

ECHO BAY MINES LTD  
Form 10-Q  
November 08, 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 September 30, 2002

☐ **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**  
  
Common Shares  
without nominal or par value

**Shares Outstanding as of  
November 6, 2002**  
541,271,675

**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
- ITEM 4. CONTROLS AND PROCEDURES

**PART II OTHER INFORMATION**

- ITEM 1. LEGAL PROCEEDINGS
- ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

**SIGNATURE**

**CERTIFICATIONS**

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

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: The statements herein that are not historical facts are forward-looking statements. They involve risks and uncertainties that could cause actual results to differ materially from targeted results. These risks and uncertainties include, but are not limited to, the possibility that the combination of Kinross Gold Corporation, TVX Gold Inc. and Echo Bay Mines Ltd. (the "Company") may not be completed; future changes in gold prices (including derivatives) and/or production costs which could render projects uneconomic; ability to access financing; availability of hedging opportunities; differences in ore grades, recovery rates and tons mined from those expected; changes in mining and milling/heap leaching rates from currently planned rates; the results of future exploration activities and new exploration opportunities; changes in project parameters as plans continue to be refined; increasingly stringent reclamation requirements imposed by regulatory authorities; and other factors detailed in the Company's filings with the U.S. Securities and Exchange Commission.

On September 17, 2002, the Company filed with the Commission a preliminary proxy statement regarding the proposed business combination transaction referred to in the following information. In addition, the Company will prepare and file with the Commission a definitive proxy statement and other documents regarding the proposed transaction. Investors and security holders are urged to read the definitive proxy statement, when it becomes available, because it will contain important information. The definitive proxy statement will be sent to shareholders of the Company to seek their approval of the proposed transaction. Investors and security holders may obtain a free copy of the definitive proxy statement, when it is available, and other documents filed with the Commission by the Company at the Commission's website at [www.sec.gov](http://www.sec.gov). The definitive proxy statement, when it is available, and these other documents may also be obtained for free from the Company by directing a request to Lois-Ann L. Brodrick, Vice President and Secretary, 780-496-9002, [investor\\_relations@echobaymines.ca](mailto:investor_relations@echobaymines.ca).

**Certain Information Concerning Participants**

The names, affiliations and interests of participants in the solicitation of proxies of the Company's shareholders to approve the combination is included in the preliminary proxy statement.

**PART I FINANCIAL INFORMATION**

## ITEM 1. CONDENSED FINANCIAL STATEMENTS (Unaudited)

## ECHO BAY MINES LTD.

## CONSOLIDATED BALANCE SHEETS

	September 30 2002	December 31 2001
	thousands of U.S. dollars	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 20,867	\$ 12,351
Short-term investments	2,170	1,910
Interest and accounts receivable	5,095	3,645
Inventories (note 2)	25,866	29,506
Prepaid expenses and other assets	2,915	3,725
	56,913	51,137
Plant and equipment (note 3)	108,780	120,969
Mining properties (note 3)	29,460	32,903
Other long-term assets (note 4)	53,846	55,795
	\$ 248,999	\$ 260,804
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 22,271	\$ 24,284
Income and mining taxes payable	2,952	3,570
Debt and other financings (note 5)		17,000
Deferred income (note 6)	697	876
Reclamation and mine closure liabilities	4,559	3,841
	30,479	49,571
Debt and other financings (note 5)		6,714
Deferred income (note 6)	19,102	47,042
Reclamation and mine closure liabilities	47,379	49,726
Deferred income taxes	941	925
Commitments and contingencies (notes 12 and 13)		
Shareholders' equity:		
Capital stock (note 7)	1,042,571	713,343
Capital securities (note 8)		157,453
Deficit	(863,819)	(734,665)
Foreign currency translation	(27,654)	(29,305)
	151,098	106,826
	\$ 248,999	\$ 260,804

See accompanying notes to interim consolidated financial statements.

## ECHO BAY MINES LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
thousands of U.S. dollars, except for per share data				
Revenue	\$ 51,996	\$ 58,545	\$ 161,750	\$ 186,658
Expenses:				
Operating costs	30,104	42,173	99,520	133,317
Royalties	2,016	2,284	5,722	5,970
Production taxes	460	178	544	449
Depreciation and amortization	8,577	10,182	28,300	32,451
Reclamation and mine closure	1,359	1,578	3,839	4,843
General and administrative	2,840	1,476	5,731	4,316
Exploration and development	2,609	1,199	4,778	3,211
Loss on retirement of capital securities (note 7)			5,461	
Interest and other (note 9)	289	454	126	1,286
	48,254	59,524	154,021	185,843
Earnings (loss) before income taxes	3,742	(979)	7,729	815
Income tax expense (recovery):				
Current		48		131
Deferred		(840)		(2,519)
		(792)		(2,388)
Net earnings (loss)	\$ 3,742	\$ (187)	\$ 7,729	\$ 3,203
Net earnings (loss) attributable to common shareholders (note 8)	\$ 3,742	\$ (4,252)	\$ (129,154)	\$ (9,518)
Earnings (loss) per share basic and diluted	\$ 0.01	\$ (0.03)	\$ (0.33)	\$ (0.07)
Weighted average number of shares outstanding (thousands)				
basic	541,269	140,607	392,620	140,607
diluted	547,105	140,607	392,620	140,607

## CONSOLIDATED STATEMENTS OF DEFICIT

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001

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

	Three months ended September 30		Nine months ended September 30					
	thousands of U.S. dollars							
Balance, beginning of period	\$	(867,561)	\$	(716,946)	\$	(734,665)	\$	(711,680)
Net earnings (loss)		3,742		(187)		7,729		3,203
Loss on retirement of capital securities, net of nil tax effect (note 7)						(132,302)		
Interest on capital securities, net of nil tax effect (note 8)				(4,065)		(4,581)		(12,721)
Balance, end of period	\$	(863,819)	\$	(721,198)	\$	(863,819)	\$	(721,198)

See accompanying notes to interim consolidated financial statements.

ECHO BAY MINES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
	thousands of U.S. dollars			
<b>CASH PROVIDED FROM (USED IN):</b>				
<b>OPERATING ACTIVITIES</b>				
Net cash flows provided from operating activities	\$ 9,629	\$ 10,936	\$ 14,878	\$ 27,233
<b>INVESTING ACTIVITIES</b>				
Mining properties, plant and equipment	(1,926)	(5,326)	(10,790)	(18,683)
Other long-term assets	(3,798)	(2,177)	(3,719)	(2,164)
Proceeds on the sale of plant and equipment	168	5	1,860	373
Other	227	(506)	771	(639)
	(5,329)	(8,004)	(11,878)	(21,113)
<b>FINANCING ACTIVITIES</b>				
Debt repayments		(2,000)	(17,000)	(9,500)
Units offering, net of issuance costs (note 7)			25,513	
Warrants exercised	3		3	
Costs of capital securities retirement (note 7)	(48)		(3,000)	
	(45)	(2,000)	5,516	(9,500)
Net increase (decrease) in cash and cash equivalents	4,255	932	8,516	(3,380)
Cash and cash equivalents, beginning of period	16,612	9,957	12,351	14,269
Cash and cash equivalents, end of period	\$ 20,867	\$ 10,889	\$ 20,867	\$ 10,889

See accompanying notes to interim consolidated financial statements.

