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MINERA ANDES INC /WA
Form 10QSB
May 15, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2002

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.)

3303 N. SULLIVAN ROAD, SPOKANE, WA 99216
(Address of principal executive offices)

(509) 921-7322
(Issuer's telephone number)

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

Shares outstanding as of April 30, 2002: 30,046,030 shares of common stock, with no par value

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

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

| | March 31, 2002 ----- | December 2001 ----- |
|---|----------------------------|---------------------------|
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents | \$ 163,225 | \$ 120, |
| Receivables and prepaid expenses | 32,566 | 17, |
| | ----- | ----- |
| Total current assets | 195,791 | 138, |
| Mineral properties and deferred exploration costs | 3,362,956 | 3,520, |
| Capital assets, net | 7,494 | 9, |
| | ----- | ----- |
| Total assets | \$ 3,566,241 ===== | \$ 3,668, ===== |
| LIABILITIES | | |
| Current: | | |
| Accounts payable and accruals | \$ 7,762 | \$ 5, |
| Due to related parties | 105,364 | 103, |
| | ----- | ----- |
| Total current liabilities | 113,126 ----- | 108, ----- |
| SHAREHOLDERS' EQUITY | | |

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| | | |
|--|--------------|-----------|
| Share capital | 18,197,422 | 18,197, |
| Accumulated deficit | (14,744,307) | (14,637, |
| | ----- | ----- |
| Total shareholders' equity | 3,453,115 | 3,559, |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 3,566,241 | \$ 3,668, |
| | ===== | ===== |

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

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

| | Three Months Ended | | Period from |
|------------------------------|--------------------|-----------|----------------|
| | March 31, | March 31, | July 1, 1994 |
| | 2002 | 2001 | (commencement) |
| | ----- | ----- | through |
| | | | March 31, 2002 |
| | ----- | ----- | ----- |
| Administration fees | \$ 6,387 | \$ 5,856 | \$ 237,342 |
| Audit and accounting | 7,183 | 27,786 | 340,015 |
| Consulting fees | 10,948 | 8,719 | 930,908 |
| Depreciation | 985 | 1,069 | 59,320 |
| Equipment rental | 0 | 0 | 21,522 |
| Foreign exchange (gain) loss | 13,432 | 549 | 420,444 |
| Insurance | 1,360 | 6,300 | 231,334 |
| Legal | 10,776 | 23,074 | 651,032 |
| Maintenance | 0 | 0 | 892 |
| Materials and supplies | 0 | 0 | 45,512 |
| Office overhead | 8,171 | 15,057 | 1,376,449 |
| Telephone | 2,444 | 4,516 | 358,260 |
| Transfer agent | 1,097 | 1,573 | 93,577 |
| Travel | 3,138 | 3,129 | 315,551 |

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| | | | |
|--|---------------|---------------|---------------|
| Wages and benefits | 40,792 | 36,829 | 1,241,017 |
| Write-off of deferred costs | 0 | 0 | 8,118,123 |
| | ----- | ----- | ----- |
| Total expenses | 106,713 | 134,457 | 14,441,298 |
| Gain on sale of capital assets | 0 | (20,108) | (104,588) |
| Interest income | (161) | (249) | (452,632) |
| | ----- | ----- | ----- |
| Net loss for the period | 106,552 | 114,100 | 13,884,078 |
| Accumulated deficit, beginning of the period | 14,637,755 | 14,254,066 | 0 |
| Share issue costs | 0 | 0 | 843,014 |
| Deficiency on acquisition of subsidiary | 0 | 0 | 17,215 |
| | ----- | ----- | ----- |
| Accumulated deficit, end of the period | \$ 14,744,307 | \$ 14,368,166 | \$ 14,744,307 |
| | ===== | ===== | ===== |
| Basic and diluted net loss per common share | \$ (0.004) | \$ (0.004) | |
| | ===== | ===== | |
| Weighted average shares outstanding | 30,046,030 | 30,017,408 | |
| | ===== | ===== | |

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

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

| | Three Months Ended | | Period from |
|----------------------------|--------------------|-----------|----------------|
| | March 31, | March 31, | July 1, 1994 |
| | 2002 | 2001 | (commencement) |
| | ----- | ----- | through |
| | | | March 31, 2002 |
| | ----- | ----- | ----- |
| Administration fees | \$ 4,057 | \$ 4,597 | \$ 362,056 |
| Assays and analytical | 0 | 0 | 938,822 |
| Construction and trenching | 0 | 0 | 507,957 |
| Consulting fees | 4,035 | 10,385 | 917,584 |
| Depreciation | 669 | 2,939 | 169,536 |

