

ECHO BAY MINES LTD
Form 10-Q
April 25, 2002

Use these links to rapidly review the document
[ECHO BAY MINES LTD. INDEX](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

or

○ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-8542

ECHO BAY MINES LTD.

(Exact name of registrant as specified in its charter)

Incorporated under the laws of Canada

(State or other jurisdiction of incorporation or organization)

None

(I.R.S. Employer Identification No.)

Suite 1210, 10180-101 Street

Edmonton, Alberta

(Address of principal executive offices)

T5J 3S4

(Zip Code)

Registrant's telephone number, including area code **(780) 496-9002**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ✓ No ○

Title of Class

Shares Outstanding as of April 23, 2002

Common Shares without nominal or par value

502,168,375

ECHO BAY MINES LTD.

INDEX

PART I FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements (Unaudited)

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 3. Qualitative and Quantitative Disclosures About Market Risk

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

ITEM 4. Submission of Matters to a Vote of the Securities Holders

ITEM 6. Exhibits and Reports on Form 8-K

SIGNATURE

**CAUTIONARY "SAFE HARBOR" STATEMENT UNDER THE UNITED STATES PRIVATE
SECURITIES LITIGATION REFORM ACT OF 1995**

With the exception of historical matters, the matters discussed in this report are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from targeted or projected results. Such forward-looking statements include statements regarding:

targets for:

gold and silver production;

cash operating costs and certain significant expenses;

percentage increases and decreases in production from the Company's principal mines;

schedules for completion of detailed feasibility studies and initial feasibility studies;

potential changes in reserves and production;

the timing and scope of future drilling and other exploration activities;

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

expectations regarding receipt of permits and commencement of mining or production;

anticipated grades and recovery rates;

ability to secure financing;

potential acquisitions or increases in property interests; and

divestitures or decreases in property interests.

Factors that could cause actual results to differ materially include, among others:

fluctuations in gold and silver prices;

fluctuations in grades and recovery rates;

geological, metallurgical, processing, access, transportation or other problems;

results of exploration activities or feasibility studies;

changes in project parameters as plans continue to be refined;

political, economic and operational risks;

availability of materials and equipment;

regulatory risks, including reclamation security requirements and the timing for the receipt of governmental permits;

force majeure events;

the failure of plant, equipment or processes to operate in accordance with specifications or expectations;

accidents;

labor relations;

delays in start-up dates for projects;

environmental costs and risks; and

other factors described herein or in the Company's filings with the U.S. Securities and Exchange Commission.

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

Many of these factors are beyond the Company's ability to predict or control. Readers are cautioned not to put undue reliance on forward-looking statements.

ECHO BAY MINES LTD.

PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS (Unaudited)

CONSOLIDATED BALANCE SHEETS

thousands of U.S. dollars

| | March 31 2002 | December 31 2001 |
|---|-------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9,795 | \$ 12,351 |
| Short-term investments | 1,913 | 1,910 |
| Interest and accounts receivable | 4,007 | 3,645 |
| Inventories (note 2) | 35,160 | 29,506 |
| Prepaid expenses and other assets | 5,603 | 3,725 |
| | <u>56,478</u> | <u>51,137</u> |
| Plant and equipment (note 3) | 114,445 | 120,969 |
| Mining properties (note 3) | 32,139 | 32,903 |
| Long-term investments and other assets (note 4) | 54,341 | 55,795 |
| | <u>\$ 257,403</u> | <u>\$ 260,804</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 26,196 | \$ 24,284 |
| Income and mining taxes payable | 2,430 | 3,570 |
| Debt and other financings (note 5) | 17,000 | 17,000 |
| Deferred income (note 6) | 851 | 876 |
| Reclamation and mine closure liabilities | 1,748 | 3,841 |
| | <u>48,225</u> | <u>49,571</u> |
| Debt and other financings (note 5) | 6,697 | 6,714 |
| Deferred income (note 6) | 37,895 | 47,042 |
| Reclamation and mine closure liabilities | 51,198 | 49,726 |
| Deferred income taxes | 934 | 925 |
| Commitments and contingencies (notes 11 and 12) | | |
| Shareholders' equity: | | |
| Common shares, no par value, unlimited number authorized; 140,607,145 shares issued and outstanding | 713,343 | 713,343 |
| Capital securities (note 7) | 162,251 | 157,453 |
| Deficit | (733,772) | (734,665) |
| Foreign currency translation | (29,368) | (29,305) |
| | <u>112,454</u> | <u>106,826</u> |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

CONSOLIDATED BALANCE SHEETS

| thousands of U.S. dollars | March 31 2002 | December 31 2001 |
|---------------------------|------------------|---------------------|
| | | |
| | \$ 257,403 | \$ 260,804 |

See accompanying notes to interim consolidated financial statements.

ECHO BAY MINES LTD.

| CONSOLIDATED STATEMENTS OF OPERATIONS | Three months ended March 31 | |
|--|--------------------------------|-----------|
| thousands of U.S. dollars, except for per share data | 2002 | 2001 |
| Revenue | \$ 55,176 | \$ 64,461 |
| Expenses: | | |
| Operating costs | 35,096 | 44,623 |
| Royalties | 1,624 | 1,303 |
| Production taxes | (211) | 113 |
| Depreciation and amortization | 9,840 | 10,898 |
| Reclamation and mine closure | 1,256 | 1,643 |
| General and administrative | 1,313 | 1,603 |
| Exploration and development | 562 | 851 |
| Interest and other (note 8) | 222 | 290 |
| | 49,702 | 61,324 |
| Earnings before income taxes | 5,474 | 3,137 |
| Income tax expense (recovery): | | |
| Current | | 184 |
| Deferred | | (840) |
| | | (656) |
| Net earnings | \$ 5,474 | \$ 3,793 |
| Net earnings (loss) attributable to common shareholders (note 7) | \$ 893 | \$ (537) |
| Earnings per share basic and fully diluted | \$ 0.01 | \$ |
| Weighted average number of shares outstanding (thousands) basic and fully diluted | 140,607 | 140,607 |
| | Three months ended March 31 | |
| CONSOLIDATED STATEMENTS OF DEFICIT | 2002 | 2001 |
| thousands of U.S. dollars | | |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | Three months ended March 31 | |
|--|--------------------------------|--------------|
| Balance, beginning of period | \$ (734,665) | \$ (711,680) |
| Net earnings | 5,474 | 3,793 |
| Interest on capital securities, net of nil tax effect (note 7) | (4,581) | (4,330) |
| Balance, end of period | \$ (733,772) | \$ (712,217) |

See accompanying notes to interim consolidated financial statements.

