

MINERA ANDES INC /WA  
Form 10-Q  
August 18, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

*(Mark One)*

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2006

**TRANSITION REPORT PURSUANT TO 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 registrant 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**

*(Registrant's telephone number)*

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Shares outstanding as of August 14, 2006: 152,379,596 shares of common stock, with no par value

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

	June 30,	December 31,
	2006	2005
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ 9,429,125	\$ 3,314,559
Receivables and prepaid expenses	84,786	95,777
<b>Total current assets</b>	<b>9,513,911</b>	<b>3,410,336</b>
Mineral properties and deferred exploration costs (Note 3)	6,477,532	4,470,174
Investment (Note 4)	25,519,824	17,505,938
Equipment, net	66,775	66,378
<b>Total assets</b>	<b>\$ 41,578,042</b>	<b>\$ 25,452,826</b>
<b>LIABILITIES</b>		
Current:		
Accounts payable and accruals	\$ 652,562	\$ 259,806
Bank loan interest payable	31,601	84,064
Bank loan (Note 5)	1,907,187	3,628,635
<b>Total liabilities</b>	<b>2,591,350</b>	<b>3,972,505</b>
<b>SHAREHOLDERS EQUITY</b>		
Preferred shares, no par value, unlimited number authorized, none issued		
Common shares, no par value, unlimited number authorized		
Issued June 30, 2006 152,055,926 shares (Note 2) Issued December 31, 2005		
108,484,137 shares	60,513,190	41,679,110
Contributed surplus	3,429,842	2,736,570
Accumulated deficit	(24,956,340)	(22,935,359)
<b>Total shareholders equity</b>	<b>38,986,692</b>	<b>21,480,321</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 41,578,042</b>	<b>\$ 25,452,826</b>

Approved by the Board of Directors:

/s/ Allen V. Ambrose  
Allen V. Ambrose, Director

/s/ Bonnie L. Kuhn  
Bonnie L. Kuhn, Director

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



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

	Three Months Ended		Six Months Ended		Period from
					July 1, 1994
	June 30,	June 30,	June 30,	June 30,	(inception)
	2006	2005	2006	2005	through June 30, 2006
Consulting fees	\$ 122,553	\$ 82,109	\$ 247,889	\$ 194,502	\$ 2,809,865
Depreciation	2,352	2,538	4,453	4,992	92,343
Equipment rental					21,522
Foreign exchange (gain) loss	(52,007)	125,385	(24,614)	141,815	154,314
Insurance	15,194	18,265	30,424	35,520	422,308
Legal, audit and accounting fees	87,515	37,420	174,798	74,212	1,953,228
Materials, supplies and maintenance					49,260
Office overhead and administration fees	172,836	140,766	243,498	187,183	2,940,279
Telephone	8,777	8,127	15,281	17,748	468,204
Transfer agent	3,794	2,264	9,102	3,211	148,036
Travel	46,591	32,208	60,662	54,864	607,156
Wages and benefits	81,577	80,009	162,318	132,022	3,078,304
Write-off of deferred exploration costs					8,540,235
Total operating expenses	489,182	529,091	923,811	846,069	21,285,054
Gain on sale of equipment					(112,330)
Gain on sale of property					(898,241)
Finance costs	688,712		688,712		688,712
Loss on investment (Note 4)	176,000	182,507	326,000	327,575	2,100,746
Interest income	(76,230)	(29,622)	(93,009)	(37,473)	(692,117)
Net loss for the period	1,277,664	681,976	1,845,514	1,136,171	22,371,824
Accumulated deficit, beginning of the period, as previously reported	23,678,676	19,710,183	22,935,359	19,180,452	
Adjustment for change in accounting for stock-based compensation					678,569
	23,678,676	19,710,183	22,935,359	19,180,452	678,569
Adjustment on acquisition of royalty interest					500,000
Share issue costs			175,467	75,536	1,388,732
Deficiency on acquisition of subsidiary					17,215
Accumulated deficit, end of the period	\$ 24,956,340	\$ 20,392,159	\$ 24,956,340	\$ 20,392,159	\$ 24,956,340
Basic and diluted net loss per common share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	

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Weighted average common shares outstanding	143,793,997	90,349,827	129,393,919	81,942,854
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*The accompanying notes are an integral part of these consolidated financial statements.*

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

	Three Months Ended		Six Months Ended		Period from
	June 30,	June 30,	June 30,	June 30,	July 1, 1994
	2006	2005	2006	2005	(inception)
					through
	\$	\$	\$	\$	June 30, 2006
Administration fees					\$ 392,837
Assays and analytical	56,550	61,361	70,590	86,850	1,227,631
Construction and trenching		7,932	36,265	7,932	570,548
Consulting fees	42,289	53,244	79,593	100,395	1,401,542
Depreciation	6,392	6,268	11,434	12,521	233,668
Drilling	705,874	396,110	850,803	396,110	2,440,196
Equipment rental	61,461	83,537	95,248	84,303	600,500
Geology	190,041	58,284	325,273	163,323	4,392,261
Geophysics		23,325		62,358	374,960
Insurance		1,853	1,177	1,853	258,589
Legal	29,643	18,183	54,712	40,058	885,184
Maintenance	1,205	4,584	3,760	5,424	191,714
Materials and supplies	26,087	12,408	52,255	26,207	569,195
Project overhead	32,656	15,307	60,946	30,788	500,481
Property and mineral rights	115,372	8,693	121,102	20,339	1,575,185
Telephone	8,513	9,417	16,280	16,301	151,199
Travel	105,198	26,339	160,221	63,592	1,480,912
Wages and benefits	33,914	33,639	67,699	64,807	1,494,907
Costs incurred during the period	1,415,195	820,484	2,007,358	1,183,161	18,741,509
Balance, beginning of the period	5,062,337	3,190,332	4,470,174	2,827,655	
Deferred costs, acquired					576,139
Deferred costs, contributed to MSC					(2,320,980)
Deferred costs written off					(8,540,235)
Mineral property option proceeds					(1,978,901)
Balance, end of the period	\$ 6,477,532	\$ 4,010,816	\$ 6,477,532	\$ 4,010,816	\$ 6,477,532

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



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

	Three Months Ended		Six Months Ended		Period from
	June 30,	June 30,	June 30,	June 30,	July 1, 1994
	2006	2005	2006	2005	(inception)
					Through
					June 30, 2006
<b>Operating Activities:</b>					
Net loss for the period	\$ (1,277,664)	\$ (681,976)	\$ (1,845,514)	\$ (1,136,171)	\$ (22,371,824)
Adjustments to reconcile net loss to net cash used in operating activities:					
Write-off of incorporation costs					665
Write-off of deferred exploration costs					8,540,235
Finance costs	688,712		688,712		688,712
Loss on investment	176,000	182,507	326,000	327,575	2,100,746
Depreciation	2,352	2,538	4,453	4,992	92,343
Stock option compensation	17,508	8,929	59,272	18,173	1,507,273
Gain on sale of equipment					(112,330)
Gain on sale of mineral properties					(898,241)
Change in:					
Receivables and prepaid expenses	28,374	22,089	10,991	24,548	(84,786)
Accounts payable and accruals	617	11,507	392,756	8,999	652,562
Cash used in operating activities	(364,101)	(454,406)	(363,330)	(751,884)	(9,884,645)
<b>Investing Activities:</b>					
Incorporation costs					(665)
Purchase of equipment	(2,786)	(2,044)	(16,284)	(2,485)	(321,896)
Proceeds from sale of equipment					14,225
Proceeds from sale of property					898,241
Mineral properties and deferred exploration	(1,408,803)	(814,216)	(1,995,924)	(1,170,640)	(18,507,841)
Investment	(3,039,342)	(3,127,961)	(8,061,334)	(5,268,018)	(25,498,339)
Proceeds from sale of subsidiaries					9,398
Acquisition of royalty interest					(500,000)
Mineral property option proceeds				200,000	2,778,901
Cash used in investing activities	(4,450,931)	(3,944,221)	(10,073,542)	(6,241,143)	(41,127,976)

