2003 Annual Report

Mines Management Incorporated

THE COMPANY

Mines Management, Inc., is a mineral development company whose primary focus is the exploration and development of silver-dominant mineral deposits. The company owns properties in the United States in Montana and Washington State. Its principal asset is the Montanore silver-copper deposit containing an estimated 260 million ounces of silver and 2 billion pounds of copper. Acquisition of this premier silver property places Mines Management among the top tier of silver companies and creates a compelling investment for those seeking value, growth and leverage to the price of silver.

ANNUAL GENERAL MEETING

The annual general meeting will be held at 1:30 p.m. on Thursday, June 17th, 2004, at the Doubletree Hotel Spokane City Center, 322 North Spokane Falls Ct., Spokane, Washington 99201, Phone: (509)455-9600.

PRESIDENT'S LETTER

As pivotal as the year 2002 was for your company and its long term future, 2003 became a foundational year as we successfully accomplished a number of tasks that positioned the company to advance the Montanore project both financially and operationally.

Financially, your company raised sufficient capital to fund its basic activities into the foreseeable future and launched a corporate communications effort toward conveying its remarkable story to the market. With the goal of increasing the market value of the company's shares, this would set the stage for future financings at progressively higher prices and minimize the dilutive effect of issuing shares as we fund the company's ongoing activities. The company updated corporate and business procedures, modernizing its accounting and cost control systems and securities regulatory compliance policies.

Operationally, the company took delivery of the intellectual property and drill core derived from prior development work at the Montanore. This extensive library consists of all engineering data, environmental studies, an approved Environmental Impact Statement (EIS), diamond drill core, feasibility and other studies accumulated over almost two decades of work on the project.

With an estimated US$135 million having been spent on the project by previous owners, the daunting task of cataloging and indexing was undertaken in Q-3 with the objective of completing the job in early 2004. This activity has been critical to the analytical and engineering efforts made by our technical team toward understanding Noranda's original plans for the project. An effort was undertaken to revise the mine plan in an effort to optimize exploitation of the project. The goal of this effort is to not only enhance the economics of the project, but also to reduce the environmental impact even beyond that which was previously permitted. The results of these studies will constitute the foundational work toward initiating re-permitting of the Montanore in mid-2004.

The metals markets continued to improve throughout 2003 with silver and copper closing the year out 23% and 46% higher, respectively, than they began the year, with the trend strengthening in early 2004. We are very pleased with the market's reception of the company's story as evidenced by a six-fold increase in market capitalization during the year.

With an additional financing in early 2004 designed to deepen your company's treasury, as well as to qualify to list on a the American Stock Exchange, sufficient funds are available to carry the company through the entire re-permitting process and still allow scope for potential to adding an additional property to its inventory.

Clearly, Mines Management was recognized in the market as evidenced by its growth in value in 2003. We believe Mines Management story will continue to strengthen in 2004 as the project advances, and as our story is heard even more broadly across the institutional financial community.

On behalf of the board of directors, staff and management, thank you for your outspoken support of the company and its work throughout the year. And, of course, please feel free to contact us anytime.

Glenn M. Dobbs
Chairman, President & Chief Executive Officer

2003 HIGHLIGHTS

- March - acquisition of Intellectual Property
- March - acquisition of drill core
- Initiated corporate communications activities
- Initiated assimilation of data from previous operator, and full analysis of original mining plans
- Completed $1.25 million non-brokered private placement
- October AGM - record shareholder participation exceeded 70%, all measures approved
- Silver price grew by 23% from $4.81 to $5.95 per ounce
- Copper price grew by 46% from $0.71 to $1.04 per pound
- Share price grew by 250%
- Market cap grew by 600%

FOR 2004

- Strengthen treasury sufficient to ensure critical path for two years
- Complete revised mine plan
- Initiate Montanore project re-permitting process
- Heighten visibility in the market
- Apply for surface drilling permits

PLAN OF OPERATIONS

Mine Plan

During 2004, the company's plans are to complete a revised mine plan that reflects our goal to satisfy both the demands of the market and at the same time taking into consideration the sensitivity of the surrounding environment and the Cabinet Mountains.

The project's redesign effort will focus on optimizing the economics of the project from the standpoint of internal rate of return as opposed to size. While economies of scale can be a benefit, incremental economies of scale dictates arriving upon the optimal capacity to maximize return on invested capital rather than simply cash flow. The new plan will see significant improvements in both plant and capacity.

Further, the Mines Management's mining plan for the Montanore will offer even less environmental impact than that which was previously permitted.

Environment

Situated below a wilderness, the Montanore project requires development goals that demonstrate an acute awareness of the sensitivity of the surrounding environment. Mines Management is committed to developing the Montanore not only within the regulatory parameters set out in the law, but also by going even further in an effort to minimize the impact on natural habitat surrounding the project.

Re-permitting

Once the revised mine plan has been developed, the re-permitting effort will be undertaken and communication with the permitting agencies will commence. We have been led to believe that the re-permitting effort, while a multi-year activity, may be significantly abbreviated as a result of past work.

This project has already undergone significant environmental assessment in the process of being previously permitted, and with much of the work already conducted during the process to develop an approved Environmental Impact Statement (EIS), we expect a streamlined re-approval process.

Evaluation Drilling

A definition drilling program designed to better define the high grade zone and limits to the deposit could also be the subject of a future funding effort. Such a drilling program will allow for a better understanding for not only the scope of the deposit, but also the extent of higher or lower grades within the known boundaries. While the Montanore deposit is known to extend further to the northwest, there remain several other areas where the limits remain undefined.

Financial

Advancement of the Montanore and the company's expansion pursuits will require additional capital to be raised during the year. Mines Management endeavors to minimize its cost of capital and the potential for dilution, and to maximize the positive leverage from each invested dollar.

