

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

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 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 No

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

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

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

	September 30, 2001	December 31, 2000
	-----	-----
ASSETS		
Current:		
Cash and cash equivalents	\$ 191,075	\$ 101,818
Receivables and prepaid expenses	30,679	32,439
	-----	-----
Total current assets	221,754	134,257
Mineral properties and deferred exploration costs	3,482,582	3,859,297
Capital assets, net	11,024	41,063
	-----	-----
Total assets	\$ 3,715,360	\$ 4,034,617
	=====	=====
LIABILITIES		
Current:		
Accounts payable and accruals	\$ 1,915	\$ 48,512
Due to related parties	52,128	50,307
	-----	-----
Total current liabilities	54,043	98,819
	-----	-----

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SHAREHOLDERS' EQUITY

Share capital	18,197,422	18,189,864
Accumulated deficit	(14,536,105)	(14,254,066)
Total shareholders' equity	3,661,317	3,935,798
Total liabilities and shareholders' equity	\$ 3,715,360	\$ 4,034,617

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		Nine Months Ended	
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000
Administration fees	\$ 6,268	\$ 5,477	\$ 18,422	\$ 18,422
Audit and accounting	4,252	7,197	36,490	36,490
Consulting fees	8,377	18,906	25,616	25,616
Depreciation	1,069	986	3,208	3,208
Equipment rental	0	(525)	0	0
Foreign exchange (gain) loss	398	4,076	545	545
Insurance	6,300	16,612	18,900	18,900
Legal	17,275	19,641	55,284	55,284
Maintenance	0	398	0	0
Materials and supplies	0	(31)	0	0
Office overhead	12,615	18,409	55,268	55,268
Telephone	3,842	5,922	13,712	13,712
Transfer agent	1,136	3,534	4,490	4,490
Travel	877	520	4,388	4,388
Wages and benefits	39,542	32,911	115,958	115,958
Write-off of deferred costs	0	0	0	0
Total expenses	101,951	134,033	352,281	352,281
Gain on sale of capital assets	(37,648)	0	(69,568)	(69,568)
Interest income	(397)	(3,739)	(674)	(674)
Net loss for the period	63,906	130,294	282,039	282,039
Accumulated deficit, beginning of the period	14,472,199	13,467,541	14,254,066	14,254,066
Share issue costs	0	0	0	0
Deficiency on acquisition of subsidiary	0	0	0	0
Accumulated deficit, end of the period	\$ 14,536,105	\$ 13,597,835	\$ 14,536,105	\$ 14,536,105
Basic and diluted net loss per common share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01

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Weighted average shares outstanding	30,046,030	30,000,030	30,036,594
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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		Nine Months Ended	
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000
Administration fees	\$ 3,906	\$ 4,988	\$ 12,440	\$ 12,440
Assays and analytical	0	160	0	160
Construction and trenching	0	0	0	0
Consulting fees	3,179	13,521	15,705	13,521
Depreciation	1,841	4,680	6,620	4,680
Drilling	0	0	0	0
Equipment rental	0	0	0	0
Geology	700	8,141	2,328	8,141
Geophysics	0	0	0	0
Insurance	2,635	5,899	7,905	5,899
Legal	0	4,356	28,620	4,356
Maintenance	376	759	1,878	759
Materials and supplies	170	577	1,574	577
Project overhead	544	2,020	2,412	2,020
Property and mineral rights	2,565	5,005	4,929	5,005
Telephone	19	7,606	311	7,606
Travel	2,460	8,228	7,019	8,228
Wages and benefits	26,040	33,249	81,544	33,249
Costs incurred during the period	44,435	99,189	173,285	99,189
Deferred costs, beginning of the period	3,738,147	4,201,901	3,859,297	4,201,901
Deferred costs acquired	0	0	0	0
Deferred costs written off	0	0	0	0
Mineral property option proceeds	(300,000)	(50,000)	(550,000)	(50,000)
Deferred costs, end of the period	\$ 3,482,582	\$ 4,251,090	\$ 3,482,582	\$ 4,251,090

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

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

	Three Months Ended		Nine M
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001
Operating Activities			
Net loss for the period	\$ (63,906)	\$ (130,294)	\$ (282,03
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	1,069	986	3,20
Gain on sale of capital assets	(37,648)	0	(69,56
Change in:			
Receivables and prepaid expense	25,884	25,756	1,76
Accounts payable and accruals	(29,340)	(17,112)	(46,59
Due to related parties	(49,167)	89	1,82
Cash used in operating activities	(153,108)	(120,575)	(391,41
Investing Activities			
Incorporation costs	0	0	
Sale (purchases) of capital assets	44,799	(1,853)	89,77
Mineral properties and deferred exploration	(42,594)	(94,509)	(166,66
Acquisition of subsidiaries	0	0	
Mineral property option proceeds	300,000	50,000	550,00
Cash provided by (used in) investing activities	302,205	(46,362)	473,11
Financing Activities			
Shares issued for cash, less issue costs	0	0	7,55
Cash provided by financing activities	0	0	7,55
Increase (decrease) in cash and cash equivalents	149,097	(166,937)	89,25
Cash and cash equivalents, beginning of the period	41,978	493,962	101,81
Cash and cash equivalents, end of the period	\$ 191,075	\$ 327,025	\$ 191,07

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

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

1. Accounting Policies

The accompanying consolidated financial statements of Minera Andes Inc. (the "Corporation") for the three month and nine month periods ended September 30, 2001 and 2000 and for the period from commencement (July 1, 1994) through September 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.

