

MINERA ANDES INC /WA
Form 10QSB
May 17, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file Number 000-22731

MINERA ANDES INC.

(Exact name of small business issuer as specified in its charter)

ALBERTA, CANADA

(State or other jurisdiction of incorporation or organization)

NONE

(I.R.S. Employer Identification No.)

111 E. MAGNESIUM ROAD, SUITE A, SPOKANE, WA 99208

(Address of principal executive offices)

(509) 921-7322

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Shares outstanding as of April 30, 2004: 70,174,240 shares of common stock, with no par value

Transitional Small Business Disclosure Format (*Check One*): Yes No

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MINERA ANDES INC.
An Exploration Stage Corporation
CONSOLIDATED BALANCE SHEETS
(U.S. Dollars - Unaudited)

| | March 31, | December 31, |
|--|------------------|---------------------|
| | 2004 | 2003 |
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents | \$ 6,164,527 | \$ 2,234,342 |
| Receivables and prepaid expenses | 211,445 | 228,123 |
| Total current assets | 6,375,972 | 2,462,465 |
| Mineral properties and deferred exploration costs | 1,660,941 | 915,299 |
| Investment | 3,863,127 | 4,063,127 |
| Capital assets, net | 88,149 | 88,238 |
| Total assets | \$ 11,988,189 | \$ 7,529,129 |
| LIABILITIES | | |
| Current: | | |
| Accounts payable and accruals | \$ 402,274 | \$ 96,640 |
| Due to related parties | 4,000 | 30,531 |
| Total current liabilities | 406,274 | 127,171 |
| SHAREHOLDERS EQUITY | | |
| Preferred shares, no par value, unlimited number authorized, none issued | | |
| Common shares, no par value, unlimited number authorized Issued March 31, 2004 69,810,865 shares Issued December 31, 2003 59,740,865 shares | 28,166,674 | 23,597,468 |
| Contributed capital - stock option compensation | 870,323 | 160,888 |
| Accumulated deficit | (17,455,082) | (16,356,398) |
| Total shareholders equity | 11,581,915 | 7,401,958 |
| Total liabilities and shareholders equity | \$ 11,988,189 | \$ 7,529,129 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**MINERA ANDES INC.****An Exploration Stage Corporation****CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT****(U.S. Dollars - Unaudited)**

| | Three Months Ended | | Period from |
|---|---------------------------|----------------------|-----------------------|
| | March 31, | March 31, | July 1, 1994 |
| | 2004 | 2003 | (commencement) |
| | | | through |
| | | | March 31, 2004 |
| Administration fees | \$ | \$ 7,851 | \$ 286,487 |
| Audit and accounting | 39,349 | 12,203 | 419,688 |
| Consulting fees | 144,376 | 113,005 | 1,582,762 |
| Depreciation | 8,857 | 692 | 73,007 |
| Equipment rental | | | 21,522 |
| Foreign exchange (gain) loss | (38,538) | (27,412) | 318,694 |
| Insurance | 18,787 | 1,890 | 271,678 |
| Legal | 41,654 | 16,036 | 936,547 |
| Maintenance | | 329 | 3,748 |
| Materials and supplies | | | 45,512 |
| Office overhead | 56,905 | 22,878 | 1,632,883 |
| Telephone | 8,918 | 4,836 | 402,896 |
| Transfer agent | 1,530 | 1,190 | 109,209 |
| Travel | 19,091 | 11,035 | 412,727 |
| Wages and benefits | 47,474 | 48,212 | 1,595,548 |
| Write-off of deferred costs | | | 8,540,235 |
| | <u>348,403</u> | <u>212,745</u> | <u>16,653,143</u> |
| Total expenses | | | (104,588) |
| Gain on sale of capital assets | | | (898,241) |
| Gain on sale of property | | | (483,434) |
| Interest income | (14,868) | (1,532) | |
| | <u>333,535</u> | <u>211,213</u> | <u>15,166,880</u> |
| Net loss for the period | | | |
| Accumulated deficit, beginning of the period, as previously reported | 16,356,398 | 14,263,900 | |
| Adjustment for change in accounting for stock-based compensation (Note 2) | 678,569 | | 678,569 |
| | <u>17,034,967</u> | <u>14,263,900</u> | <u>15,845,449</u> |
| Accumulated deficit, beginning of period, as restated | | | 500,000 |
| Adjustment on acquisition of royalty interest | | | 1,092,418 |
| Share issue costs | 86,580 | | 17,215 |
| Deficiency on acquisition of subsidiary | | | |
| | <u>\$ 17,455,082</u> | <u>\$ 14,475,113</u> | <u>\$ 17,455,082</u> |
| Accumulated deficit, end of the period | | | |
| Basic and diluted net loss per common share | \$ 0.01 | \$ 0.01 | |

