

MINEFINDERS CORPORATION LTD

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Three Months Ended March 31, 2004

This discussion and analysis of financial position and results of operations of Minefinders Corporation Ltd. (the Company) is current as of May 6, 2004, and should be read in conjunction with the unaudited consolidated financial statements of the Company and the notes thereto for the three months ended March 31, 2004 and with the audited consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2003. Additional information relating to the Company, including the Company's annual information form and Annual Report, is available on SEDAR at www.sedar.com. All amounts in this report are expressed in United States dollars, unless the context indicates otherwise. References to "2004" are in respect of the three-month period ended March 31, 2004 and to "2003" are in respect of the three-month period ended March 31, 2003, unless the context indicates otherwise.

The Company has changed its reporting currency from the Canadian dollar to the United States dollar so that its financial results may be more comparable to other mineral exploration companies operating internationally. The effect of the change in reporting currency has been implemented on a retroactive basis in the financial statements of the Company and is discussed elsewhere in this report.

The common shares of the Company trade on the Toronto Stock Exchange (symbol: MFL) and the American Stock Exchange (symbol: MFN).

Introduction

The following discussion and analysis of the operating results and financial position of the Company should be read in conjunction with the attached Consolidated Financial Statements of the Company and related Notes which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) (see Summary of Significant Accounting Policies and Note 1: Nature of Business in the accounts contained on pages 18 to 20 of the Annual Report for 2003), which differ in certain material respects from accounting principles generally accepted in the United States (US GAAP) (see Note 10). The Company's accounting policies and estimates used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements, except for a change in reporting currency and adoption of new Canadian accounting standards for stock-based compensation, discussed elsewhere in this report, and are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process. These statements are prepared by management without audit, except where noted.

Business Conditions and Highlights

The Company is primarily engaged in the exploration and development of mineral properties, principally precious metals. Its main asset is the Dolores deposit in Chihuahua, Mexico. A bankable feasibility study is currently in progress, the results of which will be the principal consideration in advancing the Company from the exploration stage to production. The Company updated investors on January 13, 2004, on the Dolores drilling and feasibility study. A resource model issued on June 5, 2003 is being updated for drilling results obtained after that date. The Company also announced that it had selected a combined flotation and heap leach mineral recovery process for the final feasibility study. The addition of flotation to the Dolores

mine plan is expected to substantially increase the overall percentage recovery of contained silver.

The Company is conducting an active exploration program on several of its Northern Sonora properties, and has added to its portfolio in the first quarter of 2004 by securing mineral rights on a 500 hectare mineral concession in Northern Sonora, approximately 18 km west-southwest of Nogales, Mexico. The district is within a historic silver mining region and is prospective for the discovery of a large bulk-tonnage silver deposit.

The Company does not have revenue except from interest earned on cash balances. It relies on equity financing to fund corporate expenses and exploration programs on its properties in Mexico and the United States. The general market for this activity, which includes related investor interest and opportunities to obtain funding, continued to be favourable in the first quarter of 2004. The price for gold was above \$400 per ounce for most of the quarter, and closed at \$423 on March 31, 2004. At the time of writing the gold price was weaker at \$383 per ounce; silver rose from \$5.98 on January 1, 2004 to \$7.82 per ounce on March 31, 2004; at the time of writing the silver price closed at \$6.08. The prices of these two commodities are still considered by management to be favourable to a development decision at Dolores.

Operating Activities

The Company recorded a net loss for the quarter ended March 31, 2004 of \$0.2 million (\$0.01 per share) compared with \$0.7 million (\$0.02 per share) in the first quarter of 2003. Administration costs were generally lower than the corresponding quarter of 2003; these costs were partially offset by higher interest income earned on cash balances and a positive foreign exchange adjustment. The Company has accounted for the value of stock options issued in the first quarter of 2004, and charged \$110,000 to deferred exploration costs, in accordance with the nature of the grant.

