

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

ECHO BAY MINES LTD  
Form 10-Q  
May 04, 2001

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, 2001  
-----

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  
-----

None  
-----

(State or other jurisdiction of  
incorporation or organization)

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

Suite 540, 6400 S. Fiddlers Green Circle  
Englewood, CO  
-----

80111-4957  
-----

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (303) 714-8600  
-----

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      X      No  
-----

Title of Class  
-----

Shares Outstanding as of  
May 4, 2001  
-----

Common Shares  
without nominal or par value

140,607,145

=====

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..

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.....

ITEM 6. Exhibits and Reports on Form 8-K.....

SIGNATURE.....

ECHO BAY MINES LTD.

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS (Unaudited)

CONSOLIDATED BALANCE SHEET	March 31
thousands of U.S. dollars	2001

ASSETS

Current assets:

Cash and cash equivalents	\$ 14,569
Short-term investments	2,079
Interest and accounts receivable	3,729
Inventories (note 2)	38,896
Prepaid expenses and other assets	8,411

-----  
67,684

Plant and equipment (note 3)	137,405
Mining properties (note 3)	57,304
Long-term investments and other assets	20,818

-----  
\$ 283,211  
=====

LIABILITIES AND SHAREHOLDERS' EQUITY

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

Current liabilities:	
Accounts payable and accrued liabilities	\$ 26,751
Income and mining taxes payable	5,208
Debt and other financings (note 4)	22,750
Deferred income (note 5)	6,617
<hr/>	
	61,326
Debt and other financings (note 4)	6,017
Deferred income (note 5)	45,180
Other long-term obligations	49,814
Deferred income taxes	3,518
<hr/>	
Commitments and contingencies (notes 1, 10 and 11)	
Common shareholders' equity:	
Common shares, no par value, unlimited number authorized; 140,607,145 shares issued and outstanding	713,343
Capital securities (note 6)	144,601
Deficit	(712,217)
Foreign currency translation	(28,371)
<hr/>	
	117,356
<hr/>	
	\$ 283,211
<hr/>	

See accompanying notes to interim consolidated financial statements.

1

ECHO BAY MINES LTD.

CONSOLIDATED STATEMENT OF OPERATIONS  
thousands of U.S. dollars,  
except for per share data

Revenue	\$ 6
<hr/>	
Expenses:	
Operating costs	4
Royalties	
Production taxes	
Depreciation and amortization	1
Reclamation and mine closure	
General and administrative	
Exploration and development	
Interest and other (note 7)	
<hr/>	
	6
<hr/>	
Earnings (loss) before income taxes	
<hr/>	
Income tax expense (recovery):	
Current	
Deferred	
<hr/>	

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

Net earnings (loss)	\$
Net loss attributable to common shareholders (note 6)	\$
Earnings (loss) per share	\$
Weighted average number of shares outstanding (thousands)	14

CONSOLIDATED STATEMENT  
OF DEFICIT  
thousands of U.S. dollars

Balance, beginning of period	\$ (71
Net earnings (loss)	
Interest on capital securities, net of nil tax effect (note 6)	(
Balance, end of period	\$ (71

See accompanying notes to interim consolidated financial statements.

2

ECHO BAY MINES LTD.

CONSOLIDATED STATEMENT  
OF CASH FLOW  
thousands of U.S. dollars

Cash provided from (used in):

OPERATING ACTIVITIES	
Net cash flows provided from (used in) operating activities	\$1

INVESTING ACTIVITIES

Mining properties, plant and equipment	(
Long-term investments and other assets	
Proceeds on the sale of plant and equipment	
Other	

FINANCING ACTIVITIES

Debt borrowings	(
Debt repayments	

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

Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents, beginning of period	1
-----	
Cash and cash equivalents, end of period	\$1
=====	

See accompanying notes to interim consolidated financial statements.

3

ECHO BAY MINES LTD.

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, 2001 and December 31, 2000 and the consolidated results of operations and cash flow for the three months ended March 31, 2001 and 2000. 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, 2000.

Basis of Presentation

The Company's term and revolving credit facility matures in August 2001. The Company is in discussions with lenders to arrange a new borrowing facility but has not yet entered into a final agreement. The Company's ability to borrow is constrained by conditions in the gold mining industry and its recent and currently expected future operating results. Should the Company be unable to arrange a new borrowing facility to replace its maturing facility, it is unlikely that the Company would be able to settle its existing loan with cash from operations or other sources. As a result of these conditions, there is substantial doubt about the Company's ability to continue its operations in the normal course of business. These financial statements are prepared on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Consequently, they do not include any adjustments to the carrying amounts and classifications of assets and liabilities, which may be necessary should the Company not be able to continue to operate in the normal course of business. Management is continuing to discuss replacement financing with its lenders and is confident that a satisfactory agreement will be reached prior to the maturity date of the existing credit facility.