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| | | |
|--|------------|------------|
| Weighted average shares outstanding (basic and diluted) | 61,880,754 | 36,974,808 |
|--|------------|------------|

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**MINERA ANDES INC.****An Exploration Stage Corporation****CONSOLIDATED STATEMENTS OF MINERAL PROPERTIES****AND DEFERRED EXPLORATION COSTS****(U.S. Dollars - Unaudited)**

| | Three Months Ended | | Period from |
|---|---------------------------|---------------------|-----------------------|
| | March 31, | March 31, | July 1, 1994 |
| | 2004 | 2003 | (commencement) |
| | | | through |
| | | | March 31, 2004 |
| Administration fees | \$ | \$ 5,082 | \$ 392,837 |
| Assays and analytical | 7,691 | 3,072 | 952,637 |
| Construction and trenching | 170 | | 523,860 |
| Consulting fees | 23,692 | 28,821 | 1,086,706 |
| Depreciation | | | 170,625 |
| Drilling | 242,798 | | 1,171,631 |
| Equipment rental | 132,688 | | 377,612 |
| Geology | 206,258 | 21,108 | 3,226,166 |
| Geophysics | | | 309,902 |
| Insurance | | 2,125 | 255,559 |
| Legal | 220 | | 694,048 |
| Maintenance | 8,887 | 270 | 172,004 |
| Materials and supplies | 21,207 | 520 | 457,391 |
| Project overhead | 6,414 | 1,307 | 327,569 |
| Property and mineral rights | 28,890 | 236 | 1,352,727 |
| Telephone | 2,590 | 664 | 88,909 |
| Travel | 30,003 | 13,943 | 1,150,067 |
| Wages and benefits | 34,134 | 33,881 | 1,214,668 |
| | <u>745,642</u> | <u>111,029</u> | <u>13,924,918</u> |
| Costs incurred during the period | | | |
| Deferred costs, beginning of the period | 915,299 | 3,536,448 | |
| Deferred costs, acquired | | | 576,139 |
| Deferred costs, contributed to MSC | | | (2,320,980) |
| Deferred costs written off | | | (8,540,235) |
| Mineral property option proceeds | | (200,000) | (1,978,901) |
| | <u>\$ 1,660,941</u> | <u>\$ 3,447,477</u> | <u>\$ 1,660,941</u> |
| Deferred costs, end of the period | | | |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**MINERA ANDES INC.****An Exploration Stage Corporation****CONSOLIDATED STATEMENTS OF CASH FLOWS****(U.S. Dollars - Unaudited)**

| | <u>Three Months Ended</u> | | <u>Period from</u> |
|---|---------------------------|------------------|-----------------------|
| | | | <u>July 1, 1994</u> |
| | <u>March 31,</u> | <u>March 31,</u> | <u>(commencement)</u> |
| | <u>2004</u> | <u>2003</u> | <u>Through</u> |
| | | | <u>March 31, 2004</u> |
| Operating Activities | | | |
| Net loss for the period | \$ (333,535) | \$ (211,213) | \$ (15,166,880) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Write-off of incorporation costs | | | 665 |
| Write-off of deferred expenditures | | | 8,540,235 |
| Depreciation | 8,857 | 693 | 73,007 |
| Stock option compensation | 30,866 | 26,025 | 191,754 |
| Gain on sale of capital assets | | | (104,588) |
| Gain on sale of mineral properties | | | (898,241) |
| Change in: | | | |
| Receivables and prepaid expenses | 16,678 | 15,605 | (209,459) |
| Accounts payable and accruals | 305,634 | 10,232 | 383,073 |
| Due to related parties | (26,531) | 17,098 | 4,000 |
| | <u>1,969</u> | <u>(141,560)</u> | <u>(7,186,434)</u> |
| Investing Activities | | | |
| Incorporation costs | | | (665) |
| Purchase of capital assets | (8,768) | | (237,193) |
| Proceeds from sale of property | | | 898,241 |
| Mineral properties and deferred exploration | (745,642) | (111,029) | (13,754,293) |
| Acquisition of investment | | | (1,742,147) |
| Proceeds from sale of subsidiaries | | | 9,398 |
| Acquisition of royalty interest | | | (500,000) |
| Recovery of investment | 200,000 | 200,000 | 2,178,901 |
| | <u>(554,410)</u> | <u>88,971</u> | <u>(13,147,758)</u> |

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MINERA ANDES INC.