**ECHO BAY MINES LTD.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2002**

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

**1. GENERAL**

In the opinion of management, the accompanying unaudited consolidated balance sheets, consolidated statements of operations, consolidated statements of deficit and consolidated statements 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 September 30, 2002 and December 31, 2001 and the consolidated results of operations and cash flow for the three and nine months ended September 30, 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 June 10, 2002, the Company, Kinross Gold Corporation ("Kinross") and TVX Gold Inc. ("TVX") announced that they had entered into an agreement providing for the proposed combination of the companies. In a concurrent transaction, TVX agreed to acquire from Newmont Mining Corporation ("Newmont") the interest in the TVX Newmont Americas joint venture that it does not already own. The combination of the companies is conditional upon the completion of this purchase.

Shareholders of Echo Bay (other than Kinross) would receive 0.52 of a Kinross common share for each Echo Bay common share. At a Kinross special meeting, the shareholders of Kinross are expected to consider a one-for-three share consolidation which, if approved, would result in an exchange ratio change from 0.52 to 0.1733 of a Kinross common share for each Echo Bay common share. The Kinross share consolidation would not affect the percentage ownership interest of the Echo Bay shareholders in Kinross.

As a result of the U.S. Securities and Exchange Commission's ongoing review of the preliminary proxy statement filed with the Commission on September 17, 2002, the Company will not be able to finalize and mail the proxy statement in time for the Company to hold its special meeting for the purpose of considering the combination in advance of November 30, 2002, the termination date specified in the combination agreement. The parties are discussing amending the combination agreement to extend the termination date, with a view to holding special meetings late in the fourth quarter 2002 or early in 2003.

On June 9, 2002, Echo Bay Exploration Inc. and Echo Bay Minerals Company, two subsidiaries of the Company, entered into an asset purchase agreement with Newmont USA Limited ("Newmont USA"), a subsidiary of Newmont, providing for the conveyance of the McCoy/Cove complex. The agreement replaces a letter agreement dated February 13, 2002 related to the conveyance of the McCoy/Cove complex which called for a payment to the seller of \$6 million and the assumption by Newmont of all reclamation and closure obligations. Under the February 13, 2002 letter agreement, Newmont had no obligation to complete the transaction. Newmont indicated it was willing to proceed with the conveyance of the McCoy/Cove complex only if the Kinross Combination was completed and the cash payment was eliminated. Accordingly, a new agreement was reached expressly containing these two conditions. The closing of the transaction is subject to, among other conditions, the completion of the Kinross Combination. In consideration of the conveyance of such assets, Newmont USA has agreed to assume all liabilities and obligations relating to the reclamation or remediation required for the McCoy/Cove complex. A gain is expected on the conveyance of the McCoy/Cove complex. Pending completion of the transaction, the Company will continue to operate McCoy/Cove for its own account. Mining and processing activities at the McCoy/Cove complex were completed on March 31, 2002.

In May 2002, the Company sold a total of 39,100,000 units at a price of \$0.70 per unit for aggregate gross proceeds of approximately \$27.4 million. Each unit consisted of one common share and one share purchase warrant. The common shares and the warrants comprising the units separated upon closing and trade separately on the Toronto Stock Exchange and on the American Stock Exchange. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.90 at any time prior to November 14, 2003.

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 (notes 7 and 8).

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

**2. INVENTORIES**

	September 30 2002	December 31 2001
Precious metals bullion	\$ 7,299	\$ 12,215
In-process	4,907	5,720
Materials and supplies	13,660	11,571
	<u>\$ 25,866</u>	<u>\$ 29,506</u>

**3. PROPERTY, PLANT AND EQUIPMENT**

Plant and equipment	September 30 2002	December 31 2001
Cost	\$ 652,534	\$ 655,179
Less accumulated depreciation	543,754	534,210
	<u>\$ 108,780</u>	<u>\$ 120,969</u>

Mining properties	September 30 2002	December 31 2001
Producing mines' acquisition and development costs	\$ 283,211	\$ 280,545
Less accumulated amortization	266,618	260,365
	<u>16,593</u>	<u>20,180</u>
Development properties' acquisition and development costs	12,867	12,723
	<u>\$ 29,460</u>	<u>\$ 32,903</u>

**4. OTHER LONG-TERM ASSETS**

	September 30 2002	December 31 2001
Deferred losses on modification of hedging contracts	\$ 25,600	\$ 29,305
Deferred mining costs	13,683	15,648
Reclamation and other deposits	14,334	10,485
Premiums paid on gold and silver option contracts	454	1,871
Other	229	357
	<u>54,300</u>	<u>57,666</u>
Less current portion included in prepaid expenses and other assets	454	1,871
	<u>\$ 53,846</u>	<u>\$ 55,795</u>

**5. DEBT AND OTHER FINANCINGS**

	September 30 2002	December 31 2001
Currency loans	\$	\$ 17,000

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

	September 30 2002	December 31 2001
Capital securities (note 8)		6,714
		23,714
Less current portion		17,000
	\$	\$ 6,714

**6. DEFERRED INCOME**

	September 30 2002	December 31 2001
Deferred gains on modification of hedging contracts	\$ 19,102	\$ 47,042
Premiums received on gold and silver option contracts	697	876
	19,799	47,918
Less current portion	697	876
	\$ 19,102	\$ 47,042

**7. CAPITAL STOCK**

	Units	Amount
<i>Common shares</i>		
Balance, December 31, 2001	140,607,145	\$ 713,343
Issued in exchange for capital securities and accrued interest	361,561,230	303,711
Units offering, net of issuance costs	39,100,000	23,236
Issued upon exercise of warrants	3,300	3
Balance, September 30, 2002	541,271,675	\$ 1,040,293
<i>Warrants</i>		
Balance, December 31, 2001		\$
Units offering, net of issuance costs	39,100,000	2,278
Warrants exercised	(3,300)	
Balance, September 30, 2002	39,096,700	\$ 2,278

*Capital securities retirement*

On April 3, 2002 the Company issued 361,561,230 common shares, representing approximately 72% of the outstanding common shares after giving effect to such issuance, in exchange for all of its \$100 million aggregate principal amount of 11% junior subordinated debentures due 2027, plus accrued and unpaid interest thereon (the "capital securities").

