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MINERA ANDES INC /WA  
Form 10KSB40  
April 01, 2002

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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, 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.  
(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.)

3303 N. Sullivan Road, Spokane, Washington 99216  
(Address of principal executive offices)

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

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

| Title of each class             | Name of each exchange on which registered: |
|---------------------------------|--|
| Common shares without par value | The Canadian Venture Exchange              |

Securities registered under Section 12(g) of the Act:  
None

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.

State issuer's revenues for its most recent fiscal year: Nil

The aggregate market value of the voting stock held by non-affiliates as of March 15, 2002 was \$1,963,714.

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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 15, 2002, the Registrant had 30,046,030 common shares outstanding.

Transitional Small Business Disclosure Format (Check one:) Yes [ ] No [X]

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### TABLE OF CONTENTS

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| PART I   |   | Page |
|----------|---|------|
|          |   | ---- |
| Item 1   | Description of Business   | 3    |
| Item 2   | Description of Properties   | 10   |
| Item 3   | Legal Proceedings   | 26   |
| Item 4   | Submission of Matters to a Vote of Security Holders   | 26   |
| PART II  |   |      |
| Item 5   | Market for Common Equity and Related Shareholder Matters  | 27   |
| Item 6   | Management's Discussion and Analysis of Financial Condition and Plan of Operations                              | 28   |
| Item 7   | Financial Statements  | 32   |
| Item 8   | Changes in and Disagreements With Accountants on Accounting and Financial Disclosure                            | 51   |
| PART III |   |      |
| Item 9   | Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act | 51   |
| Item 10  | Executive Compensation  | 53   |
| Item 11  | Security Ownership of Certain Beneficial Owners and Management  | 55   |
| Item 12  | Certain Relationships and Related Transactions  | 57   |
| Item 13  | Exhibits and Reports on Form 8-K  | 57   |

### PART I

#### PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS; CURRENCY DISCLOSURE

This report contains both historical and prospective statements concerning the

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Corporation 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.

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 15, 2002, 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 \$1.58 or Cdn \$1.00 = U.S. \$0.63.

### ITEM 1. DESCRIPTION OF BUSINESS

Minera Andes Inc. ("Minera Andes" or the "Corporation") is engaged in the exploration and development of mineral properties located in the Republic of Argentina. The Corporation's 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.

The Corporation's business grew out of a program begun by N.A. Degerstrom, Inc., a contract mining company based in Spokane, Washington ("Degerstrom"), 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 the Corporation in 1995. See "Description of Properties - The Degerstrom Agreement" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Corporation's current properties and projects consist of mineral rights and applications for mineral rights covering approximately 163,000 hectares in three Argentine provinces. The lands comprise option to purchase contracts, exploration and mining agreements and direct interests through the Corporation's filings for exploration concessions. The Corporation's properties are all early stage exploration prospects except for the El Pluma/Cerro Saavedra property package, which is an advanced stage exploration project. No proven or probable reserves have yet been identified. See "Description of Properties." The Corporation has no employees, as it is staffed by N.A. Degerstrom, Inc. personnel (three persons) under the Operating Agreement.

### OPERATING STRUCTURE

The Corporation is the product of an amalgamation in November 1995 of Minera Andes and Scotia Prime Minerals, Incorporated, a then inactive Alberta corporation which had previously had its Common Shares listed for trading on The Alberta Stock Exchange (presently, the Canadian Venture Exchange ("CDNX")). The