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| | | | |
|---|--------------|--------------|--------------|
| Drilling | 0 | 0 | 928,833 |
| Equipment rental | 0 | 0 | 244,068 |
| Geology | 1,125 | 1,628 | 2,904,568 |
| Geophysics | 0 | 0 | 309,902 |
| Insurance | 1,413 | 2,635 | 239,657 |
| Legal | 0 | 28,426 | 648,405 |
| Maintenance | 1,262 | 761 | 160,327 |
| Materials and supplies | 53 | 229 | 433,531 |
| Project overhead | 340 | 1,434 | 296,169 |
| Property and mineral rights | 982 | 2,364 | 1,284,136 |
| Telephone | 4 | 272 | 81,397 |
| Travel | 1,581 | 2,397 | 1,005,976 |
| Wages and benefits | 27,046 | 30,646 | 972,016 |
| | ----- | ----- | ----- |
| Costs incurred during the period | 42,567 | 88,713 | 12,404,940 |
| Deferred costs, beginning of the period | 3,520,389 | 3,859,297 | 0 |
| Deferred costs, acquired | 0 | 0 | 576,139 |
| Deferred costs written off | 0 | 0 | (8,118,123) |
| Mineral property option proceeds | (200,000) | (250,000) | (1,500,000) |
| | ----- | ----- | ----- |
| Deferred costs, end of the period | \$ 3,362,956 | \$ 3,698,010 | \$ 3,362,956 |
| | ===== | ===== | ===== |

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

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

| Three Months Ended | |
|--------------------|-------------------|
| March 31, 2002 | March 31, 2001 |
| ----- | ----- |
| ----- | ----- |

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Operating Activities

| | | |
|---|------------------|------------------|
| Net loss for the period | \$ (106,552) | \$ (114,100) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Write-off of incorporation costs | 0 | 0 |
| Write-off of deferred expenditures | 0 | 0 |
| Depreciation | 985 | 1,069 |
| Gain on sale of capital assets | 0 | (20,108) |
| Change in: | | |
| Receivables and prepaid expense | (15,019) | (17,899) |
| Accounts payable and accruals | 2,493 | 20,011 |
| Due to related parties | 2,231 | (25,375) |
| Cash used in operating activities | <u>(115,862)</u> | <u>(156,402)</u> |

Investing Activities

| | | |
|---|----------------|----------------|
| Incorporation costs | 0 | 0 |
| Proceeds from sale (purchase) of capital assets | 0 | 30,000 |
| Mineral properties and deferred exploration | (41,898) | (85,774) |
| Proceeds from sale of subsidiaries | 0 | 0 |
| Mineral property option proceeds | 200,000 | 250,000 |
| Cash provided by (used in) investing activities | <u>158,102</u> | <u>194,226</u> |

Financing Activities

| | | |
|---|-------------------|-------------------|
| Shares and subscriptions issued for cash, less issue costs | 0 | 7,558 |
| Cash provided by financing activities | <u>0</u> | <u>7,558</u> |
| Increase in cash and cash equivalents | 42,240 | 45,382 |
| Cash and cash equivalents, beginning of period | 120,985 | 101,818 |
| Cash and cash equivalents, end of period | <u>\$ 163,225</u> | <u>\$ 147,200</u> |

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

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MINERA ANDES INC.
"An Exploration Stage Corporation"
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. Dollars-Unaudited)

1. Accounting Policies, Financial Condition and Liquidity

The accompanying consolidated financial statements of Minera Andes Inc. (the "Corporation") for the three month periods ended March 31, 2002 and 2001 and for the period from commencement (July 1, 1994) through March 31, 2002 have been prepared in accordance with accounting principles generally accepted in Canada which differ in certain respects from principles and practices generally accepted in the United States, as described in Note 2. Also, they are unaudited but, in the opinion of management, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation. Interim results are not necessarily indicative of results which may be achieved in the future. The December 31, 2001 financial information has been derived from the Corporation'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, 2001. The accounting policies set forth in the audited annual consolidated financial statements are the same as the accounting policies utilized in the preparation of these consolidated financial statements, except as modified for appropriate interim presentation.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain necessary financing to complete their development, and future profitable production or disposition thereof. The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in Canada applicable to a going concern. The use of such principles may not be appropriate because, as of March 31, 2002, there was significant doubt that the Corporation would be able to continue as a going concern.

For the three months ended March 31, 2002, the Corporation had a loss of approximately \$107,000 and an accumulated deficit of approximately \$14.7 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 Corporation has financed its activities through the sale of equity securities and joint venture arrangements. The Corporation 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 Corporation 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.