Administration costs decreased from \$640,000 in the first quarter of 2003 to \$526,000 in 2004 due to several factors. There was a decrease in corporate relations costs of \$132,000 as the Company reduced the extent of its investor relations programs. Consulting fees went up, reflecting a bonus paid to senior staff. Shareholder reports and fees decreased from unusually high levels in the same period in 2003, relating to the securing of the Company's AMEX listing. Interest income rose to \$285,000 from \$67,000 reflecting higher cash balances as a result of significant funds received from the issuance of common shares in late 2003.

Summary by Quarter

The following tables present our unaudited quarterly results of operations for each of the last eight quarters. This data has been derived from our unaudited consolidated financial statements, which were prepared on the same basis as the annual consolidated financial statements and, in our opinion, include all necessary adjustments, consisting solely of normal recurring adjustments, for the fair presentation of such information. Those unaudited quarterly results should be read in conjunction with our annual audited consolidated financial statements for the years ended December 31, 2003 and 2002.

**Net loss by quarter
(000's)**

	Q-1	Q-2	Q-3	Q-4
2004				
Net loss excluding write-down	\$194			
Write-down of mineral properties	48			
Net loss	\$242			
Loss per share	\$0.01			
2003				
Net loss excluding write-down	\$689	\$288	\$1,239	\$620
Write-down of mineral properties	23	17	33	1,012
Net loss	\$712	\$305	\$1,272	\$1,632
Loss per share	\$0.02	\$0.01	\$0.04	\$0.05
2002				
Net loss excluding write-down		\$462	\$97	\$550
Write-down of mineral properties		92	103	269
Net loss		\$554	\$200	\$818
Loss per share		\$0.02	\$0.01	\$0.03

The above figures have been restated from what was previously reported in the Company's quarterly reports to conform to the newly adopted accounting policy for stock-based compensation and for the change in reporting currency to the United States dollar.

As the Company is still in the exploration stage, variances in its quarterly losses are not affected by sales or production-related factors. Variances by quarter reflect overall corporate activity and are also caused by factors which are not recurring each quarter. The lower net loss in 2004 reflects significantly higher interest revenue (\$285) on cash balances and a small gain on foreign exchange (\$47). The loss from operations in the first quarter before exploration expense (\$526) was slightly lower than the in the comparable period in 2003 (\$640) and virtually the same as in the fourth quarter of 2003 (\$524).

Financial Position and Liquidity

The Company's financial condition improved significantly in 2003 and the Company maintained high levels of cash balances and working capital throughout the first quarter of 2004. As at March 31, 2004, the Company had working capital of \$43.5 million, compared with \$45.0 million at December 31, 2003. The most significant component of the change in working capital was the decrease in cash and cash equivalents by \$1.7 million over the December 31, 2003 balance. Other components of working capital did not appreciably change.

The Company received \$0.7 million upon the exercise of 280,000 stock options. There were no other external sources of cash received during the quarter.

Cash used in operating activities decreased from \$0.8 million in the first quarter of 2003 to \$0.4 million in the same period in 2004, largely due to the reduced loss incurred in 2004. The costs associated with mineral exploration and equipment additions increased in the period to \$1.5 million in 2004 from \$1.2 million in 2003 due to planned exploration on Dolores.

Financial and Other Instruments

The Company's financial assets and liabilities consist of cash and cash equivalents, receivables and accounts payable and accrued liabilities, some of which are denominated in United States dollars or Mexican pesos. These accounts are recorded at their fair market value. The Company is at risk to financial gain or loss as a result of foreign exchange movements against the Canadian dollar. During the three months ended March 31, 2004, the Company recorded a gain of \$0.05 million, while in the same period in 2003 a loss of \$0.12 million was recorded. The Company will continue to seek to maintain a low exposure to foreign currency fluctuations.

The Company has placed its cash and cash equivalents in liquid renewable Canadian dollar bank instruments which provide a fixed rate of interest during the term. When renewing an instrument that has matured, the posted bank rate may be higher or lower than that currently received by the Company, which affects the amount of interest income received.

