

## QUARTERLY AND YEAR END REPORT

|                           |                                                   |
|---------------------------|---------------------------------------------------|
| Name of Issuer:           | Minera Andes Inc.                                 |
| Issuer Address:           | 111 E. Magnesium Road, Suite A, Spokane, WA 99208 |
| Contact Person:           | Allen Ambrose                                     |
| Contact's Position:       | President                                         |
| Contact Telephone Number: | (509) 921-7322                                    |
| For Period Ended:         | December 31, 2003                                 |
| Date of Report:           | April 30, 2004                                    |
| Contact E-mail Address:   | mineraandes@minandes.com                          |
| Web Site Address:         | www.minandes.com                                  |

The Schedule(s) required to complete this report are attached and the disclosure obtained therein has been approved by the board of directors. A copy of this report will be provided to any shareholder who requests it. Please note this form is incorporated as part of both the required filing of Schedule A and Schedules B&C.

Date: April 30, 2004 By: /s/ Allen V. Ambrose  
Allen V. Ambrose  
President

Date: April 30, 2004 By: /s/ Bonnie L. Kuhn  
Bonnie L. Kuhn  
Chief Financial Officer and Secretary

---

---

**U.S. SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-KSB**

(Mark One)

- ☒ Annual report under section 13 or 15(d) of the Securities Exchange Act of 1934  
**for the fiscal year ended December 31, 2003**
- ☐ Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934  
**for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-22731**

**MINERA ANDES INC.**

(Name of small business issuer 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, Washington 99208**

(Address of principal executive offices)

**(509) 921-7322**

(Issuer's telephone number)

Securities registered under Section 12(b) of the Act:

Name of each exchange on which registered:

Title of each class

**None**

Securities registered under Section 12(g) of the Act:

**Common shares without par value**

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☒

The issuer is in the exploration stage and has no revenues for its most recent fiscal year.

The aggregate market value of the voting stock held by non-affiliates as of March 12, 2004 was \$26,144,579.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **As of March 12, 2004 the Registrant had 69,810,865 common shares outstanding.**

Transitional Small Business Disclosure Format (Check one:) **Yes** ☐ **No** ☒

---

---

## **TABLE OF CONTENTS**

| <b>PART I</b>       |                                                                                                                       | <b><u>Page</u></b> |
|---------------------|-----------------------------------------------------------------------------------------------------------------------|--------------------|
| Item 1              | Description of Business                                                                                               | 3                  |
| Item 2              | Description of Properties                                                                                             | 10                 |
| Item 3              | Legal Proceedings                                                                                                     | 25                 |
| Item 4              | Submission of Matters to a Vote<br>of Security Holders                                                                | 25                 |
| <br><b>PART II</b>  |                                                                                                                       |                    |
| Item 5              | Market for Common Equity and Related<br>Shareholder Matters                                                           | 26                 |
| Item 6              | Management’s Discussion and Analysis or<br>Plan of Operations                                                         | 28                 |
| Item 7              | Financial Statements                                                                                                  | 40                 |
| Item 8              | Changes in and Disagreements With Accountants<br>on Accounting and Financial Disclosure                               | 65                 |
| Item 8A             | Controls and Procedures                                                                                               | 65                 |
| <br><b>PART III</b> |                                                                                                                       |                    |
| Item 9              | Directors, Executive Officers, Promoters and<br>Control Persons; Compliance with Section 16(a)<br>of the Exchange Act | 66                 |
| Item 10             | Executive Compensation                                                                                                | 68                 |
| Item 11             | Security Ownership of Certain Beneficial Owners<br>and Management and Related Stockholder Matters                     | 70                 |
| Item 12             | Certain Relationships and Related Transactions                                                                        | 73                 |
| Item 13             | Exhibits and Reports on Form 8-K                                                                                      | 73                 |
| Item 14             | Principal Accountant Fees and Services                                                                                | 73                 |

## PART I

### Preliminary Note Regarding Forward-Looking Statements; Currency Disclosure

*This report contains both historical and prospective statements concerning Minera Andes Inc. and its operations. Historical statements are based on events that have already happened; examples include the reported financial and operating results, descriptions of pending and completed transactions, and management and compensation matters. Prospective statements, on the other hand, are based on events that are reasonably expected to happen in the future; examples include the timing of projected operations, the likely effect or resolution of known contingencies or other foreseeable events, and projected operating results. In this report, Minera Andes Inc. is referred to as “Minera Andes”, “we”, “our”, and the “Company”.*

*Prospective statements (which are known as “forward-looking statements” under the Private Securities Litigation Reform Act of 1995) may or may not prove true with the passage of time because of future risks and uncertainties.*

*All currency amounts in this report are stated in U.S. dollars unless otherwise indicated. On March 12, 2004, the late New York trading rate of exchange, as reported by The Wall Street Journal for conversion of United States dollars into Canadian dollars was U.S.\$1.00 = Cdn\$1.3355 or Cdn\$1.00 = U.S. \$0.7488.*

### ITEM 1. DESCRIPTION OF BUSINESS

Minera Andes Inc. is engaged in the exploration and development of mineral properties located in the Republic of Argentina. Our objective is to identify and acquire properties with promising mineral potential, explore them to an advanced stage or to the feasibility study stage, and then, if warranted, to pursue development of the properties, typically through joint ventures or other collaborative arrangements with partners that have expertise in mining operations.

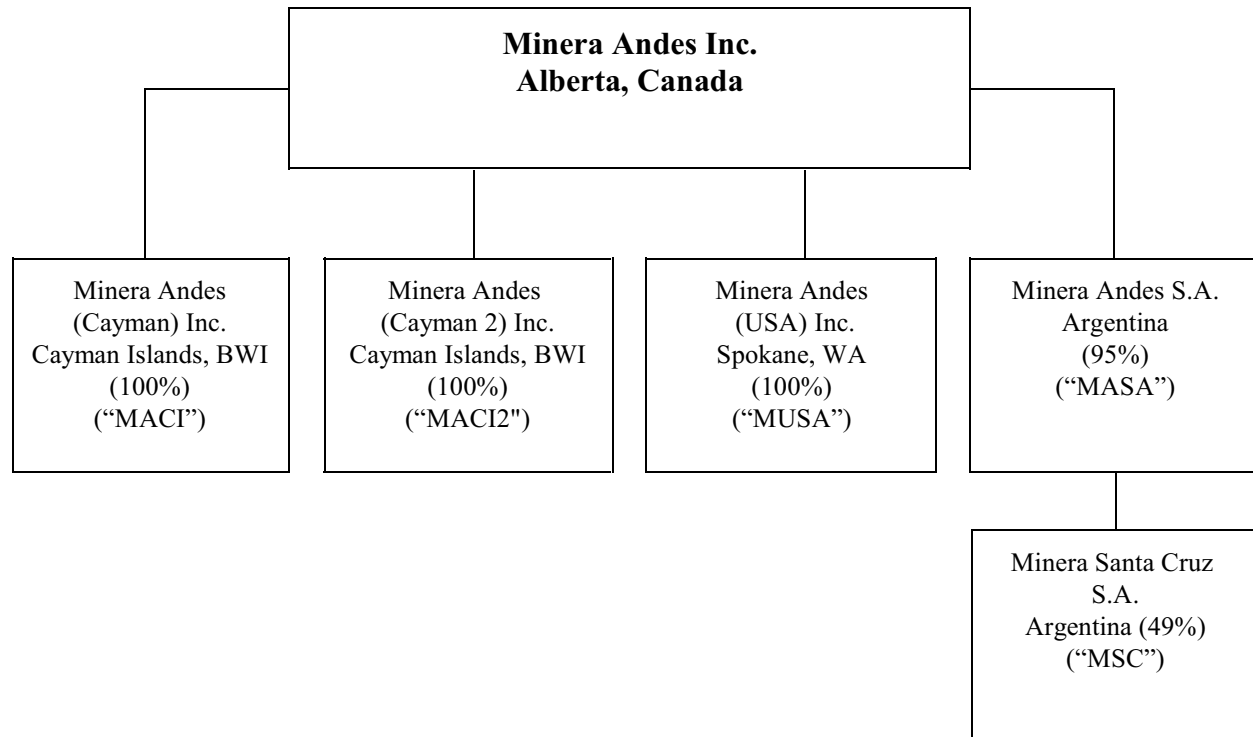
Our business grew out of a program begun by N.A. Degerstrom, Inc. (“Degerstrom”), a contract mining company based in Spokane, Washington, to identify properties in Argentina that possessed promising mineral potential. Based on the study of available remote sensing satellite data and experience gained from drilling work performed by Degerstrom, beginning in 1991 Degerstrom identified a number of areas which it believed had exploration potential and began the process of filing applications for exploration concessions with the provincial governments in Argentina and negotiating option agreements with private landowners. Degerstrom conveyed these property interests to Minera Andes in 1995. See “Description of Properties – The Degerstrom Agreement” and “Management’s Discussion and Analysis or Plan of Operations.”

Our current properties and projects consist of mineral rights and applications for mineral rights covering approximately 199,875 hectares in three Argentine provinces. The lands comprise option-to-purchase contracts, exploration and mining agreements and direct interests through our filings for exploration concessions. Our properties are all early stage exploration prospects except for the San José project, which is an advanced stage exploration project. No proven or probable reserves have yet been identified. See “Description of Properties.” We have three full time employees and several project-specific contract consultants.

#### Operating Structure

Minera Andes is the product of an amalgamation in November 1995 of Minera Andes and Scotia Prime Minerals, Incorporated, a then inactive Alberta corporation which previously had its Common Shares listed for trading on the Alberta Stock Exchange. Since April 8, 2002 our Common Shares have been listed on the TSX Venture Exchange (“TSX-V”), which replaced the Alberta Stock Exchange. Our interests in Argentinean properties are held through two Argentinean subsidiaries: Minera Andes S.A. (“MASA”) and Minera Santa Cruz S.A. (“MSC”).

The corporate structure of Minera Andes is as follows:



We hold 19 of the 20 issued and outstanding shares of MASA as well as an irrevocable transferable option to purchase the one remaining MASA share. The single share is held by a natural person shareholder as required by local law. MASA holds 5,047,000 shares of the 10,300,000 shares issued and outstanding of Minera Santa Cruz S.A.

In July 2003, we announced that Mauricio Hochschild & Cia. Ltda. S.A. ("MHC") had acquired 51% of the shares of the project company, MSC, upon satisfaction of the vesting requirements of the Option and Joint Venture Agreement for the development of the Huevos Verdes gold/silver project in southern Argentina. The agreement required MHC to expend US\$3 million on the further exploration and development of the Huevos Verdes project, owned by MSC, in order to vest. Minera Andes holds a 49% interest in MSC through our subsidiary, MASA.

Through 2003, Degerstrom provided management services to us and acted as operator of our properties and projects pursuant to an operating agreement entered into in March 1995 ("Operating Agreement"). Under the Operating Agreement, Degerstrom operated and managed the exploration program on all properties and provided related offsite administrative assistance as required.

Degerstrom is principally involved in contract mining and road and bridge construction. Degerstrom provides a full range of contract services including geological studies, site drilling, metallurgical analysis, and engineering of pit, process and recovery systems.

On December 2, 2003, we cancelled our Operating Agreement with Degerstrom, effective December 31, 2003. We are an established exploration company and felt the need to update the arrangements with Degerstrom. At the time that these agreements were signed, Degerstrom was a significant shareholder of ours, however, their shareholdings have been reduced to approximately 10.5% of our issued and outstanding shares at the end of 2003. In addition, the

reasons for entering into the Operating Agreement, which included using the established Argentina infrastructure of Degerstrom at the time we were listed, are no longer applicable. We are no longer a newly formed junior public company and have been in existence for ten years. The management and the board of directors thought it was also prudent for corporate governance reasons to separate itself from Degerstrom. As of March 12, 2004, Degerstrom owned 8.3% of our issued and outstanding shares.

Our management office is 111 E. Magnesium Road, Suite A, Spokane, Washington, 99208, and our principal business address is Coronel Moldes 837/820, (5500) Mendoza, Argentina. Our registered address is 350 - 7<sup>TH</sup> Ave. S.W., Calgary, Alberta, T2P 3N9 Canada.

## **Risks Related to our Business**

Ownership of our Common Shares involves a high degree of risk. Shareholders should consider, among other things, the following factors relating to our business and properties and our present stage of development:

*Risks Inherent in Minerals Exploration.* There are a number of uncertainties inherent in any exploration or development program, including location of economic ore bodies, the development of appropriate metallurgical processes, and the receipt of necessary governmental permits. Substantial expenditures may be required to pursue such exploration and, if warranted, development activities. Assuming discovery of an economic ore body and depending on the type of mining operation involved, several years may elapse from the initial stages of development until commercial production is commenced. New projects frequently experience unexpected problems during exploration and development stages and frequently result in abandonment of the properties as potential development projects. Most exploration projects do not result in the discovery of minable deposits of ore. We cannot assure you that our exploration efforts will yield reserves or result in any commercial mining operations.

Many of the properties that we intend to explore in Argentina are the subject of applications for concessions and licenses, many of which have not yet been granted. The filing of an application for a concession grants the holder the exclusive right to obtain the concession conditioned on the outcome of the approval process. In Argentina, the approval process is an administrative procedure under the authority of the province in which the property is located. The process includes a public notice and approval procedure allowing third parties to give notice of opposition or prior claim, if any, before the title to the concession is granted. Although we believe that we have taken all necessary steps with respect to the application, approval and registration process for the property concessions and licenses we have currently applied for and property transactions to which we are a party, there is no assurance that any or all applications will result in issued concessions or that the public registrations will be timely approved.

*Risks Inherent in the Mining Industry.* Exploration, development and mining operations are subject to a variety of laws and regulations relating to exploration, development, employee safety and environmental protection; mining activities are subject to substantial operating hazards including rock bursts, cave-ins, fires and flooding, some of which are not insurable or may not be insured for economic reasons. We currently have no insurance against such risks. We may also incur liability as a result of pollution and other casualties involved in the drilling and mining of ore. There may be limited availability of water and power, which are essential to mining operations; and interruptions may be caused by adverse weather conditions.

We or our joint venture or investment partners must obtain necessary governmental approvals and make necessary capital expenditures before production may commence on most of our projects.

*Need for Additional Capital.* The exploration and, if warranted, development of Minera Andes' properties would require substantial financing. Our ability to obtain additional financing will depend, among other things, on the price

of gold, silver, copper and other metals and the industry's perception of their future price. Therefore, availability of funding depends largely on factors outside of our control and cannot be accurately predicted; financing may not be available when needed or on terms satisfactory to us and may be dilutive to our shareholders. We have historically obtained funds for a portion of our capital expenditure from joint venture or investment partners. However, we cannot assure you that such joint venture or investment partners will provide such funds or that such project financing for mining projects is limited. Failure to obtain sufficient financing could result in delay or indefinite postponement of exploration, development or production on any or all of Minera Andes' projects or loss of properties. For example, certain agreements pursuant to which we have the right to conduct exploration activities carry work commitments which, if not met, could result in losing our right to acquire an interest in the subject property. We cannot assure you that additional capital or other types of financing will be available when needed or that, if available, the terms of such financing will be favorable to Minera Andes.

*Competitive Business Conditions.* The exploration and development of mineral properties in the Republic of Argentina is a highly competitive business. Other companies compete with us in the acquisition, exploration and development of mining properties. Many of these competing companies are significantly larger than we are and have substantially greater economic and technical resources than us. While we seek to compete by identifying properties for exploration, acquiring exclusive rights to conduct such exploration and carrying out exploration and development of the properties with joint venture or investment partners, there can be no assurance that we will be successful in any of these efforts.

*Foreign Operations.* Minera Andes' properties are located in Argentina. In the early 1990s Argentina emerged from periods of political and economic instability but has recently shown signs of returning instability. Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, exchange controls, currency fluctuations, taxation and laws or policies as well as by laws and policies of the United States and Canada affecting foreign trade, investment and taxation. It is important that we maintain good relationships with the governments in Argentina. We may not be able to maintain such relationships if the governments change.

*Difficulties in Developing Remote Areas.* Many of the areas in which we conduct exploration and, if warranted, development activities are in particularly remote and mountainous regions, with limited infrastructure and limited access to essential resources. Exploration or development projects in these areas may require us or our joint venture partners to develop power sources, transportation systems and communications systems, and to secure adequate supplies of fuel, machinery, equipment and spare parts. Consequently, exploration and development in these areas is particularly difficult, requiring significant capital expenditures, and may be subject to cost over-runs or unanticipated delays.

*Fluctuation in the Price of Minerals.* The market price of minerals is volatile and beyond our control. If the price of a mineral should drop dramatically, the value of the properties we are exploring or developing for that mineral could also drop dramatically and we might not be able to recover our investment in those properties. The decision to put a mine into production, and the commitment of the funds necessary for that purpose, must be made long before the first revenues from production will be received. Price fluctuations between the time that such a decision is made and the commencement of production can change completely the economics of the mine. Although it is possible to protect against price fluctuations by hedging in certain circumstances, the volatility of mineral prices represents a substantial risk in the mining industry generally which no amount of planning or technical expertise can eliminate.

*Environmental and Other Laws and Regulations.* Mining operations and exploration activities in Argentina are subject to various federal, provincial and local laws and regulations governing mineral rights, exploration, development and mining, exports, taxes, labor, protection of the environment and other matters. Compliance with

such laws and regulations may necessitate significant capital outlays, materially affect the economics of a given project, or cause material changes or delays in our intended activities. Minera Andes has obtained or is in the process of obtaining authorizations currently required to conduct its operations. New or different standards imposed by governmental authorities in the future or amendments to current laws and regulations governing operations and activities of mining companies or more stringent implementation thereof could have an adverse impact on Minera Andes' activities.

*Liquidity; Limited Trading Market.* There currently is a limited trading market for our securities. There is no assurance that an active trading market will ever develop. Investment in us is not suitable for any investor who may have to liquidate such investment on a timely basis and should only be considered by investors who are able to make a long-term investment in us.

### **Glossary of Geologic and Mining Terms; Statement of Abbreviations and Conversion Factors**

“andesite” is a type of dark colored, fine grained volcanic rock;

“anomalous” means either a geophysical response that is higher or lower than the average background or rock samples that return assay values greater than the average background;

“argillic” means pertaining to clay or clay minerals;

“Bankable Feasibility Study” means the study, prepared to industry standards, based upon which a bank or other lending institution may loan Minera Andes or MASA funds for production development on the Claims;

“breccia” means a coarse grained rock, composed of angular broken rock fragments held together by a finer grained matrix;

“Cateo” means an exploration concession for mineral rights granted to an individual or company in the Republic of Argentina, as defined by the Republic of Argentina Mining Code, as amended;

“Claims” means the Cateos, Manifestación de Descubrimiento, Mina, Estaca Mina (as defined by the Republic of Argentina Mining Code, as amended) described herein issued to MASA, MSC or Minera Andes by the government of Argentina or any provincial government;

“dacite” is a type of fine-grained extrusive rock;

“Estaca Mina” means areas granted to extend the area covered by existing Minas;

“felsic” describes an igneous rock having abundant light colored minerals;

“graben” means an elongate crustal block that is bounded by faults on its long sides;

“grab sample” means one or more pieces of rock collected from a mineralized zone that when analyzed do not represent a particular width of mineralization nor necessarily the true mineral concentration of any larger portion of a mineralized area;

“igneous rock” means a rock formed by the cooling of molten rock either underground or at the surface of the earth;

“illitic” is a general name for a group of clay minerals;

“intrusive rock” means an igneous rock that, when in the molten or partially molten state, penetrated into or between other rocks, but cooled beneath the surface;

“low sulfidation” applies to a type of mineralization low in sulfur content;

“Manifestación de Descubrimiento” (literally, manifestation of discovery) means the intermediate stage between the exploration phase and exploitation phase of development;

“metamorphic rock” means an igneous or sedimentary rock that has been altered by exposure to heat and pressure (resulting from deep burial, contact with igneous rocks, compression in mountain building zones or a combination of these factors) but without complete melting. Metamorphosis typically results in partial recrystallization and the growth of new minerals. “Metasediment” refers to metamorphosed sedimentary rock. “Metavolcanics” refers to metamorphosed volcanic rock;

“Mina” means an exploitation grant based on Manifestación de Descubrimiento;

“net smelter return royalty” is a form of royalty payable as a percentage of the value of the final product of a mine, after deducting the costs of transporting ore or concentrate to a smelter, insurance charges for such transportation, and all charges or costs related to smelting the ore. Normally, exploration, development and mining costs are not deducted in calculating a net smelter return royalty. However, such royalties are established by contract or statute (in the case of property owned by governments), and the specific terms of such contracts or statutes govern the calculation of the royalty;

“net profits royalty” is a form of royalty payable as a percentage of the net profits of a mining operation. In contrast to net smelter return royalties, costs relating to exploration, development and mining may be deducted from the net proceeds of the operation in calculating the royalty. However, such royalties are established by contract or statute (in the case of property owned by governments), and the specific terms of such contracts or statutes govern the calculation of the royalty;

“orebody” means a continuous well-defined mass of material containing enough ore to make extraction economically feasible;

“porphyry” means an igneous rock of any composition that contains conspicuous large mineral crystals in a fine-grained ground mass;

“pyroclastic” means pertaining to rock material formed by volcanic explosion or expulsion from a volcanic vent;

“rhyolite” is a type of felsic lava flow;

“stratabound” means a mineral deposit confined to a single stratigraphic unit;

“stratigraphy” means the science of rock strata;

“synvolcanic” means formed at the time of volcanic activity;

“tuffaceous” is a general term for all consolidated pyroclastic rocks;

“Underlying Royalty” means any royalties on the Claims that are part of the lease, purchase or option of said Claim from the owner or any royalties that may be imposed by the provincial government;

“vein” means a mineral filling of a fault or fracture in the host rock, typically in tabular or sheet-like form;

“VLF-EM” means a very low frequency electromagnetic geophysical instrument used in exploration to measure variances of conductivity in surficial sediments and bedrock;

“volcanic rock” (basalt, pillowed-flows, rhyolite) means an igneous rock that has been poured out or ejected at or near the earth’s surface;

“volcanoclastic rock” (wacke, tuff, turbidite) means a sedimentary rock derived from the transportation and deposition of volcanic rock fragments by air (tuff) or water (wacke or turbidite).