Following this issuance of common shares, and as at April 3, 2002, the principal holders of the Company's common shares and their respective ownership positions in the Company were Newmont Mining Corporation of Canada Limited ("Newmont Canada") (48.8%) and Kinross (11.4%). In connection with the completion of the capital securities exchange, three directors of the Company resigned from the board of directors. Two of the vacancies created by these resignations were filled by executive officers of Newmont Canada.

As a result of eliminating the capital securities, the Company recorded an increase to common shares of \$303.7 million, based on their



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

quoted market value at the date of issue. The quoted market value of the common shares issued exceeded the book value of the capital securities by \$134.8 million. This difference, along with transaction costs of \$3.0 million, were 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.

### *Units offering*

In May 2002, the Company sold a total of 39,100,000 units at a price of \$0.70 per unit for aggregate gross proceeds of approximately \$27.4 million. Each unit consisted of one common share and one share purchase warrant. The common shares and the warrants comprising the units separated upon closing and trade separately on the Toronto Stock Exchange and the American Stock Exchange. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.90 at any time prior to November 14, 2003.

## 8. CAPITAL SECURITIES

On April 3, 2002 the Company issued 361,561,230 common shares in exchange for all of its capital securities (note 7). Prior to the exchange, the present value of the capital securities' principal amount was classified as debt (note 5) and the present value of the future interest payments plus deferred accrued interest was classified within a separate component of shareholders' equity. Interest on the debt portion of the capital securities was classified as interest expense on the consolidated statement of earnings and interest on the equity portion of the capital securities was charged directly to deficit on the consolidated balance sheet. The loss on conversion of the capital securities was charged proportionately between earnings and deficit (note 7). For purposes of per share calculations, the equity portions of interest and the loss on conversion decreases the earnings attributable to common shareholders. See note 10 for a discussion of differences in treatment of the capital securities under generally accepted accounting principles in the United States.

## 9. INTEREST AND OTHER

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Interest income	\$ (104)	\$ (163)	\$ (322)	\$ (662)
Interest expense	119	551	661	1,962
Gain on sale of assets	(130)		(1,229)	(285)
Unrealized loss on share investments		2		104
Other	404	64	1,016	167
	<u>\$ 289</u>	<u>\$ 454</u>	<u>\$ 126</u>	<u>\$ 1,286</u>

## 10. 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.

### *Capital securities retirement*

In accordance with Canadian GAAP, the loss on the retirement of the capital securities (note 7) was 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.

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

Three months ended September 30	Nine months ended September 30
------------------------------------	-----------------------------------

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

	2002	2001	2002	2001
Net earnings (loss) under Canadian GAAP	\$ 3,742	\$ (187)	\$ 7,729	\$ 3,203
Additional interest expense on capital securities		(4,065)	(4,581)	(12,721)
Amortization of deferred financing on capital securities		(158)	(158)	(475)
Loss on retirement of capital securities			5,461	
Change in market value of foreign exchange contracts	(719)	(780)	(48)	(2,720)
Change in market value of option contracts	(172)	345	(1,875)	(446)
Modification of derivative contracts realized in net earnings	344		1,031	
Transition adjustment on adoption of FAS 133				(3,090)
Kettle River exploration expense		(122)		(1,425)
Kettle River amortization expense		488		1,657
Unrealized loss on share investments		2		104
Net earnings (loss) under U.S. GAAP before extraordinary loss	\$ 3,195	\$ (4,477)	\$ 7,559	\$ (15,913)
Loss on retirement of capital securities, net of nil tax effect			(137,763)	
Net earnings (loss) under U.S. GAAP	\$ 3,195	\$ (4,477)	\$ (130,204)	\$ (15,913)
Earnings (loss) per share under U.S. GAAP basic and diluted				
before extraordinary loss	\$ 0.01	\$ (0.03)	\$ 0.02	\$ (0.11)
extraordinary loss	\$	\$	\$ (0.35)	\$
after extraordinary loss	\$ 0.01	\$ (0.03)	\$ (0.33)	\$ (0.11)
Weighted average number of shares outstanding (thousands)				
basic	541,269	140,607	392,620	140,607
diluted	547,105	140,607	397,488	140,607

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

September 30, 2002	Canadian GAAP	Short-term Investments	Derivative Contracts	Other(1)	U.S. GAAP
Short-term investments	\$ 2,170	\$ 14,094	\$	\$	\$ 16,264
Other long-term assets	53,846		(25,507)		28,339
Accounts payable and accrued liabilities	22,271		2,387		24,658
Deferred income	19,799		(19,799)		
Common shares	1,042,571			36,428	1,078,999
Deficit	(863,819)	178	(4,314)	(36,428)	(904,383)
Foreign currency translation	(27,654)			27,654	
Accumulated other comprehensive loss		13,916	(3,781)	(27,654)	(17,519)
Shareholders' equity	151,098	14,094	(8,095)		157,097

(1)

The adjustment to common shares and deficit relates to the 1996 acquisition and 1997 write-off of the Company's investment in Santa Elina.

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

Three months ended  
September 30

Nine months ended  
September 30

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

	2002	2001	2002	2001
Net earnings (loss) under U.S. GAAP	\$ 3,195	\$ (4,477)	\$ (130,204)	\$ (15,913)
Other comprehensive income (loss), after a nil income tax effect:				
Unrealized gain on share investments arising during period	1,702	742	11,458	1,098
Foreign currency translation adjustments	(2,356)	(2,756)	1,651	(3,671)
Transition adjustment on implementation of FAS 133				39,234
Modification of derivative contracts realized in net earnings (loss)	(7,406)	(4,166)	(25,266)	(11,960)
Other comprehensive income (loss)	(8,060)	(6,180)	(12,157)	24,701
Comprehensive income (loss)	\$ (4,865)	\$ (10,657)	\$ (142,361)	\$ 8,788

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

	September 30 2002	December 31 2001
Unrealized gain on share investments	\$ 13,916	\$ 2,458
Modification of derivative contracts	(3,781)	21,485
Foreign currency translation	(27,654)	(29,305)
Accumulated other comprehensive loss	\$ (17,519)	\$ (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. The impact of adoption of Statement 143 on the Company's financial position or results of operations has not yet been determined.

**11. 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 third quarter of 2002, the Company had three operating mines: Round Mountain 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 operated a fourth mine, McCoy/Cove in Nevada, USA, until March 31, 2002 at which date mining and processing activities were completed.

