



Mines Management, Inc.

2002 Annual Report



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 more than 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, by controlling more silver per share than any other company in the world, creates a most 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 Monday, October 6, 2003, at the Doubletree Hotel Spokane City Center, 322 North Spokane Falls Ct., Spokane, Washington 99201, Phone: (509)455-9600.



President's Message

Dear Shareholder,

The year 2002 was a momentous year for Mines Management. In August, 2002, Mines acquired 100% ownership of the Montanore deposit, *the premier silver-copper deposit* in North America, containing an estimated 260 million ounces of silver and 2 billion pounds of copper. Shortly thereafter in December, the company acquired title to all drill core and intellectual data including full engineering studies and mining plans, permitting and environmental studies, drill logs, assays and other data related to exploration and development of the project. Over a 15 year period more than \$130 million has been spent exploring and developing Montanore. The project was virtually permitted, including an approved EIS and Record of Decision from the USFS, until 2002 when Noranda made the decision to withdraw from all of its operations in the United States.

At a time when the ranks of true silver companies have been dramatically thinned by market conditions, Mines has clearly emerged as a serious and substantial player in the silver mining industry. Acquisition of the Montanore project established the company as the 5th largest silver company in the world on the basis of contained ounces of silver.

The year 2003 will be a busy one as we cash up and refine our plan for moving the company forward. Our objectives in 2003 include:

- Raising through private placement \$1-\$1.5 million to ensure viability of the company for the next 18-24 months. In order to meet our financing needs going forward we will seek to establish sponsoring relationships with one or more major mining finance houses in the U.S., Canada and Europe.
- Development of a revised mining plan and preliminary feasibility study that will serve as the foundational document for a supplemental EIS.
- Initiate the re-permitting process for Montanore
- Moving the company's share listing from the OTC Bulletin Board to a recognized stock exchange.
- Aggressively present the company's story to the financial markets and heighten our visibility in the market place.

Clearly, the future of Mines Management has never been more exciting. Although Mines' shares are trading well above its history of anonymity, the company's comparative valuation in the market remains well below its peers. Simply put, few investors know about Mines or its extraordinary development over the past year. We anticipate a substantial re-rating of the company's shares as the story is aggressively presented to the financial markets in the months to come.

On behalf of the board of directors, to our long time shareholders I would like to express our sincere appreciation for your tenacity and faith in the company. And to our many new shareholders recently invested in our "emerged" silver company, we extend our welcome as well as our appreciation for the confidence you have placed in the management of Mines Management.

For the board,

Glenn Dobbs
President and CEO



Plan of Operations

The plan of operations for the coming year reflects the nature of the advancement of a developmental stage project by a junior non-producing company.

The company undertook a non-brokered private placement in mid-2003. Based on successful completion of that financing in August, the company has approximately \$1.1 million cash, which at its current level of activity is projected to carry the company for approximately 12-18 months, through the end of 2004. The company currently has 4 full time employees and utilizes contract consultants as needed. It is anticipated that the company will undertake additional financing, on the order of \$5-\$6 million, mid-2004 to provide funds for additional engineering and permitting activities and to satisfy listing requirements to move the company's share quotation from the Bulletin Board to a larger, approved exchange.

Going forward Mines Management will initiate re-permitting of the Montanore project. Although the company will be able to utilize a substantial amount of the data and information contained in the existing Environmental Impact Statement (EIS), it is our intention to file a supplemental EIS incorporating a number of revisions. Toward that end the company will complete an internal revised mining plan and feasibility report in Q-3, 2003, which will serve as the foundational documents for a supplemental EIS.

It is the opinion of management and others in the industry that Montanore is the premier silver project in North America. Being 100% underground there will be no open pit on the surface and there is no cyanide used in the extraction process. Metals will be extracted from ore using a time tested flotation process.

Acquisition of Montanore has thrust the company into a position of significantly higher visibility than at any other time during its 56 year history. As a result the company has attracted the attention of individual and institutional investors as well as major mining companies seeking a silver component for their resource inventories or to supplement their own depleting reserves. Throughout 2003 and 2004 management will undertake to present the company's story to retail and institutional financial markets as well as to the broader mining community. The objective of our promotional effort will be to achieve a rating, or valuation, of the company's assets in the marketplace comparable to its peers in the industry.

The company is aware of its responsibility as steward of this extraordinary asset. By use of state of the art mining methods and extraction techniques Mines Management is committed to developing Montanore in a manner entirely compatible with environmental priorities and the welfare of the people of Montana.