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Corporation's interests in its Argentina properties were held through two Argentinean subsidiaries: Minera Andes S.A. ("MASA") and NAD S.A. ("NADSA"). MASA was incorporated under the laws of the Republic of Argentina in September 1994. NADSA was incorporated under the laws of the Republic of Argentina in July 1994. The Corporation sold its shares of NADSA to Degerstrom in 2001. The Corporation's interest in its Colombian properties was held through Minera Providencia Inc. ("MPI"), which was incorporated in December 1998 under the Business Corporations Act (Alberta). The Corporation held 71.11% of the issued and outstanding shares of MPI and the remaining shares were held by Jon Lehmann, the President of MPI. MPI's Colombian properties were held through Minera Providencia S.A. ("MPSA"), incorporated in April 1998. MPI owned 92% of the issued and outstanding shares of MPSA and had entered into option agreements to acquire the remaining shares for \$400. MPI's properties were written off in 2000 and MPI was dissolved in 2001. Transylvania Gold S.R.L. ("TGS") was incorporated under the laws of Romania in October 1999, to hold the Corporation's Romanian property interests. The Corporation held 100% of the issued and outstanding share of TGS. The Corporation wrote off TGS properties in 2000 and dissolved the subsidiary. In April 2001, the Corporation transferred some of its Argentina properties to Minera Santa Cruz S.A. (MSC), a MASA subsidiary.

The corporate structure of Minera Andes is as follows:

|                      |                      |                        |
|----------------------|----------------------|------------------------|
| -----                |                      |                        |
|                      | 95%                  | 99.99%                 |
| MINERA ANDES INC. -- | MINERA ANDES S.A. -- | MINERA SANTA CRUZ S.A. |
| (ALBERTA)            | (ARGENTINA)          | (ARGENTINA)            |
| -----                |                      |                        |

The Corporation holds 19 of the 20 issued and outstanding shares of MASA and held 11 of the 12 issued and outstanding shares of NADSA as well as an irrevocable transferable option to purchase the one remaining MASA share and an irrevocable transferable option to purchase the one remaining NADSA share. Each of those single shares is held by a natural person shareholder as required by local law. In 2001, all of the Corporation's shares in NADSA were sold to N.A. Degerstrom, Inc. for \$10,000. NADSA had only de minimus activity and net assets. MASA holds 11,990 shares of the 12,000 shares issued and outstanding of Minera Santa Cruz S.A.

Degerstrom provides management services to the Corporation and acts as operator of the Corporation's properties and projects pursuant to an operating agreement entered into in March 1995 ("Operating Agreement"). Under the Operating Agreement, Degerstrom operates and manages the exploration program on all properties and provides related offsite administrative assistance as required. This agreement allows the Corporation to minimize its overhead by providing for reimbursement to Degerstrom of direct out of pocket and certain allocated indirect costs and expenses and the payment of a management fee of 15% of total costs. See "Description of Properties - the Degerstrom Agreement" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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.

The Corporation's management office is 3303 North Sullivan Road, Spokane, Washington, 99216, while the principal business address of the Corporation is Coronel Moldes 837, (5500) Mendoza, Argentina. The registered address of the Corporation is 350 - 7TH Ave. S.W., Calgary, Alberta, T2P 3N9 Canada.

RISKS RELATED TO MINERA ANDES' BUSINESS

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

4

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. There can be no assurance 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 it has currently applied for and property transactions to which it is 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 joint venture or investment partners must obtain necessary governmental approvals and make necessary capital expenditures before production may commence on most of its projects. Significant capital expenditures will also be required to bring them into production. We may obtain funds for a portion of these capital expenditures from joint venture or investment partners. However, there can be no assurance that such joint venture or investment partners will provide such funds or that such project financing will be available to us on acceptable terms. The number of potential sources of third-party project financing for mining projects is limited.

Minera Andes is subject to additional risks, including that a large number of companies, many of which are significantly larger and have greater financial and technical resources than Minera Andes, compete in the acquisition, exploration and development of mining properties; mining projects are highly speculative and

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involve substantial risks, even when conducted on properties known to contain significant quantities of mineralization.

**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, and may not be available when needed or on terms satisfactory to us and may be dilutive to our shareholders. Failure to obtain sufficient financing could result in delay or indefinite postponement of exploration, development or

5

production on any or all of Minera Andes' projects or loss of properties. For example, certain of the 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. There can be no assurance 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. A large number of companies compete with us in the acquisition, exploration and development of mining properties. Many of these competing companies are significantly larger than the Corporation 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. Argentina has and is developing new bodies of law that will impact the conduct of business generally and mining operations in particular. Future laws (including tax laws) could adversely affect the conduct of business and mining operations.