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

	Three Months Ended		Six Months Ended		Period from
	June 30,	June 30,	June 30,	June 30,	July 1, 1994
	2006	2005	2006	2005	(inception)
					Through
					June 30, 2006)
<b>Financing Activities:</b>					
Shares and subscriptions issued for cash, less issue costs	10,687,066	129,069	18,603,901	7,830,154	58,494,209
Bank loan proceeds received				1,000,000	4,000,000
Repayment of bank loan			(2,000,000)		(2,000,000)
Bank loan interest payable	2,490		(52,463)		(52,463)
Cash provided by financing activities	10,689,556	129,069	16,551,438	8,830,154	60,441,746
Increase (decrease) in cash and cash equivalents	5,874,524	(4,269,558)	6,114,566	1,837,127	9,429,125
Cash and cash equivalents, beginning of period	3,554,601	7,833,505	3,314,559	1,726,820	
Cash and cash equivalents, end of period	\$ 9,429,125	\$ 3,563,947	\$ 9,429,125	\$ 3,563,947	\$ 9,429,125
<b>Supplementary disclosure of cash flow information:</b>					
Interest paid	\$ 32,750	\$ 23,200	\$ 123,437	\$ 30,537	\$ 207,781
<b>Non-cash investing and financing activities and other information:</b>					
Stock option compensation	\$ 17,508	\$ 8,929	\$ 59,272	\$ 18,173	\$ 1,507,273
Capitalized interest (Note 5)	\$ 35,240	\$ 43,072	\$ 89,900	\$ 98,512	\$ 268,308
Capitalized accreted interest expense (Note 5)	\$ 44,779	\$ 40,719	\$ 278,552	\$ 80,482	\$ 517,187
Depreciation capitalized to mineral properties	\$ 6,392	\$ 6,268	\$ 11,434	\$ 12,521	\$ 63,043
Accrual for finance costs related to MSC	\$	\$	\$ 371,918	\$	\$ 371,918
Adjustment for change in accounting for stock-based compensation	\$	\$	\$	\$	\$ 678,569
Deferred costs, acquired	\$	\$	\$	\$	\$ 576,139
Deferred costs, contributed to MSC	\$	\$	\$	\$	\$ 2,320,980
Shares issued for acquisition	\$	\$	\$	\$	\$ 575,537

*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. for the three and six months period ended June 30, 2006 and 2005 and for the cumulative period from inception (July 1, 1994) through June 30, 2006 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 10. 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, 2005 financial information has been derived from our 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, 2005 included in our annual report on Form 10-KSB ( the 2005 10-KSB ) for the year ended December 31, 2005 on file with SEDAR at [www.sedar.com](http://www.sedar.com) and with the Securities and Exchange Commission. 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 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, 2006, there was substantial doubt that we would be able to continue as a going concern.

For the six months ended June 30, 2006, we had a loss of approximately \$1,846,000 and an accumulated deficit of approximately \$25 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, we have financed our activities through the sale of equity securities, joint venture arrangements and debt facilities. We expect to use similar financing techniques in the future and are actively pursuing such additional sources of financing.

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

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

**Table of Contents****2. Changes to Share Capital**

	Number of Shares	Amount
Balance, January 1, 2006	108,484,137	\$ 41,679,110
Issued for cash on exercise of stock options	760,000	327,689
Issued for cash on exercise of warrants (Note 5)	28,108,965	13,850,023
Issued for cash on exercise of broker warrants (Note 5)	1,546,135	890,368
Issued for cash (private placement Cdn\$0.35 each), net	13,156,689	3,766,000
 Balance, June 30, 2006	 152,055,926	 \$ 60,513,190

On March 8, 2006, we completed the second private placement with Mr. Robert McEwen and sold 13,156,689 units at a price of Cdn\$0.35 per unit for gross proceeds of Cdn\$4,604,841 (US\$3,970,718). 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\$0.55 per share at any time prior to the earlier of: a) the date which is the 15th trading day after receiving notice from Minera Andes that the weighted average price of the common shares on the TSX Venture Exchange has been equal to or greater than Cdn\$1.00 for a period of 20 consecutive trading days commencing 120 days after the date of issuance of the warrants, and b) March 8, 2008.

The agents received a cash commission of 5% of the gross proceeds of the financing, Cdn\$237,411 (US\$204,718), and 322,339 broker warrants, equal to 2.45% of the aggregate number of units sold. Each broker warrant upon exercise will entitle the holder to acquire one common share at an exercise price of Cdn\$0.55 per common share at any time prior to the earlier of: a) the date which is the 15th trading day after receiving notice from Minera Andes that the weighted average price of the common shares on the TSX Venture Exchange has been equal to or greater than Cdn\$1.00 for a period of 20 consecutive trading days commencing 120 days after the date of issuance of the warrants, and b) March 8, 2008.

In May 2006, Mr. Robert McEwen completed the early exercise of all the common share purchase warrants he held in the company. As a result, a total of 14,285,714 common shares were issued resulting in gross proceeds of Cdn\$7,857,143 to Minera Andes. In addition, Mr. McEwen has reported that he purchased 1.2 million shares in the market at Cdn\$1.10 per share, during March. Following his initial investment in Minera Andes four months ago, Mr. McEwen has increased his holdings to 30% of the company and is our largest shareholder.

In consideration for the early exercise of all his common share purchase warrants, Minera Andes issued to Mr. McEwen 2 million new common share purchase warrants. Each new fully vested warrant will entitle Mr. McEwen to purchase one common share at an exercise price of Cdn\$1.80 per share for a term of 12 months expiring on May 5, 2007. The broker assisting in the transaction received a fee of Cdn\$50,000. The shares from the exercise of these new warrants will be subject to a hold period expiring on September 6, 2006. The fair value of the warrants, \$634,000, was calculated using the Black-Scholes option pricing model with the following assumptions: dividend yield Nil; risk free interest rate 4.99%; expected volatility of 92.37% and an expected life of 12 months and was included in finance costs for the period ended June 30, 2006.

Subsequent to June 30, 2006, we issued 10,000 common shares for the exercise of stock options, 142,500 common shares for the exercise of warrants and 171,170 common shares for the exercise of broker warrants for total gross proceeds of \$173,773.

**Table of Contents****3. Mineral Properties and Deferred Exploration Costs**

At June 30, 2006, we, through our subsidiaries, hold interests in approximately 439,804 acres (177,986 hectares) of mineral rights and mining lands in three Argentine provinces. Under our present acquisition and exploration programs, we are continually acquiring additional mineral property interests and exploring and evaluating our properties. If, after evaluation, a property does not meet our 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:

**2006 COSTS BY PROPERTY**

Description	San Juan	Santa Cruz	General		Total
	Cateos	Cateos	Chubut Cateos	Exploration	
Balance, beginning of period	\$ 1,149,286	\$ 3,099,502	\$ 221,386	\$	\$ 4,470,174
Assays and analytical	40,435	26,045	1,363	2,747	70,590
Construction and trenching	36,265				36,265
Consulting fees	4,186	12,627	8,494	54,286	79,593
Depreciation				11,434	11,434
Drilling	507,081	343,722			850,803
Equipment Rental	95,248				95,248
Geology	229,081	60,557	2,163	33,473	325,274
Insurance				1,177	1,177
Legal				54,712	54,712
Maintenance	3,051	84		625	3,760
Materials and supplies	24,855	16,950	4,169	6,281	52,255
Project overhead	8,948	605	2,023	49,369	60,945
Property and mineral rights	106,957	10,212	3,933		121,102
Telephone	3,866	4,235	19	8,160	16,280
Travel	107,637	16,947	411	35,226	160,221
Wages and benefits	13,525	5,637		48,537	67,699
Overhead allocation	225,869	75,909	4,249	(306,027)	
<b>Balance, end of period</b>	<b>\$ 2,556,290</b>	<b>\$ 3,673,032</b>	<b>\$ 248,210</b>	<b>\$</b>	<b>\$ 6,477,532</b>

The San Juan Province project comprises five properties totaling 24,318 hectares ( ha ) (2005 24,318 ha) in southwestern San Juan province. At present, these lands are not subject to a royalty; however, the government of San Juan has not waived its rights to retain up to a 3% mouth of mine royalty from production. Land holding costs for 2006 are estimated at \$1,616.

We currently control 15 (2005 15) cateos and 40 (2005 40) manifestations of discovery totaling 102,789 (2005 102,789) ha in the Santa Cruz province. Land holding costs for 2006 are estimated at \$3,819. We have been actively exploring in the region since 1997. The properties have been acquired on the basis of geologic and geochemical reconnaissance. Expenditures in 2006 relate to land acquisition and reconnaissance geologic surveys on the acquired properties. Geologic evaluation of these targets is ongoing.