The company will again be active presenting its remarkable story to the market, and hopes to meet you at the many conferences at which we will be a sponsor during the year. With the added benefit of an American Stock Exchange listing, we hope to gain a greater audience in the markets with the participation of institutions and investment professionals who previously would or could not participate while our shares were limited to be quoted on the over the counter markets.

Increasing operations will require the services of additional professionals, and we anticipate greater depth as we staff up to handle the added workload and to reflect the activities required for the company to achieve its goals.

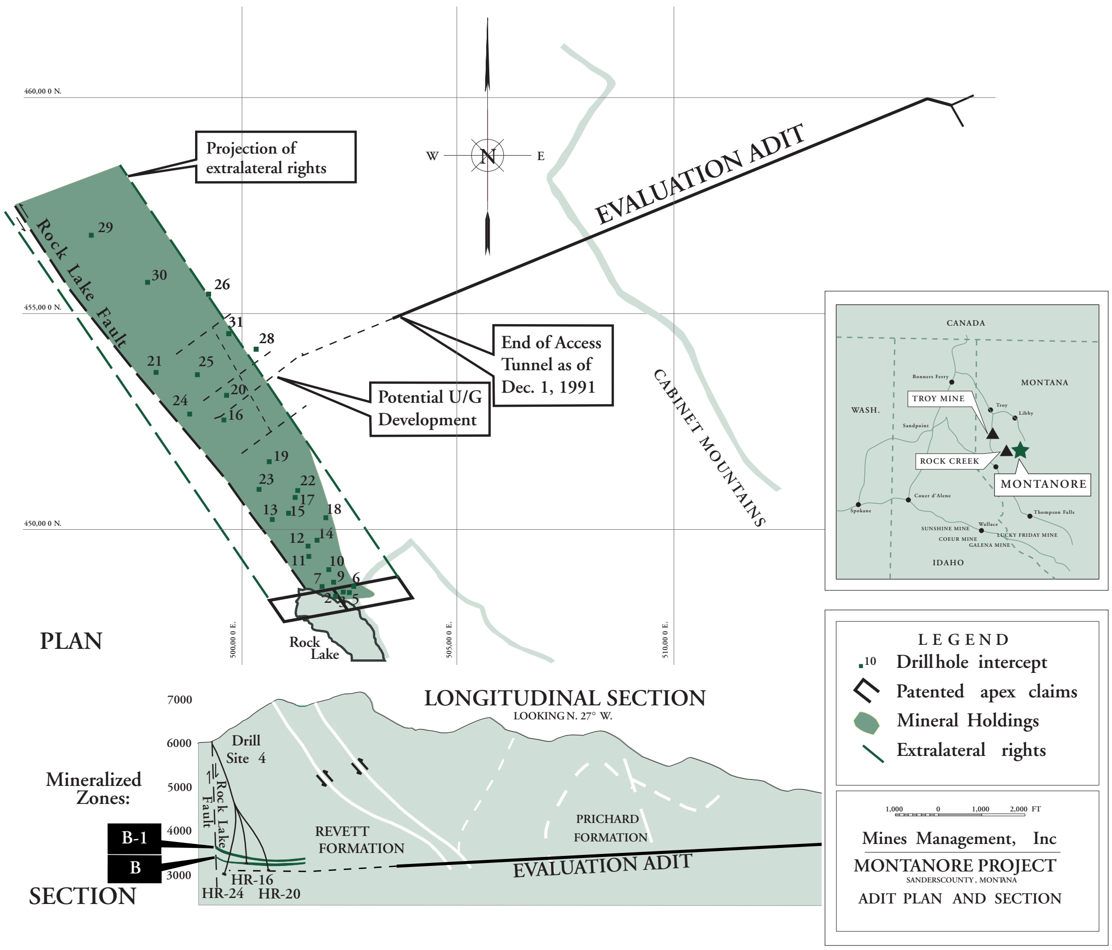
MONTANORE PROJECT

The Montanore silver-copper deposit, containing an estimated 260 million ounces of silver and 2 billion of pounds copper, is the largest undeveloped silver deposit in North America and one of the largest in the world.

Since its 1983 discovery, operators have conducted more than $135 million of work on the project including more than 70,000 feet of diamond core drilling, construction of a 14,000 ft. exploration adit, full project engineering and feasibility work, as well as development of an approved environmental impact statement and project permitting and patenting of the mineral claims.

Mines Management, Inc.'s ownership of the Montanore originally stemmed from the 1988 merger with Heidelberg Silver Mining Company which controlled mineral claims along the fault bounding the southwest margin of the deposit, and which have been under lease to previous operators from the early 1980's through 2002.

In August, 2002, the previous operator withdrew from the project, leaving Mines Management with control of the entire deposit at no cost.



MONTANORE PROJECT (continued)

Background

Discovered in 1983 by U.S. Borax and Chemical, approximately 70,000 feet of diamond core drilling was conducted, ultimately identifying the deposit estimated to be 12,000 feet long by an average 3,000 feet wide. Heidelberg Silver held mineral claims along the western boundary of the deposit controlling approximately 6% of the deposit's mineralization.

Borax's interest was ultimately sold to a consortium led by Noranda Minerals Co. of Canada, who began a major tunneling program from a point east of the Cabinet Mountains Wilderness Area. The purpose of the program was to more accurately define and develop a portion of the deposit containing approximately 30 million tons. The proposed work was to include a 3-mile long decline and approximately 2,000 feet of lateral development in the vicinity of the deposit.

