



Chief Executive Officer's letter to the shareholders

11th July 2012

CEO?

Firstly, you will notice that this is no longer the Chairman's letter to the shareholders, it is the CEO's. At a recent meeting of the board of directors of Andiamo, Bill Fisher moved to become the non-executive Chairman of the company, and I have taken over the title of CEO. This really only reflects what has been the reality for over a year now since I left Ernst & Young, and there will not be any significant changes to the functioning of the company.

Andiamo currently has two executive Directors (Williams and Seife) and two non-executives (Fisher and Parker).

Auditors

The board has appointed Crowe Clark Whitehill in the UK as the company's auditors. CCW is part of the Crowe Horwarth international accountancy practice which also has a branch in Canada. We understand that this firm is ranked as the eighth largest accountancy firm worldwide.

One of the CCW partners has already visited Andiamo's offices and field camp in Eritrea, and the audit of Andiamo's financial statements is now underway, going back over the last three years. This involves both the Eritrean branch office accounts and the parent company's books in the UK, and covers the consolidated accounts. We expect the process to be completed in July or August. A complete audit is an essential preliminary to any potential ideas to apply for a public listing for the company in London or Toronto. We are presenting the financial statements in the appropriate format for either the UK or Canada in order to keep all options open. Andiamo will similarly be preparing quarterly accounts even though this is not a requirement in London.

CCW are also advising the Company on tax matters.

Finance

Andiamo currently has a little less than US\$1m in treasury, and commitments of about \$150,000 in assay costs. Although continuing to pursue the exploration of the Haykota licence area, the company retains very low overheads and running costs. We are actively pursuing a number of different channels to refinance Andiamo for the next phase of work at Haykota.

Exploration Manager.