We hold 13 (2005 13) manifestations of discovery in the Precordilleran region of Chubut, totaling 10,380 (2005 10,380) ha. Land holding costs for 2006 are estimated at \$1,300.

**Table of Contents****4. Investment (San José Project)**

The investment in Minera Santa Cruz S.A. ( MSC ) is comprised of the following:

	<b>2006</b>
Investment in MSC, January 1, 2006	\$ 17,505,938
Plus:	
Deferred costs incurred	940,886
Advances during the period	7,399,000
Loss from equity investment	(326,000)
 Investment in MSC, June 30, 2006	 \$ 25,519,824

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

Deferred costs of \$940,886 include, among other things, engineering consulting costs, legal fees, and interest and finance costs related to our investment in MSC.

Subsequent to June 30, 2006, we made further payments of \$2,695,000 to fund our 49% interest in the San José project.

**5. Bank Loan**

In December 2004, we secured a two-year loan facility of up to \$4 million from Macquarie Bank Limited ( Macquarie ). All amounts advanced are due in December 2006. This facility was provided in two tranches to fund our 49% portion of the costs of completing a bankable feasibility study and related development work for the San José/Huevos Verdes gold/silver project in Argentina.

The commercial terms of the loan include a facility fee of 1.5% of the principal amount of each tranche at the time of the advance and interest of LIBOR plus 2% per year, currently totaling approximately 6.5% per year. In addition, as further explained below, we issued share purchase warrants for each tranche. The warrants exercise price was calculated at a 20 percent premium to the volume weighted average of our common stock determined from the ten business days prior to acceptance of the loan facility. Each warrant was exercisable for two years. The loan is collateralized by our interest in Minera Andes S.A., our 49% interest in MSC, and personal property.

We received \$1,000,000 of the first tranche in December 2004 and the remaining \$1,000,000 of the first tranche in February 2005. In connection with the first tranche, we issued share purchase warrants to acquire 2,738,700 of our common stock at an exercise price of Cdn \$0.91 per share. The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions: dividend yield Nil; risk free interest rate 3.53%; expected volatility of 62% and an expected life of 24 months. The difference between the allocated fair value and the face value of the debt of \$346,200 was initially recorded as a debt discount with a corresponding entry to contributed surplus.

In July 2005, we received the second tranche of \$2,000,000. For the second tranche, we issued share purchase warrants to acquire 3,987,742 of our common shares at an exercise price of Cdn\$0.62 per share. The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions: dividend yield Nil; risk free interest rate 3.99%; expected volatility of 55.8% and an expected life of 24 months. The difference between the allocated fair value and the face value of the debt of \$263,800 was initially recorded as a debt discount with a corresponding entry to contributed capital.

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In March 2006, Macquarie exercised its warrants from the second tranche to acquire 3,987,742 of our common shares at an exercise price of Cdn \$0.62 per share for proceeds of Cdn\$2,472,400 (US\$ 2,060,333). We used part of the proceeds to repay principal and interest outstanding in the amount of \$2,000,000 and \$18,926, respectively, related to the second tranche.

The debt discount is being accreted and capitalized to our investment in MSC (Note 4) over the term of the debt using the effective interest rate method. For the six months period ended June 30, 2006, \$278,552 of debt discount was accreted.

The bank loan and debt discount are summarized as follows:

	Face		Carrying Value
	Amount	Discount	
Bank loan, initial and second tranche, being the balance at January 1, 2006	\$ 4,000,000	\$ 371,365	\$ 3,628,635
Accretion of debt discount		(278,552)	278,552
Repayment of second tranche	(2,000,000)		(2,000,000)
Bank loan, initial tranche, being the balance at June 30, 2006	\$ 2,000,000	\$ 92,813	\$ 1,907,187

As at June 30, 2006, interest expense incurred of \$89,900 (June 30, 2005 -\$48,568), and accreted interest expense related to the debt discount of \$278,552 were capitalized to the Investment in MSC (Note 4).

**6. Stock Options**

A summary of the status of the Company's stock option plan as of June 30, 2006 is:

	Options	Weighted Average	
		Exercise Price (Cdn)	
Outstanding at January 1, 2006	6,745,000	\$	0.54
Exercised	(760,000)	\$	0.49
Outstanding at June 30, 2006	5,985,000	\$	0.54
Exercisable at June 30, 2006	5,947,500	\$	0.54

At June 30, 2006, 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
495,000	Cdn\$0.40	June 27, 2007
1,370,000	Cdn\$0.59	December 5, 2008
100,000	Cdn\$0.50	March 29, 2009
1,275,000	Cdn\$0.55	September 10, 2009
50,000	Cdn\$0.61	December 14, 2009
2,200,000	Cdn\$0.60	December 28, 2010
495,000	Cdn\$0.31	March 21, 2013



5,985,000

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Concerning stock option compensation, the fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for employee and non-employee option grants:

	2006	2005
Dividend yield (%)		
Expected volatility (%)	84	85
Risk-free interest rates (%)	4.32	3.40
Expected lives (years)	4.5	5.0

We recorded \$59,272, and \$18,173 of stock option compensation, related to the vesting of certain non-employee stock options, during the six months ended June 30, 2006 and 2005, respectively.

**7. Warrants**

	Warrants	Weighted Average Exercise Price (Cdn)
Outstanding and exercisable, January 1, 2006	36,505,798	\$ 0.61
Purchase warrants	8,578,344	\$ 0.81
Brokers warrants	322,339	\$ 0.55
Exercised	(29,655,100)	\$ 0.57
Outstanding and exercisable, June 30, 2006	15,751,381	\$ 0.84

At June 30, 2006, there were warrants outstanding and exercisable as follows:

Number of Warrants	Exercise Price	Expiry Date
2,738,700	Cdn\$0.91	December 14, 2006
104,158	Cdn\$0.70	March 22, 2007
2,000,000	Cdn\$1.80	May 6, 2007
1,002,343	Cdn\$0.55	November 25, 2007
322,339	Cdn\$0.55	March 8, 2008
2,093,025	Cdn\$0.50	November 13, 2008
7,490,816	Cdn\$0.70	March 22, 2010
15,751,381		

**8. Agreements, Commitments and Contingencies**

- a. Mineral rights in Argentina are owned by the federal government and administered by the provinces. The provinces can levy a maximum 3% mouth of mine (gross proceeds) royalty. The provinces of Mendoza and Neuquén have waived their right to a royalty. The provinces of Río Negro, San Juan, Santa Clara and Chubut have not yet established a policy regarding the royalty.

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- b. We rent office space in Spokane, Washington for \$2,150 per month with a commitment through November 2009. We have the right to terminate the lease on three months notice without penalty.
  
- c. We rent office space in Vancouver, British Columbia, Canada for Cdn\$900 per month, without a commitment.

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- d. We rent office space in Argentina for \$345 per month with a commitment through August 2006.
- e. We rent a storage space in Argentina for \$276 per month with a commitment through December 2006.
- f. On December 2, 2003, we signed an agreement that obligated us to pay N.A. Degerstrom ( Degerstrom ) a royalty of \$250,000 if any of the current properties, other than the properties comprising the San José project, meet certain conditions such as bankable feasibility or commercial production prior to December 2, 2013.
- g. As at June 30, 2006, MSC had signed agreements with third party providers relating to the development of the San José/Huevos Verdes project. Our 49% portion of these commitments is approximately \$2,700,000. These commitments are expected to be completed by March 31, 2007.
- h. In March 2005, MSC discovered an alleged employee fraud committed by the former purchasing manager during the period June 2004 through March 2005. Respective to our 49% interest, the fraud amounted to approximately \$57,000 in 2004 and \$78,000 in 2005. MSC will vigorously pursue full recovery but the final amount recoverable is not certain at this time. Canadian accounting standards require a high level of certainty in recording a recovery on the balance sheet that is contingent on future events, as a result the full amount of the fraud for each year respectively, has been written off against our investment in MSC and is included in our loss from equity investment in the respective period. Funds recovered in the future related to the fraud will be recorded if and when they are received.