Close spaced drilling was planned from these workings and bulk metallurgical samples were to be taken during this phase. In December, 1991, tunneling was stopped at approximately 14,000 feet, or about 2,000 feet short of the deposit, pending completion of the project's Environmental Impact Statement (EIS). Also during the year Noranda completed the process to apply for patents to the "apex" claims controlling the deposit, which were ultimately granted in 2001.

During 1993, the project EIS was approved and all of the important permits for the mine were granted. All appeals by environmental groups were, after due consideration, denied by the U.S. Forest Service and the courts.

The project was maintained throughout the period of low metals prices in the 1990's and in August, 2002, Noranda elected to withdraw from the Montanore Project. In accordance with the original lease agreement, ownership of the patented mineral claims that controlled the deposit was quitclaimed to Mines Management, followed shortly by quitclaim of title to all of the intellectual property and the drill-core resulting from the work previously conducted on the project.

Mining Plan

The original mining plan called for construction of a plant with a capacity to process 17,500 to 20,000 tons of ore per day yielding approximately 11 million ounces silver and 90 million pounds copper per year for an estimated 14 years.

After careful review and analysis of the previous feasibility studies, it is the Company's belief that significant improvement can be made to the project in terms of its economic viability and environmental acceptability.

The deposit lies largely beneath the Cabinet Mountains Wilderness area. Extraction of the contained silver and copper will be conducted through adits emerging approximately three miles to the east, resulting in virtually no surface impact in the vicinity of the wilderness area.

Mines Management has undertaken an analysis and revision of the original mining plan that would include potential improvements in both technology and methodology. With such enhancements to the mining plan, the company believes substantial gains can be made in both the economics and environmental acceptability of the project.

In an effort to enhance both the economics and environmental acceptability of the project, it is likely the ultimate project will be smaller in design and scope, and offer greater efficiency and significantly less environmental impact than the project that was previously permitted.

Upon completion of the revised mining plan, the company plans to initiate re-permitting of the project, and to pursue additional definition drilling that could include reopening and completion of the evaluation adit.

MONTANORE PROJECT (continued)

Deposit

The deposit occurs within rocks of the Belt Super Group, Precambrian metasediments that crop out over much of western Montana, northern Idaho, and parts of adjacent British Columbia. The Montanore is one of three similar deposits to have been found within Revett Formation quartzite of the Belt Super Group. These include the Troy deposit, which was mined between 1981 and 1992, and the Rock Creek deposit, located less than one mile to the west of Montanore, which was permitted in June of 2003.

Silver and copper values within the Revett Formation are disseminated and confined to one or more adjacent quartzite strata separated by unmineralized beds. The deposits are characterized by great lateral extent, relatively uniform grades and thicknesses that range up to 100 feet. Often the deposits are bounded by a paleo growth fault, considered to have been active during rock sedimentation and mineral deposition. Mineralization consists in varying parts of bornite, primary chalcocite, and chalcopyrite.

The Montanore Deposit has been defined as being at least 12,500 feet long and varies between 500 and 4000 feet in width. The long axis of the deposit trends in a northwesterly direction parallel with a regional fault that bounds the mineralization of the deposit. The deposit dips at approximately 12 degrees to the northwest, parallel with its long axis.

Mineralization occurs within two mineralized beds over much of the deposit's length. Overall the upper zone averages 29.9 feet in thickness and the lower zone 34.8 feet, with an unmineralized strata between the beds varying in thickness between 20 and 200 feet. On the basis of 27 surface drill holes, the deposit contains an estimated 135 million tons averaging 0.74% copper and 1.93 ounces silver per ton.

ADVANCE & IROQUOIS PROPERTIES

Stevens County, Washington

The company owns the Advance and Iroquois zinc-lead properties located in northeastern Washington State, approximately 6 miles south of the Canadian border. The properties are situated 5 miles apart along a belt of Cambrian carbonate sediments that have acted as host rocks for several former mines. Both properties are easily accessible on secondary graveled roads by two wheel drive vehicles. A large zinc smelter and refinery is located at Trail, British Columbia, approximately 17 miles distant over excellent roads.

Mines Management, Inc., was originally formed in 1947 to explore the Advance and Iroquois properties. Since that time, the company has leased its holdings to several major corporations.

The Advance property consists of patented mineral rights, located approximately 5 miles east of the town of Northport, Washington. The Metaline Formation is the principal rock unit to crop out on the Advance property. Exploration consisting of soil sampling, drilling, trenching, and tunneling has shown that several zones of low-grade, disseminated zinc mineralization occur on the property. The Advance property is considered to be of an exploratory nature, and is held by the company on a maintenance basis.

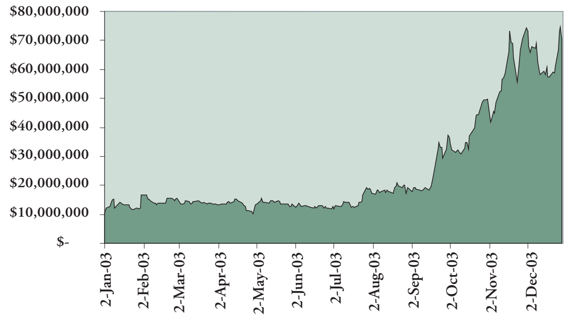
The Iroquois property consists of 62 acres of patented mineral and surface rights, and unpatented mining claims. The property is also reached from the town of Northport. More than 25,000 feet of drilling and approximately 2,600 feet of tunneling have shown low-grade mineralization to occur in multiple zones, extending for the entire 5,000 foot length of the property. Most of the exploration has been concentrated in one area where a mineralized zone of disseminated zinc associated with lead values has been outlined over approximately 900 feet in length and within 300 feet of the surface. The property is considered to be of an exploratory nature and is held on a maintenance basis.

