MINERA ANDES INC /WA
Form 10QSB
August 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2001

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _____________

Commission file Number 000-22731

MINERA ANDES INC.
(Exact name of small business issuer as specified in its charter)

ALBERTA, CANADA
(State or other jurisdiction of incorporation or organization)

NONE
(I.R.S. Employer Identification No.)

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

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

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

Shares outstanding as of July 31, 2001: 30,046,030 shares of common stock, with no par value

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

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

	June 30, 2001	December 2000
ASSETS		
Current:		
Cash and cash equivalents	$ 41,978	$ 10
Receivables and prepaid expenses	56,563	3
Total current assets	98,541	13
Mineral properties and deferred exploration costs	3,738,147	3,85
Capital assets, net	21,085	4
Total assets	$ 3,857,773	$ 4,03
LIABILITIES		
Current:		
Accounts payable and accruals	$ 31,255	$ 4
Due to related parties	101,295	5
Total current liabilities	132,550	9

SHAREHOLDERS' EQUITY

Share capital	18,197,422	18,18
Accumulated deficit	(14,472,199)	(14,25
Total shareholders' equity	3,725,223	3,93
Total liabilities and shareholders' equity	$ 3,857,773	$ 4,03

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

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

	Three Months Ended		Six Months E
	June 30, 2001	June 30, 2000	June 30, 2001
Administration fees	$ 6,298	$ 5,788	$ 12,154
Audit and accounting	4,452	7,910	32,238
Consulting fees	8,520	28,060	17,239
Depreciation	1,070	985	2,139
Equipment rental	0	1,518	0
Foreign exchange (gain) loss	(402)	6,242	147
Insurance	6,300	16,613	12,600
Legal	14,935	34,447	38,009
Maintenance	0	0	0
Materials and supplies	0	31	0
Office overhead	27,596	33,762	42,653
Telephone	5,354	8,926	9,870
Transfer agent	1,781	2,859	3,354
Travel	382	460	3,511
Wages and benefits	39,587	33,133	76,416
Write-off of deferred costs	0	0	0
Total expenses	115,873	180,734	250,330
Gain on sale of capital assets	(11,812)	0	(31,920)
Interest income	(28)	(6,977)	(277)
Net loss for the period	104,033	173,757	218,133
Accumulated deficit, beginning of the period	14,368,166	13,293,784	14,254,066

Share issue costs	0	0	0	
Deficiency on acquisition of subsidiary	0	0	0	
Accumulated deficit, end of the period	$14,472,199	$13,467,541	$14,472,199	$
Basic and diluted net loss per common share	$ 0.01	$ 0.01	$ 0.01	$
Weighted average shares outstanding	30,046,030	30,000,030	30,031,798	

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

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

	Three Months Ended		Six Months
	June 30, 2001	June 30, 2000	June 30, 2001
Administration fees	$ 3,937	$ 4,840	$ 8,534
Assays and analytical	0	21,293	0
Construction and trenching	0	0	0
Consulting fees	2,141	14,883	12,526
Depreciation	1,840	4,681	4,779
Drilling	0	53,440	0
Equipment rental	0	696	0
Geology	0	38,505	1,628
Geophysics	0	0	0
Insurance	2,635	5,503	5,270
Legal	194	2,649	28,620
Maintenance	741	1,705	1,502
Materials and supplies	1,175	1,860	1,404
Project overhead	434	1,304	1,868
Property and mineral rights	0	724	2,364
Telephone	20	3,116	292
Travel	2,162	20,025	4,559
Wages and benefits	24,858	32,268	55,504
Costs incurred during the period	40,137	207,492	128,850
Deferred costs, beginning of the period	3,698,010	3,994,409	3,859,297
Deferred costs acquired	0	0	0
Deferred costs written off	0	0	0
Mineral property option proceeds	0	0	(250,000)
Deferred costs, end of the period	$3,738,147	$4,201,901	$3,738,147

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-Unaudited)

	Three Months Ended		Six
	June 30, 2001	June 30, 2000	June 30, 2001
Operating Activities			
Net loss for the period	$ (104,033)	$ (173,757)	$ (218,
Adjustments to reconcile net loss to net cash used in operating activities:			
Write-off of incorporation costs	0	0	
Write-off of deferred costs	0	0	
Depreciation	1,070	985	2,
Gain on sale of capital assets	(11,812)	0	(31,
Change in:			
Receivables and prepaid expense	(6,225)	(13,135)	(24,
Accounts payable and accruals	(37,268)	(2,047)	(17,
Due to related parties	76,363	30,479	50,
Cash used in operating activities	(81,905)	(157,475)	(238,
Investing Activities			
Incorporation costs	0	0	
Sale (purchases) of capital assets	14,980	0	44,
Mineral properties and deferred exploration	(38,297)	(202,811)	(124,
Acquisition of subsidiaries	0	0	
Mineral property option proceeds	0	0	250,
Cash provided by (used in) investing activities	(23,317)	(202,811)	170,
Financing Activities			
Shares issued for cash, less issue costs	0	0	7,
Cash provided by financing activities	0	0	7,
Increase (decrease) in cash and cash equivalents	(105,222)	(360,286)	(59,
Cash and cash equivalents, beginning of the period	147,200	854,248	101,