**9. Related Party Transactions**

During the six-month period ended June 30, 2006 we incurred legal fees to a firm in which a director and officer is an associate totaling \$29,002 (six-month period ended June 30, 2005 \$24,775). This transaction was in the normal course of operations and was measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**10. Differences between Canadian and United States Generally Accepted Accounting Principles**

As discussed in Note 1, these financial statements are prepared in accordance with Canadian generally accepted accounting principles ( GAAP ). Differences between Canadian and United States generally accepted accounting principles ( U.S. GAAP ) as they apply to these financial statements are summarized as follows:

**Compensation Expense Associated with Release of Shares from Escrow**

Under U.S. GAAP, stock compensation expense is recorded as shares held in escrow become eligible for release based upon the number of shares eligible for release and the market value of the shares at that time. Under Canadian GAAP, no value is attributed to such shares released and no compensation expense is recorded. Shares become eligible for release from escrow based on deferred exploration expenditure in accordance with the Escrow Agreement and with the consent of the TSX Venture Exchange. During the six months ended June 30, 2006, the year ended December 31, 2005 and for the period from July 1, 1994 (inception) through June 30, 2006, we would have recorded compensation expense of \$nil, \$nil and \$6,324,914 respectively, under U.S. GAAP.

**Mineral Properties and Deferred Exploration Costs**

The U.S. Securities and Exchange Commission staff has taken the position that a U.S. registrant without proven and probable economic reserves, in most cases, could not support the recovery of the carrying value of deferred exploration costs. Our investment in MSC has proven and probable reserves but MSC did not receive government approval of the Environmental Impact Assessment (EIA) until the first quarter of 2006. Therefore, we have presented the effect of expensing all deferred exploration costs through December 31, 2005 as a reconciling item between U.S. and Canadian GAAP and began capitalizing all deferred exploration costs allowable under U.S. GAAP related to the proven and probable reserves of MSC made subsequent to December 31, 2005, totaling \$7,425,955 for the six months ended June 30, 2006.



**Table of Contents****Stock Based Compensation**

Beginning January 1, 2006, the Company adopted the Statement of Financial Accounting Standards No. 123R, Accounting for Stock-based Compensation ( SFAS 123R ) which essentially conforms the accounting treatment under U.S. GAAP to the accounting treatment under Canadian GAAP for stock option grants, but some differences may remain. For the six months ended June 30, 2006, the Company expensed \$59,272 under Canadian GAAP and U.S. GAAP, representing the amortization of a portion of the fair value of stock options granted to employees.

The Company accounts for stock-based compensation in accordance with the SFAS 123R. SFAS 123R received approval in January 2005 and requires the recognition of the fair values of the stock options granted as compensation expense over the vesting period. Prior to this, as permitted by SFAS 123, the Company did not adopt the provisions in respect of the fair value based method of accounting for all of the employee stock-based transactions and, instead, included the required pro forma disclosure as if this method had been applied for options granted. Beginning January 1, 2006, the Company adopted the recommendations of SFAS 123R, and has applied the recommendations of this standard using the modified prospective method. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Accordingly, no prior periods were restated or cumulative adjustments recorded upon the adoption of this standard

Had the Company applied the new standard using the modified retrospective method, which permits restatement using amounts previously disclosed under the pro forma provisions of SFAS 123, compensation related to stock options would have impacted the pro forma amounts. Since we did not grant any options to employees for the six months ended June 30, 2006, the new US requirements has not created differences between Canadian and US GAAP with respect to shareholders' equity at June 30, 2006 nor the net loss for the six months ended June 30, 2006.

The net loss under US GAAP for the six months ended June 30, 2005 has been restated. Beginning January 1, 2006, the Company adopted the recommendations of SFAS 123R, and has applied the recommendations of this standard using the modified prospective method. Previously the Company, under US GAAP, continued to follow Accounting Principle Board Opinion No. 25 Accounting for stock issued to employees and related interpretations to account for stock options issued to employees, options issued with an exercise price denominated in a currency other than its functional currency are not considered fixed and variable accounting is required in accordance with Emerging Issues Task Force ( EITF ) 00-23 Issue 31. Under variable accounting, the intrinsic value of the options issued to employees is remeasured on each balance sheet date, with the adjustment charged to the Statement of Operations. The effect of remeasurement was to decrease the stock compensation expense by \$261,833 for the six months ended June 30, 2005. Upon adoption of SFAS 123R variable accounting is no longer required and no adjustment is required for the six months ended June 30, 2006.

The impact of this US GAAP restatement, which has no impact on the Canadian GAAP financial statements, is as follows:

	<b>Previously reported</b>	<b>As restated</b>
Net loss under US GAAP for the six months period ended June 30, 2005	\$ (6,985,429)	\$ (6,723,596)
Loss per share	\$ (0.08)	\$ (0.08)

**Table of Contents****Warrants**

Under Canadian GAAP, no value was assigned to the warrants granted to the agents in connection with the private placement of 13,156,689 (2005 35,595,190) units which were issued in March 2005, December 2005 and March 2006. Under US GAAP, the warrants were valued on the closing date of the private placements, respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

	Agent Warrants	
	2006	2005
Number of Warrants	322,339	1,650,293
Risk-free rate	4.72%	4.33%
Dividend yield	Nil%	Nil%
Volatility factor of the expected market price of the Company's common shares	75%	59%
Weighted average expected life of the warrants (months)	24	24
Value of warrants	\$ 212,867	\$ 198,273

The value of the agent warrants was charged as commission against share capital as share issuance costs per our accounting policy; thus there is no effect on shareholder's equity.

**Bank Loan**

Under Canadian GAAP, the corresponding entry to record the debt discount of \$346,200 related to the first tranche warrants and \$263,800 related to the second tranche warrants granted to Macquarie Bank in connection with a credit facility (Note 5) was charged to contributed surplus. Under US GAAP, as the Company is required to maintain its listed company status as part of the loan covenant, in accordance with Emerging Issues Task Force (EITF) 00-19, the fair value of the warrants was recorded as a liability. Subsequent to the initial measurement, the value of the warrants is remeasured on each balance sheet date or upon exercise of the warrants, based on the fair value of the warrants with the adjustment charged to the Statement of Operations and Accumulated Deficit. For the six months ended June 30, 2006, the effect of remeasurement was to increase the fair value of the liabilities associated with these warrants by \$1,098,830 (2005 \$704,892) which was debited to the Statement of Operations and Accumulated Deficit. On March 2, 2006, Macquarie exercised all of the second tranche warrants. The fair value of the liability associated with the second tranche warrants as at March 2, 2006 was \$1,451,623. Upon exercise of the warrants, the associated liability was transferred to shareholders' equity. Under US GAAP, the fair value of the warrants is recognized on the Consolidated Balance Sheet as deferred financing costs and is amortized on a straight line basis over the term of the debt. This would result in a net increase of \$92,813 in total asset under US GAAP as compared to Canadian GAAP. The total assets under US GAAP purposes was \$17,099,454, as at June 30, 2006 (December 31, 2005 \$3,848,079). These GAAP differences related to the valuation and classification of warrants and differences in accounting treatment of deferred financing costs would result in total liabilities under US GAAP purposes to be increased by \$1,054,912 (December 31, 2005 \$1,686,257) from liabilities under Canadian GAAP to \$3,646,262 as at June 30, 2006 (December 31, 2005 \$5,658,762).

The fair value of the first tranche warrants, as at June 30, 2006, was calculated to be \$962,099 using the Black-Scholes option pricing model with the following assumptions: dividend yield Nil; risk free interest rate 3.53%; expected volatility of 63.48% and an expected life of 6 months. The fair value of the second tranche warrants, as at March 2, 2006, was calculated to be \$1,451,623 using the Black-Scholes option pricing model with the following assumptions: dividend yield Nil; risk free interest rate 3.53%; expected volatility of 57.34% and an expected life of 17 months. Upon exercise of the warrants, the fair value was transferred to shareholders' equity.