Projects Overview

Montanore Project (100%)

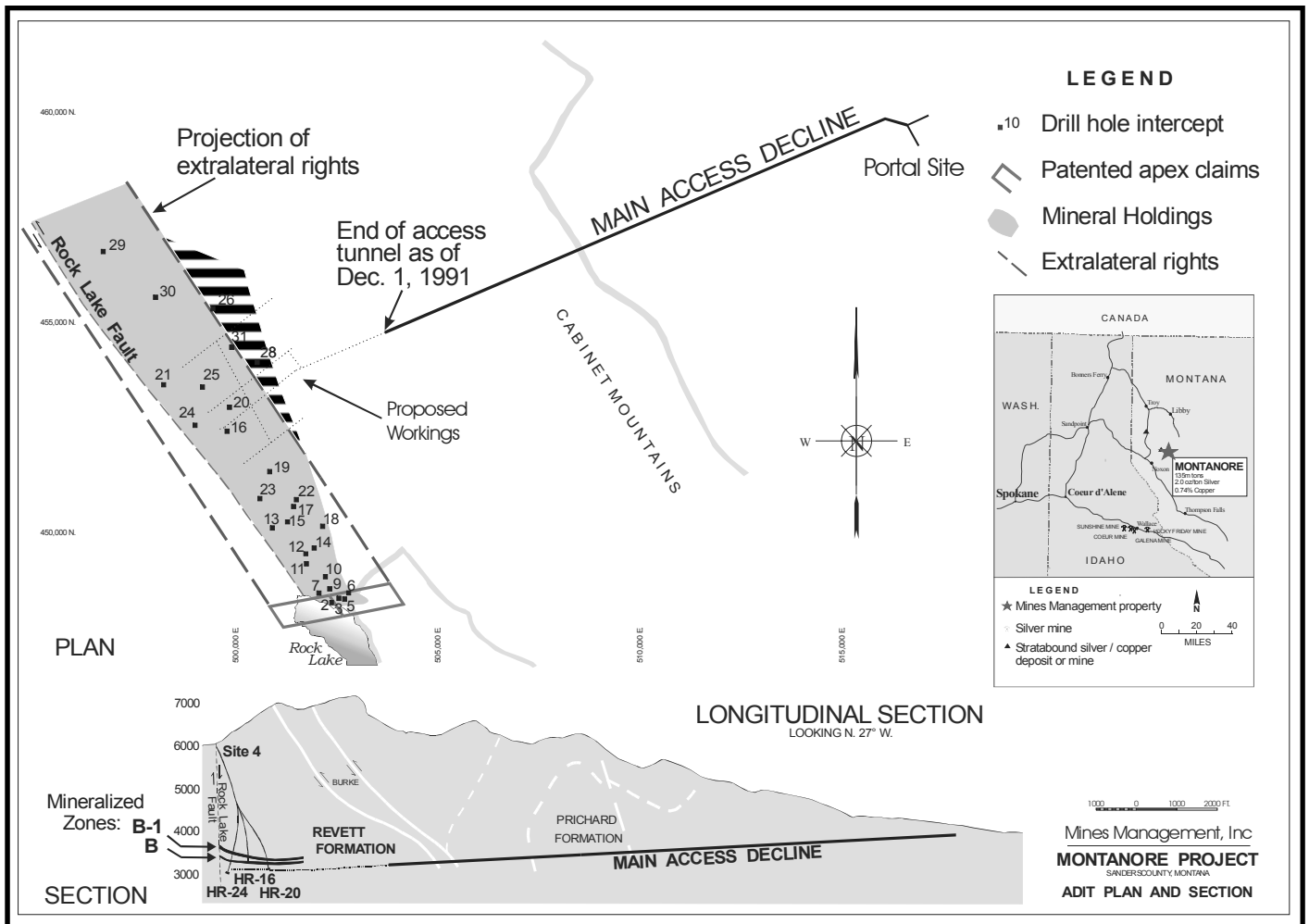
Sanders County, Montana

The Montanore silver-copper deposit, containing a resource of more than 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 decline, full project engineering and feasibility work, as well as development of an approved environmental impact statement and project permitting.

Beginning in 2003, Mines Management intends to advance the project through the development of a revised mining plan and to initiate repermitting of the project. After careful review and analysis of the previous mining 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.

Continued on next page....



Projects Overview

Montanore Project (Continued)

Background

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

In late 1989 the project operator, Noranda Minerals, 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 acquire 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.

