



ASX Announcement

31 January 2006

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Andean Resources Limited is listed on the ASX with the symbol "AND"

QUARTERLY REPORT

For the Quarter Ended 31 December 2005

HIGHLIGHTS

Exploration

- Commencement of the summer field season exploration programs at Andean's 100% owned Cerro Negro gold project in Southern Argentina. Drilling of the Phase 2, 4000m Diamond and RC drill program in and around the Vein Zone prospect area started in late October 2005.
- By the end of the quarter, approx one third of the Phase 2 program had been completed with significant results reported in diamond drill holes VDD 517, 518, 519 & 520.
- These results have confirmed further down dip extensions (of between 50m – 75m) to previously defined broad zones of gold mineralisation present on section 8700E. Specific results include:-
 - 96m @ 2.1 g/t Au (including 28m @ 2.4 g/t & 51m @ 2.5 g/t) in VDD – 517
 - 100m @ 3.5 g/t Au (including 41m @ 7.1 g/t) in VDD – 518
 - 17m @ 11.9 g/t Au (including 4m @ 33.8 g/t Au) in VDD – 520; and
 - 36m @ 1.8 g/t Au in VDD – 519.

Refer Cross Sections attached as Appendix 2 (a) and (b)

- These early results from the Phase 2 program are clearly encouraging and continue to extend and enhance the size and quality of the gold resource being drilled at Vein Zone.
- A Gradient Array Resistivity Geophysical Program has identified an anomaly accurately representing the known Vein Zone mineralisation. Two separate resistivity anomalies have also been located nearby, the first 1km to the north and the second 500m to the east covering the nearby Herradura prospect area. These warrant priority follow-up as part of the current exploration campaign.
- Work has commenced on preparations for carrying out a scoping study on possible mining options at Vein Zone. This will be carried out in tandem with the remaining Phase 2 drill program.

Corporate

- During the quarter, the Company closed its fully underwritten 2 for 13 entitlements issue raising a total of \$5.5 million (before issue costs) in new capital for the Company.
 - Cash at the end of the quarter totalled A\$ 5.16 million

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CERRO NEGRO GOLD PROJECT *(Andean 100%)*

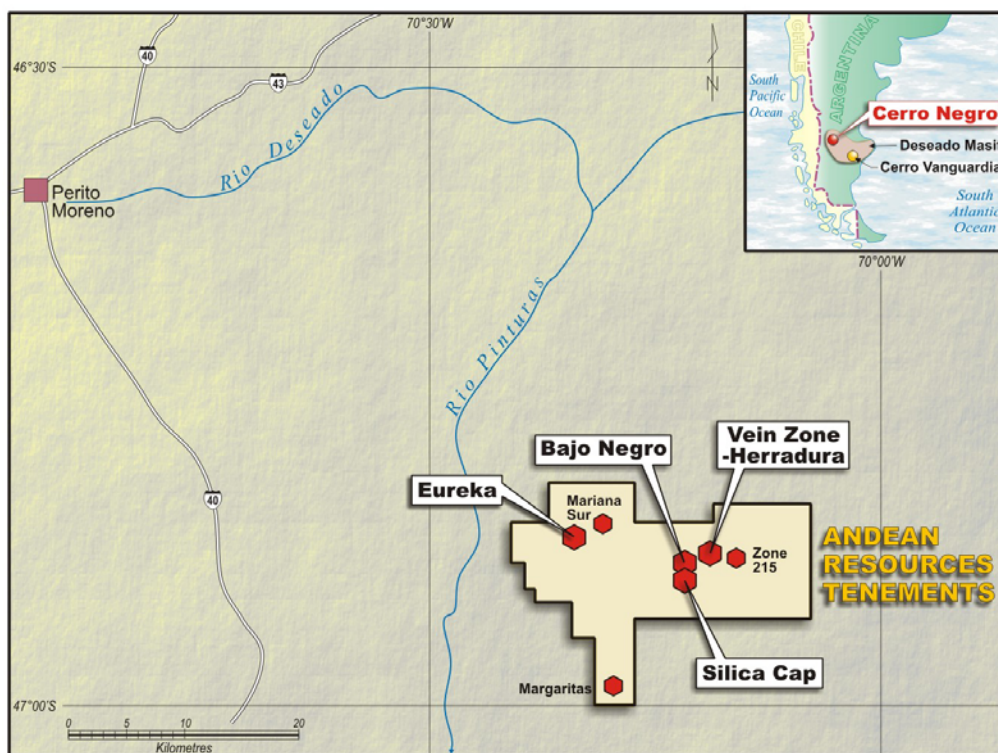
Background

The Company's major project is the 100% owned Cerro Negro epithermal gold deposit which was acquired from MIM/Xstrata in January 2004. The project is located in the southern Argentinean province of Santa Cruz at an elevation of approx 800m above sea level (see location map below).