**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

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and beyond the control of the Corporation. If the price of a mineral should drop dramatically, the value of our properties which are being explored or developed for that mineral could also drop dramatically and we might not be able to recover its 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

6

operations and activities of mining companies or more stringent implementation thereof could have an adverse impact on Minera Andes' activities.

Control by Single Shareholder; Conflicts of Interest. At December 31, 2001, Degerstrom beneficially owns approximately 23% of our outstanding voting securities and therefore can exert significant influence in the election of our directors and have substantial voting power with respect to other matters submitted to a vote of the shareholders. The interests of Degerstrom with respect to any transaction involving actual or potential change in control of us or other transactions may differ from those of our other shareholders.

Certain of our directors and officers are also employees of our majority shareholder, Degerstrom, and of other natural resource and mining companies. As a result, conflicts may arise between the obligations of these directors to us and to these other entities. Certain of our directors and officers have other full time employment or other business or time restrictions placed on them and accordingly, these directors and officers may not be able to devote full time to our affairs.

Transactions with Degerstrom; Dependence on Key Personnel. We have entered into an Operating Agreement with Degerstrom. See "Description of Properties - The Degerstrom Agreement." This agreement is not the result of arm's-length negotiations between independent parties. There can be no assurance that the Operating Agreement or any future agreements will be effected on terms comparable to those that would have resulted from negotiations between unaffiliated parties. Such agreements may be amended by us and Degerstrom, by mutual agreement. Degerstrom is not required to devote its personnel and resources exclusively to, or for the benefit of us. There can be no assurance that the services to be provided by Degerstrom will be available to us at all times. Moreover, our success will be dependent upon the services of certain executive officers, including Allen Ambrose and Brian Gavin, who are also employees of Degerstrom. Degerstrom pays compensation and provides other benefits to these individuals. Minera Andes does not have employment contracts with nor does it maintain key person life insurance for Mr. Ambrose or Mr.

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Gavin.

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

"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;

"Bankable Feasibility Study" means the study, prepared to industry standards, based upon which a bank or other lending institution may loan the Corporation 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, Manifestaci[on] de Descubrimiento, Mina, Estaca Mina (as defined by the Republic of Argentina Mining Code, as amended) described herein issued to MASA, MSC or the Corporation by the government of Argentina or any provincial government;

7

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

"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;

"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;

"Manifestacion 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 Manifestacion de Descubrimiento;



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"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;

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

"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;

8

"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 Report 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   |

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|        |   |
|--------|---|
| 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).

| To Convert From Imperial                  | To Metric   | Multiply by |
|---|-------------|-------------|
| 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  |             |             |

9

### ITEM 2. DESCRIPTION OF PROPERTIES

The principal business of the Corporation is the exploration and development of mineral properties ("Claims") located in the Republic of Argentina. The Corporation's interests in the Argentinean Claims are held through MASA and MSC, which is a subsidiary of MASA. 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 the Corporation to receive the benefits of the new mining laws in Argentina. The principal properties of the Corporation 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 to which the Corporation, MASA, NADSA and Degerstrom are parties (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 the Corporation. 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 the Corporation or its affiliates as described below, and (iii) agreed to pay the aggregate amount of the cost and expenses incurred by Degerstrom on behalf of the Corporation from July 1, 1994 through March 15, 1995. Minera Andes also acquired from Brian Gavin, an officer of the Corporation, the shares he held in MASA. In 2001 the Corporation sold its interest in NADSA to Degerstrom.

The royalty payable to Degerstrom by MASA will be a percentage of the net smelter return earned on those Claims or any future Claims acquired. The Claims are subject to a royalty equal to the difference between 3% and the Underlying Royalty, subject to a maximum royalty of 2%. If MASA acquires all or part of the

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Underlying Royalty, the royalty payable, if any, to Degerstrom will not increase. If Degerstrom collects a royalty on any of the Claims held, MASA shall 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.

