

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

MINERA ANDES INC /WA
Form 10QSB
August 13, 2004

=====

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 June 30, 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 August 13, 2004: 70,291,490 shares of common stock, with no par value

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

=====

TABLE OF CONTENTS

| | |
|--|------|
| PART I - FINANCIAL INFORMATION | Page |
| Item 1 Consolidated Financial Statements (Unaudited) | |
| Consolidated Balance Sheets..... | 3 |
| Consolidated Statements of Operations and Accumulated Deficit | 4 |
| Consolidated Statements of Mineral Properties and Deferred Exploration Costs..... | 5 |
| Consolidated Statements of Cash Flows..... | 6 |
| Notes to Consolidated Financial Statements..... | 8 |
| Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 15 |
| Item 3 Controls and Procedures | 19 |
| PART II - OTHER INFORMATION | |
| Item 2 Changes in Securities | 20 |
| Item 6 Exhibits and Reports on Form 8-K..... | 20 |
| SIGNATURES | 21 |

-2-

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

| | June 30, 2004 | December 31, 2003 |
|---|------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents | \$ 5,308,459 | \$ 2,234,342 |
| Receivables and prepaid expenses | 204,382 | 228,123 |
| | ----- | ----- |
| Total current assets | 5,512,841 | 2,462,465 |
| Mineral properties and deferred exploration costs | 1,891,168 | 915,299 |

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

| | | |
|---------------------|---------------|--------------|
| Investment | 3,863,127 | 4,063,127 |
| Capital assets, net | 82,272 | 88,238 |
| | ----- | ----- |
| Total assets | \$ 11,349,408 | \$ 7,529,129 |
| | ===== | ===== |

LIABILITIES

| | | |
|-------------------------------|-----------|-----------|
| Current: | | |
| Accounts payable and accruals | \$ 80,740 | \$ 96,640 |
| Due to related parties | -- | 30,531 |
| | ----- | ----- |
| Total current liabilities | 80,740 | 127,171 |
| | ----- | ----- |

SHAREHOLDERS' EQUITY

| | | |
|--|---------------|--------------|
| Preferred shares, no par value, unlimited number authorized, none issued | -- | -- |
| Common shares, no par value, unlimited number authorized | | |
| Issued June 30, 2004 - 70,291,490 shares | | |
| Issued December 31, 2003 - 59,740,865 shares | 28,314,100 | 23,597,468 |
| Contributed surplus - stock option compensation | 873,636 | 160,888 |
| Accumulated deficit | (17,919,068) | (16,356,398) |
| | ----- | ----- |
| Total shareholders' equity | 11,268,668 | 7,401,958 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 11,349,408 | \$ 7,529,129 |
| | ===== | ===== |

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

-3-

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

| | Three Months Ended | | Six Months |
|----------------------|--------------------|------------------|------------------|
| | June 30, 2004 | June 30, 2003 | June 30, 2004 |
| | ----- | ----- | ----- |
| Administration fees | \$ -- | \$ 6,560 | \$ -- |
| Audit and accounting | 12,491 | 3,938 | 51,840 |
| Consulting fees | 84,821 | 65,337 | 229,197 |
| Depreciation | 8,514 | 439 | 17,371 |