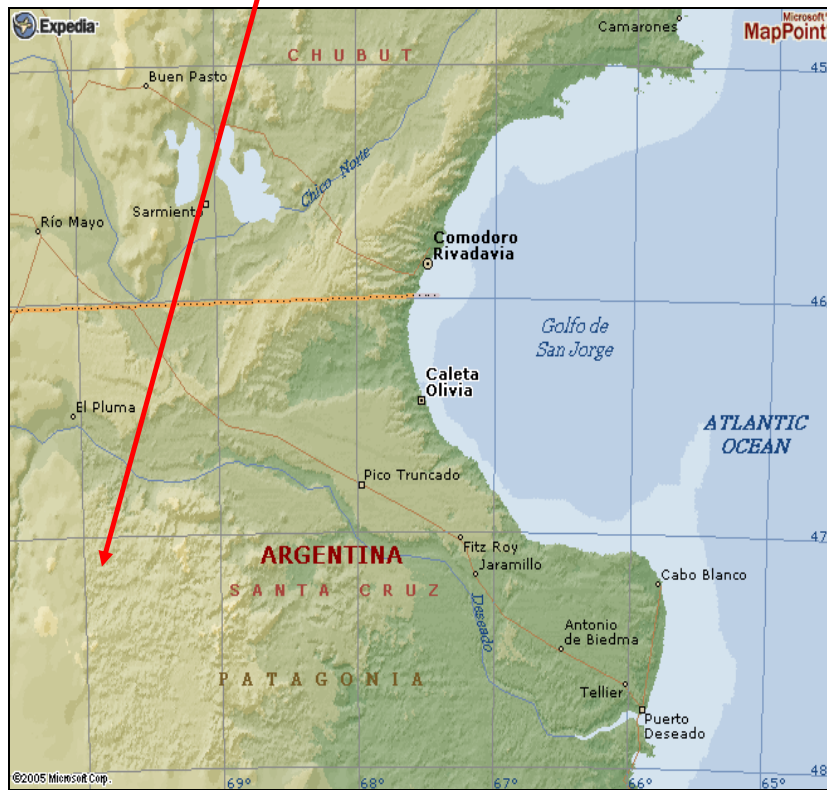
The project offers excellent potential for the establishment of a low cost conventional CIP mining operation, based around existing gold resources at the Vein Zone prospect areas, together with significant potential exploration up-side at a number of other regional exploration targets (the Herradura, Eureka and Mariana Sur prospect areas) where work by previous explorers, has highlighted the existence of known areas of epithermal mineralisation.

Within the overall Cerro Negro project, **six zones of epithermal mineralisation** are now recognised (see below):

- **Vein Zone**, which is the main focus of current and past exploration,
- **Herradura** which adjoins Vein Zone to the east and was drilled on a wide spaced basis by MIM Limited,
- **Bajo Negro**, which is to the west of the Vein Zone and recently trenched by Andean Resources;
- **Eureka Zone**, which is located on the western margin of the tenement and has spectacular outcropping quartz veins over some 4 kms of strike;
- **Mariana and Mariana Sur**, which is located near the Eureka area and numerous epithermal vein float has been detected; and
- **Silica Cap**, located on the summit of Cerro Negro immediately south of Vein Zone



Cerro Negro Project Location
Map



VEIN ZONE PROSPECT

Background

The **Vein Zone prospect** area is located at a comfortable elevation of 800m near the centre of the Cerro Negro property (which comprises in total approx. 25,000 hectares) and lies adjacent to the Cerro Negro hill. Cerro Negro is capped by vuggy silica outcrops derived from extreme leaching of the host volcanics most likely by steam-heated groundwater above a paleo watertable. The groundwater may have been heated by a de-gassing fluid at depth, similar to the fluid inferred to have deposited gold at Vein Zone.

