

## **DIRECTORS REPORT TO SHAREHOLDERS**

Vancouver, B.C, August 19, 2003. The Board of Directors of Andean American Mining Corp. (TSX-V: AAG) are pleased to report on the progress your Company has achieved over the past year. We have come from our humble beginnings to the position we are in today - positioned for growth.

For much of fiscal 2003 and the first months of the current fiscal year the focus of the Company has been to improve gold recoveries, expand production facilities, lower operating costs, add to the mine life, acquire additional prospective exploration ground, select a joint venture partner and put in place the finances to accomplish the above with minimal dilution to the shareholders.

### **IMPROVE GOLD RECOVERIES**

As detailed in the operations review the pervasive presence of clays has finally been resolved from a technical perspective and recently from a practical daily operating approach as well. The clays in the open pit zone run from 1½ to 6 grams gold on average and vary in thickness, density and humidity. The clays have one thing in common. They compact easily and prevent percolation on the leach pads, when mixed with other run of pit materials, they can seriously restrict permeability. After many futile attempts and a variety of treatment methods we have decided to isolate the clays completely from other pit materials and treat the gold recovery as a separate process. Current mine operations are utilizing the methods as detailed in the operations review, however we are pleased to report the gold recoveries are now well on their way to the budgeted 70% range. Inherent cash flows should improve dramatically in September if the current results continue.

### **EXPAND PRODUCTION FACILITIES**

Crushing facilities have been expanded to allow production in excess of the 1,200,000 TPA currently permitted. Currently the leach pads are being expanded threefold. The ADR plant is also being upgraded to allow at least 3kgs per day of gold recovery in the first stage. When this proves successful further expansion will take place. A new clay treatment facility is also being installed with independent gold recovery. An agglomerated clays/fines circuit is being added to the crushing plant to provide further isolation of the clays which may escape detection in the pit.

### **LOWER OPERATING COSTS**

This area is thoroughly reviewed in the Operations Review but it is worthy of reinforcing management's philosophy here. Cost is the only part of a mining operation under our complete control. This Board is dedicated to achieving the lowest quartile costs per recovered ounce of gold. Significant process improvement has resulted in a lower cost. More to follow in the monthly operating reports.

### **ADD TO THE MINE LIFE**

While commercial grades appear continuous in the eight new structures discovered in the open pit zone and at Carelo, a proper diamond drill program is needed to calculate the tonnes and grade available as a resource or reserve. Subject to available financing this drill program should start in September. This is over and above anything our joint venture partner is accomplishing on the optioned lands.

### **ACQUIRE ADDITIONAL PROSPECTIVE EXPLORATION GROUND**

Since the last Annual Meeting the highly prospective exploration land held by your

company has approximately doubled to more than 21,200 hectares at Santa Rosa. 3,300 hectares under control of Andean American and the balance optioned to our Joint Venture Partner.

#### SELECT A JOINT VENTURE PARTNER

As announced May 5, 2003, the Company has signed a binding letter of intent with Newmont Peru for the Exploration and if warranted, development of more than 17,000 hectares of the Santa Rosa Properties. Details of to-date progress and on going activities will be the subject of separate future announcements. The Company is highly encouraged by the to-date activities of our joint venture partner. The size of the undertaking understandably will require patience and a medium term mentality.

#### FINANCING EXPANSION AND GROWTH

Opportunities are presented to the Company on an ongoing basis to obtain much needed capital. To date, with minor exceptions, the Company has attempted to grow through internally generated cash flow and the exercise of warrants and options. The measures we have outlined in this Report need to be accomplished in the next 5 months and therefore as previously announced the board is determined to raise the necessary capital.

#### SUMMARY

A year of significant accomplishments, many set backs followed by learnings, frustrations followed by changes and at the end a Company on a solid foundation, solid land tenure, a first class joint venture partner, and an improving and growing mining operation. A Company positioned to grow and improving in value for our shareholders.

#### OPERATIONS REVIEW

Improving recoveries have been the priority of the company since August 2002. The presence of clays has proven to be far more persuasive than original indicated. Additionally, heavy "El Niño" rains exposed many areas of needed improvement/expansion in the leaching and ADR facilities. The first six months of calendar 2003 have proven the need to treat clays separately. Following the results of many site investigations and laboratory tests, the company decided in June 2003 to absolutely eliminate clays and isolate them from mainstream pit operations. As a consequence clays, fines and a small amount of coarse mineralization are handled to a clay stock pile for separate treatment in a to be constructed C.I.P plant.

Initially this plant will have a 300 T.P.D. capacity. Start up will be for April 2004. In addition, the Company will also construct an agglomerated clay and fines handling system utilizing double screening at the crusher plant which will utilize an agitated leach. Additionally, double screening at the crushing plant will isolate any clays that escape detection in the pit, and agglomerate with an 8 day cure utilizing a sulfate additive and importantly separate pad areas for 80 centimeter leach module height. This will handle up to 1,200 T.P.D. (varying with actual rock type). This additional treatment circuit should start up in November 2003.

A similar approach will be used to recycle the approximate \$6 million of gold/silver currently on the pads (note correction from news release of August 1, 2003) at a rate of 800 T.P.D. Additional pads are being constructed (15,000 sq. meters) to provide space for these low height modules to be accommodated.