2. 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 Corporation relate to accounting for loss per

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share, 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 Corporation's consolidated financial statements for the year ended December 31, 2001.

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

| | March 31, 2002 | Dec. 31, 2001 |
|---|-------------------|------------------|
| | ----- | ----- |
| Shareholders' equity, end of period, per Canadian GAAP | \$ 3,453,115 | \$ 3,559,667 |
| Adjustment for acquisition and deferred exploration costs | (3,362,956) | (3,520,389) |
| | ----- | ----- |
| Shareholders' equity, end of period, per U.S. GAAP | \$ 90,159 | \$ 39,278 |
| | ===== | ===== |

| | Three Months Ended | | Period from July 1, 1994 |
|--|--------------------|-------------------|---|
| | March 31, 2002 | March 31, 2001 | (commencement) through March 31, 2002 |
| | ----- | ----- | ----- |
| Net loss for the period, per Canadian GAAP | \$ 106,552 | \$ 114,100 | \$13,884,078 |
| Adjustment for acquisition of Scotia | 0 | 0 | 248,590 |
| Adjustment for compensation expense | 0 | 0 | 6,324,914 |
| Adjustment for deferred exploration costs | (157,433) | 86,349 | 3,362,956 |
| | ----- | ----- | ----- |
| Net loss (income) for the period, per U.S. GAAP | \$ (50,881) | \$ 200,449 | \$23,820,538 |
| | ===== | ===== | ===== |
| Net loss (income) per common share, per U.S. GAAP, basic and diluted | \$ (0.002) | \$ 0.007 | |
| | ===== | ===== | |

3. Basic and Diluted Loss Per Common Share

Basic earnings per share (EPS) is calculated by dividing loss applicable to common shareholders by the weighted-average number of common shares outstanding for the year. 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 2002 and 2001 periods, potentially dilutive securities were

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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 2002 and 2001.

4. Mineral Properties and Deferred Exploration Costs

In January 2002, Argentine laws went into effect on all dollar contracts, whereby they were converted to pesos at a ratio of one peso equals one dollar. The Argentina government also put into place laws that prohibit Argentina companies from transferring money out of the country.

The new laws also provide that the parties to an agreement affected by these changes will negotiate a restructuring of their respective obligations, attempting to share in an equitable manner the effects of change in exchange rate

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within 180 days. If an agreement cannot be reached, the parties can follow mediation procedures in the appropriate tribunals. During the restructuring or mediation procedure the debtor party cannot refuse to make payments and the creditor cannot refuse to accept payment.

The agreements on the Chubut properties are between Argentine subsidiaries of Minera Andes Inc. and Brancote Holdings PLC ("Brancote") and are affected by these laws. Brancote and the Corporation are not Argentine companies. The agreements are in U.S. dollars and the payment was specified to be made to an account outside the country. The Corporation is currently seeking legal advice inside and out of Argentina, and is not able to ascertain the impact that the law and currency changes in Argentina will have on the Corporation.

Brancote has tendered payment in pesos because all Argentine contracts were converted to pesos, however the Corporation has not taken the money because we are in dispute over the payment in pesos instead of U.S. dollars. Negotiations are ongoing.

In the first quarter 2002, the Corporation received \$200,000 from Mauricio Hochschild & Cia. Ltda. under the option and joint venture agreement signed on March 15, 2001, for the exploration and possible development of the Corporation's El Pluma/Cerro Saavedra properties in Santa Cruz Province.

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

Note Regarding Forward-Looking Statements

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

Overview

The principal business of the Corporation is the exploration and development of mineral properties, located primarily in the Republic of Argentina, consisting

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of mineral rights and applications for mineral rights, covering approximately 163,000 hectares in three provinces in Argentina. The Corporation carries out its business by acquiring, exploring and evaluating mineral properties through its ongoing exploration program. Following exploration, the Corporation either seeks to enter joint ventures to further develop these properties or disposes of them if the properties do not meet the Corporation's requirements. The Corporation's properties are all early stage exploration properties and no proven or probable reserves have been identified.

Plan of Operations

The Corporation has working capital of approximately \$83,000 sufficient, together with funds from the joint ventures on the El Pluma/Cerro Saavedra and Chubut properties, 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 at least the end of 2002.

On March 15, 2001, Minera Andes Inc. signed an option and joint venture agreement with Mauricio Hochschild & Cia. Ltda. (Hochschild), Lima, Peru, for the exploration and possible development of Minera Andes' 217,000-acre (88,000 hectares) epithermal gold-silver exploration land package in southern Argentina. The land package, known as El Pluma/Cerro Saavedra, includes Huevos Verdes, a high-grade gold/silver vein system target, and Minera Andes' most advanced exploration prospect. The signing allows Hochschild to immediately begin exploration work on El Pluma/ Cerro Saavedra, and required an initial payment to Minera Andes of US\$200,000 (received on March 19, 2001) as part of a total annual payment of US\$400,000.