MARKET PRICE OF COMMON EQUITY

The Common Stock of the company is traded on the American Stock Exchange, as of March 24, 2004, under the symbol “MGN”. Previously the company shares were quoted on the OTC Bulletin Board under the symbol MNMM. The following table shows the high and low closing sale prices for the Common Stock for each quarter since January 1, 2002. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Fiscal Year	High Closing	Low Closing
2002:		
First Quarter	.12	.05
Second Quarter	.22	.06
Third Quarter	.85	.15
Fourth Quarter	1.25	.89
2003		
First Quarter	2.45	1.83
Second Quarter	1.80	1.20
Third Quarter	3.70	1.33
Fourth Quarter	7.25	3.04
2004		
First Quarter	7.80	5.90

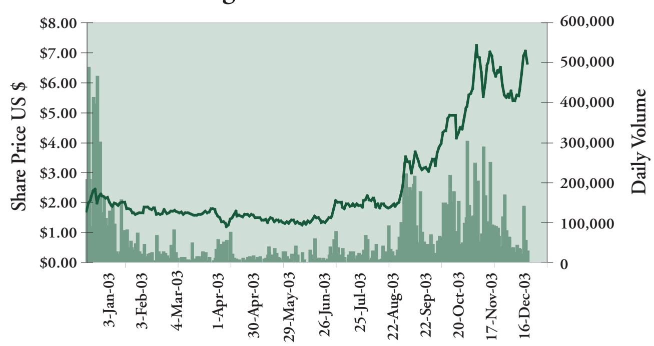
2003 Market Cap. Growth



Holders.

As of February 24, 2004 there were 2,462 shareholders of record of the company’s common stock between the United States and five foreign countries.

Mines Management Share Performance

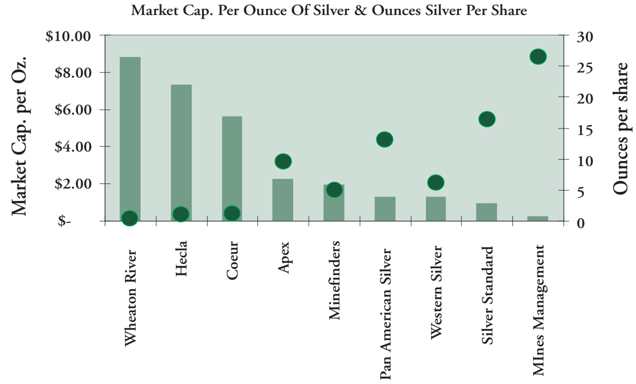


Dividends.

No dividends have been paid to shareholders of any class of the company’s stock, nor is there any intent to pay a dividend in the foreseeable future.

Comparative Valuation

Market Cap. Per Ounce Of Silver & Ounces Silver Per Share



INDEPENDENT AUDITORS' REPORT

Board of Directors
Mines Management, Inc.
Spokane, Washington

We have audited the accompanying consolidated balance sheets of Mines Management, Inc. (an Idaho Corporation) and Subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mines Management, Inc. and Subsidiary as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, Mines Management, Inc., changed its method of accounting for stock-based compensation in 2003.

LeMaster & Daniels PLLC

Spokane, Washington
February 19, 2004

Part I

Mines Management, Inc. and Subsidiary
Consolidated Balance Sheets

	December 31,	
	2003	2002 (as restated)
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	$ 282,637	$ 263,475
Accounts receivable	-	760
Interest receivable	15,742	-
Prepaid expenses	7,500	500
Total current assets	305,879	264,735
MINERAL PROPERTIES	504,492	368,681
PROPERTY AND EQUIPMENT:		
Mine buildings	12,926	11,031
Equipment	44,098	44,098
Office equipment	35,141	12,596
	92,165	67,725
Less accumulated depreciation	67,061	64,858
	25,104	2,867
INVESTMENTS:		
Certificates of deposit	1,000,000	-
Available-for-sale securities	54,260	14,298
	1,054,260	14,298
	$ 1,889,735	**$ 650,581**

See accompanying notes to financial statements.

Mines Management, Inc. and Subsidiary
Consolidated Balance Sheets

Liabilities and Stockholders' Equity

	December 31, 2003	December 31, 2002 (as restated)
CURRENT LIABILITIES:		
Accounts payable	$ 26,869	$ 43,438
State income taxes payable	800	164
Due to officer	12,583	-
Severance currently payable	60,000	-
Payroll taxes payable	8,404	1,971
Total current liabilities	108,656	45,573
OTHER LIABILITIES:		
Severance payable, long term	80,000	-
Total liabilities	188,656	45,573
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common stock – 100,000,000 shares, $0.01 par value, authorized; 8,724,708 and 6,202,956 shares issued and outstanding	87,247	62,030
Preferred stock – 10,000,000 shares, no par value, authorized	-	-
Additional paid-in capital	4,186,497	1,879,985
Retained earnings (deficit)	(2,615,760)	(1,340,140)
Accumulated other comprehensive income	43,095	3,133
Total stockholders' equity	1,701,079	605,008
	$ 1,889,735	**$ 650,581**

See accompanying notes to financial statements.

Mines Management, Inc. and Subsidiary
Consolidated Statements of Income

	Years Ended December 31, 2003	2002 (as restated)
REVENUE:		
Royalties	$ 6,038	$ 5,470
OPERATING EXPENSES:		
Depreciation	2,203	844
Administrative	116,024	3,770
Legal, accounting, and consulting	90,802	28,094
Miscellaneous	823	8,287
Oil and gas operating	3,208	1,442
Rent and office	47,522	6,257
Salaries, officer and staff	216,612	13,649
Taxes and licenses	21,836	5,692
Telephone	8,493	3,966
Exploration	-	7,454
Fees, filing, and licenses	24,234	25,043
Commissions	68,440	-
Directors' and officers' compensation	140,000	150,000
Stock option expense	560,800	52,480
Total operating expenses	1,300,997	306,978
LOSS FROM OPERATIONS	(1,294,959)	(301,508)
OTHER INCOME:		
Interest	16,115	430
Miscellaneous	3,224	-
	19,339	430
NET LOSS	**$(1,275,620)**	**$ (301,078)**
NET LOSS PER SHARE	$ (0.180)	$ (0.055)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	**7,234,703**	**5,472,460**

See accompanying notes to financial statements.