2. INVENTORIES

	March 31
	2001
-----	
Precious metals -- bullion	\$ 15,598
-- in-process	9,716
Materials and supplies	13,582
	-----
	\$ 38,896
	-----

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

3. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		March 31 2001
-----		
Cost	\$	652,834
Less accumulated depreciation		515,429
-----		
	\$	137,405
-----		
Mining properties		March 31 2001
-----		
Producing mines' acquisition and development costs	\$	277,671
Less accumulated amortization		251,405
-----		
		26,266
Development properties' acquisition and development costs		18,169
Deferred mining costs		12,869
-----		
	\$	57,304
-----		

4

ECHO BAY MINES LTD.

4. DEBT AND OTHER FINANCINGS

		March 31 2001
-----		
Currency loans		\$22,750
Capital securities (note 6)		6,017
-----		
		28,767
Less current portion		22,750
-----		
	\$	6,017
-----		

5. DEFERRED INCOME

		March 31 2001
-----		
Modification of hedging contracts		\$34,526
Premiums received on gold and silver option contracts		16,920
Other		351
-----		
		51,797
Less current portion		6,617
-----		
		\$45,180
-----		

6. CAPITAL SECURITIES

In 1997, the Company issued \$100.0 million of 11% capital securities due in

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

April 2027. The Company has the right to defer interest payments on the capital securities for a period not to exceed 10 consecutive semi-annual periods. During a period of interest deferral, interest accrues at a rate of 12% per annum, compounded semi-annually, on the full principal amount and deferred interest. The Company, at its option, may satisfy its deferred interest obligation by delivering common shares to the indenture trustee for the capital securities. The trustee would sell the Company's shares and remit the proceeds to the holders of the securities in payment of the deferred interest obligation. Deferred interest obligations not settled with proceeds from the sale of shares remain an unsecured liability of the Company. Since April 1998, the Company has exercised its right to defer its interest payments to holders of the capital securities. Interest deferred to date amounts to \$50.6 million at March 31, 2001 and is payable no later than April 1, 2003 together with any additional compounded or deferred interest up to that date. Although the Company has the contractual right to issue shares in settlement of this obligation, market conditions in 2003 will determine the Company's ability to settle through the delivery and sale of common shares.

### 7. INTEREST AND OTHER

	2001
<hr style="border-top: 1px dashed black;"/>	
Interest income	\$ (358)
Interest expense	795
Other	(147)
<hr style="border-top: 1px dashed black;"/>	
	\$ 290

### 8. 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, 2000.

5

### ECHO BAY MINES LTD.

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

	2001
<hr style="border-top: 1px dashed black;"/>	
Net earnings (loss) under Canadian GAAP	\$ 3,793
Change in market value of foreign exchange contracts	(1,479)
Change in market value of option contracts	(1,008)
Transition adjustment on adoption of FAS 133	(3,090)

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

Additional interest expense on capital securities	(4,330)
Amortization of deferred financing on capital securities	(158)
Unrealized loss on gold call options sold	--
-----	
Net loss under U.S. GAAP	\$ (6,272)
-----	
Loss per share under U.S. GAAP	\$ (0.04)
-----	

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

March 31, 2001	Canadian GAAP	Capital Securities	Derivative Contracts	Other	U.S. GAAP
Short-term investments	\$ 2,079	\$ --	\$ --	\$ 1,021	\$ 3,100
Long-term investments and other assets	20,818	633	(14,997)	--	6,454
Gold and other financings	28,767	93,983	--	--	122,750
Deferred income	51,797	--	(51,797)	--	--
Other long-term obligations	49,814	50,618	2,061	--	102,493
Common shares	713,343	--	--	36,428	749,771
Capital securities	144,601	(114,601)	--	--	--
Deficit	712,217	(633)	2,198	36,400	750,182
Shareholders' equity	117,357	(143,968)	34,739	1,049	9,177

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

	2001
Net loss under U.S. GAAP	\$ (6,272)
Other comprehensive income (loss), after a nil income tax effect:	
Unrealized gain (loss) arising during period	289
Gain realized in net income	(2,297)
Foreign currency translation adjustments	(3,417)
Transition adjustment on implementation of FAS 133	39,234
Other comprehensive income (loss)	33,809
Comprehensive income (loss)	\$27,537

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

March 31  
2001



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

Unrealized gain/(loss) on share investments	\$ 1,021
Modification of derivative contracts	36,937
Foreign currency translation	(28,371)
Accumulated other comprehensive income (loss)	\$ 9,587

6

ECHO BAY MINES LTD.