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

| | | | |
|---|---------------|---------------|---------------|
| Equipment rental | -- | -- | -- |
| Foreign exchange (gain) loss | 154,688 | (26,615) | 116,150 |
| Insurance | 18,083 | 2,387 | 36,870 |
| Legal | 41,004 | 76,531 | 82,658 |
| Maintenance | -- | -- | -- |
| Materials and supplies | -- | -- | -- |
| Office overhead | 94,928 | 24,007 | 151,833 |
| Telephone | 6,244 | 5,596 | 15,162 |
| Transfer agent | 2,995 | 1,278 | 4,525 |
| Travel | 15,836 | 7,873 | 34,927 |
| Wages and benefits | 49,175 | 46,797 | 96,649 |
| Write-off of deferred costs | -- | -- | -- |
| | ----- | ----- | ----- |
| Total expenses | 488,779 | 214,128 | 837,182 |
| Gain on sale of capital assets | -- | -- | -- |
| Gain on sale of property | -- | -- | -- |
| Interest income | (24,793) | (1,731) | (39,661) |
| | ----- | ----- | ----- |
| Net loss for the period | 463,986 | 212,397 | 797,521 |
| | ----- | ----- | ----- |
| Accumulated deficit, beginning of the period, as previously reported | 17,455,082 | 14,475,113 | 16,356,398 |
| Adjustment for change in accounting for stock-based compensation | -- | -- | 678,569 |
| | ----- | ----- | ----- |
| Accumulated deficit, beginning of period, as restated | 17,455,082 | 14,475,113 | 17,034,967 |
| Adjustment on acquisition of royalty interest | -- | -- | -- |
| Share issue costs | -- | -- | 86,580 |
| Deficiency on acquisition of subsidiary | -- | -- | -- |
| | ----- | ----- | ----- |
| Accumulated deficit, end of the period | \$ 17,919,068 | \$ 14,687,510 | \$ 17,919,068 |
| | ===== | ===== | ===== |
| Basic and diluted net loss per common share | \$ 0.01 | \$ 0.01 | \$ 0.01 |
| | ===== | ===== | ===== |
| Weighted average shares outstanding (basic and diluted) | 70,205,463 | 37,061,426 | 66,066,105 |
| | ===== | ===== | ===== |

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

-4-

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

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2004 | June 30, 2003 | June 30, 2004 | June 30, 2003 |
| Administration fees | \$ -- | \$ 5,678 | \$ -- | \$ 10,7 |
| Assays and analytical | 41,606 | 2,470 | 49,297 | 5,5 |
| Construction and trenching | -- | -- | 170 | -- |
| Consulting fees | 15,778 | 36,849 | 39,470 | 65,6 |
| Depreciation | -- | -- | -- | -- |
| Drilling | 162 | -- | 242,960 | -- |
| Equipment rental | -- | -- | 132,688 | -- |
| Geology | 85,333 | 28,438 | 291,591 | 49,5 |
| Geophysics | -- | -- | -- | -- |
| Insurance | -- | 2,125 | -- | 4,2 |
| Legal | -- | -- | 220 | -- |
| Maintenance | 2,876 | 510 | 11,763 | 7 |
| Materials and supplies | 7,786 | 600 | 28,993 | 1,1 |
| Project overhead | 7,695 | 2,402 | 14,109 | 3,7 |
| Property and mineral rights | 12,379 | 3,251 | 41,269 | 3,4 |
| Telephone | 4,979 | 1,624 | 7,569 | 2,2 |
| Travel | 19,784 | 36,227 | 49,787 | 50,1 |
| Wages and benefits | 31,849 | 32,488 | 65,983 | 66,3 |
| Costs incurred during the period | 230,227 | 152,662 | 975,869 | 263,6 |
| Deferred costs, beginning of the period | 1,660,941 | 3,447,477 | 915,299 | 3,536,4 |
| Deferred costs, acquired | -- | -- | -- | -- |
| Deferred costs, contributed to MSC | -- | -- | -- | -- |
| Deferred costs written off | -- | -- | -- | -- |
| Mineral property option proceeds | -- | -- | -- | (200,0 |
| Deferred costs, end of the period | \$ 1,891,168 | \$ 3,600,139 | \$ 1,891,168 | \$ 3,600,1 |

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

-5-

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

| | Three Months Ended | | Six Mo |
|--|--------------------|------------------|------------------|
| | June 30, 2004 | June 30, 2003 | June 30, 2004 |

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

| | | | |
|---|--------------|--------------|-------------|
| Operating Activities | | | |
| Net loss for the period | \$ (463,986) | \$ (212,397) | \$ (797,52) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Write-off of incorporation costs | -- | -- | -- |
| Write-off of deferred expenditures | -- | -- | -- |
| Depreciation | 8,514 | 439 | 17,37 |
| Stock option compensation | 3,313 | 2,607 | 34,17 |
| Gain on sale of capital assets | -- | -- | -- |
| Gain on sale of mineral properties | -- | -- | -- |
| Change in: | | | |
| Receivables and prepaid expenses | 7,063 | (118,365) | 23,74 |
| Accounts payable and accruals | (321,534) | 37,561 | (15,90) |
| Due to related parties | (4,000) | (11,794) | (30,53) |
| Cash used in operating activities | (770,630) | (301,949) | (768,66) |
| Investing Activities | | | |
| Incorporation costs | -- | -- | -- |
| Purchase of capital assets | (2,637) | -- | (11,40) |
| Proceeds from sale of property | -- | -- | -- |
| Mineral properties and deferred exploration | (230,227) | (152,662) | (975,86) |
| Acquisition of investment | -- | -- | -- |
| Proceeds from sale of subsidiaries | -- | -- | -- |
| Acquisition of royalty interest | -- | -- | -- |
| Recovery of investment | -- | -- | 200,00 |
| Cash used in investing activities | (232,864) | (152,662) | (787,27) |