The following is a list of abbreviations used throughout this 10-KSB for technical terms:

|        |                                               |
|--------|-----------------------------------------------|
| Ag     | silver                                        |
| Au     | gold                                          |
| As     | arsenic                                       |
| Cu     | copper                                        |
| g/t Au | grams per tonne gold                          |
| g/t Ag | grams per tonne silver                        |
| g/t    | grams per tonne                               |
| ha     | hectare(s)                                    |
| Hg     | mercury                                       |
| IP/RES | induced polarization and resistivity (survey) |
| kg     | kilogram(s)                                   |
| km     | kilometer(s)                                  |
| m      | meter(s)                                      |
| Mo     | molybdenum                                    |
| NSR    | Net Smelter Return                            |
| oz     | ounce                                         |
| Pb     | lead                                          |
| ppb    | parts per billion                             |
| ppm    | parts per million                             |
| Sb     | antimony                                      |
| sq.    | square                                        |
| VLF-EM | very low frequency electromagnetic (survey)   |
| Zn     | zinc                                          |

The following table sets forth certain standard conversions from Standard Imperial units to the International System of Units (or metric units).

| <b>To Convert From Imperial</b>           | <b>To Metric</b> | <b>Multiply by</b> |
|-------------------------------------------|------------------|--------------------|
| acres                                     | hectares         | 0.404686           |
| feet                                      | meters           | 0.30480            |
| miles                                     | kilometers       | 1.609344           |
| tons                                      | tonnes           | 0.907185           |
| ounces (troy)/ton                         | grams/tonne      | 34.2857            |
| 1 mile = 1.609 kilometers                 |                  |                    |
| 1 yard = 0.9144 meters                    |                  |                    |
| 1 acre = 0.405 hectares                   |                  |                    |
| 2,204.62 pounds = 1 metric ton = 1 tonne  |                  |                    |
| 2,000 pounds (1 short ton) = 0.907 tonnes |                  |                    |
| 1 ounce (troy) = 31.103 grams             |                  |                    |
| 1 ounce (troy)/ton = 34.2857 grams/tonne  |                  |                    |

## **Available Information**

We make available, free of charge, on or through our Internet Web site, our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably practicable after we electronically file such material with, or furnish it to the SEC.

## **ITEM 2. DESCRIPTION OF PROPERTIES**

Our exclusive business is the exploration and development of mineral properties ("Claims") located in the Republic of Argentina. Our interests in the Argentinean Claims are held through MASA and MSC, in which MASA holds a 49% share interest. MASA holds properties and is the company in which the daily business operations in Argentina are conducted. MASA was formed and registered as a mining company in order for us to receive the benefits of the new mining laws in Argentina. Our principal properties are described under the heading "Principal Properties" below.

### **The Degerstrom Agreement**

A number of the Claims were originally held by Degerstrom. Pursuant to the March 1995 Asset and Share Acquisition Agreement among Minera Andes, MASA, NAD S.A. ("NADSA") and Degerstrom (the "Degerstrom Agreement"), Degerstrom transferred its interest in those Claims to NADSA and MASA in consideration for a royalty. Degerstrom also conveyed the MASA and NADSA capital stock it held to us. In consideration for those shares, Minera Andes (i) issued to Degerstrom 4,000,000 Common Shares and the right to acquire an additional 1,213,409 Common Shares if any of the properties comprising the Claims became the subject of a Bankable Feasibility Study, (ii) agreed to pay a royalty on any existing or future properties held by us or our affiliates as described below, and (iii) agreed to pay the aggregate amount of the cost and expenses incurred by Degerstrom on our behalf, from July 1, 1994 through March 15, 1995. Minera Andes also acquired from Brian Gavin, a Minera Andes officer, the shares he held in MASA. In 2001 we sold our interest in NADSA to Degerstrom.

The royalty payable to Degerstrom by MASA would be a percentage of the net smelter return earned on those Claims or any future Claims acquired. The Claims were subject to a royalty equal to the difference between 3% and the Underlying Royalty, subject to a maximum royalty of 2%. If MASA acquired all or part of the Underlying Royalty, the royalty payable, if any, to Degerstrom would not increase. If Degerstrom collected a royalty on any of the Claims held, MASA would at any time have the option, upon giving notice to Degerstrom, to repurchase up to one-half of the royalty payable to Degerstrom upon payment of \$1,500,000, for each 1% of the royalty repurchased.

Minera Andes, MASA, NADSA and Degerstrom also entered into an Operating Agreement, appointing Degerstrom as operator of the Claims and any future Claims acquired in Argentina. Under the terms of the Operating Agreement, Degerstrom operated and managed the exploration program on all properties and provided related offsite administrative assistance as required. In consideration for these operating services, Degerstrom was entitled to reimbursement for its costs of labor, materials and supplies incurred in connection with its services plus an additional 15% of such costs as a management fee. Included in the Operating Agreement were fixed usage rates for the equipment owned by Degerstrom. Degerstrom had the right to terminate the Operating Agreement if we did not maintain a program and budget in excess of Cdn\$300,000 per year. If we elected to develop a property and contract with a third party for development or production, we had to give notice to Degerstrom of the terms and conditions of the proposed arrangement. Degerstrom had the right for a period of 30 days to meet the contract bid by a third party.

On December 2, 2003, the Company, Degerstrom, MASA and MACI entered into a Settlement Agreement to terminate certain agreements in place between the parties, to assign royalties payable to Degerstrom to our wholly owned subsidiary, MACI, and cancel certain obligations payable to Degerstrom for the consideration of US\$500,000. We received TSX-V approval on January 13, 2004, for an effective date of December 31, 2003.

We, as an established exploration company, felt the need to update the arrangements with Degerstrom. At the time that these agreements were signed, Degerstrom was a significant shareholder of ours, however, their shareholdings have been reduced to approximately 10.5% of our issued and outstanding shares at the end of 2003. In addition, the reasons for entering into the Operating Agreement, which included using the established Argentina infrastructure of Degerstrom at the time we were listed, are no longer applicable. We are no longer a newly formed junior public company and have been in existence for ten years. The management and the board of directors thought it was also prudent for corporate governance reasons to separate itself from Degerstrom. As of March 12, 2004, Degerstrom owned 8.3% of our issued and outstanding shares.

### **Terms of the Settlement Agreement**

1. The parties terminated the Operating Agreement effective December 31, 2003. As a result of the termination, we vacated the office space currently provided by Degerstrom under the Operating Agreement. In addition, we have set up our own accounting systems.
2. There is a termination of the lock up agreement that had been previously entered into in the summer of 2003, when we were reviewing potential merger candidates.
3. The parties to the Settlement Agreement acknowledged that the Degerstrom Royalty covered the current properties held by us and our subsidiaries. Degerstrom agreed to assign the Degerstrom Royalty payable under the asset agreement on the current properties to MACI and has agreed to cancel the Performance Right.
4. The consideration for the assignment of the Royalty and cancellation of Performance Right is the payment of \$500,000. In addition, a payment of \$250,000 is payable 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.

## **PRINCIPAL PROPERTIES**

### **I. ARGENTINA**

#### **Recent Mining and Economic History in Argentina**

Argentina is the second largest country in South America, over 2.7 million sq. km in area. In 1983, Argentina returned to a multiparty democracy, which brought to an end nearly a half century of military intervention and political instability. The country then began to stabilize; however, it was not until 1989, with the election of the government under President Carlos Menem, that Argentina's economy began to improve. Menem initiated economic reforms that included the privatization of many state companies and the implementation of the Convertibility Plan, which fixed the Argentine peso to the U.S. dollar at par, fully backed by reserves of foreign exchange, gold and dollar-denominated bonds of the Central Bank of Argentina. Results of the reforms were positive; Argentina's gross domestic product grew at up to 8% per annum in the early 1990s and inflation dropped to between 1% and 3% per annum. However, following a recession in 1999 and 2000, a severe political and economic crisis occurred in late 2001. In early 2002, with five presidents in less than five weeks, the current president, Eduardo Duhalde, chose to

devalue the peso, first to \$1.00 to Peso\$1.40, before allowing the Peso to float in February 2002. The economic reforms associated with the devaluation of the Peso included the conversion of all U.S. dollar denominated contracts into Pesos on a one-to-one basis and all US dollar bank accounts into Pesos. At the beginning of January 2003 the Peso stood at Peso\$3.37 to \$1.00; at the end of December 2003, the peso stood at Peso\$2.93 to \$1.00.

In 1993, the Mining Investments Act instituted a new system for mining investment to encourage mineral exploration and foreign investment in Argentina. Key incentives provided by the Act include guaranteed tax stability for a 30-year period, 100% income tax deductions on exploration costs, accelerated amortization of investments in infrastructure, machinery and equipment, and the exemption from import duties on capital goods, equipment and raw materials used in mining and exploration. Repatriation of capital or transfer of profits is unrestricted. Argentina's mineral resources, administered by its 23 provinces, are subject to a provincial royalty capped at 3% of the "mouth of mine" value of production, although provinces may opt to waive this royalty.

Argentina's mineral potential is largely unexplored, particularly in comparison to that of its immediate neighbors and, as a consequence, information pertaining to the country's resource base is lacking. Copper and gold mineralization discovered to date occurs predominantly in the southern Andean copper belt which extends over 1,000 km through northwestern Argentina. The Bajo de la Alumbrera porphyry copper deposit has been brought onstream. Other copper deposits currently under development include the Agua Rica and El Pachon deposits. In addition, gold deposits are concentrated in the Argentine portion of the Central Andes' Maricunga-El Indio gold belts and in the newly discovered Santa Cruz gold belt in southern Patagonia.

In 1989, fewer than a dozen foreign exploration companies had offices in Argentina; by 1996 there were approximately 60 such companies. Exploration expenditures grew from \$5 million in 1991 to over \$90 million in 1995, but have since shrunk with the prolonged low gold price market. In recent years no more than a handful of exploration companies have been active in Argentina. There has been a very modest resurgence in exploration activity in Argentina.

We initiated gold exploration in Argentina in 1991, in conjunction with Degerstrom. As of December 2003, we had Argentine land holdings totaling 199,875 ha in three Argentine provinces (Figure 1 below). Our exploration efforts initially focused on evaluating prospects generated by 1960's United Nations development exploration programs and on targets generated by satellite image analysis. We developed techniques of processing and interpreting satellite imagery to assist in identifying promising exploration targets. Currently, we are completing exploration work that includes geophysical surveys, mechanical trenching and reverse-circulation drilling on the most advanced targets in our property portfolio, and conducting grassroots exploration to evaluate our other properties and to generate new targets.

### **Property and Title in Argentina**

The laws, procedures and terminology regarding mineral title in Argentina differ considerably from those in the United States and in Canada. Mineral rights in Argentina are separate from surface ownership and are owned by the federal government. Mineral rights are administered by the provinces. The following summarizes some of the Argentinean mining law terminology in order to aid in understanding our land holdings in Argentina.

1. **Cateo:** A cateo is an exploration concession which does not permit mining but gives the owner a preferential right to a mining concession for the same area. Cateos are measured in 500 ha unit areas. A cateo cannot exceed 20 units (10,000 ha). No person may hold more than 400 units in a single province. The term of a cateo is based on its area: 150 days for the first unit (500 ha) and an additional 50 days for each unit thereafter. After a period of 300 days, 50% of the area over four units (2,000 ha) must be dropped. At 700 days, 50% of the area remaining must be dropped. Time extensions may be granted to allow for bad weather, difficult access, etc. Cateos are identified by a file number or "expediente" number. Cateos are awarded by the following process:

- a. Application for a cateo covering a designated area. The application describes a minimum work program for exploration;
- b. Approval by the province and formal placement on the official map or graphic register;
- c. Publication in the provincial official bulletin;
- d. A period following publication for third parties to oppose the claim;
- e. Awarding of the cateo.

The length of this process varies depending on the province, and commonly takes up to two years. Accordingly, cateo status is divided into those that are in the application process and those that have been awarded. If two companies apply for cateos on the same land, the first to apply has the superior right. During the application period, the first applicant has rights to any mineral discoveries made by third parties in the cateo without its prior consent. While it is theoretically possible for a junior applicant to be awarded a cateo, because applications can be denied, we know of no instances where this has happened.

Applicants for cateos may be allowed to explore on the land pending formal award of the cateo, with the approval of the surface owner of the land. The time period after which the owner of a cateo must reduce the quantity of land held does not begin to run until 30 days after a cateo is formally awarded. Our goal is to determine whether our cateos contain commercial grade ore deposits before portions of the cateos must be relinquished. Our ability to do so is dependent upon adequate financing for exploration activities. It is likely that several of our cateos will be relinquished after preliminary exploration because no promising mineral deposits have been discovered.

Until August 1995, a "canon fee", or tax, of Peso\$400 per unit was payable upon the awarding of a cateo. A recent amendment to the mining act requires that this canon fee be paid upon application for the cateo.

2. Mina: To convert an exploration concession to a mining concession, some or all of the area of a cateo must be converted to a "mina". Minas are mining concessions which permit mining on a commercial basis. The area of a mina is measured in "pertenencias". Each mina may consist of two or more pertenencias. "Common pertenencias" are six hectares and "disseminated pertenencias" are 100 ha (relating to disseminated deposits of metals rather than discrete veins). The mining authority may determine the number of pertenencias required to cover the geologic extent of the mineral deposit in question. Once granted, minas have an indefinite term assuming exploration development or mining is in progress. An annual canon fee of Peso\$80 per pertenencia is payable to the province.

Minas are obtained by the following process:

- a. Declaration of manifestation of discovery in which a point within a cateo is nominated as a discovery point. The manifestation of discovery is used as a basis for location of pertenencias of the sizes described above. Manifestations of discovery do not have a definite area until pertenencias are proposed. Within a period following designation of a manifestation of discovery, the claimant may do further exploration, if necessary, to determine the size and shape of the orebody.
- b. Survey ("mensura") of the mina. Following a publication and opposition period and approval by the province, a formal survey of the pertenencias (together forming the mina) is completed before the granting of a mina. The status of a surveyed mina provides the highest degree of mineral land tenure and rights in Argentina.

3. Estaca Minas: These are six-hectare extensions to existing surveyed minas that were granted under previous versions of the mining code. Estaca minas are equivalent to minas. New Estaca minas were eliminated from the mining code in August 1996.
4. Provincial Reserve Areas: Provinces are allowed to withdraw areas from the normal cateo/mina process. These lands may be held directly by the province or assigned to provincial companies for study or exploration and development.

All mineral rights described above are considered forms of real property and can be sold, leased or assigned to third parties on a commercial basis. Cateos and minas can be forfeited if minimum work requirements are not performed or if annual payments are not made. Generally, notice and an opportunity to cure defaults is provided to the owner of such rights.

Grants of mining rights, including water rights, are subject to the rights of prior users. Further, the mining code contains environmental and safety provisions administered by the provinces. Prior to conducting operations, miners must submit an environmental impact report to the provincial government describing the proposed operation and the methods to be used to prevent undue environmental damage. The environmental impact report must be updated biennially, with a report on the results of the protection measures taken. If protection measures are deemed inadequate, additional environmental protection may be required. Mine operators are liable for environmental damage. Violators of environmental standards may be caused to shut down mining operations.

### **Minera Andes Properties**

The sections that follow discuss certain properties that are or have been the subject of joint venture agreements with third parties or that we have more intensively explored.

Figure 1



## **A. San Juan Project Summary Which Includes Los Azules**

### **1. San Juan Project Location**

The San Juan Province Project comprises six properties totaling 37,568 ha in southwestern San Juan province. Elevation ranges from 2,500 m to 5,500 m and moderate to high relief.

### **2. San Juan Area Project Geology**

The project area extends from the western margin of the Cordillera Frontal to the Cordillera Principal. The area is principally underlain by Permo-Triassic Choiyo Group volcanic rocks, a multi-phase igneous sequence comprising volcanic breccias, ignimbrites, tuffs and rhyolites, intruded by granites and overlain by extrusive acidic volcanic rocks. Jurassic continental, marine and volcanic derived sedimentary rocks unconformably overlay Permo-Triassic rocks. The youngest rocks in the project area comprise Tertiary volcanic and intrusive rocks, which are common hosts of epithermal gold mineralization as evidenced by deposits in the Chilean Andes.

### **3. San Juan Project Exploration**

No formal records of previous exploration in the project area exist. Evidence of prospecting (small trenches or pits) exists on some of the cateos. The area is currently active with pre-development work at the El Pachón copper deposit.

The San Juan Province project is a regional reconnaissance program, focused on epithermal gold and gold-copper porphyry targets in the eastern cordillera. All of the lands were acquired based on the results of satellite image analysis. Preliminary field examination, including rock chip sampling and property-wide stream sediment sampling, has been completed on all properties.

Detailed work at Los Chonchones included reconnaissance-scale geologic mapping and geochemical surveys. Results returned a number of anomalous gold and/or copper values in all sample types, scattered throughout the color anomalies and concentrating in the center of the southwest anomaly. Lands are held pending possible joint ventures.

### **4. San Juan Area Project Ownership**

Our lands in San Juan consist of six applications for cateos and 11 manifestations of discovery and total 37,568 ha. 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. Property canon fees for the properties in 2004 are estimated at \$10,175.

### **5. Los Azules Project Geology**

In April 1999, the Company signed an agreement with Battle Mountain Gold Corporation regarding a joint venture on Minera Andes' Los Azules cateo application in Calingasta Department, San Juan. Battle Mountain controlled land contiguous to the Los Azules property. Battle Mountain failed to meet their exploration obligations and subsequently withdrew from the agreement in April of 2000.

The hydrothermal system at Los Azules is an altered area approximately 5 km by 8 km surrounding a core mineralized porphyry target that is about 1 km by 3 km in size. The target straddles the Minera Andes property

boundary where drilling on the adjacent property has revealed copper grades and thicknesses that increase toward the Minera Andes ground and contain up to 0.55% total copper and 2.1gm silver over 143 meters in holes that end in mineralization. Surface sampling on the Minera Andes porphyry target reveals gold values ranging from nil to 0.3 grams gold in a stockwork zone that is leached. The Minera Andes target remains to be tested by drilling.

The 100 percent-owned Los Azules project is 3,418 hectares (8,633 acres) and was discovered by Minera Andes' geologists through regional exploration in the Andes. The project is situated in Argentina near the Argentina/Chile border between two prolific mineral belts that straddle the border and is held as an application for a exploration permit (cateo). To the north of the property, the El Indio gold belt is host to multi-million ounces of gold, and includes significant gold discoveries such as Veladero, Sancarron, Pascua and El Indio-El Tambo. The property lies in a belt of porphyry copper prospects such as El Pachon (Noranda), El Altar (Rio Tinto) and los Piuquenes (Rio Tinto).

## 6. Los Azules Exploration

Minera Andes' geologists discovered the Los Azules property through regional exploration and prospecting using Landsat imaging, mapping and sampling. The acquired land position covers approximately half of a large area of hydrothermal alteration typically associated with mineralized systems. Exploration drilling in 1998 on the northern property boundary by Battle Mountain Gold ("BMG") discovered significant copper intervals (see table below). As exploration drilling progressed south towards Minera Andes' property boundary, copper grades and thickness generally increased. This is due to a change in mineralogy from a pyritic halo into a zone of increasing chalcopyrite indicative of the typical zonation in a porphyry copper system. These results from the adjacent property, along with altered and leached stockwork zones with surface gold anomalies on Minera Andes' ground, point to an at untested porphyry target situated on Minera Andes' ground.

BMG drilled 18 holes on the adjacent property. The three best mineralized copper intervals were located in close proximity to the Minera Andes Los Azules target. Reverse-circulation holes LA04-98, LA06-98, LA08-98 were drilled 1,200 meters, 600 meters, and 220 meters north, respectively, of the BMG-Minera Andes boundary, with all holes open at depth. These holes encountered a barren leached zone from the surface to about 70 to 100 meters followed by an enriched copper oxide zone and then a mixed oxide-sulfide zone to the end of the hole. The holes contain significant copper intervals along with the silver credits listed below.

| Drill Hole                          | Total Depth (m) | Interval (m) | Intercept (m) | Total Cu* (%) | Ag (g/t) |
|-------------------------------------|-----------------|--------------|---------------|---------------|----------|
| LA04-98                             | 250             | 117-250      | 133           | 0.47          | 2.2      |
| LA06-98                             | 250             | 61-250       | 189           | 0.44          | 2.0      |
| Includes:                           |                 | 157-250      | 93            | 0.64          | 2.8      |
| LA08-98                             | 220             | 77-220       | 143           | 0.55          | 2.1      |
| Includes:                           |                 | 103-220      | 117           | 0.61          | 2.3      |
| *Copper oxide plus copper sulfide   |                 |              |               |               |          |
| Note: Holes ended in mineralization |                 |              |               |               |          |

BMG also completed an airborne magnetics survey over the entire Los Azules target area. This work also validates the porphyry target on the Minera Andes ground.

In December 2003 Minera Andes initiated an exploration program at Los Azules. This program will include geologic mapping and sampling, ground magnetic and induced polarization geophysical surveys and a seven hole, 1700 meter core drilling program.

The base of information for Los Azules is taken primarily from an unsigned “Battle Mountain Gold” report, titled “Los Azules Project”, Final Report, dated September 1999, by Battle Mountain Canada Ltd., San Juan, Argentina and includes drilling data presented on Los Azules along with some of the technical information provided to Minera Andes Inc. by Battle Mountain Gold under the terms of a joint venture agreement.

## **B. San José Project Summary**

### **1. San José Project Location**

Formerly known as El Pluma/Cerro Saavedra, the San José property package is located in the Santa Cruz province of Argentina, 230 km southwest of the city of Comodoro Rivadavia, near latitude 46°41'S and longitude 70°17'W. The property consists of one cateo and 46 manifestations of discovery covering a total of 40,449 ha (approximately 404 km<sup>2</sup>).

Road access to the property is good and consists of paved highways to within 80 km and then via a well-maintained gravel road. Topography varies from gently rolling to locally rugged; elevations range from 300 to 700 m above sea level. Most day-to-day supply requirements can be met by the settlements of Las Heras (130 km from the property), Caleta Olivia (250 km from the property) or Comodoro Rivadavia; specialized supplies and equipment must be procured from Buenos Aires, Mendoza, or abroad. Major hydroelectric transmission lines pass within 50 km of the property.

### **2. San José Project Geology**

The project area occurs in the Deseado Massif, a package of Middle to Upper Jurassic volcanic rocks locally overlain by Cretaceous sediments and Tertiary to Quaternary basalts. The Jurassic rocks are divided into the Bajo Pobre Formation, of intermediate composition, and the felsic Bahia Laura Group. The Bahia Laura Group is in turn subdivided into the Chon Aike Formation (dominantly ignimbrites) and the La Matilde Formation (dominantly volcanoclastic rocks). Several potentially important, low sulfidation epithermal deposits have recently been discovered in the massif, including the Cerro Vanguardia deposit which has a reserve of greater than 3.2 Moz Au equivalent. Exploration by a number of companies is ongoing in the massif.

On the San José property the prospective Jurassic stratigraphy is exposed in erosional windows through the overlying sediments and basalts. The Bajo Pobre Formation, the oldest unit, consists of massive andesitic flows, volcanoclastic material and minor dacite. Ignimbrites and lesser sediments tentatively correlated with the La Matilde Formation occur in a synvolcanic subsidence graben known as the Saavedra West basin. Pebble dikes, varying in thickness from one centimeter to ten meters, are common in the southwest part of the Saavedra West basin. Ignimbrites and minor rhyolites of the Chon Aike Formation, younger than the La Matilde basin-fill material, occur as a complicated series of dikes along the bounding faults of the west part of the Saavedra West basin, as a sequence of extrusive ignimbrites at Cerro Celular and in isolated pockets elsewhere in the northern third of the property.

Cretaceous sediments locally overlie the Jurassic volcanics. Poorly exposed over most of the property, these sediments are up to 50 m thick in the northern part of the project area. The youngest rocks are Tertiary to Quaternary basalts which form cliffs up to ten meters high and extensive plateaus. Approximately 60% of the property is covered by five to 50 meters of post-mineralization, Cretaceous to Quaternary rocks.