ECHO BAY MINES LTD.

| | Three months ended March 31 | |
|---|--------------------------------|-----------|
| CONSOLIDATED STATEMENTS OF CASH FLOW thousands of U.S. dollars | 2002 | 2001 |
| CASH PROVIDED FROM (USED IN): | | |
| OPERATING ACTIVITIES | | |
| Net cash flows provided from (used in) operating activities | \$ (237) | \$ 14,107 |
| INVESTING ACTIVITIES | | |
| Mining properties, plant and equipment | (2,320) | (10,357) |
| Long-term investments and other assets | (28) | 10 |
| Proceeds on the sale of plant and equipment | 176 | 216 |
| Other | (147) | 74 |
| | (2,319) | (10,057) |
| FINANCING ACTIVITIES | | |
| Debt repayments | | (3,750) |
| | | (3,750) |
| Net increase (decrease) in cash and cash equivalents | (2,556) | 300 |
| Cash and cash equivalents, beginning of period | 12,351 | 14,269 |
| Cash and cash equivalents, end of period | \$ 9,795 | \$ 14,569 |

See accompanying notes to interim consolidated financial statements.

ECHO BAY MINES LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2002

Tabular dollar amounts in thousands of U.S. dollars, except amounts per share and per ounce or unless otherwise noted

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

1. GENERAL

In the opinion of management, the accompanying unaudited consolidated balance sheet, consolidated statement of operations, consolidated statement of deficit, and consolidated statement of cash flow contain all adjustments, consisting only of normal recurring accruals, necessary to present fairly in all material respects the consolidated financial position of Echo Bay Mines Ltd. (the "Company") as of March 31, 2002 and December 31, 2001 and the consolidated results of operations and cash flow for the three months ended March 31, 2002 and 2001. These financial statements do not include all disclosures required by generally accepted accounting principles for annual financial statements. For further information, refer to the financial statements and related footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2001. Except as otherwise noted in this report, the accounting policies described in the annual report have been applied in the preparation of these financial statements.

On February 13, 2002, the Company entered into an agreement with Newmont Mining Corporation providing for the sale to Newmont of the entire McCoy/Cove Complex. This agreement calls for a payment to the Company of \$6.0 million and the assumption by Newmont of all reclamation and closure obligations at McCoy/Cove. A gain is expected on the sale of McCoy/Cove. The agreement is expressly subject to the completion of due diligence by Newmont by July 31, 2002 and there is no assurance that the transaction will be completed. Pending completion of the transaction, the Company will continue to operate McCoy/Cove for its own account.

Certain of the comparative figures have been restated to conform to the current year's presentation.

2. INVENTORIES

| | March 31 2002 | December 31 2001 |
|-------------------------|--------------------------|-----------------------------|
| Precious metals bullion | \$ 14,021 | \$ 12,215 |
| In-process | 4,840 | 5,720 |
| Materials and supplies | 16,299 | 11,571 |
| | \$ 35,160 | \$ 29,506 |

3. PROPERTY, PLANT AND EQUIPMENT

| | March 31 2002 | December 31 2001 |
|-------------------------------|--------------------------|-----------------------------|
| <i>Plant and equipment</i> | | |
| Cost | \$ 651,776 | \$ 655,179 |
| Less accumulated depreciation | 537,331 | 534,210 |
| | \$ 114,445 | \$ 120,969 |

| | March 31 2002 | December 31 2001 |
|---|--------------------------|-----------------------------|
| <i>Mining properties</i> | | |
| Producing mines' acquisition and development costs | \$ 281,870 | \$ 280,545 |
| Less accumulated amortization | 262,470 | 260,365 |
| | 19,400 | 20,180 |
| Development properties' acquisition and development costs | 12,739 | 12,723 |
| | \$ 32,139 | \$ 32,903 |

4. LONG-TERM INVESTMENTS AND OTHER ASSETS

| March 31 2002 | December 31 2001 |
|--------------------------|-----------------------------|
|--------------------------|-----------------------------|

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | | |
|--|------------------|------------------|
| Deferred losses on modification of hedging contracts | \$ 28,075 | \$ 29,305 |
| Deferred mining costs | 15,516 | 15,648 |
| Reclamation and other deposits | 10,518 | 10,485 |
| Premiums paid on gold and silver option contracts | 1,389 | 1,871 |
| Other | 232 | 357 |
| | <u>55,730</u> | <u>57,666</u> |
| Less current portion included in prepaid expenses and other assets | 1,389 | 1,871 |
| | <u>\$ 54,341</u> | <u>\$ 55,795</u> |

5. DEBT AND OTHER FINANCINGS

| | March 31 2002 | December 31 2001 |
|-----------------------------|--------------------------|-----------------------------|
| Currency loans | \$ 17,000 | \$ 17,000 |
| Capital securities (note 7) | 6,697 | 6,714 |
| | <u>23,697</u> | <u>23,714</u> |
| Less current portion | 17,000 | 17,000 |
| | <u>\$ 6,697</u> | <u>\$ 6,714</u> |

6. DEFERRED INCOME

| | March 31 2002 | December 31 2001 |
|---|--------------------------|-----------------------------|
| Deferred gains on modification of hedging contracts | \$ 37,895 | \$ 47,042 |
| Premiums received on gold and silver option contracts | 851 | 876 |
| | <u>38,746</u> | <u>47,918</u> |
| Less current portion | 851 | 876 |
| | <u>\$ 37,895</u> | <u>\$ 47,042</u> |

7. CAPITAL SECURITIES

In 1997, the Company issued \$100.0 million of 11% capital securities due in April 2027. The effective interest rate on the capital securities is 11%, or 12% compounded semi-annually during a period of interest deferral. Since April 1998, the Company has exercised its right to defer interest payments to holders of the capital securities. Interest accrued and deferred amounted to \$68.9 million at March 31, 2002. The present value of the capital securities' principal amount, \$6.7 million, has been classified as debt (note 5). The present value of the future interest payments of \$93.3 million plus deferred accrued interest has been classified within a separate component of shareholders' equity. Interest on the debt portion of the capital securities has been classified as interest expense on the consolidated statement of earnings, and interest on the equity portion of the capital securities has been charged directly to deficit on the consolidated balance sheet. For purposes of per share calculations, interest on the equity portion decreases the earnings attributable to common shareholders. See note 9 for a discussion of differences in treatment of the capital securities under generally accepted accounting principles in the United States.

On April 3, 2002 the Company issued 361,561,230 common shares in exchange for the capital securities debt obligation of \$100 million in principal amount plus accrued and unpaid interest (see note 13).