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

-6-

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

| | Three Months Ended | | Six |
|---|--------------------|----------|------|
| | June 30, | June 30, | June |
| | 2004 | 2003 | 2004 |
| Financing Activities | | | |
| Shares and subscriptions issued for cash, | | | |

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

| | | | |
|--|--------------|------------|----------|
| less issue costs | 147,426 | 48,677 | 4,630 |
| | ----- | ----- | ----- |
| Cash provided by financing activities | 147,426 | 48,677 | 4,630 |
| | ----- | ----- | ----- |
| Increase (decrease) in cash and cash equivalents | (856,068) | (405,934) | 3,074 |
| Cash and cash equivalents, beginning of period | 6,164,527 | 973,703 | 2,234 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 5,308,459 | \$ 567,769 | \$ 5,308 |
| | ===== | ===== | ===== |
| Supplementary Disclosure of Non-Cash Investing and Financing Activities | | | |
| Stock option compensation | \$ 3,313 | \$ 2,607 | \$ 34 |
| | ----- | ----- | ----- |
| Deferred costs, contributed to MSC | \$ -- | \$ -- | \$ -- |
| | ----- | ----- | ----- |
| Shares issued for acquisition of mineral properties | \$ -- | \$ -- | \$ -- |
| | ----- | ----- | ----- |
| Interest and taxes paid | \$ -- | \$ -- | \$ -- |
| | ----- | ----- | ----- |

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

-7-

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 and six month periods ended June 30, 2004 and 2003 and for the period from commencement (July 1, 1994) through June 30, 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 3. 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 described in Note 2 and 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

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

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 June 30, 2004, there was substantial doubt that the Company would be able to continue as a going concern.

For the six months ended June 30, 2004 the Company had a loss of approximately \$798,000 and an accumulated deficit of approximately \$18 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.

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.

-8-

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, as at January 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

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

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 June 30, 2004 nor the net loss for the three and six months ended June 30, 2004. There would however have been no adjustment to retained earnings as well as contributed surplus 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:

| | June 30, 2004 | Dec. 31, 2003 |
|---|------------------|------------------|
| | ----- | ----- |
| Shareholders' equity, end of period, per Canadian GAAP | \$ 11,268,668 | \$ 7,401,958 |
| Adjustment for acquisition and deferred exploration costs | (1,891,168) | (915,299) |
| Adjustment for investment | (3,863,127) | (4,063,127) |
| | ----- | ----- |
| Shareholders' equity, end of period, per U.S. GAAP | \$ 5,514,373 | \$ 2,423,532 |
| | ===== | ===== |

-9-

| | Three Months Ended | | Six Months Ended | | Period from July 1, 1 (commencem through June 30, 2 (Cumulati |
|---|--------------------|------------------|------------------|------------------|--|
| | June 30, 2004 | June 30, 2003 | June 30, 2004 | June 30, 2003 | |
| | ----- | ----- | ----- | ----- | ----- |
| Net loss for the period, per Canadian GAAP | \$ 463,986 | \$ 212,397 | \$ 797,521 | \$ 423,610 | \$15,630,8 |
| Adjustment for acquisition of Scotia | -- | -- | -- | -- | 248,5 |
| Adjustment for compensation expense | -- | -- | -- | -- | 6,324,9 |
| Adjustment for deferred exploration costs, net | 230,227 | 152,662 | 975,869 | 263,691 | 1,891,1 |
| Adjustment for investment | -- | -- | (200,000) | (200,000) | 3,863,1 |
| | ----- | ----- | ----- | ----- | ----- |
| Net loss for the period, per U.S. GAAP | \$ 694,213 | \$ 365,059 | \$ 1,573,390 | \$ 487,301 | \$27,958,6 |
| | ===== | ===== | ===== | ===== | ===== |
| Net loss per common share, per U.S. GAAP, basic and diluted | \$ 0.01 | \$ 0.01 | \$ 0.02 | \$ 0.01 | |
| | ===== | ===== | ===== | ===== | |