An Exploration Stage Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. Dollars - Unaudited)

| | <u>Three Months Ended</u> | | Period from |
|--|---------------------------|-------------------|---------------------------|
| | March 31, | March 31, | July 1, 1994 |
| | 2004 | 2003 | (commencement) Through |
| | <u>March 31,</u> | <u>March 31,</u> | <u>March 31, 2004</u> |
| Financing Activities | | | |
| Shares and subscriptions issued for cash, less issue costs | 4,482,626 | 17,034 | 26,498,719 |
| Cash provided by financing activities | <u>4,482,626</u> | <u>17,034</u> | <u>26,498,719</u> |
| Increase (decrease) in cash and cash equivalents | 3,930,185 | (35,555) | 6,164,527 |
| Cash and cash equivalents, beginning of period | 2,234,342 | 1,009,258 | |
| Cash and cash equivalents, end of period | <u>\$ 6,164,527</u> | <u>\$ 973,703</u> | <u>\$ 6,164,527</u> |
| Supplementary Disclosure of Non-Cash Investing and Financing Activities | | | |
| Stock option compensation | \$ 30,866 | \$ 26,025 | \$ 191,754 |
| Deferred costs, contributed to MSC | \$ | \$ | \$ 2,320,980 |
| Shares issued for acquisition | \$ | \$ | \$ 575,537 |
| Interest and taxes paid | \$ | \$ | \$ |

The accompanying notes are an integral part of these consolidated financial statements.

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MINERA ANDES INC.

An Exploration Stage Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(U.S. Dollars-Unaudited)

1. Accounting Policies, Financial Condition and Liquidity

The accompanying consolidated financial statements of Minera Andes Inc. (the Company) for the three month periods ended March 31, 2004 and 2003 and for the period from commencement (July 1, 1994) through March 31, 2004 have been prepared in accordance with accounting principles generally accepted in Canada which differ in certain respects from principles and practices generally accepted in the United States, as described in Note 2. Also, they are unaudited but, in the opinion of management, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation. Interim results are not necessarily indicative of results which may be achieved in the future. The December 31, 2003 financial information has been derived from the Company's audited consolidated financial statements.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2003 included in our annual report on Form 10-KSB (the 2003 10-KSB) for the year ended December 31, 2003 on file with the Securities and Exchange Commission and with the TSX Venture Exchange. The accounting policies set forth in the audited annual consolidated financial statements are the same as the accounting policies utilized in the preparation of these consolidated financial statements, except as modified for appropriate interim presentation.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or disposition thereof. The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in Canada applicable to a going concern. The use of such principles may not be appropriate because, as of March 31, 2004, there was substantial doubt that the Company would be able to continue as a going concern.

For the three months ended March 31, 2004 the Company had a loss of approximately \$334,000 and an accumulated deficit of approximately \$17 million. In addition, due to the nature of the mining business, the acquisition, exploration and development of mineral properties requires significant expenditures prior to the commencement of production. To date, the Company has financed its activities through the sale of equity securities and joint venture arrangements. The Company expects to use similar financing techniques in the future and is actively pursuing such additional sources of financing.

Although there is no assurance that the Company will be successful in these actions, management believes that they will be able to secure the necessary financing to enable it to continue as a going concern. Accordingly, these financial statements do not reflect adjustments to the carrying value of assets and liabilities, and the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Although we have taken steps to verify title to mineral properties in which we have an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title. Property title may be subject to unregistered prior agreements and noncompliance with regulatory requirements.

Table of Contents**2. Change in Accounting Policy**

Effective January 1, 2004, the Company has adopted, on a retroactive basis without restatement, the recommendations of CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments", which now requires companies to adopt the fair value based method for all stock-based awards granted on or after January 1, 2002. Previously the Company was only required to disclose the pro forma effect of stock options issued to employees and directors in the notes to the financial statements. The effect of this change in accounting policy was to increase the deficit at January 1, 2004 by \$678,569 with a corresponding increase to reported contributed surplus.

3. Differences Between Canadian and United States Generally Accepted Accounting Principles

Differences between Canadian and U.S. generally accepted accounting principles (GAAP) as they pertain to the Company relate to accounting for the acquisition of Scotia Prime Minerals, Incorporated, compensation expense associated with the release of shares from escrow, mineral properties and deferred exploration costs and stock-based compensation and are described in Note 10 to the Company's consolidated financial statements for the year ended December 31, 2003 in the 2003 10-KSB.