Mainstream crushing operations utilizing a 2-3 meter module height is currently capable of greater than 3,240 tones per day. Additional leach Pad area is necessary in order to achieve these production rates. In total leach pads are as follows:

Square Meters	
22,000	Existing
3,700	Installed late July
5,000	Current Installation
10,000	September expansion
26,000	October expansion
66,700	Total Pad Area

This pad expansion triples the pad area and when combined with the clay treatment systems and the new drip feed leachate systems, prepares, and should allow, the mine to operate through out the rainy season. Much more the operation review has focused on the treatment of clays and their effects on recovery. The cinetic curve for normal coarse material has now passed 50% recoveries in 20 days for 3" minus coarse materials. The agitated leach for the clays has tested, in laboratory well in excess of 90% recoveries. The agglomerated clays on the leach pad have yet to be field tested in bulk; however the field testing of small modules has resulted in very acceptable recoveries. Recycled production with the new module height should yield a 50% recovery rate. With these fresh results and new approaches to gold recovery, the Company now is in a position to increase production.

#### OPERATING COSTS:

April demonstrated the beneficial effects of high production on fixed costs but due to the aforementioned clay/recovery problems did not produce the desired cash flow. New excavators in the pit have effectively lowered the handling costs. The new crusher location has lowered the transport costs. Self performance of blasting, while continuing to utilize contract drilling has resulted in both lower costs and lower dilution. The new utility excavators in the leach pad area have improved the permeability of coarse material and enhanced recoveries resulting in both lower costs and improved cash flows. With these cost items demonstrably improved on a small scale it is now the time to expand.

#### EXPLORATION REVIEW:

The new discovery at Virundo attracted significant interest from industry majors. Following an 8 month process, Newmont and Andean signed a binding letter of intent wherein, if warranted Newmont will invest 7 million U.S. dollars, quantify in resources at least 1 million ounces of gold, and with other conditions met, earn 51% in approximately 17,700 hectares of the Santa Rosa properties. (See News Release of May 5, 2003).

Andean American stays with 3,300 hectares for mine development and exploration. In this regard, Andean's exploration efforts have concentrated in the open pit zone and the north zone, north east zone and Carelo. The original resource for the Santa Rosa mine was contained in an area essentially 250 meters by 120 meters and average approximately 20 meters depth. The newly discovered areas cover an area of approximately 750 meters by 450 meters by 140 meters depth.

This area is in the open pit area, does not include Carelo, which at the time of this writing is 300 meters by 200 meters and an as yet not determined depth. There are eight new discovery structures in the open pit zone. They will be tested by diamond drill later this season, finances permitting, and if warranted will result in new resource and /or reserve calculations. The Company is highly encouraged by the results to date and will make every effort to advance data to complete calculations.

In summary a highly productive year for a highly prospective property both in support of expanded operations, mine life, and new discoveries.

#### SINCHAO PROPERTY UPDATE:

The Sinchao Property is carried on the Andean books for approximately \$22 million. This is the single largest cost item on the balance sheet. The Sinchao Property is a world class property which has tremendous upside potential. The Company has done its utmost to maintain its ownership interest in this property. It is a key Company asset in which the shareholders have invested a lot. A review of the carrying cost of this property will reveal that there has been no exploration work done on the property for over three years. The Company is maintaining all the concessions by paying the annual holding costs but this is not a significant cost. It should be noted that the lack of exploration work does not reflect a lack of merit of the property. There has been no work done for the following reasons:

(a) For the past three years the Company has been focussing on the Santa Rosa Property and bringing that property into production.

(b) There has been an ongoing title issue with respect to a portion of the Sinchao claims.

The further development of the Sinchao Property is a significant undertaking. In the last detailed technical report prepared in 1998, a detailed two phase program was recommended calling for expenditures of \$3.5 million. This is a significant property and if the potential holds out, the capital costs to develop would be in the \$500 million range. The revenues that could flow from this are substantial.

The Company, to advance the project, would consider a farm-out to a major mining company and in fact a number of companies have expressed an interest. Until the title issues are sorted out it will be impossible to attract the majors. In addition it would not be a good idea for the Company to incur any significant expenditures in the unlikely event that the title issues did not come out the way we expect them to. Management believes the carrying costs are fairly stated and no adjustment is needed.

For follow up enquiries, please contact:

- John Huguet, President & CEO – Global
- John Devlin – Canada & USA
- Werner Renggli, Vice Chairman, Switzerland & Europe
- Kelly Boatright – Canada & USA

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. 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, which are both high altitude heap leach operations.

To find out more about Andean American Mining Corp. (TSX-V: AAG), visit our new website at [www.andeanamerican.com](http://www.andeanamerican.com) . For further information, please contact: John Devlin at 1-866-885-0484 and [jdevlin@andeanamerican.com](mailto:jdevlin@andeanamerican.com) or Windward Communications at 1-866-238-1185 or the Company at: (604) 681-6186 or toll free: 1-888-356-4784 and email: [info@andeanamerican.com](mailto:info@andeanamerican.com)

On behalf of Andean American Mining Corp.,

"John Huguet"  
President & CEO

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