8. INTEREST AND OTHER

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | Three months ended March 31 | |
|------------------|--------------------------------|---------------|
| | 2002 | 2001 |
| Interest income | \$ (160) | \$ (358) |
| Interest expense | 406 | 795 |
| Other | (24) | (147) |
| | <u>\$ 222</u> | <u>\$ 290</u> |

9. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

U.S. GAAP financial statements

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. These differ in some respects from those in the United States, as described below and in the footnotes to the financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

The effects of the GAAP differences on the consolidated statement of operations would have been as follows.

| | Three months ended March 31 | |
|---|--------------------------------|-------------------|
| | 2002 | 2001 |
| Net earnings under Canadian GAAP | \$ 5,474 | \$ 3,793 |
| Additional interest expense on capital securities | (4,581) | (4,330) |
| Amortization of deferred financing on capital securities | (158) | (158) |
| Change in market value of foreign exchange contracts | (43) | (1,479) |
| Change in market value of option contracts | (300) | (1,008) |
| Modification of derivative contracts realized in net earnings | 344 | |
| Transition adjustment on adoption of FAS 133 | | (3,090) |
| Kettle River exploration expense | | (506) |
| Kettle River amortization expense | | 514 |
| | <u>\$ 736</u> | <u>\$ (6,264)</u> |
| Net earnings (loss) under U.S. GAAP | | |
| Earnings (loss) per share under U.S. GAAP | <u>\$ 0.01</u> | <u>\$ (0.04)</u> |

The effects of the GAAP differences on the consolidated balance sheet would have been as follows.

| March 31, 2002 | Canadian GAAP | Capital Securities | Derivative Contracts | Other | U.S. GAAP |
|--|------------------|-----------------------|-------------------------|----------|--------------|
| Short-term investments | \$ 1,913 | \$ | \$ | \$ 6,362 | \$ 8,275 |
| Long-term investments and other assets | 54,341 | | (28,075) | 98 | 26,364 |
| Accounts payable and accrued liabilities | 26,196 | | 966 | | 27,162 |
| Debt and other financings | 23,697 | 93,303 | | | 117,000 |
| Deferred income | 38,746 | | (38,746) | | |
| Accrued interest on capital securities | | 68,948 | | | 68,948 |
| Common shares | 713,343 | | | 36,428 | 749,771 |
| Capital securities | 162,251 | (162,251) | | | |
| Deficit | (733,772) | | (3,519) | (36,152) | (773,443) |
| Foreign currency translation | (29,368) | | | 29,368 | |
| Accumulated other comprehensive loss | | | 13,224 | (23,184) | (9,960) |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| March 31, 2002 | Canadian GAAP | Capital Securities | Derivative Contracts | Other | U.S. GAAP |
|----------------------|------------------|-----------------------|-------------------------|-------|--------------|
| Shareholders' equity | 112,454 | (162,251) | 9,705 | 6,460 | (33,632) |

The following statement of comprehensive income (loss) would be disclosed in accordance with U.S. GAAP.

| | Three months ended March 31 | |
|--|--------------------------------|------------|
| | 2002 | 2001 |
| Net earnings (loss) under U.S. GAAP | \$ 736 | \$ (6,264) |
| Other comprehensive income (loss), after a nil income tax effect: | | |
| Unrealized gain on share investments arising during period | 3,726 | 289 |
| Foreign currency translation adjustments | (63) | (3,417) |
| Transition adjustment on implementation of FAS 133 | | 39,234 |
| Modification of derivative contracts realized in net earnings (loss) | (8,261) | (2,297) |
| Other comprehensive income (loss) | (4,598) | 33,809 |
| Comprehensive income (loss) | \$ (3,862) | \$ 27,545 |

Additionally, under U.S. GAAP, the equity section of the balance sheet would present a subtotal for accumulated other comprehensive loss, as follows.

| | March 31 2002 | December 31 2001 |
|--------------------------------------|------------------|---------------------|
| Unrealized gain on share investments | \$ 6,184 | \$ 2,458 |
| Modification of derivative contracts | 13,224 | 21,485 |
| Foreign currency translation | (29,368) | (29,305) |
| Accumulated other comprehensive loss | \$ (9,960) | \$ (5,362) |

Recent accounting pronouncements

In 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations, which is effective for fiscal years beginning after June 15, 2002. The Statement requires obligations associated with the retirement of long-lived assets be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived assets and allocated to expense over the useful life of the asset. The Company will adopt Statement 143 on January 1, 2003. Due to the number of operating facilities that the Company maintains, the expected impact of adoption of Statement 143 on the Company's financial position or results of operations has not yet been determined.

10. SEGMENT INFORMATION

The Company's management regularly evaluates the performance of the Company by reviewing operating results on a minesite by minesite basis. As such, the Company considers each producing minesite to be an operating segment. In the first quarter of 2002, the Company had four operating mines: Round Mountain in Nevada, USA; McCoy/Cove in Nevada, USA; Kettle River in Washington, USA; and Lupin in the Nunavut Territory of Canada. All of the Company's mines are 100% owned except for Round Mountain, which is 50% owned.

The Company's management generally monitors revenue on a consolidated basis. Information regarding the Company's consolidated revenue is provided below.

Three months ended
March 31

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | 2002 | 2001 |
|---|-----------|-----------|
| Total gold and silver revenue | \$ 55,176 | \$ 64,461 |
| Average gold price realized per ounce | \$ 345 | \$ 310 |
| Average silver price realized per ounce | \$ 4.34 | \$ 5.28 |

In making operating decisions and allocating resources, the Company's management specifically focuses on the production levels and cash operating costs generated by each operating segment, as summarized in the following tables.

| | Three months ended March 31 | |
|----------------------------|--------------------------------|----------------|
| Production (ounces) | 2002 | 2001 |
| Gold: | | |
| Round Mountain (50%) | 93,571 | 100,368 |
| Lupin | 28,717 | 37,954 |
| McCoy/Cove | 16,501 | 22,303 |
| Kettle River | 10,487 | 12,845 |
| Total gold | 149,276 | 173,470 |
| Silver all from McCoy/Cove | 1,470,094 | 1,558,529 |

| | Three months ended March 31 | |
|---|--------------------------------|------------------|
| Operating costs | 2002 | 2001 |
| Round Mountain (50%) | \$ 15,390 | \$ 18,235 |
| Lupin | 7,879 | 7,819 |
| McCoy/Cove | 9,821 | 15,018 |
| Kettle River | 2,006 | 3,551 |
| Total operating costs per financial statements | \$ 35,096 | \$ 44,623 |

| | Three months ended March 31 | |
|---|--------------------------------|-----------------|
| Royalties | 2002 | 2001 |
| Round Mountain (50%) | \$ 1,532 | \$ 1,081 |
| McCoy/Cove | 35 | 52 |
| Kettle River | 57 | 170 |
| Total royalties per financial statements | \$ 1,624 | \$ 1,303 |

| | Three months ended March 31 | |
|-------------------------------|--------------------------------|------|
| Depreciation and amortization | 2002 | 2001 |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | Three months ended | |
|--|--------------------|---------------|
| | March 31 | |
| | \$ | \$ |
| Round Mountain (50%) | 4,937 | 5,038 |
| Lupin | 1,129 | 1,277 |
| McCoy/Cove | 2,231 | 3,821 |
| Kettle River | 1,162 | 174 |
| Depreciation of non-minesite assets | 381 | 588 |
| | <u>9,840</u> | <u>10,898</u> |
| Total depreciation and amortization per financial statements | \$ 9,840 | \$ 10,898 |