As discussed in Note 2, during 2004, the Company adopted new Canadian GAAP rules regarding the utilization of the fair value based method to account for options granted to employees. U.S. GAAP does not require the fair value based method to account for employee based options as of January 1, 2002. Since the Company has not granted any options to employees in 2004, the retroactive adoption without restatement of the new Canadian requirements has not created differences between Canadian and U.S. GAAP with respect to the Company's shareholder's equity at March 31, 2004 nor the net loss for the three months ended March 31, 2004. There would however have been no adjustment to retained earnings at January 1, 2004 under U.S. GAAP as was required under Canadian GAAP.

The impact of the above on the interim consolidated financial statements is as follows:

| | March 31, 2004 | Dec. 31, 2003 |
|---|---------------------------|--------------------------|
| Shareholders' equity, end of period, per Canadian GAAP | \$ 11,581,915 | \$ 7,401,958 |
| Adjustment for acquisition and deferred exploration costs | (1,660,941) | (915,299) |
| Adjustment for investment | (3,863,127) | (4,063,127) |
| Shareholders' equity, end of period, per U.S. GAAP | \$ 6,057,847 | \$ 2,423,532 |

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| | <u>Three Months Ended</u> | | <u>Period from</u> |
|---|---------------------------------|---------------------------------|---|
| | <u>March 31,</u> <u>2004</u> | <u>March 31,</u> <u>2003</u> | <u>July 1, 1994</u> <u>(commencement)</u> <u>through</u> <u>March 31, 2004</u> |
| Net loss for the period, per Canadian GAAP | \$ 333,535 | \$ 211,213 | \$ 15,166,880 |
| Adjustment for acquisition of Scotia | | | 248,590 |
| Adjustment for compensation expense | | | 6,324,914 |
| Adjustment for deferred exploration costs, net | 745,642 | (88,971) | 1,660,941 |
| Adjustment for investment | (200,000) | | 3,863,127 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net loss for the period, per U.S. GAAP | \$ 879,177 | \$ 122,242 | \$ 27,264,452 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net loss per common share, per U.S. GAAP, basic and diluted | \$ 0.01 | \$ 0.00 | |
| | <u> </u> | <u> </u> | |

Recent U.S. Accounting Pronouncements

In April 2004, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue No. 04-2, which amends Statement of Financial Accounting Standards (SFAS) No. 141 Business Combinations to the extent all mineral rights are to be considered tangible assets for accounting purposes. There has been diversity in practice related to the application of SFAS No. 141 to certain mineral rights held by mining entities that are not within the scope of SFAS No. 19 Financial Accounting and Reporting by Oil and Gas Producing Companies. The SEC staff's position previously was entities outside the scope of SFAS No. 19 should account for mineral rights as intangible assets in accordance with SFAS No. 142 Goodwill and Other Intangible Assets. The adoption of EITF 04-02 has no effect on the consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities. In December 2003, the FASB issued a revision to this interpretation (FIN 46(r)). FIN 46(r) clarifies the application of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. FIN 46 clarifies the application of ARB No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. We adopted FIN 46(r) in its entirety for the period ended March 31, 2004, which did not have a material effect on our consolidated financial statements.

4. Changes to Share Capital

During the three months ended March 31, 2004, the Company issued 70,000 shares for the exercise of stock options with gross proceeds to the Company of Cdn\$31,750 (US\$23,751).

On March 12, 2004, we sold 10,000,000 units to accredited investors at a price of Cdn\$0.65 per unit for net proceeds of Cdn\$5,929,908 (US\$4,458,875). Each unit consists of one common share and one-half of one common share purchase warrant. One whole common share purchase warrant entitles the holder to purchase one additional common share at an exercise price of Cdn\$0.80 per share for a period of 18

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months from the closing date. The issued securities are subject to a four-month hold period. The agents received a cash commission of 7% of the gross proceeds of the financing. The agents also received agent's warrants equal to 10% of the aggregate number of units sold pursuant to the offering. Each agent's warrant upon exercise will entitle the holder to acquire one common share

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at an exercise price of Cdn\$0.80 per common share for a period of 18 months from the date of issue. A total of 10,000,000 common shares were issued pursuant to the private placement, and 5,000,000 common shares are reserved for issuance on exercise of the warrants and 1,000,000 common shares are reserved for issuance on the exercise of the agent's warrants.

5. Basic and Diluted Loss Per Common Share

Basic earnings per share (EPS) is calculated by dividing loss applicable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. Due to the losses in the 2004 and 2003 periods, potentially dilutive securities were excluded from the calculation of diluted EPS, as they were anti-dilutive. Therefore, there was no difference in the calculation of basic and diluted EPS in the three month periods ended March 31, 2004 and 2003.