**Table of Contents****Impact on Consolidated Financial Statements**

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

	June 30, 2006	December 31, 2005	
Shareholders' equity, end of period, per Canadian			
GAAP	\$ 38,986,692	\$ 21,480,321	
Adjustment for mineral properties and deferred			
exploration costs	(6,477,532)	(4,470,174)	
Adjustment for mineral property and deferred			
exploration cost portion of investment	(18,093,869)	(17,505,938)	
Loss on revaluation of liability for warrants subject to registration rights	(1,803,722)	(704,892)	
Adjustment arising upon exercise of warrants subject to registration rights	1,451,623		
Adjustment for the debt discount	(610,000)	(610,000)	
Shareholders' equity (Capital Deficit), end of period, per US GAAP	\$ 13,453,192	\$ (1,810,683)	

  

	Six Months Ended		Period from
	June 30, 2006	June 30, 2005 (restated)*	July 1, 1994  (inception)  through June 30, 2006
Net loss for the period, per Canadian GAAP	\$ (1,845,514)	\$ (1,136,171)	\$ (22,371,823)
Adjustment for acquisition of Scotia			(248,590)
Adjustment for compensation expense			(5,453,160)
Loss on revaluation of liability for warrants subject to registration rights	(1,098,830)	172,859	(1,803,722)
Adjustment for deferred exploration costs, net	(2,007,358)	(1,183,161)	(6,477,532)
Adjustment for investment	(587,931)	(4,838,956)	(18,093,869)
Adjustment for variable intrinsic value		261,833	(304,925)
Net loss for the period, per U.S. GAAP	\$ (5,539,633)	\$ (6,723,596)	\$ (54,753,621)
Basic and diluted net loss per common share, per U.S. GAAP	\$ (0.04)	\$ (0.08)	

\* See stock compensation above



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	<b>June 30,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Total liabilities, per Canadian GAAP	\$ 2,591,350	\$ 3,972,505
Adjustment for reclassification of debt discount to deferred financing costs	610,000	610,000
Adjustment for amortization of debt discount	(517,187)	(238,635)
Adjustment to recognize warrant liability	610,000	610,000
Loss on revaluation of liability for warrants subject to registration rights	1,803,722	704,892
Adjustment arising upon exercise of warrants subject to registration rights	(1,451,623)	
<b>Total liabilities, per US GAAP</b>	<b>\$ 3,646,262</b>	<b>\$ 5,658,762</b>

	<b>June 30,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Total assets, per Canadian GAAP	\$ 41,578,042	\$ 25,452,826
Adjustment for mineral properties and deferred exploration costs	(6,477,532)	(4,470,174)
Adjustment for mineral property and deferred exploration cost portion of investment	(18,093,869)	(17,505,938)
Adjustment for deferred financing costs	610,000	610,000
Amortization of deferred financing costs	(517,187)	(238,635)
<b>Total assets, per US GAAP</b>	<b>\$ 17,099,454</b>	<b>\$ 3,848,079</b>

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	<b>Period from</b>		
	<b>July 1, 1994</b>		
	<b>(inception)</b>		
	<b>through</b>		
	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>June 30, 2006</b>
Cash flows used in operating activities under Canadian GAAP	\$ (363,330)	\$ (751,884)	\$ (9,892,461)
Adjustment related to investment	(587,931)	(5,268,018)	(18,024,936)
Adjustment related to mineral properties	(1,995,924)	(1,170,640)	(18,507,841)
Cash flows used in operating activities under US GAAP	\$ (2,947,185)	\$ (7,190,842)	\$ (46,425,238)
Cash flows used in investing activities under Canadian GAAP	\$ (10,073,542)	\$ (6,241,143)	\$ (36,250,468)
Adjustment related to investment	587,931	5,268,018	17,421,917
Adjustment related to mineral properties	1,995,924	1,170,640	18,507,841
Cash flows (used in) provided by investing activities under US GAAP	\$ (7,489,687)	\$ 197,515	\$ (320,710)

*New U.S. Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement No. 123R, Share-Based Payment, which requires companies to expense the fair value of employee stock options and other forms of stock-based compensation. This requirement represents a significant change because share-based stock option awards, a predominate form of stock compensation for us, were not recognized as compensation expense under APB 25. Statement 123R requires the cost of the award, as determined on the date of grant at fair value, to be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. The grant-date fair value of the award will be estimated using an option-pricing model. The Company adopted the statement using the modified-prospective method on January 1, 2006. The Company currently discloses the effect of expensing stock options under a fair value approach using the Black-Scholes pricing model in Note 6 to these Condensed Consolidated Financial Statements.

In May 2005, FASB issued SFAS No. 154, Accounting Changes and Error Corrections ( SFAS 154 ), which replaces APB Opinion No. 20, Accounting Changes ( APB 20 ), and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 applies to all voluntary changes in accounting principle and modifies the requirements for accounting for and reporting a change in accounting principle. SFAS 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS 154 requires that a change in method of depreciation, amortization or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. APB 20 previously required that such a change be reported as a change in accounting principle. The adoption of SFAS 154 did not have a material impact on the financial statements of the Company.

In May 2005, FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting

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principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement.

When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. The adoption of revised SFAS No. 154 is not expected to have a material effect on our consolidated financial statements.

In March 2005, FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. This Interpretation clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Statement 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of revised FIN 47 did not have a material effect on our consolidated financial statements.

In December 2004, FASB issued SFAS No. 153 to amend Opinion 29 by eliminating the exception for non-monetary exchanges of similar productive assets and replaces it with general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange is defined to have commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The adoption of revised SFAS No. 153 did not have a material effect on our consolidated financial statements.

In February 2006, FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments - an Amendment of FASB Statements No. 133 and 140*. Among other things, the SFAS No. 155 permits the election of fair value remeasurement for certain hybrid financial instruments that would otherwise require bifurcation under Statement 133, *Accounting for Derivative Instruments and Hedging Activities*. These hybrid financial instruments would include both assets and liabilities. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material effect on our consolidated financial statements.

In September 2005, the FASB ratified the consensus reached by the EITF on Issue 05-7, *Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues* ( EITF 05-7 ). According to EITF Issue 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, an exchange of debt instruments having substantially different terms (or a substantial modification of the terms of existing debt) is deemed tantamount to a debt extinguishment. In EITF 05-7, the Task Force provides the following additional guidance in the application of EITF 96-19:

In determining whether a substantial modification has been made to a convertible debt instrument (and thus whether an extinguishment has occurred), the change in fair value of the related embedded conversion option should be included in the EITF 96-19 analysis, with such change calculated as the difference between the fair values of the option immediately before and after the modification. The modification of a convertible debt instrument should affect subsequent recognition of interest expense with respect to changes in the fair value of the embedded conversion option. A new beneficial conversion feature should not be recognized nor should an existing one be reassessed upon modification to a convertible debt instrument (i.e., the only value associated with the modification of the embedded conversion option to be accounted for should be the change in its fair value). The foregoing consensus is effective for future modifications of debt instruments beginning in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted.



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### **11. Subsequent Events**

Subsequent to June 30, 2006, we issued 10,000 common shares for the exercise of stock options, 142,500 common shares for the exercise of warrants and 171,170 common shares for the exercise of broker warrants for total gross proceeds of \$173,773.

In August 2006, we accepted an offer letter from Macquarie Bank Limited (Australian Stock Exchange, ASX: MBL) to provide a loan facility of up to US\$20 million. This facility will provide funding to Minera Andes and its joint venture partner for building and construction work at the San José/Huevos Verdes silver/gold project in Argentina scheduled for production at the end of the first quarter of 2007.

The US\$20 million debt facility to be provided by Macquarie is subject to completion of documentation and certain regulatory approvals. This facility will act as bridge financing for the joint ventures costs of completing, construction and development work with respect to establishing a mine at the San José project. The bridge facility will have a term of 90 days and will become part of a larger project finance facility planned by Minera Andes (49% owner) and its joint venture partner, Mauricio Hochschild & Cia. Ltda,(51% owner and operator) at the San José project to complete the mine.

The commercial terms of the loan include a facility fee of 3.0% of the principal amount of the initial tranche and interest of Libor plus 3% p.a., currently totaling approximately 8.4% p.a. A success fee of US\$96,000, being one percent of 49 percent of the principal amount of the facility, is payable to Xystus Limited for assisting with the structuring and negotiation of the loan facility.

Macquarie Bank Limited is a diversified international provider of specialist investment banking and financial services with over 7,600 employees in 23 countries. Headquartered in Sydney, Australia, Macquarie Bank listed on the Australian Stock Exchange in 1996 and is ranked as one of Australia's top 15 companies by market capitalization.

Drawdown of the initial tranche of this finance facility is subject to completion of documentation, receipt of regulatory approval and fulfillment of conditions precedent with Macquarie.

The project loan previously announced on July 25, 2005 with Standard Bank Plc. and Bayerische Hypo-und Vereinsbank AG has been terminated and a new facility has been structured with Macquarie. Minera Andes agreed to pay break fees of \$572,000 of which \$200,000 had been paid and the balance accrued as at June 30, 2006.