11. HEDGING ACTIVITIES AND COMMITMENTS

Gold commitments

At March 31, 2002, the Company had commitments to deliver 45,000 ounces of gold in 2002 at a minimum price of \$293 per ounce. The Company's option position at March 31, 2002 included 105,000 ounces of gold call options sold in 2002 at an average strike price of \$297 per ounce.

Currency position

At March 31, 2002, the Company had an obligation under foreign currency exchange contracts to purchase C\$53.8 million in the remainder of 2002 at an exchange rate of C\$1.60 to U.S.\$1.00.

Shown below are the carrying amounts and estimated fair values of the Company's hedging instruments at March 31, 2002 and December 31, 2001.

| | March 31, 2002 | | December 31, 2001 | |
|----------------------------|-----------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Gold forward sales | \$ | (100) | \$ | 2,000 |
| Gold options calls sold | (610) | (1,600) | (630) | (700) |
| Foreign currency contracts | | 100 | | 100 |
| | | <u>(1,600)</u> | | <u>1,400</u> |

Fair values are estimated based upon market quotations of various input variables. These variables were used in valuation models that estimate the fair market value.

12. OTHER COMMITMENTS AND CONTINGENCIES

Summa

In September 1992, Summa Corporation commenced a lawsuit against two indirect subsidiaries of the Company, Echo Bay Exploration Inc. and Echo Bay Management Corporation (together the "Subsidiaries") alleging improper deductions in the calculation of royalties payable over several years of production at McCoy/Cove and another mine, which is no longer in operation. The matter was tried in the Nevada State Court in April 1997, with Summa claiming more than U.S. \$13 million in damages, and, in September 1997, judgment was rendered for the Subsidiaries. The decision was appealed by Summa to the Supreme Court of Nevada, which in April 2000 reversed the decision of the trial court and remanded the case back to the trial court for "a calculation of the appropriate [royalties] in a manner not inconsistent with this order." The case was decided by a panel comprised of three of the seven Justices of the Supreme Court of Nevada and the Subsidiaries petitioned that panel for a rehearing. The petition was denied by the three member panel on May 15, 2000 and remanded to the lower court for consideration of other defenses and arguments put forth by the Subsidiaries. The Subsidiaries filed a petition for a hearing before the full Supreme Court and on December 22, 2000, the Court recalled its previous decision. Both the Subsidiaries and their counsel believe that grounds exist to modify or reverse the decision. The Company has \$1.5 million accrued related to this litigation. If the appellate reversal of the trial

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

decision is maintained and the trial court, on remand, were to dismiss all of the Subsidiaries' defences, the royalty calculation at McCoy/Cove would change and additional royalties would be payable. Neither the Company, nor counsel to the Subsidiaries believe it is possible to quantify the precise amount of liability pursuant to a revised royalty calculation.

Handy & Harman

On March 29, 2000 Handy & Harman Refining Group, Inc., which operated a facility used by the Company for the refinement of doré bars, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The Company has a claim for gold and silver accounts at this refining facility with an estimated market value of approximately \$2.4 million. Further, in March 2002 the liquidating trustee for Handy & Harman commenced a series of adversary proceedings against numerous creditors, including two Company subsidiaries, alleging that creditors received preferential payments in metal or otherwise. The Company intends to oppose these proceedings vigorously. The success or failure of the liquidating trustee in prosecuting the claims may have an impact on the ultimate distribution of funds to creditors. The outcome of these proceedings is uncertain at this time.

Security for reclamation

Certain of the Company's subsidiaries have provided corporate guarantees and other forms of security to regulatory authorities in connection with future reclamation activities. Early in 2001, regulators in Nevada called upon two of the Company's subsidiaries to provide other security to replace corporate guarantees that had been given in respect of the Round Mountain and McCoy/Cove operations totaling approximately \$33 million. The Company disagrees with the regulators' position and believes that the subsidiaries qualify under the criteria set out for corporate guarantees and will oppose the regulatory decision. Although the outcome cannot be predicted, the Company and its counsel believe that the Company will prevail.

13. SUBSEQUENT EVENT

On April 3, 2002 the Company issued 361,561,230 common shares in exchange for the entire capital securities debt obligation of \$100 million in principal amount plus accrued and unpaid interest. The new principal holders of common shares and their respective ownership positions in the Company are Newmont Mining Corporation of Canada Limited (48.8%) and Kinross Gold Corporation (11.4%). As a result of eliminating the capital securities, the Company will record in the second quarter an increase to common shares of \$303.7 million, based on the market value of common shares at the date of issue. The market value of the common shares issued exceeded the book value of the capital securities (note 7) by \$134.8 million. This difference along with share issue costs of \$3.0 million will be recorded proportionately between interest expense (\$5.5 million) and deficit (\$132.3 million) in the second quarter of 2002 based on the debt and equity classifications of the capital securities. Under U.S. GAAP, the entire loss of \$137.8 million would be recorded as an extraordinary item.

ECHO BAY MINES LTD. MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION

March 31, 2002
(U.S. dollars)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company's profitability is determined in large part by gold and silver prices. Market prices of gold and silver are determined by factors beyond the Company's control. The Company's operations continue to be materially affected by the price of gold, which averaged \$271 per ounce in 2001 and \$290 per ounce during the first quarter of 2002.

The Company reduces the risk of future gold price declines by hedging a portion of its production. The principal hedging tools used are forward sales contracts and options. Forward sales contracts obligate the Company to sell gold at a specific price on a future date. Call options give the holder the right, but not the obligation, to buy gold on a specific future date at a specific price. These tools reduce the risk associated with gold price declines, but also could limit the Company's participation in increases of gold prices. The Company continually monitors its hedging policy in light of forecasted production, operating and capital expenditures, exploration and development requirements and factors affecting volatility of gold prices such as actual and prospective interest and gold lease rate performance. The Company engages in forward currency exchange contracts to reduce the impact on the Lupin mine's operating costs caused by fluctuations in the exchange rate of U.S. dollars to Canadian dollars.