NADSA, MASA, Degerstrom and the Corporation 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 operates and manages the exploration program on all properties and provides related offsite administrative assistance as required. In consideration for these operating services, Degerstrom is 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 are fixed usage rates for the equipment owned by Degerstrom. Degerstrom has the right to terminate the Operating Agreement if the Corporation does not maintain a program and budget in excess of Cdn\$300,000 per year. If the Corporation elects to develop a property and contract with a third party for development or production, the Corporation must give notice to Degerstrom of the terms and conditions of the proposed arrangement. Degerstrom has the right for a period of 30 days to meet the contract bid by a third party.

10

### PRINCIPAL PROPERTIES

#### 1. 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 serious 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 serious 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 U.S.\$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 US dollar denominated contracts into pesos on a one-to-one basis and all US dollar bank accounts into Pesos. At the beginning of March 2002 the Peso stands at Peso\$2.15 to US\$1.00. Transfers of money out of the country were prohibited.

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

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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, there is a lack of information pertaining to the country's resource base. 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 shrunk since with the prolonged low gold price market. Currently, there are no more than a handful of exploration companies active in Argentina.

The Corporation initiated gold exploration in Argentina in 1991, in conjunction with Degerstrom. As of December 2001, the Corporation had Argentine land holdings totaling 163,009 ha in three Argentine provinces (Figure 1). The Corporation's exploration efforts initially focused on evaluating prospects generated by 1960's United Nations development exploration programs and on targets generated by satellite image analysis. The Corporation developed techniques of processing and interpreting satellite imagery to assist in identifying promising exploration targets. Currently, the Corporation is completing exploration work that includes geophysical surveys, mechanical

11

trenching and reverse-circulation drilling on the most advanced targets in its property portfolio, and conducting grassroots exploration to evaluate its 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 the Corporation's 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:

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- 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, the Corporation knows 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 periods 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. The Corporation's goal is to determine whether its cateos contain commercial grade ore deposits before portions of the cateos must be relinquished. The Corporation's ability to do so is dependent upon adequate financing for exploration activities. It is likely that several of the Corporation's cateos will be relinquished after preliminary exploration because no promising mineral deposits have been discovered.

Until August 1995, a "canon fee", or tax, of Pesos\$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.

12

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 in size and "disseminated pertenencias", 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 Pesos\$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

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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 which have been more intensively explored by the Corporation.

13

### FIGURE 1

[LAND HOLDING MAP]

14

#### A. SAN JUAN PROJECT SUMMARY

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##### 1. SAN JUAN PROJECT LOCATION

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The San Juan Province Project comprises six properties totaling 36,070 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 overly 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 Pach[acute]n 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.

In April 1999, the Corporation 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.

Through December 31, 2001, the Corporation has spent \$327,810 on the San Juan Project (net of write-offs for properties abandoned).

### 4. SAN JUAN AREA PROJECT OWNERSHIP

The Corporation's lands in San Juan consist of six applications for cateos and 11 manifestations of discovery and total 36,070 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 2002 are estimated at \$29,560.

## B. SANTA CRUZ PROJECT SUMMARY

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### 1. EL PLUMA/CERRO SAAVEDRA PROJECT LOCATION

The El Pluma/Cerro Saavedra property package is located in the Santa Cruz province of Argentina, 230 km southwest of the city of Comodoro Rivadavia, near latitude 46[degree]41'S and longitude 70[degree]17'W. The property consists of one cateo and 104 manifestations of discovery covering a total of 88,519 ha (approximately 880 km<sup>2</sup>), 100% owned by Minera Andes.

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. The Deseado Massif is a cold desert. 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. EL PLUMA/CERRO SAAVEDRA 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 El Pluma/Cerro Saavedra 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. In the southern two-thirds of the project area (southern cateos), ignimbrites and rhyolite domes of the Chon Aike Formation crop out extensively, and the La Matilde Formation may be present locally.

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.

