



ZEAL REPORTS

Favorite 12 Advanced-Stage Junior Gold Stocks Report March 2010

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AND Andean Resources

What a difference a year makes! When Andean Resources first hit my radar in late 2008, its stock was thinly-traded and relatively unknown to North American investors. Even though its market cap was around C\$300m, AND's daily capital volume on the TSX was only about C\$60k. But considering its incredible potential, I was confident this stock would eventually attract investors. And they have come in droves! AND's market cap has since *more than tripled* with its daily capital volume *over 2000% higher!* Super-high-grade and wildly economic reserves have put a spotlight on one of the world's premier undeveloped gold deposits, and this is why AND *again* finds a place among our favorites.

In its former life this Australian-based junior went by the name of Kanowna Consolidated Gold Mines and hadn't done much in its first decade or so of existence. But its fortunes changed upon its 2004 acquisition of the Cerro Negro project. Cerro Negro's prior owner was MIM Holdings (since acquired by mega-miner Xstrata), and Kanowna was able to acquire it via the acquisitions of 2 small companies that held partial ownership via earn-in options. One of these companies also held a preemptive right to buy the entire project when MIM Holdings eventually decided to sell.

With 100% ownership of Cerro Negro by mid-2004, the company changed its name to reflect its new area of focus, near the Argentinean Andes, and set course to build a solid gold company. And in the subsequent years Andean Resources has made a number of significant gold discoveries across its land holdings. Most notable is the flagship Eureka deposit that grades *over 10 grams per metric ton (g/t)*. Since 2004 Andean has grown its resources by *over 600%*, completed a positive prefeasibility study (PFS), and is in the midst of a bankable feasibility study (BFS) that should lead to a positive construction decision in the near future.

And considering the recent moves to enhance its management team, it is apparent that Andean Resources is positioning itself to build one of Argentina's next gold mines. Managing Director (Australian equivalent of CEO) Wayne Hubert, a former Meridian Gold executive, brought onboard Louis Gignac as Chairman and Richard Leclerc as VP of Operations. Both of these guys have a wealth of experience building mines around the world. Gignac was the CEO of Cambior before it was acquired by IAMGOLD, and has also held management positions at Falconbridge and Exxon Minerals. Leclerc, the former COO of Centenario Copper before it was acquired by Quadra Mining, held senior positions at Falconbridge and Minera Antamina.

Exploration Projects

Cerro Negro		Location: Santa Cruz, Argentina	
Est. Annual Prod.	250k+ oz	Average Grade	8.7 g/t
Gold Resources	2.5m oz	Initial Production	2012

Cerro Negro is located in the low-lying Patagonian region of southern Argentina. As a whole Argentina is a mining-friendly country, but the semi-autonomous nature of its provinces has been known to cause headaches for mining companies. And Andean Resources' management knows this all too well considering their connections to Meridian Gold (acquired by Yamana in 2007). Meridian's Esquel project, located in the Chubut province, was much like Cerro Negro. It held well over 2.0m ozs of high-grade gold resources and was amenable to a 300k-oz-per-year operating plan. This world-class deposit was supposed to vault Meridian Gold into the upper echelon of mid-tier gold producers.

But thanks to provincial woes, this development-ready project never got off the ground. A recent Chubut anti-cyanide policy, mixed with unruly locals, put a halt to Esquel's progress. And thanks to a negative 2007 Supreme Court ruling, this halt is likely for good. Thankfully Cerro Negro is located just south of Chubut, in the mining-friendly province of Santa Cruz. Santa Cruz actually recognizes the importance of mining to its economy, and welcomes the capital investment. Major mining companies such as AngloGold Ashanti, Pan American, Hochschild, and Coeur d'Alene all operate profitable gold and silver mines here. And Cerro Negro will hopefully soon be added to the list.

