

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

ECHO BAY MINES LTD  
Form 10-Q  
August 03, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended June 30, 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  
August 1, 2001

-----  
Common Shares  
without nominal or par value

-----  
140,607,145

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

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 Operat

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.....

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

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<br>thousands of U.S. dollars | June 30<br>2001 | Dece |
|---------------------------------------------------------|-----------------|------|
| -----                                                   |                 |      |
| ASSETS                                                  |                 |      |
| Current assets:                                         |                 |      |
| Cash and cash equivalents                               | \$ 9,957        | \$   |
| Short-term investments                                  | 2,058           |      |
| Interest and accounts receivable                        | 2,599           |      |
| Inventories (note 2)                                    | 40,780          |      |
| Prepaid expenses and other assets                       | 6,068           |      |
|                                                         | -----           |      |
|                                                         | 61,462          |      |
| Plant and equipment (note 3)                            | 133,719         |      |
| Mining properties (note 3)                              | 54,033          |      |
| Long-term investments and other assets                  | 20,703          |      |
|                                                         | -----           |      |
|                                                         | \$ 269,917      | \$   |
| =====                                                   |                 |      |
| LIABILITIES AND SHAREHOLDERS' EQUITY                    |                 |      |
| Current liabilities:                                    |                 |      |
| Accounts payable and accrued liabilities                | \$ 24,091       | \$   |
| Income and mining taxes payable                         | 3,701           |      |
| Debt and other financings (notes 1 and 4)               | 19,000          |      |

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

|                                                                                                        |            |
|--------------------------------------------------------------------------------------------------------|------------|
| Deferred income (note 5)                                                                               | 4,888      |
| -----                                                                                                  |            |
|                                                                                                        | 51,680     |
| Debt and other financings (note 4)                                                                     | 6,364      |
| Deferred income (note 5)                                                                               | 38,693     |
| Other long-term obligations                                                                            | 50,950     |
| Deferred income taxes                                                                                  | 2,936      |
| Commitments and contingencies (notes 1, 10 and 11)                                                     |            |
| Common shareholders' equity:                                                                           |            |
| Common shares, no par value, unlimited number authorized;<br>140,607,145 shares issued and outstanding | 713,343    |
| Capital securities (note 6)                                                                            | 148,766    |
| Deficit                                                                                                | (716,946)  |
| Foreign currency translation                                                                           | (25,869)   |
| -----                                                                                                  |            |
|                                                                                                        | 119,294    |
| -----                                                                                                  |            |
|                                                                                                        | \$ 269,917 |
|                                                                                                        | \$         |
| =====                                                                                                  |            |

See accompanying notes to interim consolidated financial statements.

1

ECHO BAY MINES LTD.

| CONSOLIDATED STATEMENT OF OPERATIONS<br>thousands of U.S. dollars,<br>except for per share data | Three months ended |                 |
|-------------------------------------------------------------------------------------------------|--------------------|-----------------|
|                                                                                                 | 2001               | June 30<br>2000 |
|                                                                                                 |                    |                 |
| Revenue                                                                                         | \$ 63,652          | \$ 84,293       |
| -----                                                                                           |                    |                 |
| Expenses:                                                                                       |                    |                 |
| Operating costs                                                                                 | 46,521             | 48,880          |
| Royalties                                                                                       | 2,383              | 2,440           |
| Production taxes                                                                                | 158                | 807             |
| Depreciation and amortization                                                                   | 11,371             | 14,231          |
| Reclamation and mine closure                                                                    | 1,622              | 2,979           |
| General and administrative                                                                      | 1,237              | 2,043           |
| Exploration and development                                                                     | 1,161              | 1,407           |
| Interest and other (note 7)                                                                     | 542                | 1,613           |
| -----                                                                                           |                    |                 |
|                                                                                                 | 64,995             | 74,400          |
| -----                                                                                           |                    |                 |
| Earnings (loss) before income taxes                                                             | (1,343)            | 9,893           |
| -----                                                                                           |                    |                 |
| Income tax expense (recovery):                                                                  |                    |                 |
| Current                                                                                         | (101)              | 25              |
| Deferred                                                                                        | (839)              | (300)           |
| -----                                                                                           |                    |                 |
|                                                                                                 | (940)              | (275)           |
| -----                                                                                           |                    |                 |
| Net earnings (loss)                                                                             | \$ (403)           | \$ 10,168       |
| =====                                                                                           |                    |                 |