### 3. EL PLUMA/CERRO SAAVEDRA 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 El Pluma/Cerro Saavedra 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 ON THE PROPERTY BY MINERA ANDES FROM 1997 TO 2001:

A structural study was carried out over the entire project area and prospecting/geological reconnaissance done on the southern cateos and the bulk of the work has been on the northern third of the property. In this area, a 1:50,000 mapping/satellite interpretation and extensive prospecting has been done. This work led to the recognition of nine target areas. Rock samples from the entire property have been assayed (2,536 rock and trench samples), with particular attention to the target areas. Soil sampling has been undertaken on grids at La Sorpresa, El Pluma West, Cerro Celular, Saavedra West and Cerro Saavedra (total of 2,302 samples) and an enzyme leach soil survey was completed over part of the Huevos Verdes target. Some 368 stream sediment samples were taken. Approximately 42 line km of CSAMT (deep penetration resistivity) were run, and 8.76 km<sup>2</sup> (74 line km) gradient array IP surveying was completed in the Huevos Verdes, Cerro Celular and Saavedra West areas. This was supplemented by three kilometers of RealSection IP surveying along selected lines. Some 186 line km of magnetic data was collected at Huevos Verdes, Saavedra West, Cerro Celular and Cerro Saavedra. Detailed mapping was done at Huevos Verdes, Saavedra West and Cerro Saavedra. Twenty-five trenches, totaling 2,550 m, were excavated at Saavedra West, and another 30 trenches (2,125 m) at Huevos Verdes. Most of these trenches were sampled at one to two meter intervals. All drilling was reverse circulation drilling, using a MPD-1000 track rig. Three holes, totaling 270 m, were drilled at La Sorpresa and nine at El Pluma West (941 m). Two holes (201 m) were drilled at Cerro Saavedra and 24 holes, totaling 2,550 m, were drilled at Saavedra West. The above holes were drilled in 1998; PIMA analysis, petrographic examination and fluid inclusion work were undertaken on selected samples. Drilling in 1999 concentrated on the Huevos Verdes prospect, where 21 holes were completed, for a total of 1,643 m.

Reconnaissance work in the southern two-thirds of the property (Southern Cateos) focused on areas of alteration inferred from Landsat images. Stream sediment sampling defined three anomalous zones, each with at least four samples containing greater than 25 ppb Au, with a maximum value of 158 ppb Au.

In the northern third of the property, nine areas have been designated for follow-up work, based on surface indications of alteration and/or mineralization. Huevos Verdes, El Pluma West and Saavedra West are the most advanced targets.

Huevos Verdes is a system of en echelon, variably mineralized, north-northwest trending quartz veins with associated strong argillic alteration, cutting Bajo Pobre Formation. In this area, the Bajo Pobre Formation consists of massive and fragmental andesite. Preliminary indications are that the massive andesite constitutes a more favorable host rock for the veins and that stockwork mineralization develops at north-northwest and west-northwest structural intersections. The vein system occurs over a strike length of at least 2.2 km and possibly as much

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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. The best trench results were 4.0 m (13.1')

17

@ 18.6 g/t Au and 498.8 g/t Ag and 6.5 m (21.3') @ 12.06 g/t Au and 330.3 g/t Ag. Prior to 2000 nineteen holes were drilled on the main vein system, of which twelve intersected significant precious metal mineralization. Best drill intersections were 7.4 m (24.3') @ 2.19 g/t Au and 170.0 g/t Ag in hole EP-38, 6.3 m (20.7') @ 9.74 g/t Au and 630.3 g/t Ag in EP-39, 4.1 m (13.45') @ 3.85 g/t Au and 249.8 g/t Ag in EP-40, and 11.3 m (37.17') @ 2.01 g/t Au and 102.6 g/t Ag in EP-54 (true thicknesses).

Subsequently, drill programs completed in 2000 consisted of 24 reverse-circulation holes (EP-60 to EP 83), totaling about 8825 feet (2690 m), drilled on the Huevos Verdes gold-silver vein system. The majority of these holes intersected the vein structure. Significant intercepts are summarized in the table. Vein thickness for these holes ranged from an estimated true width of less than one meter (3.28 feet) to up to 11.3 m (37.1 feet).