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

The Company's hedge position as of March 31, 2002 is shown in note 11 to the interim consolidated financial statements. For the remainder of 2002, this position includes forward sales of approximately 45,000 ounces at a minimum forward price of \$293 per ounce. The Company has sold call options for 105,000 ounces of gold in 2002 at an average strike price of \$297 per ounce. These forward sales contracts and call options represent approximately 4% of current reserves. In addition, the Company has obligations to purchase C\$53.8 million for the remainder of 2002 at an exchange rate of C\$1.60 to US\$1.00.

On April 3, 2002 the Company issued 361,561,230 common shares in exchange for the entire capital securities debt obligation of \$100 million in principal amount plus accrued and unpaid interest. The new principal holders of common shares and their respective ownership positions in the Company are Newmont Mining Corporation of Canada Limited (48.8%) and Kinross Gold Corporation (11.4%). As a result of eliminating the capital securities, the Company will record an increase to common shares of \$303.7 million, based on their market value at the date of issue. The market value of the common shares issued exceeded the book value of the capital securities by \$134.8 million. This difference, along with share issue costs of \$3.0 million, will be recorded proportionately between interest expense (\$5.5 million) and deficit (\$132.3 million) in the second quarter of 2002 based on the debt and equity classifications of the capital securities. Under U.S. GAAP, the entire loss of \$137.8 million would be recorded as an extraordinary item.

On February 13, 2002, the Company entered into an agreement with Newmont Mining Corporation providing for the sale to Newmont of the entire McCoy/Cove Complex. This agreement calls for a payment to the Company of \$6.0 million and the assumption by Newmont of all reclamation and closure obligations at McCoy/Cove. A gain is expected on the sale of McCoy/Cove. The agreement is expressly subject to the completion of due diligence by Newmont by July 31, 2002 and there is no assurance that the transaction will be completed. Pending completion of the transaction, the Company will continue to operate McCoy/Cove for its own account.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flow used in operating activities was \$0.2 million for the first quarter of 2002 compared to net cash flow provided from operating activities of \$14.1 million for the first quarter of 2001. The decrease in 2002 cash flow reflects the decrease in production.

Net cash used in investing activities was \$2.3 million in the first quarter of 2002, primarily related to investments in mining properties, plant and equipment. No cash was used in financing activities in the first quarter of 2002.

At March 31, 2002, the Company had \$9.8 million in cash and cash equivalents and \$1.9 million in short-term investments recorded at the lower of cost or fair value. The fair value of the short-term investments at March 31, 2002 was \$8.3 million.

At March 31, 2002, the Company's current debt was \$17.0 million. Long-term debt was \$6.7 million, representing the present value of the \$100 million capital securities principal, which was retired on April 3, 2002.

The Company's existing revolving credit facility is scheduled to expire in September 2002 and the Company currently has \$17.0 million outstanding under this facility. The Company believes it is currently in compliance with the credit facility covenants. The Company plans to establish a new credit facility in advance of the expiration date, although the amount of the required facility and the terms thereof are unknown. At present, and absent new credit requirements, the Company's need to draw down on a bank facility beyond September 30, 2002 is not expected to be significant.

At March 31, 2002, the estimated fair value of the Company's hedge portfolio was a loss of \$1.6 million. A change in the gold price of \$10 per ounce would result in a change in fair value of the hedge position by approximately \$1.0 million assuming no changes in dollar interest rates, gold lease rates or other volatility factors underlying the Company's hedge position. There are no margin requirements related to these hedge contracts.

The Company expects to incur \$11.0 million for capital expenditures in 2002 funded by its operating cash flow, of which \$2.3 million in expenditures have been incurred in the first quarter of 2002. The Company will rely on its operating cash flow to fund the remainder of its planned 2002 capital expenditures. The Company monitors its discretionary spending in view of the cost structure of its operating mines and the availability of additional credit, and will modify or reduce its discretionary spending where necessary.

Early in 2000, the American Stock Exchange advised the Company that its listing eligibility was under review. The review was undertaken because the Company had fallen below two of the Exchange's continued listing guidelines. The Company had sustained net losses in its five most recent fiscal years (1995 to 1999) and in the Exchange's view, the Company's shareholders' equity under generally accepted accounting principles in the United States is inadequate. The Company is addressing the Exchange's concerns through periodic progress reviews and believes significant progress has been made in respect of the shareholder equity issue, with the completion of the capital securities exchange.

See note 12 to the interim consolidated financial statements, "Other Commitments and Contingencies".

**ECHO BAY MINES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
RESULTS OF OPERATIONS**

For the Three Months Ended March 31, 2002
(U.S. dollars)

FINANCIAL REVIEW

The Company reported first quarter net earnings of \$5.5 million compared with net earnings of \$3.8 million in the first quarter of 2001. On a per share basis, the Company had net earnings of \$0.01 for the quarter compared to break-even net earnings in 2001. The 2002 results, compared to 2001, reflect lower operating costs at Round Mountain and McCoy/Cove, lower amortization costs at McCoy/Cove and higher deferred revenue recognized. These factors were partially offset by 18% lower gold sales volume and 31% lower silver sales volume.

Gold production decreased 14% to 149,276 ounces in the first quarter of 2002 compared to 173,470 ounces in the first quarter of 2001. The decrease in production resulted from lower grades milled at Round Mountain and Lupin, the winding down of operations at McCoy/Cove and lower mill throughput at Kettle River. Silver production from McCoy/Cove was 1.5 million ounces, 6% less than the 1.6 million ounces produced in 2001. Milling was completed at McCoy/Cove in March 2002.

Cash operating costs were \$216 per ounce of gold in the first quarter of 2002, versus \$212 in the first quarter of 2001. The increase was primarily a result of lower production. Total production costs were \$287 per ounce in the first quarter of 2002, versus \$278 per ounce in the first quarter of 2001.

The Company reports per ounce production cost data in accordance with The Gold Institute Production Cost Standard (the "Standard"). The Gold Institute is an association of suppliers of gold and gold products and includes leading North American gold producers. Adoption of the Standard is voluntary, and the data presented may not be comparable to data presented by other gold producers. Production costs per ounce are derived from amounts included in the unaudited Statements of Operations and include mine site operating costs such as mining, processing, administration, transportation, royalties, production taxes, depreciation, amortization and reclamation costs, but exclude financing, capital, development and exploration costs. These costs are then divided by gold ounces produced to arrive at the total production costs per ounce. The measures are furnished to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Throughout this report, all references to per ounce production cost data, or cash operating costs, will be in accordance with the Standard.