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

|                                                                  |    |         |    |         |    |
|------------------------------------------------------------------|----|---------|----|---------|----|
| Net earnings (loss) attributable to common shareholders (note 6) | \$ | (4,729) | \$ | 6,320   | \$ |
| =====                                                            |    |         |    |         |    |
| Earnings (loss) per share                                        | \$ | (0.03)  | \$ | 0.04    | \$ |
| =====                                                            |    |         |    |         |    |
| Weighted average number of shares outstanding (thousands)        |    | 140,607 |    | 140,607 |    |
| =====                                                            |    |         |    |         |    |

CONSOLIDATED STATEMENT OF DEFICIT  
 thousands of U.S. dollars

Three months ended  
 June 30

2001                      2000

|                                                                |    |           |    |           |    |
|----------------------------------------------------------------|----|-----------|----|-----------|----|
| Balance, beginning of period                                   | \$ | (712,217) | \$ | (721,142) | \$ |
| Net earnings (loss)                                            |    | (403)     |    | 10,168    |    |
| Interest on capital securities, net of nil tax effect (note 6) |    | (4,326)   |    | (3,848)   |    |
| -----                                                          |    |           |    |           |    |
| Balance, end of period                                         | \$ | (716,946) | \$ | (714,822) | \$ |
| =====                                                          |    |           |    |           |    |

See accompanying notes to interim consolidated financial statements.

2

ECHO BAY MINES LTD.

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

Three months ended  
 June 30

2001                      2000

CASH PROVIDED FROM (USED IN):

|                                                      |    |         |    |         |    |
|------------------------------------------------------|----|---------|----|---------|----|
| OPERATING ACTIVITIES                                 |    |         |    |         |    |
| Net cash flows provided from operating activities    | \$ | 176     | \$ | 18,613  | \$ |
| -----                                                |    |         |    |         |    |
| INVESTING ACTIVITIES                                 |    |         |    |         |    |
| Mining properties, plant and equipment               |    | (986)   |    | (3,113) |    |
| Long-term investments and other assets               |    | 3       |    | (150)   |    |
| Proceeds on the sale of plant and equipment          |    | 152     |    | 291     |    |
| Other                                                |    | (207)   |    | 41      |    |
| -----                                                |    |         |    |         |    |
|                                                      |    | (1,038) |    | (2,931) |    |
| -----                                                |    |         |    |         |    |
| FINANCING ACTIVITIES                                 |    |         |    |         |    |
| Currency borrowings                                  |    | --      |    | 2,000   |    |
| Debt repayments                                      |    | (3,750) |    | (9,125) |    |
| -----                                                |    |         |    |         |    |
|                                                      |    | (3,750) |    | (7,125) |    |
| -----                                                |    |         |    |         |    |
| Net increase (decrease) in cash and cash equivalents |    | (4,612) |    | 8,557   |    |
| Cash and cash equivalents, beginning of period       |    | 14,569  |    | 2,397   |    |
| -----                                                |    |         |    |         |    |
| Cash and cash equivalents, end of period             | \$ | 9,957   | \$ | 10,954  | \$ |

=====  
 See accompanying notes to interim consolidated financial statements.

3

ECHO BAY MINES LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

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 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 June 30, 2001 and December 31, 2000 and the consolidated results of operations and cash flow for the three and six months ended June 30, 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 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 and there would be 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. The Company's current revolving credit facility has been extended from August 9, 2001 to September 5, 2001. The Company expects to finalize terms and have agreements to a refinancing with the current bank syndicate on or before that date.

2. INVENTORIES

|                            |    | June 30<br>2001 |
|----------------------------|----|-----------------|
| -----                      |    |                 |
| Precious metals -- bullion | \$ | 13,097          |
| -- in-process              |    | 9,323           |
| Materials and supplies     |    | 18,360          |
| -----                      |    |                 |
|                            | \$ | 40,780          |