The Vein Zone is an epithermal vein deposit with broadly distributed mineralisation associated with out cropping quartz vein zones up to several meters wide. However, the bulk of the mineralisation occurs in non-outcropping zones of quartz veining, breccia and stockwork up to 50m wide which are largely concealed below younger volcanic and alluvial cover. Most out cropping veins trend north- west, but the concealed zones of stockwork and breccia mineralisation have an overall east-west trend. These quartz veins outcrop over an area of 450m x 150m and are generally steeply dipping to the north/northeast, while the concealed east-west trending mineralisation dips north. In plan view, the overall shape of the mineralised body reflects these two trends..

The **Heradura prospect**, adjoining Vein Zone to the east, has little outcrop but contains extensive epithermal vein quartz float. Road cuts and trenches have exposed zones of quartz stock work development and previous drilling by MIM Limited intercepted zones low grade gold and narrower higher-grade mineralisation the significance of which is currently being evaluated.

A ground geophysical program comprising a Gradient Array Resistivity Survey designed to identify additional "covered" veins was completed during the December 2005 quarter. The results of the survey were highly encouraging. These are discussed in more detail on page 6 below.

Commencement of Phase 2 Drill Program

Early in the quarter, the Company's exploration crews commenced the Phase 2 2005 drill program which is a follow-up program from the earlier, and highly successful, Phase 1 program completed in July 2005.

Drilling under this new program commenced on 23 October 2005. The Phase 2 program comprises a ~ 4000m Diamond and RC drill program in and around the Vein Zone prospect area. **The main objective of the planned Phase 2 drill program is to further expand and in-fill the current mineralisation at Vein Zone so as an initial Indicated Resource Estimate can be made and used as the basis for a scoping study to assess mining options at Cerro Negro.**

Drilling during the quarter was slower than planned due to 2 rig breakdowns as a result of mechanical problems. These problems have since been addressed with a subsequent increase in drilling rates and core recoveries. The quality of the results thus far has more than compensated for the slower drilling progress.

Drill Results from Phase 2 Program released during the Quarter

On 21 December 2005 and 24 January 2006 the Company released the results from the first 5 diamond drill holes completed as part of the Phase 2 program, comprising VDD – 516, 517, 518, 519, & 520. These results, which are fully detailed in the table set out in Appendix 1, were very encouraging, with **all reported holes intersecting moderate to high grade gold mineralisation.**

Figure 1, below, is a drill hole location map of the Vein Zone prospect area showing the positions and relative gold values of selected Phase 1 drill holes and diamond drill holes VDD 517 – 520 from the current Phase 2 campaign. Appendix 2 contains preliminary geological interpretations of sections 8675E and 8700E based on these results and the results reported previously by the Company.

Hole VDD-516, which was drilled below Phase 1 hole VDD-510, (*comprising 36.45m at 14.46 g/t Au*) was abandoned as it collapsed just as it entered the quartz vein zone. The significance of this hole is that it was designed to extended the quartz structure (which hosts the gold mineralisation) some 75m down dip from the last known intercept and some 225m below the surface. **The hole is currently being re drilled as part of the current program.**



Comments – VDD 517 & 518

- 5

Comments – VDD 519 & 520

- Holes VDD-519 & VDD - 520 were drilled respectively 50m and 75m west along strike from the previously released Phase 2 drill holes, VDD 517 and 518 (see Figure 1).
- Hole VDD-519 intersected a broad semi-continuous mineralised zone of 53m from 93m approximately 90m down-dip from previous RC hole CNRC-403, which intersected 54m @ 2.5 g/t Au from 18m.
- Hole VDD-520, drilled from the same drill pad but at a dip of -75 degrees was designed to test the continuity of the mineralisation present in VDD-517 and VDD-510. Results indicated that the high grade 'feeder zone' present in VDD-510 which is represented by the 34m at 14.45 g/t Au continues through to this section with the 17m of 11.88g/t Au reported in VDD - 520.
- Results for VDD-519 & 520 demonstrate that the mineralised zone is still present at a vertical depth of some 220 metres below the surface, and is still open in depth. The main gold mineralised sections contain quartz veins, quartz breccias and quartz stockwork zones.

