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MINERA ANDES INC /WA  
Form 10QSB  
November 12, 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 September 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 November 12, 2004: 71,139,060 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 .....	17
Item 3 Controls and Procedures .....	21
PART II - OTHER INFORMATION	
Item 2 Changes in Securities .....	22
Item 6 Exhibits and Reports on Form 8-K .....	22
SIGNATURES .....	23

-2-

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

	September 30, 2004	December 31, 2003
	-----	-----
ASSETS		
Current:		
Cash and cash equivalents	\$ 3,407,281	\$ 2,234,342
Receivables and prepaid expenses	49,588	228,123
	-----	-----
Total current assets	3,456,869	2,462,465
Mineral properties and deferred exploration costs	2,052,853	915,299
Investment	5,584,696	4,063,127
Equipment, net	104,847	88,238
	-----	-----

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Total assets	\$ 11,199,265	\$ 7,529,129
	=====	=====
LIABILITIES		
Current:		
Accounts payable and accruals	\$ 46,843	\$ 96,640
Due to related parties	--	30,531
	-----	-----
Total current liabilities	46,843	127,171
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred shares, no par value, unlimited number authorized, none issued	--	--
Common shares, no par value, unlimited number authorized		
Issued September 30, 2004 - 70,442,990 shares		
Issued December 31, 2003 - 59,740,865 shares	28,354,367	23,597,468
Contributed surplus - stock option compensation	1,287,143	160,888
Accumulated deficit	(18,489,088)	(16,356,398)
	-----	-----
Total shareholders' equity	11,152,422	7,401,958
	-----	-----
Total liabilities and shareholders' equity	\$ 11,199,265	\$ 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		Nine Months
	September 30, 2004	September 30, 2003	September 30, 2004
	-----	-----	-----
Administration fees	\$ --	\$ 7,358	\$ --
Audit and accounting	13,017	2,500	64,857
Consulting fees	202,730	54,508	431,927
Depreciation	10,816	367	28,187
Equipment rental	--	--	--
Foreign exchange (gain) loss	(241,049)	2,929	(124,899)
Insurance	18,419	2,364	55,289
Legal	35,780	77,416	118,438
Maintenance	--	--	--
Materials and supplies	361	--	361
Office overhead	170,808	39,848	322,641

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Telephone	8,871	9,652	24,033
Transfer agent	1,602	2,160	6,127
Travel	14,354	16,621	49,281
Wages and benefits	359,967	46,686	456,616
Write-off of deferred costs	--	--	--
	-----	-----	-----
Total expenses	595,676	262,409	1,432,858
Gain on sale of equipment	(4,614)	--	(4,614)
Gain on sale of property	--	--	--
Interest income	(21,042)	(131)	(60,703)
	-----	-----	-----
Net loss for the period	570,020	262,278	1,367,541
	-----	-----	-----
Accumulated deficit, beginning of the period, as previously reported	17,919,068	14,687,510	16,356,398
Adjustment for change in accounting for stock-based compensation	--	--	678,569
	-----	-----	-----
Accumulated deficit, beginning of period, as restated	17,919,068	14,687,510	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	\$ 18,489,088	\$ 14,949,788	\$ 18,489,088
	=====	=====	=====
Basic and diluted net loss per common share	\$ 0.01	\$ 0.01	\$ 0.02
	=====	=====	=====
Weighted average shares outstanding (basic and diluted)	70,333,061	37,469,614	67,475,720
	=====	=====	=====

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)

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 2003
	-----	-----	-----	-----
Administration fees	\$ --	\$ 4,873	\$ --	\$ 15,
Assays and analytical	44,256	--	93,553	5,

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Construction and trenching	--	--	170	--
Consulting fees	13,977	21,574	53,447	87,000
Depreciation	--	--	--	--
Drilling	1,383	--	244,343	--
Equipment rental	--	--	132,688	--
Geology	43,581	2,500	335,172	52,000
Geophysics	--	--	--	--
Insurance	--	2,125	--	6,000
Legal	--	--	220	--
Maintenance	4,231	156	15,994	--
Materials and supplies	2,648	354	31,641	1,000
Project overhead	1,488	882	15,597	4,000
Property and mineral rights	13,208	36	54,477	3,000
Telephone	2,211	873	9,780	3,000
Travel	10,925	9,072	60,712	59,000
Wages and benefits	23,777	32,486	89,760	98,000
	-----	-----	-----	-----
Costs incurred during the period	161,685	74,931	1,137,554	338,000
Deferred costs, beginning of the period	1,891,168	3,600,139	915,299	3,536,000
Deferred costs, acquired	--	--	--	--
Deferred costs, contributed to MSC	--	--	--	--
Deferred costs written off	--	--	--	--
Mineral property option proceeds	--	(200,000)	--	(400,000)
	-----	-----	-----	-----
Deferred costs, end of the period	\$ 2,052,853	\$ 3,475,070	\$ 2,052,853	\$ 3,475,000
	=====	=====	=====	=====