In August, 2002, Noranda elected to withdraw from the Montanore Project and according to their agreement with Mines Management, quitclaimed ownership of the patented claims that controlled the deposit to the company.

Mining Plan

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.

With more than 135 million tons of material, the original mining studies called for construction of a plant with a capacity to process 17,500 to 20,000 tons of ore per day yielding approximately 10 million ounces silver and 90 million pounds copper per year.

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.

Upon completion of the revised mining plan, the company plans to initiate repermitting of the project and to ultimately reopen and complete construction of the evaluation adit in order to conduct next phase definition drilling.

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.



Projects Overview

Montanore Project (Deposit continued)

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 and Iroquois Properties (100%) 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 720 acres 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 15 unpatented mining claims containing about 300 acres. 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.



Stock Performance

MARKET PRICE OF COMMON EQUITY

The Common Stock of the company is traded in the over the counter market on the OTC Bulletin Board under the symbol MNMM. The following table shows the high and low closing sales prices for the Common Stock for each quarter since January 1, 2001. 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
2001:		
First Quarter	.18	.09
Second Quarter	.14	.08
Third Quarter	.12	.05
Fourth Quarter	.05	.05
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

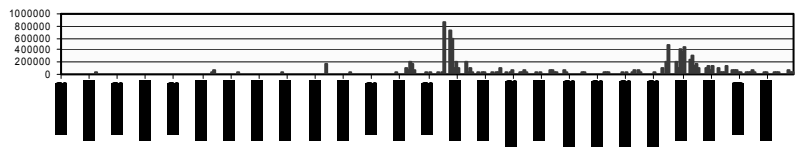
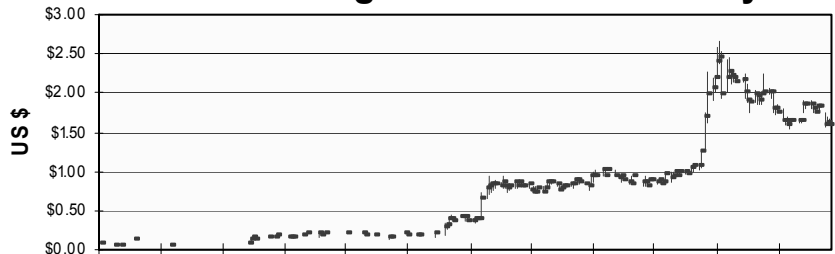
Holders.

As of June 23, 2003 there were 1,069 shareholders of record of the company's common stock.

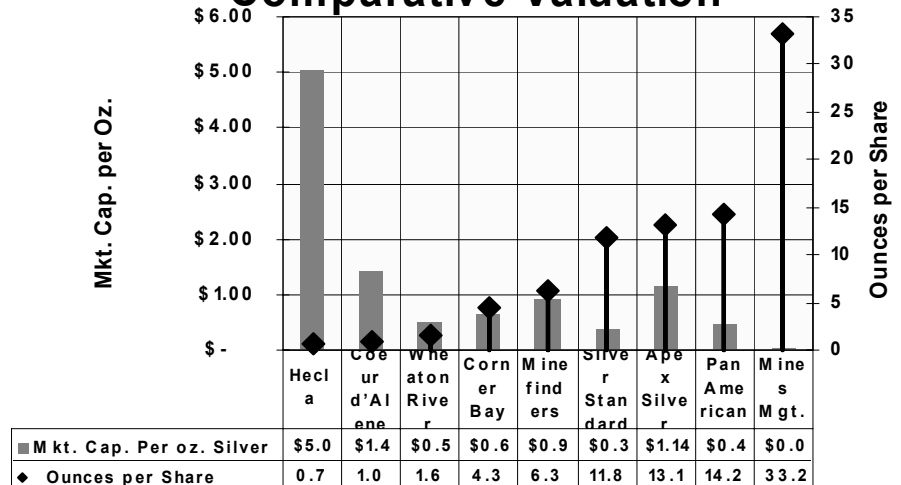
Dividends.

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.

Mines Management Share History



Comparative Valuation



A Shareholder may obtain a copy of the Company's form 10-KSB for the fiscal year ended December 31, 2002 (the "Form 10-KSB"), including the financial statements and financial statement schedules, required Exchange Act of 1934, without cost, upon written request to the Secretary of the Company at Mines Management, Inc., 905 W. Riverside Ave., Suite 311, Spokane, WA 99201. The Annual Report on Form 10-KSB is not part of proxy solicitation materials for the Annual Meeting.



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, 2002 and 2001, 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, 2002 and 2001, 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.