Sampling & Assaying Procedures

The mobile sample preparation laboratory remains on site at Cerro Negro where a representative dried, crushed and pulverised split is prepared by experienced professionals from Alex Stewart Argentina SA. Core from the diamond drilling is logged on site and sawn in half prior to sample preparation. All samples (surface and RC as well as core) are despatched for gold and multi-element assaying by the Alex Stewart lab in Mendoza.

Gradient Array Resistivity Geophysical Program

The geophysical method, Gradient Array Resistivity, is especially useful at identifying areas of quartz. During the quarter, an initial program has been completed over an area of some 4 to 5 sq km that surrounds the Vein Zone.

The geophysical anomaly that covers the Vein Zone outlines the known Vein Zone mineralisation area and indicates an extension of up to 200m to the west of known mineralisation. Of particular interest from the geophysical program are two new anomalous areas that show strong resistive responses. These strongly resistive features are highlighted in blue in the plan shown below as figure 2. The first of these anomalous zones is 1km to the north of the Vein Zone and the second is some 500m to the east on the southern flank of the Herradura area. Each area has been investigated by a single trench and reconnaissance soil geochemistry, results of which are being evaluated.

A comparison with previous geochemical sampling and the results of a limited RC drill program conducted by MIM Limited over the Herradura prospect are also in progress.

The geophysical program is ongoing and has shifted to the Eureka prospect, in the western part of the Cerro Negro tenements.

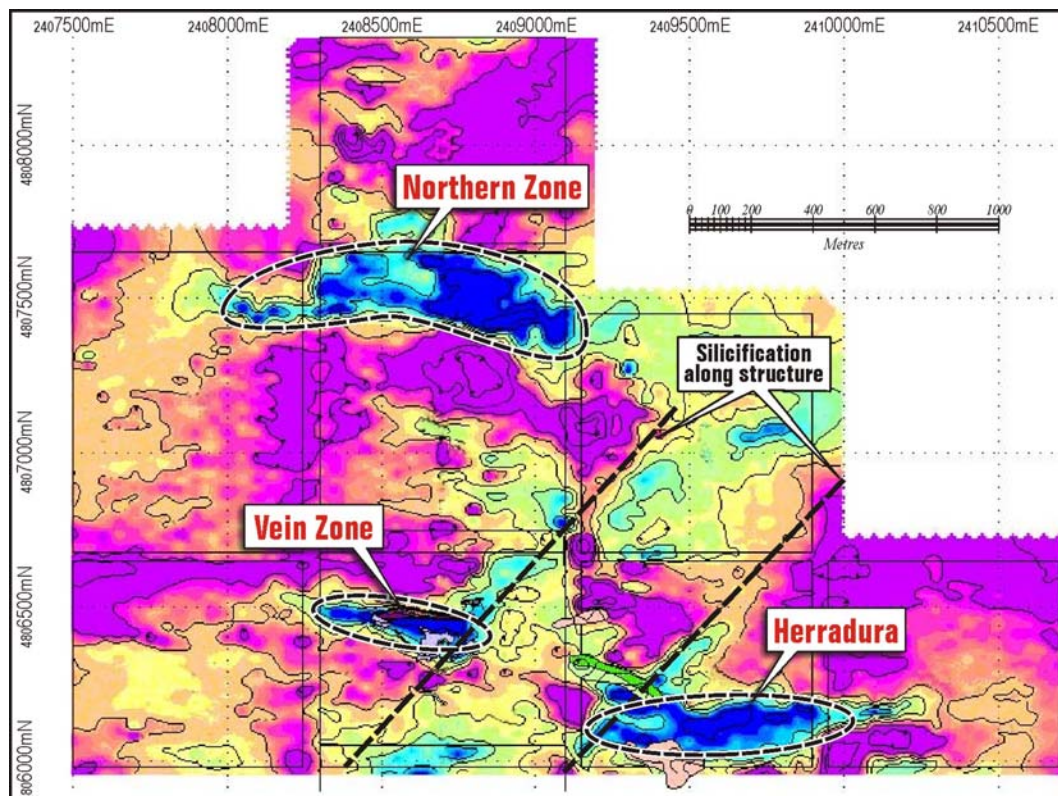


Figure 2: Results of Gradient Array Survey

Preparations for Scoping Study

Three dimensional modelling of the drilling data (incorporating an initial resource estimation) will be carried out when the results of the current Phase 2 drilling program are completed.