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		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Operating Activities				
Net loss for the period	\$ (570,020)	\$ (262,278)	\$ (1,367,541)	\$ (1,367,541)
Adjustments to reconcile net loss to net cash used in operating activities:				
Write-off of incorporation costs	--	--	--	--
Write-off of deferred expenditures	--	--	--	--
Depreciation	10,816	367	28,187	28,187

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Stock option compensation	413,507	6,984	447,686
Gain on sale of equipment	(4,614)	--	(4,614)
Gain on sale of mineral properties	--	--	--
Change in:			
Receivables and prepaid expenses	154,794	7,536	178,535
Accounts payable and accruals	(33,897)	(10,881)	(49,797)
Due to related parties	--	37	(30,531)
Cash used in operating activities	(29,414)	(258,235)	(798,075)
Investing Activities			
Incorporation costs	--	--	--
Purchase of equipment	(35,277)	(1,053)	(46,682)
Proceeds from sale of equipment	6,500	--	6,500
Mineral properties and deferred exploration	(161,685)	(74,931)	(1,137,554)
Acquisition of investment	(1,921,569)	--	(1,921,569)
Proceeds from sale of subsidiaries	--	--	--
Acquisition of royalty interest	--	--	--
Recovery of investment	200,000	200,000	400,000
Cash provided by (used in) investing activities	(1,912,031)	124,016	(2,699,305)

-6-

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

	Three Months Ended		Nine Months Ended
	September 30, 2004	September 30, 2003	September 30, 2004
Financing Activities			
Shares and subscriptions issued for cash, less issue costs	40,267	2,900	4,670,319
Cash provided by financing activities	40,267	2,900	4,670,319
Increase (decrease) in cash and cash equivalents	(1,901,178)	(131,319)	1,172,939
Cash and cash equivalents, beginning of period	5,308,459	567,769	2,234,342
Cash and cash equivalents, end of period	\$ 3,407,281	\$ 436,450	\$ 3,407,281

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and Financing Activities			
Stock option compensation	\$ 413,507	\$ 6,984	\$ 447,686
	-----	-----	-----
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 nine months periods ended September 30, 2004 and 2003 and for the cumulative period from commencement (July 1, 1994) through September 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 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 September 30, 2004, there was substantial doubt that the Company would be able to continue as a going concern.

For the nine months ended September 30, 2004 the Company had a loss of

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approximately \$1,368,000 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 the Company has granted options to employees in 2004, the retroactive adoption without restatement of the new Canadian requirements has created differences between Canadian and U.S. GAAP with respect to the Company's shareholder's equity at September 30, 2004 nor the net loss for the three and nine months ended September 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.



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

	Sept. 30, 2004	Dec. 31, 2003
Shareholders' equity, end of period, per Canadian GAAP	\$ 11,152,422	\$ 7,401,958
Adjustment for acquisition and deferred exploration costs	(2,052,853)	(915,299)
Adjustment for change in accounting policy (Note 2)	(302,614)	--
Adjustment for investment	(5,584,696)	(4,063,127)
Shareholders' equity, end of period, per U.S. GAAP	\$ 3,212,259	\$ 2,423,532

-9-

	Three Months Ended		Nine Months Ended		Period July 1, (commencement) Thru Sept. 2004 (Cumulative)
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003	
Net loss for the period, per Canadian GAAP	\$ 570,020	\$ 262,278	\$ 1,367,541	\$ 685,888	\$16,200
Adjustment for acquisition of Scotia	--	--	--	--	248
Adjustment for compensation expense	(302,614)	--	(302,614)	--	6,022
Adjustment for deferred exploration costs, net	161,685	(125,069)	1,137,554	(61,378)	2,052
Adjustment for investment	1,721,569	--	1,521,569	--	5,584
Net loss for the period, per U.S. GAAP	\$ 2,150,660	\$ 137,209	\$ 3,724,050	\$ 624,510	30,109
Net loss per common share, per U.S. GAAP, basic and diluted	\$ 0.03	\$ 0.00	\$ 0.05	\$ 0.02	