Mines Management, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2003 and 2002

	Common Stock		Issuable Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
BALANCES, DECEMBER 31, 2001	4,946,956	$49,470	90,000	$22,500	$1,362,365	$(1,039,062)	$846	$396,119
Common stock issued for cash	786,000	7,860	-	-	295,340	-	-	303,200
Common stock issued for services	5,000	50	-	-	1,950	-	-	2,000
Common stock issued to directors	375,000	3,750	-	-	146,250	-	-	150,000
Issuance of stock options	-	-	-	-	52,480	-	-	52,480
Issuable common stock issued	90,000	900	(90,000)	(22,500)	21,600	-	-	-
Comprehensive loss:								
Adjustment to net unrealized gain on marketable securities	-	-	-	-	-	-	2,287	2,287
Net loss	-	-	-	-	-	(301,078)	-	(301,078)
Comprehensive loss								(298,791)
BALANCES, DECEMBER 31, 2002*	6,202,956	62,030	-	-	1,879,985	(1,340,140)	3,133	605,008
Common stock issued for cash	1,960,506	19,605	-	-	1,751,324	-	-	1,770,929
Exercise of stock options	561,246	5,612	-	-	(5,612)	-	-	-
Issuance of stock options	-	-	-	-	560,800	-	-	560,800
Comprehensive loss:								
Adjustment to net unrealized gain on marketable securities	-	-	-	-	-	-	39,962	39,962
Net loss	-	-	-	-	-	(1,275,620)	-	(1,275,620)
Comprehensive loss								(1,235,658)
BALANCES, DECEMBER 31, 2003	8,724,708	$87,247	-	$ -	$4,186,497	$(2,615,760)	$43,095	$1,701,079

See accompanying notes to financial statements.

*Restated

Mines Management, Inc. and Subsidiary
Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31, 2003	2002 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,275,620)	$ (301,078)
Adjustments to reconcile net loss to net cash used in operating activities:		
Issuance of common stock to directors	-	150,000
Issuance of common stock for services	-	2,000
Issuance of stock options	560,800	52,480
Common stock received in exchange for services performed	-	(11,165)
Depreciation	2,203	844
Changes in assets and liabilities:		
Accounts receivable	760	1,764
Interest receivable	(15,742)	-
Prepaid expenses	(7,000)	-
Accounts payable	(3,986)	40,845
Severance payable	140,000	-
State income taxes payable	636	-
Payroll taxes payable	6,433	966
Net cash used in operating activities	(591,516)	(63,344)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of office equipment	(24,440)	(1,873)
Purchase of certificates of deposit	(1,000,000)	-
Increase in mineral properties	(135,811)	(8,501)
Net cash used in investing activities	(1,160,251)	(10,374)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock	1,770,929	303,200
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,162	229,482
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	263,475	33,993
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 282,637**	**$ 263,475**
Supplemental Disclosure of Cash Flows Information:		
Income taxes paid	$ 549	$ 150
Noncash Financing Activity:		
Issue shares of common stock for services	$ -	$ 152,000

See accompanying notes to financial statements.

Mines Management, Inc. and Subsidiary
Notes to Consolidated Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

Mines Management, Inc. (the Company) is a publicly held Idaho corporation incorporated in 1947. The Company acquires, explores, and develops mineral and oil properties principally in North America. The Company performed exploration activities in South America in 2002.

Summary of Significant Accounting Policies:

a. The accompanying consolidated financial statements include the accounts of Mines Management, Inc., and its wholly-owned subsidiary, Newhi, Inc. Intercompany balances and transactions have been eliminated. Newhi, Inc., was formed by the Company for the purpose of merger with Heidelberg Silver Mining Company, Inc. In the merger, completed on April 15, 1988, Heidelberg Silver Mining Company, Inc., was merged into Newhi, Inc. To effect the merger, the Company issued 367,844 shares of its previously unissued common stock. Also in connection with this merger, the Company issued 11,117 shares of common stock and paid $4,446 as a finders' fee.

b. The Company capitalizes acquisition and exploration costs on nonoperating mining properties. Costs to maintain the mineral rights and leases are expensed as incurred. Upon commencement of operations, the capitalized costs will be amortized based on proven or probable reserves. Capitalized costs are charged to operations as impairment losses when title to the property has expired or when management believes the properties are not economically feasible to develop or hold for future development.

c. In accordance with Financial Accounting Standards Board (FASB) Statement No. 144, Accounting for Impairment of Long-Lived Assets, the Company reviews its long-lived assets quarterly to determine if any events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. Management does not believe that any impairment adjustment is needed to the carrying value of assets at December 31, 2003.

d. Property and equipment are stated at cost. Buildings and leasehold improvements are depreciated on the straight-line basis over an estimated useful life of 39 years. Machinery and furniture are generally being depreciated using accelerated methods over estimated useful lives ranging from 5 to 10 years.

e. Basic and diluted loss per share are computed using the weighted average number of shares outstanding during the year (7,234,703 and 5,472,460 in 2003 and 2002, respectively). Stock options and warrants outstanding are antidilutive and are not considered in the computation.