Arrangements have also been made to undertake an initial scoping study. Contracts have been let in regard to environmental base line studies, water and hydrological investigations, security of the proposed plant site and metallurgical and engineering studies are awaiting further drill data prior to commencing work.

The study is scheduled to run in tandem with the Phase 2 drill program with a schedule for completion 2-3 months after that date.

REGIONAL EXPLORATION

General

Due to the concentration of work and Company resources on the current drilling campaign at Vein Zone, only limited regional exploration activities were conducted during the quarter. These included;

- Geological mapping at 1:5000 scale has been carried out over an area which includes Vein Zone, Herradura, Silica Cap, Bajo Negro, and the geophysical anomalies north and east of Vein Zone. This work shows that all volcanic units are probably ignimbrites of the Chon Aike Formation, displaying different types and degrees of hydrothermal alteration. The mapping has been plotted using Mapinfo software on which it is also possible to show the results of the recent geophysical program as well as past geochemistry carried out by MIM. Geology and geophysics indicate that well defined north-easterly trending structures may separate the Vein Zone and Herradura areas. Some of the mobile metal ion geochemical anomalies defined by MIM correspond to areas underlain by gravels, but other anomalies are underlain by altered volcanics and/or areas of quartz float and require further investigation.; and
- Preliminary inspections of the Esperanza, San Augustin, and Las Mellizas prospects, held under option by Andean outside the Cerro Negro group of tenements.

Eureka

The large Eureka epithermal vein system is located in the western portion of the Cerro Negro property, some 15kms from the Vein Zone. The Eureka vein system outcrops for over four kilometres and is a high level epithermal system that has approximately one kilometre of possible deeper levels exposed in the north-western portion of the prospect. Anomalous gold values in surface rock chip sampling occur associated with this interpreted deeper part of the system. Previous drilling by MIM intersected zones of mineralisation on the periphery of this system of 8-20 metres averaging between 1-2 g/t gold.

The western part of the Eureka vein system has been re-mapped and all previous drill hole collars located, eliminating some inherited errors from the MIM database. In this sector, improved gold grades in drill holes correspond to a strike change from north-west to almost east-west, and a pronounced zone of dilation. Further west, the vein is covered by younger deposits. In January 2006, the geophysical crew transferred to the Eureka area with the objective of defining these covered sections of the vein. In addition, an agreement has been reached with geologists from the University of La Plata, who have carried out extensive mapping in the Eureka area, to collaborate with further investigation.

Mancha Blanca

Due to the continued concentration of work and Company resources at Vein Zone, no additional regional exploration was carried out during the quarter on the Company's 100 % owned Mancha Blanca tenements.

CORPORATE

Entitlements Issue to Shareholders

On 9 September 2005, the Company announced it had secured an underwriting agreement with Southern Cross Equities to facilitate the raising of approx. \$ 5.5 million in new equity capital via a 13 for 2 entitlements issue to all shareholders at a price of 15.5 cents per share.

The entitlements issue closed on 8th November 2005 with acceptances from 82.3% of eligible shareholders. The balance of the issue was taken up by the underwriters under the terms of their underwriting agreement with the Company.

Funds from the raising will be applied towards the remaining Phase 2 drill program, conducting an initial scoping study and for general working capital.

Cash on hand at the end of the quarter totalled A\$ 5.16m

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Director
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Note:

The information in this Report that relates to Mineral Resources is based on information evaluated by David Shatwell who is a Fellow of the Australasian Institute of Mining & metallurgy, a Member of the Australian Institute of Geoscientists and a Member of the Mineral Industry Consultants Association. Mr Shatwell is a Consultant to the Company.

Mr Shatwell has extensive experience relevant to the style and type of mineralisation and deposits under consideration, and to the activity undertaken, to qualify as a Competent Person as defined in the 1999 Edition of the "Australian Code for Reporting of Mineral Resources and Ore Reserves" (the J.O.R.C. Code). Mr Shatwell consents to the inclusion in this Report on his work in the form and context in which it appears.