Gold mineralization was first discovered at Cerro Negro in 1992 by an individual prospector. And it didn't take too long for the big boys to swoop in and have a look. By the following year Newcrest Mining was carrying out reconnaissance and eventually picked up the mineral claims. Throughout the 1990s and up until Andean Resources' final acquisition in 2004, Newcrest, MIM, and other JV partners engaged in on-and-off exploration at Cerro Negro. The fieldwork included extensive mapping, surveying, soil geochemistry, and trenching. There was also a series of drilling programs that sank 112 holes for a total of 15k meters.

Pre-Andean exploration was mostly focused on the promising Vein Zone deposit. And this near-surface deposit is certainly impressive in its own right. But a major discovery in 2007, about 15km northwest of Vein Zone, is what really brought prominence to the Cerro Negro project. Significant high-grade gold/silver mineralization at the Eureka prospect has since captured the lion's share of this project's attention. With the already-promising Vein Zone, now Eureka, and other promising discoveries within the Cerro Negro land holdings, AND has had every reason to aggressively explore and advance this project. And with 480+ holes totaling 110k+ meters to date, it has done just that.

Following Andean's 2006/2007 drill program, and only 7 months after the Eureka discovery, the Eureka West deposit got its first resource estimate. And only 6 months later, in April 2008, it received an update after another phase of drilling results were added to the mix. The Eureka West deposit was estimated to hold 1.0m ozs of gold in the indicated category (grading a staggering 12.9 g/t!), along with 336k ozs in the inferred category (grading 10.7 g/t). And most amazing was that the gold grades improved with depth. These resources are an exceptionally-high grade, especially compared to the Vein Zone deposit. At the time Vein Zone held about 900k ozs grading an average of *only* about 3.4 g/t. And 3.4 g/t is quite high in its own right. Some of the most profitable mines in the world grade less than 1.0 g/t.

These spectacular results prompted Andean to not only keep the drills spinning, but perform a feasibility study to see if Cerro Negro's gold would be economical to mine. And an October 2008 PFS revealed smashing economics. As a result of this study 1.5m ozs of resources were upgraded to probable reserves (946k ozs at Eureka and 526k ozs at Vein Zone). And these reserves would feed a 7-year mining plan that would produce up to 350k ozs of gold per year at its peak. Both deposits would be mined at a rate of 2.0k metric tons per day (Eureka West via conventional cut-and-fill underground methods and Vein Zone via open-pit methods) and would feed a 4.0k tpd processing plant.

With its higher grade the Eureka West deposit would deliver the majority of the volume in the early years, but would fade off by year 4. At Vein Zone mining would be more consistent throughout the entire life of the mine, with volume ramping up in the latter years when mining reaches the higher-grade reserves. Because of this the processing plant would be built at Vein Zone with a road constructed between the 2 sites for truck delivery from Eureka. With this design, project capex was estimated at \$281m. And this price tag isn't too daunting considering cash-cost estimates of *under* \$200/oz thanks to a strong silver byproduct (17m-oz reserve). This mine would pay for itself in only 2 years.

Shortly after the PFS was complete, Andean initiated a BFS to firm up the project plan and get closer to building its mine. But unfortunately it was during this time that the global economic crisis was wreaking havoc on the markets. With big capex looking more ominous in the face of this new environment, AND felt the need to revamp its mining plan. So with the ultimate goal of reducing capex, the new-look BFS would rejigger mine design/engineering and incorporate an alternate mining plan. So far this new plan entails staggered operations as opposed to parallel. Eureka would be mined first, *followed* by Vein Zone. By doing this AND would only construct one operation upfront, and thus build a smaller plant. This would save *about* \$100m in initial capex.

Also recently incorporated into the BFS, which is reason for a delay in completion until Q2 2010, is the inclusion of the newly discovered Bajo Negro vein. This high-grade vein, located about 2.0km southwest of the Vein Zone deposit, was discovered in May and could greatly add to the scope of the Cerro Negro project. Ongoing drilling has returned high-grade intercepts (consistently over 10 g/t) on a large vein that remains open along strike and at depth. Bajo Negro's first resource estimate is due out anytime and it should be interesting to see how this discovery enhances the operational flexibility and economics of the mine.