The San José project contains a variety of target areas, the two most important of which are Huevos Verdes and Saavedra West.

Huevos Verdes is a system of en echelon, variably mineralized, north-northwest trending quartz veins with associated strong argillic alteration, cutting the Bajo Pobre Formation. In this area, the Bajo Pobre Formation consists of massive and fragmental andesite. The vein system occurs over a strike length of at least 2.2 km and possibly as much as 3.5 km. The central and northwest parts of the system are covered by Cretaceous tuffs and sediments and locally by Tertiary basalt; geophysical work has confirmed the continuity of the system below cover. Mineralized quartz veins with true thicknesses up to 11 meters (36.1') have been intersected in drill holes and trenches over the entire length of the Huevos Verdes vein system.

Saavedra West is interpreted as a synvolcanic graben developed within the Bajo Pobre Formation, and infilled by pyroclastic and lesser sedimentary rocks correlated with the La Matilde Formation. Pebble dikes are abundant within the graben and ignimbrites that may be correlative with the Chon Aike Formation occur as dikes. At Saavedra West mineralization occurs in a 200 m section of epithermal quartz vein, and an ovoid-shaped, 20 meter by 60 meter high-grade breccia zone immediately adjacent to the vein.

Additional targets on the property are associated with four structural trends. These trends are defined by geophysical anomalies, intermittently exposed vein, breccias, and vein float, with high-grade gold/silver values over a total of more than 30 km of potential strike length. These features are consistent with a large, partially eroded epithermal low sulfidation precious metals mineralized system.

### **3. San José Project Exploration**

Santa Cruz is one of Argentina's least well-explored provinces. The area was explored under the Argentine government-United Nations regional exploration Plan Patagonia-Comahue in the 1970s. In the 1980s, FOMICRUZ, S.E., a state owned company, completed reconnaissance surveys in the province to delineate areas of interest for mineral reserves.

The San José property has not previously been staked. There is no record of any previous sustained exploration, although portions of the area may have been sampled during at least one regional reconnaissance program.

Work in 2002, conducted by MHC (see "San José Project Ownership" below), consisted of core drilling, trenching, geological and geophysical surveys, surveying and metallurgical studies. Work on the property from 1997 to 2001 by Minera Andes and from 2001 to the present by MHC has consisted of the following:

|                               |                               |
|-------------------------------|-------------------------------|
| Reverse circulation drilling: | 83 holes for 8,295 meters     |
| Core drilling:                | 50 holes for 7,850 meters     |
| Trenching:                    | 201 trenches for 8,852 meters |
| Rock sampling:                | 3450 samples                  |
| Soil sampling:                | 2302 samples                  |
| Stream sediment sampling:     | 368 samples                   |
| CSAMT geophysics:             | 42 line kilometers            |
| Gradient array I.P.:          | 183.7 line kilometers         |
| RealSection I.P.:             | 23.5 line kilometers          |
| Ground magnetic surveys:      | 186 line kilometers           |

Recent exploration at San José has resulted in the discovery of high-grade gold-silver mineralization in drill holes at Huevos Verdes East (2 km northeast of the resource area at Huevos Verdes). This new high-grade zone is defined by three drill holes with the best drill intercept in the new zone averages 1.57 opt (53.75 g/t) gold and 50 opt (1,711.6 g/t) silver over 1.04 m in drill hole SJD-31. This intercept is part of a larger 41 ft (12.5 m) interval with multiple zones of high-grade gold/silver mineralization.

Additionally, three new zones of gold/silver mineralization were recently discovered at the Aguas Vivas area located on trend about 10 km to the northwest of Huevos Verdes. The location and style of mineralization at Aguas Vivas suggests it may be a northwestern extension of the Huevos Verdes/El Pluma mineralized trend. The sample, taken from both vein outcrop and float, yielded results ranging from nil to 14.3 g/t gold and 45.6 g/t silver.

During 2003, surface work was completed by MHC in preparing the site for the underground exploration program. Land was purchased from private land owners, right of way agreements were obtained, and a 27 km all-weather road to provide year-round access to the mine site was constructed.

Exploration work is ongoing and will include detailed topographic surveys, and detailed mapping and sampling.

The underground exploration work currently underway includes the sinking of two 45-degree angle decline shafts and the construction of tunnels or galleries on two levels of the main Huevos Verdes vein. The immediate objective is to define a minable ore reserve through bulk sampling and drilling on these two levels. This is an essential step prior to considering the mine development decision. It is estimated that the length of the galleries that will permit exploration along the vein will initially be approximately 2,270 m (about 7,500 feet).

#### **a. Mineralized Material**

We are reporting these results as mineralized material. Mineralized material does not represent proven and probable reserves because even though enough drilling and trenching indicate a sufficient amount and grade to warrant further exploration or development expenditures, these mineral deposits do not qualify under the U.S. Securities and Exchange Commission standards as being commercially minable until further drilling, metallurgical work and other economic and technical feasibility factors based upon such work are resolved. We report mineralized material on the basis that the potential exists for reclassification of significant amounts of this material to reserves following additional drilling and/or final technical, economic, and legal factors have been determined for the project.

An estimate was done under contract for Minera Andes by Snowden Mining Industry Consultants Inc. ("Snowden"). Snowden, an internationally recognized consulting engineering firm headquartered in Australia, provided a report dated July 26, 2002 authored by Robert Cinits, P.Geo., and Steven Blower, P. Geo., pursuant to Canadian National Instrument 43-101 (the "Report"). The Snowden staff based in Vancouver, B.C. completed the study. The Report was previously filed on SEDAR on August 16, 2002 and is available for review on their Web site.

Our summary of this study indicates mineralized material containing 922,600 gold equivalent ounces or 55.4 million silver equivalent ounces above a 50 g/t silver cutoff grade from the Huevos Verdes and the Saavedra West areas of the San José project. (Au equivalent is based upon \$300 gold and \$5.00 silver prices, or a 60:1 silver/gold ratio, which does not take into consideration possible differences in metal recoveries.)

**i. Huevos Verdes Mineralized Material**

In a 2.2 km section of epithermal vein at Huevos Verdes Snowden estimated mineralized material to total 3,584,000 tonnes grading 235.3 g/t silver and 2.72 g/t gold using a cutoff grade of 50 g/t Ag. Table 1 summarizes the classified mineralized material estimate for the Huevos Verdes zone at various silver cutoff grades.

| <b>Table 1. Huevos Verdes Mineralized Material</b>                                                                                                                                 |                               |                       |                       |                             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------|-----------------------|-----------------------------|
| <b>Ag Cutoff (g/t)</b>                                                                                                                                                             | <b>Tonnage Tonnes (x1000)</b> | <b>Ag Grade (g/t)</b> | <b>Au Grade (g/t)</b> | <b>Au Equivalent* (g/t)</b> |
| 750                                                                                                                                                                                | 163                           | 884.1                 | 8.88                  | 23.61                       |
| 500                                                                                                                                                                                | 381                           | 725.2                 | 7.50                  | 19.59                       |
| 250                                                                                                                                                                                | 1073                          | 475.1                 | 5.03                  | 12.95                       |
| 200                                                                                                                                                                                | 1536                          | 399.4                 | 4.16                  | 10.82                       |
| 150                                                                                                                                                                                | 2100                          | 339.4                 | 3.70                  | 9.36                        |
| 100                                                                                                                                                                                | 2599                          | 297.6                 | 3.34                  | 8.30                        |
| 50                                                                                                                                                                                 | 3584                          | 235.3                 | 2.72                  | 6.64                        |
| (*) Au equivalent is based upon \$300 gold and \$5.00 silver prices, or a 60:1 silver/gold ratio, which does not take into consideration possible differences in metal recoveries. |                               |                       |                       |                             |

The estimate of mineralized material was based on drilling by Minera Andes and MHC. To date, 32 of 53 holes drilled in four campaigns at Huevos Verdes have intersected high-grade gold and silver mineralization over potentially mineable widths. This drilling is confined to approximately 2.2 kilometers of the known 5 kilometers of strike length for the Huevos Verdes vein, which remains open at depth and along strike. The Huevos Verdes vein is one of four vein targets with a combined potential strike length of over 20 km.

**ii. Saavedra West Mineralized Material**

The gold/silver mineralization currently identified at Saavedra West is comprised of: 1) a 200 m section of epithermal quartz vein, and 2) an ovoid-shaped, 20 meter by 60 meter high-grade breccia zone immediately adjacent to the vein. Snowden estimated mineralized material to total 961,000 tonnes grading 245.9 g/t silver and 1.00 g/t gold, using a cutoff grade of 50 g/t Ag. Table 2 summarizes the classified mineralized material estimate at various silver cutoff grades.

| <b>Table 2. Saavedra West Mineralized Material</b>                                                                                                                                 |                               |                       |                       |                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------|-----------------------|----------------------------|
| <b>Ag Cutoff (g/t)</b>                                                                                                                                                             | <b>Tonnage Tonnes (x1000)</b> | <b>Ag Grade (g/t)</b> | <b>Au Grade (g/t)</b> | <b>Au Equivalent (g/t)</b> |
| 750                                                                                                                                                                                | 34                            | 807.9                 | 6.04                  | 19.51                      |
| 500                                                                                                                                                                                | 85                            | 683.8                 | 4.49                  | 15.89                      |
| 250                                                                                                                                                                                | 305                           | 447.0                 | 2.45                  | 9.90                       |
| 200                                                                                                                                                                                | 556                           | 342.3                 | 1.58                  | 7.28                       |
| 150                                                                                                                                                                                | 657                           | 317.0                 | 1.36                  | 6.65                       |
| 100                                                                                                                                                                                | 794                           | 283.5                 | 1.19                  | 5.92                       |
| 50                                                                                                                                                                                 | 961                           | 245.9                 | 1.00                  | 5.10                       |
| (*) Au equivalent is based upon \$300 gold and \$5.00 silver prices, or a 60:1 silver/gold ratio, which does not take into consideration possible differences in metal recoveries. |                               |                       |                       |                            |

## **b. Metallurgical Studies**

Metallurgical test work, commissioned by MHC tested 485 kg of material composed of drill cuttings from 17 reverse-circulation holes containing high-grade gold and silver from the Huevos Verdes vein. The test work and report was completed by TECSUP in Lima, Peru, a private technology institute that performs research, training, and commercial work for the mining industry. TECSUP receives support and funding from the Peruvian mining industry, including MHC. The metallurgical samples were collected so as to be representative of the mineralized material at Huevos Verdes described above.

A total of 37 samples were collected totaling 485 kg of high-grade gold/silver mineralization representative of the estimated resource at Huevos Verdes. Before combining into a bulk sample the individual samples were crushed and a 1 kg sample was extracted and blended with the other extracted samples to create the representative composite sample. Fire assay was used to define the metal recoveries.

Gravity concentration, flotation and chemical cyanide leaching tests were conducted on the samples. The best recoveries are from the combined flotation and leaching tests with total gold recoveries of 94.0%, and silver, 92.1%. Gravimetric concentration combined with cyanide leaching gives a recovery of 94.2% gold and 89.2% silver. Recovery efficiency and cost reduction benefits are likely to be enhanced during process optimization, as the mineralized material has a simple mineralogical composition and is low in sulfides and detrimental compounds.

## **4. San José Project Ownership**

The San José project area is made up of one cateo and 46 manifestations of discovery totaling 40,499 ha. The cateos are located in the western half of the province of Santa Cruz. All of the cateos are controlled 100% by Minera Santa Cruz S.A., a holding and operating company set up under the terms of the agreement with MHC. Any production from these lands may be subject to a provincial royalty. Holding costs for 2004 are estimated to be \$12,000.

On March 15, 2001, we signed an option and joint venture agreement with MHC for the exploration and possible development of Minera Andes' epithermal gold-silver exploration land package at El Pluma/Cerro Saavedra (now referred to as the San José project), including Huevos Verdes.

Under the agreement, MHC could earn a 51% ownership in the JV by spending a total of \$3 million in three years, and a minimum of \$100,000 per year on exploration targets within the JV other than Huevos Verdes, the most advanced prospect. In addition, MHC will make semiannual payments totaling \$400,000 per year until pilot plant production is achieved. Lands have been transferred to a holding and operating company, MSC, which is owned 49% by MASA.

Once MHC vested at 51% ownership, we had the option of participating in the development of a pilot production plant that would process a minimum of 50 tons per day (tpd). We could participate on either a pro-rata basis, or by choosing to retain a 35% "carried" ownership interest. Upon the successful completion and operation of the 50 tpd plant, we would have the option of participating on a pro-rata basis, or choosing a 15% interest in return to being "carried" to first production of 500 tpd. Failure by either party to contribute to work programs will result in simple dilution of that party's interest in the project.

On May 6, 2003 we received notice from MHC pursuant to the option agreement with MHC that it had completed \$3,000,000 in expenditures and would vest 51% in the San José project.

On July 1, 2003, MHC acquired 51% of the issued and outstanding shares of MSC pursuant to the option agreement with MHC.

On July 24, 2003 we announced that MSC has a planned exploration program and budget which covers a 17-month period to November 2004 and will consist of a comprehensive program that includes underground exploration/development, environmental studies, metallurgical studies, and construction and commissioning of a pilot plant at the Huevos Verdes vein area. In addition, a program of geophysics, surface sampling and drilling is planned for targets at the San José project, other than Huevos Verdes. The program is budgeted at \$12.2 million as follows:

Additional exploration at San José: \$2.0 million

Underground exploration and reserve development at Huevos Verdes: \$4.2 million

Metallurgical testing and pilot plant construction at Huevos Verdes: \$6.0 million

The planned extensive surface exploration program includes 220 line-kilometers of geophysical surveys, which will precede an exploration drilling program. The drill program scheduled for March 2004 will focus on identified targets other than Huevos Verdes. This drill program will consist of approximately 7,000 m (22,960) feet of diamond drilling to further assess at least four of the approximately ten known targets, with the goal of discovering other potential ore bodies within San José.

At Huevos Verdes, MHC, as operator of the project, is currently constructing two inclined shafts and a series of workings (4,259 m in total) on two levels to facilitate underground exploration with the goal of upgrading the existing gold-silver resource to the reserve category. Metallurgical testing and pilot plant construction and mining of plant feed are planned for March to September 2004.

On September 11, 2003 we notified MHC that we opted to retain our 49% ownership in MSC.

## **C. Santa Cruz Project Property Summary**

### **1. Santa Cruz Project Location**

Minera Andes currently holds 17 cateos and 30 manifestations of discovery in the Deseado Massif region of Santa Cruz. These properties are located at moderate elevations (300 to 1,000 m above sea level). Topography varies from gently rolling to locally rugged. The Deseado Massif is a cold desert. Access to the properties is by dirt road and trail.

### **2. Santa Cruz Project Geology**

The project area covers the Deseado Massif, a package of Middle to Upper Jurassic volcanic rocks locally overlain by Cretaceous sediments and Tertiary to Quaternary basalts. The Jurassic rocks are divided into the Bajo Pobre Formation, of intermediate composition, and the felsic Bahia Laura Group. The Bahia Laura Group is in turn subdivided into the Chon Aike Formation (dominantly ignimbrites) and the La Matilde Formation (dominantly volcanoclastic rocks). Several potentially important, low sulfidation epithermal deposits have recently been discovered in the massif, including the Cerro Vanguardia deposit which has a reserve of greater than 3.2 million oz Au equivalent. Exploration by a number of companies is ongoing in the massif.

### **3. Santa Cruz Project Exploration**

Santa Cruz is one of Argentina's least well-explored provinces. The area was explored under the Argentine government-United Nations regional exploration Plan Patagonia-Comahue in the 1970s. In the 1980s,

FOMICRUZ, S.E., a state owned company, completed reconnaissance surveys in the province to delineate areas of interest for mineral reserves.

Minera Andes has been actively exploring in the region since 1997. The properties have been acquired on the basis of geologic and geochemical reconnaissance. Geologic evaluation of these grassroots targets is ongoing.

#### **4. Santa Cruz Project Ownership**

We currently control 17 cateos and 30 manifestations of discovery (totaling 80,398 ha) in Santa Cruz province. Land holding costs for 2004 are estimated at \$8,000.

### **D. Chubut Project Property Summary**

#### **1. Chubut Project Location**

We currently hold 12 cateos and 19 manifestations of discovery in the Precordilleran and Patagonian Massif regions of Chubut totaling 41,460 ha. These properties are located at moderate elevations (300 to 1000 m above sea level) in central and western Chubut. Access to the properties is by dirt road and trail.

#### **2. Chubut Project Geology**

Jurassic-Cretaceous volcanic terranes have been the focus of exploration in the southern Chilean Cordillera over the past decade. These rocks are potential hosts of epithermal gold and gold rich replacement deposits attested to by the discoveries, in Chile, at Fachinal (epithermal Au-Ag), El Toque (base metal, stratabound replacement deposit with a minor precious metal credit) and, in Argentina, the Esquel Project. This high-grade vein system contains an announced resource of 4.2 million ounces of gold, and 7.8 million ounces of silver. In Argentina, rocks of the same age and type occur in both Andean and extra-Andean Patagonia. These areas are relatively unexplored.

#### **3. Chubut Project Exploration**

Chubut was included in the United Nations and Argentina government's Plan Patagonia-Comahue exploration program in the 1960s and 1970s. This campaign delineated several prospects with weak to moderate base metal anomalies. The samples were not analyzed for their precious metal content.

In 1997, Minera completed reconnaissance surface sampling and mapping on five properties in the western Chubut province. This work indicates the potential for mineralized epithermal and porphyry or intrusive-related systems.

At the El Valle property, the initial exploration located a north-northeast trending zone of illitic alteration and mineralization about 1.5 km wide and three km long. Numerous northwest and northeast trending veins, some up to five meters wide and more than 500 m long, have also been located in tuffaceous rocks within the zone of alteration. The zone is open to the west and south under Quaternary alluvium in valleys, and open-ended to the north and east under Quaternary alluvium and post-mineral Tertiary basalt.

Results from the 40-sample reconnaissance program on this property show gold values ranging from below detection limit to 14.6 g/t. Several high values, above 3 g/t gold, are from outcrops and float from multistage epithermal quartz veins. Some of the samples with low gold values show strongly anomalous pathfinder elements

such as mercury (in the low 2,000 to 13,000 ppb range) that may indicate higher levels in the gold system. No exploration was done at El Valle in 2002 or 2003.

On the basis of fixed-wing overflights and general geological reconnaissance, an additional ten cateos were acquired in late 2002 in the northern Patagonian Massif and Precordilleran regions of Chubut. Expenditures in 2003 relate to an ongoing reconnaissance exploration program on these lands. A similar level of expenditure is planned for 2004.

#### **4. Chubut Project Ownership**

We currently control 12 cateos and 19 manifestations of discovery, totaling 41,460 ha, in Chubut province.

In August 2000, Minera Andes Inc. and Brancote Holdings PLC subsidiaries signed an agreement to purchase two of Minera Andes' gold exploration properties in Chubut province, southern Argentina. The agreements cover the Willimanco, Leleque and Leon properties. Brancote's Argentine subsidiaries, Minera El Desquite S.A. and Cordon Leleque S.A., had a four-year option to purchase Willimanco and Leleque (and adjoining Leon properties) for a combined total of \$1.25 million and a 2% net smelter return royalty. Following the acquisition of Brancote Holdings PLC by Meridian Gold Inc., Minera Andes completed the sale to Meridian Gold of the Willimanco, Leleque and Leon properties for US\$720,000 and Peso\$200,000 for an approximate total of US\$777,000.

#### **Summary**

The above disclosure on our properties has been prepared by, and/or reviewed by Brian Gavin, Vice President-Exploration of Minera Andes Inc. and a "qualified person" within the meaning of Canada's National Instrument 43-101.

#### **ITEM 3. LEGAL PROCEEDINGS**

We are not currently aware of any material legal proceeding, actual, contemplated or threatened, to which we are a party or of which any of our property interests is subject.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2003.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our Common Shares are listed on the TSX Venture Exchange ("TSX-V") under the trading symbol MAI and, since November 5, 1997, the Common Shares have also been quoted on the NASD's OTC Bulletin Board over-the-counter market under the trading symbol MNEAF.

The high and low prices for the Common Shares reported by the TSX-V for each of the quarters during the years ended December 31, 2003 and 2002 are set forth in the table below:

|      |                    | High (\$Cdn) | Low (\$Cdn) |
|------|--------------------|--------------|-------------|
| 2002 | January - March    | 0.16         | 0.08        |
|      | April - June       | 0.44         | 0.13        |
|      | July - September   | 0.48         | 0.29        |
|      | October - December | 0.44         | 0.25        |
| 2003 | January - March    | 0.55         | 0.25        |
|      | April - June       | 0.31         | 0.25        |
|      | July - September   | 0.43         | 0.24        |
|      | October - December | 0.65         | 0.31        |

The high and low prices for the Common Shares reported for the OTC Bulletin Board for each of the quarters during the years ended December 31, 2003 and December 31, 2002 are set forth in the table below:

|      |                    | High (\$US) | Low (\$US) |
|------|--------------------|-------------|------------|
| 2002 | January - March    | 0.10        | 0.06       |
|      | April - June       | 0.29        | 0.08       |
|      | July - September   | 0.32        | 0.19       |
|      | October - December | 0.30        | 0.18       |
| 2003 | January - March    | 0.35        | 0.18       |
|      | April - June       | 0.25        | 0.18       |
|      | July - September   | 0.32        | 0.18       |
|      | October - December | 0.51        | 0.24       |

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

As of December 31, 2003, there were approximately 366 holders of record of our Common Shares. No dividends have ever been paid on our Common Shares, and we intend to retain any earnings for use in the business and do not expect to pay dividends in the foreseeable future.

At December 31, 2003, 929,000 options were available for grant under our stock option plan ("the Plan"). The aggregate number of shares to be delivered upon exercise of all options granted under our stock options plan shall not exceed 20% of our issued and outstanding Common Shares up to a maximum of 6,000,000 shares. No participant

may be granted an option under the Plan which exceeds the number of shares permitted to be granted pursuant to rules or policies of any stock exchange on which the Common Shares is then listed.

Under the Plan, the exercise price of the shares covered by each option shall be determined by the directors and shall be not less than the closing price of our Common Shares on the stock exchange or stock exchanges on which the shares are listed on the last trading day immediately preceding the day on which the stock exchange is notified of the proposed issuance of option, less any discounts permitted by the policy or policies of such stock exchange or stock exchanges. If an option is granted within six months of a public distribution of our Common Shares by way of prospectus, then the minimum exercise price of such option shall, if the policy of such stock exchange or stock exchanges requires, be the greater of the price determined pursuant to the provisions of the Plan and the price per share paid by the investing public for our Common Shares acquired by the public during such public distribution, determined in accordance with the policy of such stock exchange or stock exchanges. Options granted under the Plan will not be transferable and, if they are not exercised, will expire one (1) year following the date the optionee ceases to be director, officer, employee or consultant of Minera Andes by reason of death, or ninety (90) days after ceasing to be a director, officer, employee or consultant of Minera Andes for any reason other than death.