Appendix 1

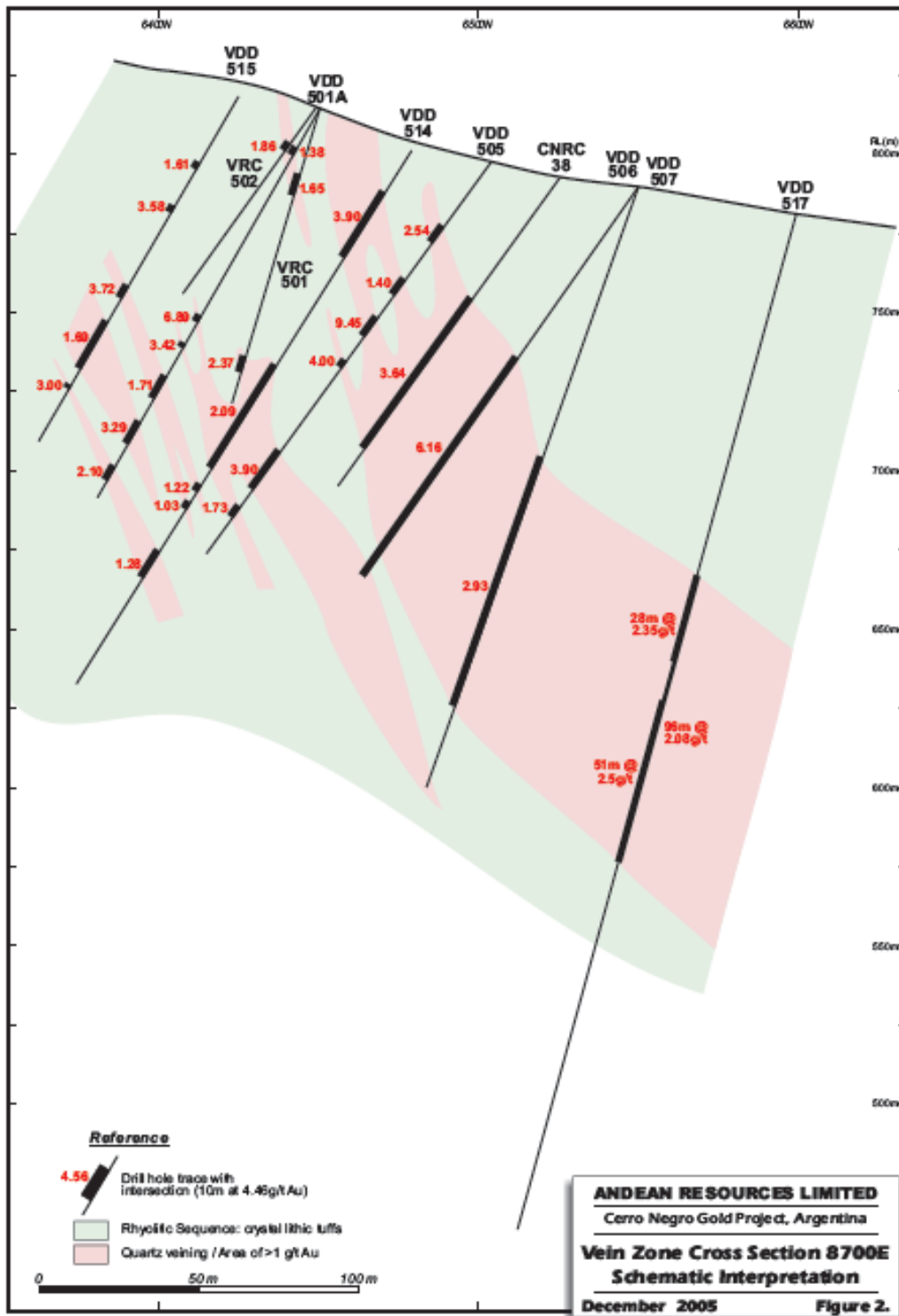
Summary of Diamond Drill Holes * VDD-517, 518, 519 & 520