Recent U.S. Accounting Pronouncements

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

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 three and six month periods ended June 30, 2004, which did not have a material effect on our consolidated financial statements.

4. Changes to Share Capital

During the three months ended June 30, 2004, the Company issued 110,000 shares for the exercise of stock options; 190,500 shares for the exercise of warrants and 180,125 common shares for the exercise of broker warrants (from a November 13, 2003 financing), with gross proceeds to the Company of Cdn\$196,294 (US\$147,426).

On June 3, 2004, 1,030,000 stock options expired, without being exercised.

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).

-10-

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 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 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.

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

5. Basic and Diluted Loss Per Common Share

Basic earnings per share (EPS) is calculated by dividing the 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 and six month periods ended June 30, 2004 and 2003.

6. Mineral Properties and Deferred Exploration Costs

At June 30, 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:

-11-

2004 COSTS BY PROPERTY

| Description | San Juan Cateos | Santa Cruz Cateos | Chubut Cateos | General Exploration |
|------------------------------|-----------------|-------------------|---------------|---------------------|
| Balance, beginning of period | \$ 378,807 | \$ 393,886 | \$ 142,606 | \$ |
| Assays and analytical | 30,518 | 18,779 | -- | |
| Construction and trenching | -- | 170 | -- | |
| Consulting fees | 13,294 | 19,366 | 5,022 | 1,7 |
| Drilling | 242,798 | -- | -- | 1 |
| Equipment Rental | 132,688 | -- | -- | |
| Geology | 160,134 | 121,198 | 1,774 | 8,4 |
| Legal | -- | 220 | -- | |
| Maintenance | 3 | 9,243 | -- | 2,5 |
| Materials and supplies | 17,776 | 10,642 | 124 | 4 |
| Project overhead | 5,129 | 5,863 | 151 | 2,9 |
| Property and mineral rights | 9,984 | 30,952 | 333 | |
| Telephone | 2,842 | 4,274 | 6 | 4 |

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

| | | | | |
|-------------------------------|--------------|------------|------------|--------|
| Travel | 7,069 | 26,499 | 446 | 15,7 |
| Wages and benefits | 12,240 | 11,128 | -- | 42,6 |
| Overhead allocation | 41,628 | 33,323 | 253 | (75,20 |
| Carrying value, end of period | \$ 1,054,910 | \$ 685,543 | \$ 150,715 | \$ |

The San Juan Province project is comprised of six properties totaling 37,568 hectares ("ha") in southwestern San Juan province. Property fees for 2004 are estimated at \$10,000. Expenditures in the first half of 2004 largely relate to ongoing land maintenance and exploration work at the remote Los Azules project, 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. Expenditures in the first half of 2004 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 half of 2004 relate to an ongoing reconnaissance exploration program on lands acquired in 2002. The Company's expenditures have been minimal in Chubut province as the Company has given priority to exploration in Santa Cruz province.

Wages and benefits were approximately \$66,000 during the six months ended June 30, 2004, compared to approximately \$66,000 during the same period in 2003. During 2004 and 2003 wage and benefit expense was for the benefit of all properties and was prorated to each project.

-12-

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 Jose 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 Jose 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 Jose project, to maintain our interest in MSC.

8. Stock Options

a. A summary of the status of the Company's stock option plan as of June 30, 2004 is:

| Options | Weighted Ave. Exercise Price (Cdn) |
|---------|--|
| ----- | ----- |

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

| | | |
|--|-------------|--------|
| Outstanding and exercisable, January 1, 2004 | 4,408,500 | \$0.44 |
| Granted | 100,000 | \$0.50 |
| Exercised | (180,000) | \$0.39 |
| Expired | (1,030,000) | \$0.55 |
| | ----- | |
| Outstanding and exercisable, June 30, 2004 | 3,298,500 | \$0.45 |
| | ===== | |

The range of exercise prices is from Cdn\$0.16 to Cdn\$0.59 with a weighted average remaining contractual life of 4.5 years at June 30, 2004.