f. Cash and cash equivalents include cash on hand, cash in banks, investments in certificates of deposit with maturities less than 90 days, and money market funds.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Summary of Significant Accounting Policies (continued):

g. Deferred income tax is provided for differences between the bases of assets and liabilities for financial and income tax reporting. A deferred tax asset, subject to a valuation allowance, is recognized for estimated future tax benefits of tax-basis operating losses being carried forward.

h. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

i. Certain reclassifications of 2002 amounts have been made to conform with the 2003 financial statement presentation with no effect on previously reported net loss.

j. At December 31, 2003, the Company has four stock option plans, which are described more fully in note 6. Prior to 2003, the Company accounted for stock options issued under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. No stock-based employee compensation was recognized in previously reported financial statements under APB No. 25, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant. Effective January 1, 2003, the Company adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, for all stock-based employee compensation. In adopting FASB No. 123, the Company elected to restate the prior year presented (2002) to reflect the compensation cost that would have been recognized had the recognition provisions of FASB No. 123 been applied to the stock options granted for that year. The restatement resulted in a $52,480 increase in the previously reported 2002 net loss ($0.01 per share) and in additional paid-in capital.

NOTE 2 — STOCKHOLDERS' EQUITY:

Common Stock:

In 2002, the Company sold 370,000 common shares for $37,000 ($0.10 per share). In connection with the stock sales, the Company granted warrants to purchase up to 370,000 common shares at $0.20 per share through June 10, 2003. As of December 31, 2002, warrants for 50,000 shares had been exercised, and the remaining warrants for 320,000 shares were exercised in 2003.

In 2002, the Company sold 366,000 common shares for $256,200 ($0.70 per share). In connection with the stock sales, the Company granted warrants to purchase up to 366,000 common shares at $0.80 per share through November 23, 2003. During 2003, warrants for 316,000 were exercised.

NOTE 2 — STOCKHOLDERS' EQUITY (continued):

Common Stock (continued):

In 2003, the Company sold 1,152,007 common shares for $1,267,207 ($1.10 per share). In connection with the stock sales, the Company granted warrants to purchase up to 1,152,007 common shares at $1.20 per share through two years from the date of issue. During 2003, warrants for 122,501 shares had been exercised.

At December 31, 2003, warrants to purchase 1,029,506 common shares at $1.20 per share were outstanding.

Preferred Stock:

The Company has authorized 10,000,000 shares of no-par-value preferred stock. Through December 31, 2003, the Company had not issued any of the authorized preferred stock.

NOTE 3 — MINING PROPERTIES:

Mining properties are comprised of acquisition, exploration, and development costs related to the Advance and Iroquois properties in the Northport region of northeastern Washington State and the Montanore property in northwestern Montana, as shown below:

	December 31,	
	2003	2002
Montanore	$278,519	$142,708
Advance	2,139	2,139
Iroquois	223,834	223,834
	$504,492	**$368,681**

The Montanore property (formerly the Noxon property) located in northwestern Montana includes 18 mining claims covering 355 acres plus one 5-acre patented mill site. In August 2002 the Company acquired controlling interest of the Montanore silver copper deposit in Sanders County, Montana. The Company received a quitclaim deed from Noranda Mineral Corp. (Noranda) that elected to withdraw from the project. The mineral rights acquired by the Company are subject to a $0.20 per ton royalty, and a 5% net profits royalty which would commence after the operator has recovered all of its exploration and development costs. Between 1988 and 2002 Noranda carried out extensive geological, environmental, and engineering studies related to the project that is considered to be one of the largest silver deposits in the world. This work led to Noranda's definition of a resource of 135 million tons containing 260 million ounces of silver and 2 billion pounds of copper. In December 2002, the Company received a quitclaim deed to all intellectual property connected with studies that Noranda carried out on the project.

The Advance property consists of 720 acres of patented mineral rights. Although the Company does not own the overlying surface rights to its patented mineral rights, it does have right of access to explore and mine.

The Iroquois property consists of 64 acres of patented mineral and surface rights and 15 unpatented mining claims containing 300 acres.

Mines Management, Inc. and Subsidiary
Notes to Consolidated Financial Statements

NOTE 4 — INVESTMENTS:

The Company owns ten $100,000 certificates of deposit. These investments mature in 2008 and earn interest at rates from 3.3% to 3.64%.

The Company owns 45,000 free-trading shares of Bitterroot Resources, Ltd. (BTT) a public Canadian corporation traded on the Toronto Venture Exchange. The shares are held as "available for sale." This investment is being recorded at fair market value with a corresponding adjustment to stockholders' equity. The 45,000 free-trading shares at December 31, 2003 and 2002, have an approximate market value of $20,893 and $3,133 U.S. funds, respectively. The Company also owns 196,000 free-trading shares of Centram Exploration Ltd., a public Canadian corporation traded on the Toronto Venture Exchange. The shares are held as "available for sale." The shares were received in year 2002 in exchange for administrative services provided by Mines Management, Inc. The 196,000 free-trading shares at December 31, 2003 and 2002, have an approximate market value of $33,367 and $11,165 U.S. funds, respectively.

NOTE 5 — SEVERANCE AGREEMENT:

During the year ended December 31, 2003, the Company entered into a severance agreement with a former officer. The agreement provides for annual severance payments, payable in equal monthly installments, through April 30, 2006. As of December 31, 2003, the Company had the following obligations under the agreement:

Years Ending December 31,	Amount
2004	$ 60,000
2005	60,000
2006	20,000
	$140,000

NOTE 6 — STOCK OPTIONS:

During the year ended December 31, 1998, the stockholders of the Company approved two stockbased compensation plans: a nonqualified stock-based compensation plan and a qualified performance based plan. Under the nonqualified plan, the Company may grant options to purchase up to 460,000 shares of common stock. The option price shall not be less than the fair market value on the date of grant of the shares. Stock options shall be exercisable within ten years from the date of the grant of the option. Options granted under the nonqualified plan to date were fully vested upon grant.