Hole Number	From (m)	To (m)	Interval (m)	Gold Value (g/t)	Elevation (m asl)	Eastings	Northing	Azimuth	Inclination	Total Depth (m)
VDD-517	119	213	96	2.08	782.5	8700	6600	180	-75	333.2
<i>including</i>	119	146	28	2.35						
	160	213	51	2.5						
VDD-518	111	211	100	3.46	782.5	8675	6600	180	-70	297.2
<i>including</i>	111	122	11	3.14						
	128	169	41	7.13*						
	153	157	4	17.99						
VDD-519	47	50	3	1.06	783.13	8625	6600	180	-60	231.5
	93	99	6	0.94						
	111	112	1	30.73						
	118	140	22	1.17						
	144	147	3	1.33						
<i>Average incl internal waste</i>	111	147	36	1.77						
	158	159	1	3.29						
VDD-520	93	94	1	2.16	783.13	8625	6600	180	-75	196.6
	120	125	5	1.68						
	142	146	4	1.94						
	158	175	17	11.88						
<i>Including</i>	161	165	4	33.83						
	182	183	1	1.10						

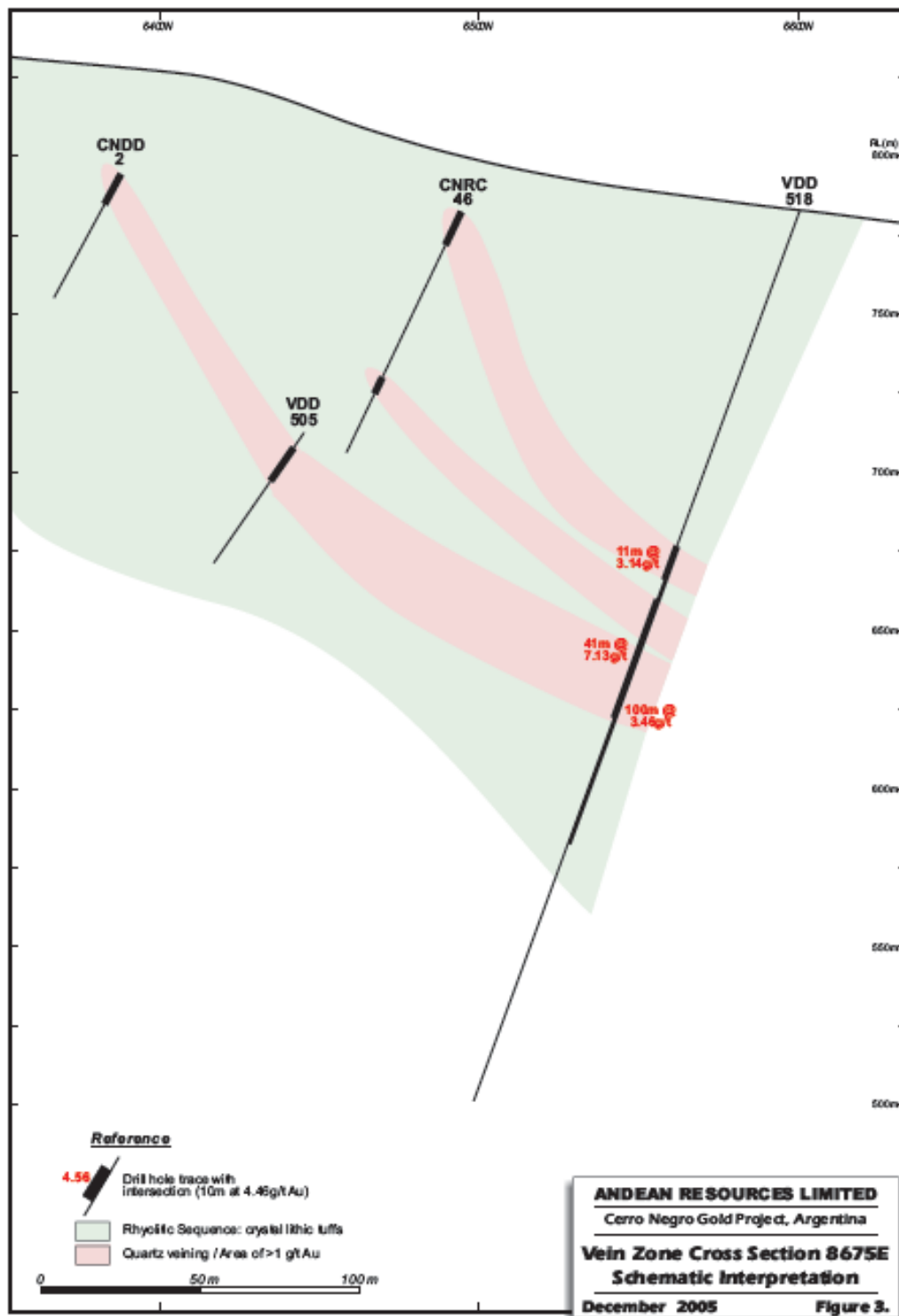
* Highest average section and only one sample above 30g/t gold.