Derivative instruments and hedging activities

On January 1, 2001, the Company implemented FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and Statement No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities." The statement requires all derivative instruments to be recognized at fair value on the balance sheet. The changes in fair value are accounted for through earnings unless the instrument qualifies for special hedge accounting treatment. The Company has not designated any derivative contracts as hedges. The Company enters into derivative contracts to reduce the risk of changes in the price of gold, silver and foreign currencies. The majority of these contracts are forward sales that qualify for exception from Statements No. 133 and 138 under the normal purchase and sales provision. Derivative instruments held by the Company that do not qualify for the normal purchase and sale exception would be recognized at fair value on the balance sheet with changes in fair value recorded in earnings. Gains and losses on the early termination or other restructuring of gold, silver and foreign currency hedging contracts would be deferred in accumulated other comprehensive income until the formerly hedged items are recorded in earnings. The transition adjustment recorded under U.S. GAAP at January 1, 2001 would have decreased assets by \$18.3 million, decreased liabilities by \$54.4 million, increased accumulated other comprehensive income by \$39.2 million and decreased net earnings by \$3.1 million.

9. 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 2001, 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.

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.

Gold Production (ounces)

Round Mountain (50%)	10
McCoy/Cove	2
Lupin	3
Kettle River	1
Total gold	17

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

-----  
 Silver Production (ounces) - all from McCoy/Cove 1,55  
 -----

Cash Operating Costs per Ounce of Gold Produced

-----  
 Round Mountain  
 McCoy/Cove  
 Lupin  
 Kettle River  
 -----

Company consolidated weighted average  
 -----

7

ECHO BAY MINES LTD.

Reconciliation of Cash Operating  
 Costs per Ounce to Financial Statements

-----  
 Operating costs by minesite:  
     Round Mountain \$ 1  
     McCoy/Cove 1  
     Lupin  
     Kettle River  
 -----  
 Total operating costs per financial statements 4  
 Change in finished goods inventories and other  
 Co-product cost of silver produced ( )  
 -----  
 Cash operating costs \$ 3  
 -----  
 Gold ounces produced 17  
 -----  
 Cash operating costs per ounce \$  
 -----

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

-----  
 Total gold and silver revenue \$6  
 Average gold price realized per ounce \$  
 Average silver price realized per ounce \$  
 -----

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

10. HEDGING ACTIVITIES AND COMMITMENTS

Gold commitments

The Company's gold forward sales positions at March 31, 2001 were as follows.

	Forward Sales (ounces)	Price of Forward Sale (per ounce)
Remainder of 2001	45,000	\$302
2002	60,000	302
2003	60,000	302
2004	60,000	302
2005	15,000	302
	240,000	\$302

The Company's gold option positions at March 31, 2001 were as follows.

	Call Options Purchased		Call Options Sold	
	Ounces	Strike Price per Ounce	Ounces	Strike Price per Ounce
Remainder of 2001	45,000	\$360	--	\$ --
2002	60,000	360	--	--
2003	60,000	360	--	--
2004	60,000	360	--	--
2005	120,000	395	105,000	340
	345,000	\$372	105,000	\$340

8

ECHO BAY MINES LTD.

Currency position

At March 31, 2001, the Company had an obligation under foreign currency exchange contracts to purchase C\$15 million in the remainder of 2001 at an exchange rate of C\$1.46 to U.S.\$1.00.

Shown below are the carrying amounts and estimated fair values of the Company's hedging instruments at March 31, 2001 and December 31, 2000.

	March 31, 2001		
	Carrying Amount	Estimated Fair Value	Carrying Amount
Gold forward sales	\$ --	\$ 6,500	\$ --
Silver forward sales	--	--	--
Gold options			
- puts purchased	--	--	--
- calls sold	(3,000)	(1,300)	(3,000)
- puts sold	--	--	--
- calls purchased	6,200	1,200	6,200
Silver options			
- puts purchased	--	--	1,200
- puts sold	--	--	(1,300)

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

- calls purchased	--	--	7
Foreign currency contracts	--	(700)	
		\$ 5,700	

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.

11. OTHER COMMITMENTS AND CONTINGENCIES

Summa

In September 1992, Summa Corporation commenced a lawsuit against Echo Bay Exploration Inc. and Echo Bay Management Corporation, indirect subsidiaries of the Company, alleging improper deductions in the calculation of royalties payable over several years of production at the McCoy/Cove and Manhattan mines. The matter was tried in the Nevada State Court in April 1997, with Summa claiming more than \$13 million in damages, and, in September 1997, judgement was rendered for the Echo Bay companies, with the Nevada State Court finding that the Echo Bay companies had calculated the royalties correctly, in compliance with an agreement which the court found unambiguous.

