the local communities and to expand our Community Assistance programs in the areas of infrastructure, health and education.
- To initiate company-wide incentive compensation tied to production budgets and training

programs and implement new QA/QC standards.

- To achieve lowest industry quartile for gold production costs (cash and non cash).

ACCOMPLISHMENTS:

Operations:

Commercial production was achieved in March of 2002. Improvements to commercial production are ongoing and although our history is too brief for the numbers to be totally meaningful here are the production numbers since commercial production started (based upon site cost controls).

Commercial Production Costs (all in US\$)

	March 2002	April 2002	May 2002	June 2002
Tonnes produced	13,335	18,994	20,024	25,335
Costs per tonne	\$11.69	\$9.50	\$9.47	\$8.51
Production costs	\$155,886	\$180,443	\$189,627	\$215,601
Recoverable ounces produced	883	1115	1158	1363
Ounces sold	536	440	556	631
Ounces inventoried	347	675	602	732
Au cost/oz cash	\$69.53	\$61.86	\$53.89	\$50.72
Au cost/oz (minus Ag)	\$66.08	\$60.45	\$52.68	\$49.16
Non cash costs	\$49.90	\$49.90	\$49.90	\$49.90
Total cost per oz Au	\$115.98	\$110.35	\$102.58	\$99.06

The trend is in the right direction and should continue throughout the coming quarter.

Approximately \$6.50 per ounce for administration, refining and commercialization cost are incurred on top of these costs.

Exploration:

Over the past year, exploration has expanded into Carelo, the North Zone and the North East Zone as well as the Open Pit Zone of the Santa Rosa Dome. As production has increased a great deal of information has been generated regarding the deposit and its styles of mineralization. This information proved critical to the reinterpretation of the geology of the Carelo Zone and provided Andean American with its first exploration success of the year. Carelo is as a priority target and the goal is to be able to advance the exploration of Carelo to the point where it is possible to potentially add resources to the mineral inventory.

The recent exploration success in Virundo is another significant accomplishment from the past year. Although it is still very early in the investigation of the Virundo Zone we have seen that there is significant (>3.0 g/t) gold grades found within a very large mineralized target as defined by favourable alteration and anomalous gold grades. This mineralized target now stands at 2.0 by 1.1 km. The exploration program is now also concentrating on the regional geology within and surrounding the Santa Rosa Property. A greater understanding of the regional geology and the regional controls for mineralization will aid future exploration programs and may even result in additional discoveries. 25% of future profits have been dedicated to exploration.

OTHER ACOMPLISHMENTS:

- Our environmental and sustainability programs were seriously tested during the rainy season. We maintained our levels but learned of areas for improvement for next season, particularly standby pump capacity.
- Community relations have been broadened and tested during the year. In the eventually that something may go wrong this reinforces the need for solid understanding of our commitments by the community and its leaders. The infrastructure programs were the source of much of the testing. These were resolved shortly after the rainy season ended.
- Training programs have taken hold in all areas of our operations. The onsite contractors do not participate in this however.
- Low costs finally got production boosts in the second half of March, although grade affected costs negatively in the April, June period due to equipment shortages and the working off of stockpiles. On balance a very good start through very trying times.

DISAPPOINTMENTS:

- Some senior mine management changes were necessitated during the year.
- The incentive pay scheme has not yet been implemented due to firstly, the rainy season and secondly, the distractions of the expansion program for the second crushing circuit, the pads tripling in size and tripling the capacity of the adsorption, desorption recovery (ADR) plant.
- Not enough organization of data to allow Snowden, our independent 3rd party consultants, to progress on updates to resources. However, good progress is now being made.
- Funding limitations effects on the expansion projects, slowing our goal of at least doubling our production in the 2nd Qtr. This should start in September 2002.
- Not sufficient progress made on community infrastructure in the health care areas.
- Not able to expand exploration program, due to funding constraints, until June.
- Not able to install silver precipitate circuit, lower priority.

The setbacks have been taken in stride and helped formulate new objectives for the coming year.

SUCSESSES:

The Company has:

- A comparatively strengthened balance sheet, and income from operations for the first time. A humble start - but progress.
- An operating, low/cost production facility achieved in one year.
- Exploration success at Carelo through to Santa Rosa Dome
- Early stage exploration success at Virundo
- Low overall cost of acquisition for land, initial drilling and exploration and capital expenditure, in comparison to industry norms.
- Low costs for production of gold, both for cash and non cash costs.
- Strong in country resident management
- Good relationship with debenture holders and trade creditors.
- Positioned for growth this year.

FAILURES:

Pilot Plant:

There were a number of failures associated with the pilot plant and the organizational development of Santa Rosa. Failures are a part of learning and result in progress when recognized and corrected. The most notable were:

- The initial adsorption, desorption, recovery plant design was badly undersized.
(Capacity has since been effectively tripled.)
- The compaction on the leach pads.
(A new program is in place to correct this problem.)
- The wrong contractor for crushing.
(This was addressed with the new crushing circuit results begin in September)
- The wrong contractor for mine hauling.
(Changed in August of 2001.)
- The wrong crush size for agglomeration.
(Changed from 3/8" to 1½")
- The original organization for pit development.
(A continually evolving process in preparation for increases to 3,250 tpd)

The list of failures always exceeds the successes particularly when in a Pilot Plant operating mode.

CONCLUSION:

The company has survived through a particularly difficult year. We are continuing to learn from both our growing operations and exploration programs. The additional capacity of the expansion to the production facilities bodes well for the upcoming year. Similarly, the new developments surrounding the Virundo discovery and the continuity of mineralization from the Santa Rosa Dome through to the Carelo Zone bodes well for our 2002 exploration program at Santa Rosa.

We could not conclude without a word on markets and the relevance of low cost of production on our staying power as a company. The original decision to proceed with a pilot plant at Santa Rosa was taken based on the original inferred resource from June 1999. A high grade version of that inferred resource was looked at as a "start up high grade" in the summer of 2000. Gold prices were looked at with three possibilities: \$250, \$265 and \$280 per ounce. The actual gold price may go up or go down, but low operating costs will always be beneficial, both in comparative and real terms. The value to Andean American shareholders comes from a continued number of factors, but none greater than the low cost of production. Exploration success will speak to our future and the possibilities of other production facilities and mine supply for many years to come. Being a low cost producer provides your company with staying power and the cash flow for development.

These are indeed, exciting times for Andean American Mining Corp.

Andean American's objective is to create shareholder value through low cost mine development. At Santa Rosa, through higher process rates and continued process refinements the aim is to have production costs in the lowest quartile for the industry. The mine is now in commercial production and this is seen as a realistic goal as Peru is host to two of the world's lowest cost producers of gold, Yanacocha and Pierina - both of which are high altitude heap leach operations.

To find more about Andean American Mining Corp. (TSX: AAG) visit our website at www.andeanamerican.com. For further information, please contact John Devlin at 1-866-885-0484 and jdevlin@andeanamerican.com or the Company at (604) 681-6186 or toll free 1-888-356-4784 and email info@andeanamerican.com

On behalf of Andean American Mining Corp.,

“John Huguet”
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Director