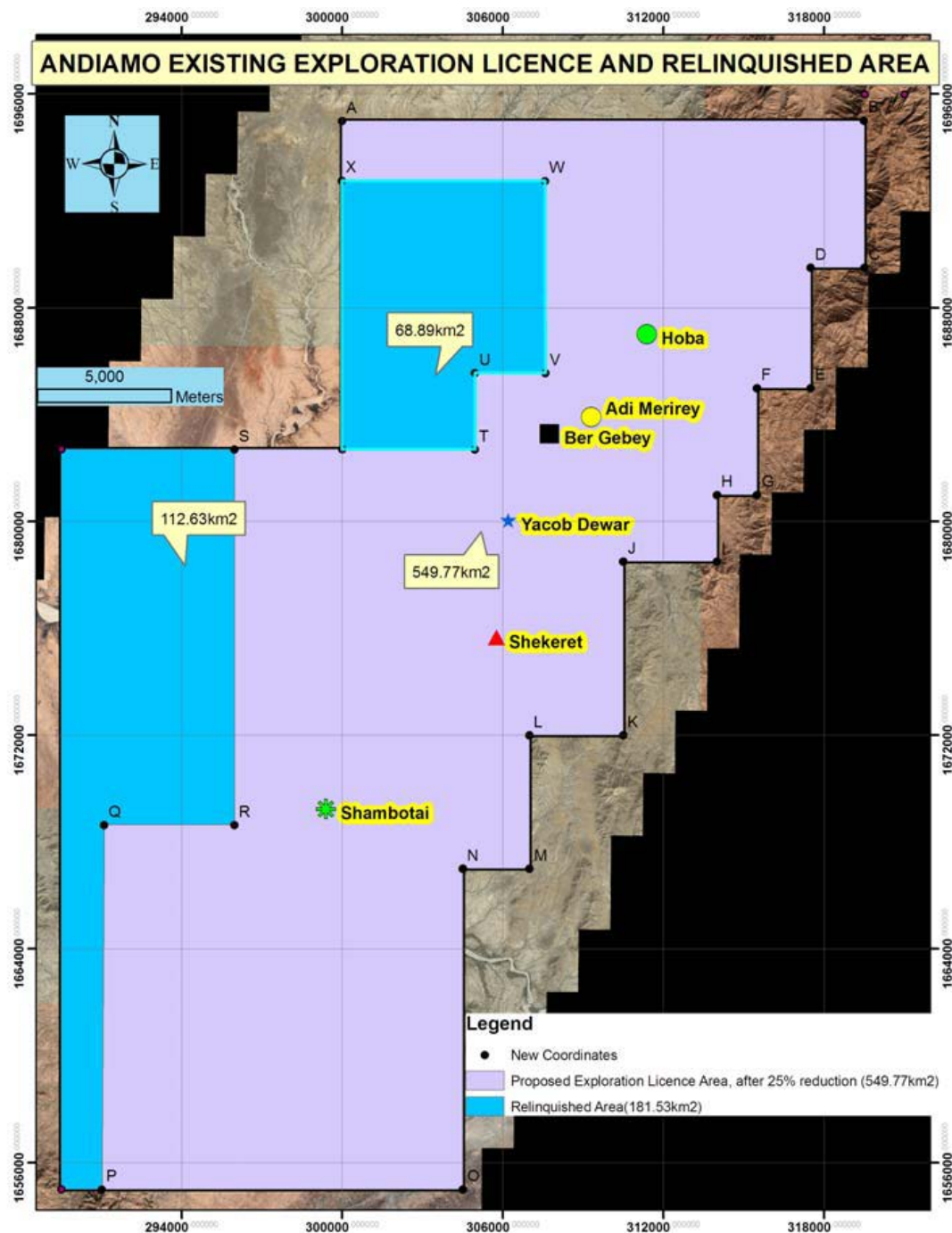
The big news this month is that Dan Hamer has joined Andiamo as our Exploration Manager in Eritrea. It is difficult to overstate how important this development is, or how well qualified Dan (Cambridge educated) is for this position. Dan's background as an exploration geologist is impressive, ranging from his time with the British Antarctic Survey through Anglo American in Africa, and then many years in Eritrea working for Sub-Sahara Resources on the Zara projects. More recently he has just spent two years in Sudan overseeing a 100,000metre drilling program and resource estimation at Ariab Mining Corporation. His detailed knowledge and experience of the two major mineralisation styles (VMS with gold caps, and orogenic gold) that Andiamo is dealing with at Haykota is formidable, and he is a NI 43-101 Qualified Person on these types of deposit. We feel very fortunate to have attracted Dan Hamer to Andiamo, and we look forward to a long and successful relationship.



Dan Hamer at Adi Meriray in June 2012

Renewal of Haykota Exploration Licence

Exploration Licences in the State of Eritrea are valid initially for three years, with two subsequent annual renewals of one year each. At each of these renewals 25% of the area must be relinquished. Subsequent annual renewals are granted subject to satisfactory work being done on the licence ("Use it or lose it") without the requirement to relinquish ground. Andiamo has now submitted its application for the renewal of the Haykota licence in July 2012 together with the proposed approximately 25% reduction in the area of the licence, together with our plans and budget for exploration in the next twelve months. We feel confident that the renewal and the new boundaries will be granted.



Diamond Drilling

During this quarter Andiamo finished a 3,259m diamond core drilling program over several of the new targets in the Haykota area.