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Under the agreement, Hochschild can earn a 51 percent ownership in El Pluma/Cerro Saavedra by spending a total of US\$3 million in three years, and a minimum of US\$100,000 per year on exploration targets within El Pluma/Cerro Saavedra other than Huevos Verdes, the most advanced prospect. In addition, Hochschild will make semi-annual payments totaling US\$400,000 per year until pilot plant production is achieved.

The agreement also outlines a business plan for possible mining production based on the positive exploration results achieved to date by Minera Andes at Huevos Verdes.

Once Hochschild vests at 51 percent ownership, Minera Andes will have the option of participating in the development of a pilot production plant that would process a minimum of 50 tons per day (tpd). Minera Andes may participate on either a pro-rata basis, or by choosing to retain a 35 percent "carried" ownership interest. Upon the successful completion and operation of the 50 tpd plant, Minera Andes would have the option of participating on a pro-rata basis, or choosing a 15 percent interest in return to being "carried" to first production of 500 tpd.

The Corporation has budgeted and plans to spend approximately \$450,000 on its mineral property and exploration activities and general and administrative expenses for the balance of the year ending December 31, 2002, with most properties being kept on care and maintenance. While the Corporation's existing funds and estimated receipts under the joint venture should be sufficient, the Corporation will also try to raise additional funding during the next few months in order to continue its operations over the longer term. If additional funds are raised during 2002, through the exercise of warrants or options, through a further equity financing, by the sale of property interests or by joint venture

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financing, additional exploration could be planned and carried out. If the Corporation were to develop a property or a group of properties beyond the exploration stage, substantial additional financing would be necessary. Such financing would likely be in the form of equity, debt, or a combination of equity and debt. The Corporation is working on various plans to obtain such financing but there is no assurance that such financing, would be available to the Corporation on favorable terms.

Results of Operations

First quarter 2002 compared with first quarter 2001

The Corporation had a net loss of approximately \$107,000 for the first quarter of 2002, almost identical to the net loss of approximately \$114,000 for the first quarter of 2001. Total mineral property and deferred exploration costs were only approximately \$43,000 (before mineral property option proceeds) during the first quarter of 2002, compared with approximately \$89,000 spent in the first quarter of 2001. The Corporation is maintaining its staff in Argentina at minimum levels, while still completing geological consulting contracts on its major property. Expenditures in both periods were focused on the El Pluma/Cerro Saavedra property.

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 Corporation has financed its activities through the sale of equity securities and joint venture arrangements. The Corporation expects to use similar financing techniques in the future. However, there can be no assurance that the Corporation will be successful with such financings. See "Plan of Operations".

At March 31, 2002 the Corporation had cash and cash equivalents of approximately \$163,000 compared to approximately \$147,000 at March 31, 2001. Working capital at March 31, 2002 was approximately \$83,000, sufficient, together with funds from joint ventures on the El Pluma/Cerro Saavedra and Chubut properties, 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 2002. The Corporation's operating activities used approximately \$0.1 million in the first quarter of 2002 compared with approximately \$0.2

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million in the first quarter of 2001. Investing activities provided approximately \$158,000 (as a result of property option proceeds received in the quarter) in the first quarter of 2002 compared with approximately \$194,000 provided in the first quarter of 2001, with focus in both periods being on the El Pluma/Cerro Saavedra property. Cash and cash equivalents increased in the first quarter by approximately \$42,000 in 2002 compared with an increase of approximately \$45,000 in the same period in 2001.

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 Corporation to obtain necessary financing to complete their development, and future profitable production or disposition thereof. The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in Canada applicable to a going concern. The use of such principles may not be appropriate because, as of March 31, 2002, there was significant doubt that the Corporation would be able to

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continue as a going concern.

For the three months ended March 31, 2002, the Corporation had a loss of approximately \$107,000 and an accumulated deficit of approximately \$14.7 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 Corporation has financed its activities through the sale of equity securities and joint venture arrangements. The Corporation 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 Corporation 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.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- a. Exhibits: None
- b. Reports on Form 8-K: None

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SIGNATURES

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

MINERA ANDES INC.

Date: May 10, 2002

By: /s/ Allen V. Ambrose

Allen V. Ambrose
President

Date: May 10, 2002

By: /s/ Bonnie L. Kuhn

Bonnie L. Kuhn
Chief Financial Officer and Secretary

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