At June 30, 2004, there were options held by directors, officers, employees and consultants of the Company for the purchase of common shares as follows:

| Number of Shares | Exercise Price | Expiry Date |
|------------------|----------------|------------------|
| ----- | ----- | ----- |
| 348,500 | Cdn\$0.16 | August 28, 2005 |
| 740,000 | 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 |
| 585,000 | Cdn\$0.31 | March 21, 2013 |
| ----- | | |
| 3,298,500 | | |

- 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 fair value based method, adopted as at January 2004, been followed:

| | Three Months Ended June 30, 2003 | Six Mo End June 30 |
|---|---|--------------------------|
| | ----- | ----- |
| Loss applicable to common shareholders: | | |
| As reported | \$ 212,937 | \$ 423 |
| Stock-based employee compensation expense included in reported loss | -- | |
| Stock-based employee compensation expense determined under fair value based method for all awards | -- | 112 |
| | ----- | ----- |
| Pro forma | \$ 212,937 | \$ 535 |
| | ===== | ===== |
| As reported | \$ 0.01 | \$ |
| Pro forma net loss | \$ 0.01 | \$ |

The fair value of each option grant was estimated on the date of grant

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

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 (%) | 92 | |
| Risk-free interest rates (%) | 3.23 | |
| Expected lives (years) | 5.0 | |

In connection with the vesting of certain non-employee stock options, the Company has recorded \$34,179, and \$28,632 of stock option compensation during the six months ended June 30, 2004 and 2003, respectively.

9. Warrants

a. A summary of the status of the Company's Warrants as of June 30, 2004 is:

| | Warrants |
|--|------------|
| | ----- |
| Purchase Warrants | |
| Outstanding and exercisable, January 1, 2004 | 22,000,000 |
| Issued | 10,000,000 |
| Exercised | (381,000) |
| Outstanding and exercisable, June 30, 2004 | 31,619,000 |
| Broker Warrants | |
| Outstanding and exercisable, January 1, 2004 | 2,200,000 |
| Issued | 1,000,000 |
| Exercised | (180,125) |
| Outstanding and exercisable, June 30, 2004 | 3,019,875 |
| Total Warrants | 34,638,875 |
| | ===== |

-14-

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

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

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 Jose gold/silver property in Southern Argentina, and a 100% interest in over 10 mineral properties in Argentina. San Jose is currently in advanced exploration and underground development and a production decision is expected in early 2005. A significant exploration and development program is underway at the San Jose 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.

During the second quarter of 2004 a feasibility study was commissioned by MSC at the San Jose project and multi ounce silver values were identified at the Company's wholly owned Cerro Mojon and El Trumai properties in Santa Cruz province, Argentina.

Plan of Operations

The Company has working capital of approximately \$5.4 million, sufficient, together with funds from the joint venture on the San Jose 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 Jose 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 Jose 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 Jose 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 Jose project through MSC until early in the third 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.

In the second quarter of 2004, we announced the commissioning of a feasibility study by MSC on the Huevos Verdes vein at the San Jose project. The purpose of the study, to be completed in early 2005, is to establish a basis for project financing, and regulatory and permitting approvals. The study will also serve a foundation for detailed engineering, including mine design and ore reserve development.

We expect that the San Jose project will reach a production decision in early 2005, and additional cash will be required 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

Second quarter 2004 compared with second quarter 2003

The Company had a net loss of approximately \$464,000 for the second quarter of 2004, compared to a net loss of approximately \$212,000 for the second quarter of 2003, due to a foreign exchange loss and increased office overhead expenditures relating to printing and mailing costs of materials relating to our Annual General Meeting and our increased public and investor relations program in 2004.

Six months ended June 30, 2004 compared with six months ended June 30, 2003

The Company had a net loss of approximately \$798,000 for the six months ended June 30, 2004, compared with a net loss of approximately \$424,000 for the comparable period in 2003, due to a foreign exchange loss and increased office overhead expenditures relating to printing and mailing costs of materials relating to our Annual General Meeting and our increased public and investor relations program in 2004.