LeMASTER & DANIELS PLLC
Certified Public Accountants

Spokane, Washington
March 21, 2003



Consolidated Balance Sheet

(audited)

	December 31,	
	2002	2001
<u>Assets</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 263,475	\$ 33,993
Accounts receivable	760	2,524
Prepaid expenses	500	500
Total current assets	264,735	37,017
MINERAL PROPERTIES	368,681	360,180
PROPERTY AND EQUIPMENT:		
Mine buildings	11,031	11,031
Equipment	44,098	44,098
Office equipment	12,596	10,723
	67,725	65,852
Less accumulated depreciation	64,858	64,014
	2,867	1,838
INVESTMENTS:		
Available-for-sale securities	14,298	846
	\$ 650,581	\$ 399,881
<u>Liabilities and Stockholders' Equity</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 43,438	\$ 2,593
State income taxes payable	164	164
Payroll taxes payable	1,971	1,005
Total current liabilities	45,573	3,762
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common stock – 100,000,000 shares, \$.01 par value, authorized; 6,202,956 and 4,946,956 shares issued and outstanding	62,030	49,470
Issuable common stock	-	22,500
Preferred stock – 10,000,000 shares, no par value, authorized; no shares issued and outstanding	-	-
Additional paid-in capital	1,827,505	1,362,365
Retained earnings (deficit)	(1,287,660)	(1,039,062)
Accumulated other comprehensive income	3,133	846
Total stockholders' equity	605,008	396,119
	\$ 650,581	\$ 399,881

See accompanying notes to consolidated financial statements.



Consolidated Income Statement

(audited)

	Years Ended December 31,	
	2002	2001
REVENUE:		
Royalties	\$ -	\$ 25,000
Oil and gas	5,470	7,551
Total revenue	5,470	32,551
OPERATING EXPENSES:		
Depreciation	844	905
Legal and accounting	28,094	7,252
Miscellaneous	12,057	3,479
Oil and gas operating	1,442	2,383
Rent and office	10,274	2,314
Salaries, officer and staff	13,649	9,947
Taxes and licenses	1,674	1,254
Telephone	3,967	1,925
Exploration	7,454	1,800
Fees, filing, and licenses	25,043	2,112
Directors' and officers' compensation	150,000	-
Total operating expenses	254,498	33,371
LOSS FROM OPERATIONS	(249,028)	(820)
OTHER INCOME:		
Interest	430	837
NET INCOME (LOSS)	\$(248,598)	\$ 17
NET INCOME (LOSS) PER SHARE	\$ (0.045)	\$ NIL
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	5,472,460	4,946,956



Mines Management, Inc. and Subsidiary

Consolidated Statement of Stockholder's Equity

(U.S. Dollars)

	<u>Common Stock</u>		<u>Issuable Common Stock</u>		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
BALANCES, DECEMBER 31, 2000	4,946,956	\$ 49,470	90,000	\$ 22,500	\$1,362,365	\$ (1,039,079)	\$ 1,801	\$ 397,057
Comprehensive Loss								
Adjustment to net unrealized gain on marketable securities	-	-	-	-	-	-	(955)	(955)
Net income	-	-	-	-	-	17	-	17
Comprehensive loss								(938)
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
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	-	-	-	-	-	(248,598)	-	(248,598)
Comprehensive loss								(246,311)
BALANCES, DECEMBER 31, 2002	6,202,956	\$ 62,030	-	\$ -	\$ 1,827,505	\$ (1,287,660)	\$ 3,133	\$ 605,008

See accompanying notes to consolidated financial statements.



Mines Management, Inc. and Subsidiary

Consolidated Statement of Cash Flows

(U.S. Dollars)

	Years Ended December 31,	
	<u>2002</u>	<u>2001</u>
Increase (Decrease) in Cash and Cash Equivalents		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ (248,598)	\$ 17
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Issuance of common stock to directors	150,000	-
Issuance of common stock for services	2,000	-
Common stock received in exchange for services performed	(11,165)	-
Depreciation	844	905
Changes in assets and liabilities:		
Accounts receivable	1,764	(958)
Prepaid expenses	-	1,800
Accounts Payable	40,845	1,667
Payroll taxes payable	966	1,005
Net cash provided by (used in) operating activities	(63,344)	4,436
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of office equipment	(1,873)	-
Increase in mineral properties	(8,501)	-
Net cash used in investing activities	(10,374)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sales of common stock	303,200	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	229,482	4,436
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,993	29,557
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 263,475	\$ 33,993
Supplemental Disclosure of Cash Flows Information:		
Income taxes paid	\$ 150	\$ 150
Noncash Financing Activity		
Issuance of common stock for services	\$ 152,000	\$ -

See accompanying notes to consolidated financial statements.