NOTE 6 — STOCK OPTIONS (continued):

At December 31, 2003, the following 1998 nonqualified plan options were outstanding:

	Optionee	Number of Shares Granted	Option Price	Option Period	Expiration
Directors:	Jerry Pogue	100,000	$0.40 per share	5 years	September 15, 2007

Under the 1998 qualified plan, the Company may grant options to purchase up to 460,000 shares of common stock. The option price shall not be less than the fair market value on the date of grant of the shares. Stock options shall be exercisable within ten years from the date of the grant of the option. Options granted under the qualified plan to date were fully vested upon grant.

At December 31, 2003, the following 1998 qualified plan options were outstanding:

Optionee	Number of Shares Granted	Option Price	Option Period	Expiration
Glenn Dobbs	100,000	$0.82 per share	5 years	December 4, 2007

During the year ended December 31, 2003, the stockholders of the Company approved two new stockbased compensation plans – the 2003 Stock Option Plan (which includes both qualified and nonqualified options) and the 2003 Consultant Stock Compensation Plan. Under the 2003 Stock Option Plan, the Company may grant options to purchase up to 1,200,000 shares of common stock. Under the 2003 Consultant Stock Compensation Plan the Company may grant options to purchase up to 400,000 shares of common stock.

Under both 2003 plans the option price shall be no less than 100% of the fair market value per share on the date of grant. Stock options shall be exercisable within ten years from the date of the grant of the option. Vesting of the options granted under both plans is at the prerogative of the Board of Directors. Options granted under the plans in 2003 were vested immediately except for options issued to Glenn Dobbs, President and Chairman of the Board of Directors. Options issued to Glenn Dobbs were 50% vested at December 31, 2003, and become fully vested upon completion of certain financing arrangements.

NOTE 6 — STOCK OPTIONS (continued):

At December 31, 2003, the following options were outstanding under the 2003 Stock Option Plan:

Optionee	Number of Shares Granted	Option Price	Option Period	Expiration
Glenn Dobbs	500,000	$1.60 per share	5 years	March 4, 2008
Douglas Dobbs	40,000	$1.60 per share	5 years	March 4, 2008
Samantha Pitts	10,000	$1.60 per share	5 years	March 4, 2008
Roy Franklin	10,000	$1.85 per share	5 years	August 27, 2008
Bob Russell	100,000	$1.85 per share	5 years	August 27, 2008
Glenn Dobbs	100,000	$1.85 per share	5 years	August 27, 2008
	760,000			

At December 31, 2003, the following options were outstanding under the 2003 Consultant Stock Compensation Plan:

Optionee	Number of Shares Granted	Option Price	Option Period	Expiration
Jerry Pogue	100,000	$1.85 per share	5 years	August 27, 2008

See note 9 regarding subsequent option grants and changes to the 2003 plans.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions from grants in 2002 and 2003, respectively: dividend rate of 0% for both years, price volatility of 35% and 95%, risk-free interest rates of 3.03 and 1.69, and expected lives of five years for 1998 Plan options issued before December 31, 2002, and one year for the 1998 Plan options issued during 2003, and two years for the 2003 Plan options.

NOTE 6 — STOCK OPTIONS (continued):

The following summarizes option activity for the years presented:

	Shares Under Option	Weighted-Average Exercise Price Per Share
Balance, at January 1, 2002	450,000	0.38
Issued	410,000	0.51
Forfeited	-	-
Exercised	-	-
Balance at December 31, 2002	860,000	0.44
Issued	920,000	1.66
Forfeited	-	-
Exercised	(720,000)	0.46
Balance at December 31, 2003	1,060,000	1.49

Options outstanding at December 31, 2003, have a remaining contractual life of approximately four years.

NOTE 7 — CONCENTRATION OF CREDIT RISK:

The Company maintains its cash and cash equivalents in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation up to $100,000 per institution.

NOTE 8 — DEFERRED INCOME TAX:

At December 31, 2003 and 2002, the Company had deferred tax assets which were fully reserved by valuation allowances. Following are the components of such assets and allowances:

	December 31,	
	2003	2002
Deferred tax assets arising from:		
Net operating loss carryforwards	$185,000	$114,000
Stock option compensation	96,000	8,000
Accrued severance compensation	21,000	-
	302,000	122,000
Less valuation allowance	302,000	122,000
Net deferred tax assets	$ -	$ -

NOTE 8 — DEFERRED INCOME TAX (continued):

For the years the presented, the effective income tax rate differed from the expected rate because of the effects of annual changes in the deferred tax asset valuation allowance. Changes in the deferred tax asset valuation allowance for 2003 and 2002 relate only to corresponding changes in deferred tax assets for those years.

At December 31, 2002, the Company had federal tax-basis net operating loss carryforwards totaling approximately $1,230,000, which will expire in various amounts from 2004 through 2023.

NOTE 9 — SUBSEQUENT EVENTS:

Subsequent to December 31, 2003, the following events occurred:

1. The Company completed a private placement stock offering in which 1,100,000 shares were issued at $5 per share for a total of $5,500,000 gross proceeds. In addition, the Company granted the purchasers warrants allowing the purchase of 275,000 shares at $7.25. The warrants expire five years from issuance. The Company paid finder's fee of 7% cash ($385,000) and warrants to purchase 165,000 common shares at $7.25 per share.

2. The Company commenced (but did not close) a second private placement stock offering in which up to 250,000 shares may be issued at $5 per share. In addition, the Company will grant one warrant for four shares sold allowing the purchase a common share at $7.25.