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

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Total gold and silver revenues	\$ 51,996	\$ 58,545	\$ 161,750	\$ 186,658
Average gold price realized per ounce	\$ 361	\$ 298	\$ 360	\$ 302
Average silver price realized per ounce	\$ 4.43	\$ 4.36	\$ 4.77	

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

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.

Production (ounces)	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
<b>Gold</b>				
Round Mountain (50%)	100,063	102,883	289,133	301,021
Lupin	31,118	33,000	84,478	105,710
Kettle River	7,907	12,200	27,894	41,418
McCoy/Cove		23,450	16,501	73,138
<b>Total gold</b>	<b>139,088</b>	<b>171,533</b>	<b>418,006</b>	<b>521,287</b>
<b>Silver all from McCoy/Cove</b>		<b>1,731,444</b>	<b>1,470,094</b>	<b>5,028,029</b>

Operating costs	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Round Mountain (50%)	\$ 19,751	\$ 20,052	\$ 52,873	\$ 58,312
Lupin	8,016	6,943	26,287	22,797
Kettle River	2,337	3,515	6,907	11,571
McCoy/Cove		11,663	13,453	40,637
<b>Total operating costs per financial statements</b>	<b>\$ 30,104</b>	<b>\$ 42,173</b>	<b>\$ 99,520</b>	<b>\$ 133,317</b>

Royalties	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Round Mountain (50%)	\$ 1,949	\$ 2,147	\$ 5,543	\$ 5,354
Kettle River	67	90	138	448
McCoy/Cove		47	41	168
<b>Total royalties per financial statements</b>	<b>\$ 2,016</b>	<b>\$ 2,284</b>	<b>\$ 5,722</b>	<b>\$ 5,970</b>

Depreciation and amortization	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Round Mountain (50%)	\$ 6,267	\$ 5,261	\$ 16,996	\$ 15,919
Lupin	1,436	1,103	3,636	3,708
Kettle River	418	653	2,052	1,711
McCoy/Cove		2,778	4,385	9,842
Depreciation of non-minesite assets	456	387	1,231	1,271
<b>Total depreciation and amortization per financial statements</b>	<b>\$ 8,577</b>	<b>\$ 10,182</b>	<b>\$ 28,300</b>	<b>\$ 32,451</b>

**12. HEDGING ACTIVITIES AND COMMITMENTS***Gold commitments*

At September 30, 2002, the Company had commitments to deliver 15,000 ounces of gold in October 2002 at a price of \$293 per ounce. The gold ounces were delivered as scheduled. The Company's option position at September 30, 2002 included 75,000 ounces of gold call options in October 2002 at an average strike price of \$294 per ounce. The Company delivered 15,000 ounces into gold call options at \$302 per ounce and settled the remaining 60,000 gold call options at a cost of \$1.1 million in October 2002.

*Currency position*

At September 30, 2002, the Company had an obligation under foreign currency exchange contracts to purchase C\$12.3 million during the remainder of 2002 at an exchange rate of C\$1.60 to U.S.\$1.00. On October 7, 2002, the Company entered into foreign currency contracts to purchase C\$45.1 million through June 2003 at an exchange rate of C\$1.61 to U.S.\$1.00.

Shown below are the carrying amounts and estimated fair values of the Company's hedging instruments at September 30, 2002 and December 31, 2001.

	September 30, 2002		December 31, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Gold forward sales	\$	\$ (400)	\$	\$ 2,000
Gold options calls sold	(697)	(2,000)	(876)	(700)
Foreign currency contracts		100		100
		<u>\$ (2,300)</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.

**13. 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 \$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 defences 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 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 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 certain creditors received preferential payments in metal or otherwise. The Company intends to oppose these proceedings vigorously. The success or failure of the

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

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.

### **ECHO BAY MINES LTD.**

#### **MANAGEMENT'S DISCUSSION AND ANALYSIS RESULTS OF OPERATIONS**

**For the Three Months and Nine Months Ended September 30, 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 prices. Market prices of gold 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 \$306 per ounce during the first nine months of 2002.

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 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's hedge position as of September 30, 2002 is shown in note 12 to the interim consolidated financial statements. The Company fulfilled its gold forward sales obligations in October 2002 by delivering 15,000 ounces of gold at \$293 per ounce. The Company also delivered 15,000 ounces into gold call options at \$302 per ounce and settled the remaining 60,000 gold call options at a cost of \$1.1 million in October 2002.

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. The Company has obligations to purchase C\$12.3 million for the remainder of 2002 at an exchange rate of C\$1.60 to US\$1.00. In October 2002, the Company contracted to purchase C\$45.1 million in 2003 at an exchange rate of C\$1.61 to US\$1.00.

On June 10, 2002, the Company, Kinross and TVX announced that they had entered into an agreement providing for the proposed combination of the companies. In a concurrent transaction, TVX agreed to acquire from Newmont the interest in the TVX Newmont Americas joint venture that it does not already own. The combination of the companies is conditional upon the completion of this purchase.

Shareholders of Echo Bay (other than Kinross) would receive 0.52 of a Kinross common share for each Echo Bay common share. At a Kinross special meeting, the shareholders of Kinross are expected to consider a one-for-three share consolidation which, if approved, would result in an exchange ratio change from 0.52 to 0.1733 of a Kinross common share for each Echo Bay common share. The Kinross share consolidation would not affect the percentage ownership interest of the Echo Bay shareholders in Kinross.

As a result of the U.S. Securities and Exchange Commission's ongoing review of the preliminary proxy statement filed with the Commission on September 17, 2002, the Company will not be able to finalize and mail the proxy statement in time for the Company to hold its special meeting for the purpose of considering the combination in advance of November 30, 2002, the termination date specified in the

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

combination agreement. The parties are discussing amending the combination agreement to extend the termination date, with a view to holding special meetings late in the fourth quarter 2002 or early in 2003.

On June 9, 2002, Echo Bay Exploration Inc. and Echo Bay Minerals Company, two subsidiaries of the Company, entered into an asset purchase agreement with Newmont USA, a subsidiary of Newmont, providing for the conveyance of the McCoy/Cove complex. The agreement replaces a letter agreement dated February 13, 2002 related to the conveyance of the McCoy/Cove complex which called for a payment to the seller of \$6 million and the assumption by Newmont of all reclamation and closure obligations. Under the February 13, 2002 letter agreement, Newmont had no obligation to complete the transaction. Newmont indicated it was willing to proceed with the conveyance of the McCoy/Cove complex only if the Kinross Combination was completed and the cash payment was eliminated. Accordingly, a new agreement was reached expressly containing these two conditions. The closing of the transaction is subject to, among other conditions, the completion of the Kinross Combination. In consideration of the conveyance of such assets, Newmont USA has agreed to assume all liabilities and obligations relating to the reclamation or remediation required for the McCoy/Cove complex. A gain is expected on the conveyance of the McCoy/Cove complex. Pending completion of the transaction, the Company will continue to operate McCoy/Cove for its own account. Mining and processing activities at the McCoy/Cove complex were completed on March 31, 2002.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash flow provided by operating activities was \$14.9 million for the first nine months of 2002 compared to \$27.2 million for the first nine months of 2001. The 2002 results compared to 2001 reflect the decrease in production.