6. Mineral Properties and Deferred Exploration Costs

At March 31, 2004, the Company, through its subsidiaries, held interests in approximately 199,875 hectares of mineral rights and mining lands in three Argentine provinces. Under its present acquisition and exploration programs, the Company is continually acquiring additional mineral property interests and exploring and evaluating our properties. If, after evaluation, a property does not meet the Company's requirements, then the property and deferred exploration costs are written off to operations. Mineral property costs and deferred exploration costs, net of mineral property option proceeds, are as follows:

2004 COSTS BY PROPERTY

| Description | San Juan | Santa Cruz | General | | Total |
|--------------------------------------|-------------------|-------------------|-------------------|-------------|---------------------|
| | Cateos | Cateos | Chubut Cateos | Exploration | |
| Balance, beginning of period | \$ 378,807 | \$ 393,886 | \$ 142,606 | \$ | \$ 915,299 |
| Assays and analytical | 7,691 | | | | 7,691 |
| Construction and trenching | | 170 | | | 170 |
| Consulting fees | 5,374 | 14,494 | 3,148 | 676 | 23,692 |
| Drilling | 242,798 | | | | 242,798 |
| Equipment Rental | 132,688 | | | | 132,688 |
| Geology | 137,432 | 63,438 | 336 | 5,052 | 206,258 |
| Legal | | 220 | | | 220 |
| Maintenance | | 8,887 | | | 8,887 |
| Materials and supplies | 15,304 | 5,493 | 29 | 381 | 21,207 |
| Project overhead | 556 | 4,163 | 88 | 1,607 | 6,414 |
| Property and mineral rights | | 28,890 | | | 28,890 |
| Telephone | 2 | 2,183 | 3 | 402 | 2,590 |
| Travel | 5,333 | 15,047 | 27 | 9,596 | 30,003 |
| Wages and benefits | 10,240 | 10,240 | | 13,654 | 34,134 |
| Overhead allocation | 14,260 | 17,085 | 23 | (31,368) | |
| Carrying value, end of period | \$ 950,485 | \$ 564,196 | \$ 146,260 | \$ | \$ 1,660,941 |

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The San Juan Province project is comprised of six properties totaling 37,568 hectares (ha) in southwestern San Juan province. Property canon fees for the properties in 2004 are estimated at \$10,000. Expenditures in the first quarter of 2004 largely relate to ongoing land maintenance and exploration work at the Los Azules project initiated in December 2003. We are testing at Los Azules, a large porphyry copper mineralized system in San Juan province, Argentina.

In Santa Cruz, the Company controls 17 cateos and 30 manifestations of discovery totaling 80,398 ha. Land holding costs for 2004 are estimated at \$15,000. The first quarter of 2004 expenditures on the Santa Cruz properties reflect the continuation of a regional reconnaissance program.

The Company currently controls 12 cateos and 19 manifestations of discovery, totaling 41,460 ha, in Chubut province. Expenditures in the first quarter of 2004 relate to an ongoing reconnaissance exploration program on lands acquired in 2002.

Wages and benefits were approximately \$34,134 during the first quarter of 2004 compared to approximately \$34,000 during the first quarter 2003. During 2004 and 2003 wage and benefit expense was for the benefit of all properties and was prorated to each project.

7. Investment

During 2004, the Company received a \$200,000 payment on the option agreement entered into with the majority shareholder of the Argentine Corporation formed to develop the San José project. The amounts received have been reflected in these financial statements as a reduction or recovery of the Company's investment.

There are plans to spend in excess of \$5 million for exploration over the next 12 months on the San José project that is owned by Minera Santa Cruz S.A. (MSC), an Argentine corporation owned by Minera Andes Inc. (49%) and Mauricio Hoschschild & Cia. Ltda. (MHC) (51%). Our obligation will be 49% of the exploration costs related to the San José project, to maintain our interest in MSC.

We expect that the San José project will reach a production decision in 2004.

8. Stock Options

a. A summary of the status of the Company's stock option plan as of March 31, 2004 is:

| | Options | Weighted Ave. Exercise Price (Cdn) |
|--|----------------|---|
| Outstanding and exercisable at beginning of period | 4,408,500 | \$ 0.44 |
| Granted | 100,000 | \$ 0.50 |
| Exercised | (70,000) | \$ 0.45 |

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| | | | |
|-------------------------------|-----------------------------|----|-----------------------------|
| Outstanding at March 31, 2004 | 4,438,500 | \$ | 0.47 |
| | <u> </u> | | <u> </u> |

The range of exercise prices is from Cdn\$0.16 to Cdn\$0.59 with a weighted average remaining contractual life of 3.9 years at March 31, 2004.