### SIGNIFICANT GOLD/SILVER INTERCEPTS, HUEVOS VERDES, ARGENTINA

| Drill Hole | TD<br>m | Azim | Angle | Intersection |         | Drilled<br>Interval<br>m | True<br>Thickness<br>m<br>(ft) | Gold<br>g/t<br>(opt) | Silver<br>g/t<br>(opt) |
|------------|---------|------|-------|--------------|---------|--------------------------|--------------------------------|----------------------|------------------------|
|            |         |      |       | From<br>m    | To<br>m |                          |                                |                      |                        |
| EP-38      | 64      | N240 | -50   | 27           | 36      | 9                        | 8.1<br>(26.6)                  | 2.19<br>(0.06)       | 170.<br>(5.)           |
| Includes:  |         |      |       | 34           | 36      | 2                        | 1.8<br>(5.9)                   | 6.24<br>(0.18)       | 617.<br>(18.)          |
| EP-39      | 63      | N240 | -50   | 36           | 43      | 7                        | 6.3<br>(20.7)                  | 9.74<br>(0.28)       | 630.<br>(18.)          |
| Includes:  |         |      |       | 36           | 40      | 4                        | 3.6<br>(11.8)                  | 15.17<br>(0.44)      | 1,068.<br>(31.)        |
| EP-40      | 117     | N240 | -50   | 46           | 51      | 5                        | 4.1<br>(13.5)                  | 3.85<br>(0.11)       | 249.<br>(7.)           |
| EP-41      | 98      | N240 | -50   | 32           | 35      | 3                        | 2.9<br>(9.5)                   | 2.18<br>(0.06)       | 175.<br>(5.)           |
| EP-42      | 90      | N240 | -50   | 80           | 83      | 3                        | 2.7<br>(8.9)                   | 2.17<br>(0.06)       | 99.<br>(2.)            |
| EP-43      | 130     | N240 | -50   | 99           | 100     | 1                        | 0.8                            | 7.37                 | 769.                   |

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|           |       |      |     |       |       |    |                |                |                |
|-----------|-------|------|-----|-------|-------|----|----------------|----------------|----------------|
|           |       |      |     |       |       |    | (2.6)          | (0.21)         | (22.0)         |
| EP-46     | 51    | N060 | -50 | 33    | 35    | 2  | 1.9<br>(6.2)   | 1.26<br>(0.04) | 105.0<br>(3.0) |
| EP-47     | 75    | N240 | -50 | 32    | 36    | 4  | 3.6<br>(11.8)  | 1.70<br>(0.05) | 196.0<br>(5.0) |
| Includes: |       |      |     | 34    | 36    | 2  | 1.8<br>(5.9)   | 2.66<br>(0.08) | 324.0<br>(9.0) |
| EP-48     | 66    | N240 | -50 | 42    | 45    | 3  | 2.6<br>(8.5)   | 0.69<br>(0.02) | 114.0<br>(3.0) |
| EP-49     | 60    | N210 | -50 | 24    | 27    | 3  | 3.0<br>(9.8)   | 1.11<br>(0.03) | 131.0<br>(3.0) |
| EP-54     | 66    | N240 | -50 | 44    | 56    | 12 | 11.3<br>(37.1) | 2.01<br>(0.06) | 102.0<br>(3.0) |
| Includes: |       |      |     | 54    | 56    | 2  | 1.9<br>(6.2)   | 8.94<br>(0.26) | 269.0<br>(7.0) |
| EP-58     | 60    | N060 | -50 | 49    | 50    | 1  | 1.0<br>(3.3)   | 1.00<br>(0.03) | 106.0<br>(3.0) |
| EP-61     | 151.5 | N240 | -60 | 135.5 | 136.5 | 1  | 0.9<br>(2.9)   | 7.41<br>(0.22) | 99.0<br>(2.0)  |

