

ANDEAN RESOURCES LIMITED

ACN 064 494 319

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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CORPORATE DIRECTORY

Directors

Mr Patrick Esnouf
Non-Executive Chairman

Mr Wayne Hubert
Managing Director

Mr Warren Gilmour
Executive Director

Mr Morrice Cordiner
Executive Director

Mr Ian Hume
Non-Executive Director

Mr Barry Bolitho
Non-Executive Director

Mr Richard Lorson
Non-Executive Director

Company Secretary

Ross James Arancini

Registered Office

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Fremantle
Western Australia 6959
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Solicitors

Corrs Chambers Westgarth
Woodside Plaza
240 St George's Tce
Perth Western Australia 6000

Auditors

Horwath Audit (WA) Pty Ltd
128 Hay Street
Subiaco Western Australia 6008

Share Registrar

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross Western Australia 6153
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Andean Resources Limited ABN 66 064 494 319 and Controlled Entities

DIRECTORS' REPORT

Your Directors present their report of the consolidated entity for the half-year ended 31 December 2006.

Directors

The names of directors who held office during or since the end of the half-year and up to the date of this report are::

Patrick Esnouf	Non-Executive Chairman	Appointed 1 September 2005
Wayne Hubert	Managing Director	Appointed 25 September 2006
Warren Gilmour	Executive Director	Appointed 16 October 2003
Morrice Cordiner	Executive Director	Appointed 15 December 2003
Ian Hume	Non-Executive Director	Appointed 1 October 2004
Barry Bolitho	Non-Executive Director	Appointed 1 August 2006
Richard Lorson	Non-Executive Director	Appointed 22 January 2007

Results and Review of Operations

The consolidated entity incurred an operating loss after income tax of \$1,945,191 (31 December 2005: \$739,680) for the half -year ended 31 December 2006.

Exploration

The Company continued exploration at its 100% owned Cerro Negro project in the Santa Cruz Province in Southern Argentina including:

- Commencement of a 17,000m diamond and RC drilling programme;
- Conducting metallurgical testwork on representative samples taken from ore at the Vein Zone;
- Undertaking regional exploration programmes.

Corporate

During the half-year:

- Mr Wayne Hubert was appointed Managing Director and Mr Barry Bolitho was appointed as a non-executive Director;
- 3,000,000 options were exercised at \$0.15 each raising \$450,000;
- 13,692,308 shares were placed with institutional clients of the Royal Bank of Canada at \$0.26 per share raising \$3.56m to fund exploration activities and for general working capital.
- 136,923 shares were issued to the Royal Bank of Canada at \$0.26 each as a placement fee.
- 833,333 shares were issued to the Royal Bank of Canada at \$0.30 each as part payment of fees for services provided under an agreement with the Company to act as an advisor in relation to a takeover offer received from Kingsgate Consolidated Ltd.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 12.

This report is signed in accordance with a resolution of the Board of Directors.



Warren John Gilmour

Dated this 9th day of March 2007

Andean Resources Limited ABN 66 064 494 319 and Controlled Entities

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Half-year	
	31.12.2006	31.12.2005
Revenue from continuing operations	119,539	91,757
Employee benefits expense	(180,497)	(152,520)
Depreciation and amortisation expense	(16,724)	(3,396)
Consultant fees	(605,578)	(332,439)
Share based payments	(471,082)	-
Takeover expenses	(417,097)	-
Administration expenses	(373,752)	(343,082)
Loss before income tax	(1,945,191)	(739,680)
Income tax	-	-
Loss from continuing operations	(1,945,191)	(739,680)
Loss attributable to members of Andean Resources Limited	(1,945,191)	(739,680)
Basic loss per share (cents per share)	(0.66)	(0.31)
Diluted loss per share (cents per share)	(0.66)	(0.31)

The accompanying notes form part of these financial statements.