Administrative expenditures for the six months ended June 30, 2004 included approximately \$229,000 in consulting fees. This increase of \$51,000 over the

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

same period last year is related to an increased investor relations program and stock compensation expense for consultants. Legal activities were \$82,658 for the six months ended June 30, 2004 compared to \$92,567 in the same period last year. The six months ending in June 30, 2003 had higher legal costs due to the review of a potential merger that year. Travel for the six months ended June 30, 2004 was \$34,927 compared with \$18,908 in the same period in 2003. The increase is due to a new public and investor relations program. Foreign exchange loss was \$116,150 for the six months ended June 30, 2004 compared with a gain of \$54,027 in the same period in 2003, due to the effect of a strengthening U.S. dollar offset by the associated impact on the value of cash equivalents invested in Canadian dollar instruments.

-16-

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".

At June 30, 2004 the Company had cash and cash equivalents of approximately \$5,308,000 compared to approximately \$2,234,000 at December 31, 2003. Working capital at June 30, 2004 was approximately \$5.4 million, sufficient, together with funds from joint ventures on the San Jose 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. Cash and cash equivalents decreased in the second quarter by approximately \$856,000 in 2004 compared with a decrease of approximately \$406,000 in the same period in 2003. The Company's operating activities used approximately \$771,000 in the second quarter of 2004 compared with using approximately \$302,000 in the second quarter of 2003, due to an increase in net loss for the period. Administrative expenditures for the period included approximately \$85,000 in consulting fees (an increase of \$20,000 over the same period last year, directly related to the more advanced stage of the San Jose project, a new investor relations program and stock option compensation expense); approximately \$16,000 in travel; approximately \$95,000 in office overhead and approximately \$6,000 in telephone expenditures. These costs are due to printing and mailing costs of materials relating to our Annual General Meeting and our increased public and investor relations program in 2004.

Investing and financing activities used approximately \$85,000 in the second quarter of 2004 compared with approximately \$104,000 used in the second quarter of 2003, due to more expenditures on properties, offset by more stock issuances for cash proceeds. Total mineral property and deferred exploration costs, which are capitalized for Canadian GAAP purposes, were approximately \$230,000 during the second quarter of 2004, compared with approximately \$153,000 spent in the second quarter of 2003. Total mineral property and deferred exploration costs for the six months ended June 30, 2004 were approximately \$976,000 in 2004 and \$264,000 in the same period of 2003 (before mineral property option proceeds). The increase reflects higher costs associated with expanding reconnaissance exploration programs, new property acquisitions, evaluation of existing properties, and exploration including drilling, sample preparation and analysis at our Los Azules project.

The recoverability of amounts shown as mineral properties and deferred

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

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 June 30, 2004, there was significant doubt that the Company would be able to continue as a going concern.

For the six months ended June 30, 2004, the Company had a loss of approximately \$798,000 and an accumulated deficit of approximately \$18 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.

-17-

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 1 of Notes to Consolidated Financial Statements.

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.

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

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

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.

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 June 30, 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

-18-

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.

Edgar Filing: MINERA ANDES INC /WA - Form 10QSB

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:

- o The Operating Agreement was cancelled whereby management, accounting, office and technical services were provided to us;
- o A share bonus payable when a property reached a bankable feasibility was cancelled;
- o A potential underlying royalty on the San Jose 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 during the three-month period ended June 30, 2004.

-19-

PART II - OTHER INFORMATION

Item 2. Changes in Securities

During the six months ended June 30, 2004, the Company issued 10,000,000 shares through a private placement, 180,000 shares for the exercise of stock options, 370,625 shares for the exercise of warrants (from a November 13, 2003 private placement), with net proceeds to the Company of Cdn\$6,157,952 (US\$4,630,052).

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

| Exhibit Number | Identification of Exhibit |
|----------------|---|
| 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

-20-

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: August 13, 2004

By: /s/ Allen V. Ambrose

Allen V. Ambrose
President

Date: August 13, 2004

By: /s/ Bonnie L. Kuhn

Bonnie L. Kuhn
Chief Financial Officer
and Secretary

-21-