The term ounce as used in this Form 10-Q means "troy ounce".

Revenue

Statistics for gold and silver ounces sold and other revenue data are set out below.

| Revenue Data | Three months ended March 31 | |
|--|--------------------------------|-----------|
| | 2002 | 2001 |
| Gold | | |
| Ounces sold | 141,429 | 172,086 |
| Average price realized/ounce revenue basis | \$ 345 | \$ 310 |
| Average price realized/ounce cash basis(1) | \$ 293 | \$ 290 |
| Average market price/ounce | \$ 290 | \$ 264 |
| Revenue (millions of U.S. \$) | \$ 48.9 | \$ 53.4 |
| Percentage of total revenue | 89% | 83% |
| Silver | | |
| Ounces sold | 1,454,876 | 2,093,815 |
| Average price realized/ounce revenue basis | \$ 4.34 | \$ 5.28 |
| Average price realized/ounce cash basis(1) | \$ 4.34 | \$ 6.02 |
| Average market price/ounce | \$ 4.51 | \$ 4.56 |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | Three months ended | |
|--|--------------------|----------|
| | March 31 | March 31 |
| Revenue (millions of U.S. \$) | \$ 6.3 | \$ 11.1 |
| Percentage of total revenue | 11% | 17% |
| <hr/> | | |
| Total revenue (millions of U.S. dollars) | \$ 55.2 | \$ 64.5 |

- (1) Excludes non-cash items affecting gold and silver revenues, such as the recognition of deferred income or deferral of revenue to future periods for hedge accounting purposes.

The effects of changes in sales prices and volume were as follows.

**Revenue Variance Analysis
2002 vs. 2001
(millions of U.S. dollars)**

| | Three months ended | |
|---------------------|--------------------|--------|
| | March 31 | |
| Higher gold prices | \$ | 5.0 |
| Lower silver prices | | (1.0) |
| Change in volume | | (13.3) |
| <hr/> | | |
| Decrease in revenue | \$ | (9.3) |

Production Costs

Production cost data per ounce of gold is set out below.

| Production Costs per ounce of Gold Produced | Three months ended | |
|---|--------------------|--------|
| | 2002 | 2001 |
| Direct mining expense | \$ 211 | \$ 206 |
| Deferred stripping and mine development costs | 2 | 11 |
| Inventory movements and other | 3 | (5) |
| <hr/> | | |
| Cash operating costs | 216 | 212 |
| Royalties | 9 | 6 |
| Production taxes | (1) | 1 |
| <hr/> | | |
| Total cash costs | 224 | 219 |
| Depreciation | 44 | 38 |
| Amortization | 12 | 13 |
| Reclamation and mine closure | 7 | 8 |
| <hr/> | | |
| Total production costs | \$ 287 | \$ 278 |

Expenses

Operating costs per ounce vary with the quantity of gold and silver sold and with the cost of operations. Cash operating costs were \$216 per ounce of gold in the first quarter of 2002 and \$212 in the first quarter of 2001. See "Operations Review."

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| Reconciliation of Cash Operating Costs per Ounce to Financial Statements thousands of U.S. dollars, except per ounce amounts | Three months ended March 31 | |
|--|--------------------------------|-----------|
| | 2002 | 2001 |
| Operating costs per financial statements | \$ 35,096 | \$ 44,623 |
| Change in finished goods inventory and other | 3,175 | (896) |
| Co-product cost of silver produced | (6,027) | (6,951) |
| Cash operating costs | \$ 32,244 | \$ 36,776 |
| Gold ounces produced | 149,276 | 173,470 |
| Cash operating costs per ounce | \$ 216 | \$ 212 |

Reserve estimates

Mineral reserves at December 31, 2001 were estimated based on a price of \$300 per ounce of gold and \$4.25 per ounce of silver. The market price for gold has for more than four years traded, on average, below the level used in estimating reserves at December 31, 2001. If the market price for gold were to continue at such levels and the Company determined that its reserves should be estimated at a significantly lower gold price than that used at December 31, 2001, there would be a reduction in the amount of gold reserves. The Company estimates that if reserves at December 31, 2001 were based on \$275 per ounce of gold, reserves would decrease by approximately 13% at Round Mountain, 5% at Kettle River and 2% at the Aquarius development property. There would be no impact on reserves at Lupin and McCoy/Cove. The estimates are based on the extrapolation of information developed in the reserve calculation, but without the same degree of analysis required for reserve estimation. Should any significant reductions in reserves occur, material write-downs of the Company's investment in mining properties and/or increased amortization, reclamation and closure charges may be required.

OPERATIONS REVIEW

Operating data by mine is set out below.

| Operating Data by Mine | Three months ended March 31 | |
|----------------------------|--------------------------------|-----------|
| | 2002 | 2001 |
| Gold production (ounces) | | |
| (a) Round Mountain (50%) | 93,571 | 100,368 |
| (b) Lupin | 28,717 | 37,954 |
| (c) McCoy/Cove | 16,501 | 22,303 |
| (d) Kettle River | 10,487 | 12,845 |
| Total gold | 149,276 | 173,470 |
| Silver production (ounces) | | |
| (b) McCoy/Cove | 1,470,094 | 1,558,529 |
| Total silver | 1,470,094 | 1,558,529 |

Gold production decreased 14% to 149,276 ounces in the first quarter of 2002 compared to 173,470 ounces in the first quarter of 2001. The decrease in production resulted from lower grades milled at Round Mountain and Lupin, the winding down of operations at McCoy/Cove and lower mill throughput at Kettle River. Silver production from McCoy/Cove was 1.5 million ounces, 6% less than the 1.6 million ounces produced in 2001. Milling was completed at McCoy/Cove in March 2002. For the full year 2002, the Company's production targets are 540,000 gold ounces and 1.5 million silver ounces.

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| Operating Data by Mine | Three months ended March 31 | |
|--|--------------------------------|--------|
| | 2002 | 2001 |
| Cash operating costs (per ounce of gold) | | |
| (a) Round Mountain | \$ 187 | \$ 185 |
| (b) Lupin | 283 | 217 |
| (c) McCoy/Cove | 225 | 257 |
| (d) Kettle River | 260 | 242 |
| Company average | \$ 216 | \$ 212 |

Cash operating costs were \$216 per ounce of gold in the first quarter of 2002, versus \$212 in the first quarter of 2001. The increase was primarily a result of lower production. The Company has targeted consolidated cash operating costs of \$225 per ounce of gold produced for the full year 2002.