The decision was appealed by Summa to the Supreme Court of Nevada and on April 26, 2000, the court 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 Echo Bay defendants petitioned that panel for a rehearing. The petition was denied by the three member panel on May 15, 2000. The Echo Bay defendants then filed for a petition for review of the panel decision by the full Court. On April 3, 2001, the full court issued an order reversing the decision of the panel. The full court noted, however, that the trial court had failed to consider the testimony of one of Summa's trial witnesses and remanded the case to the trial court for a redetermination of the meaning of the contract. The other defences and arguments put forth by the Echo Bay defendants, which the trial court originally elected not to consider, may now also be considered. The Echo Bay defendants disagree that the trial court failed to consider the testimony in question. The evidence was in fact considered and addressed in an alternate finding of that court. Accordingly, the Supreme Court is now being asked to review this one matter and reinstate the decision of the trial court. It is not known when the Supreme Court will rule on this request.

The Company has \$1.5 million accrued related to the Summa matter. If Summa were ultimately to prevail, the royalty calculation at McCoy/Cove would change and additional royalties would be payable.

ECHO BAY MINES LTD.

Handy and Harman

On March 29, 2000 Handy & Harman Refining Group, Inc., which operated a facility used by the Company for the refinement of dore bars, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The outcome of these proceedings is uncertain at this time. The Company has gold and silver accounts at this refining facility with an estimated market value of approximately \$2.4 million.

Security for reclamation

Certain of the Company's subsidiaries have provided corporate guarantees and

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

other forms of security to regulatory authorities in connection with future reclamation activities. Early in 2001, regulators formally 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. The subsidiaries disagree with the regulators' position and believe that they 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.

10

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

March 31, 2001  
(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 depressed price of gold, which averaged \$279 per ounce in 2000 and \$264 per ounce during the first quarter of 2001.

The Company reduces the risk of future gold and silver price declines by hedging a portion of its production. The principal hedging tools used are gold and silver loans, fixed and floating forward sales contracts, spot-deferred contracts, swaps and options.

The Company's hedge position as of March 31, 2001 partially protects the Company against gold price declines in the years 2001 through 2005. For the remainder of 2001, this position includes forward sales of approximately 45,000 ounces at a forward price of \$302 per ounce. For the years 2002 through 2005, the Company has forward sales totaling 195,000 ounces of gold at a forward price of \$302 per ounce. See note 10 to the interim consolidated financial statements.

The Company continues to defer a final construction decision on Aquarius, a planned gold mine in Ontario, Canada.

The Company's exploration efforts are focused on projects principally located in North America where the Company already has extensive gold mining infrastructure.

In March 1997, the Company issued \$100.0 million of 11% capital securities due 2027 (see note 6 to the interim consolidated financial statements). The Company has the right to defer interest payments on the capital securities for a period not to exceed 10 consecutive semi-annual periods. During a period of interest deferral, interest accrues at a rate of 12% per annum, compounded semi-annually, on the full principal amount and deferred interest. The Company, at its option, may satisfy its deferred interest obligation by delivering common shares to the indenture trustee for the capital securities. The trustee would sell the Company's shares and remit the proceeds to the holders of the securities in payment of the deferred interest obligation. Deferred interest obligations not settled with proceeds from the sale of shares remain an unsecured liability of the Company. Since April 1998, the Company has exercised its right to defer its semi-annual interest payments to holders of the capital securities. The

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

deferred interest accrued at March 31, 2001, totaling \$50.6 million, has been classified within the equity component of the capital securities obligation on the balance sheet as the Company has the option to satisfy the deferred interest by delivering common shares. Although the Company has the contractual right to issue shares in settlement of this obligation, market conditions in 2003 will determine the Company's ability to settle through the delivery and sale of common shares.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash flow provided from operating activities was \$10.5 million for the first quarter of 2001 compared to net cash used in operating activities of \$4.1 million for the first quarter of 2000. The 2001 results compared to 2000 reflect increased gold and silver cash revenue (\$14.2 million), Lupin start-up costs in 2000 (\$4.8 million) and increases in inventories in 2000 (\$12.1 million). These factors were partially offset by increased operating costs in 2001 (\$14.2 million) related to Lupin operations and increased fuel and related costs.

11

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

March 31, 2001  
(U.S. dollars)

Net cash used in investing activities was \$6.4 million in the first quarter of 2001, primarily related to mining properties, plant and equipment.

Net cash used in financing activities included \$3.8 million for loan repayments in the first quarter of 2001.

At March 31, 2001, the Company had \$14.6 million in cash and cash equivalents and \$2.1 million in short-term investments.

At March 31, 2001, the Company's current debt was \$22.8 million and its long-term debt was \$6.0 million.