#### **EQUITY COMPENSATION PLAN INFORMATION**

| <b>Plan Category</b>                                       | <b>No. of securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>No. of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b> |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>(a)</b>                                                 | <b>(b)</b>                                                                                      | <b>(c)</b>                                                                         |                                                                                                                                                 |
| Equity compensation plans approved by security holders     | 4,408,500                                                                                       | Cdn\$0.47                                                                          | 929,000                                                                                                                                         |
| Equity compensation plans not approved by security holders | --                                                                                              | --                                                                                 | --                                                                                                                                              |
| <b>Total</b>                                               | <b>4,408,500</b>                                                                                | <b>Cdn\$0.47</b>                                                                   | <b>929,000</b>                                                                                                                                  |

#### **Recent Sale of Unregistered Securities**

On November 13, 2003, we sold 22,000,000 units to accredited investors at a price of Cdn\$0.30 per unit for an aggregate of Cdn\$6,600,000 (US\$5,023,978). 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\$0.50 per share for a period of 60 months from the closing date. The agents for the offering were Canaccord Capital Corporation and Dundee Securities Corporation, with offers and sales in the United States made by Canaccord Capital U.S.A. The agents received cash commissions of 7% of the gross proceeds and agents' warrants for the purchase of 2,200,000 common shares (10% of the aggregate number of units sold in the offering) at an exercise price of Cdn\$0.35 per common share for a period of 24 months from the date of issue. In reliance on Rule 903 of Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), units were offered and sold to purchasers outside of the United States subject to Category 2 offering restrictions,

without any directed selling efforts. In reliance on Rule 506 of Regulation D under the Securities Act, units were also offered and sold, 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.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS**

The following discussion should be read in conjunction with our audited consolidated financial statements and notes thereto for the years ended December 31, 2003 and 2002 which have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Differences from U.S. GAAP are described in Note 10 to the audited consolidated financial statements. Our financial condition and results of operations are not necessarily indicative of what may be expected in future years.

### **Overview**

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

Our principal business is locating, acquiring, exploring, and, if warranted, developing mineral properties located in the Republic of Argentina. From 1997 through 2000, we were also active in Colombia and Romania but elected to abandon the properties in these countries at the end of 2000. We carry out our business by acquiring, exploring, and evaluating mineral properties through our ongoing exploration program, and either joint-venturing or developing these properties further, or disposing of them if the properties do not meet our requirements.

Our current properties and projects consist of mineral rights and applications for mineral rights covering approximately 199,875 hectares in three Argentine provinces. The lands comprise option-to-purchase contracts, exploration, and mining agreements and direct interests through our filings for exploration concessions. Our properties are all early stage exploration prospects, except for the San José property, which is an advanced-stage exploration project. No proven or probable reserves have yet been identified. See "Description of Properties."

Through our subsidiaries and joint ventures we own a 49% equity interest in MSC, which owns the San José gold/silver property in Southern Argentina, and a 100% interest in over 10 mineral properties in Argentina. San José is currently in advanced exploration and underground development and a production decision is expected in the second half of 2004.

### **Critical Accounting Policies**

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

deferred development costs. Other accounting policies are disclosed in Note 2 of Notes to Consolidated Financial Statements.

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

### **Business Strategy and Development**

Our business and development strategy since our inception in 1994 has been to focus primarily on the acquisition and development of exploration stage gold/silver and copper properties in Argentina and on the exploration and development of these properties. Our current portfolio of properties consists of mineral rights and applications for mineral rights, covering approximately 199,875 hectares in three provinces in Argentina.

We carry out 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. We have one advanced stage exploration property, the San José property, and several early stage exploration properties with no proven or probable reserves currently identified.

Given our developing mineral resource at San José, our partner, who owns a 51% interest in the project is currently carrying out technical studies to define a mineable reserve. At the San José project, our partner commenced underground exploration in 2003, and now expects to reach a production decision in the second half of 2004. If the production decision is positive we could attain gold production commencing in 2005. However, there can be no assurance that production decision will be positive and start-up can be completed as anticipated or that our production will be achieved.

Our objective is to grow our business to become a gold/silver producer over the next few years and to add new properties that have the potential to become profitable, producing mines. Due to higher gold prices and our improved financial condition, we believe we are well placed to pursue the acquisition or development of exploration properties in Argentina. We are actively investigating potential acquisition of new mineral exploration properties. However, we presently have no agreement or understanding with respect to any potential transaction. We have increased exploration activities and expenditures on our current exploration properties in Argentina.

### **Overview of 2003**

Our financial condition showed an improvement during 2003 through the raising of funds through equity financing. Cash and cash equivalents at the end of 2003 was \$2.2 million, an increase of \$1.2 million from the end of 2002. Equity offerings and warrant and option exercises provided a net of \$4.8 million during the year. In addition, several other significant milestones were achieved during 2003:

- We completed public equity offerings which provided a net \$4.7 million;
- We funded and maintained our 49% interest in the San José project;

- We acquired several new exploration land packages in southern Argentina;
- Our partner in the San José project initiated an underground exploration program on the Huevos Verdes vein and continued engineering and geologic studies of the economic potential of the property;
- We purchased an underlying royalty on the San José project, and canceled the Operating Agreement and production bonus;
- In December we started an exploration program to drill our Los Azules porphyry copper/gold project in San Juan province Argentina, and;
- We continued to pursue new growth opportunities.

### **Trends Affecting our Operations During 2003**

Gold prices have now trended generally upward for nearly three years from a low of \$256 in early April 2001 to \$395 per ounce at March 12, 2004, an average annual increase of 16%. The higher gold price increased our ability to equity finance during 2003.

The market for gold company equities generally strengthened during 2003. Our common share price began the year at \$0.29 and ended the year at \$0.42. The increased interest in investing in gold and gold mining companies during the past two years has made exploration and development capital more readily available. As a result, we successfully raised \$4.8 million of new equity funds during 2003 including option and warrant exercises. We used portions of the cash to make joint venture payments, acquire new exploration properties in Argentina, buy back royalties on future metal production and to fund exploration and development activities at the San José project and other projects in our property portfolio. In 2004 we anticipate using our cash to maintain our interest in the San José project, and to fund other exploration activities and for other general corporate purposes. We also expect we will have to raise additional funds to maintain our programs and interest in the San José project.

### **Plan of Operations**

We have budgeted and plan to spend approximately \$2.5 million on our mineral property and exploration activities and general and administrative expenses through 2004, with work being conducted on several properties including an ongoing reconnaissance program designed to make new acquisitions. See "Description of Properties." In addition, there are plans to spend in excess of \$5 million for exploration over the next 12 months on the San José project that is owned by MSC, an Argentine corporation owned by Minera Andes Inc. (49%) and MHC (51%). To maintain our 49% interest in MSC we will need to raise additional funds in 2004. 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 2004 through the exercise of warrants or options, through a further equity financing, by the sale of property interests or by joint venture financing, additional exploration would be planned and carried out on our properties before year-end. 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.

The Company has working capital of approximately \$2.3 million, sufficient, together with funds from the joint venture on the San José property, as estimated by management, to cover its budgeted expenditures for mineral property and exploration activities on its properties outside the San José project in Argentina, and general and administrative expenses through at least the end of 2004.

On March 15, 2001, we signed an option and joint venture agreement with MHC, Lima, Peru, for the exploration and possible development of Minera Andes' 217,000-acre (88,000 hectares) epithermal gold-silver exploration land package in southern Argentina. The land package, known as San José (formerly El Pluma/Cerro Saavedra), includes Huevos Verdes, a high-grade gold/silver vein system target, and Minera Andes' most advanced exploration prospect.

Under the agreement, MHC could earn a 51% ownership in the JV by spending a total of \$3 million in three years, and a minimum of \$100,000 per year on exploration targets within the JV, other than Huevos Verdes, the most advanced prospect. In addition, MHC will make semiannual payments totaling \$400,000 per year until pilot plant production is achieved. To date, MHC has made all required payments.

On May 6, 2003, we received notice from MHC that, according to their records, they have fulfilled all obligations necessary to enable MHC to vest at 51% in the San José project, including all obligations under section 4.1.2 of the Option and Joint Venture Agreement dated March 15, 2001 (see Item 2 in the 2002 Form 10-KSB and Exhibit 10.19 to the 2000 Form 10-KSB). The Company has reviewed and accepted the information submitted by MHC.

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

In the fourth quarter 2003, we notified MHC of our intent to subscribe for additional equity in MSC, so as to maintain our 49% interest. We made a payment to MSC of \$1.7 million that will fund our 49% interest in the San José project through MSC until about April of 2004.

Effective December 31, 2003, we entered into an agreement with Degerstrom that cancelled an agreement that was part of the original property assets vended into Minera Andes. Terms of the Settlement Agreement are:

- The Operating Agreement was cancelled whereby management, accounting, office and technical services were provided to us;
- A share bonus payable when a property reached a bankable feasibility was cancelled;
- A potential underlying royalty on the San José project was also purchased.

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

In September 2003, Allan J. Marter, a financially competent person on the audit committee, resigned from the board of directors due to other obligations. To supplement his financial expertise, we utilized financial consultants, and we are seeking to add a new financial person to the board of directors.

## **Results of Operations**

### **2003 compared to 2002**

In 2003, our net loss was \$1.5 million (4 cents per share), compared with a net income of \$0.4 million (1 cent per share) in 2002. Our general and administrative costs were \$1.5 million in 2003 compared to \$0.5 million in 2002. The following table summarizes the significant changes in operations in 2003 compared to 2002.

| <u>Description</u>            | <u>2003</u> | <u>2002</u> |
|-------------------------------|-------------|-------------|
| Consulting Fees <sup>1</sup>  | \$ 418,730  | \$ 99,696   |
| Foreign Exchange <sup>2</sup> | \$ (74,005) | \$ 24,225   |
| Insurance <sup>3</sup>        | \$ 17,598   | \$ 5,319    |
| Legal <sup>4</sup>            | \$ 199,133  | \$ 55,504   |
| Office Overhead <sup>5</sup>  | \$ 148,345  | \$ 59,355   |
| Telephone <sup>6</sup>        | \$ 28,869   | \$ 9,293    |
| Travel <sup>7</sup>           | \$ 58,777   | \$ 22,446   |

Notes:

- (1) There were additional consultants hired in 2003 to negotiate corporate strategy and merger and acquisition strategy. We also increased our public and investor relations program, which increased consultant fees. In addition, stock option compensation is expensed to consulting fees.
- (2) We realized a gain in foreign exchange compared to a loss last year. This is mostly related to the effect of a weakening U.S. dollar offset by the associated impact on the value of cash equivalents invested in Canadian dollar instruments.
- (3) We increased our directors and officers insurance in 2003 and there was also a substantial increase in our general liability insurance.
- (4) Legal expenses increased this year due to merger and acquisition negotiations and the maintenance of our joint venture.
- (5) Office overhead increased due to public and investor relation expense and moving our corporate headquarters.
- (6) Telephone expense increased due to the addition of more consultants. In addition, merger and acquisition activities increased our phone expense.
- (7) Travel expense increase was related to the public and investor relations program, equity financing and merger and acquisition activities.

In 2004 we will be continuing the prospecting, acquisition, exploration and evaluation of property interests that have been our hallmark since our inception, and we will focus on the Santa Cruz, Chubut and San Juan properties. As in the past, if a property or program does not meet our requirements in the future, costs associated with abandonment of the property or program will result in a charge to operations. For this reason, we may incur additional write-offs in future periods, although the amounts of such write-offs are difficult to predict, as they will be determined by the results of future exploration activities.

Mineral property and deferred exploration costs in 2003 amounted to \$0.5 million compared to \$0.3 million in 2002. We focused nearly all our available exploration resources on the San José project in Santa Cruz province during 2003, and the success of the exploration carried out on these properties over the last few years resulted in the joint

venture arrangement which was signed March 15, 2001. We received mineral property option proceeds of \$400,000 from the joint venture in 2003 and in 2002. In 2002, we sold two of our Chubut properties (Willimanco and Leleque) to Meridian Gold Inc. for \$777,142. The properties were related to the purchase and sales agreement with Brancote Holding PLC, which merged with Meridian Gold Inc. in 2002. Meridian Gold Inc. became the surviving entity of the merger.

The following table summarizes the significant changes in exploration expense for 2003 compared to 2002.

| <u>Description</u>            | <u>2003</u> | <u>2002</u> |
|-------------------------------|-------------|-------------|
| Consulting Fees <sup>1</sup>  | \$ 108,522  | \$ 40,943   |
| Geology <sup>2</sup>          | \$ 89,845   | \$ 26,620   |
| Legal <sup>3</sup>            | \$ 29,230   | \$ 16,193   |
| Travel <sup>4</sup>           | \$ 78,222   | \$ 37,477   |
| Project Overhead <sup>5</sup> | \$ 8,018    | \$ 17,308   |

Notes:

- (1) Our consulting fees increased in 2003 due to increased activities in MSC, our San José project joint venture company.
- (2) Geology increased due to an expanded exploration program, and work on our projects.
- (3) Legal fees increased due to maintenance of our joint venture interest in the San José project and land legal costs in Argentina.
- (4) Travel increased due to an expanded exploration program.
- (5) Project overhead decreased due to reduced rentals, and the reduction of overhead expense in Chubut province.

## **2002 compared to 2001**

In 2002, our net income was \$0.4 million (1 cent per share), compared with a net loss of \$0.4 million (1 cent per share) in 2001. Income from the gain on sale of the Chubut properties was \$0.9 million in 2002, which gave us our first net income. We also continued our cost savings program begun in 1999, with general and administrative costs of \$0.5 million in 2001 and 2002. The foreign exchange loss was offset by savings in accounting and auditing, and insurance.

Mineral property and deferred exploration costs in 2002 amounted to \$0.3 million compared to \$0.2 million in 2001. We focused nearly all our available exploration resources on the San José project in Santa Cruz province during 2002, and the success of the exploration carried out on these properties over the last few years resulted in the joint venture arrangement which was signed March 15, 2001. We received mineral property option proceeds of \$400,000 from the joint venture in 2002 and in 2001. In 2002, we sold two of our Chubut properties (Willimanco and Leleque) to Meridian Gold Inc. for \$777,142. The properties were related to the purchase and sales agreement with Brancote Holding PLC, which merged with Meridian Gold Inc. in 2002. Meridian Gold Inc. became the surviving entity of the merger. In 2001 payments on the same Chubut properties totaled \$150,000.

## Contractual Obligations, Contingent Liabilities and Commitments

We enter into operating leases in the normal course of business. Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional lease agreements. Our lease obligations are as follows:

| Contractual Obligations     |           | Payments Due by Period |              |              |                      |
|-----------------------------|-----------|------------------------|--------------|--------------|----------------------|
|                             | Total     | Less than<br>1 year    | 1-3<br>years | 3-5<br>years | More than<br>5 years |
| Long Term Debt              | \$ -<br>- | \$ -<br>-              | \$ --        | \$ --        | \$ --                |
| Operating Lease Obligations | 44,224    | 36,100                 | 13,524       | --           | --                   |
| Purchase Obligations        | --        | --                     | --           | --           | --                   |
| Other long-term liabilities | --        | --                     | --           | --           | --                   |
| Total                       | \$ 44,224 | \$ 36,100              | \$ 13,524    | \$ --        | \$ --                |

On December 2, 2003, we signed an agreement that obligated us to pay 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. Our obligation expires December 31, 2013.

In addition, 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.

## Exploration

We currently have a portfolio of properties totaling about 10 projects on about 199,875 hectares of mineral exploration land in Argentina. The properties primarily contain gold, silver and copper mineralization targets. In addition, we are pursuing the further development of our co-owned gold/silver discovery property in Santa Cruz province, and are prospecting in other Argentine provinces.

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. Two new properties, La Huella and El Truna, contain mineralized structures with favorable geologic indicators. These characteristics mirror much that has been discovered about San José. Other prospects contain structures with sinter-like quartz veining and anomalous arsenic and mercury.

All of our programs are supervised by Brian Gavin, vice president of exploration, who has reviewed the programs and is the qualified person under Canada’s National Instrument 43-101.

## Los Azules Project

We are testing at Los Azules, a large copper/gold porphyry mineralized system in San Juan province, Argentina. Several core drill holes totaling 1,700 meters are being drilled in the current campaign. The holes will be drilled to a depth of 200 to 350 meters. This drilling will test a well defined magnetic low previously identified in

aeromagnetic surveys and recently confirmed by 22 line kilometers of ground magnetic surveys commissioned by Minera Andes. This 1,500 meter by 400 meter area of anomalously low magnetic response coincides with the presence of strongly leached rocks at the surface containing up to 200 ppb gold in rock chip samples. The geologic setting is typical of porphyry copper-style mineralization and is consistent with the mineralization observed in an historic drill hole by Battle Mountain Gold some 220 meters north of our property which contained a 117-meter interval of 0.61% copper and 2.3 gm silver. A high resolution IP survey is also been used to complement the drill program.

### **San José Project**

A significant exploration and development program is underway at the San José gold/silver project in southern Argentina. San José is jointly owned by Minera Andes Inc. (49%) and MHC of Lima, Peru (51%). This program covers a 17-month period to November of 2004 and will consist of a comprehensive program that includes underground exploration/development, environmental studies, metallurgical studies, and construction and commissioning of a pilot plant at the Huevos Verdes vein area. In addition, a program of geophysics, surface sampling and drilling is planned for targets at the San José project, other than at Huevos Verdes. The program is budgeted at \$12.2 million as follows:

Additional exploration at San José: \$ 2.0 million

Underground exploration and reserve development at Huevos Verdes: \$ 4.2 million

Metallurgical testing and pilot plant construction at Huevos Verdes: \$ 6.0 million

In addition, the work program and budget is subject to change as the project advances and new information is obtained. Additional funds may be required above the currently proposed budget.

The planned extensive surface exploration program includes geophysical surveys. The drill program started in early 2004 focusing on identified targets other than Huevos Verdes. This drill program will consist of approximately 7,000 meters (22,960 feet) of diamond drilling to further assess several of the approximately ten known targets, with the goal of discovering other potential ore bodies within San José. At Huevos Verdes, MHC, as operator of the project, is currently constructing two inclined shafts and a series of workings (4,259 meters in total) on two levels to facilitate underground exploration with the goal of upgrading the existing gold-silver resource to the reserve category. This phase of work is estimated to be completed by November 2004. Metallurgical testing and production decision is planned for the second half of 2004.

As a result of the exploration program at the San José project the Huevos Verdes East area was discovered in early 2003 in the Santa Cruz province, southern Argentina. The zone of high-grade gold/silver mineralization identified at Huevos Verdes East is being followed up on in the first quarter of 2004 by our joint venture partner.

The Huevos Verdes East area is located on a parallel trend about 2 kilometers to the northeast of the developing high-grade gold/silver resource at Huevos Verdes. This mineralized zone was discovered in three holes drilled "blind" on a geophysical target in a basalt covered area at San José project where 32 km of vein trends are currently identified on the property. The zone is defined by the three discovery holes drilled in the center of a 3 km-long geophysical anomaly. The Huevos Verdes East trend itself is currently known to be 6 km long. The best drill intercept in the three holes drilled last year averages 1.57 opt (53.75 g/t) gold and 50 opt (1,711.6 g/t) silver over 1.04 meters. This hole SJD-31 was drilled at a 50 degree angle and encounter the intercept at a depth of 246 meters down the hole.

## **Investor Relations**

During 2003 we increased our attendance at trade shows and gold conferences to increase awareness in our activities in the mining industry. We also advertised our corporate profile on several Web-based sites and in the news media. In addition, we have retained the services of a media consultant to design company presentations and literature.

## **Liquidity and Capital Resources**

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 and joint venture arrangements. We expect to use similar financing techniques in the future, however, we cannot assure you that we will be successful in our financing activities in the future. Our ability to continue in operation is dependent on our ability to secure additional financing, and while we have been successful in doing so in the past (including the property and financing transactions in “Plan of Operations” and “Results of Operations” above), we cannot assure you that we will be able to do so in the future. Management is actively pursuing such additional sources of financing; however, in the event this does not occur, there is doubt about the ability to continue as a going concern. These financial statements do not include the adjustments that would be necessary should we be unable to continue as a going concern.

In recognition of our liquidity and capital resources, our independent certified public accountants have included a comment in their report on our accompanying consolidated financial statements for the year ended December 2003, that would express substantial doubt as to our ability to continue as a going concern if we were a U.S. reporting company.

Our exploration and development activities and funding opportunities, as well as those of our joint venture partner, may be materially affected by precious and base metal price levels and changes in those levels. The market prices of precious and base metals are determined in world markets and are affected by numerous factors which are beyond our control.

At December 31, 2003, we had cash and cash equivalents of \$2.2 million, compared to cash and cash equivalents of \$1.0 million as of December 31, 2002. Working capital at December 31, 2003 was \$2.3 million compared with \$1.0 million at the end of 2002. Net cash used in operating activities during 2003 was \$1.0 million compared with \$0.6 million in 2002. Investing activities in 2003 used \$2.4 million, compared with \$0.9 million provided in 2002. The increase in investing activity is due to the investment in the San José project.

The principal financing activities during 2003 were a private placement which raised proceeds of \$4,674,790, net of agents commissions, through the issuance of 22,000,000 units at a price of Cdn\$0.30 per unit; gross proceeds of \$11,287 for the exercise of 50,000 warrants; gross proceeds of \$48,677 for the exercise of 441,667 broker warrants; and \$66,696 for the exercise of 345,000 stock options.

The principal financing activities during 2002 were a private placement which raised gross proceeds of \$432,498 through the issuance of 4,416,667 units at a price of Cdn\$0.15 per unit; gross proceeds of \$186,923 for the exercise of 1,175,000 warrants and \$9,449 for the exercise of stock options.

## **Outlook**

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

At December 31, 2003 there was approximately \$2.2 million of cash and cash equivalents on hand. We anticipate capital spending of approximately \$7.0 million in 2004, however our cash needs may change for the San José project, as new exploration may cause the budget to increase or decrease depending on its success.

### **Looking Ahead**

Our main objectives in 2004 are to:

- maintain our 49% interest in the San José joint venture;
- continue to evaluate and advance our current property portfolio;
- substantially increase exploration efforts with a focus on gold and silver targets in southern Argentina and elsewhere;
- continue efforts to seek out and evaluate acquisition and growth opportunities in Argentina, and;
- reach a production decision at San José by the second half of 2004.

As more fully disclosed in Item 1 - “Risk Factors Related to our Business”, numerous factors could cause our estimates and expectations to be wrong or could lead our management to make changes in our plans. Under any of these circumstances, the estimates described above would likely change materially.

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

In April 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections” (SFAS No. 145). SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements. The provisions of SFAS No. 145 that amend SFAS No. 13 were effective for transactions occurring after May 15, 2002, with all other provisions of SFAS No. 145 being required to be adopted by us in January 2003. The adoption of SFAS No. 145 did not have a material impact on our consolidated financial statements.

On July 30, 2002, the FASB issued SFAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor’s Accounting for Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others (“FIN 45”). The adoption of FIN 45 in 2003 did not have a material effect on our consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) “Consolidation of Variable Interest Entities.” In December 2003, the FASB issued a revision to this interpretation (FIN 46(r)). FIN 46(r) clarifies the application of Accounting Research Bulletin (ARB) No. 51, “Consolidated Financial Statements.” FIN 46 clarifies the application of ARB No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. We adopted FIN 46 in 2003 for those provisions then

in effect, which did not have a material effect on our consolidated financial statements. We will adopt FIN 46(r) in its entirety for our consolidated financial statements for periods ending after December 31, 2004.

