



17 July 2006

Dear Andean Shareholder,

### **Final Result of the Kingsgate Takeover Offer and Update on Forthcoming Company Activities**

I am writing to you to update you on several matters following the conclusion of Kingsgate's unsuccessful takeover offer for your Company.

At the outset I would like to thank you for your support during this process which I know has been an extremely intrusive one for many of you. The overwhelming majority (approximately 78%) of Andean shareholders have chosen to reject Kingsgate's offer reflecting the strong belief that Andean can continue to deliver significant future value from its Cerro Negro gold Project in Argentina, as a stand alone and independent company'.

Rest assured that while this process has been an unwelcome distraction for everyone involved with the Company, Andean has continued to made significant progress at Cerro Negro, including the delivery, in May 2006, of a maiden resource estimate comprising 840,000 ounces of gold solely at the Vein Zone deposit, one of eight currently identified epithermal gold prospects within the Cerro Negro tenement boundaries.

Management's immediate task is to progress our drilling program for the remainder of the year at an accelerated pace with the objective of increasing the project's resource base both at Vein Zone and, potentially, at one or more of the other identified prospect areas through the discovery of additional gold mineralisation. The detailed planning for this up-scaling in activities is well advanced.

#### **Andean Board**

You will be aware that your board have called a General Meeting of the Company to be held later this month to seek the removal of Mr Gavin Thomas from the Andean board. Your independent directors are firmly of the view that it is not appropriate for Mr Thomas to remain on the board given his dual responsibilities as a director of Andean and a senior executive of Kingsgate. Given recent events, we believe Mr Thomas' position represents an insurmountable conflict of interest for him.

Your independent Directors recognise that Andean must be forward looking and in a position to make a successful transition from exploration to project development. The recent release of the resource estimate for Cerro Negro of 840,000 ounces is an important milestone in this process. For this reason the board has given considerable thought to the most appropriate structure and skills needed for the next phase of Andean's development and will be looking in the short term to expand its board and management capabilities accordingly.

#### **Andean Resources Limited**

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## Alternatives

During the course of the takeover, your independent directors indicated that there were a number of parties assessing Andean and in particular Cerro Negro. Some of these parties are still reviewing data and while the process has progressed in accordance with our expectations it is not possible to reliably forecast the outcome of these at this point in time. Your independent directors will keep shareholders informed of any material developments in relation to these discussions as and when they occur.

## Future Business

As previously mentioned, operations at Cerro Negro have continued to deliver outstanding results throughout the period of the Kingsgate offer, notwithstanding the fact that a considerable amount of time and human resources were directed into responding to the unsolicited Kingsgate offer.

As mentioned above, the Company is planning to accelerate its exploration and pre-development work at Cerro Negro including:

- Increasing the number of drill rigs operating at site from 1 to 3;
- Bringing forward the drilling of additional advanced exploration targets;
- Accelerating the timing of a scoping study on possible mining options at Vein Zone such that a commitment can be made towards undertaking a full feasibility study as soon as possible; and
- Engaging additional development personnel to assist in the preparation of the feasibility study.

We are enthusiastic at the prospect of advancing our drilling program during the upcoming drilling season and I look forward to updating you on future progress in due course. Your independent directors believe that you have made the right choice to remain an Andean shareholder to participate in the next exciting stage of the Company's growth.

Once again, we appreciate your support and look forward to advancing Cerro Negro on your behalf.

Yours sincerely



**Warren Gilmour**  
Chairman