18

| Drill Hole | TD<br>m | Azim | Angle | Intersection<br>From<br>m | To<br>m | Drilled<br>Interval<br>m | True<br>Thickness<br>m<br>(ft) | Gold<br>g/t<br>(opt) | Silver<br>g/t<br>(opt) |
|------------|---------|------|-------|---------------------------|---------|--------------------------|--------------------------------|----------------------|------------------------|
| EP-62      | 81.5    | N240 | -60   | 68                        | 72      | 4                        | 3.8<br>(12.5)                  | 2.93<br>(0.09)       | 88.0<br>(2.0)          |
| EP-64      | 111     | N240 | -50   | 89                        | 93      | 4                        | 3.9<br>(12.8)                  | 7.79<br>(0.23)       | 568.0<br>(16.0)        |
| EP-65      | 153     | --   | -90   | 124                       | 126     | 2                        | 1.0<br>(3.3)                   | 9.31<br>(0.27)       | 286.0<br>(8.0)         |
| EP-69      | 115     | 240  | -60   | 64                        | 65      | 1                        | 0.8<br>(2.6)                   | 2.16<br>(0.06)       | 201.0<br>(5.0)         |
| and        |         |      |       | 100                       | 103     | 3                        | 2.5<br>(8.2)                   | 4.10<br>(0.12)       | 479.0<br>(14.0)        |
| EP-70      | 135     | 240  | -70   | 117                       | 124     | 7                        | 5.4<br>(17.7)                  | 15.92<br>(0.46)      | 1634.0<br>(47.0)       |

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|           |     |     |     |     |     |   |               |                 |                |
|-----------|-----|-----|-----|-----|-----|---|---------------|-----------------|----------------|
| Includes: |     |     |     | 120 | 123 | 3 | 2.3<br>(7.6)  | 30.73<br>(0.90) | 3166.<br>(92.) |
| EP-74     | 144 | 240 | -70 | 126 | 132 | 6 | 4.2<br>(13.8) | 3.34<br>(0.10)  | 315.<br>(9.)   |
| Includes: |     |     |     | 126 | 128 | 2 | 1.4<br>(4.6)  | 2.90<br>(0.08)  | 299.<br>(8.)   |
| and       |     |     |     | 129 | 132 | 3 | 2.1<br>(6.9)  | 4.32<br>(0.13)  | 414.<br>(12.)  |
| Includes: |     |     |     | 131 | 132 | 1 | 0.7<br>(2.3)  | 7.58<br>(0.22)  | 938.<br>(27.)  |
| EP-76     | 102 | 240 | -50 | 75  | 76  | 1 | 0.8<br>(2.6)  | 1.61<br>(0.05)  | 204.<br>(5.)   |
| and       |     |     |     | 80  | 84  | 4 | 3.0<br>(9.8)  | 3.47<br>(0.10)  | 352.<br>(10.)  |
| and       |     |     |     | 88  | 91  | 3 | 2.3<br>(7.5)  | 7.89<br>(0.23)  | 764.<br>(22.)  |
| EP-77     | 93  | 240 | -50 | 64  | 66  | 2 | 1.5<br>(4.9)  | 3.75<br>(0.11)  | 380.<br>(11.)  |
| EP-79     | 102 | 240 | -50 | 83  | 84  | 1 | 0.9<br>(3.0)  | 1.20<br>(0.03)  | 120.<br>(3.)   |
| EP-80     | 108 | 240 | -50 | 73  | 74  | 1 | 0.9<br>(3.0)  | 4.32<br>(0.13)  | 583.<br>(17.)  |

Samples from all holes were prepared by Bondar-Clegg in Argentina and assayed by N.A. Degerstrom, Inc. of Spokane, Washington. Gold and silver values were obtained by fire assay. An independent laboratory conducted check assays on separate sample splits of the significant drill intersections. Holes EP-66 to 68, EP-71 to 73 and EP-81- to 83 failed to intersect the vein or contained assay values from nil to anomalous.