The Company continues to account for stock-based compensation awarded to employees using the intrinsic method. Consequently, related pro-forma information as described in SFAS No. 123 has been disclosed, as follows:

Three Months Ended		Nine Months Ended	
Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003

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Net loss for the period under US GAAP as reported	\$2,150,660	\$ 137,209	\$3,724,050	\$ 624,510
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	302,614	--	302,614	112,362
	-----	-----	-----	-----
Pro-forma net loss for the period	\$2,453,274	\$ 137,209	\$4,026,664	\$ 736,872
	=====	=====	=====	=====
Basic and diluted - pro-forma	\$ 0.03	\$ 0.00	\$ 0.06	\$ 0.02
	=====	=====	=====	=====

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with assumptions as disclosed in Note 8.

### 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

-10-

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 nine months periods ended September 30, 2004, which did not have a material effect on our consolidated financial statements.

#### 4. Changes to Share Capital

During the three months ended September 30, 2004, the Company issued 95,000 shares for the exercise of stock options; 50,000 shares for the exercise of 100,000 purchase warrants and 6,500 shares for the exercise of broker warrants (from a November 13, 2003 financing), with gross proceeds to the Company of Cdn\$52,975 (US\$40,267).

On September 10, 2004, 1,500,000 stock options were granted, at Cdn\$0.55, to employees, directors and consultants of the Company.

During the three months ended June 30, 2004, the Company issued 110,000 shares

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for the exercise of stock options; 190,500 shares for the exercise of 381,000 purchase 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).

On March 29, 2004, 100,000 stock options were granted, at Cdn\$0.50, to a consultant of the Company.

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.

### 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 nine months periods ended September 30, 2004 and 2003.

-11-

### 6. Mineral Properties and Deferred Exploration Costs

At September 30, 2004, the Company, through its subsidiaries, held interests in approximately 200,000 hectares of mineral rights and mining lands in three Argentine provinces, including approximately 40,000 hectares in the co-owned San Jose project. 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

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Description	San Juan Cateos	Santa Cruz Cateos	Chubut Cateos	General Exploration
Balance, beginning of period	\$ 378,807	\$ 393,886	\$ 142,606	\$
Assays and analytical	31,093	62,013	--	4
Construction and trenching	--	170	--	
Consulting fees	14,612	29,212	7,587	2,0
Drilling	242,798	1,383	--	1
Equipment Rental	132,688	--	--	
Geology	163,492	155,660	1,774	14,2
Legal	--	220	--	
Maintenance	3	13,473	--	2,5
Materials and supplies	17,779	13,017	192	6
Project overhead	5,142	6,262	316	3,8
Property and mineral rights	9,984	37,440	7,053	
Telephone	2,843	6,420	10	5
Travel	7,945	32,448	475	19,8
Wages and benefits	12,463	18,774	--	58,5
Overhead allocation	42,582	59,384	847	(102,81
Carrying value, end of period	\$ 1,062,231	\$ 829,762	\$ 160,860	\$

The San Juan Province project is comprised of six properties totaling approximately 38,000 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 approximately 81,000 ha. Land holding costs for 2004 are estimated at \$15,000. Expenditures to date in 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 approximately 41,000 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.

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Wages and benefits were approximately \$90,000 during the nine months ended September 30, 2004, compared to approximately \$99,000 during the same period in 2003. During 2004 and 2003 wage and benefit expense was for the benefit of individual properties and was charged directly to each project.

### 7. Investment

During 2004, the Company received payments of \$400,000 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.

During the nine months ended September 30, 2004, \$1,921,569 has been advanced to MSC as an additional investment in the San Jose project.

### 8. Stock Options

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

	Options	Weighted Ave. Exercise Price (Cdn)
	-----	-----
Outstanding and exercisable, January 1, 2004	4,408,500	\$0.44
Granted	1,600,000	\$0.55
Exercised	(275,000)	\$0.35
Expired	(1,030,000)	\$0.55
	-----	
Outstanding and exercisable, September 30, 2004	4,703,500	\$0.48
	=====	=====

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 September 30, 2004.