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

The following discussion should be read in conjunction with Minera Andes' audited consolidated financial statements and notes thereto for the year ended December 31, 2005 and the unaudited consolidated interim financial statements and notes thereto for the period ended June 30, 2006, which have been prepared in accordance with generally accepted accounting principles ( GAAP ) in Canada. These statements along with additional information relating to Minera Andes are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the SEC's EDGAR system at [www.sec.gov](http://www.sec.gov). Financial condition and results of operations are not necessarily indicative of what may be expected in future years.

All amounts in this discussion are in US Dollars unless otherwise indicated.

**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 Part II, Item 1A, and in our other 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-K (Form 10-KSB for years prior to 2006) 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 439,804 acres (177,986 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, except for the San José property, which is an advanced-stage exploration/development project.

Within our mineral exploration land in Argentina our focus is primarily on gold, silver and copper mineralized targets. In addition, several new exploration properties have been acquired through the filing of mineral applications. These properties reveal numerous similarities to Minera Andes' San José property in northern Santa Cruz province.

Through our subsidiaries and joint ventures we own a 49% equity interest in Minera Santa Cruz (MSC), which owns the San José gold/silver property in Southern Argentina, and a 100% interest in over 10 mineral properties in Argentina. MSC made a formal decision through its board of directors to place the San José project into production in March 2006.

In November 2005, we signed a letter of intent with Xstrata Copper ( Xstrata ), a commodity business unit within Xstrata plc., over the Los Azules porphyry copper project in the San Juan province in northern Argentina. Minera Andes owns a 100 percent interest in its land that makes up the southern half of the property. The Xstrata Copper lands are subject to a letter of intent whereby Minera Andes has the right to earn a 100 percent interest in Xstrata Copper's property by spending at least US\$1.0 million on the property over the next four years, making payments to keep the property in good standing and producing a preliminary economic assessment (to NI 43-101 standards). If the preliminary assessment shows the project to be potentially economically viable at a potential production rate of 100,000 tonnes (200 million pounds) of copper per year for 10 years then Xstrata Copper will have a one time

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back-in right to earn a fifty one percent interest in the combined properties by making a cash payment to Minera Andes of three times Minera Andes expenditures on the property, completing a bankable feasibility study within five years and assuming underlying property commitments. In the event that the preliminary assessment does not meet the size criterion contemplated above, Xstrata Copper's interest would reduce to a first right of refusal on any subsequent sale of the property. All lands that make up the property's mineral applications are subject to a provincial mouth of mine royalty of between zero and three percent. This royalty will be negotiated with the province of San Juan as the project advances. We are in the process of completing the definitive agreement with Xstata.

## **Update**

After receiving a positive feasibility study supporting development of a mine on the San José property in October of 2005, MSC submitted an Environmental Impact Assessment (EIA) study to seek permitting approvals to build a mine from the province of Santa Cruz. MSC then formalized the decision to proceed to place the project into production. In March of 2006, we received the approval of the EIA and are proceeding to build the mine to place the San José project into production by the first quarter of 2007. At the end of June 2006, approximately 370 personnel, including consultants, were working at the site, over 2,900 meters of drifts and 1,700 meters of ramps had been completed, and over 18,000 tonnes of mineralized material, grading 5.04 g/t gold and 329 g/t silver, were stockpiled. We anticipate financing completion of the San José project with a banking credit facility. A letter of intent for the credit facility is currently in place and the bank's due diligence and the final agreement are in the process of being finalized.

In addition to the above, MSC is continuing exploration on the San José property as it develops the mine. Since the completion of the feasibility study, four new veins have been reported. To date, there are approximately 40 kilometers of known vein trends of which only 10% has been drill-tested so far. The highest grade intercept encountered in the current 2006 drilling campaign (totaling 5,500 meters) is 32.64 g/t (1.04 ounces per ton - opt) gold and 4,567 g/t (147 opt) silver over 0.55 meters in hole SJD-227 on the new Kospi vein. Other highlights, also on the Kospie vein, include 4.12 meters of 12.64 g/t (0.41 opt) gold and 336 g/t (11 opt) silver in hole SJD-216. Holes SJD-225 and SJD-224 also encountered 18.63 g/t gold and 1,063 g/t silver and 9.38 g/t gold and 1,432 g/t silver over 1.54 meters and 2.77 meters, respectively.

On other properties, we commenced drilling at the Los Azules porphyry copper project in the San Juan province, central Argentina in February 2006. A total of 36 holes, totaling approximately 9,000 meters, are planned for the current campaign. Eleven holes were drilled by May 2006 and the remaining holes will be drilled after the austral winter in the fourth quarter of 2006. Results from the eleven hole drill program returned intervals up to 1.62% copper over 221 meters and 1.00% copper over 173 meters in separate holes.

In May 2006, we also commenced drilling at our Cerro Mojón gold/silver project in Santa Cruz province, Argentina. The drill plan calls for a total of 2,250 meters of drilling in 12 holes varying in depth between 100 and 300 meters. Final results from this campaign are being compiled.

## **Plan of Operations**

At quarter end, we had working capital of approximately \$6.9 million. Subsequent to June 30, 2006, we received approximately \$174,000 from the exercise of warrants and stock options.

We plan to spend approximately \$1.8 million for our mineral property and exploration activities, other than the San José project, and for other general and administrative expenses through 2006, with work being conducted on several properties including an ongoing reconnaissance program designed to make new acquisitions. In addition, the 2006/2007 budget for the exploration, development and construction to place the San José project into production by the first quarter of 2007 is approximately \$84 million, of which we have funded \$10.1 million through July 2006 and currently estimate we will be required to fund an additional \$4.4 million. The balance will be funded by our partners, MHC, and a project financing facility. The San José project is owned by MSC, an Argentine corporation owned by Minera Andes Inc. (49%) and MHC (51%) the operator of the project. In October of 2005, a positive feasibility was delivered and MSC secured a letter of intent for a non-recourse debt financing to

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complete construction of the project. If this financing is completed we may not be required to spend additional equity funds on the project other than as noted above; however, the financing of the project is uncertain at this time.

To maintain our 49% interest in MSC we may need to raise additional funds in 2006. If we cannot match MHC pro rata, we expect to have our interest in the San José project diluted in accordance with the joint venture agreement. Failure by either party to contribute to work programs will result in simple dilution of that party's interest in the project. If additional funds are raised during 2006 through the exercise of warrants or options, a further equity financing, debt financing, the sale of property interests, or joint venture financing, additional exploration would be planned and carried out on our properties. If we 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. There is no assurance that such financing, if necessary, would be available to us on favorable terms.

## **Results of Operations**

### **Second quarter 2006 compared with second quarter 2005**

We had a net loss of approximately \$1.28 million for the second quarter of 2006, compared to a net loss of \$682,000 for the second quarter of 2005 due to finance costs and foreign exchange gain in 2006 as a result of a weakening US dollar.

### **Six months ended June 30, 2006 compared with six months ended June 30, 2005**

We had a net loss of approximately \$1.85 million for the six months ended June 30, 2006, compared to a net loss of \$1.14 million for the six months ended June 30, 2005. The difference is due primarily to finance costs of \$688,712 relating to the early exercise of warrants, including \$634,000 for the issuance of new warrants. Total mineral property and deferred exploration costs were approximately \$2 million during the six months ended June 30, 2006, compared with approximately \$1.2 million spent in the same period of 2005. The costs are associated with drill programs at our Los Azules and Cerro Mojón projects, ongoing reconnaissance exploration programs, new property acquisitions, evaluation of existing properties, and exploration at our Los Azules project.

Administrative expenditures for the six months period ended June 30, 2006 included \$247,889 in consulting fees. The costs are associated with our investor relations program and stock compensation expense for consultants. Legal, audit and accounting activities were \$174,798 for the six months ended June 30, 2006 compared to \$74,212 in the same period last year. Travel for the six months ended June 30, 2006 was \$60,662 compared with \$54,864 in the same period in 2005. Foreign exchange gain was \$24,614 as a result of a weakening US dollar for the six months ended June 30, 2006 compared with a loss of \$141,815 in the same period in 2005.

## **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, we have financed our activities through the sale of equity securities, joint venture arrangements and debt facilities. We expect to use similar financing techniques in the future. However, there can be no assurance that we will be successful with such financings. See Plan of Operations.