In April 2003, the FASB issued SFAS No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133 “Accounting for Derivative Instruments and Hedging Activities.” The adoption of this standard in 2003 did not have a material effect on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” SFAS No. 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS No. 150 in 2003 did not have a material effect on our consolidated financial statements.

In December 2003, the FASB revised SFAS No. 132 “Employers’ Disclosures about Pensions and Other Post-Retirement Benefits - an amendment of FASB Statements No. 87, 88, and 106.” SFAS No. 132 has been revised to include additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit post-retirement plans. The revisions do not change the measurement or recognition of those plans required by existing standards. The revised SFAS No. 132 did not have a material effect on our consolidated financial statements.

### **Mining in Argentina**

We constantly review the social and political aspects of Argentina in general to apprise ourselves of the social situation and political risks that exist in the region. Argentina has benefitted from an extended period of political stability and a democratic governmental system including orderly governmental transitions. It is our belief that Argentina is committed to creating a stable political and economic environment that will foster additional economic growth.

Argentina is endowed with abundant mineral resources and is actively pursuing policies designed to support expansion of its mineral industry. Because of the political stability and supportive policies, several international mineral companies have initiated activities in Argentina in recent years and we understand that these companies now have in place plans to invest significant new sums in gold/silver and copper exploration and development.

It is our intent to be a responsible corporate citizen of Argentina and as such we have worked diligently to establish excellent working relationships with both local and federal governmental authorities as well as with the local citizens in the areas surrounding our operations.

### **Seasonality**

Most of our projects are in generally arid climates which experience four seasons. The exploration season is short in areas of higher elevation due to winter snow conditions. Low elevation areas can be worked year around. Winter months can present muddy travel conditions on primitive roads.

### **Subsequent Events**

On January 1, 2004, we adopted a defined contribution benefit plan (the “Plan”) authorized under Section 401(k) of the Internal Revenue Code for all employees who are 21 years of age, have completed one year of service, and have worked a minimum of 1,000 hours annually. All employees as of January 1, 2004 were eligible to participate in the Plan. Eligible employees can contribute up to 100% of their prior year compensation. We will contribute 100% of the first 4% of the employee’s contribution. We will also make an annual discretionary contribution as

determined by the board of directors.

On March 12, 2004, we sold 10,000,000 units to accredited investors at a price of Cdn\$0.65 per unit for gross proceeds of Cdn\$6.5 million.

Under terms of the offering, set by lead agent, Canaccord Capital Corporation (“Canaccord”) and Dundee Securities Corporation, each unit consists of one common share and one-half of one common share purchase warrant. One whole common share purchase warrant entitles the holder to purchase one additional common share at an exercise price of Cdn\$0.80 per share for a period of 18 months from the closing date. The issued securities are subject to a four month hold period.

As agent, Canaccord received a 7% commission. Canaccord also received agent’s warrants equal to 10% of the aggregate number of units sold pursuant to the offering. Each agent’s warrant upon exercise will entitle the holder to acquire one common share at an exercise price of Cdn\$0.80 per common share for a period of 18 months from the date of issue. A total of 10,000,000 common shares were issued pursuant to the private placement, and 5,000,000 common shares are reserved for issuance on exercise of the warrants and 1,000,000 common shares are reserved for issuance on the exercise of the agent’s warrants.

In reliance on Rule 903 of Regulation S under the Securities Act of 1933, as amended (the “Securities Act”), units were offered and sold to purchasers outside of the United States subject to Category 2 offering restrictions, without any directed selling efforts. In reliance on Rule 506 of Regulation D under the Securities Act, units were also offered and sold, 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.

We intend to use the proceeds from the offering to fund our share of the construction costs for gold/silver ore reserve development and feasibility work at the advanced-stage Huevos Verdes project a 60-man team is preparing two inclined shafts to contact the main gold/silver vein. Surface facilities, including a work camp, compressor and maintenance facilities, have been completed and a 28-km all-weather road and bridge to access the work site is in daily use.

## ITEM 7. FINANCIAL STATEMENTS

| Index to Consolidated Financial Statements                                                                                                                                                                | Page |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Report of Independent Auditors                                                                                                                                                                            | 41   |
| Comments by the Auditors for U.S. Readers on Canada - U.S. Reporting Differences                                                                                                                          | 41   |
| Consolidated Balance Sheets at December 31, 2003 and 2002                                                                                                                                                 | 42   |
| Consolidated Statements of Operations and Accumulated Deficit for the years ended December 31, 2003 and 2002 and for the period from July 1, 1994 (commencement) through December 31, 2003                | 43   |
| Consolidated Statements of Mineral Properties and Deferred Exploration Costs for the years ended December 31, 2003 and 2002 and for the period from July 1, 1994 (commencement) through December 31, 2003 | 44   |
| Consolidated Statements of Cash Flows for the years ended December 31, 2003 and 2002 and for the period from July 1, 1994 (commencement) through December 31, 2003                                        | 45   |
| Notes to Consolidated Financial Statements                                                                                                                                                                | 47   |

## **BDO DUNWOODY LLP**

### **Report of Independent Auditors**

To the Shareholders of Minera Andes Inc.:

We have audited the consolidated balance sheets of Minera Andes Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations and accumulated deficit, mineral properties and deferred exploration costs and cash flows for the years then ended. We have also audited the consolidated statements of operations and accumulated deficit, mineral properties and deferred exploration costs and cash flows for the period from commencement (July 1, 1994) through December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended and for the period from commencement (July 1, 1994) through December 31, 2003 in accordance with Canadian generally accepted accounting principles.

/s/ BDO Dunwoody LLP  
Chartered Accountants  
Vancouver, B.C. Canada  
March 12, 2004

### **Comments by the Auditors for U.S. Readers on Canada – U.S. Reporting Differences**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern such as those described in Note 1 of the consolidated financial statements. Our report to the shareholders dated March 12, 2004, is expressed in accordance with Canadian reporting standards, which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

/s/ BDO Dunwoody LLP  
Chartered Accountants  
Vancouver, B.C. Canada  
March 12, 2004

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

|                                                            | <b>December 31,<br/>2003</b> | <b>December 31,<br/>2002</b> |
|------------------------------------------------------------|------------------------------|------------------------------|
| <b>ASSETS</b>                                              |                              |                              |
| Current:                                                   |                              |                              |
| Cash and cash equivalents                                  | \$ 2,234,342                 | \$ 1,009,258                 |
| Receivables and prepaid expenses                           | <u>228,123</u>               | <u>63,294</u>                |
| Total current assets                                       | 2,462,465                    | 1,072,552                    |
| Mineral properties and deferred exploration costs (Note 3) | 915,299                      | 3,536,448                    |
| Investment (Note 3)                                        | 4,063,127                    | --                           |
| Equipment, net (Note 4)                                    | <u>88,238</u>                | <u>5,480</u>                 |
| Total assets                                               | <u><u>\$ 7,529,129</u></u>   | <u><u>\$ 4,614,480</u></u>   |

**LIABILITIES**

|                                 |                |               |
|---------------------------------|----------------|---------------|
| Current:                        |                |               |
| Accounts payable and accruals   | \$ 96,640      | \$ 23,244     |
| Due to related parties (Note 7) | <u>30,531</u>  | <u>25,746</u> |
| Total current liabilities       | <u>127,171</u> | <u>48,990</u> |

Commitments and contingencies (Notes 1 and 6)

**SHAREHOLDERS' EQUITY**

Share capital (Note 5):

Preferred shares, no par value, unlimited number authorized,  
none issued

Common shares, no par value, unlimited number authorized

Issued December 31, 2003—59,740,865 shares

Issued December 31, 2002—36,904,197 shares

23,597,468                      18,796,018

Contributed capital - stock option compensation

160,888                      33,372

Accumulated deficit

(16,356,398)                      (14,263,900)

    Total shareholders' equity

7,401,958                      4,565,490

    Total liabilities and shareholders' equity

\$ 7,529,129                      \$ 4,614,480

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.*

**MINERA ANDES INC.**  
**“An Exploration Stage Corporation”**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT**  
**(U.S. Dollars)**

|                                                        | <b>Year Ended</b>            |                              | <b>Period from<br/>July 1, 1994<br/>(commencement)<br/>through<br/>December 31,<br/>2003</b> |
|--------------------------------------------------------|------------------------------|------------------------------|----------------------------------------------------------------------------------------------|
|                                                        | <b>December 31,<br/>2003</b> | <b>December 31,<br/>2002</b> | <b>December 31,<br/>2003</b>                                                                 |
| Administration fees                                    | \$ 28,911                    | \$ 26,621                    | \$ 286,487                                                                                   |
| Audit and accounting                                   | 24,691                       | 22,816                       | 380,339                                                                                      |
| Consulting fees                                        | 418,730                      | 99,696                       | 1,438,386                                                                                    |
| Depreciation                                           | 2,191                        | 3,624                        | 64,150                                                                                       |
| Equipment rental                                       | --                           | --                           | 21,522                                                                                       |
| Foreign exchange (gain) loss                           | (74,005)                     | 24,225                       | 357,232                                                                                      |
| Insurance                                              | 17,598                       | 5,319                        | 252,891                                                                                      |
| Legal                                                  | 199,133                      | 55,504                       | 894,893                                                                                      |
| Maintenance                                            | 1,250                        | 1,606                        | 3,748                                                                                        |
| Materials and supplies                                 | --                           | --                           | 45,512                                                                                       |
| Office overhead                                        | 148,345                      | 59,355                       | 1,575,978                                                                                    |
| Telephone                                              | 28,869                       | 9,293                        | 393,978                                                                                      |
| Transfer agent                                         | 9,106                        | 6,093                        | 107,679                                                                                      |
| Travel                                                 | 58,777                       | 22,446                       | 393,636                                                                                      |
| Wages and benefits                                     | 187,374                      | 160,475                      | 1,548,074                                                                                    |
| Write-off of deferred exploration costs (Note 3)       | 422,112                      | --                           | 8,540,235                                                                                    |
| Total expenses                                         | 1,473,082                    | 497,073                      | 16,304,740                                                                                   |
| Gain on sale of capital assets                         | --                           | --                           | (104,588)                                                                                    |
| Gain on sale of property (Note 3)                      | --                           | (898,241)                    | (898,241)                                                                                    |
| Interest income                                        | (13,584)                     | (2,511)                      | (468,566)                                                                                    |
| Net (income) loss                                      | 1,459,498                    | (403,679)                    | 14,833,345                                                                                   |
| Accumulated deficit, beginning of the period           | 14,263,900                   | 14,637,755                   | --                                                                                           |
| Adjustment on acquisition of royalty interest (Note 7) | 500,000                      | --                           | 500,000                                                                                      |
| Share issue costs                                      | 133,000                      | 29,824                       | 1,005,838                                                                                    |
| Deficiency on acquisition of subsidiary                | --                           | --                           | 17,215                                                                                       |
| Accumulated deficit, end of the period                 | <u>\$ 16,356,398</u>         | <u>\$ 14,263,900</u>         | <u>\$ 16,356,398</u>                                                                         |
| Basic and diluted (income) loss per common share       | <u>\$ 0.04</u>               | <u>\$ (0.01)</u>             |                                                                                              |
| Weighted average shares outstanding (basic)            | <u>40,162,950</u>            | <u>32,959,486</u>            |                                                                                              |
| Weighted average shares outstanding (diluted)          | <u>40,162,950</u>            | <u>33,407,692</u>            |                                                                                              |

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

**MINERA ANDES INC.**  
**“An Exploration Stage Corporation”**  
**CONSOLIDATED STATEMENTS OF MINERAL PROPERTIES**  
**AND DEFERRED EXPLORATION COSTS**  
**(U.S. Dollars)**

|                                         | <b>Year Ended</b>            |                              | <b>Period from<br/>July 1, 1994<br/>(commencement)<br/>through<br/>December 31,<br/>2003</b> |
|-----------------------------------------|------------------------------|------------------------------|----------------------------------------------------------------------------------------------|
|                                         | <b>December 31,<br/>2003</b> | <b>December 31,<br/>2002</b> |                                                                                              |
| Administration fees                     | \$ 20,316                    | \$ 14,522                    | \$ 392,837                                                                                   |
| Assays and analytical                   | 5,542                        | 582                          | 944,946                                                                                      |
| Construction and trenching              | 15,733                       | --                           | 523,690                                                                                      |
| Consulting fees                         | 108,522                      | 40,943                       | 1,063,014                                                                                    |
| Depreciation                            | --                           | 1,758                        | 170,625                                                                                      |
| Drilling                                | --                           | --                           | 928,833                                                                                      |
| Equipment rental                        | --                           | 856                          | 244,924                                                                                      |
| Geology                                 | 89,845                       | 26,620                       | 3,019,908                                                                                    |
| Geophysics                              | --                           | --                           | 309,902                                                                                      |
| Insurance                               | 9,426                        | 7,889                        | 255,559                                                                                      |
| Legal                                   | 29,230                       | 16,193                       | 693,828                                                                                      |
| Maintenance                             | 1,936                        | 2,116                        | 163,117                                                                                      |
| Materials and supplies                  | 1,714                        | 992                          | 436,184                                                                                      |
| Project overhead                        | 8,018                        | 17,308                       | 321,155                                                                                      |
| Property and mineral rights             | 19,683                       | 21,000                       | 1,323,837                                                                                    |
| Telephone                               | 3,684                        | 1,242                        | 86,319                                                                                       |
| Travel                                  | 78,222                       | 37,447                       | 1,120,064                                                                                    |
| Wages and benefits                      | 130,072                      | 105,492                      | 1,180,534                                                                                    |
| Costs incurred during the period        | 521,943                      | 294,960                      | 13,179,276                                                                                   |
| Deferred costs, beginning of the period | 3,536,448                    | 3,520,389                    | --                                                                                           |
| Deferred costs, acquired                | --                           | --                           | 576,139                                                                                      |
| Deferred costs, contributed to MSC      | (2,320,980)                  | --                           | (2,320,980)                                                                                  |
| Deferred costs written off              | (422,112)                    | --                           | (8,540,235)                                                                                  |
| Mineral property option proceeds, net   | (400,000)                    | (278,901)                    | (1,978,901)                                                                                  |
| Deferred costs, end of the period       | <u>\$ 915,299</u>            | <u>\$ 3,536,448</u>          | <u>\$ 915,299</u>                                                                            |

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

**MINERA ANDES INC.**  
**“An Exploration Stage Corporation”**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(U.S. Dollars)**

|                                                                                      | <b>Year Ended</b>   |                     | <b>Period from</b>    |
|--------------------------------------------------------------------------------------|---------------------|---------------------|-----------------------|
|                                                                                      |                     |                     | <b>July 1, 1994</b>   |
|                                                                                      |                     |                     | <b>(commencement)</b> |
|                                                                                      | <b>December 31,</b> | <b>December 31,</b> | <b>through</b>        |
|                                                                                      | <b>2003</b>         | <b>2002</b>         | <b>December 31,</b>   |
|                                                                                      |                     |                     | <b>2003</b>           |
| <b>Operating Activities:</b>                                                         |                     |                     |                       |
| Net income (loss) for the period                                                     | \$ (1,459,498)      | \$ 403,679          | \$ (14,833,345)       |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                     |                     |                       |
| Write-off of incorporation costs                                                     | --                  | --                  | 665                   |
| Write-off of deferred exploration costs                                              | 422,112             | --                  | 8,540,235             |
| Depreciation                                                                         | 2,191               | 3,624               | 64,150                |
| Stock option compensation                                                            | 127,516             | 33,372              | 160,888               |
| Gain on sale of capital assets                                                       | --                  | --                  | (104,588)             |
| Gain on sale of mineral properties                                                   | --                  | (898,241)           | (898,241)             |
| Change in:                                                                           |                     |                     |                       |
| Receivables and prepaid expenses                                                     | (164,829)           | (45,747)            | (226,137)             |
| Accounts payable and accruals                                                        | 73,396              | 17,975              | 77,439                |
| Due to related parties                                                               | 4,785               | (77,387)            | 30,531                |
| Cash used in operating activities                                                    | (994,327)           | (562,725)           | (7,188,403)           |
| <b>Investing Activities:</b>                                                         |                     |                     |                       |
| Incorporation costs                                                                  | --                  | --                  | (665)                 |
| Purchase of capital assets                                                           | (84,949)            | (1,714)             | (228,425)             |
| Proceeds from sale of property                                                       | --                  | 898,241             | 898,241               |
| Mineral properties and deferred exploration                                          | (521,943)           | (293,202)           | (13,008,651)          |
| Acquisition of investment                                                            | (1,742,147)         | --                  | (1,742,147)           |
| Proceeds from sale of subsidiaries                                                   | --                  | --                  | 9,398                 |
| Acquisition of royalty interest                                                      | (500,000)           | --                  | (500,000)             |
| Mineral property option proceeds                                                     | 400,000             | 278,901             | 1,978,901             |
| Cash provided by (used in) investing activities                                      | (2,449,039)         | 882,226             | (12,593,348)          |

**MINERA ANDES INC.**  
**“An Exploration Stage Corporation”**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(U.S. Dollars)**

|                                                                                                | <b>Year Ended</b>   |                     | <b>Period from</b>    |
|------------------------------------------------------------------------------------------------|---------------------|---------------------|-----------------------|
|                                                                                                |                     |                     | <b>July 1, 1994</b>   |
|                                                                                                |                     |                     | <b>(commencement)</b> |
|                                                                                                | <b>December 31,</b> | <b>December 31,</b> | <b>through</b>        |
|                                                                                                | <b>2003</b>         | <b>2002</b>         | <b>December 31,</b>   |
|                                                                                                |                     |                     | <b>2003</b>           |
| Financing Activities:                                                                          |                     |                     |                       |
| Shares and subscriptions issued for cash, less issue costs                                     | 4,668,450           | 568,772             | 22,016,093            |
| Cash provided by financing activities                                                          | 4,668,450           | 568,772             | 22,016,093            |
| Increase in cash and cash equivalents                                                          | 1,225,084           | 888,273             | 2,234,342             |
| Cash and cash equivalents, beginning of period                                                 | 1,009,258           | 120,985             | --                    |
| Cash and cash equivalents, end of period                                                       | <u>\$ 2,234,342</u> | <u>\$ 1,009,258</u> | <u>\$ 2,234,342</u>   |
| Supplementary disclosure of non-cash investing and financing activities and other information: |                     |                     |                       |
| Stock option compensation (Note 5)                                                             | \$ 127,516          | \$ 33,372           | \$ 160,888            |
| Deferred costs, contributed to MSC (Note 3)                                                    | \$ 2,320,980        | \$ --               | \$ 2,320,980          |
| Shares issued for acquisition                                                                  | \$ --               | \$ --               | \$ 575,537            |
| Interest and taxes paid                                                                        | \$ --               | \$ --               | \$ --                 |

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

**MINERA ANDES INC.**  
**“An Exploration Stage Corporation”**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(U.S. Dollars)**

**1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN**

We are in the business of acquiring, exploring and evaluating mineral properties, and either entering into joint ventures, developing these properties further, or disposing of them when the evaluation is completed. At December 31, 2003, we were in the exploration stage and had interests in properties in three provinces in the Republic of Argentina.

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 our development, and the future profitable production or disposition thereof. The accompanying consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern. The use of such principles may not be appropriate because, as of December 31, 2003, there was significant doubt that we would be able to continue as a going concern.

At December 31, 2003, we had an accumulated deficit of approximately \$16.4 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 and joint venture arrangements. We expect to use similar financing techniques in the future and are actively pursuing such additional sources of financing (see Note 11).

Although there is no assurance that we will be successful in these actions, management believes that it will be able to secure the necessary financing to enable the Company 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.

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.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The statements are expressed in United States dollars because the majority of our exploration activities are incurred in U.S. dollars.

**a. Consolidation/Reporting**

These consolidated financial statements include the accounts of Minera Andes Inc., an Alberta Corporation, and its wholly-owned subsidiaries, Minera Andes S.A. (“MASA”), Minera Andes (Cayman) Inc. (“MACI”), Minera Andes (Cayman 2) Inc. (“MACI2”), and Minera Andes (USA) Inc. (“MUSA”). Our investment in Minera Santa Cruz S.A. (“MSC”), an Argentine corporation, is accounted for by the equity method, whereby the Company records its investment and its 49% share of the income and expense of MSC. All significant intercompany transactions and balances have been eliminated from the consolidated financial statements.

**b. Foreign Currency Translation**

Our consolidated operations are integrated and balances denominated in currencies other than U.S. dollars are translated into U.S. dollars using the temporal method. This method translates monetary balances at the rate of exchange at the balance sheet date, non-monetary balances at historic exchange rates and revenues and expense items at average exchange rates. The resulting gains and losses are included in the statement of operations in the reporting period.

**c. Cash Equivalents**

We consider cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of three months or less. We place our cash and cash investments with institutions of high credit worthiness. At times, such investments may be in excess of federal insurance limits.

**d. Mineral Properties and Deferred Exploration 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. If a property is abandoned, the property and deferred exploration costs will be written off to operations. On a quarterly basis, we evaluate the future recoverability of our mineral properties and deferred exploration costs. Impairment losses or write-downs are recorded in the event the net book value of such assets exceeds the estimated undiscounted future cash flows attributable to such assets.

**e. Equipment and Depreciation**

Equipment is recorded at cost, and depreciation is provided on a declining balance basis over their estimated useful lives of up to five years at an annual rate of up to 40% to a residual value of 10%.

**f. Share Issue Costs**

Commissions paid to underwriters on the issuance of our shares are charged directly to share capital. Other share issue costs, such as legal, accounting, auditing and printing costs, are charged to accumulated deficit.

**g. Accounting for Income Taxes**

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax assets and liabilities are measured using tax rates and laws that are expected to apply when the temporary differences are expected to reverse.

When acquisitions are made and a difference exists between the cost of the asset and its tax basis, a future income tax liability or asset is recorded. The amount of the future income tax liability or asset is included in the initial carrying value of the acquired asset.

**h. Basic and Diluted Earnings (Loss) Per Common Share**

Basic earnings per share (EPS) is calculated by dividing income (loss) applicable to common shareholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock.

**i. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ materially from those reported.

**j. Fair Value of Financial Instruments**

The carrying values of cash and cash equivalents, receivables, accounts payable and accruals and due to related parties, approximate their fair values. The fair value of the investment was not practical to determine. Unless otherwise noted, it is management's opinion that we are not exposed to significant foreign currency or other risks arising from these financial instruments.

**k. Stock Based Compensation**

We have adopted the recommendations of CICA Handbook Section 3870, stock-based compensation and other stock-based payments. It was applied on a prospective basis and applies to all awards granted on or after January 1, 2002. Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

**i. Consultants**

The standard requires that all stock-based awards made to consultants be measured and recognized in these consolidated financial statements using a fair value based method.