Cash and cash equivalents, end of the period	$ 41,978	$493,962	$ 41,

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-Unaudited)

1. Accounting Policies

The accompanying consolidated financial statements of Minera Andes Inc. (the "Corporation") for the three month and six month periods ended June 30, 2001 and 2000 and for the period from commencement (July 1, 1994) through June 30, 2001 have been prepared in accordance with accounting principles generally accepted in Canada which differ in certain respects from principles and practices generally accepted in the United States, as described in Note 2. Also, they are unaudited but, in the opinion of management, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation. Interim results are not necessarily indicative of results which may be achieved in the future. The December 31, 2000 financial information has been derived from the Corporation's audited consolidated financial statements.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2000. The accounting policies set forth in the audited annual consolidated financial statements are the same as the accounting policies utilized in the preparation of these consolidated financial statements, except as modified for appropriate interim presentation.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain necessary financing to complete their development, and future profitable production or disposition thereof. The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in Canada applicable to a going concern. The use of such principles may not be appropriate because, as of June 30, 2001, there was significant doubt that the Corporation would be able to continue as a going concern.

For the six months ended June 30, 2001, the Corporation had a loss of approximately $218,000 and an accumulated deficit of approximately $14.5 million. In addition, due to the nature of the mining business, the acquisition, exploration and development of mineral properties requires significant expenditures prior to the commencement of production. To date, the Corporation has financed its activities through the sale of equity securities and joint venture arrangements. The Corporation expects to use similar financing techniques in the future and is actively pursuing such additional sources of financing.

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

2. Differences Between Canadian and United States Generally Accepted Accounting Principles

Differences between Canadian and U.S. generally accepted accounting principles ("GAAP") as they pertain to the Corporation relate to accounting for share issue costs, loss per share, non-cash issuance of common shares, the acquisition of Scotia Prime Minerals, Incorporated, compensation expense associated with the release of shares from escrow, mineral properties and deferred exploration costs and stock-based compensation and are described in Note 13 to the Corporation's consolidated financial statements for the year ended December 31, 2000.

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

	June 30, 2001	Dec. 31, 2000
Accumulated deficit, end of period, per Canadian GAAP	$14,472,199	$14,254,066
Adjustment for acquisition of Scotia	248,590	248,590
Adjustment for compensation expense	6,324,914	6,324,914
Adjustment for share issue costs	(843,014)	(843,014)
Adjustment for deferred exploration costs	3,584,995	3,708,509
Accumulated deficit, end of period, per U.S. GAAP	$23,787,684	$23,693,065

	June 30, 2001	Dec. 31, 2000
Share capital, per Canadian GAAP	$18,197,422	$18,189,864
Adjustment for acquisition of Scotia	248,590	248,590
Adjustment for compensation expense	6,324,914	6,324,914
Adjustment for share issue costs	(843,014)	(843,014)

Share capital, per U.S. GAAP	$23,927,912	$23,920,354

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net loss for the period, per Canadian GAAP	$104,033	$173,757	$218,133	$364,120
Adjustment for acquisition of Scotia	0	0	0	0
Adjustment for compensation expense	0	0	0	0
Adjustment for deferred exploration costs	40,137	206,768	126,486	566,110
Loss for period, per U.S. GAAP	$144,170	$380,525	$344,619	$930,230
Loss per common share, per U.S. GAAP	$ 0.01	$ 0.01	$ 0.01	$ 0.03

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

3. Changes to Share Capital

At January 31, 2001, warrants to acquire 9,200,000 Common Shares at an exercise price of Cdn$0.35 per share expired without being exercised.

During the quarter ended March 31, 2001, the Corporation issued 46,000 shares for the exercise of stock options and received proceeds of Cdn$11,500 (US$7,558).

4. Basic and Diluted Loss Per Common Share

Basic earnings per share (EPS) is calculated by dividing loss applicable to common shareholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. Due to the losses in 2001 and 2000, potentially dilutive securities were excluded from the calculation of diluted EPS, as they were anti-dilutive. Therefore, there was no difference in the calculation of basic and diluted EPS in 2001 and 2000.

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

Note Regarding Forward-Looking Statements

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

Overview

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

Plan of Operations

The Corporation has negative working capital of approximately $(34,000). However, the funds to be received from the joint ventures on the El Pluma/Cerro Saavedra and Chubut properties, as estimated by management,

are expected to be sufficient to cover its budgeted expenditures for mineral property and exploration activities on its properties in Argentina, and general and administrative expenses through the end of 2001.