Investment in Mineral Exploration and Development

Net expenditures on mineral properties increased during the first quarter of 2004 to \$1.6 million from \$1.2 million in 2003. The Company has focused its activities on the Dolores project, an advanced-stage exploration project in northern Mexico, conducting extensive drilling on the main zone and adjacent structures in order to determine the size and grade of the deposit and to conduct a feasibility study demonstrating its economic potential. Drilling on step-out and new targets on the Dolores property restarted in January, 2004. Recently completed drilling, directed to extend high-grade ore shoots to depth beneath the open-pit resource, continued to be successful. Expenditures on drilling and trenching were \$0.6 million in 2004 compared to \$0.7 million in 2003, with most of the work conducted at Dolores. Assaying of drill core and cuttings cost \$107,000 in 2004, compared with \$95,000 in 2003. Technical and professional services, for engineering work, metallurgical testing, reserve computation, mine planning, geological staffing and related work amounted to \$301,000 in 2004 (2003: \$221,000). The engineering and feasibility study costs were \$108,000. Other non-cash costs of \$110,000 (2003 - \$nil) relate to the valuation of stock option awards, mainly to Dolores consulting staff, whose compensation is capitalized to the related mineral property being explored.

The Dolores feasibility study is expected to be substantially completed in the first half of 2004. Future development of the Dolores deposit will depend upon obtaining adequate financing and the appropriate environmental and operating permits. Assuming these permits and funding are obtained, the Company expects to direct its efforts toward equipment and material procurement, project management and construction. The feasibility study has considered various mining and recovery processes and the Company believes flotation and heap leaching in tandem will be used in the recovery processes.

The Company continued to pursue exploration activity on its Northern Sonora properties. Expenditures in the quarter were \$0.2 million, and the Company acquired a new 500 hectare mineral concession prospective for silver. The Company has prepared several drill targets on its Nevada properties, and expects to drill-test them later this year.

Outstanding Share Data

As at March 31, 2004, there were 36,401,841 common shares issued and outstanding. As at May 6, 2004, there were 36,446,841 common shares issued and outstanding. In addition, there were 2,675,000 stock options outstanding with exercise prices ranging between CDN\$1.05 and CDN\$12.53 per share, of which all but 25,000 have vested. There are no share purchase warrants outstanding.

Outlook

The Company is adequately funded to carry out further development work at Dolores in anticipation of a positive result from its feasibility study. Current work plans are incorporated into a \$7 to 10 million budget (of which \$1.6 was incurred in the first quarter of 2004) for additional drilling, engineering and construction, and environmental studies. The Company has no significant contractual obligations relating to Dolores at this time, apart from property payments, except in relation to contingent royalty payments once production commences. The Company believes it is well-positioned to secure the remaining capital required to undertake construction of the Dolores project. The Company will seek to secure debt financing for part of the Dolores construction costs, if it can be obtained on reasonable cost and terms. While equity markets remain positive to gold developers, the Company is not assured that equity funding will be available at terms suitable to the Company.

The Company plans to expand its exploration and development programs for 2004 on projects other than Dolores, with renewed drilling at its Northern Sonora properties and conduct initial and follow-up drilling at some of its Nevada properties. Expenditures on Northern Sonora are budgeted at \$1.7 million, with \$0.9 million budgeted on La Bolsa for drilling and assaying, along with some metallurgical work. Drilling is also planned for the Real Viejo/La Dura Project in 2004. Two of the Company's properties in Nevada, the Clear and Gutsy prospects, are expected to be drill-tested in 2004, with initial programs expecting to cost less than \$500,000. Program results will be evaluated, with follow-up work and expenditures to be based on the initial results.

Change in Accounting Policy and Reporting Currency

The Company's functional currency is the Canadian dollar; it is the currency of the primary economic environment in which the Company operates at this time and reflects the dependence of mineral exploration programs upon financing obtained by the Canadian parent company. The Company has adopted on January 1, 2004 the United States currency as its reporting currency with a restatement of prior period accounts. Prior period statements of loss were restated using average exchange rates for those periods; other equity components are translated at the applicable historical rate of exchange for the respective years. Assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date.