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At March 31, 2004, there were options held by directors, officers, employees and consultants of the Company for the purchase of common shares as follows:

| <u>Number of Shares</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|-------------------------|-----------------------|--------------------|
| 1,001,000 | Cdn\$0.55 | June 3, 2004 |
| 29,000 | Cdn\$0.59 | June 3, 2004 |
| 358,500 | Cdn\$0.16 | August 28, 2005 |
| 800,000 | Cdn\$0.40 | June 27, 2007 |
| 25,000 | Cdn\$0.36 | August 27, 2008 |
| 1,500,000 | Cdn\$0.59 | December 5, 2008 |
| 100,000 | Cdn\$0.50 | March 29, 2009 |
| 625,000 | Cdn\$0.31 | March 21, 2013 |
| 4,438,500 | | |

- b. Prior to January 1, 2004, Canadian generally accepted accounting principles required disclosure of compensation expense for the stock option plan as if the value of all options granted had been determined based on the fair market value-based method. The Company's net loss for the prior period and net loss per common share would have been increased to the pro forma amounts below had the market value based method, adopted during 2004, been followed:

| | Three Months Ended |
|---|---------------------------|
| | March 31, 2003 |
| Loss applicable to common shareholders: | |
| As reported | \$ 211,213 |
| Stock-based employee compensation expense included in reported loss | |
| Stock-based employee compensation expense determined under fair value based method for all awards | 112,362 |
| Pro forma | \$ 323,575 |
| Loss applicable to common shareholders per share: | |
| As reported | \$ (0.006) |
| Pro forma net loss | \$ (0.008) |

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for employee and non-employee option grants:

| | 2004 | 2003 |
|------------------------------|-------------|-------------|
| Dividend yield (%) | | |
| Expected volatility (%) | 93 | 110 |
| Risk-free interest rates (%) | 2.90 | 3.97 |
| Expected lives (years) | 5.0 | 10.0 |

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In connection with the granting of certain non-employee stock options, the Company has recorded \$30,866, and \$26,025 of stock option compensation during the three months ended March 31, 2004 and 2003, respectively.

9. Subsequent Event

In April 2004, the Company issued 10,000 shares for the exercise of stock options; 190,500 shares for the exercise of warrants and 162,875 common shares for the exercise of broker warrants (from a November 2003 financing), with gross proceeds to the Company of Cdn\$153,856 (US\$115,803).

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Note Regarding Forward-Looking Statements

The information in this report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (1934 Act), and is subject to the safe harbor created by those sections. Factors that could cause results to differ materially from those projected include, but are not limited to, results of current exploration activities, the market price of precious and base metals, the availability of joint venture partners or sources of financing, and other risk factors detailed in the Company's Securities and Exchange Commission filings.

Overview

Minera Andes was incorporated in Alberta in July 1994 and went public in November 1995 through an amalgamation with Scotia Prime Minerals, Incorporated, also an Alberta Corporation. We are a reporting issuer in Alberta, British Columbia, Ontario and Nova Scotia and trade our common shares on the TSX Venture Exchange under the symbol MAI. We are also a Form 10-KSB filer in the U.S. and trade on the NASD OTCBB under the symbol MNEAF.

The principal business of Minera Andes is the exploration and development of mineral properties, located primarily in the Republic of Argentina, consisting of mineral rights and applications for mineral rights, covering approximately 199,875 hectares in three provinces in Argentina. We carry out our business by acquiring, exploring and evaluating mineral properties through our ongoing exploration program. Following exploration, we either seek to enter joint ventures to further develop these properties or dispose of them if the properties do not meet our requirements. Our properties are all early stage exploration properties and no proven or probable reserves have been identified.

Through our subsidiaries and joint ventures we own a 49% equity interest in MSC, which owns the San José gold/silver property in Southern Argentina, and a 100% interest in over 10 mineral properties in Argentina. San José is currently in advanced exploration and underground development and a production decision is expected in the second half of 2004. A significant exploration and development program is underway at the San José project. This program covers a 17-month period to November of 2004 and will consist of a comprehensive program that includes underground exploration/development, environmental studies, metallurgical studies, and construction.

In addition, drilling in the first quarter of 2004 has resulted in the discovery of a large, enriched (chalcocite) copper zone at our wholly-owned Los Azules property. The overall target area is approximately 1500 meters by 2000 meters. Core drilling returned up to 0.8% copper over 36 meters and 120 meters of 0.54% copper within an area defined by geology and geophysical surveys. This new zone has been confirmed by four drill holes showing enriched copper over an area 1000 meters by 500 meters.