Andean Resources Limited ABN 66 064 494 319 and Controlled Entities

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	31.12.2006	30.06.2006
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	3,672,105	3,962,707
Trade and other receivables	1,239,243	987,352
TOTAL CURRENT ASSETS	4,911,348	4,590,239
NON-CURRENT ASSETS		
Property, plant and equipment	441,027	113,924
Exploration and evaluation costs carried forward	11,140,579	9,539,295
TOTAL NON-CURRENT ASSETS	11,581,606	9,653,219
TOTAL ASSETS	16,492,954	14,603,458
CURRENT LIABILITIES		
Trade and other payables	472,590	475,705
TOTAL CURRENT LIABILITIES	472,590	475,705
NON-CURRENT LIABILITIES		
Payables	1,202,379	1,276,882
Provisions	406,594	431,343
TOTAL NON-CURRENT LIABILITIES	1,608,973	1,708,225
TOTAL LIABILITIES	2,081,563	2,183,830
NET ASSETS	14,411,391	12,419,528
EQUITY		
Contributed equity	33,535,353	29,275,353
Reserves	531,103	854,049
Accumulated losses	(19,655,065)	(17,709,874)
TOTAL EQUITY	14,411,391	12,419,528

The accompanying notes form part of these financial statements.

Andean Resources Limited ABN 66 064 494 319 and Controlled Entities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Share Capital	Accumulated Losses	Reserves	Total
	\$	\$	\$	\$
Balance at 1.7.2005	21,331,600	(14,934,165)	494,809	6,892,244
Shares issued (net of issue costs)	5,595,753	-	-	5,595,753
Options issued to consultants	-	-	132,000	132,000
Foreign currency translation	-	-	77,460	77,460
Loss for the half-year	-	(739,680)	-	(739,680)
Balance at 31.12.2005	26,927,353	(15,673,845)	704,269	11,957,777
Balance at 1.7.2006	29,275,353	(17,709,874)	854,049	12,419,528
Shares issued (net of issue costs)	4,260,000	-	-	4,260,000
Options issued to a director	-	-	221,082	221,082
Foreign currency translation	-	-	(544,028)	(544,028)
Loss for the half-year	-	(1,945,191)	-	(1,945,191)
Balance at 31.12.2006	33,535,353	(19,655,065)	531,103	14,411,391

The accompanying notes form part of these financial statements.

Andean Resources Limited ABN 66 064 494 319 and Controlled Entities

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	31.12.2006	31.12.2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,989,431)	(1,406,127)
Interest received	89,857	43,525
	(1,899,574)	(1,362,602)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	24,000	-
Payments for property, plant and equipment	(344,832)	(14,919)
Payments for exploration & evaluation expenditure	(1,537,173)	(510,735)
Payment of installments for acquisition of mining tenements	-	(522,261)
	(1,858,005)	(1,047,915)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares (net of issue costs)	4,010,000	5,595,753
	4,010,000	5,595,753
Net increase in cash and cash equivalents	252,421	3,185,236
Cash and cash equivalents at 1 July 2006	3,962,707	2,225,503
Exchange rate adjustment	(543,023)	77,460
Cash and cash equivalents at 31 December 2006	3,672,105	5,488,199

The accompanying notes form part of these financial statements.

Andean Resources Limited ABN 66 064 494 319 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

NOTE 1: BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and *Accounting Standard AASB 134: Interim Financial Reporting*.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Andean Resources Limited during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period

NOTE 2: EVENTS SUBSEQUENT TO REPORTING DATE

Other than referred to below no matters or circumstances have arisen since the reporting date and the date of this report which significantly affect or may significantly effect the results of the operations of the consolidated entity.

Issue of 500,000 shares at \$0.20 per share on exercise of unlisted options.

Issue of 28,000,000 shares at \$0.35 per share (raising \$9.8m) and 14,000,000 unlisted options expiring on 27 February 2009 exercisable at \$0.45 principally to Toronto based institutional clients of Haywood Securities Inc and BMO Nesbitt Burns. Funds raised from the issue are to be used to fund exploration activities and for general working capital.

Issue of 1,800,000 unlisted options expiring on 27 February 2009 exercisable at \$0.35 to Haywood Securities Inc and BMO Nesbitt Burns in consideration for services performed in connection with the institutional placement.