2. Financial Condition and Liquidity

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 September 30, 2001, there was significant doubt that the Corporation would be able to continue as a going concern.

For the nine months ended September 30, 2001, the Corporation had a loss of approximately \$282,000 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.

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

During the quarter ended September 30, 2001, the Corporation sold motor vehicles and other assets in Argentina to N. A. Degerstrom, Inc. for \$35,800, together with all the shares in the Corporation's inactive subsidiary in Argentina, NAD S.A., for a further \$10,000.

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

Differences between Canadian and U.S. generally accepted accounting principles ("GAAP") as they pertain to the 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:

	Sept. 30, 2001	Dec. 31, 2000
	-----	-----
Accumulated deficit, end of period, per Canadian GAAP	\$14,536,105	\$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	3,326,865	3,708,509
	-----	-----
Accumulated deficit, end of period, per U.S. GAAP	\$23,593,460	\$23,693,065
	=====	=====

	Sept. 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
	=====	=====

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

	Three Months Ended		Nine Months Ended		Period July (commen th Sept.
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000	
Net loss for the period, per Canadian GAAP	\$ 63,906	\$ 130,294	\$ 282,039	\$ 494,414	\$ 13
Adjustment for acquisition of Scotia	0	0	0	0	
Adjustment for compensation expense	0	0	0	0	6
Adjustment for deferred exploration costs	(258,130)	44,184	(381,644)	610,294	3
(Profit)/Loss for period, per U.S. GAAP	\$ 194,224	\$ 174,478	\$ (99,605)	\$ 1,104,708	\$ 23
(Profit)/Loss per common share, per U.S. GAAP	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ 0.04	

4. 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).

5. 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.

6. Mineral Properties and Deferred Exploration Costs

Under the terms of the agreement signed in August 2000 with the Brancote Holdings PLC subsidiaries on two of the Corporation's Chubut Province gold

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exploration properties, mineral property option proceeds of \$150,000 were received in the nine months ended September 30, 2001. In the same period, the Corporation received \$400,000 from Mauricio Hochschild & Cia. Ltda. under the option and joint venture agreement signed on March 15, 2001, for the exploration and possible development of the Corporation's El Pluma/Cerro Saavedra properties in Santa Cruz Province.

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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 working capital of approximately \$168,000 which, together with 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 next 12 months.

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 allowed Hochschild to immediately begin exploration work on El Pluma/Cerro Saavedra, and Hochschild made payments to Minera Andes of US\$200,000 in March and US\$200,000 in August for their 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

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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

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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 \$0.5 million on its mineral property and exploration activities and general and administrative expenses for the next 12 months, with most properties being kept on care and maintenance. While the Corporation's existing funds and estimated receipts under joint ventures should be sufficient, the Corporation will also try to raise additional funding during the next nine months in order to continue its operations over the longer term. If additional funds are raised during 2001/2002, 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

Third quarter 2001 compared with third quarter 2000

The Corporation had a net loss of \$64,000 (\$0.01 per share) for the third quarter of 2001, compared with a net loss of \$130,000 (\$0.01 per share) for the third quarter of 2000, as the Corporation continued to cut costs wherever possible. Total mineral property and deferred exploration costs were \$44,000 during the third quarter of 2001, compared with \$99,000 spent in the third quarter of 2000. The Corporation is maintaining its staff in Argentina at minimum levels, while during the third quarter, Hochschild commenced exploration expenditures on the El Pluma/Cerro Saavedra property, in accordance with the joint venture agreement. During the third quarter in 2001, the Corporation received \$300,000 in mineral property option proceeds, compared with \$50,000 in the third quarter last year.

Nine months ended September 30, 2001 compared with the nine months ended September 30, 2000

The Corporation had a net loss of \$282,000 for the nine months ended September 30, 2001, compared with a net loss of \$494,000 for the comparable period in 2000. Total mineral property and deferred exploration costs for the nine months

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were \$173,000 (before mineral property option proceeds) in 2001 and \$678,000 in the comparable period of 2000. Expenditures in both years were focused on the El Pluma/Cerro Saavedra property. In the nine months ended September 30, 2001, the Corporation received mineral property option proceeds of \$550,000, compared with receipts of \$50,000 in the same period last year. Deferred expenditures related to mineral properties and exploration were \$3,483,000 at September 30, 2001, compared with \$4,251,000 at September 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 September 30, 2001, the Corporation had cash and cash equivalents of \$191,000, compared to \$327,000 at September 30, 2000. Working capital at September 30, 2001 was \$168,000. The Corporation's operating

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activities showed some savings and used \$391,000 for the first nine months of 2001, compared with \$503,000 in 2000. Investing activities provided \$473,000 (after mineral property option proceeds) in the 2001 period compared with \$616,000 used in 2000.

The receipt of \$550,000 in mineral property option proceeds in the first nine 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 increased by \$89,000 in the first nine months of 2001, compared to a decrease of \$156,000 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 September 30, 2001, there was significant doubt that the Corporation would be able to continue as a going concern.

For the nine months ended September 30, 2001, the Corporation had a loss of approximately \$282,000 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

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financing to enable it to continue as a going concern. Accordingly, these financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- a. Exhibits: None
- b. Reports on Form 8-K: An 8-K dated July 24, 2001 was filed with the Securities and Exchange Commission regarding a change of auditors for the Corporation.

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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: November 13, 2001

By: /s/ Allen V. Ambrose

Allen V. Ambrose
President

Date: November 13, 2001

By: /s/ Bonnie L. Kuhn

Bonnie L. Kuhn
Chief Financial Officer and Secretary

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