Plan of Operations

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The Company has working capital of approximately \$6 million, sufficient, together with funds from the joint venture on the San José property, as estimated by management, to cover our budgeted expenditures for mineral property and exploration activities on its properties in Argentina, and general and administrative expenses through at least the end of 2004, however our cash needs may change for the San José project, as new exploration may cause the budget to increase or decrease depending on its success.

We have budgeted and plan to spend approximately \$2.5 million on our mineral property and exploration activities and general and administrative expenses through 2004. Work is being conducted on several properties including an ongoing reconnaissance program designed to make new acquisitions. Additionally, there are plans to spend in excess of \$5 million for exploration over the next 12 months on the San José project that is owned by Minera Santa Cruz S.A. (MSC), an

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Argentine corporation owned by Minera Andes Inc. (49%) and Mauricio Hoschschild & Cia. Ltda. (MHC) (51%). Our obligation will be 49% of the exploration costs related to the San José project, to maintain our interest in MSC.

In the fourth quarter of 2003, the Company notified MHC of its intent to subscribe for additional equity in MSC, so as to maintain a 49% interest. We made a payment to MSC for \$1.7 million that is estimated to fund our 49% interest in the San José project through MSC until some time in the second quarter 2004.

In the first quarter of 2004, we issued 10,000,000 units through a private placement at a price of Cdn\$0.65 per unit for gross proceeds of Cdn\$6.5 million. Under terms of the offering, each unit consists of one common share and one-half of one common share purchase warrant. One whole common share purchase warrant will entitle the holder to purchase one additional common share at an exercise price of Cdn\$0.80 per share for a period of 18 months from the closing date. The securities are subject to a four-month hold period. Our agents received a 7% commission and agents' warrants equal to 10% of the aggregate number of units issued pursuant to the offering. Each agent's warrant upon exercise will entitle the holder to acquire one common share at an exercise price of Cdn\$0.80 per common share for a period of 18 months from the date of issue.

We intend to use the proceeds from the offering to fund our investment in MSC and for general corporate purposes.

We expect that the San José project will reach a production decision in 2004, but will require additional cash for the development of the project described above. It is anticipated that exploration on other projects and acquisition of new projects will require additional cash.

Results of Operations

First quarter 2004 compared with first quarter 2003

The Company had a net loss of approximately \$334,000 for the first quarter of 2004, compared to a net loss of \$211,000 for the first quarter of 2003 due to increased consulting expenses, general legal expenses and a new investor relations program. Total mineral property and deferred exploration costs were approximately \$746,000 during the first quarter of 2004, compared with approximately \$111,000 spent in the first quarter of 2003. The increase reflects higher costs associated with expanding reconnaissance exploration programs, new property acquisitions, evaluation of existing properties, and exploration including drilling at our Los Azules project.

Administrative expenditures for the quarter ended March 31, 2004 included \$144,376 in consulting fees. This increase of \$31,371 over the same period last year is related to an increased investor relations program and stock compensation expense for consultants. Legal activities were \$41,654 for the quarter ended March 31, 2004 compared to \$16,036 in the same period last year. The increase in legal fees is due to inquiries relating to the Sarbanes-Oxley Act of 2002 and general legal matters. Travel for the quarter ended March 31, 2004 was \$19,091 compared with \$11,035 in the same period in 2003. The increase is due to a new investor relations program. Foreign exchange gain was \$38,538 for the quarter ended March 31, 2004 compared with a gain of \$27,412 in the same period in 2003, due to the effect of a weakening U.S. dollar offset by the associated impact on the value of cash equivalents invested in Canadian dollar instruments.

Liquidity and Capital Resources

Due to the nature of the mining industry, the acquisition, exploration and development of mineral properties requires significant expenditures prior to the commencement of production. To date, the Company has financed its activities through the sale of equity securities and joint venture arrangements. The Company expects to use similar financing techniques in the future. However, there can be no assurance that the Company will be successful with such financings. See Plan of Operations .