3. The Board of Directors granted options to purchase 650,000 common shares under the 2003 Stock Option Plan. The Board also approved, subject to stockholder approval, increases in the maximum number of common shares available under the 2003 Stock Option Plan to 3,000,000 shares and 700,000 shares under the 2003 Consultant Stock Compensation Plan.

The Company has agreed to file a registration statement covering the above private placement shares with the Securities and Exchange Commission within seven days following the acceptance of the Company's application to trade on the American Stock Exchange.

The following is an unaudited consolidated pro forma balance sheet as of December 31, 2003, giving effect to the funds raised during January and February 2004.

NOTE 9 — SUBSEQUENT EVENTS (continued):

	Pro Forma Historical	Unaudited Adjustment	Pro Forma
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	$ 282,637	$ 5,115,000	$ 5,397,637
Interest receivable	15,742	-	15,742
Prepaid expenses	7,500	-	7,500
Total current assets	305,879	5,115,000	5,420,879
MINERAL PROPERTIES	504,492	-	504,492
PROPERTY AND EQUIPMENT:			
Mine buildings	12,926	-	12,926
Equipment	44,098	-	44,098
Office equipment	35,141	-	35,141
	92,165	-	92,165
Less accumulated depreciation	67,061	-	67,061
	25,104	-	25,104
INVESTMENTS:			
Certificates of deposit	1,000,000	-	1,000,000
Available-for-sale securities	54,260	-	54,260
	1,054,260	-	1,054,260
	$ 1,889,735	**$ 5,115,000**	**$ 7,004,735**

NOTE 9 — SUBSEQUENT EVENTS (continued):

	Pro Forma Historical	Unaudited Adjustment	Pro Forma
Liabilities and Stockholders' Equity			
CURRENT LIABILITIES:			
Accounts payable	$ 26,869	$ -	$ 26,869
State income taxes payable	800	-	800
Due to officer	12,583	-	12,583
Severance currently payable	60,000	-	60,000
Payroll taxes payable	8,404	-	8,404
Total current liabilities	108,656	-	108,656
OTHER LIABILITIES:			
Severance payable, long term	80,000	-	80,000
Total liabilities	188,656	-	188,656
COMMITMENTS			
STOCKHOLDERS' EQUITY:			
Common stock – 100,000,000 shares, $0.01 par value, authorized	87,247	11,000	98,247
Preferred stock – 10,000,000 shares, no par value, authorized	-	-	-
Additional paid-in capital	4,186,497	5,104,000	9,290,497
Retained earnings (deficit)	(2,615,760)	-	(2,615,760)
Accumulated other comprehensive income	43,095	-	43,095
Total stockholders' equity	1,701,079	5,115,000	6,816,079
	$ 1,889,735	**$ 5,115,000**	**$ 7,004,735**

Glenn M. Dobbs, President, Chief Executive Officer and Chairman,

has broad experience in international finance, investment banking, natural resource financing and as a business development consultant, and is currently a member of the Board of Trustees of the North West Mining Association (NWMA). Mr. Dobbs was the founder of the Alpha Commodities Fund in 1976, founder and Board Chairman of First American Bank in 1978, Dallas regional manager for Monex International, founder of the InterGold (Hedge) Fund in 1996 and a former member of the Washington State House of Representatives. Mr. Dobbs has written and lectured extensively on precious metals sector investing, resource development and financing.

Roy G. Franklin, Director,

is a certified public accountant with 30 years experience in small company administration and finance. He was formerly a director of Heidelberg Silver Mining Company and was a principal in the accounting firm of Oswalt, Teel, and Franklin, P.S. prior to retirement in 2003.

Jerry G. Pogue, Director,

is a businessman with an extensive background in the management and financing of junior resource companies. He has managed a large sales organization, has worked as a highly successful investment analyst and advisor, and has financed and managed a number of companies in the resource and technology sectors. He frequently lectures at international mining investment conferences.

Robert L. Russell, Director,

a Professional Engineer, has been a director of the Company since March, 1999. Since September 1998, Mr. Russell has provided mining management consulting services through his consulting company, R.L. Russell Associates. From 1995-1998 Mr. Russell was employed by Zambia Consolidated Copper Mines, most recently as General Manager of the Nchanga Division. In that position Mr. Russell was responsible for all functions of two operating mines and several metallurgical facilities. Previously, Mr. Russell served as General Manager for Freeport Indonesia for the Grasberg Copper-Gold Mine in Indonesia. Currently, Mr. Russell serves as President of Idaho General Mines, Ltd.

Russell C. Babcock, Director,

an Economic Geologist, was appointed director of the company in February, 2004. Mr. Babcock has a 38 year history with Kennecott Minerals Company of Salt Lake City, having been employed by the company and its subsidiaries since 1956, during which time he managed projects in Alaska, Minnesota, Canada, and established exploration projects for the company in New Zealand and Eastern Australia. He was appointed Director of Exploration in 1986 and became Chief Geologist for Kennecott in November 1990. Mr. Babcock has worked extensively in the public sector with state and federal agencies on issues governing mining, land use, taxation and permitting. He is Past President of the Northwest Mining Association, holds membership in a number of professional societies including the Society of Economic Geologists. In 2003 he was awarded the Society for Mining, Metallurgy and Exploration, Ben Dickerson Award. Mr. Babcock is currently a consulting economic geologist specializing in exploration for and evaluation of base and precious metal deposits worldwide. He resides with his wife in Salt Lake City, Utah.

Mines Management, Inc.

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Market

- OTC Bulletin Board
- Symbol: MNMM

Founded

- 1947

Capital (as of 31 December, 2003)

- Shares Outstanding: 8,724,708
- Fully Diluted: 10,814,214

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