Net cash used in investing activities was \$11.9 million in the first nine months of 2002, primarily related to investments in mining properties, plant and equipment and a \$4.0 million reclamation deposit to support letters of credit and bonds issued by third parties.

Net cash provided from financing activities was \$5.5 million in the first nine months of 2002 compared to net cash used for scheduled debt repayments of \$9.5 million for the first nine months of 2001. In May 2002, the Company sold a total of 39,100,000 units at a price of \$0.70 per unit for net proceeds of \$25.5 million. Each unit consisted of one common share and one share purchase warrant. The Company repaid the remaining \$17.0 million on its revolving credit facility and incurred \$3.0 in transaction costs related to the issuance of common shares in exchange for its capital securities obligation. The Company is now debt free.

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 (See notes 7 and 8 to the interim consolidated financial statements).

At September 30, 2002, the Company had \$20.9 million in cash and cash equivalents and \$2.2 million in short-term investments recorded at the lower of cost or fair value. The fair value of the short-term investments at September 30, 2002 was \$16.3 million.

The Company fulfilled its gold forward sales obligations in October 2002 by delivering 15,000 ounces of gold at \$293 per ounce. The Company also delivered 15,000 ounces into gold call options at \$302 per ounce and settled the remaining 60,000 gold call options at a cost of \$1.1 million in October 2002. The Company's production is now completely unhedged.

The Company expects to incur approximately \$13.0 million for capital expenditures in 2002 funded by its operating cash flow, of which \$10.8 million in expenditures have been incurred in the first nine months of 2002. The Company will rely on its operating cash flow to fund the remainder of its planned 2002 capital expenditures. The expenditures primarily relate to mining equipment at Round Mountain and Lupin. 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.

See note 13 to the interim consolidated financial statements.

### FINANCIAL REVIEW

#### *Three month results*

The Company reported net income of \$3.7 million for the third quarter of 2002 compared with a net loss of \$0.2 million in the third quarter of 2001. On a per share basis, net earnings were \$0.01 for the quarter compared to a net loss of \$0.03 in 2001. The loss per share in 2001 included \$4.1 million representing the equity portion of the interest on the Company's capital securities. The 2002 results, compared to 2001, reflect 15% lower gold sales volume and no silver sales due to the completion of operations at McCoy/Cove. These factors were partially offset by lower operating costs, depreciation and amortization reflecting the reduction in ounces sold and a 21% higher average realized gold price. Deferred gold revenue recognized in the third quarter of 2002 was \$6.7 million compared to \$3.2 million in 2001.

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

Gold production decreased 19% to 139,088 ounces in the third quarter of 2002 compared to 171,533 ounces in the third quarter of 2001. The decrease in production resulted from lower tonnage at Lupin and Kettle River and the completion of production from McCoy/Cove, which has been in full reclamation mode since March 31, 2002. There was no silver production in the third quarter of 2002 compared to 1.7 million ounces from McCoy/Cove in the third quarter of 2001.

### *Nine month results*

The Company reported net earnings of \$7.7 million in the first nine months of 2002, compared with net earnings of \$3.2 million in the same period in 2001. On a per share basis, the loss was \$0.33 (which includes a loss of \$132.3 million on the retirement of capital securities in the second quarter as well as capital securities interest of \$4.6 million) for the first nine months of 2002 compared with a loss of \$0.07 in the same period of 2001 (which included \$12.7 million representing the equity portion of interest on the capital securities). The 2002 results compared to 2001 reflect 20% lower gold sales volume, 63% lower silver sales volume and a one time charge of \$5.5 million relating to the exchange of the Company's capital securities for common shares. These factors were partially offset by lower operating costs, depreciation and amortization reflecting the reduction in ounces sold and a 19% higher average realized gold price. Deferred revenue recognized in the first nine months of 2002 was \$23.0 million compared to \$10.6 million in the same period of 2001.

Gold production decreased 20% to 418,006 ounces in the first nine months of 2002 compared to 521,287 ounces in the first nine months of 2001. The lower production resulted from mining lower grades and fewer tons at Lupin and Kettle River and completion of production at McCoy/Cove in March 2002. Silver production from McCoy/Cove was 1.5 million ounces, 71% lower than the 5.0 million ounces produced in 2001.

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 September 30		Nine months ended September 30	
	2002	2001	2002	2001
<b>Gold</b>				
Ounces sold	144,200	169,804	423,230	527,714
Average price realized/ounce revenue basis	\$ 361	\$ 298	\$ 360	\$ 302
Average price realized/ounce cash basis(1)	\$ 314	\$ 279	\$ 306	\$ 280
Average market price/ounce	\$ 314	\$ 274	\$ 306	\$ 269
Revenue (millions of U.S. dollars)	\$ 52.0	\$ 50.6	\$ 152.5	\$ 159.4
Percentage of total revenue	100%	86%	94%	85%
<b>Silver</b>				
Ounces sold		1,790,375	2,118,181	5,708,519
Average price realized/ounce revenue basis	\$	\$ 4.43	\$ 4.36	\$ 4.77
Average price realized/ounce cash basis(1)	\$	\$ 4.24	\$ 4.36	\$ 4.91
Average market price/ounce	\$ 4.70	\$ 4.29	\$ 4.66	\$ 4.42
Revenue (millions of U.S. dollars)	\$	\$ 7.9	\$ 9.2	\$ 27.3
Percentage of total revenue		0%	6%	15%
<b>Total revenue (millions of U.S. dollars)</b>	<b>\$ 52.0</b>	<b>\$ 58.5</b>	<b>\$ 161.7</b>	<b>\$ 186.7</b>

- (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.



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

## Revenue Variance Analysis 2002 vs. 2001

	Three months ended September 30	Nine months ended September 30
	(millions of U.S. dollars)	
Higher gold prices	\$ 9.0	\$ 24.6
Lower silver prices		(0.9)
Change in volume	(15.5)	(48.7)
Decrease in revenue	\$ (6.5)	\$ (25.0)

## Production Costs

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. Cash operating costs and total production costs are furnished to provide additional information and are non-GAAP measures. These measures should not be considered in isolation as a substitute for measures of performance prepared in accordance with generally accepted accounting principles, and are not necessarily indicative of operating profit or cost from operations as determined under 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.