**ii. Employees**

For the fiscal year ended December 31, 2003 and 2002, the standard encourages the use of a fair value based method for all awards granted to employees, but only requires the use of the fair value based method for all direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. Awards that a company has the ability to settle in stock are recorded as equity, whereas awards that the entity is required to or has a practice of settling in cash are recorded as liabilities. We continue to use the intrinsic value method of accounting for stock options granted to directors and employees, as allowed. Under this method, compensation costs are not recognized in the financial statements for stock options granted to directors and employees when issued at fair market value. The proceeds received on exercise of stock options are credited to share capital. The section does, however, require the disclosure on a pro forma basis of the impact on operations of using the fair-value based method for stock options granted to directors and employees on or after January 1, 2002.

**l. Recent United States Accounting Pronouncements**

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements. The provisions of SFAS No. 145 that amend SFAS No. 13 were effective for transactions occurring after May 15, 2002, with all other provisions of SFAS No. 145 being required to be adopted by us in January 2003. The adoption of SFAS No. 145 did not have a material impact on our consolidated financial statements.

On July 30, 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146

is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting for Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others ("FIN 45"). The adoption of FIN 45 in 2003 did not have a material effect on our consolidated financial statements.

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

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities." The adoption of this standard in 2003 did not have a material effect on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS No. 150 in 2003 did not have a material effect on our consolidated financial statements.

In December 2003, the FASB revised SFAS No. 132 "Employers' Disclosures about Pensions and Other Post-Retirement Benefits - an amendment of FASB Statements No. 87, 88, and 106." SFAS No. 132 has been revised to include additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit post-retirement plans. The revisions do not change the measurement or recognition of those plans required by existing standards. The adoption of revised SFAS No. 132 did not have a material effect on our consolidated financial statements.

### **3. MINERAL PROPERTIES, DEFERRED EXPLORATION COSTS AND INVESTMENTS**

At December 31, 2003, we, through our subsidiaries and investment, held interests in a total of approximately 199,875 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. All properties in Argentina are subject to a royalty agreement as disclosed in Note 6. Mineral property costs and deferred exploration costs, net of mineral property option proceeds, are as follows:

## 2003 COSTS BY PROPERTY

| Description                        | San Juan Cateos   | San José     | Santa Cruz Cateos | Chubut Cateos     | Neuquén Cateos | Río Negro Cateos | General Exploration | Total             |
|------------------------------------|-------------------|--------------|-------------------|-------------------|----------------|------------------|---------------------|-------------------|
| Balance, beginning of year         | \$ 327,959        | \$2,389,526  | \$ 552,936        | \$ 246,154        | \$ 6,852       | \$ 13,021        | \$ --               | \$ 3,536,448      |
| Assays and analytical              | 223               | --           | 1,548             | 3,759             | --             | 12               | --                  | 5,542             |
| Administration fees                | --                | 11,180       | --                | --                | --             | --               | 9,136               | 20,316            |
| Construction and trenching         | 15,733            | --           | --                | --                | --             | --               | --                  | 15,733            |
| Consulting fees                    | 484               | 74,381       | 15,273            | 14,773            | 671            | --               | 2,940               | 108,522           |
| Geology                            | 17,785            | 4,000        | 32,523            | 7,812             | --             | 4,002            | 23,723              | 89,845            |
| Insurance                          | --                | --           | --                | --                | --             | --               | 9,426               | 9,426             |
| Legal                              | --                | 29,230       | --                | --                | --             | --               | --                  | 29,230            |
| Maintenance                        | --                | 1,052        | 884               | --                | --             | --               | --                  | 1,936             |
| Materials and supplies             | 16                | 54           | 383               | 412               | --             | 116              | 733                 | 1,714             |
| Project overhead                   | 36                | 1,971        | 1,825             | 764               | --             | 29               | 3,393               | 8,018             |
| Property and mineral rights        | 15,622            | --           | 2,833             | 1,228             | --             | --               | --                  | 19,683            |
| Telephone                          | 130               | 2,068        | 429               | 179               | --             | 15               | 863                 | 3,684             |
| Travel                             | 515               | 55,403       | 4,885             | 1,671             | --             | 477              | 15,271              | 78,222            |
| Wages and benefits                 | --                | 74,532       | --                | --                | --             | --               | 55,540              | 130,072           |
| Write-off of abandoned properties  | (7,960)           | --           | (236,294)         | (150,381)         | (7,607)        | (19,870)         | --                  | (422,112)         |
| Overhead allocation                | 8,263             | 77,583       | 16,661            | 16,236            | 84             | 2,198            | (121,025)           | --                |
| Outside investment                 | --                | (400,000)    | --                | --                | --             | --               | --                  | (400,000)         |
| Deferred costs, contributed to MSC | --                | (2,320,980)  | --                | --                | --             | --               | --                  | (2,320,980)       |
| <b>Carrying value, end of year</b> | <b>\$ 378,806</b> | <b>\$ --</b> | <b>\$ 393,886</b> | <b>\$ 142,607</b> | <b>\$ --</b>   | <b>\$ --</b>     | <b>\$ --</b>        | <b>\$ 915,299</b> |

## 2002 COSTS BY PROPERTY

| Description                        | San Juan Cateos   | San José            | Santa Cruz Cateos | Chubut Cateos    | Neuquén Cateos  | Río Negro Cateos | General Exploration | Total              |
|------------------------------------|-------------------|---------------------|-------------------|------------------|-----------------|------------------|---------------------|--------------------|
| Balance, beginning of year         | \$ 327,810        | \$ 2,662,149        | \$ 497,607        | \$ 32,823        | \$ --           | \$ --            | \$ --               | \$3,520,389        |
| Assays and analytical              | --                | 460                 | 40                | --               | --              | --               | 82                  | 582                |
| Administration fees                | --                | --                  | --                | --               | --              | --               | 14,522              | 14,522             |
| Consulting fees                    | 134               | 21,154              | 4,579             | 9,220            | 699             | 1,021            | 4,136               | 40,943             |
| Depreciation                       | --                | --                  | --                | --               | --              | --               | 1,758               | 1,758              |
| Equipment rental                   | --                | 856                 | --                | --               | --              | --               |                     | 856                |
| Geology                            | --                | 1,125               | 9,328             | 3,417            | 1,500           | 2,813            | 8,437               | 26,620             |
| Insurance                          | --                | --                  | --                | --               | --              | --               | 7,889               | 7,889              |
| Legal                              | --                | --                  | --                | 16,193           | --              | --               | --                  | 16,193             |
| Maintenance                        | --                | 990                 | --                |                  | --              | --               | 1,126               | 2,116              |
| Materials and supplies             | --                | 92                  | 180               | 74               | --              | 38               | 608                 | 992                |
| Project overhead                   | 3                 | 138                 | 2,420             | 5,076            | 74              | 2,651            | 6,946               | 17,308             |
| Property and mineral rights        | --                | --                  | 13,547            | 7,442            | 11              | --               | --                  | 21,000             |
| Telephone                          | --                | 1                   | 172               | 57               | 11              | 30               | 971                 | 1,242              |
| Travel                             | 3                 | 17,366              | 1,670             | 1,253            | 694             | 231              | 16,230              | 37,447             |
| Wages and benefits                 | --                | --                  | --                | --               | --              | --               | 105,492             | 105,492            |
| Overhead Allocation                | 9                 | 85,195              | 23,393            | 49,500           | 3,863           | 6,237            | (168,197)           | --                 |
| Outside Investment                 | --                | (400,000)           | --                | 121,099          | --              | --               | --                  | (278,901)          |
| <b>Carrying value, end of year</b> | <b>\$ 327,959</b> | <b>\$ 2,389,526</b> | <b>\$ 552,936</b> | <b>\$246,154</b> | <b>\$ 6,852</b> | <b>\$ 13,021</b> | <b>\$ --</b>        | <b>\$3,536,448</b> |

**a. San Juan Project**

The San Juan Province project comprises six properties totaling 37,568 hectares (“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. Property canon fees for the properties in 2004 are estimated at \$10,000.

Expenditures in 2003 largely relate to land maintenance and exploration work at the Los Azules project. In December 2003, Minera Andes initiated an exploration program at Los Azules, which is expected to continue through March of 2004.

**b. San José Project**

The San José project area is made up of one cateo and 46 manifestations of discovery totaling 40,499 ha. The cateos are located in the western half of the province of Santa Cruz. All of the cateos are controlled 100% by Minera Santa Cruz S.A. (“MSC”), a holding and operating company set up under the terms of an agreement with Mauricio Hoschschild & Cia. Ltda. (“MHC”). Any production from these lands may be subject to a provincial royalty. Holding costs for 2004 are estimated to be \$12,000.

In October of 2000, following completion of a 30-day due diligence period under a memorandum of understanding, MHC exercised an option to enter into a joint venture (“JV”) on the project.

On March 15, 2001, we signed an option and joint venture agreement with MHC for the exploration and possible development of Minera Andes’ epithermal gold-silver exploration land package at El Pluma/Cerro Saavedra (now referred to as San José), including Huevos Verdes.

Under the agreement, in July 2003 MHC earned a 51% ownership in the JV by spending a total of \$3 million, including a minimum of \$100,000 per year on exploration targets within the JV, other than Huevos Verdes, the most advanced prospect. In addition, MHC is making semiannual payments totaling \$400,000 per year until pilot plant production is achieved. To date, MHC has made all required payments.

Following MHC’s vesting at 51% ownership, Minera Andes opted to participate in the development of the project on a pro-rata basis.

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

As a result of the fact that we no longer control the JV, we are accounting for this investment under the equity method. All costs, including those previously capitalized under “Mineral Properties and Deferred Exploration” relating to the San José project that were effectively contributed to the JV, have been reclassified to investment in 2003.

Expenditures in 2003 consisted of exploration drilling and reconnaissance geologic mapping and sampling. Also during 2003, surface work was completed by MHC in preparing the site for the underground exploration program. Land was purchased from private land owners and right-of-way agreements were obtained.

Exploration work in 2004 will include drilling, detailed topographic surveys, detailed mapping and sampling. Development work will include completion of the shafts and additional work related to pre-feasibility and feasibility studies.

**c. Chubut Projects**

We held four cateos and 15 manifestations of discovery in the Precordilleran region of Chubut. In August 2000, we signed an agreement with Brancote Holdings PLC subsidiaries to purchase two of our Chubut gold exploration properties. The agreements covered the Willimanco, Leleque and Leon properties. Brancote's Argentine subsidiaries had a four-year option to purchase Willimanco and Leleque (and adjoining Leon properties) for a combined total of \$1.25 million and a 2% net smelter return royalty. Combined payments were \$50,000 upon signing the agreements, and \$50,000 after six months. Payments increased to \$100,000 every six months until year three, at which time payments were to increase to \$150,000 every six months. Fourth year payments were to total \$450,000 for a total of \$1.25 million at the end of four years. All required payments to December 31, 2001 had been received. In November 2002, we negotiated a buy-out of these Chubut properties with Meridian Gold Inc. (surviving entity of Brancote Holdings PLC merger) for Peso\$720,000 and Peso\$200,000, resulting in a gain of \$898,241.

Expenditures in 2003 relate to an ongoing reconnaissance exploration program on lands acquired in 2002. A similar level of expenditure is planned for 2004.

**d. Santa Cruz Projects**

We currently control 17 cateos and 30 manifestations of discovery totaling 80,398 ha in Santa Cruz province. Land holding costs for 2004 are estimated at \$8,000. 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 2003 relate to land acquisition and reconnaissance geologic surveys on the acquired properties. Geologic evaluation of these grassroots targets is ongoing.

**e. Write-Off of Mineral Property and Deferred Exploration Costs**

We have acquired exploration concessions, entered into option agreements and contracts, and carried out exploration on certain properties where it has determined that it would be unlikely that additional work would result in the discovery of economic reserves. Accordingly, any acquisition payments and the accumulated cost of exploration on those properties have been written off to operations.

**4. EQUIPMENT**

|                     | December 31, 2003 |                             |                 | December 31, 2002 |                             |                |
|---------------------|-------------------|-----------------------------|-----------------|-------------------|-----------------------------|----------------|
|                     | Cost              | Accumulated<br>Depreciation | Net             | Cost              | Accumulated<br>Depreciation | Net            |
| Field<br>Equipment  | \$83,451          | \$(26,545)                  | \$56,906        | \$29,296          | \$(26,381)                  | \$2,915        |
| Office<br>Equipment | 60,232            | (28,900)                    | 31,332          | 29,438            | (26,873)                    | 2,565          |
| <b>Total</b>        | <u>\$143,683</u>  | <u>\$(55,445)</u>           | <u>\$88,238</u> | <u>\$58,734</u>   | <u>\$(53,254)</u>           | <u>\$5,480</u> |

## 5. SHARE CAPITAL

### a. Authorized

We have authorized capital of an unlimited number of Common Shares, with no par value, and an unlimited number of preferred shares, with no par value.

### b. Issued, Allotted and/or Subscribed:

|                                                          | <b>Number<br/>of Shares</b> | <b>Amount</b>    |
|----------------------------------------------------------|-----------------------------|------------------|
| Common shares issued:                                    |                             |                  |
| Issued for cash on incorporation                         | 1                           | \$ 1             |
| Issued for acquisition of subsidiaries                   | 4,000,000                   | 575,537          |
| Subscriptions received for private placement             | <u>--</u>                   | <u>57,069</u>    |
| Balance, December 31, 1994                               | 4,000,001                   | 632,607          |
| Issued for cash (Cdn\$0.10 each)                         | 1,000,000                   | 70,850           |
| Issued for cash (Cdn\$0.40 each)                         | 2,345,094                   | 669,058          |
| Issued for cash (Cdn\$1.00 each)                         | 3,031,000                   | 2,237,071        |
| Issued for finder's fee                                  | 150,000                     | --               |
| Issued for services                                      | 168,000                     | --               |
| Issued for subsidiary                                    | 336,815                     | --               |
| Subscriptions applied                                    | <u>--</u>                   | <u>(57,069)</u>  |
| Balance, December 31, 1995                               | 11,030,910                  | 3,552,517        |
| Issued for cash (Cdn\$1.50 each)                         | 1,433,333                   | 1,535,553        |
| Issued for broker special warrants                       | 90,400                      | --               |
| Issued for cash (Cdn\$3.42 each)                         | 877,194                     | 2,174,388        |
| Issued to N.A. Degerstrom, Inc.:                         |                             |                  |
| For cash (Cdn\$1.44 each)                                | 500,000                     | 514,608          |
| For cash on exercise of warrants (Cdn\$1.75 each)        | 500,000                     | 625,392          |
| Issued for cash on exercise of warrants (Cdn\$1.80 each) | 67,500                      | 89,220           |
| Subscriptions received for private placement             | <u>--</u>                   | <u>4,873,336</u> |
| Balance, December 31, 1996                               | 14,499,337                  | 13,365,014       |
| Issued for cash on exercise of warrants (Cdn\$1.80 each) | 1,271,233                   | 1,689,102        |
| Issued for cash (private placement-Cdn\$2.10 each)       | 3,370,481                   | 4,873,336        |
| Subscriptions applied                                    | --                          | (4,873,336)      |
| Issued for cash on exercise of options (Cdn\$1.44 each)  | <u>75,000</u>               | <u>78,146</u>    |
| Balance, December 31, 1997                               | 19,216,051                  | 15,132,262       |
| Issued for cash on exercise of warrants (Cdn\$1.60 each) | 720,383                     | 806,136          |
| Issued for cash on exercise of options (Cdn\$1.15 each)  | 15,000                      | 11,936           |
| Issued for cash on exercise of warrants (Cdn\$1.53 each) | <u>438,597</u>              | <u>464,332</u>   |
| Balance, December 31, 1998                               | 20,390,031                  | 16,414,666       |

|                                                          | <b>Number<br/>of Shares</b> | <b>Amount</b>              |
|----------------------------------------------------------|-----------------------------|----------------------------|
| Issued for cash (by prospectus Cdn\$0.25 each)           | 3,214,540                   | 545,874                    |
| Issued for broker's fees                                 | <u>128,582</u>              | <u>--</u>                  |
| Balance, December 31, 1999                               | 23,733,153                  | 16,960,540                 |
| Issued for cash (by prospectus Cdn\$0.25 each)           | 5,985,460                   | 1,032,973                  |
| Issued for broker's fees                                 | 191,418                     | --                         |
| Issued for cash on exercise of options (Cdn\$0.55 each)  | 90,000                      | 34,109                     |
| Subscriptions received for private placement             | <u>--</u>                   | <u>162,242</u>             |
| Balance, December 31, 2000                               | 30,000,031                  | 18,189,864                 |
| Issued for cash on exercise of options (Cdn\$0.25 each)  | <u>46,000</u>               | <u>7,558</u>               |
| Balance, December 31, 2001                               | 30,046,031                  | 18,197,422                 |
| Issued for cash on exercise of options (Cdn\$0.16 each)  | 91,500                      | 9,449                      |
| Issued for cash (private placement Cdn\$0.15 each)       | 4,416,667                   | 402,224                    |
| Issued for exercise of special warrants                  | 1,175,000                   | --                         |
| Issued for cash on exercise of warrants (Cdn\$0.25 each) | <u>1,175,000</u>            | <u>186,923</u>             |
| Balance, December 31, 2002                               | 36,904,198                  | 18,796,018                 |
| Issued for cash on exercise of options                   | 345,000                     | 66,696                     |
| Issued for cash on exercise of warrants                  | 50,000                      | 11,287                     |
| Issued for cash on exercise of broker warrants           | 441,667                     | 48,677                     |
| Issued for cash (private placement Cdn\$0.30 each)       | <u>22,000,000</u>           | <u>4,674,790</u>           |
| Balance, December 31, 2003                               | <u><u>59,740,865</u></u>    | <u><u>\$23,597,468</u></u> |

- i. On June 25, 2002, we issued 4,416,667 units to 28 accredited investors for Cdn\$0.15 per unit for gross proceeds of Cdn\$662,500 (US\$432,498). Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share at an exercise price of Cdn\$0.35 for a period of 12 months. Each whole warrant had a forced exercise clause (starting when the units are exercisable), whereby the subscribers must exercise warrants into common shares if the average price of our common shares were equal to or greater than Cdn\$0.50 per common share for a period of 30 consecutive trading days.

Under the transaction, Haywood Securities Inc. ("Haywood") acted as the agent and received a 7% cash commission. In addition, Haywood received broker warrants equal to 10% of the 4,416,667 share private placement. Each broker warrant, upon exercise, entitled the holder to purchase one common share at a price of Cdn\$0.15 for a period of 12 months.

In 2003, 50,000 warrants and 441,667 brokers' warrants were exercised related to the June 25, 2002 financing. We received gross proceeds from this exercise of \$11,287 and \$48,677 respectively.

- ii. On November 30, 2000, our largest shareholder, N.A. Degerstrom, Inc. ("Degerstrom") acquired 1,175,000 special warrants of the Company at a price of Cdn\$0.20 per special warrant for gross proceeds of Cdn\$235,000 (US\$162,242). Each special warrant entitled the holder to acquire one unit comprised of one common share and one non-transferable common share purchase warrant at no additional cost. Each warrant was exercisable into one common share at the price of Cdn\$0.20 if

exercised on or before the first year anniversary of the issuance date or at a price of Cdn\$0.25 if exercised on or before the second year anniversary of the issuance date.

On August 22, 2002, Degerstrom exercised their 1,175,000 Special Warrants to acquire 1,175,000 units comprised of one common share and one non-transferable common share purchase warrant. On November 12, 2002 Degerstrom exercised their 1,175,000 purchase warrants at Cdn\$0.25 for gross proceeds of Cdn\$293,750 (US\$186,923).

- iii. During 2002, we issued 91,500 shares for the exercise of stock options and received proceeds of Cdn\$14,640 (US\$9,449).
- iv. On November 13, 2003, we sold 22,000,000 units to accredited investors at a price of Cdn\$0.30 per unit for net proceeds of Cdn\$6,138,000 (US\$4,674,790). 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\$0.50 per share for a period of 60 months from the closing date. The securities are subject to a four-month hold period.

The agents received a cash commission of 7% of the gross proceeds of the financing. The agents also received agents' warrants equal to 10% of the aggregate number of units sold pursuant to the offering. Each agents' warrant upon exercise will entitle the holder to acquire one common share at an exercise price of Cdn\$0.35 per common share for a period of 24 months from the date of issue. A total of 22,000,000 common shares have been issued pursuant to the private placement, and 11,000,000 common shares have been reserved for issuance on exercise of the warrants. In addition, 2,200,000 common shares have been reserved for issuance on the exercise of the agents' warrants.

- v. During 2003, we issued 345,000 shares for the exercise of stock options and received proceeds of \$66,696.
- vi. In 2003, Computershare Investor Services, our transfer agent, switched to a new accounting system. The new system required entering individual amounts from successor issues instead of one lump sum. This resulted in a rounding correction of one share.

**c. Stock Options**

The aggregate number of shares to be delivered upon exercise of all options granted under our stock option plan ("the Plan") shall not exceed 20% of our issued and outstanding Common Shares up to a maximum of 6,000,000 shares. No participant may be granted an option under the Plan which exceeds the number of shares permitted to be granted pursuant to rules or policies of any stock exchange on which the Common Shares is then listed.

Under the Plan, the exercise price of the shares covered by each option shall be determined by the directors and shall be not less than the closing price of our Common Shares on the stock exchange or stock exchanges on which the shares are listed on the last trading day immediately preceding the day on which the stock exchange is notified of the proposed issuance of option, less any discounts permitted by the policy or policies of such stock exchange or stock exchanges. If an option is granted within six months of a public distribution of our Common Shares by way of prospectus, then the minimum exercise price of such option shall, if the policy of such stock exchange or stock exchanges requires, be the greater of the price determined pursuant to the provisions of the Plan and the price per share paid by the investing public for our Common Shares acquired by the public during such public distribution, determined in accordance with the policy of such stock

exchange or stock exchanges. Options granted under the Plan vest immediately, will not be transferable and, if they are not exercised, will expire one (1) year following the date the optionee ceases to be a director, officer, employee or consultant of Minera Andes Inc. by reason of death, or ninety (90) days after ceasing to be a director, officer, employee or consultant of Minera Andes Inc. for any reason other than death.

At December 31, 2003, 929,000 options were available for grant under the Plan.

A summary of the status of our stock option plan as of December 31, 2003 and 2002, and changes during the years ended on those dates is:

|                                                                           | 2003      |                                                | 2002      |                                                |
|---------------------------------------------------------------------------|-----------|------------------------------------------------|-----------|------------------------------------------------|
|                                                                           |           | (Cdn)<br>Weighted<br>Ave.<br>Exercise<br>Price |           | (Cdn)<br>Weighted<br>Ave.<br>Exercise<br>Price |
|                                                                           | Options   |                                                | Options   |                                                |
| Outstanding and exercisable at beginning of year                          | 2,848,500 | \$0.44                                         | 2,214,000 | \$0.43                                         |
| Granted                                                                   | 2,240,000 | \$0.51                                         | 930,000   | \$0.40                                         |
| Exercised                                                                 | (345,000) | \$0.26                                         | (91,500)  | \$0.16                                         |
| Forfeited                                                                 | (335,000) | \$0.63                                         | (204,000) | \$0.25                                         |
| Outstanding and exercisable at end of year                                | 4,408,500 | \$0.47                                         | 2,848,500 | \$0.44                                         |
| Weighted average grant-date fair value of options granted during the year |           | \$0.38                                         |           | \$0.37                                         |

The range of exercise prices is from Cdn\$0.16 to Cdn\$0.59 with a weighted average remaining contractual life of 3.9 years at December 31, 2003.