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

3. PROPERTY, PLANT AND EQUIPMENT

|                                                           |    |                 |
|-----------------------------------------------------------|----|-----------------|
| Plant and equipment                                       |    | June 30<br>2001 |
| -----                                                     |    |                 |
| Cost                                                      | \$ | 658,886         |
| Less accumulated depreciation                             |    | 525,167         |
|                                                           | \$ | 133,719         |
| =====                                                     |    |                 |
| Mining properties                                         |    | June 30<br>2001 |
| -----                                                     |    |                 |
| Producing mines' acquisition and development costs        | \$ | 278,795         |
| Less accumulated amortization                             |    | 254,319         |
|                                                           |    | 24,476          |
| Development properties' acquisition and development costs |    | 13,376          |
| Deferred mining costs                                     |    | 16,181          |
|                                                           | \$ | 54,033          |
| =====                                                     |    |                 |

4

ECHO BAY MINES LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

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

4. DEBT AND OTHER FINANCINGS

|                             |    |                 |
|-----------------------------|----|-----------------|
|                             |    | June 30<br>2001 |
| -----                       |    |                 |
| Currency loans              | \$ | 19,000          |
| Capital securities (note 6) |    | 6,364           |
|                             |    | 25,364          |
| Less current portion        |    | 19,000          |
|                             | \$ | 6,364           |
| =====                       |    |                 |

5. DEFERRED INCOME

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

|                                                       | June 30<br>2001 |
|-------------------------------------------------------|-----------------|
| Modification of hedging contracts                     | \$ 28,748       |
| Premiums received on gold and silver option contracts | 14,833          |
| Other                                                 | --              |
|                                                       | 43,581          |
| Less current portion                                  | 4,888           |
|                                                       | \$ 38,693       |

6. CAPITAL SECURITIES

In 1997, the Company issued \$100.0 million of 11% capital securities due in 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 \$52.1 million at June 30, 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

|                                      | Three months ended<br>June 30 |          |
|--------------------------------------|-------------------------------|----------|
|                                      | 2001                          | 2000     |
| Interest income                      | \$ (141)                      | \$ (154) |
| Interest expense                     | 616                           | 1,546    |
| Unrealized loss on share investments | 102                           | --       |
| Other                                | (35)                          | 221      |
|                                      | \$ 542                        | \$ 1,613 |

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

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

Form 10-K for the year ended December 31, 2000.

5

## ECHO BAY MINES LTD.

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

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

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

|                                                          | Three months ended |                 |
|----------------------------------------------------------|--------------------|-----------------|
|                                                          | 2001               | June 30<br>2000 |
| Net earnings (loss) under Canadian GAAP                  | \$ (403)           | \$ 10,168       |
| Unrealized loss on share investments                     | 102                | --              |
| Change in market value of foreign exchange contracts     | (461)              | (919)           |
| Change in market value of option contracts               | 217                | (636)           |
| Transition adjustment on adoption of FAS 133             | --                 | --              |
| Additional interest expense on capital securities        | (4,326)            | (3,848)         |
| Amortization of deferred financing on capital securities | (159)              | (159)           |
| Net earnings (loss) under U.S. GAAP                      | \$ (5,030)         | \$ 4,606        |
| Earnings (loss) per share under U.S. GAAP                | \$ (0.04)          | \$ 0.03         |

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

| June 30, 2001                          | Canadian<br>GAAP | Capital<br>Securities | Derivative<br>Contracts |
|----------------------------------------|------------------|-----------------------|-------------------------|
| Short-term investments                 | \$ 2,058         | \$ --                 | \$ --                   |
| Long-term investments and other assets | 20,703           | 475                   | (13,258)                |
| Debt and other financings              | 25,364           | 96,636                | --                      |
| Deferred income                        | 43,581           | --                    | (43,581)                |
| Other long-term obligations            | 50,950           | 52,130                | 1,326                   |
| Common shares                          | 713,343          | --                    | --                      |
| Capital securities                     | 148,766          | (148,766)             | --                      |
| Deficit                                | 716,946          | (475)                 | 2,442                   |
| Shareholders' equity                   | 119,294          | (148,291)             | 28,997                  |

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

Three months ended

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

|                                                                   | 2001       | June 30<br>2000 |
|-------------------------------------------------------------------|------------|-----------------|
| Net earnings (loss) under U.S. GAAP                               | \$ (5,030) | \$ 4,606        |
| Other comprehensive income (loss), after a nil income tax effect: |            |                 |
| Unrealized gain on share investments arising during period        | 67         | --              |
| Modification of derivative contracts realized in net income       | (5,497)    | --              |
| Foreign currency translation adjustments                          | 2,502      | (1,539)         |
| Transition adjustment on adoption of FAS 133                      | --         | --              |
| Other comprehensive income (loss)                                 | (2,928)    | (1,539)         |
| Comprehensive income (loss)                                       | \$ (7,958) | \$ 3,067        |