* **Note:** These are down-hole intersections, not necessarily true widths, at a lower cut-off of 1 g/t and no cutting of high grades, however the intervals quoted include short sections of internal waste below 1 g/t gold. Hole coordinates have been determined by using differential global positioning system by a licensed surveyor, and are considered accurate to within 1 – 2 m.

Appendix 2a



Appendix 2b



MINING EXPLORATION ENTITY QUARTERLY REPORT

ANDEAN RESOURCES LTD

66 064 494 319

31 December 2005

Cash flows related to operating activities

	Current Qtr	Year to Date (6 months)
	\$A'000	\$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for: (a) exploration and evaluation	(820)	(988)
(b) development		
(c) production	(702)	(1,110)
(d) administration		
1.3 Dividends received	25	43
1.4 Interest and other items of a similar nature received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		2
1.7 Other (provide details if material)		
Net Operating Cash Flows	(1,497)	(2,053)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments		
(c) other fixed assets		
1.9 Proceeds from sale of: (a) prospects		
(b) equity investments		
(c) other fixed assets		
1.10 Loans to/from other entities		
1.11 Loans repaid by other entities		
1.0 Other		
Net Investing Cash Flows		
1.13 Total operating and investing cash flows (carried forward)	(1,497)	(2,053)

1.13 Total operating and investing cash flows (brought forward)	(1,497)	(2,053)
Cash flows related to financing activities		
1.14 Proceeds from the issue of shares, options, etc.	5,545	5,878
1.15 Proceeds from the sale of forfeited shares		
1.16 Proceeds from loans		
1.17 Repayment of loans		(523)
1.18 Dividends paid		
1.19 Other – Capital Raising expenses	(282)	(282)
Net financing cash flows	5,263	5,073
Net increase (decrease) in cash held	3,766	3,020
1.20 Cash at beginning of quarter/year to date	1,464	2,226
1.21 Exchange rate adjustments to item 1.20	(74)	(90)
1.22 Cash at end of quarter	5,156	5,156

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

	Current Qtr \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	165
1.24 Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Consultancy fees (117) Directors fees, salaries & superannuation (48)
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Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available*Add notes as necessary for an understanding of the position*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,000
4.2 Development	
Total	1,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to related items in the accounts as follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	77	353
5.2 Deposits at call	5,079	1,111
5.3 Bank Overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (Item 1.22)	5,156	1,464

Changes in interests in mining tenements

	Tenement Reference	Nature of interest (note (2))	Interest at Beginning of Quarter	Interest at End of Quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed		Nil		
6.2 Interests in mining tenements acquired or increased		Nil		

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Number Issued	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 Preference securities (description)				
7.2 Issued during Quarter				
7.3 Ordinary securities	269,289,686	269,289,686		
7.4 Issued during Quarter	35,771,958	35,771,958	15.5 cents	15.5 cents
7.5 Convertible debt securities (description)				
7.6 Issued during quarter				
7.7 Options (description)	7,000,000 9,000,000 5,000,000 5,000,000 5,000,000 2,000,000 1,000,000		Exercise Price 8 cents 8 cents 15 cents 20 cents 25 cents 20 cents 20 cents	Expiry Date 30/06/08 30/04/06 31/10/06 31/10/07 31/10/09 31/12/08 31/12/08
7.8 Issued during Quarter	1,000,000		20 cents	31/12/08
7.9 Exercised during Quarter				
7.10 Expired during Quarter				
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

Compliance Statement

1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
2. This statement does give a true and fair view of the matters disclosed.



Sign here:

Ross Arancini
Company Secretary

Date: 31 January 2006

Notes

1. The quarterly report is to provide a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. Any entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The "Nature of Interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
3. **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
4. The definitions in, and provisions of, AASB 1022: Accounting for Extractive Industries and AASB 1026: Statement of Cash Flows apply to this report.
5. **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
