

ANDEAN AMERICAN DIRECTORS REPORT TO SHAREHOLDERS

Vancouver, B.C., August 24, 2004 - The Board of Directors of Andean American Mining Corp. (TSX-V: AAG) are pleased to report on the progress of your Company over the past year.

Our humble beginnings are not too far behind us, as we are reminded of them constantly with some of the operating results; however we have made much progress over the past year and are soundly positioned for continued growth.

We set some lofty goals for the company to achieve:

- Improve gold recoveries
- Expand production facilities
- Lower operating costs
- Increase mine life
- Acquire additional prospective ground
- Select a joint venture partner
- Improve financial viability

We will comment on each objective and update to the current years' plans.

IMPROVE GOLD RECOVERIES

Gold recoveries have benefited from three factors:

- 1) Isolation of clays, holding clays on pad to under 5% on new material and a diminution of the presence of clays.
- 2) The installation of the new agglomerator; and
- 3) Expanded leach pads

Further improvements will come from:

- New thermal reactivator for the carbon in column circuit
- New silver precipitate circuit
- Expanded leach pads
- Initiation of a recycle program, drawing down inventory

With these technical improvements accomplished we forecast we will be able to achieve 75% - 84% gold recoveries and 28% silver recoveries.

EXPAND PRODUCTION FACILITIES

During the year the leach pads have been expanded, not to the forecast 66,000 square meter but to 55,000 square meters when the pad and work is complete (Sept 30/04). This represents a 150% increase and brings leach pad capacity to 250% of the original.

The ADR plant is still being expanded and modified. Current projects include doubling the capacity of the electrolytic cell, and a new carbon thermal regeneration plant. There is a complete new silver precipitate circuit being installed in August and September. It should be operational by mid October 2004.

The new agglomerator is in place and working to design. The next change will be for all fines to go to a separate pad from the 3" coarse material. The current tests have indicated more recovery from lower module height in less time. The clay treatment plant has been mothballed as only 90,000 tonnes of clays were determined to exist. We continue separation and classification in the Pit, as soon as the clays are identified.

LOWER OPERATING COSTS – CASH COSTS

Operating costs are down to about \$4.50 – \$6.00 per tonne for fresh material before silver credits. Recycled costs are estimated to be between \$1.40 and 1.80 per tonne before silver credits. Fiscal year ending March 31, 2005 forecasts total (fresh and recycled) tonnage of 735,000, and silver credits from greater than 200,000 ounces sales. Therefore operating costs could benefit by approximately 1.2 to 1.4 million credits. Reducing fresh material to approximately \$2.65-\$4.15/ tonne and recycled to approximately a negative \$0.45 / tonne credit.

If these targets are met then the objective will have been met. We are stressing we are demonstrating current low costs for fresh material and still have room for improvement. The recycled costs are estimates based on field trials and have a high confidence level. However these are only estimates at this time. Recycling will begin with the availability of pad 7 and the silver precipitate circuit.

There is still room for improvement through higher equipment utilization and higher through put volumes lowering unit costs for labor. The estimated blended costs for producing a recovered ounce of gold are total gross costs less silver credit which should produce a recovered ounce of gold for well below \$100.00 per ounce. This theory still must be proven.

NON-CASH COSTS

The exploration program completed in the first half of calendar 2004 has greatly expanded the depletion base for the mine. The new investments in pads, plant, equipment and exploration have also increased the fixed assets and intangible costs. The net result is a non-cash cost of \$32.00 per ounce. Depletion for gold and silver reserves were approximately 2% this past fiscal year.

ADDITION TO THE MINE LIFE

While the qualified person review and preparation of the updated reserves, resources and technical report will not be available before our annual meeting, the base of estimated recoverable gold and silver has been greatly enhanced through the new discoveries in our recent drill program. Specifics will be released when proper review and certification has been received. However, it is safe to say a minimum five fold increase to reserves and indicated resources has been achieved. Also inferred resources are estimated to be more than double the reserves and indicated resources. A proper Technical Report by a Qualified Person, expected next Quarter, will provide full details.

ACQUIRE ADDITIONAL PROSPECTIVE EXPLORATION GROUND

The gross hectares at Santa Rosa now stand at 23,929 (23,559 net), with the additions as per our October 7, 2003 news release. Also at our Sinchao project, the Mines Registry Office concurred with our land claims issues and granted Valle de Sinchao numbers 1 and 3 to our company. We are hopeful Valle de Sinchao number 2 and 4 will also soon be granted.

During the fiscal period a total of 3,100 hectares have added to our exploration grounds.

SELECT A JOINT VENTURE PARTNER

Some disappointment surrounds all the efforts with Newmont. Despite very good trenching, soil samples and BLEG results, commercial gold grades were not produced from their 9-hole drill program. Even though all drill results were known in August of 2003, a definitive joint venture agreement was signed in September 2003. Newmont officially withdrew from the project in the fourth quarter of our fiscal year.

Andean inherited significant regional work from Newmont and have many geological targets back under own control. We continue to hold very high expectations for many of the areas reviewed by Newmont, and from reviewing their work, know our company has gained great insight as a consequence of our

association with them. Bruce Harvey, (the Newmont continent manager) stands out as a tremendous individual both very knowledgeable and filled with integrity of the highest order.

We currently have two confidentiality agreements active on the Santa Rosa properties and two for Sinchao properties.

FINANCING EXPANSION AND GROWTH

A small equity issue was completed in the November 2003 – January 2004 period raising sufficient capital to finance the plant expansion and the first phase of the drill program.

At this time cash flow from operations is improving and should substantially increase with the implementation of the silver circuit. No major equity issues are foreseen as required for the current fiscal year with the caveat always that opportunities may present themselves which may require an equity issue.

SUMMARY

A year of solid progress, many set backs frustrations and challenges. A year of change. Complete new Mine Management staff in the fall of 2003. Complete new exploration perspective. Set backs with Newmont, but solid exploration results. Disappointment with deferring the Raymond James financing. Satisfaction as the Mine Management team takes hold and starts to realize the potential of the Santa Rosa Mine. Satisfaction from an exploration program plagued by people turnover in a highly volatile exploration environment throughout the metals sector, especially in Peru. Frustration with the rate or progress being limited by our ability to generate sufficient capital. Appreciation for our investors and creditors whose support made all the progress possible. And finally, optimism for the future as recovery rates improve, mine life expands and costs move into the lowest quartile for the industry. We should also renew our exploration efforts in the third quarter both at Santa Rosa and the newly expanded Sinchao lands.

Our immediate goals are to improve cash flow through the conversion of our inventory into saleable metals. The 3rd Fiscal Quarter should see substantial improvement.

Our intermediate goals are to join the ranks of greater than 50,000 ounces of gold and gold equivalent economic production. Once the accomplished then to move on into the 100,000 ounces per annum category.

Our longer term goal is to realize and define the potential of both the Santa Rosa and Sinchao properties.

Andean American's objective is to create shareholder value through low cost mine development and exploration. 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. Andean American; producing, profitable, expanding and exploring.

On behalf of Andean American Mining Corp.,

“John Huguet”
President & CEO

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