The Company's existing term and revolving credit facilities expire in August 2001. The Company currently has \$19.0 million outstanding under its revolving credit facility. Based on the current trailing 90-day average spot price of gold, the Company is restricted to a minimal amount of additional borrowing capacity. However, assuming current spot prices of gold and silver and the anticipated production from the mines for the rest of 2001, the Company does not expect to draw on this facility before its maturity in August. The Company believes it is currently in compliance with the credit facility covenants. The Company is in discussions with lenders to arrange a new borrowing facility but has not yet entered into a final agreement. The Company's ability to borrow is constrained by conditions in the gold mining industry and its recent and currently expected future operating results. Should the Company be unable to arrange a new borrowing facility to replace its maturing facility, it is unlikely that the Company would be able to settle its existing loan with cash from operations or other sources. As a result of these conditions, there is substantial doubt about the Company's ability to continue its operations in the normal course of business.

At March 31, 2001, the fair value of the Company's hedge portfolio was \$5.7 million, which is within the predetermined margin limits. Margin deposits could be required by certain counterparties if the fair value of the hedge portfolio were less than the predetermined margin threshold.

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

For the full year 2001, the Company expects to incur \$22 million in capital expenditures, of which \$10 million has been incurred in the first quarter of 2001. The Company will rely on its operating cash flow to fund the remainder of its planned 2001 capital expenditures. The Company continues to monitor its discretionary spending in view of the depressed gold price and the cost structure at the Company's operating mines.

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 currently the matter is in abeyance pending a review of the Company's December 31, 2000 financial statements.

See note 11 to the interim consolidated financial statements, "Other Commitments and Contingencies".

12

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

For the three Months Ended March 31, 2001  
(U.S. dollars)

#### FINANCIAL REVIEW

The Company reported first quarter net earnings of \$3.8 million compared with a net loss of \$2.7 million in the first quarter of 2000. On a per share basis, the Company had breakeven net earnings for the quarter compared to a net loss of \$0.04 in 2000. The 2001 results compared to 2000 reflect increased sales volume (\$15.4 million), Lupin start-up costs in 2000 (\$4.8 million) and lower interest expense (\$1.7 million). These factors were partially offset by increased operating costs (\$14.4 million) and lower gold and silver prices realized (\$2.7 million).

Gold production increased 24% to 173,470 ounces in the first quarter of 2001 compared to 140,170 ounces in the first quarter of 2000. Increased production reflects the contribution of the Lupin mine of 37,954 ounces, higher mill throughput and leach pad production at Round Mountain, partially offset by the processing of low-grade stockpiles at McCoy/Cove and lower mill throughput at Kettle River. Silver production from McCoy/Cove was 1.6 million ounces, 58% less than the 3.8 million ounces produced in 2000, reflecting the processing of low-grade stockpiles. Open pit mining was completed at McCoy/Cove in 2000.

Cash operating costs were \$212 per ounce of gold in the first quarter of 2001, versus \$171 in the first quarter of 2000. The increase was primarily a result of lower production at McCoy/Cove and higher fuel and related costs at Round Mountain. Total production costs were \$278 per ounce in the first quarter of 2001, versus \$252 per ounce in the first quarter of 2000.

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.

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

Revenue Data

Gold

-----

Ounces sold	172
Average price realized/ounce - revenue basis	\$
Average price realized/ounce - cash basis (1)	\$
Average market price/ounce	\$
Revenue (millions of U.S. \$)	\$
Percentage of total revenue	

Silver

-----

Ounces sold	2,093
Average price realized/ounce - revenue basis	\$
Average price realized/ounce - cash basis (1)	\$
Average market price/ounce	\$
Revenue (millions of U.S. \$)	\$
Percentage of total revenue	

-----

Total revenue (millions of U.S. dollars)	\$
------------------------------------------	----

-----

(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.

13

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

For the three Months Ended March 31, 2001  
(U.S. dollars)

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

Revenue Variance Analysis 2001 vs. 2000 (millions of U.S. dollars)	Three months ended March 31
Lower gold prices	\$(1.7)
Lower silver prices	(1.0)
Change in volume	15.4
Increase in revenue	\$12.7

Production Costs

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

Production Costs per  
Ounce of Gold Produced



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

-----  
 Direct mining expense  
     Deferred stripping and mine development costs  
     Inventory movements and other  
 -----

Cash operating costs  
     Royalties  
     Production taxes  
 -----

Total cash costs  
     Depreciation  
     Amortization  
     Reclamation and mine closure  
 -----

Total production costs  
 -----

Expenses

Operating costs per ounce vary with the quantity of gold and silver sold and with the cost of operations. Cash operating costs were \$212 per ounce of gold in the first quarter of 2001 and \$171 in the first quarter of 2000. See "Operations Review."