Mines Management, Inc. and Subsidiary

Notes to Consolidated Financial Statements

(U.S. Dollars)

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 and 2001.

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. As of December 31, 2002 and 2001, a portion of the shares to be distributed to the Heidelberg Silver Mining Company, Inc., stockholders has yet to be issued. Even though a number of stockholders have elected not to return their shares upon the merger, the Company is holding approximately 60,000 shares to be delivered at their request.
- 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 Statement No. 121, "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, 2002.
- d. Property and equipment are stated at cost. Buildings were depreciated on the straight-line basis and were fully depreciated at December 31, 2002 and 2001, respectively. Machinery and furniture are generally being depreciated using accelerated methods over estimated useful lives ranging from five to ten years.
- e. Basic and diluted loss per share are computed using the weighted average number of shares outstanding during the year (5,472,460 and 4,946,956 in 2002 and 2001, respectively). Stock options and warrants outstanding and issuable shares are antidilutive and are not considered in the computation.
- f. Cash and cash equivalents include cash on hand, cash in banks, and investments in money market funds.
- g. Deferred income tax is provided for differences between the basis 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 estimates.



Notes to Consolidated Financial Statements (continued)

NOTE 2 — STOCKHOLDERS' EQUITY:

Common Stock:

In 1999, the Company authorized the issuance of 90,000 shares of common stock for director fees and officer compensation. The shares were valued at \$0.25 per share, the estimated market value on the authorization date. The shares were issued in 2002.

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. 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 366,200 common shares at \$0.80 per share through November 23, 2003. As of December 31, 2002, no warrants had been exercised. In 2002, the Company issued 375,000 shares of common stock for directors' fees and officer compensation. The shares were valued at \$0.40 per share, the fair market value on the authorization date. In 2002, the Company issued 5,000 shares of common stock to an outside party for services. These shares were valued at \$0.20 per share, which was the fair market value at the date of issuance.

Preferred Stock:

The Company has authorized 10,000,000 shares of no-par-value preferred stock. Through December 31, 2002, 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,	
	2002	2001
Montanore	\$ 142,708	\$ 134,207
Advance	2,139	2,139
Iroquois	223,834	223,834
	\$ 368,681	\$ 360,180

The Montanore property (formerly the Noxon property) located in northwestern Montana includes 18 mining claims covering 355 acres plus one five 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 the 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.

NOTE 4 — MARKETABLE SECURITIES:

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



Notes to Consolidated Financial Statements (continued)

adjustment to stockholders' equity. The 45,000 free-trading shares at December 31, 2002 and 2001, have an approximate market value of \$3,133 and \$846 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 shares were valued at \$11,165 at December 31, 2002.

NOTE 5 — STOCK OPTIONS:

During the year ended December 31, 1998, the stockholders of the Company approved two stockbased compensation plans: a fixed employee stock-based compensation plan and a performance-based plan. Under the fixed 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 under the fixed plan vest immediately.

At December 31, 2002, the following fixed plan options were outstanding:

Optionee	Number of Shares Granted	Option Price	Option Period	Expiration
Directors:				
Robert L. Russell	100,000	\$0.30 per share	5 years	February 22, 2004
Jack Gustavel	75,000	\$0.40 per share	5 years	May 18, 2003
Roy Franklin	75,000	\$0.40 per share	5 years	May 18, 2003
Robert L. Russell	60,000	\$0.40 per share	5 years	September 15, 2007
Jack Gustavel	25,000	\$0.40 per share	5 years	September 15, 2007
Roy Franklin	25,000	\$0.40 per share	5 years	September 15, 2007
Jerry Pogue	<u>100,000</u>	\$0.40 per share	5 years	September 15, 2007
	<u>460,000</u>			

Under the incentive 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 under the incentive plan vest immediately.