At September 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 D
-----	-----	-----
308,500	Cdn\$0.16	August 28,
715,000	Cdn\$0.40	June 27, 2
25,000	Cdn\$0.36	August 27,
1,500,000	Cdn\$0.59	December 5

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100,000	Cdn\$0.50	March 29,
555,000	Cdn\$0.31	March 21,
1,500,000	Cdn\$0.55	September
-----		
4,703,500		

-13-

- 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 Sept. 30, 2003
	-----
Loss applicable to common shareholders:	
As reported	\$ 262,278
Stock-based employee compensation expense included in reported loss	--
Stock-based employee compensation expense determined under fair value based method for all awards	--
	-----
Pro forma	\$ 262,278
	=====
Loss applicable to common shareholders per share:	
As reported	\$ 0.01
Pro forma net loss	\$ 0.01

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
	-----
Dividend yield (%)	-
Expected volatility (%)	90
Risk-free interest rates (%)	3.40
Expected lives (years)	5.0

In connection with the vesting of certain non-employee stock options, the Company has recorded \$447,686, and \$35,616 of stock option compensation during the nine months ended September 30, 2004 and 2003, respectively.

-14-

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9. Warrants

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

	Warrants	Exerc
	-----	-----
Purchase Warrants		
Outstanding and exercisable, January 1, 2004	22,000,000	
Issued	10,000,000	
Exercised	(481,000)	
	-----	
Outstanding and exercisable, September 30, 2004	31,519,000	
	-----	
Two purchase warrants entitle the holder to purchase one common share.		
Broker Warrants		
Outstanding and exercisable, January 1, 2004	2,200,000	
Issued	1,000,000	
Exercised	(186,625)	
	-----	
Outstanding and exercisable, September 30, 2004	3,013,375	
	-----	
Each broker warrant entitles the holder to purchase one common share.		
Total Warrants	34,532,375	
	=====	

-15-

10. Subsequent Events

a) Subsequent to the third quarter ended September 30, 2004, the Company issued 55,000 shares for the exercise of stock options; 390,875 shares for the exercise of 781,750 purchase warrants and 250,195 shares for the exercise of broker warrants (from a November 13, 2003 private placement), with net proceeds to the Company of Cdn\$291,806 (US\$227,341).

b) On October 20, 2004, the Company advised that the advanced-stage San Jose silver/gold project in southern Argentina can proceed directly to a large-scale milling operation under an agreement reached with the project's operating partner should the feasibility study underway reach a positive production decision outcome.

The property payment structure from MHC to the Company has also been changed in the amendment where original payments totaled US\$400,000 a year until a 50-ton per day pilot was built. In lieu of building a pilot plant, the Company will receive reduced payments from MHC of US\$200,000 annually that will continue until a positive feasibility study is

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received and the MSC board of directors approves a project financing plan.

- c) On October 21, 2004, the Company accepted an offer letter from Macquarie Bank Limited ("Macquarie") to provide a loan facility of up to \$4 million. This facility is to be provided in two tranches to provide funding to the Company for its 49% portion of the costs of completing a bankable feasibility study and related development work for the San Jose/Huevos Verdes gold/silver project in Argentina. Macquarie is an international banking group active in providing project financing to the mining sector.

The commercial terms of the loan include a facility fee of 1.5% of the principal amount of the initial tranche and interest of Libor plus 2% per year, currently totaling approximately 4.1% per year. In addition, the Company is to issue share purchase warrants to acquire approximately 2,738,700 Common Shares of the Company at an exercise price of approximately Cdn\$0.91 per share. The warrants exercise price is calculated at a 20 percent premium to the volume weighted average of the Company's common stock determined from the ten business days prior to acceptance of this offer. Each warrant is to be exercisable for two years. Additional share purchase warrants may be issued in regard to the second tranche of US\$2.0 million, on terms calculated in a similar manner at that time, upon fulfillment of conditions precedent for that tranche.

- d) On November 2, 2004, the Company made a cash call of \$1.12 million to fund its 49% interest in the San Jose project through November 2004.

-16-

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

#### Note Regarding Forward-Looking Statements

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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 Minera Andes Inc.'s ("Minera Andes" or the "Company") 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 200,000 hectares in three provinces in Argentina, including approximately 40,000



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hectares in the co-owned San Jose project. 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 the first half of 2005. A significant exploration and development program is underway at the San Jose project. This program consists 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 is planned to be completed in the first half of 2005. In addition, multi ounce silver values were identified at the Company's wholly owned Cerro Mojon and El Trumai properties in Santa Cruz province, Argentina.

During the third quarter of 2004 construction work at Minera Andes' Huevos Verdes gold/silver vein, part of the San Jose project in southern Argentina, was expanded and accelerated to complete underground workings. The expanded and accelerated construction schedule is in part due to the recent underground work at the site that has indicated much higher gold and silver grades from the underground development sampling relative to the grades encountered in drilling from surface and to facilitate completion of the announced feasibility study.

-17-

### Plan of Operations

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The Company has working capital of approximately \$3.4 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 (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.