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At March 31, 2004 the Company had cash and cash equivalents of approximately \$6.2 million compared to approximately \$974,000 at March 31, 2003. Working capital at March 31, 2004 was approximately \$6 million, sufficient, together with funds from joint ventures on the San José project, as estimated by management, to cover its budgeted expenditures for mineral property and exploration activities on its properties in Argentina and general and administrative expenses through the end of 2004. The Company's operating activities provided approximately \$2,000 in the first quarter of 2004 compared with using approximately \$142,000 in the first quarter of 2003. Administrative expenditures for the period included approximately \$145,000 in consulting fees (an increase of \$31,000 over the same period last year, directly related to the more advanced stage of the San José project and stock option compensation expense); approximately \$19,000 in travel; approximately \$57,000 in office overhead and approximately \$9,000 in telephone expenditures. These costs are due to our increased investor relations and public relations program in the first quarter of 2004 and to the relocation of our offices at the end of 2003.

Investing and financing activities provided approximately \$3.9 million, as a result of a private placement, property option proceeds and stock options proceeds received in the first quarter of 2004 compared with approximately \$106,000 provided in the first quarter of 2003 from the option proceeds on the San Jose property. Cash and cash equivalents increased in the first quarter by approximately \$4 million in 2004 compared with a decrease of approximately \$36,000 in the same period in 2003.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or disposition thereof. The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in Canada applicable to a going concern. The use of such principles may not be appropriate because, as of March 31, 2004, there was significant doubt that the Company would be able to continue as a going concern.

For the three months ended March 31, 2004, the Company had a loss of approximately \$334,000 and an accumulated deficit of approximately \$17 million. In addition, due to the nature of the mining business, the acquisition, exploration and development of mineral properties requires significant expenditures prior to the commencement of production. To date, the Company has financed its activities through the sale of equity securities and joint venture arrangements. The Company expects to use similar financing techniques in the future and is actively pursuing such additional sources of financing.

Although there is no assurance that the Company will be successful in these actions, management believes that they will be able to secure the necessary financing to enable it to continue as a going concern. Accordingly, these financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a wide variety of estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements. Our management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increases, these judgments become even more subjective and complex. The most significant accounting policies that are most important to the portrayal of our current financial condition and results of operations relates to mineralization and deferred development costs. Other accounting policies are disclosed in Note 2 of Notes to Consolidated Financial Statements.

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Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the properties are disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be depreciated over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and deferred exploration costs will be written off to operations.

Recent Accounting Pronouncements

In April 2004, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue No. 04-2, which amends Statement of Financial Accounting Standards (SFAS) No. 141 Business Combinations to the extent all mineral rights are to be considered tangible assets for accounting purposes. There has been diversity in practice related to the application of SFAS No. 141 to certain mineral rights held by mining entities that are not within the scope of SFAS No. 19 Financial Accounting and Reporting by Oil and Gas Producing Companies. The SEC staff's position previously was entities outside the scope of SFAS No. 19 should account for mineral rights as intangible assets in accordance with SFAS No. 142 Goodwill and Other Intangible Assets. The adoption of EITF 04-02 has no effect on the consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities. In December 2003, the FASB issued a revision to this interpretation (FIN 46(r)). FIN 46(r) clarifies the application of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. FIN 46 clarifies the application of ARB No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. We adopted FIN 46(r) in its entirety for the period ended March 31, 2004, which did not have a material effect on our consolidated financial statements.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-14(c) and 15d-14(c)) under the supervision and with the participation of the Company's management, including the Company's President and its Chief Financial Officer. Based upon that evaluation, the Company's President and its Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, but are not limited to, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

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Changes in Internal Controls

In December 2003, we entered into an agreement with Degerstrom that cancelled an agreement that was part of the original property assets vended into Minera Andes. Terms of the Settlement Agreement are:

The Operating Agreement was cancelled whereby management, accounting, office and technical services were provided to us;

A share bonus payable when a property reached a bankable feasibility was cancelled;

A potential underlying royalty on the San José project was also purchased.

As a result of these changes, we have moved our offices to a new location, set up our own internal accounting system, and set up a new U.S. corporation to employ certain personnel directly.

There were no significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our disclosure controls and procedures subsequent to the date the Company carried out this evaluation.

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PART II - OTHER INFORMATION

Item 2. Changes in Securities

During the three months ended March 31, 2004, the Company issued 70,000 shares for the exercise of stock options with gross proceeds to the Company of Cdn\$31,750 (US\$23,751).

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

| <u>Exhibit Number</u> | <u>Identification of Exhibit</u> |
|----------------------------------|---|
| 31.1 | Certification of President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of President pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

b. Reports on Form 8-K: None

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MINERA ANDES INC.

Date: May 14, 2004

By: /s/ Allen V. Ambrose

Allen V. Ambrose
President

Date: May 14, 2004

By: /s/ Bonnie L. Kuhn

Bonnie L. Kuhn
Chief Financial Officer and Secretary

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