At December 31, 2003 there were options held by directors, officers and employees for the purchase of our Common Shares as follows:

| <u>Number of Shares</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|-------------------------|-----------------------|--------------------|
| 1,026,000               | Cdn\$0.55             | June 3, 2004       |
| 29,000                  | Cdn\$0.59             | June 3, 2004       |
| 358,500                 | Cdn\$0.16             | August 28, 2005    |
| 845,000                 | Cdn\$0.40             | June 27, 2007      |
| 25,000                  | Cdn\$0.36             | August 27, 2008    |
| 1,500,000               | Cdn\$0.59             | December 5, 2008   |
| 625,000                 | Cdn\$0.31             | March 21, 2013     |
| <u>4,408,500</u>        |                       |                    |

Under Canadian and United States generally accepted accounting principles, no compensation expense is required to be recorded for stock options issued to employees at fair market value at date of grant. However,

generally accepted accounting principles require disclosure of compensation expense for stock options granted as if it had been determined based on the fair market value-based method. Our net loss (income) for the year and net loss (income) per common share would have been changed to the pro forma amounts below had the fair market value based method been followed:

|                                                                                                                                  | <b>2003</b>           | <b>2002</b>       |
|----------------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------|
| Income (loss) applicable to common shareholders:                                                                                 |                       |                   |
|                                                                                                                                  | \$ (1,459,498)        | \$ 403,679        |
| Stock-based employee compensation expense determined based on fair value method for all awards not included in net (income) loss | (508,697)             | (169,872)         |
| Pro forma                                                                                                                        | <u>\$ (1,968,195)</u> | <u>\$ 233,807</u> |

Income (loss) applicable to common shareholders per share:

|             |           |         |
|-------------|-----------|---------|
| As reported | \$ (0.04) | \$ 0.01 |
| Pro forma   | \$ (0.05) | \$ 0.01 |

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

|                              | <b>2003</b> | <b>2002</b> |
|------------------------------|-------------|-------------|
| Dividend yield (%)           | --          | --          |
| Expected volatility (%)      | 97.6        | 131         |
| Risk-free interest rates (%) | 3.5         | 4.08        |
| Expected lives (years)       | 6.6         | 5.00        |

The fair value of stock option compensation to non-employees during the year ended December 31, 2003 included in consulting fees expense was \$127,516 compared to \$33,372 in 2002.

**d. Warrants**

At December 31, 2003 there were 24,200,000 warrants outstanding entitling the holders to purchase 13,200,000 Common Shares. At December 31, 2002 there were 4,858,334 warrants outstanding entitling the holders to purchase 2,650,000 Common Shares.

|                                                  | 2003        |                                       | 2002        |                                       |
|--------------------------------------------------|-------------|---------------------------------------|-------------|---------------------------------------|
|                                                  | Warrants    | Cdn<br>Wgt. Avg.<br>Exercise<br>Price | Warrants    | Cdn<br>Wgt. Avg.<br>Exercise<br>Price |
| Outstanding and exercisable at beginning of year | 4,858,334   | \$0.33                                | 1,175,000   | \$0.25                                |
| Purchase warrants                                | 22,000,000  | \$0.50                                | 4,416,667   | \$0.35                                |
| Brokers' warrants                                | 2,200,000   | \$0.35                                | 441,667     | \$0.15                                |
| Forfeited                                        | (4,366,667) | \$0.35                                | --          |                                       |
| Exercised                                        | (491,667)   | \$0.17                                | (1,175,000) | \$0.25                                |
| Outstanding and exercisable at end of year       | 24,200,000  | \$0.49                                | 4,858,334   | \$0.33                                |

The range of exercise prices on outstanding warrants is Cdn\$0.35 to Cdn\$0.50 with a weighted average contractual life of 4.0 years at December 31, 2003.

**e. Earnings (Loss) Per Share**

The following table presents a reconciliation of the numerator and denominators used in the basic and diluted income (loss) per share computations, which includes the number of antidilutive securities that were not included in the dilutive income (loss) per share computation. These antidilutive securities occur when options or warrants outstanding hold an option or warrant exercise price greater than the average market price of the year.

|                                                              | For the Year Ended December 31, 2003 |                                          |                     |
|--------------------------------------------------------------|--------------------------------------|------------------------------------------|---------------------|
|                                                              | Net Income<br>(Loss)<br>(Numerator)  | Weighted Avg.<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Loss per common share - basic                                | \$ (1,459,498)                       | 40,162,950                               | \$ (0.04)           |
| Effect of dilutive securities:                               |                                      |                                          |                     |
| Common stock options                                         | --                                   | --                                       |                     |
| Common stock warrants                                        | --                                   | --                                       |                     |
| Loss per share - diluted                                     | <u>\$ (1,459,498)</u>                | <u>40,162,950</u>                        | \$ (0.04)           |
| Antidilutive options not included in diluted loss per share  |                                      | <u>4,408,500</u>                         |                     |
| Antidilutive warrants not included in diluted loss per share |                                      | <u>13,200,000</u>                        |                     |

|                                                                   | <b>For the Year Ended December 31, 2002</b> |                                                   |                             |
|-------------------------------------------------------------------|---------------------------------------------|---------------------------------------------------|-----------------------------|
|                                                                   | <b>Net Income<br/>(Numerator)</b>           | <b>Weighted Avg.<br/>Shares<br/>(Denominator)</b> | <b>Per Share<br/>Amount</b> |
| Income per common share - basic                                   | \$ 403,679                                  | 32,959,486                                        | \$ 0.01                     |
| Effect of dilutive securities:                                    |                                             |                                                   |                             |
| Common stock options                                              | --                                          | 242,788                                           |                             |
| Common stock warrants                                             | --                                          | 205,418                                           |                             |
| Income per share - diluted                                        | <u>\$ 403,679</u>                           | <u>33,407,692</u>                                 | \$ 0.01                     |
| Antidilutive options not included<br>in diluted income per share  |                                             | <u>2,228,500</u>                                  |                             |
| Antidilutive warrants not included<br>in diluted income per share |                                             | <u>--</u>                                         |                             |

## 6. 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.
- b. We rent office space in Spokane, Washington for \$2,000 per month with a commitment through November 2004.
- c. We rent office space in Vancouver, British Columbia, Canada for \$831 per month with a commitment through August 2004.
- 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 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.

## 7. RELATED PARTY TRANSACTIONS

- a. To December 31, 2003, under the terms of an Operating Agreement with Degerstrom, Degerstrom operated and managed the exploration program on all properties and provided related off-site administrative assistance, as required. Consideration was 15% of the costs incurred by Degerstrom on our behalf. Costs paid directly by us were not subject to the fee.

On January 13, 2004, we received approval from the TSX Venture Exchange regarding an agreement with Degerstrom dating from 1995, when Degerstrom's Argentina properties, equipment and data were put into Minera Andes in exchange for common stock. As approved by the TSX Venture Exchange, the Operating Agreement with Degerstrom has been terminated at no cost, effective December 31, 2003. We also purchased back a production bonus that would have required the issuance of 1,213,409 common shares to Degerstrom when a bankable feasibility study was completed for a property and a royalty of up to a 2% net smelter return on all properties. We paid Degerstrom \$500,000 to terminate the production bonus and acquire the royalty. We will also pay \$250,000 to Degerstrom should any Minera Andes property, other than the advanced-stage Huevos Verdes silver/gold property, reach a production decision within the next ten years.

In the opinion of management, the value of royalty and production bonus acquired exceeded the exchange value; however, it was impractical to obtain independent evidence supporting valuation, accordingly, no valuation was obtained. The transaction was recorded at carrying value of nil, with the difference between the exchange and carrying value being charged against the deficit in 2003.

- b. During the years ended December 31, 2003 and 2002, administrative fees were paid to Degerstrom of \$49,226 and \$41,144 on total costs incurred by us of \$377,402 and \$315,434 respectively. As of December 31, 2003, \$30,531 (2002 - \$25,746) was payable.

During 2003 and 2002, we incurred the following transactions with related parties: financial consulting to a director totaling \$1,120 and \$1,680; geological consulting to a director totaling \$3,613 (\$ nil for 2002), and legal fees to a firm in which a director and officer is an associate, totaling \$112,019 and \$43,719, respectively. The above noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 8. INCOME TAXES

Due to the losses we incurred, there is no income tax provision or benefit recorded for the years presented. The net future tax asset at December 31, 2003 of approximately \$1,215,000 and 2002 of approximately \$1,235,000 is comprised only of net operating loss carryforwards which is totally offset by an identical valuation allowance. No future tax asset has been recognized due to the uncertainty of future realization.

We had Canadian non-capital losses available to carry forward to apply against future taxable income of approximately \$3.47 million expiring as follows:

|       |                    |
|-------|--------------------|
| 2004: | 315,000            |
| 2005: | 454,000            |
| 2006: | 706,000            |
| 2007: | 537,000            |
| 2008: | 365,000            |
| 2009: | 450,000            |
| 2010: | 645,000            |
|       | <u>\$3,472,000</u> |

The tax benefit of net operating losses carried forward and the associated valuation allowance were reduced by approximately \$178,000 (2002 - 21,000) representing the tax effect of losses which expired during the year.

Major items causing our effective tax rate to differ from the statutory rate is as follows:

|                                        | <b>December 31, 2003</b> |            | <b>December 31, 2002</b> |            |
|----------------------------------------|--------------------------|------------|--------------------------|------------|
| Income tax (benefit) at statutory rate | (\$510,824)              | (35%)      | \$153,398                | 38%        |
| Change in statutory rate               | 82,810                   | 6%         | 117,602                  | 29%        |
| Expiry from loss                       | 178,014                  | 12%        | --                       | --%        |
| Permanent difference                   | 270,000                  | 18%        | --                       | --%        |
| Changes in valuation allowance         | (20,000)                 | (1%)       | (271,000)                | (67%)      |
|                                        | <u>\$ --</u>             | <u>--%</u> | <u>\$ --</u>             | <u>--%</u> |

## 9. COMPARATIVE FIGURES

Certain financial statement line items from prior years have been reclassified to conform with the current year's presentation. These reclassifications had no effect on the net income and accumulated deficit as previously presented.

## 10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As discussed in Note 2, 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:

### a. 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 years ended December 31, 2003 and 2002 and for the period from July 1, 1994 (commencement) through December 31, 2003, we would have recorded compensation expense of \$0, \$0 and \$6,324,914 respectively, under U.S. GAAP.

### b. 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. Therefore, we have presented the effect of expensing all deferred exploration costs as a reconciling item between U.S. and Canadian GAAP.

As the Company's 2003 investment in MSC is effectively an investment in a property without proven and probable reserves it has been expensed for U.S. GAAP purposes.

During 2003 we recorded, for Canadian GAAP purposes, the acquisition of royalty interests at carrying value, nil (Note 7). Under U.S. GAAP, the acquisition would be recorded at the \$500,000 exchange value; charged as a deferred exploration cost and expensed.

**c. Impact on Consolidated Financial Statements**

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

|                                                              | <b>Dec. 31, 2003</b> | <b>Dec. 31, 2002</b> |
|--------------------------------------------------------------|----------------------|----------------------|
| Shareholders' equity, end of year,<br>per Canadian GAAP      | \$ 7,401,958         | \$ 4,565,490         |
| Adjustment for acquisition and<br>deferred exploration costs | (915,299)            | (3,536,448)          |
| Adjustment for investment                                    | (4,063,127)          | --                   |
| Shareholders' equity, end of year,<br>per U.S. GAAP          | <u>\$ 2,423,532</u>  | <u>\$ 1,029,042</u>  |

|                                                                        | <b>Year Ended</b>        |                          | <b>Period from<br/>July 1, 1994<br/>(commencement)<br/>through<br/>December 31,<br/>2003</b> |
|------------------------------------------------------------------------|--------------------------|--------------------------|----------------------------------------------------------------------------------------------|
|                                                                        | <b>Dec. 31,<br/>2003</b> | <b>Dec. 31,<br/>2002</b> |                                                                                              |
| Net income (loss) for the period, per<br>Canadian GAAP                 | \$ (1,459,498)           | \$ 403,679               | \$ (14,833,345)                                                                              |
| Adjustment for acquisition of Scotia                                   | --                       | --                       | (248,590)                                                                                    |
| Adjustment for compensation expense                                    | --                       | --                       | (6,324,914)                                                                                  |
| Adjustment for deferred exploration costs, net                         | (199,831)                | (16,059)                 | (915,299)                                                                                    |
| Adjustment for investment                                              | <u>\$ (1,742,147)</u>    | <u>--</u>                | <u>\$ (4,063,127)</u>                                                                        |
| Net income (loss) for the period, per U.S.                             | <u>\$ (3,401,476)</u>    | <u>\$ 387,620</u>        | <u>\$ (26,385,275)</u>                                                                       |
| Basic and diluted net income (loss) per<br>common share, per U.S. GAAP | <u>\$ (0.09)</u>         | <u>\$ 0.01</u>           |                                                                                              |

During 1995, we issued 336,814 Common Shares for the acquisition of Scotia. Under U.S. GAAP, these shares would be valued at \$248,590, the fair market value of the shares issued. This value, plus the \$17,215 of net liabilities of Scotia assumed by the Company, would have been recorded as property rights at the acquisition date under U.S. GAAP.

## 11. SUBSEQUENT EVENTS

On January 1, 2004, we adopted a defined contribution benefit plan (the “Plan”) authorized under Section 401(k) of the Internal Revenue Code for all employees who are 21 years of age, have completed one year of service, and have worked a minimum of 1,000 hours annually. All employees as of January 1, 2004 were eligible to participate in the Plan. Eligible employees can contribute up to 100% of their prior year compensation. We will contribute 100% of the first 4% of the employee’s contribution. We will also make an annual discretionary contribution as determined by the board of directors.

On March 12, 2004, we issued 10,000,000 units through a private placement at a price of Cdn\$0.65 per unit for gross proceeds of Cdn\$6.5 million.

Under terms of the offering, each unit will consist of one common share and one-half of one common share purchase warrant. One whole common share purchase warrant will entitle the holder to purchase one additional common share at an exercise price of Cdn\$0.80 per share for a period of 18 months from the closing date. The private placement is subject to receiving regulatory approval and issued securities are subject to a four month hold period.

Our agents will receive a 7% commission and agents’ warrants equal to 10% of the aggregate number of units issued pursuant to the offering. Each agents’ warrant upon exercise will entitle the holder to acquire one common share at an exercise price of Cdn\$0.80 per common share for a period of 18 months from the date of issue.

### **ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 8A. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our President and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in reaching that level of assurance.

As of the end of the period being reported upon, we carried out an evaluation, under the supervision and with the participation of management, including our President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

### PART III

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Information with respect to our directors, executive officers and significant employees is set forth below.

| Name                   | Age | Positions Held                                  |
|------------------------|-----|-------------------------------------------------|
| Allen Ambrose          | 47  | President and Director                          |
| Brian Gavin            | 48  | Vice-President of Exploration, Director of MASA |
| Jorge Vargas           | 62  | Director and President of MASA & MSC            |
| Gary Craig             | 55  | Director                                        |
| John Johnson Crabb     | 78  | Director                                        |
| A.D. (Darryl) Drummond | 67  | Director                                        |
| Bonnie L. Kuhn         | 38  | Secretary, CFO and Director                     |

**Allen Ambrose, *President and Director***, has 24 years of experience in the mining industry and has been a director of Minera Andes since November 1995. Mr. Ambrose was employed by Degerstrom from 1988 to 2003. Prior to joining Degerstrom, Mr. Ambrose was a geologist for Cyprus Minerals, Kidd Creek Mines, Molycorp, Boise Cascade and Dennison Mines. Mr. Ambrose has extensive experience in all phases of exploration, project evaluation and project management and has worked as a geologist consultant in the U.S., Venezuela and most recently Argentina. He holds a B.Sc. degree in Geology from Eastern Washington University. While consulting for Gold Reserve Corporation, he was a co-discoverer of the auriferous massive sulfide exposure that led to their acquisition of the Brisas project in Venezuela. Mr. Ambrose sat on the board of directors of Cadre Resources Ltd. until March 2001 and has been a director of Saxony Explorations Ltd. And Kaieteur Resource Corporation since July 2002.

**Brian Gavin, *Vice President of Exploration, Director of MASA***, has 24 years of experience in exploration geology. Mr. Gavin has extensive experience in all phases of exploration, project evaluation and project management in the search for precious and base metals, industrial minerals and has worked in the field as project manager and consultant in the U.S., Mexico, Nigeria, Argentina and most recently, in Romania. He holds a B. Sc. (Honours) degree in Geology from the University of London and M. S. degree in Geology and Geophysics from the University of Missouri-Rolla. From 1981 to 1993, he was a consultant with Ernest K. Lehman & Associates, which is a geological mining consulting firm. From 1993 to 2003, he was employed by Degerstrom. Mr. Gavin has served as an officer and director of Franconia Minerals Corporation since June 2001.

**Jorge Vargas, *President and Director of MASA and MSC***, received his law degree in 1967 from the National University of Buenos Aires, Argentina. He has been in private practice since 1967. Dr. Vargas also studied mining law at the Law Faculty of the University of Mendoza and was on the organizing committee of the First International Water Rights Conference in Mendoza in 1968. Dr. Vargas is a registered attorney in the provinces of Mendoza and San Juan, and at the Federal level.

**Gary A. Craig, Director**, has been a director since April 12, 2002. Mr. Craig has a degree in Civil Engineering and is currently Vice President of Operations for N.A. Degerstrom, Inc. His responsibilities for Degerstrom include managing 350 employees at various job sites throughout the U.S. and Argentina. Before his employment with Degerstrom, Mr. Craig worked 27 years for Dravo Corporation. The last 20 years with Dravo he worked as project manager for a phosphate mining operation, where he oversaw 100 employees.

**John Johnson Crabb, Director**, graduated from the University of British Columbia in 1951 with a Masters Degree in Geology and has been a director of Minera Andes since November 1995. He was a director of Inland Resources, Inc. from 1985 to November 1995. Mr. Crabb was the director of Pegasus Gold Inc. and Vice President of Exploration for Crowsnest Resources Ltd., a wholly owned subsidiary of Shell Canada.

**A.D. (Darryl) Drummond, Director**, is a Ph.D. and a professional engineer and has been a director of Minera Andes since June 1996. He graduated from the University of British Columbia with a B.A.Sc. in Geological Engineering in 1959 and with a M.A.Sc. in 1961. He obtained his Doctorate degree in 1966 from the University of California at Berkeley. As an undergraduate and graduate, he worked with Kennco Explorations (Western) Ltd. during the period 1958 to 1961. He has been associated with the Placer Development Group of Companies since 1963, first with Craigmont Mines Ltd., then Endako Mines and Gibraltar Mines. At the Placer head office since 1967, he initially was a Research Geologist and then Assistant Exploration Manager, Western Canada, for Canex Placer Ltd. During 1977 to 1979, he was Manager of Placer Development y Cia. Ltda. in Santiago, Chile, then returned to the position of Research Geologist with the Technical Services Advisory Group for the Placer Group of Companies in Vancouver. On March 1, 1981, he and David Howard became principals in a mineral exploration management firm called D.D.H. Geomanagement Ltd. with offices in Vancouver, British Columbia. Since 1981, consulting tasks have concentrated on all aspects of mineral deposit evaluation covering precious metal, base metal and industrial mineral types in such countries as Argentina, Canada, Chile, China, Costa Rica, Ecuador, Guyana, Mexico, Philippines, United States of America and Venezuela. He is a member of the Society of Economic Geology and a member of the Geology Section of the Canadian Institute of Mining and Metallurgy. He is the President of D.D.H. Geomanagement from 1981 to the present; director of Cadre Resources Ltd. from November 1994 to February 1995; director of All North Resources Ltd. from May 1995 to July 9, 1996; and director of International All-North Resources Ltd. from July 10, 1996 to December 23, 1998; director of The Quinto Mining Corporation from September 11, 1996 to August 10, 1997; director of Riverdance Resources Corporation from January 1998 to December 15, 1998; director of Kaieleur Resources Corporation from December 23, 1998 to present; director of Saxony Explorations Ltd. from February 2000 to September 24, 2003; and director of Valerie Gold Resources from November 6, 1998 to March 27, 2003; and director of Valgold Resources Ltd. from March 27, 2003 to present.

**Bonnie L. Kuhn, Secretary, Chief Financial Officer and Director**, has been the Secretary and a director of Minera Andes since June 1997 and has been Chief Financial Officer since May 2000. Since July 2001, Ms. Kuhn has been a senior associate of Field LLP, Barristers and Solicitors. She had been a solicitor with the firm Ogilvie and Company, Barristers and Solicitors, Calgary, Alberta, from January 1994 to December 31, 1998. Ogilvie and Company of Calgary changed its name to Armstrong Perkins Hudson LLP in 1999. From January 1, 1999 to June 2001, Ms. Kuhn was a partner with Armstrong Perkins Hudson. From August 1993 to December 1994, Ms. Kuhn was a Crown prosecutor with the Government of Alberta, Department of Justice. Ms. Kuhn is a member of the Law Society of Alberta and the Canadian Bar Association. She obtained her LLB from the University of Manitoba in 1989. Ms. Kuhn was a director of Talon Petroleums Ltd., an oil and gas exploration company, from September 1997 to September 1999. Ms. Kuhn is currently a director of Tajzha Ventures Ltd., an oil and gas exploration company, and is an officer and director of Franconia Minerals Corporation, and a director of Aludra, Inc.

We have five directors, two of whom are executive officers. Directors serve terms of one year or until their successors are elected or appointed. No remuneration of any kind has been paid to any director, in their capacity as

such, and there is no intention that they will be remunerated in that capacity in the immediate future. We reimburse expenses incurred by directors in connection with their activities on our behalf.

### Section 16(a) Beneficial Ownership Reporting Compliance

Based on the exemption in Exchange Act Rule 3a12-3(b), this item does not apply because Minera Andes is, and at all times during the applicable reporting period has been, a foreign private issuer as defined in Exchange Act Rule 3b-4.

### Code of Ethics

At this time, we have not adopted a formal code of ethics that applies to our President and Chief Financial Officer. We have, however, followed an informal code of ethics requiring Board of Director approval of any transaction in which our President or our Chief Financial Officer has a material interest. We believe this procedure reasonably deters material wrongdoing and promotes honest and ethical conduct from our executive officers.

We plan to adopt a formal code of ethics during the current year. After adopting a formal code of ethics, we intend to disclose substantive amendments to and waivers from that code of ethics on our Web site at <http://www.minandes.com>.

## ITEM 10. EXECUTIVE COMPENSATION

### Summary of Executive Compensation

The following table sets forth compensation paid, directly or indirectly, by Minera Andes during the last fiscal year for services rendered by Allen Ambrose, President, and Brian Gavin, Vice President of Exploration ("Named Executives").