In March 2006, we completed the second private placement with Mr. McEwen and sold 13,156,689 units at a price of Cdn\$0.35 per unit for gross proceeds of Cdn\$4,604,841 (US\$3,970,703). 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\$0.55 per share at any time prior to the earlier of: a) the date which is the 15th trading day after receiving notice from Minera Andes that the weighted average price of the common shares on the TSX Venture Exchange has been equal to or greater than Cdn\$1.00 for a period of 20 consecutive trading days commencing 120 days after the date of issuance of the warrants, and b) March 8, 2008.

The agents received a cash commission of 5% of the gross proceeds of the financing and 322,339 broker warrants, equal to 2.45% of the aggregate number of units sold. Each broker warrant upon exercise will entitle the holder to



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acquire one common share at an exercise price of Cdn\$0.55 per common share at any time prior to the earlier of: a) the date which is the 15th trading day after receiving notice from Minera Andes that the weighted average price of the common shares on the TSX Venture Exchange has been equal to or greater than Cdn\$1.00 for a period of 20 consecutive trading days commencing 120 days after the date of issuance of the warrants, and b) March 8, 2008.

In May 2006, Mr. Robert McEwen completed the early exercise of all the common share purchase warrants he held in the company. As a result, a total of 14,285,714 common shares were issued resulting in gross proceeds of Cdn\$7,857,143 to Minera Andes. In addition, Mr. McEwen has reported that he purchased 1.2 million shares in the market at Cdn\$1.10 per share, during March. Following his initial investment in Minera Andes four months ago, Mr. McEwen has increased his holdings to 30% of the company and is our largest shareholder.

In consideration for the early exercise of all his common share purchase warrants, Minera Andes issued to Mr. McEwen 2 million new common share purchase warrants. Each new warrant will entitle Mr. McEwen to purchase one common share at an exercise price of Cdn\$1.80 per share for a term of 12 months expiring on May 5, 2007. The broker assisting in the transaction received a fee of Cdn\$50,000. The shares will be subject to a hold period expiring on September 6, 2006. The fair value of the warrants, \$634,000, was calculated using the Black-Scholes option pricing model with the following assumptions: dividend yield Nil; risk free interest rate 4.99%; expected volatility of 92.37% and an expected life of 12 months and was included in finance costs for the period ended June 30, 2006.

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

At June 30, 2006 we had cash and cash equivalents of approximately \$9.4 million compared to approximately \$3.6 million at June 30, 2005. Working capital at June 30, 2006 was approximately \$6.9 million. Subsequent to the quarter end, we received approximately \$173,773 from the exercise of warrants and stock options. These funds, together with funds from joint ventures on the San José project, are sufficient, as estimated by management, to cover our budgeted expenditures for mineral property and exploration activities on our properties in Argentina and general and administrative expenses through the end of 2006. Our operating activities used approximately \$363,000 in the first half of 2006 compared with using approximately \$752,000 in the first half of 2005. Administrative expenditures for the period included approximately \$248,000 in consulting fees (an increase of \$53,000 over the same period last year); approximately \$61,000 in travel; approximately \$244,000 in office overhead and approximately \$15,000 in telephone expenditures. These costs are due to our investor relations and public relations program.

Investing activities used approximately \$10.1 million, due to funding our 49% interest in the San Jose project, less property option proceeds received, and expenditures related to mineral properties and deferred exploration in the first half of 2006 compared with approximately \$6.2 million used in the first half of 2005.

Financing activities provided approximately \$16.6 million, as a result of a private placement, exercise of warrants, broker warrants and options, and repayment of bank loan in the first half of 2006 compared with approximately \$8.8 million provided in the first half of 2005. Cash and cash equivalents increased in the first half by approximately \$6.1 million in 2006 compared with an increase of approximately \$1.8 million in the same period in 2005.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, our ability 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, 2006, there was significant doubt that we would be able to continue as a going concern. (See Auditor's Comment in the December 31, 2005 Audit Report and Note 1 in the December 31, 2005 Financial Statements).

For the six months ended June 30, 2006, we had a loss of approximately \$1.8 million and an accumulated deficit of approximately \$25 million. In addition, due to the nature of the mining business, the acquisition, exploration and

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development of mineral properties requires significant expenditures prior to the commencement of production. To date, we have financed our activities through the sale of equity securities, debt facilities and joint venture arrangements. We expect to use similar financing techniques in the future and are actively pursuing such additional sources of financing.

Although there is no assurance that we 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 relate to mineralization and deferred development costs.

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.

We review the carrying value of our investment in MSC and in other mineral properties on a regular basis. This review includes, but is not limited to, the timing of exploration and/or development work, work programs proposed, the exploration results achieved by Minera Andes and others, sales and/or joint venture value, current market price of minerals, ability to finance ongoing development and, in the case of producing properties, the estimated future operating results and net cash flows. When the carrying value of a property is estimated to exceed its net recoverable amount, provision is made for the decline in value. If a property is abandoned, the property and deferred exploration costs will be written off to operations.

## **Recent U.S. Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement No. 123R, Share-Based Payment, which requires companies to expense the fair value of employee stock options and other forms of stock-based compensation. This requirement represents a significant change because share-based stock option awards, a predominate form of stock compensation for us, were not recognized as compensation expense under APB 25. Statement 123R requires the cost of the award, as determined on the date of grant at fair value, to be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. The grant-date fair value of the award will be estimated using an option-pricing model. The Company adopted the statement using the modified-prospective method on January 1, 2006. The Company currently discloses the effect of expensing stock options under a fair value approach using the Black-Scholes pricing model in Note 6 to these Condensed Consolidated Financial Statements.

In May 2005, FASB issued SFAS No. 154, Accounting Changes and Error Corrections ( SFAS 154 ), which replaces APB Opinion No. 20, Accounting Changes ( APB 20 ), and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 applies to all voluntary changes in accounting

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principle and modifies the requirements for accounting for and reporting a change in accounting principle. SFAS 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS 154 requires that a change in method of depreciation, amortization or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. APB 20 previously required that such a change be reported as a change in accounting principle. The adoption of SFAS 154 did not have a material impact on the financial statements of the Company.

In May 2005, FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement.

When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. The adoption of revised SFAS No. 154 is not expected to have a material effect on our consolidated financial statements.

In March 2005, FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143. This Interpretation clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Statement 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of revised FIN 47 did not have a material effect on our consolidated financial statements.

In December 2004, FASB issued SFAS No. 153 to amend Opinion 29 by eliminating the exception for non-monetary exchanges of similar productive assets and replaces it with general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange is defined to have commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The adoption of revised SFAS No. 153 did not have a material effect on our consolidated financial statements.

In February 2006, FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140. Among other things, the SFAS No. 155 permits the election of fair value remeasurement for certain hybrid financial instruments that would otherwise require bifurcation under

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Statement 133, Accounting for Derivative Instruments and Hedging Activities. These hybrid financial instruments would include both assets and liabilities. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material effect on our consolidated financial statements.

In September 2005, the FASB ratified the consensus reached by the EITF on Issue 05-7, Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues ( EITF 05-7 ). According to EITF Issue 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments, an exchange of debt instruments having substantially different terms (or a substantial modification of the terms of existing debt) is deemed tantamount to a debt extinguishment. In EITF 05-7, the Task Force provides the following additional guidance in the application of EITF 96-19:

In determining whether a substantial modification has been made to a convertible debt instrument (and thus whether an extinguishment has occurred), the change in fair value of the related embedded conversion option should be included in the EITF 96-19 analysis, with such change calculated as the difference between the fair values of the option immediately before and after the modification. The modification of a convertible debt instrument should affect subsequent recognition of interest expense with respect to changes in the fair value of the embedded conversion option. A new beneficial conversion feature should not be recognized nor should an existing one be reassessed upon modification to a convertible debt instrument (i.e., the only value associated with the modification of the embedded conversion option to be accounted for should be the change in its fair value). The foregoing consensus is effective for future modifications of debt instruments beginning in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted.

**Subsequent events**

Subsequent to June 30, 2006, we issued 10,000 common shares for the exercise of stock options, 142,500 common shares for the exercise of warrants and 171,170 common shares for the exercise of broker warrants for total gross proceeds of \$173,773.

In August 2006, we accepted an offer letter from Macquarie Bank Limited (Australian Stock Exchange, ASX: MBL) to provide a loan facility of up to US\$20 million. This facility will provide funding to Minera Andes and its joint venture partner for building and construction work at the San José/Huevos Verdes silver/gold project in Argentina scheduled for production at the end of the first quarter of 2007.