(a) Round Mountain, Nevada (50% owned)

| OPERATING DATA | Three months ended March 31 | |
|---|--------------------------------|---------|
| | 2002 | 2001 |
| Gold produced (ounces) (the Company's 50% share): | | |
| Heap leached reusable pad | 38,012 | 27,250 |
| Heap leached dedicated pad | 38,936 | 40,687 |
| Milled | 16,623 | 32,431 |
| Total | 93,571 | 100,368 |
| Mining cost/ton of ore and waste | \$ 0.78 | \$ 0.85 |
| Heap leaching cost/ton of ore | \$ 0.76 | \$ 0.70 |
| Milling cost/ton of ore | \$ 2.99 | \$ 3.00 |
| Production cost per ounce of gold produced: | | |
| Direct mining expense | \$ 172 | \$ 166 |
| Deferred stripping costs | 13 | 21 |
| Inventory movements and other | 2 | (2) |
| Cash operating costs | 187 | 185 |
| Royalties | 16 | 11 |
| Production taxes | 3 | 1 |
| Total cash costs | 206 | 197 |
| Depreciation | 44 | 36 |
| Amortization | 15 | 15 |
| Reclamation and mine closure | 9 | 9 |
| Total production costs | \$ 274 | \$ 257 |
| Heap leached reusable pad: | | |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | Three months ended March 31 | |
|--------------------------------|--------------------------------|---------|
| Ore processed (tons/day) | 31,433 | 27,762 |
| Total ore processed (000 tons) | 2,860 | 2,526 |
| Grade (ounce/ton) | 0.045 | 0.038 |
| Recovery rate (%) | 66.0 | 79.8 |
| Heap leached dedicated pad: | | |
| Ore processed (tons/day) | 139,780 | 147,407 |
| Total ore processed (000 tons) | 12,720 | 13,414 |
| Grade (ounce/ton) | 0.011 | 0.011 |
| Recovery rate(1) | | |
| Milled: | | |
| Ore processed (tons/day) | 9,782 | 9,880 |
| Total ore processed (000 tons) | 890 | 899 |
| Grade (ounce/ton) | 0.045 | 0.089 |
| Recovery rate (%) | 82.9 | 85.5 |

- (1) Recovery rates on dedicated pads can only be estimated, as actual recoveries will not be known until leaching is complete. At the Round Mountain mine, the gold recovery rate on the dedicated heap leach pad is estimated at 50%.

The Company has a 50% ownership interest in, and is the operator of, the Round Mountain mine in Nevada. The Company's share of mine production was 93,571 ounces for the quarter compared with 100,368 ounces in 2001. The lower production results primarily from lower grades milled. Cash operating costs for the quarter were \$187 per ounce, compared to \$185 per ounce in the previous year reflecting the lower production.

During the quarter, work continued on the Gold Hill property located four miles north of the current mining and processing facilities. The joint venture partners have committed to a minimum of \$2.0 million for 2002 in an exploration program to delineate the potential of Gold Hill and other targets at the Round Mountain site.

- (b) Lupin, Nunavut, Canada (100% owned)

| OPERATING DATA | Three months ended March 31 | |
|---|--------------------------------|-----------|
| | 2002 | 2001 |
| Gold produced (ounces) | 28,717 | 37,954 |
| Mining cost/ton of ore | C\$ 51.49 | C\$ 44.82 |
| Milling cost/ton of ore | C\$ 14.32 | C\$ 14.40 |
| Production cost per ounce of gold produced: | | |
| Canadian dollars: | | |
| Direct mining expense | C\$ 512 | C\$ 379 |
| Deferred mine development costs | C\$ (58) | C\$ (12) |
| Inventory movements and other | C\$ | C\$ |
| Cash operating costs | C\$ 454 | C\$ 367 |
| U.S. dollars | | |
| Cash operating costs | US\$ 283 | US\$ 217 |
| Royalties | | |
| Production taxes | | |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | Three months ended | |
|--------------------------------|--------------------|----------|
| | March 31 | |
| Total cash costs | 283 | 217 |
| Depreciation | 34 | 28 |
| Amortization | 6 | 7 |
| Reclamation and mine closure | 14 | 14 |
| | | |
| Total production costs | US\$ 337 | US\$ 266 |
| | | |
| Milled: | | |
| Ore processed (tons/day) | 1,657 | 1,849 |
| Total ore processed (000 tons) | 151 | 168 |
| Grade (ounce/ton) | 0.205 | 0.241 |
| Recovery rate (%) | 92.7 | 93.4 |

Gold production for the quarter was 28,717 ounces compared with 37,954 ounces in 2001 reflecting lower grades as anticipated as well as 10% less tons milled. Development of production drifts in the lower portions of the mine, conducted in the quarter, is intended to improve production for the remaining part of the year. Cash operating costs were \$283 per ounce compared to \$217 per ounce in the first quarter of 2001 reflecting the lower production and the difference in the exchange rate (US\$0.625:C\$1.00 versus US\$0.591:C\$1.00 in 2001). In 2001, a \$0.9 million (\$24 per ounce) benefit was realized from a deferred gain on closing out certain Canadian dollar contracts for Lupin expenditures in 1997.

(c) McCoy/Cove, Nevada (100% owned)

| OPERATING DATA | Three months ended | |
|---|--------------------|-----------|
| | March 31 | |
| | 2002 | 2001 |
| Gold produced (ounces): | | |
| Milled | 9,906 | 17,978 |
| Heap leached | 6,595 | 4,325 |
| | | |
| Total gold | 16,501 | 22,303 |
| Silver produced (ounces): | | |
| Milled | 1,410,594 | 1,495,309 |
| Heap leached | 59,500 | 63,220 |
| | | |
| Total silver | 1,470,094 | 1,558,529 |
| Milling cost/ton of ore | \$ 10.49 | \$ 6.42 |
| Production cost per ounce of gold produced: | | |
| Direct mining expense | \$ 216 | \$ 255 |
| Deferred stripping costs | | 7 |
| Inventory movements and other | 9 | (5) |
| | | |
| Cash operating costs | 225 | 257 |
| Royalties | 1 | 1 |
| Production taxes | (12) | |
| | | |
| Total cash costs | 214 | 258 |
| Depreciation | 51 | 50 |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | Three months ended | |
|---------------------------------------|--------------------|--------|
| | March 31 | |
| Amortization | | 8 |
| Reclamation and mine closure | | |
| Total production costs | \$ 265 | \$ 316 |
| Average gold-to-silver price ratio(1) | 64.6:1 | 57.7:1 |
| Milled: | | |
| Ore processed (tons/day) | 6,451 | 11,838 |
| Total ore processed (000 tons) | 587 | 1,077 |
| Gold grade (ounce/ton) | 0.034 | 0.043 |
| Silver grade (ounce/ton) | 3.46 | 2.57 |
| Gold recovery rate (%) | 43.3 | 44.6 |
| Silver recovery rate (%) | 64.0 | 64.9 |

- (1) To convert costs per ounce of gold into comparable costs per ounce of co-product silver, divide the production cost per ounce of gold by the period's average gold-to-silver price ratio.