| Prospects | ID | Easting | Northing | Elevation | Azimuth | Dip | Depth(m) |
|-----------------|----------|----------|----------|-----------|---------|-----|----------|
| Shekeret | SHD 01 | 305390 | 1675421 | 763 | 115 | -55 | 104.1 |
| | SHD 02 | 305417 | 1675446 | 762 | 120 | -50 | 89.1 |
| | SHD 03 | 305417 | 1675505 | 775 | 120 | -50 | 110.1 |
| | SHD 04 | 305394 | 1675514 | 779 | 120 | -60 | 117.0 |
| | 512.0 | SHD 05 | 305366 | 1675621 | 751 | 120 | -60 |
| Adi Meriray | Merd 01 | 309304 | 1686903 | 900 | 65 | -50 | 188.0 |
| | Merd 02 | 309198 | 1683792 | 898 | 120 | -50 | 146.5 |
| | Merd 03 | 309104 | 1683832 | 901 | 110 | -60 | 192.5 |
| | Merd 04 | 309228 | 1683979 | 815 | 110 | -50 | 184.3 |
| | Merd 05 | 309291 | 1684041 | 821 | 115 | -50 | 188.0 |
| | Merd 06 | 309387 | 1684132 | 816 | 115 | -50 | 185.5 |
| | Merd 07 | 308972 | 1683714 | 806 | 115 | -50 | 161.1 |
| | 1383.0 | Merd 08 | 309057 | 1683680 | 810 | 115 | -50 |
| Shambotei | Shamd 01 | 299342 | 1668699 | 837 | 115 | -50 | 163.9 |
| | Shamd 02 | 299332 | 1668699 | 835 | 115 | -70 | 108.3 |
| | Shamd 03 | 299340 | 1668601 | 817 | 150 | -50 | 98.5 |
| | 490.2 | Shamd 04 | 299318 | 1668392 | 816 | 140 | -50 |
| Yacob Dewar | YDD 24 | 305960 | 1580346 | 753 | 90 | -50 | 251.5 |
| | YDD 25 | 306050 | 1679845 | 754 | 90 | -50 | 251.4 |
| | 752.9 | YDD 26 | 306050 | 1679646 | 753 | 90 | -50 |
| Ber Gebey North | BGN 001 | 306962 | 1683329 | 770 | 110 | -50 | 121.0 |
| 121.0 | | | | | | | 3259.1 |

This included eight drill holes at the Adi Meriray massive to disseminated sulphide target (about 4kms north east of Yakob Dewar) then three deep holes beneath Yakob Dewar, five at the Shekeret gold target (some 5kms south west of Yakob Dewar) and four at the Shambotei gold area, and then a final one in Zone 1A north of Ber Gebay. We would have liked to have done a few more, particularly at Shambotei, but the drill was in heavy demand at the time so we had to let it go.

Diamond drilling is expensive, and slow, but can yield a great amount of information. This requires not only assays but also detailed logging of the core, and this includes orientation and careful measurement of structural and lithological information. This takes more time than is often appreciated, and we are taking great care to extract the maximum amount of information, and to get it right, from our core drilling. Most of the drilling was done at HQ size (64mm diameter) rather than the slim NQ (48mm diameter): the benefit is well worth the extra cost and the assays should have a much lower variance. However, now that we have Dan Hamer on board I would expect the future turnaround of drilling assays to be much faster.

We now have an impressive Australian belt-fed core splitter in operation, and this machine is working very well. We have decided to send for assay in Perth a couple of complete holes initially from each of the targets. We now expect to get the first results back in August, but the complete picture is unlikely to be known until September.



Core splitting

Ongoing exploration

Andiamo continues to investigate the many active targets in the Haykota licence area while we wait for assay results from the previous drilling.

A priority is to map and understand the Shambotei/Jawkerei complex. If, as seems likely, these two valleys represent expressions of the same underlying mineralisation, this could be an exciting discovery. Similarly, the stream sediment sampling program continues, as does the geochemical soil sampling. The stream sediment sampling has recently produced some impressive results and I will go into this in more detail in my next letter to the shareholders. We also have more than twenty targets in both the VMS zones in the northeast of the licence area, and the gold targets in the south west. There is plenty of activity in the Haykota camp.

Our excellent geophysics team also continues to produce regular Induced Polarisation traverses using a dipole-dipole technique, and plans using a gradient array method; as well as ground magnetometer and magnetic susceptibility surveys. The data is analysed thoroughly in the UK and is of immense benefit in guiding the exploration work on the ground.

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