**Summary Compensation Table**

| Executive                                           | Fiscal Year | Annual Compensation |                                | Long Term Compensation                 |
|-----------------------------------------------------|-------------|---------------------|--------------------------------|----------------------------------------|
|                                                     |             | Salary (\$)         | Other Annual Compensation (\$) | Securities Underlying Options/SARs (#) |
| Allen Ambrose (1)<br>President                      | 2003        | 109,236             | 12,013 (2)                     | 510,000                                |
|                                                     | 2002        | 87,444              | 9,903                          | 160,000                                |
|                                                     | 2001        | 87,444              | 9,767                          | --                                     |
| Brian Gavin (1)<br>Vice President of<br>Exploration | 2003        | 109,236             | 12,013 (3)                     | 510,000                                |
|                                                     | 2002        | 87,444              | 9,903                          | 160,000                                |
|                                                     | 2001        | 87,444              | 9,767                          | --                                     |

Notes:

- (1) Allen Ambrose and Brian Gavin, as employees of Degerstrom, provided services under the Operating Agreement (See "Description of the Business") which services were invoiced to us under the Operating Agreement.

- (2) During the 2003 fiscal year, the following benefits were provided to Mr. Ambrose by Degerstrom and invoiced to us:

|                   |         |
|-------------------|---------|
| 401K Base         | \$3,270 |
| 401K Match        | \$2,180 |
| Medical Insurance | \$6,563 |

- (3) During the 2003 fiscal year, the following benefits were provided to Mr. Gavin by Degerstrom and invoiced to us:

|                   |         |
|-------------------|---------|
| 401K Base         | \$3,270 |
| 401K Match        | \$2,180 |
| Medical Insurance | \$6,563 |

### Stock Options Granted in 2003

The following table sets forth certain information concerning individual stock options granted to the Named Executives during the year ended December 31, 2003.

#### Option Grants in the Last Fiscal Year

| Executive     | Number of Securities Underlying Options Granted | Percentage of Total Options Granted to Employees in Fiscal Year | Exercise Price (Cdn\$/Share) | Expiration Date  |
|---------------|-------------------------------------------------|-----------------------------------------------------------------|------------------------------|------------------|
| Allen Ambrose | 150,000                                         | 22.8%                                                           | \$0.31                       | March 21, 2013   |
|               | 360,000                                         |                                                                 | \$0.59                       | December 5, 2008 |
| Brian Gavin   | 150,000                                         | 22.8%                                                           | \$0.31                       | March 21, 2013   |
|               | 360,000                                         |                                                                 | \$0.59                       | December 5, 2008 |

### Aggregated Option Exercises

The following table sets forth certain information concerning the number of shares covered by both exercisable and unexercisable stock options as of December 31, 2003. Also reported are values of "in-the-money" options that represent the positive spread between the respective exercise prices of outstanding stock options and the fair market value of our Common Shares as of December 31, 2003.

#### Fiscal Year-End Option Values

| Executive     | Shares Acquired on Exercise | Value Realized | Number of Shares Underlying Options at Fiscal Year End |               | Value of Unexercised In-the-Money Options at Fiscal Year End (1) (2) |               |
|---------------|-----------------------------|----------------|--------------------------------------------------------|---------------|----------------------------------------------------------------------|---------------|
|               |                             |                | Exercisable                                            | Unexercisable | Exercisable                                                          | Unexercisable |
| Allen Ambrose | 0                           | \$0            | 980,000                                                | 0             | \$70,161                                                             | \$0           |
| Brian Gavin   | 0                           | \$0            | 980,000                                                | 0             | \$70,161                                                             | \$0           |



Notes:

- (1) There were 410,000 stock options for each Named Executive that were in-the-money as of December 31, 2003. On December 31, 2003 the closing price of the Common Shares on TSX-V was Cdn\$0.53.
- (2) The currency exchange rate applied in calculating the value of unexercised in-the-money options was the late New York trading rate of exchange for December 31, 2003 as reported by the *Wall Street Journal* for conversion of United States dollars into Canadian dollars was U.S.\$1.00 = Cdn\$1.2942 or Cdn\$1.00 = U.S.\$0.7727.

### **Stock Option Plan**

The board of directors adopted a stock option plan (the "Plan") which was approved with amendments by the shareholders of the Company at the Annual and Special Meeting of Shareholders held on June 26, 1996, which was subsequently amended at our Annual and Special Meeting of Shareholders held on June 26, 1998, June 23, 1999 and September 3, 2003. The purpose of the Plan is to afford the persons who provide services to Minera Andes or any of its subsidiaries or affiliates, whether directors, officers or employees of Minera Andes or its subsidiaries or affiliates, an opportunity to obtain a proprietary interest in Minera Andes by permitting them to purchase Common Shares and to aid in attracting, as well as retaining and encouraging the continued involvement of such persons with us. Under the terms of the Plan, the board of directors has full authority to administer the Plan in accordance with the terms of the Plan and at any time amend or revise the terms of the Plan provided, however, that no amendment or revision shall alter the terms of options already granted. The aggregate number of shares to be delivered upon exercise of all options granted under the Plan shall not exceed 20% of the our issued and outstanding Common Shares up to a maximum of 6,000,000 shares. No participant may be granted an option under the Plan which exceeds the number of shares permitted to be granted pursuant to rules or policies of any stock exchange on which the Common Shares is then listed.

Under the Plan, the exercise price of the shares covered by each option shall be determined by the directors and shall be not less than the closing price of our Common Shares on the stock exchange or stock exchanges on which the shares are listed on the last trading day immediately preceding the day on which the stock exchange is notified of the proposed issuance of option, less any discounts permitted by the policy or policies of such stock exchange or stock exchanges. If an option is granted within six months of a public distribution of our Common Shares by way of prospectus, then the minimum exercise price of such option shall, if the policy of such stock exchange or stock exchanges requires, be the greater of the price determined pursuant to the provisions of the Plan and the price per share paid by the investing public for our Common Shares acquired by the public during such public distribution, determined in accordance with the policy of such stock exchange or stock exchanges. Options granted under the Plan will not be transferable and, if they are not exercised, will expire one (1) year following the date the optionee ceases to be director, officer, employee or consultant of Minera Andes by reason of death, or ninety (90) days after ceasing to be a director, officer, employee or consultant of Minera Andes for any reason other than death.

At December 31, 2003, 929,000 options were available for grant under the Plan.

### **ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth certain information regarding the beneficial ownership, as of March 12, 2004, of the Common Shares by (i) each person known by us to own beneficially more than 5% of the Common Shares, (ii) each director of Minera Andes, (iii) the Named Executive Officers (iv) all directors and executive officers as a group. Except as otherwise noted, we believe the persons listed below have sole investment and voting power with respect to the Common Shares owned by them.

| <b><u>Named Executive<br/>Officers and Directors</u></b>                                           | <b><u>Shares<br/>Beneficially<br/>Owned (1)</u></b> | <b><u>Percentage of<br/>Common Shares (1)</u></b> |
|----------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------|
| Allen Ambrose<br>111 E. Magnesium Road<br>Spokane, WA 99208                                        | 1,097,200 (2)                                       | 1.55                                              |
| John Johnson Crabb<br>111 E. Magnesium Road<br>Spokane, WA 99208                                   | 365,000 (3)                                         | 0.52                                              |
| Gary A. Craig<br>3303 N. Sullivan Road<br>Spokane, WA 99216                                        | 175,000 (4)                                         | 0.25                                              |
| A.D. (Darryl) Drummond<br>111 E. Magnesium Road<br>Spokane, WA 99208                               | 295,000 (5)                                         | 0.42                                              |
| Brian Gavin<br>111 E. Magnesium Road<br>Spokane, WA 99208                                          | 1,100,400 (2)                                       | 1.55                                              |
| Bonnie L. Kuhn<br>1900, 350 7 <sup>th</sup> Ave. S.W.<br>Calgary, Alberta T2P 2Y3                  | 349,500 (6)                                         | 0.50                                              |
| <b>5% or Greater Shareholders</b>                                                                  |                                                     |                                                   |
| Neal A. and Joan L. Degerstrom<br>3303 North Sullivan Road<br>Spokane, WA 99216                    | 5,775,000 (7)                                       | 8.27                                              |
| Passport Management, LLC<br>402 Jackson Street<br>San Francisco, CA 94111                          | 5,750,000 (8)                                       | 7.98                                              |
| Sprott Asset Management Inc.<br>Royal Bank Plaza, South Tower<br>Suite 2700<br>Toronto, ON M5J 2J1 | 5,937,900 (9)                                       | 8.27                                              |
| <b>All directors and<br/>executive officers<br/>as a group (6 persons)</b>                         | 3,382,100 (10)                                      | 4.64                                              |

Notes:

- (1) Shares which the person or group has the right to acquire within 60 days after March 12, 2004 are deemed to be outstanding in determining the beneficial ownership of the person or group and in calculating the percentage ownership of the person or group, but are not deemed to be outstanding as to any other person or group. Percentage ownership has been calculated based on a total of 69,810,865 shares outstanding.
- (2) Includes stock options entitling the holder to acquire 210,000 shares upon payment of Cdn\$0.55, 100,000 shares upon payment of Cdn\$0.16, 160,000 shares upon payment of Cdn\$0.40, 150,000 shares upon payment of Cdn\$0.31, and 360,000 upon payment of Cdn\$0.59.
- (3) Includes stock options entitling the holder to acquire 120,000 shares upon payment of Cdn\$0.55, 40,000 shares upon payment of Cdn\$0.16, 60,000 shares upon payment of Cdn\$0.40, 40,000 shares upon payment of Cdn\$0.31 and 75,000 shares upon payment of Cdn\$0.59.
- (4) Includes stock options entitling the holder to acquire 60,000 shares upon payment of Cdn\$0.40, 40,000 shares upon payment of Cdn\$0.31 and 75,000 shares upon payment of Cdn\$0.59.
- (5) Includes stock options entitling the holder to acquire 120,000 shares upon payment of Cdn\$0.55, 60,000 shares upon payment of Cdn\$0.40, 40,000 shares upon payment of Cdn\$0.31 and 75,000 shares upon payment of Cdn\$0.59.
- (6) Includes stock options entitling the holder to acquire 80,000 shares upon payment of Cdn\$0.55, 8,500 shares upon payment of Cdn\$0.16, 80,000 shares upon payment of Cdn\$0.40, 60,000 shares upon payment of Cdn\$0.31 and 120,000 shares upon payment of Cdn\$0.59.
- (7) The Common Shares are owned beneficially by Mr. and Mrs. Degerstrom by virtue of their combined majority control of the record owner, N.A. Degerstrom, Inc.
- (8) Passport Master Fund, LP, a British Virgin Islands International Limited Partnership holds 5.86% of our shares (including warrants to acquire 1,602,400 common shares), through which Passport Management, LLC, a Delaware Limited Liability Company, exercises investment discretion and voting authority in respect to the shares. In addition, Passport Master Fund II, LP owns 2.22% of our shares (including warrants to acquire 647,600 common shares) through which Passport Management, LLC exercises investment discretion and voting authority in respect the shares. Passport Management, LLC disclaims beneficial ownership of all such shares.
- (9) Sprott Gold and Precious Minerals Fund holds 6.23% of our shares (including warrants to acquire 1,479,300 common shares) through which Sprott Asset Management Inc. exercises investment discretion and voting authority in respect to the shares. In addition, Sprott Strategic Offshore Gold Fund Ltd. holds 2.13% of our shares (including warrants to acquire 500,000 common shares) through which Sprott Asset Management Inc. exercises investment discretion and voting authority in respect to the shares.
- (10) Includes stock options to acquire 740,000 shares upon payment of Cdn\$0.55, 248,500 shares upon payment of Cdn\$0.16, 580,000 shares upon payment of Cdn\$0.40, 480,000 shares upon payment of Cdn\$0.31 and 1,065,000 shares upon payment of Cdn\$0.59.

## **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Minera Andes, MASA, NADSA and Degerstrom were party to an Operating Agreement whereby Degerstrom operated and managed the exploration program relating to Claims in return for a management fee and certain other consideration. See "Description of Properties —The Degerstrom Agreement."

Allen Ambrose and Brian Gavin both received all of their compensation for management services provided to us under the Operating Agreement from Degerstrom. Neither Mr. Ambrose nor Mr. Gavin performed any services other than in their capacities as President and Vice President of Exploration of Minera Andes respectively. All of the compensation paid to Messrs. Ambrose and Gavin was invoiced back to us by Degerstrom. See "Description of the Business — Operating Structure" and "Executive Compensation." Effective December 31, 2003, the Operating Agreement we had with Degerstrom was terminated, and Mr. Ambrose and Mr. Gavin are now compensated by Minera Andes directly.

During the years ended December 31, 2003 and 2002, administrative fees were paid to Degerstrom of \$49,226 and \$41,144 on total costs incurred by us of \$377,402 and \$315,434 respectively.

During 2003 and 2002, we incurred the following transactions with related parties: financial consulting to a director totaling \$1,120 and \$1,680; geological consulting to a director totaling \$3,613 (\$nil for 2002), and legal fees to a firm in which Bonnie L. Kuhn, a director and officer of Minera Andes, is an associate, totaling \$112,019 and \$43,719, respectively. The above noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K**

### **a. Exhibits**

The Exhibits as indexed on pages 75 through 77 of this report are included as part of this Form 10-KSB.

### **b. Reports on Form 8-K**

A report dated January 13, 2004 was filed with the Securities and Exchange Commission regarding the TSX-V approval of the settlement and termination agreement with N.A. Degerstrom, Inc.

A report dated December 11, 2003 was filed with the Securities and Exchange Commission regarding the conclusion of an agreement with N.A. Degerstrom, Inc. for the termination of the Operating Agreement and Production Bonus Agreement

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

### **a. Audit Fees**

The fees billed for each of the fiscal years ended December 31, 2003 and December 31, 2002 for professional services rendered by BDO Dunwoody LLP for the audit of our annual financial statements and review of financial statements included in our quarterly reports on Form 10-QSB or services that are normally provided by BDO Dunwoody in connection with statutory and regulatory filings or engagements for each of those fiscal years were \$19,250 and \$17,293, respectively.

### **b. Audit Related Fees**

There were no other audit related fees in 2003.

**c. Tax Fees**

Aggregate fees billed by BDO Dunwoody for tax compliance, tax advice and tax planning for each of the fiscal years ended December 31, 2003 and December 31, 2002 were \$2,455 and \$4,025, respectively. These fees include fees relating to the reviews of tax returns, tax consulting and planning.

**d. All Other Fees**

BDO Dunwoody did not bill us for any products or services, other than those services covered in Item 14(a) and (b) for the fiscal years ended December 31, 2003 and December 31, 2002.

**e. Audit Committee Approval of Audit and Non-Audit Services**

In 2003, the Audit Committee had not formally adopted any pre-approval policies and procedures relating to the provision of non-audit services by our independent auditors, BDO Dunwoody. Instead, each type of non-audit service proposed to be provided by BDO Dunwoody was approved on an individual basis by the Audit Committee in advance of the rendering of such non-audit services.

For 2004, the Audit Committee will pre-approve the use of BDO Dunwoody for specific tax-related services. In such case, the Audit Committee will also set a specific annual limit on the amount of such tax-related services that we will obtain from BDO Dunwoody, and will require management to report the specific engagements to the Audit Committee. All other non-audit services other than the pre-approved services set forth above and any services that exceed the annual limits set forth in the policy must be pre-approved by the Audit Committee.

## INDEX TO EXHIBITS

| <b><u>Exhibit<br/>Number</u></b> | <b><u>Description</u></b>                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                              | Asset and Share Acquisition Agreement between MASA, NADSA, Minera Andes Degerstrom, Brian Gavin, Jorge Vargas, and Enrique Rufino Marzari Elizalde, dated March 8, 1995, as amended on April 19, 1996 (incorporated by reference to Exhibit 2.1 to Minera Andes' Registration Statement on Form 10-SB, Commission File No. 000-22731 (the "Form 10-SB")). |
| 2.2                              | Arrangement between Minera Andes and Scotia Prime Minerals, Inc. (incorporated by reference to Exhibit 2.2 to the Form 10-SB).                                                                                                                                                                                                                            |
| 3.1                              | Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 10-SB).                                                                                                                                                                                                                                                                   |
| 3.2                              | Bylaws (incorporated by reference to Exhibit 3.2 to the Form 10-SB).                                                                                                                                                                                                                                                                                      |
| 10.1                             | Conveyance Agreement between NADSA and N.A. Degerstrom, Inc., dated July 1, 1994 (incorporated by reference to Exhibit 10.1 to the Form 10-SB).                                                                                                                                                                                                           |
| 10.2                             | Conveyance Agreement between NADSA and N.A. Degerstrom, Inc., dated July 1, 1994 (incorporated by reference to Exhibit 10.2 to the Form 10-SB).                                                                                                                                                                                                           |
| 10.3                             | Operating Agreement between Minera Andes and N.A. Degerstrom, Inc. dated March 15, 1995 (incorporated by reference to Exhibit 10.3 to the Form 10-SB).                                                                                                                                                                                                    |
| 10.4                             | Share Option Agreement between Minera Andes and Jorge Vargas, dated March 15, 1995 (incorporated by the reference to Exhibit 10.4 to the Form 10-SB).                                                                                                                                                                                                     |
| 10.5                             | Share Option Agreement between Minera Andes and Enrique Rufino Marzari Elizalde, dated March 15, 1995 (incorporated by reference to Exhibit 10.5 to the Form 10-SB).                                                                                                                                                                                      |
| 10.6                             | Special Warrant Indenture between Minera Andes and Montreal Trust Company of Canada, dated December 13, 1996 (incorporated by reference to Exhibit 10.18 to the Form 10-SB).                                                                                                                                                                              |
| 10.7                             | Purchase Warrant Indenture between Minera Andes and Montreal Trust Company of Canada, dated December 13, 1996 (incorporated by reference to Exhibit 10.19 to the Form 10-SB).                                                                                                                                                                             |
| 10.8                             | Agreement dated April 30, 1996 between Minera Andes and Waiata Resources for the provision of financial advisory services (incorporated by reference to Exhibit 10.20 to the Form 10-SB).                                                                                                                                                                 |
| 10.9                             | Amended Stock Option Plan, dated June 26, 1996, as amended June 26, 1998, as amended June 23, 2000 (incorporated by reference to Exhibit 10.15 to the Form 10-KSB for the fiscal year ended December 31, 2000).                                                                                                                                           |

- 10.10 Purchase and Sales Agreement (Chubut cateos, Mina León I, Mina León II and Leleque) dated August 28, 2000 between Minera Andes S.A. and Cordon Leleque S.A.(incorporated by reference to Exhibit 10.17 to the Form 10-KSB for the fiscal year ended December 31, 2000).
- 10.11 Purchase and Sales Agreement (Chubut cateos, Willimanco) dated August 28, 2000 between Minera Andes S.A. and Minera El Desquite S.A.(incorporated by reference to Exhibit 10.18 to the Form 10-KSB for the fiscal year ended December 31, 2000).
- 10.12 Option and Joint Venture Agreement (El Pluma/Cerro Saavedra properties, now referred to as San José) between Minera Andes and Mauricio Hochschild & Cia. Ltda. dated March 15, 2001(incorporated by reference to Exhibit 10.19 to the Form 10-KSB for the fiscal year ended December 31, 2000).
- 10.13 Amendment to the Option and Joint Venture Agreement (El Pluma/Cerro Saavedra properties, now referred to as San José) between Minera Andes and Mauricio Hochschild & Cia. Ltda. of March 15, 2001 dated May 14, 2002 (incorporated by reference to Exhibit 10.20 to the third quarter 2002 10-QSB).
- 10.14 Second Amendment to the Option and Joint Venture Agreement (El Pluma/Cerro Saavedra properties, now referred to as San José) between Minera Andes and Mauricio Hochschild & Cia. Ltda. of March 15, 2001 dated August 27, 2002 (incorporated by reference to Exhibit 10.21 to the third quarter 2002 10-QSB).
- 10.15 Key Executive Employment Contract between Allen Ambrose and Minera Andes, effective January 1, 2003 (incorporated by reference to Exhibit 10.15 to the Form 10-KSB for the fiscal year ended December 31, 2002).
- 10.16 Key Executive Employment Contract between Brian Gavin and Minera Andes, effective January 1, 2003 (incorporated by reference to Exhibit 10.15 to the Form 10-KSB for the fiscal year ended December 31, 2002).
- 10.17 Amendment to Key Executive Employment Contract between Allen Ambrose and Minera Andes (incorporated by reference to Exhibit 10.1 to the third quarter 2003 10-QSB).
- 10.18 Amendment to Key Executive Employment Contract between Brian Gavin and Minera Andes (incorporated by reference to Exhibit 10.1 to the third quarter 2003 10-QSB).
- 10.19 Amended Stock Option Plan dated September 3, 2003 (incorporated by reference to Exhibit 10.1 to the third quarter 2003 10-QSB).
- 10.20 Settlement Agreement dated December 2, 2003 between Minera Andes Inc. and N.A. Degerstrom, Inc.\*
- 21.1 List of subsidiaries.\*
- 23.1 Consent of BDO Dunwoody LLP.\*
- 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 and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Exhibits filed herewith

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### MINERA ANDES INC.

Registrant

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

Date: March 26, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 26, 2004

By: /s/ Allen V. Ambrose  
Allen V. Ambrose, Director  
and Principal Executive Officer

Date: March 26, 2004

By: /s/ John Johnson Crabb  
John Johnson (Jack) Crabb, Director

Date: March 26, 2004

By: /s/ Gary A. Craig  
Gary A. Craig, Director

Date: March 26, 2004

By: /s/ A.D. Drummond  
A.D. (Darryl) Drummond, Director

Date: March 26, 2004

By: /s/ Bonnie L. Kuhn  
Bonnie L. Kuhn, Director and Principal  
Accounting and Financial Officer

## QUARTERLY AND YEAR END REPORT

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

**MINERA ANDES INC.**  
**Supplementary Information**  
**for the Year Ended December 31, 2003**

---

**1. Analysis of expenses and deferred costs:**

See consolidated financial statements (Item 7) included in the Form 10-KSB filed with Schedule A.

**2. Related party transactions:**

See Footnote 7 to the consolidated financial statements (Item 7) included in the Form 10-KSB filed with Schedule A.

**3. Summary of securities issued and options granted during the 12 months ended December 31, 2003:**

See Footnote 5 to the consolidated financial statements (Item 7) included in the Form 10-KSB filed with Schedule A.

**4. Summary of securities at December 31, 2003:**

- a) Authorized
- b) Issued and Outstanding
- c) Options, warrants and convertible securities

See Footnote 5 to the consolidated financial statements (Item 7) included in the Form 10-KSB filed with Schedule A for 4(a) through 4(c).

- d) Shares subject to escrow or pooling arrangements

No shares of any class are subject to escrow or pooling arrangements.

**5. Directors and Officers as at April 30, 2004:**

|                    |                             |
|--------------------|-----------------------------|
| Allen V. Ambrose   | President and Director      |
| John Johnson Crabb | Director                    |
| A.D. Drummond      | Director                    |
| Brian Gavin        | Vice President, Exploration |
| Gary A. Craig      | Director                    |
| Bonnie L. Kuhn     | CFO, Secretary, Director    |

**MINERA ANDES INC.**  
**Management Discussion and Analysis**  
**for the Year Ended December 31, 2003**

---

See the Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 6) in the Form 10-KSB filed with Schedule A.