At December 31, 2002, the following incentive-based plan options were outstanding:

Optionee	Number of Shares Granted	Option Price	Option Period	Expiration
William Green	100,000	\$0.40 per share	5 years	May 18, 2003
William Green	100,000	\$0.44 per share	5 years	September 15, 2007
Chris Broili	100,000	\$0.40 per share	5 years	May 18, 2003
Glenn Dobbs	<u>100,000</u>	\$0.82 per share	5 years	December 4, 2007
	<u>400,000</u>			

As permitted under accounting principles generally accepted in the United States of America, option grants under the plans are accounted for following the provisions of APB Opinion No. 25 and its related interpretations. Accordingly, no compensation cost has been recognized for the grants. Had compensation cost been determined based on the fair value method prescribed in Statement of Financial Accounting Standards (SFAS) No. 123, the reported net loss and per-share amounts would have been increased to approximately \$300,000 for 2002 (\$0.0549 per share). There is no pro forma effect on the net income for 2001. In determining the pro forma amounts above, the value of the grants was estimated at the grant date to be \$0.128 per optioned share for 2002 using the fair value method prescribed in SFAS No. 123, based on the Black Scholes option-pricing model with the following assumptions:

Dividend rate	-0-%
Risk-free interest rate	3.03%



Notes to Consolidated Financial Statements (continued)

NOTE 5 — 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, 2001	450,000	\$ 0.38
Issued	-	-
Forfeited	-	-
Exercised	-	-
Balance at December 31, 2001	450,000	0.38
Issued	410,000	0.51
Forfeited	-	-
Exercised	-	-
Balance at December 31, 2002	860,000	\$ 0.44

Options outstanding at December 31, 2002, have a remaining contractual life of approximately 2.8 years. Subsequent to year-end December 31, 2002, the Company approved a new stock option plan. Pursuant to the terms of the agreement, the Company authorized the issuance of 500,000 options to purchase common stock to the president and chief executive officer, Glenn Dobbs. The option price is \$1.60 per share and expires five years from date of issuance. This grant of options is subject to certain performance conditions. Additionally, subsequent to year end, the Company issued 110,000 options to purchase common stock to two employees. The option prices range from \$1.25 to \$1.60 per share and expire five years from the date of issuance.

NOTE 6 — CONCENTRATION OF CREDIT RISK:

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

NOTE 7 — DEFERRED INCOME TAX:

At December 31, 2002 and 2001, the Company had deferred tax assets of \$115,000 and \$125,000, related to tax-basis net operating loss carryforwards. The deferred tax assets were fully reserved by a valuation allowance at each date. Changes in the deferred tax asset valuation allowance for 2002 and 2001 relate only to corresponding changes in the deferred tax assets for those years.

At December 31, 2002, the Company had federal tax-basis net operating loss carryforwards totaling approximately \$760,000, which expire in various amounts from 2003 through 2022.



Senior Officers & Directors

Glenn M. Dobbs, President, Chief Executive Officer and Director, has broad experience in international finance, investment banking, natural resource financing and as a business development consultant. 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, Corporate Secretary, 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 is a principal in the accounting firm of Oswalt, Teel, and Franklin, P.S..

William R. Green, Ph.D., Chairman of the Board, Director, is a mining engineer and geologist, and was a professor of mining engineering at the University of Idaho from 1965 to 1983. He has been actively involved in the mining business since 1965 and is a former officer and director of Yamana Resources and currently an officer and director of Canadian public companies: Maya Gold Ltd., Triband Enterprise Corp. and Petromin Resources Ltd., and US company Metaline Mining and Leasing Co.

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 stockbroker and investment analyst, 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. Under Mr. Russell, the Nchanga Division had 8700 employees and produced 150,000 tons of copper and 3500 tons (about 12% of the world's supply) of cobalt per year. Previously, Mr. Russell served as General Manager for Freeport Indonesia for the Grasberg Copper--Gold Mine in Indonesia.



Corporate Information

Mines Management, Inc.

905 W Riverside - Suite 311
Spokane, WA 99201

Tel: (509) 838-6050

Fax: (509) 838-0486

Email: info@minesmanagement.com

Website: www.minesmanagement.com

Market

- OTC Bulletin Board
- Symbol: **MNMM**

Founded

- 1947

Capital (as of 31 December, 2002)

- Shares Outstanding: 6,202,956
- Fully Diluted: 7,808,956

Transfer Agent

Computershare Trust Company
350 Indiana Street, Suite 800
Golden, CO 80401
Phone: (303)262-0600

Legal

Workland & Witherspoon, P.L.L.C.
601 West Main - Suite 714
Spokane, WA 99201

Auditors

LeMaster & Daniels
601 West Riverside - Suite 700
Spokane, WA 99201



Mines Management, Inc.

905 W. Riverside Ave.

Suite 311

Spokane, WA 99201

Phone: 509-838-6050

Fax: 509-838-0486

Email: info@minesmanagement.com

Website: www.minesmanagement.com