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

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

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

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

The Corporation has budgeted and plans to spend approximately $0.3 million on its mineral property and exploration activities and general and administrative expenses for the balance of the year ending December 31, 2001, with most properties being kept on care and maintenance. Because the Corporation's existing funds will only be sufficient to finance these activities through the end of 2001, the Corporation will need to raise additional funding during the next six months in order to continue its operations over the longer term. If additional funds are raised during 2001, 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 could be planned and carried out on the Corporation's properties. If the Corporation were to develop a property or a group of properties beyond the exploration stage, substantial additional financing would be necessary. Such financing would likely be in the form of equity, debt, or a combination of equity and debt. The Corporation is working on various plans to obtain such financing but there is no assurance that such financing will be available to the Corporation on favorable terms.

Results of Operations

Second quarter 2001 compared with second quarter 2000

The Corporation had a net loss of $104,000 ($0.01 per share) for the second quarter of 2001, compared with a net loss of $174,000 ($0.01 per shares) for the second quarter of 2000, as the Corporation continued to cut costs wherever possible. Total mineral property and deferred exploration costs were $40,000 during the second quarter of 2001, compared with $207,000 spent in the second quarter of 2000. The Corporation is

maintaining its staff in Argentina at minimum levels, while during the second quarter, Hochschild commenced exploration expenditures on the El Pluma/Cerro Saavedra property, in accordance with the joint venture agreement.

Six months ended June 30, 2001 compared with the six months ended June 30, 2000

The Corporation had a net loss of $218,000 for the six months ended June 30, 2001, compared with a net loss of $364,000 for the comparable period in 2000. Total mineral property and deferred exploration costs for the six months were $129,000 (before mineral property option proceeds) in 2001 and $579,000 in the comparable period of 2000. Expenditures in both years were focused on the El Pluma/Cerro Saavedra property. Deferred expenditures related to mineral properties and exploration were $3,738,000 at June 30, 2001, compared with $4,202,000 at June 30, 2000.

Liquidity and Capital Resources

Due to the nature of the mining industry, the acquisition, exploration and development of mineral properties requires significant expenditures prior to the commencement of production. To date, the Corporation has financed its activities through the sale of equity securities and joint venture arrangements. The Corporation expects to use similar financing techniques in the future. However, there can be no assurance that the Corporation will be successful with such financings. See "Plan of Operations".

At June 30, 2001, the Corporation had cash and cash equivalents of $42,000, compared to $494,000 at June 30, 2000. Working capital at June 30, 2001 was negative by $(34,000). The Corporation's operating activities showed some savings and used $238,000 for the first six months of 2001, compared with $383,000 in 2000. Investing activities provided $171,000 in the 2001 period compared with $570,000 used in 2000.

The receipt of $250,000 in mineral property option proceeds in the first six months of 2001 provided this contribution. The focus in both periods in 2001 and 2000 was on the El Pluma/Cerro Saavedra property, although the Corporation's expenditures are reduced this year as a result of the Hochschild joint venture on the property. Cash and cash equivalents decreased by $60,000 in the first six months of 2001, compared to an increase of $10,000 in the same period in 2000.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain necessary financing to complete their development, and future profitable production or disposition thereof. The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in Canada applicable to a going concern. The use of such principles may not be appropriate because, as of June 30, 2001, there was significant doubt that the Corporation would be able to continue as a going concern.

For the six months ended June 30, 2001, the Corporation had a loss of approximately $218,000 and an accumulated deficit of approximately $14,472,000. In addition, due to the nature of the mining business, the acquisition, exploration and development of mineral properties requires significant expenditures prior to the commencement of production. To date, the Corporation has financed its activities through the sale of equity securities and joint venture arrangements. The Corporation expects to use similar financing techniques in the future and is actively pursuing such additional sources of financing.

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

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PART II - OTHER INFORMATION

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

a. The Corporation held its annual general and special meeting of shareholders in Calgary, Alberta on June 8, 2001.

b. The following directors were elected at the meeting: Allen V. Ambrose, John Johnson Crabb, A.D. Drummond, Armand Hansen, Bonnie L. Kuhn and Allan J. Marter.

c. The following matters were voted on at the meeting:

Matters	For	Against
Ordinary resolution setting the number of directors at six (6):	14,829,832	72,05
Election of directors for the ensuing year to be Allen V. Ambrose, Armand Hansen, Bonnie L. Kuhn, John Johnson Crabb, A.D. Drummond, and Allan J. Marter	14,835,582	
Appointment of PricewaterhouseCoopers LLP as auditor for the ensuing year at a remuneration to be fixed by the directors:	14,842,582	

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits: None

b. Reports on Form 8-K: None

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SIGNATURES

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

MINERA ANDES INC.

Date: August 13, 2001	By: /s/ Allen V. Ambrose
	Allen V. Ambrose President
Date: August 13, 2001	By: /s/ Bonnie L. Kuhn
	Bonnie L. Kuhn Chief Financial Officer and Secretary