Reconciliation of Cash Operating  
 Costs per Ounce to Financial Statements  
 thousands of U.S. dollars,  
 except per ounce amounts  
 -----

Operating costs per financial statements	\$ 4
Change in finished goods inventory and other	(
Co-product cost of silver produced	)
-----	
Cash operating costs	\$ 3
-----	
Gold ounces produced	17
-----	
Cash operating costs per ounce	\$
-----	

Reserve estimates

The prices used in estimating the Company's ore reserves at December 31, 2000 were \$300 per ounce of gold and \$5.00 per ounce of silver. The market price for gold has for more than three years traded, on average, below the level used in estimating reserves at December 31, 2000. If the market price for gold were to continue at such

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

levels and the Company determined that its reserves should be estimated at a significantly lower gold price than that used at December 31, 2000, there would be a reduction in the amount of gold reserves. The Company estimates that if reserves at December 31, 2000 were based on \$275 per ounce of gold, reserves would decrease by approximately 10% at Round Mountain, 3% 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 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

##### Gold production (ounces)

	(a) Round Mountain (50%)	10
	(b) McCoy/Cove	2
	(c) Lupin	3
	(d) Kettle River	1

---

	Total gold	17
--	------------	----

---

##### Silver production (ounces)

	(b) McCoy/Cove	1,55
--	----------------	------

---

	Total silver	1,55
--	--------------	------

---

Gold production increased 24% to 173,470 ounces in the first quarter of 2001 compared to 140,170 ounces in the first quarter of 2000. Increased production reflects the contribution of the Lupin mine of 37,954 ounces, higher mill throughput and leach pad production at Round Mountain, partially offset by decreased mill grades and recoveries at McCoy/Cove and lower mill throughput at Kettle River. Silver production from McCoy/Cove was 1.6 million ounces, 58% less than the 3.8 million ounces produced in 2000, reflecting decreased grades and recoveries. For the full year 2001, the Company's production targets are 570,000 gold ounces and 5 million silver ounces.

#### Operating Data by Mine

##### Cash operating costs (per ounce of gold)

- 
- (a) Round Mountain
  - (b) McCoy/Cove
  - (c) Lupin

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

(d) Kettle River

-----  
 Company average  
 -----

Cash operating costs were \$212 per ounce of gold in the first quarter of 2001, versus \$171 in the first quarter of 2000. The increase was primarily a result of lower production at McCoy/Cove and higher fuel and related costs at Round Mountain. The Company has targeted consolidated cash operating costs of \$225 per ounce of gold produced for the full year 2001.

15

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

For the three Months Ended March 31, 2001  
 (U.S. dollars)

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

OPERATING DATA  
 -----

Gold produced (ounces):

Heap leached - reusable pad (50%)  
 Heap leached - dedicated pad (50%)  
 Milled (50%)  
 Other (50%)

2  
 4  
 3

Total (50%)

10

Mining cost/ton of ore and waste

\$

Heap leaching cost/ton of ore

\$

Milling cost/ton of ore

\$

Production cost per ounce of gold produced:

Direct mining expense  
 Deferred stripping costs  
 Inventory movements and other

\$

Cash operating costs

Royalties

Production taxes

Total cash cost

Depreciation

Amortization

Reclamation and mine closure

Total production costs

\$

Heap leached - reusable pad:

Ore processed (tons/day) (100%)  
 Total ore processed (000 tons) (100%)  
 Grade (ounce/ton)  
 Recovery rate (%)

2

Heap leached - dedicated pad:

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

Ore processed (tons/day) (100%)  
Total ore processed (000 tons) (100%)  
Grade (ounce/ton)  
Recovery rate (1)

Milled:

Ore processed (tons/day) (100%)  
Total ore processed (000 tons) (100%)  
Grade (ounce/ton)  
Recovery rate (%)

(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 percent ownership interest in, and is the operator of, the Round Mountain mine in Nevada. The mine had a record production quarter, which is attributable to the benefits of placing more ore on the dedicated pads during the fourth quarter of 2000, better grades on the reusable pads and higher tonnage processed through the mill. The Company's share of mine production was 100,368 ounces for the quarter compared with

16

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

For the three Months Ended March 31, 2001  
(U.S. dollars)

71,954 ounces in 2000. Cash operating costs for the quarter were \$185 per ounce, the same as the previous year. The higher production help offset the increase in fuel and related costs experienced this year.

During the quarter, a new fleet of eight 240-ton haul trucks was commissioned replacing several older 85-ton and 150-ton haul trucks. These trucks will help maintain a low cost profile, as the pit becomes deeper and haul distances become longer.