The US\$20 million debt facility to be provided by Macquarie is subject to completion of documentation and certain regulatory approvals. This facility will act as bridge financing for the joint ventures costs of completing, construction and development work with respect to establishing a mine at the San José project. The bridge facility will have a term of 90 days and will become part of a larger project finance facility planned by Minera Andes (49% owner) and its joint venture partner, Mauricio Hochschild & Cia. Ltda (51% owner and operator), at the San José project to complete the mine.

The loan will allow construction of the mine to proceed on schedule while the project loan documentation is completed. In addition, this debt facility limits the need for equity financing dilution to shareholders and it allows us time to set pricing on the hedging required by the bank to secure the project loan.

The commercial terms of the loan include a facility fee of 3.0% of the principal amount of the initial tranche and interest of Libor plus 3% p.a., currently totaling approximately 8.4% p.a. A success fee of US\$96,000, being one percent of 49 percent of the principal amount of the facility, is payable to Xystus Limited for assisting with the structuring and negotiation of the loan facility.

Macquarie Bank Limited is a diversified international provider of specialist investment banking and financial services with over 7,600 employees in 23 countries. Headquartered in Sydney, Australia, Macquarie Bank listed on the Australian Stock Exchange in 1996 and is ranked as one of Australia s top 15 companies by market capitalization.

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Drawdown of the initial tranche of this finance facility is subject to completion of documentation, receipt of regulatory approval and fulfillment of conditions precedent with Macquarie.

The project loan previously announced on July 25, 2005 with Standard Bank Plc. and Bayerische Hypo- und Vereinsbank AG has been terminated and a new facility has been structured with Macquarie. Minera Andes agreed to pay break fees of \$572,000 of which \$200,000 had been paid and the balance accrued as at June 30, 2006.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our exposure to market risk includes, but is not limited to, the following risks: changes in interest rates on our debt, changes in foreign currency exchange rates, commodity price fluctuations and equity price risk.

#### **Interest Rate Risk**

At June 30, 2006 we had \$2.0 million of variable rate debt which carries an interest rate of LIBOR plus 2%. We estimate that a 1% increase in the interest rate on the variable rate debt would result in a \$20,000 change in annual interest expense. We have not entered into any agreements to hedge against unfavorable changes in interest rates, but may in the future actively manage our exposure to interest rate risk.

#### **Foreign Currency Exchange Rate Risk**

While our major operating units transact most of their business in US dollars, many expenses, purchases of labor, operating supplies and capital assets are denominated in Canadian dollars or Argentinean pesos. As a result, currency exchange fluctuations may impact the costs incurred at our operations. The appreciation of non-US dollar currencies against the US dollar increases costs and the cost of capital assets in US dollar terms at our properties located outside the US, which can adversely impact our net income and cash flows. Conversely, a depreciation of non-US dollar currencies usually decreases production costs and capital asset purchases in US dollar terms.

The value of cash and cash equivalent investments denominated in foreign currencies also fluctuates with changes in currency exchange rates. Appreciation of non-US dollar currencies results in a foreign currency gain on such investments and a decrease in non-US dollar currencies results in a loss.

We have not utilized market risk sensitive instruments to manage our exposure to foreign currency exchange rates but may in the future actively manage our exposure to foreign currency exchange rate risk. We also hold portions of our cash reserves in non-US dollar currencies.

#### **Equity Price Risk**

We have in the past sought and may in the future seek to acquire additional funding by sale of common shares. Movements in the price of our common shares have been volatile in the past and may also be volatile in the future. As a result, there is a risk that we may not be able to sell new common shares at an acceptable price should the need for new equity funding arise.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the design and operation of our 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 management, including our President and Chief Financial Officer. Based upon that evaluation, our President and 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



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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**

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

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**PART II - OTHER INFORMATION**

**Item 2. Unregistered Sales of Equity Securities**

On March 8, 2006, we completed the second private placement with Robert McEwen and sold 13,156,689 units at a price of Cdn\$0.35 per unit for gross proceeds of Cdn\$4,604,841 (US\$3,970,703). 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\$0.55 per share at any time prior to the earlier of: a) the date which is the 15th trading day after receiving notice from Minera Andes that the weighted average price of the common shares on the TSX Venture Exchange has been equal to or greater than Cdn\$1.00 for a period of 20 consecutive trading days commencing 120 days after the date of issuance of the warrants, and b) March 8, 2008.

The agents received a cash commission of 5% of the gross proceeds of the financing and 322,339 broker warrants, equal to 2.45% of the aggregate number of units sold. Each broker warrant upon exercise will entitle the holder to acquire one common share at an exercise price of Cdn\$0.55 per common share at any time prior to the earlier of: a) the date which is the 15th trading day after receiving notice from Minera Andes that the weighted average price of the common shares on the TSX Venture Exchange has been equal to or greater than Cdn\$1.00 for a period of 20 consecutive trading days commencing 120 days after the date of issuance of the warrants, and b) March 8, 2008.

During the six months ended June 30, 2006, we also issued 760,000 common shares for the exercise of stock options, 28,108,965 common shares for the exercise of purchase warrants and 1,546,135 shares for the exercise of broker warrants for total gross proceeds of \$15,068,080.

Subsequent to June 30, 2006, we issued 10,000 common shares for the exercise of stock options, 142,500 common shares for the exercise of warrants and 171,170 common shares for the exercise of broker warrants for total gross proceeds of \$173,773.

In reliance on Rule 903 of Regulation S under the Securities Act of 1933, as amended (the Securities Act), the units and broker warrants were offered and sold outside of the United States without any directed selling efforts pursuant to Category 1 of Rule 903(b), in that Minera Andes is a foreign private issuer and there is no substantial U.S. market interest for the class of securities sold. Investors exercised outstanding warrants either in reliance on Rule 903 of Regulation S or in reliance on Rule 506 of Regulation D under the Securities Act. Transactions under Rule 506 were made without general solicitation or advertising, and subject to resale restrictions, to accredited investors in the United States who represented they were purchasing with investment intent and without a view to distribute the units. Options were exercised pursuant to registration under a Form S-8 registration statement.

**Item 4. Submission of Matters to a Vote of Security Holders**

Minera Andes shareholders of record as of May 23, 2006 were sent proxy materials concerning an annual general and special shareholders meeting held June 28, 2006 in Spokane, Washington. The management of Minera Andes asked shareholders of the company to approve resolutions to fix the number of Directors to be elected at five (5); to elect as Director all proposed nominees for the ensuing year; to appoint BDO Dunwoody LLP as Auditors of the Company and authorize the Directors to fix their remuneration; and to approve the amendments to the Company's stock option plan. For particulars of matters acted upon see the management information circular filed June 6, 2006 on file with SEDAR at [www.sedar.com](http://www.sedar.com).

At the annual general and special shareholders meeting of the common shareholders, 66,722,473 shares were voted. The shares voted represent 44.73% of the issued and outstanding shares of the company.



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Each of the proposals submitted to a shareholder vote was approved. The results of the shares voted for the various resolutions were as follows:

	Number of Shares					
	For	Against	Withheld	Invalid	Non-Votes	Total
To fix the number of Directors to be elected at five (5)	66,279,634	442,839	N/A	0	0	66,722,473
To elect as Director all proposed nominees for the ensuing year	64,905,727	N/A	1,816,746	0	0	66,722,473
To appoint BDO Dunwoody LLP as Auditors of the Company and authorize the Directors to fix their remuneration	66,129,627	N/A	592,846	0	0	66,722,473
To approve the amendments to the Company's stock option plan	24,752,705	1,320,247	N/A	0	40,649,521	66,722,473

**Item 6. Exhibits**

The Exhibits listed in the Index to Exhibits at the end of this report are included as part of this Form 10-Q.

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**SIGNATURES**

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

**MINERA ANDES INC.**

Date: August 18, 2006

By: /s/ Allen V. Ambrose  
Allen V. Ambrose  
President

Date: August 18, 2006

By: /s/ William V. Schara  
William V. Schara  
Chief Financial Officer

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**INDEX TO EXHIBITS**

**Exhibit**

<b>Number</b>	<b>Identification of Exhibit</b>
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Minera Andes Registration Statement on Form 10-SB (the Form 10-SB ).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Form 10-SB).
31.1	Certification of President (Principal Executive Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer (Principal 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.