Shareholders were offered the opportunity to participate in a shareholder share purchase plan. Pursuant to the Plan shareholders on the register at 20 February 2007 may subscribe for up to \$4,950 worth of shares at a price of \$0.33 per share. The total amount sought to be raised under the Plan is \$2.64m. Funds raised from the Plan are to be used to fund exploration activities and for general working capital.

Issue of 7,000,000 unlisted options for no consideration to Directors as approved by shareholders at the Company's 2006 Annual General Meeting. The options are exercisable at \$0.30 each and expire on 30 September 2010.

NOTE 3: CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities as at 31 December 2006. There has been no change in contingent liabilities since the last annual reporting date.

Andean Resources Limited ABN 66 064 494 319 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 4: SEGMENT INFORMATION

Primary Reporting — Business Segments

The consolidated entity operates in the mineral exploration industries in Australia and Argentina.

Primary Reporting – Geographical Segments

	Segment Revenues from External Customers		Segment Result		Carrying Amount of Segment Assets		Acquisition of Non-Current Segment Assets	
	31 Dec 06	31 Dec 05	31 Dec 06	31 Dec 05	31 Dec 06	31 Dec 05	31 Dec 06	31 Dec 05
	\$	\$	\$	\$	\$	\$	\$	\$
Geographical location:								
Australia	119,539	91,757	(1,814,740)	(727,254)	4,494,282	5,300,659	7,492	14,919
Argentina	-	-	(130,451)	(12,426)	11,998,672	6,876,372	1,958,591	985,267
Inter-segment elimination	-	-	-	-	-	-	-	-
Total	119,539	91,757	(1,945,191)	(739,680)	16,492,954	12,177,031	1,966,083	1,000,186

NOTE 5: EQUITY SECURITIES ISSUED

	Half-Year		Half-Year	
	2006	2005	2006	2005
	Shares	Shares	\$	\$
As at 1 July 2006	287,289,686	228,351,062	29,275,353	21,331,600
Placement issue of shares	13,692,308	-	3,560,000	-
Exercise of options	3,000,000	4,166,666	450,000	333,333
Shares issued to consultants for fees and services	970,256	-	285,600	-
Entitlements issue of shares	-	35,771,958	-	5,544,653
Capital raising costs	-	-	(35,600)	(282,233)
As at 31 December 2006	304,952,250	268,289,686	33,535,353	26,927,353


Andean Resources Limited ABN 66 064 494 319 and Controlled Entities

DIRECTORS' DECLARATION

The Directors of the company declare that:

1. The financial statements and notes set out on pages 3 to 8 are in accordance with the Corporations Act 2001, including:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - b. Give a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance of the consolidated entity, as represented by the results of its operations, changes in equity and its cash flows for the half year ended on that date.
2. There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors.



Warren John Gilmour

Dated this 9th day of March 2007

Independent auditors' review report to members of Andean Resources Limited

We have reviewed the accompanying half year financial report of, which comprises the consolidated balance sheet at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the half year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Consolidated Half Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the consolidated half year financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated half year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Auditor of an Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the consolidated financial report is not fairly presented, in all material respects, in accordance with AASB 134 *Interim Financial Reporting*. As the auditor of Andean Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.



Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the consolidated half year financial report of Andean Resources Limited does not fairly present, in all material respects the financial position of the group at 31 December 2006, and of its financial performance and its cash flows for the half year ended on that date, in accordance with AASB 134 *Interim Financial Reporting*.

Dated the 9th day of March 2007.

HORWATH AUDIT (WA) PTY LTD

A handwritten signature in black ink, consisting of the word "Horwath" in a cursive script above the name "Peter Toll" in a similar cursive script.

PETER TOLL
Director



Horwath Audit (WA) Pty Ltd

ABN 79 112 284 787

Chartered Accountants

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Western Australia

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www.horwath.com.au

9 March 2007

The Board of Directors
Andean Resources Limited
1/1 Nairn Street
FREMANTLE WA 6959

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my review of the financial report of Andean Resources Limited for the period ended 31 December 2006 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this review;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this review.

HORWATH AUDIT (WA) PTY LTD

A handwritten signature in black ink that reads 'Horwath' on the top line and 'Peter Toll' on the bottom line.

PETER TOLL
Director