During the quarter, a \$1.2 million exploration program began which includes further drilling, target identification and other activity in the large area of mutual interest surrounding Round Mountain

17

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

For the three Months Ended March 31, 2001  
(U.S. dollars)

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

OPERATING DATA

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

Gold produced (ounces):	
Milled	
Heap leached	
Total gold	-----
Silver produced (ounces):	
Milled	1,4
Heap leached	
Total silver	----- 1,5
Mining cost/ton of ore and waste	\$
Milling cost/ton of ore	\$
Heap leaching cost/ton of ore	\$
Production cost per ounce of gold produced:	
Direct mining expense	\$
Deferred stripping costs	
Inventory movements and other	
Cash operating costs	-----
Royalties	
Production taxes	
Total cash cost	-----
Depreciation	
Amortization	
Reclamation and mine closure	
Total production costs	----- \$
Average gold-to-silver price ratio (1)	
Milled:	
Ore processed (tons/day)	
Total ore processed (000 tons)	
Gold grade (ounce/ton)	
Silver grade (ounce/ton)	
Gold recovery rate (%)	
Silver recovery rate (%)	
Heap leached:	
Ore processed (tons/day)	
Total ore processed (000 tons)	
Gold grade (ounce/ton)	
Silver grade (ounce/ton)	
Recovery rates (2)	

(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.

(2) Recovery rates on dedicated pads can only be estimated, as actual recoveries will not be known until leaching is complete. At the McCoy/Cove mine, the gold recovery rate is estimated at 68% for crushed ore and 48% for uncrushed, run-of-mine ore, while the silver recovery rate is estimated at 35% for crushed ore and 10% for uncrushed, run-of-mine ore.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION

For the three Months Ended March 31, 2001  
(U.S. dollars)

At McCoy/Cove in Nevada, gold production was 22,303 ounces for the quarter compared with 43,146 ounces in 2000 and silver production amounted to 1.6 million ounces compared with 3.8 million ounces in the prior year. Open pit mining was completed in 2000 and now production comes primarily from a large stockpile of low-grade ore. Cash operating costs per ounce were \$257 compared with \$149 in 2000, reflecting a 48% decrease in gold production and a 58% decrease in silver production.

Underground mining at Cove South Deep should be completed in the second quarter of 2001 with total production meeting the target of 40,000 equivalent gold ounces.

Reclamation on a further 50 acres was completed during the quarter, bringing the total number of acres on which reclamation is underway to more than 1,600. Re-contouring waste dumps and seeding, the two key components of surface reclamation, are expected to continue for another two years.

19

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

For the three Months Ended March 31, 2001  
(U.S. dollars)

(c) Lupin, Nunavut, Canada (100% owned)

OPERATING DATA	2001
<hr style="border-top: 1px dashed black;"/>	
Gold produced (ounces)	37,954
Mining cost/ton of ore	C\$ 44.82
Milling cost/ton of ore	C\$ 14.40
Production cost per ounce of gold produced:	
Canadian dollars:	
Direct mining expense	C\$ 379
Deferred mine development costs	C\$ (12)
Inventory movements and other	C\$ --
	-----
Cash operating costs	C\$ 367
U.S. dollars	
Cash operating costs	US\$ 217
Royalties	--
Production taxes	--
	-----
Total cash costs	217
Depreciation	28
Amortization	7
Reclamation and mine closure	14
	-----

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

Total production costs	US\$	266
		-----
Milled:		
Ore processed (tons/day)		1,849
Total ore processed (000 tons)		168
Grade (ounce/ton)		0.241
Recovery rate (%)		93.4

Gold production for the quarter was 37,954 ounces with cash operating costs of \$217 per ounce. The cash operating costs include a \$0.9 million benefit (\$24 per ounce) from hedging Canadian dollars for Lupin expenditures. A \$6.0 million gain was realized when certain contracts were closed during the first quarter of 1997. The gain was deferred and will be recognized through the third quarter of 2001.

An underground hoisting system (called a winze) was completed in April 2001 and will provide a more cost effective method of transporting ore to the bottom of the existing shaft from lower levels of the mine. The winze will also allow for development and mining of the orebody which is defined to 200 meters below the bottom of the hoist position.

Ongoing ramping continues to provide encouraging results, and development of areas below the winze continues to prove up continuity of the ore body in strike length, width and grades. In addition, ongoing exploration continues in the upper portion of the mine.

20

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

For the three Months Ended March 31, 2001  
(U.S. dollars)

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

OPERATING DATA

Gold produced (ounces)	1
Mining cost/ton of ore	\$
Milling cost/ton of ore	\$
Production cost per ounce of gold produced:	
Direct mining expense	\$
Deferred mine development costs	
Inventory movements and other	---
Cash operating costs	
Royalties	
Production taxes	---
Total cash cost	
Depreciation	
Amortization	

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

Reclamation and mine closure

Total production costs

Milled:

Ore processed (tons/day)  
Total ore processed (000 tons)  
Grade (ounce/ton)  
Recovery rate (%)

---

Production for the quarter was 12,845 ounces, down from 25,070 ounces in 2000 reflecting the fact that the mill operated for only two of the three months in the quarter. The mill was shut down for January and power that would have otherwise been consumed by the mill was sold back to the local power authority. The Company received approximately \$400,000 for the power sale. During the shutdown, the mine performed preventative maintenance that would have ordinarily been performed later in the year. Kettle River is anticipated to meet its 2001 production target.