Overall 2010 should be an exciting year for Andean. The BFS is expected to reveal an optimized mining plan with reduced capex *and* operating costs. And following the completion of the BFS, AND will shore up permitting and procure project financing. If all goes as planned we should see construction begin in Q4. AND is not likely to meet its original 2011 production target, but this is very typical in the pre-development stage as mine design/engineering are constantly tweaked in order to find the optimal solution. We should see production in H1 2012 if this timeline is met.

Concurrent with the BFS work is ongoing exploration within the project area. Not only is Eureka West still open to the west and at depth and Bajo Negro still open in all directions, there are plenty of other amazing targets at Cerro Negro. So far there are 7 known mineralized zones, including the recent San Marcos and Mariana Norte discoveries where ongoing drilling is showing impressive high-grade gold and silver intercepts. I suspect by the time Eureka West is producing gold, that Cerro Negro will have many more resources than the 2.5m ozs on the docket today. This mine is also likely to be producing gold for a lot longer than the 7 years initially outlined in the 2008 PFS.

Financials

Prior to the Eureka discovery, Andean Resources was your everyday junior when it came to raising capital. At the time its stock was only listed in Australia, and just like most juniors it frequently hit up the equity markets in order to fund exploration. Considering its size AND was only able to raise capital in small amounts in the early years. But as Cerro Negro matured and its prospects grew more attractive, the financings grew larger. Only a couple months after the Eureka discovery, in May 2007, AND introduced itself to the Canadian markets via a listing on the flagship TSX. And with the attention of North American investors, who crave quality mining stocks, raising capital was no longer a chore.

With fast-growing high-grade resources and a feasibility study underway, Andean Resources was already elevated to an elite group of gold juniors. And an April 2008 financing for C\$40m proved that investors were taking this company very seriously. Not many juniors are capable of rais-



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ing this kind of capital without a positive economic study. Well with aggressive exploration and advanced technical studies quickly plowing through this new capital infusion, Andean was soon in a position to need *even more*. And again it didn't have a problem finding investors. Andean's July 2009 equity financing raised a whopping C\$90m.

Andean Resources' incredibly strong balance sheet, which includes C\$81m in cash and no debt, should easily be enough to carry it through the BFS, fund ongoing exploration, and take a nice chunk out of project capex once construction commences. But upon the completion of the BFS and a positive construction decision, AND will need to undertake its largest financing of all in order to build its mine. If Andean goes with a staggered build-out, capex will likely be just under \$200m. Now it can probably fund most of this by selling more shares, but I'd rather see the lion's share funded via debt so shareholders aren't overly diluted.

As long as future gold production isn't hedged, debt is typically the best solution. And considering Cerro Negro's wildly positive economics, Andean Resources shouldn't have a problem procuring a large bank loan under fair terms. But as always, investors must scrutinize the terms of any project loan that is secured by a mining operation.



Summary

Market Cap	C\$1,235m	Common Shares	468m
52-week Low	C\$1.15	52-week High	C\$2.75
US Exch-Symb	PNK-ANDPF	CAN Exch-Symb	TSX-AND
Working Capital	C\$78m	Devel. Projects	0
Explor. Projects	1	Gold Reserves	1.5m oz
M&I Resources	482k oz	Inf. Resources	602k oz
Total Resources	2.5m oz	Mkt. Cap./res-oz	C\$494

The bottom line is Andean Resources is one of the world's elite junior gold stocks. Its advanced-stage Cerro Negro project has captured the attention of the markets with its super-high-grade Eureka West deposit. Eureka's 11+ g/t gold reserve along with a strong silver kicker should make for very profitable operations. This project is located in a geopolitically-safe and mining-friendly region, and has incredible potential for growth. As Andean Resources wraps up the BFS, continues to sink the Eureka decline, and moves closer to formal mine construction, it continues to aggressively drill its amazing Cerro Negro land holdings. And by the looks of it, a lot more gold is likely to be found.

* Financial info is from the latest available financial statements or presentation.
 * All data and information presented in this report should be verified for accuracy directly with the company before making a trading decision.