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

	Three months ended September 30		Nine months ended September 30	
Production Costs per Ounce of Gold Produced	2002	2001	2002	2001
Direct mining expense	\$ 210	\$ 197	\$ 217	\$ 204
Deferred stripping and mine development costs	10	19	5	13
Inventory movements and other	2	1	(2)	(1)
Cash operating costs	222	217	220	216
Royalties	14	11	13	10
Production taxes	3	1	1	1
Total cash costs	239	229	234	227
Depreciation	42	38	46	38
Amortization	15	14	14	14
Reclamation and mine closure	10	8	9	8
Total production costs	\$ 306	\$ 289	\$ 303	\$ 287

## Expenses

Operating costs per ounce vary with the quantity of gold and silver sold and with the cost of operations. Cash operating costs were \$222 per ounce of gold in the third quarter of 2002 and \$217 in the third quarter of 2001.

The above non-GAAP measures have been calculated on a consistent basis each period.

For reasons of comparability, cash operating costs and total production costs do not include certain items such as property write-downs which do not occur in all periods but are included under GAAP in the determination of net earnings or loss.

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

Cash operating costs and total production costs are calculated in accordance with the "Gold Institute Production Cost Standard." Cash operating costs and total production costs may not be comparable to similarly titled measures of other companies.

Cash operating costs and total production costs are used by management to assess profitability and cash flow of individual operations as well as to compare to other precious metals producers.

See "Operations Review."

Reconciliation of Cash Operating Costs per Ounce to Financial Statements	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
thousands of U.S. dollars, except per ounce amounts				
<i>Round Mountain</i>				
Operating costs per financial statements	\$ 19,751	\$ 20,052	\$ 52,873	\$ 58,312
Change in finished goods inventory	(630)	(414)	557	(1,095)
Cash operating costs	\$ 19,121	\$ 19,638	\$ 53,430	\$ 57,217
Gold ounces produced	100,063	102,883	289,133	301,021
Cash operating costs per ounce	\$ 191	\$ 191	\$ 185	\$ 190
<i>Lupin</i>				
Operating costs per financial statements	\$ 8,016	\$ 6,943	\$ 26,287	\$ 22,797
Change in finished goods inventory	1,535	997	857	1,340
Cash operating costs	\$ 9,551	\$ 7,940	\$ 27,144	\$ 24,137
Gold ounces produced	31,118	33,000	84,478	105,710
Cash operating costs per ounce	\$ 307	\$ 241	\$ 321	\$ 228
<i>Kettle River</i>				
Operating costs per financial statements	\$ 2,337	\$ 3,515	\$ 6,907	\$ 11,571
Change in finished goods inventory	(118)	(117)	714	(578)
Cash operating costs	\$ 2,219	\$ 3,398	\$ 7,621	\$ 10,993
Gold ounces produced	7,907	12,200	27,894	41,418
Cash operating costs per ounce	\$ 281	\$ 278	\$ 273	\$ 265
<i>McCoy/Cove</i>				
Operating costs per financial statements	\$	\$ 11,663	\$ 13,453	\$ 40,637
Change in finished goods inventory		405	(4,598)	(2,817)
Cash operating costs	\$	\$ 12,068	\$ 8,855	\$ 37,820
Gold ounces produced		23,450	16,501	73,138
Silver ounces produced		1,731,444	1,470,094	5,028,029
Average gold-to-silver price ratio		63.8	64.6	60.9
Cash operating costs per ounce	\$	\$ 239	\$ 225	\$ 243

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

*Consolidated*

Operating costs per financial statements	\$ 30,104	\$ 42,173	\$ 99,520	\$ 133,317
Change in finished goods inventory	787	871	(2,470)	(3,150)
Cash operating costs	\$ 30,891	\$ 43,044	\$ 97,050	\$ 130,167
Gold ounces produced	139,088	171,533	418,006	521,287
Silver ounces produced		1,731,444	1,470,094	5,028,029
Average gold-to-silver price ratio		63.8	64.6	60.9
Cash operating costs per ounce	\$ 222	\$ 217	\$ 220	\$ 216

*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 September 30		Nine months ended September 30	
	2002	2001	2002	2001
Gold production (ounces)				
(a) Round Mountain (50%)	100,063	102,883	289,133	301,021
(b) Lupin	31,118	33,000	84,478	105,710
(c) Kettle River	7,907	12,200	27,894	41,418
McCoy/Cove		23,450	16,501	73,138
Total gold	139,088	171,533	418,006	521,287
Silver production (ounces)				
McCoy/Cove		1,731,444	1,470,094	5,028,029
Total silver		1,731,444	1,470,094	5,028,029

Gold production decreased 19% to 139,088 ounces in the third quarter of 2002 compared to 171,533 ounces in the third quarter of 2001. The decrease in production resulted from lower tonnage at Lupin and no production from McCoy/Cove. There was no silver production in the third quarter of 2002 compared to 1.7 million ounces from McCoy/Cove in the third quarter of 2001. Milling was completed at McCoy/Cove in March 2002.

Operating Data by Mine	Three months ended September 30	Nine months ended September 30
------------------------	------------------------------------	-----------------------------------

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

	Three months ended September 30, 2002		September 30, 2001		Nine months ended September 30, 2002		September 30, 2001	
Cash operating costs (per ounce of gold)								
(a) Round Mountain	\$	191	\$	191	\$	185	\$	190
(b) Lupin		307		241		321		228
(c) Kettle River		281		278		273		265
McCoy/Cove				239		225		243
Company average	\$	222	\$	217	\$	220	\$	216

Cash operating costs were \$222 per ounce of gold in the third quarter of 2002, versus \$217 in the third quarter of 2001. The increase was primarily a result of lower production.

Cash operating costs per ounce of gold produced is a non-GAAP measure. For further information on non-GAAP measures, please refer to the disclosure under the heading "FINANCIAL REVIEW *Production Costs*".