With the lower production and the benefit of the power sale, cash operating costs per ounce were \$242 per ounce compared with \$227 per ounce in 2000. The higher cost per ounce reflects the lower production as actual spending was 55% less than 2000.

Underground development and additional exploration of the previously reported north east extension to the K-2 mine is currently being conducted.

21

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

For the three Months Ended March 31, 2001  
(U.S. dollars)

### RECENT DEVELOPMENTS

Exploration and development programs

With the ongoing low gold price environment, the Company continues 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 2001, the Company spent \$0.7 million on exploration activities. Exploration costs are expensed as incurred.

In 1997, the Company deferred final construction decisions on its planned gold mine, the 100% owned Aquarius in Ontario, Canada. Development holding costs are expensed as incurred. During the first quarter of 2001, the Company expensed \$0.2 million in holding costs related to Aquarius.

### Summa

In September 1992, Summa Corporation commenced a lawsuit against Echo Bay Exploration Inc. and Echo Bay Management Corporation, indirect subsidiaries of the Company, alleging improper deductions in the calculation of royalties payable over several years of production at the McCoy/Cove and Manhattan mines. The matter was tried in the Nevada State Court in April 1997, with Summa claiming more than \$13 million in damages, and, in September 1997, judgement was rendered for the Echo Bay companies, with the Nevada State Court finding that the Echo Bay companies had calculated the royalties correctly, in compliance



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

with an agreement which the court found unambiguous.

The decision was appealed by Summa to the Supreme Court of Nevada and on April 26, 2000, the court 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 Echo Bay defendants petitioned that panel for a rehearing. The petition was denied by the three member panel on May 15, 2000. The Echo Bay defendants then filed for a petition for review of the panel decision by the full Court. On April 3, 2001, the full court issued an order reversing the decision of the panel. The full court noted, however, that the trial court had failed to consider the testimony of one of Summa's trial witnesses and remanded the case to the trial court for a redetermination of the meaning of the contract. The other defences and arguments put forth by the Echo Bay defendants, which the trial court originally elected not to consider, may now also be considered. The Echo Bay defendants disagree that the trial court failed to consider the testimony in question. The evidence was in fact considered and addressed in an alternate finding of that court. Accordingly, the Supreme Court is now being asked to review this one matter and reinstate the decision of the trial court. It is not known when the Supreme Court will rule on this request.

The Company has \$1.5 million accrued related to the Summa matter. If Summa were ultimately to prevail, the royalty calculation at McCoy/Cove would change and additional royalties would be payable.

### 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 formally 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. The subsidiaries disagree with the regulators' position and believe that they 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.

22

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

For the three Months Ended March 31, 2001  
(U.S. dollars)

### 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, expectations regarding receipt of permits and commencement of mining or production, anticipated grades and recovery rates, the ability to secure financing, and potential acquisitions or increases, divestitures or decreases in property interests. Factors that could cause actual results to differ materially

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

include, among others: changes in gold and silver prices; fluctuations in grades and recovery rates; geological, metallurgical, processing, access, transportation or other problems; results of exploration activities, pending and future 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 but not limited to 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. 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.

23

ECHO BAY MINES LTD.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

##### Summa

See note 11 to the interim consolidated financial statements.

##### Colorado School of Mines

On January 24, 2000, a subsidiary of the Company was served with a complaint in the case of Colorado School of Mines vs. AK Steel, et al., Civil Action 99-N-1863 (USDC Colorado). This lawsuit seeks contribution from numerous parties for environmental cleanup costs at a federal Comprehensive Environmental Response, Compensation and Liability Act site. In October 2000, the Company's subsidiary and plaintiff agreed to a settlement. This settlement has been filed with the Court for approval and in January 2001 the Colorado School of Mines requested the Court to expedite approval of the settlement agreement. The Company has \$130,000 accrued in relation to this litigation.

##### Other

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

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- |                         |                                                                                                                |
|-------------------------|----------------------------------------------------------------------------------------------------------------|
| (a) Reports on Form 8-K | Filed on March 19, 2001, related to the deferral of the April 2001 interest payment on the capital securities. |
|-------------------------|----------------------------------------------------------------------------------------------------------------|

24

ECHO BAY MINES LTD.

### 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.

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

-----  
(Registrant)

-----  
Date

/s/ David A. Ottewell

-----  
DAVID A. OTTEWELL  
Controller and Principal  
Accounting Officer

25