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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 the first half of 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.

In the third quarter of 2004, we made a cash call of \$1.92 million to fund our 49% interest in the San Jose project and anticipate cash calls of approximately \$2.0 million for the fourth quarter of 2004 to fund feasibility study and accelerated construction, underground development, and equipment purchases on the project. Additional funds will be necessary for exploring other 100 percent owned projects in Santa Cruz province. Preliminary discussions with international banking groups to evaluate project financing options for the San Jose project are ongoing.

We expect that the San Jose project will reach a production decision in the first half of 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.

-18-

### Results of Operations

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Third quarter 2004 compared with third quarter 2003

The Company had a net loss of approximately \$570,000 for the third quarter of 2004, compared to a net loss of approximately \$262,000 for the third quarter of 2003, due to stock compensation expense recognized for stock options granted to employees, directors and consultants during the third quarter 2004 and increased office overhead expenditures relating to our increased public and investor relations program in 2004.

Nine months ended September 30, 2004 compared with nine months ended September 30, 2003

The Company had a net loss of approximately \$1,368,000 for the nine months ended September 30, 2004, compared with a net loss of approximately \$686,000 for the

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comparable period in 2003, due to stock compensation expense recognized for stock options granted to employees, directors and consultants during the third quarter 2004 and increased office overhead expenditures relating to our increased public and investor relations program in 2004.

Administrative expenditures for the nine months ended September 30, 2004 included approximately \$432,000 in consulting fees. This increase of \$199,000 over the same period last year is related to an increased investor relations program and stock compensation expense for consultants. Legal activities were \$118,438 for the nine months ended September 30, 2004 compared to \$169,983 in the same period last year. The nine months ending in September 30, 2003 had higher legal costs due to the review of a potential merger that year. Travel for the nine months ended September 30, 2004 was \$49,281 compared with \$35,529 in the same period in 2003. The increase is due to a new public and investor relations program. Foreign exchange gain was \$124,899 for the nine months ended September 30, 2004 compared with a gain of \$51,098 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".

At September 30, 2004 the Company had cash and cash equivalents of approximately \$3,407,000 compared to approximately \$2,234,000 at December 31, 2003. Working capital at September 30, 2004 was approximately \$3.4 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 third quarter by approximately \$1,901,000 in 2004 compared with a decrease of approximately \$131,000 in the same period in 2003. The Company's operating activities used approximately \$29,000 in the third quarter of 2004 compared with using approximately \$258,000 in the third quarter of 2003, due to stock compensation expense recognized in the third quarter 2004. Administrative expenditures for the period included approximately \$203,000 in consulting fees (an increase of \$148,000 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 \$360,000 in wages and benefits (an increase of \$313,000 over the same period last year, directly related to stock option compensation expense for employees and directors); approximately \$14,000 in travel; approximately \$171,000 in office overhead and approximately \$9,000 in telephone expenditures. These costs are due to advertising relating to our increased public and investor relations program in 2004.

Investing and financing activities used approximately \$1,872,000 in the third quarter of 2004 compared with approximately \$127,000 provided in the third quarter of 2003, due to an increase in our investment and expenditures on properties. Total mineral property and deferred exploration costs, which are

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capitalized for Canadian GAAP purposes, were approximately \$162,000 during the third quarter of 2004, compared with approximately \$75,000 spent in the third quarter of 2003. Total mineral property and deferred exploration costs for the nine months ended September 30, 2004 were approximately \$1,138,000 in 2004 and \$339,000 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 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 September 30, 2004, there was significant doubt that the Company would be able to continue as a going concern.

For the nine months ended September 30, 2004, the Company had a loss of approximately \$1,368,000 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.

### 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 the 2003 10-KSB.

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

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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 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

-20-

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

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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 September 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 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

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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.

### 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 September 30, 2004.

-21-

## PART II - OTHER INFORMATION

### Item 2. Changes in Securities

During the nine months ended September 30, 2004, the Company issued 10,000,000 shares through a private placement, 275,000 shares for the exercise of stock options, 427,125 shares for the exercise of warrants (from a November 13, 2003 private placement), with net proceeds to the Company of Cdn\$6,210,927 (US\$4,670,319).

### 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,

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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

-22-

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: November 12, 2004  
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By: /s/ Allen V. Ambrose  
-----

Allen V. Ambrose  
President

Date: November 12, 2004  
-----

By: /s/ Bonnie L. Kuhn  
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Bonnie L. Kuhn  
Chief Financial Officer  
and Secretary

-23-