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

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
<b>OPERATING DATA</b>				
Gold produced (ounces) (the Company's 50% share):				
Heap leached reusable pad	30,814	27,610	104,527	85,432
Heap leached dedicated pad	47,312	50,425	126,995	149,230
Milled	18,645	24,607	54,319	66,118
Other	3,292	241	3,292	241
Total	100,063	102,883	289,133	301,021
Mining cost/ton of ore and waste	\$ 0.80	\$ 0.77	\$ 0.79	\$ 0.83
Heap leaching cost/ton of ore	\$ 0.92	\$ 0.97	\$ 0.82	\$ 0.81
Milling cost/ton of ore	\$ 3.48	\$ 2.72	\$ 3.20	\$ 2.95
Production cost per ounce of gold produced:(1)				
Direct mining expense	\$ 172	\$ 156	\$ 173	\$ 165
Deferred stripping cost	15	25	13	22
Inventory movements and other	4	10	(1)	3
Cash operating cost	191	191	185	190
Royalties	19	21	19	18
Production taxes	4	2	3	1
Total cash cost	214	214	207	209
Depreciation	42	35	43	37
Amortization	15	15	15	15
Reclamation and mine closure	9	9	9	9
Total production costs	\$ 280	\$ 273	\$ 274	\$ 270

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

	Three months ended September 30		Nine months ended September 30	
Heap leached reusable pad:				
Ore processed (tons/day)	28,867	22,174	30,477	25,593
Total ore processed (000 tons)	2,627	2,018	8,320	6,987
Grade (ounce/ton)	0.042	0.032	0.045	0.034
Recovery rate (%)	57.7	79.8	61.6	78.1
Heap leached dedicated pad:				
Ore processed (tons/day)	124,220	97,022	134,564	124,220
Total ore processed (000 tons)	11,304	8,829	36,736	33,912
Grade (ounce/ton)	0.012	0.011	0.011	0.011
Recovery rate(2)				
Milled:				
Ore processed (tons/day)	10,094	11,226	9,881	10,401
Total ore processed (000 tons)	919	1,022	2,698	2,840
Grade (ounce/ton)	0.052	0.036	0.051	0.054
Recovery rate (%)	84.3	82.8	84.8	83.7

(1) Production costs per ounce of gold produced are non-GAAP measures. For further information on these non-GAAP measures, please refer to the disclosure under the heading "FINANCIAL REVIEW *Production Costs*".

(2) 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 100,063 ounces for the third quarter compared with 102,883 ounces for the third quarter in 2001. Cash operating costs for the third quarter were \$191 per ounce, the same as the previous year.

During the quarter, work on the Gold Hill property, located four miles north of the current mining and processing facilities, continued to focus on shallow mineralization to assess the economics of a small starter pit. Gold Hill displays Round Mountain style mineralization over an area that presently measures approximately 2,000 by 4,000 feet. While the extent of the mineralization has not been fully defined, an internal study is being conducted to determine the preliminary economics of the shallow mineralization. Results of this study are expected by year end.

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

	Three months ended September 30		Nine months ended September 30	
OPERATING DATA	2002	2001	2002	2001
Gold produced (ounces)	31,118	33,000	84,478	105,710
Mining cost/ton of ore	C\$ 55.55	C\$ 43.77	C\$ 57.12	C\$ 45.56
Milling cost/ton of ore	C\$ 13.46	C\$ 12.83	C\$ 13.88	C\$ 13.58
Production cost per ounce of gold produced:(1)				
Canadian dollars:				
Direct mining expense	C\$ 500	C\$ 422	C\$ 552	C\$ 399
Deferred mine development cost	(8)	(19)	(35)	(16)
Inventory movements and other	(2)	1		1

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

	Three months ended September 30				Nine months ended September 30			
Cash operating cost	490		C\$ 404		517		C\$ 384	
U.S. dollars:	C\$				C\$			
Cash operating costs	US\$	307	US\$	241	US\$	321	US\$	228
Royalties								
Production taxes								
Total cash cost		307		241		321		228
Depreciation		38		33		39		30
Amortization		6		7		6		7
Reclamation and mine closure		15		14		15		14
Total production costs	US\$	366	US\$	295	US\$	381	US\$	279
Milled:								
Ore processed (tons/day)		1,729		1,884		1,670		1,850
Total ore processed (000 tons)		157		171		456		505
Grade (ounce/ton)		0.213		0.205		0.200		0.224
Recovery rate (%)		93.0		93.7		92.7		93.3

(1)

Production costs per ounce of gold produced are non-GAAP measures. For further information on these non-GAAP measures, please refer to the disclosure under the heading "FINANCIAL REVIEW *Production Costs*".

Gold production for the quarter was 31,118 ounces compared with 33,000 ounces in the third quarter of 2001 reflecting fewer tons mined and milled. During the quarter, activity was focused on increasing development and production stopes to provide additional ore sources. Cash operating costs for the quarter were \$307 per ounce compared with \$241 per ounce for the same period in 2001. The significant increase in cash operating costs per ounce is directly attributable to higher development spending and lower production.

The Company is assessing the feasibility of recommencing exploration activities at the Ulu project (125 km north of Lupin). Repair and maintenance of the Ulu camp facilities were completed during the quarter.

(c)

Kettle River, Washington (100% owned)

	Three months ended September 30		Nine months ended September 30	
OPERATING DATA	2002	2001	2002	2001
Gold produced (ounces)	7,907	12,200	27,894	41,418
Mining cost/ton of ore	\$ 19.80	\$ 23.63	\$ 21.54	\$ 23.59
Milling cost/ton of ore	\$ 8.76	\$ 12.93	\$ 10.18	\$ 11.47
Production cost per ounce of gold produced:(1)				
Direct mining expense	\$ 270	\$ 225	\$ 262	\$ 208
Deferred mine development cost				
Inventory movements and other	11	53	11	57
Cash operating cost	281	278	273	265
Royalties	8	7	5	11
Production taxes	2	1	2	1

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

	Three months ended September 30		Nine months ended September 30	
Total cash cost	291	286	280	277
Depreciation		10		8
Amortization	50	40	50	40
Reclamation and mine closure		15		15
<b>Total production costs</b>	<b>\$ 341</b>	<b>\$ 351</b>	<b>\$ 330</b>	<b>\$ 340</b>

### Milled:

Ore processed (tons/day)	652	856	706	1,020
Total ore processed (000 tons)	59	78	193	278
Grade (ounce/ton)	0.158	0.188	0.173	0.179
Recovery rate (%)	84.4	83.5	83.8	82.9

(1)

Production costs per ounce of gold produced are non-GAAP measures. For further information on these non-GAAP measures, please refer to the disclosure under the heading "FINANCIAL REVIEW *Production Costs*".

Gold production for the third quarter was 7,907 ounces, down from 12,200 ounces in the third quarter of 2001, reflecting the lower tonnage available from the K-2 mine and ore stockpiles. With the lower production, cash operating costs per ounce for the quarter were \$281 per ounce compared with \$278 per ounce in the same quarter of 2001. The higher costs per ounce resulted only from the lower production as actual spending was 22% less than in 2001. The Company anticipates that the last ore from the K-2 mine and stockpiles will be consumed in November. The mill facility will then be put on care and maintenance awaiting results from exploration at the adjacent Emanuel Creek property, which continue to be encouraging. Data from surface drilling conducted over the past two years is being supplemented by an underground exploration and development program which began in June 2002. Results of this program should be available early in 2003.