At McCoy/Cove in Nevada, gold production was 16,501 ounces for the quarter compared with 22,303 ounces in 2001 and silver production amounted to 1.5 million ounces compared with 1.6 million ounces in the prior year. Milling was completed in March 2002. Cash operating costs per ounce were \$225 compared with \$257 in 2001, reflecting no mining costs as well as the reduction of infrastructure costs during the quarter.

The property is now in full reclamation mode. Re-contouring waste dumps and seeding are expected to continue for another two years.

On February 13, 2002, the Company entered into an agreement with Newmont Mining Corporation providing for the sale to Newmont of the entire McCoy/Cove Complex. This agreement calls for a payment to the Company of \$6.0 million and the assumption by Newmont of all reclamation and closure obligations at McCoy/Cove. A gain is expected on the sale of McCoy/Cove. The agreement is expressly subject to the completion of due diligence by Newmont by July 31, 2002 and there is no assurance that the transaction will be completed. Pending completion of the transaction, the Company will continue to operate McCoy/Cove for its own account.

- (d) Kettle River, Washington (100% owned)

| OPERATING DATA | Three months ended | |
|---|--------------------|----------|
| | 2002 | 2001 |
| Gold produced (ounces) | 10,487 | 12,845 |
| Mining cost/ton of ore | \$ 21.93 | \$ 23.89 |
| Milling cost/ton of ore | \$ 11.10 | \$ 12.01 |
| Production cost per ounce of gold produced: | | |
| Direct mining expense | \$ 248 | \$ 211 |
| Deferred mine development costs | | |
| Inventory movements and other | 12 | 31 |
| Cash operating costs | 260 | 242 |
| Royalties | 5 | 13 |
| Production taxes | 1 | 1 |

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

| | Three months ended | |
|--------------------------------|--------------------|------------|
| | March 31 | |
| Total cash costs | 266 | 256 |
| Depreciation | | 8 |
| Amortization | 50 | 40 |
| Reclamation and mine closure | | 15 |
| | <u>316</u> | <u>319</u> |
| Total production costs | \$ 316 | \$ 319 |
| Milled: | | |
| Ore processed (tons/day) | 739 | 900 |
| Total ore processed (000 tons) | 67 | 82 |
| Grade (ounce/ton) | 0.185 | 0.190 |
| Recovery rate (%) | 84.5 | 82.7 |

Gold production for the quarter was 10,487 ounces, down from 12,845 ounces in 2001, reflecting the lower grades encountered at the K-2 mine and stockpiled ore. With the lower production, cash operating costs per ounce were \$260 per ounce compared with \$242 per ounce in 2001. The higher costs per ounce result only from the lower production, as actual spending was 12% less than in 2001.

Results from exploration of the north east extension to the K-2 mine as well as diamond drilling at the Emanuel Creek property during the first quarter are encouraging and drilling will continue through the second quarter to determine the extent of the mineralization.

RECENT DEVELOPMENTS

McCoy/Cove

On February 13, 2002, the Company entered into an agreement with Newmont Mining Corporation providing for the sale to Newmont of the entire McCoy/Cove Complex. This agreement calls for a payment to the Company of \$6.0 million and the assumption by Newmont of all reclamation and closure obligations at McCoy/Cove. The agreement is expressly subject to the completion of due diligence by Newmont by July 31, 2002 and there is no assurance that the transaction will be completed. Pending completion of the transaction, the Company will continue to operate McCoy/Cove for its own account.

Capital securities

On April 3, 2002 the Company issued 361,561,230 common shares in exchange for the entire capital securities debt obligation of \$100 million in principal amount plus accrued and unpaid interest. The new principal holders of common shares and their respective ownership positions in the Company are Newmont Mining Corporation of Canada Limited (48.8%) and Kinross Gold Corporation (11.4%). As a result of eliminating the capital securities, the Company will record an increase to common shares of \$303.7 million, based on their market value at the date of issue. The market value of the common shares issued exceeded the book value of the capital securities by \$134.8 million. This difference, along with share issue costs of \$3.0 million, will be recorded proportionately between interest expense (\$5.5 million) and deficit (\$132.3 million) in the second quarter of 2002 based on the debt and equity classifications of the capital securities. Under U.S. GAAP, the entire loss of \$137.8 million would be recorded as an extraordinary item.

Exploration and development programs

The Company is continuing its focused approach to exploration and development activities primarily within close proximity to the existing mine sites as well as in the Western United States and in the Timmins area of Ontario. For the first quarter of 2002, the Company spent \$0.6 million on exploration activities. Exploration costs are expensed as incurred.

The Company continues to defer a construction decision on the 100% owned Aquarius gold development project in Ontario, Canada. Development holding costs are expensed as incurred and \$0.1 million such costs were expensed during the first quarter of 2002.

Other

See note 12 to the interim consolidated financial statements.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Edgar Filing: ECHO BAY MINES LTD - Form 10-Q

The estimated fair values of the Company's gold commitments decreased by approximately \$3.0 million from December 31, 2001 to March 31, 2002, primarily due to the increase in the gold price from \$277 to \$301 per ounce. Information about market risks are discussed under Item 7A of the registrant's Annual Report on Form 10-K for 2001.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Summa

See note 12 to the interim consolidated financial statements.

Handy & Harman

See note 12 to the interim consolidated financial statements.

Other

In November, 2001, two former employees of the Company brought a claim against the Company pursuant to the "Class Proceedings Act" (British Columbia) as a result of the temporary suspension of operations at the Company's Lupin mine early in 1998 and the layoff of employees at that time. The Company does not know at this time the amount being claimed by the former employees nor whether the claim is appropriate for certification as a class action. Additional information is required in order for the Company's legal counsel to complete its analysis and assessment of this claim.

The Company is also engaged in routine litigation incidental to its business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF THE SECURITY HOLDERS

On March 28, 2002 the Company's common shareholders authorized the issuance of 361,561,230 common shares in exchange for the entire capital securities debt obligation of \$100 million in principal amount plus accrued and unpaid interest. The exchange was completed on April 3, 2002.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K

Filed on February 20, 2002, related to the sale of the McCoy/Cove mining complex to Newmont Mining Corporation.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ECHO BAY MINES LTD.

(Registrant)

April 25, 2002

Date

/s/ David A. Ottewell

DAVID A. OTTEWELL
Controller and Principal Accounting Officer