The assay results and the width of the vein intersected in the remaining holes confirm the relatively strong continuity of the vein along strike and down-dip and its well-mineralized nature.

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 along one edge. Grab samples with up to 22 g/t Au and 10,000 g/t Ag occur, as well as numerous trench and 1.52 m (5') drill sample intervals with \*1 g/t Au and/or 500 g/t Ag, generally within north-northwest trending structures. Illite-silica alteration, typical of low sulfidation epithermal systems, surrounds

\* represents greater than

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the structures. Significant mineralization is located at Sinter Flats and on Discovery Hill, the latter of which appears to have been a locus for magmatic and hydrothermal explosive activity. The easternmost graben-bounding fault, which has not been drilled tested, contains anomalous Au (176 to 599 ppb) and Hg (360 to 2,000 ppb).

Drill intersections on Discovery Hill include 3.0 m (10') @ 115.04 g/t Au and 3,509 g/t Ag in hole EP-21, 16.8 m (55') @ 8.05 g/t Au and 1,163 g/t Ag (includes 1.52 m (5') @ 50.3 g/t Au) in EP-12, 15.2 m (50') @ 13.48 g/t Au and 719.9 g/t Ag (includes 1.52 m (5') @ 70.8 g/t Au) in EP-20, and 3.0 m (10') @ 1.88 g/t Au in EP-18. Gradient array IP surveying shows several [ligathre]600 m (1,968') long resistors within the graben, and a strong, subhorizontal chargeability/apparent resistivity anomaly beneath Discovery Hill thought to be caused by a siliceous, sulfide-bearing zone of mineralization within a permeable stratigraphic unit, possibly an avalanche deposit on the floor of the graben. Such a zone, if economic, might be bulk-mineable. Previous drilling in Sinter Flats intersected quartz-bearing structures with 3.0 m (10') @ 2.19 g/t Au and 209 g/t Ag in EP-15 and 1.52 m (5') @ 2.9 g/t Au and 36.1 g/t Ag in EP-35. This drilling was undertaken prior to the acquisition of geophysical information.

In January 2000, three deep diamond drill holes tested a geophysical anomaly beginning about 100 m (328 feet) beneath the surface at Discovery Hill. Sulfide-bearing rocks and silicification, which can be indicators of precious metal mineralization, were encountered in all three holes. Assay results ranged from nil to anomalous.

El Pluma West is an area with parallel stockwork quartz veins in the Bajo Pobre Formation. Prior to 2000, work at El Pluma West focused on its potential for disseminated mineralization. Sampling in 2000 was done to evaluate the high grade vein potential. This sampling included 300 rock chip channel samples collected from several exposed quartz veins. The results indicate excellent potential for the discovery of more high-grade gold/silver mineralization at depth and along strike, and identified a number of drill-ready targets.

The sample results define two gold/silver veins with values up to 0.40 oz/t (13.58 g/t) gold and 14.1 oz/t (483.5 g/t) silver and 0.36 oz/t (12.20 g/t) gold and 11.1 oz/t (382.2 g/t) silver over a 3.3 ft (1 m) and 6.6 ft (2 m) width. Of the samples taken, 85 percent contained greater than 0.03 oz/t (1 g/t) gold and/or 1.46 oz/t (50 g/t) silver on the best two exposed quartz veins. Sampling of the veins was taken over a vertical range of 200 ft (61 m). The mineralized areas are approximately 150 m (500 ft) and 250 m (820 ft) in length, respectively. The veins are open to the north and south, where they are covered, and at depth. In addition, other veins remain to be sampled.

La Sorpresa is a zone of stockwork and northwest-trending quartz veins which cut Bajo Pobre andesite in a small window through Cretaceous sediments. The best surface sample assayed 15.4 g/t Au, and one drill hole intersected 5' (1.52m) @ 10.2 g/t Au, and 5' m (1.52) @ 5.2 g/t Au. Two of three holes contained elevated Hg (up to 750 ppb in a background of