## RECENT DEVELOPMENTS

### *Capital securities*

On April 3, 2002 the Company issued 361,561,230 common shares, representing approximately 72% of the outstanding common shares after giving effect to such issuance, in exchange for all of its \$100 million aggregate principal amount of 11% junior subordinated debentures due 2027, plus accrued and unpaid interest thereon.

Following this issuance of common shares, and as at April 3, 2002, the new principal holders of the Company's common shares and their respective ownership positions in the Company were Newmont Canada (48.8%) and Kinross (11.4%). In connection with the completion of the capital securities exchange, three directors of the Company resigned from the board of directors. Two of the vacancies created by these resignations were filled by executive officers of Newmont Canada.

As a result of eliminating the capital securities, the Company recorded an increase to common shares of \$303.7 million, based on their quoted market value at the date of issue. The quoted market value of the common shares issued exceeded the book value of the capital securities by \$134.8 million. This difference, along with transaction costs of \$3.0 million, were 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.

### *Combination agreement*

On June 10, 2002, the Company, Kinross and TVX announced that they had entered into an agreement providing for the proposed combination of the companies. In a concurrent transaction, TVX agreed to acquire from Newmont the interest in the TVX Newmont Americas joint venture that it does not already own. The combination of the companies is conditional upon the completion of this purchase.

Shareholders of Echo Bay (other than Kinross) would receive 0.52 of a Kinross common share for each Echo Bay common share. At a Kinross special meeting, the shareholders of Kinross are expected to consider a one-for-three share consolidation which, if approved, would

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

result in an exchange ratio change from 0.52 to 0.1733 of a Kinross common share for each Echo Bay common share. The Kinross share consolidation would not affect the percentage ownership interest of the Echo Bay shareholders in Kinross.

As a result of the U.S. Securities and Exchange Commission's ongoing review of the preliminary proxy statement filed with the Commission on September 17, 2002, the Company will not be able to finalize and mail the proxy statement in time for the Company to hold its special meeting for the purpose of considering the combination in advance of November 30, 2002, the termination date specified in the combination agreement. The parties are discussing amending the combination agreement to extend the termination date, with a view to holding special meetings late in the fourth quarter 2002 or early in 2003.

### *Completion of financing*

In May 2002, the Company sold a total of 39,100,000 units at a price of \$0.70 per unit for aggregate gross proceeds of approximately \$27.4 million. Each unit consists of one common share and one share purchase warrant. The common shares and the warrants comprising the units separated upon closing and trade separately on the Toronto Stock Exchange and the American Stock Exchange. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.90 at any time prior to November 14, 2003.

### *Sale of McCoy/Cove complex*

On June 9, 2002, Echo Bay Exploration Inc. and Echo Bay Minerals Company, two subsidiaries of the Company, entered into an asset purchase agreement with Newmont USA, a subsidiary of Newmont, providing for the conveyance of the McCoy/Cove complex. The agreement replaces a letter agreement dated February 13, 2002 related to the conveyance of the McCoy/Cove complex which called for a payment to the seller of \$6 million and the assumption by Newmont of all reclamation and closure obligations. Under the February 13, 2002 letter agreement, Newmont had no obligation to complete the transaction. Newmont indicated it was willing to proceed with the conveyance of the McCoy/Cove complex only if the Kinross Combination was completed and the cash payment was eliminated. Accordingly, a new agreement was reached expressly containing these two conditions. The closing of the transaction is subject to, among other conditions, the completion of the Kinross Combination. In consideration of the conveyance of such assets, Newmont USA has agreed to assume all liabilities and obligations relating to the reclamation or remediation required for the McCoy/Cove complex. A gain is expected on the conveyance of the McCoy/Cove complex. Pending completion of the transaction, the Company will continue to operate McCoy/Cove for its own account. Mining and processing activities at the McCoy/Cove complex were completed on March 31, 2002.

### *Exploration and development programs*

The Company is engaged in exploration activity at its Round Mountain and Kettle River mines. At Round Mountain, work on the Gold Hill property, located four miles north of the current mining and processing facilities, continued to focus on shallow mineralization to assess the economics of a small starter pit. Gold Hill displays Round Mountain style mineralization over an area that presently measures approximately 2,000 by 4,000 feet. While the extent of the mineralization has not been fully defined, an internal study is being conducted to determine the preliminary economics of the shallow mineralization. Results of this study are expected by year end.

At the Company's Kettle River operation, results from exploration at the adjacent Emanuel Creek property continue to be encouraging. Data from surface drilling conducted over the past two years will be supplemented by an underground exploration and development program which began in June 2002. Results from this program will be available early in 2003.

For the third quarter of 2002, the Company spent \$2.4 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 \$0.2 million such costs were expensed during the third quarter of 2002.

### *Other*

See note 13 to the interim consolidated financial statements.

## **ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

The estimated fair values of the Company's gold commitments decreased by approximately \$3.7 million from December 31, 2001 to September 30, 2002, primarily due to the increase in the gold price from \$277 to \$320 per ounce. Information about market risks are discussed under Item 7A of the registrant's Annual Report on Form 10-K for 2001.



#### ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, concluded that our disclosure controls and procedures were effective. There have been no significant changes in our internal controls and procedures or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

### PART II OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

##### *Summa*

See note 13 to the interim consolidated financial statements.

##### *Handy & Harman*

See note 13 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. At this time, the Company does not know the amount being claimed by the former employees nor whether the claim is appropriate for certification as a class action. On August 12, 2002, the Supreme Court of British Columbia decided it had jurisdiction. The Company is appealing this decision. No determination has been made by this Court as to whether this action is suitable for certification as a class action and no decision has been rendered with respect to the merits of the action.

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

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

Reports on Form 8-K	Filed on July 8, 2002 related to the proposed purchase and sale of the McCoy/Cove complex, between subsidiaries of Echo Bay Mines Ltd. and a subsidiary of 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)

November 8, 2002

By: /s/ DAVID A. OTTEWELL

---

David A. Ottewell  
Controller and Principal Accounting Officer

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

### Certifications

I, Robert L. Leclerc, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Echo Bay Mines Ltd.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 8, 2002

/s/ ROBERT L. LECLERC

---

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

Robert L. Leclerc  
Chairman and Chief Executive Officer

### Certifications

I, Tom S.Q. Yip, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Echo Bay Mines Ltd.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

November 8, 2002

/s/ TOM S. Q. YIP

---

Tom S. Q. Yip  
Vice President and Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350 as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Echo Bay Mines Ltd. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 8, 2002

/s/ ROBERT L. LECLERC

---

Robert L. Leclerc  
Chairman and Chief Executive Officer

/s/ TOM S. Q. YIP

---

Tom S. Q. Yip  
Vice President and Chief Financial Officer