Effective January 1, 2004, the Company has adopted the recommendations of revised Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-based compensation and other stock-based payments", which now requires the Company to adopt the fair value based method for all stock-based awards granted on or after January 1, 2004 and to retroactively restate its prior period financial statements for the effect of this new accounting policy. Previously the Company was only required to disclose in the notes to the consolidated financial statements the pro forma effect of compensation in respect of stock options granted to employees and directors after January 1, 2002. The Company uses the Black Scholes option pricing model to determine the fair value of options granted. Readers are referred to the consolidated financial statements for the years ended December 31, 2003 and 2002 for details of assumptions used in these calculations for prior periods.

The effect of the restatement was to increase the accumulated deficit as of December 31, 2002 by \$742,000 (for options granted to employees and directors in 2002) and to increase the accumulated deficit as of January 1, 2004 by \$1,293,000. Contributed surplus was restated for the corresponding effect of the restatement. There was no effect on the loss reported in the first quarter of 2003, as there were no options granted in that period.

Critical Accounting Estimates

There are no changes to critical accounting estimates from those presented for December 31, 2003.

The preparation of financial statements in conformity with GAAP requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

The Company follows accounting guidelines in determining the value of stock-based compensation, as disclosed in Note 8 to the Financial Statements. Unlike other figures in the accounts, this is a calculated amount not based on historical cost, but on subjective assumptions introduced to an option pricing model, in particular: (1) an estimate for the average future hold period of issued stock options before exercise, expiry or cancellation and (2) future volatility of the company's share price in the expected hold period (using historical volatility as a reference). The resulting value calculated is not necessarily the value which the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned or written down, where appropriate. The Company's accounting policy is to capitalize exploration costs on a project by project basis consistent with Canadian GAAP and applicable guidelines. The policy is consistent with other junior exploration companies which have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established (which is the procedure prescribed under US GAAP). Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the writedown charged to operations. A writedown may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding. There were no writedowns required except for expenditures relating to minor projects which are normally incurred in a period.

Table of Commitments
Payments due by period
(000's)

	2004	2005-2006	2007-2008
Property payments (a)	\$ 75	\$ 200	\$ 150
Operating lease payments (b)	40	100	-
Contingent royalty payments (c)	-	-	-
	\$ 115	\$ 300	\$ 150

- a) Payments in respect of Dolores property, which the Company expects to make; all other property payments are at the discretion of the Company;
- b) Includes existing leases without extensions;
- c) Royalty payments on the Dolores property, consisting of net smelter payments totaling 3.25% on gold and 2% on silver net revenues cannot be quantified until the project reaches production.

Related Party Transactions

Related party transactions are summarized in Note 8 to the financial statements for the three months ended March 31, 2004.

Risks and Uncertainties

Certain statements contained in this report, including statements regarding the anticipated development and expansion of the Company's business, the intent, belief or current expectations of the Company, its directors or its officers, primarily with respect to the future operating performance of the Company and the products it expects to offer and other statements contained herein regarding matters that are not historical facts, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act (the "Reform Act"). Future filings with the Securities and Exchange Commission, future press releases and future oral or written statements made by or with the approval of the Company, which are not statements of historical fact, may contain forward-looking statements, as defined under the Reform Act. Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. For a more detailed discussion of some of the risks and uncertainties facing the Company, please see the management discussion and analysis found on pages 6-10 of the 2003 Annual Report or in the Company's annual information form.

Note to U.S. Investors

While the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource”, and “inferred mineral resource” are recognized and required by Canadian regulations, they are not defined terms under standards in the United States. As such, information contained in this report concerning descriptions of mineralization and resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements of the Securities and Exchange Commission. “Indicated mineral resource” and “inferred mineral resource” have a great amount of uncertainty as to their existence and a great uncertainty as to their economic and legal feasibility. It can not be assumed that all or any part of an “indicated mineral resource” or “inferred mineral resource” will ever be upgraded to a higher category. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.