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

|                                               | June 30<br>2001 |
|-----------------------------------------------|-----------------|
| Unrealized gain on share investments          | \$ 958          |
| Modification of derivative contracts          | 31,439          |
| Foreign currency translation                  | (25,869)        |
| Accumulated other comprehensive income (loss) | \$ 6,528        |

6

ECHO BAY MINES LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

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

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 Company has designated its gold forward contracts as normal sales as defined by Statement No. 138 and are therefore excluded from the scope of Statement No. 133. Foreign exchange contracts and gold put and call options have not been designated as hedges for U.S. GAAP purposes and are 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 are 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 decreased assets by \$18.3 million, liabilities by \$54.4 million, net earnings by \$3.1 million and increased accumulated other comprehensive income by \$39.2 million.

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

### 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. The Company has 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.

|                          |         | Three months ended<br>June 30 |  |
|--------------------------|---------|-------------------------------|--|
| Gold Production (ounces) | 2001    | 2000                          |  |
| Round Mountain (50%)     | 97,770  | 76,408                        |  |
| McCoy/Cove               | 27,385  | 49,448                        |  |
| Lupin                    | 34,756  | 38,359                        |  |
| Kettle River             | 16,373  | 24,260                        |  |
| Total gold               | 176,284 | 188,475                       |  |

|                                                  |           |           |    |
|--------------------------------------------------|-----------|-----------|----|
| Silver Production (ounces) - all from McCoy/Cove | 1,738,056 | 3,581,898 | 3, |
|--------------------------------------------------|-----------|-----------|----|

|                                                 |        | Three months ended<br>June 30 |  |    |
|-------------------------------------------------|--------|-------------------------------|--|----|
| Cash Operating Costs per Ounce of Gold Produced | 2001   | 2000                          |  |    |
| Round Mountain                                  | \$ 194 | \$ 202                        |  | \$ |
| McCoy/Cove                                      | 234    | 163                           |  |    |
| Lupin                                           | 230    | 213                           |  |    |
| Kettle River                                    | 274    | 201                           |  |    |
| Company consolidated weighted average           | \$ 218 | \$ 186                        |  | \$ |

7

ECHO BAY MINES LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

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

|                                  |                               |
|----------------------------------|-------------------------------|
| Reconciliation of Cash Operating | Three months ended<br>June 30 |
|----------------------------------|-------------------------------|

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

| Costs per Ounce to Financial Statements        | 2001      | 2000      |
|------------------------------------------------|-----------|-----------|
| Operating costs by minesite:                   |           |           |
| Round Mountain                                 | \$ 20,025 | \$ 15,074 |
| McCoy/Cove                                     | 13,956    | 23,218    |
| Lupin                                          | 8,035     | 5,441     |
| Kettle River                                   | 4,505     | 5,147     |
| Total operating costs per financial statements | 46,521    | 48,880    |
| Change in finished goods inventories and other | (1,434)   | (3,214)   |
| Co-product cost of silver produced             | (6,657)   | (10,602)  |
| Cash operating costs                           | \$ 38,430 | \$ 35,064 |
| Gold ounces produced                           | 176,284   | 188,475   |
| Cash operating costs per ounce                 | \$ 218    | \$ 186    |

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

|                                         | Three months ended<br>June 30 |           |
|-----------------------------------------|-------------------------------|-----------|
|                                         | 2001                          | 2000      |
| Total gold and silver revenues          | \$ 63,652                     | \$ 84,293 |
| Average gold price realized per ounce   | \$ 298                        | \$ 322    |
| Average silver price realized per ounce | \$ 4.52                       | \$ 5.23   |

10. HEDGING ACTIVITIES AND COMMITMENTS

Gold commitments

The Company's gold forward sales positions at June 30, 2001 were as follows.

|                   | Forward<br>Sales<br>(ounces) | Price of<br>Forward Sale<br>(per ounce) |
|-------------------|------------------------------|-----------------------------------------|
| Remainder of 2001 | 30,000                       | \$ 302                                  |
| 2002              | 60,000                       | 302                                     |
| 2003              | 60,000                       | 302                                     |
| 2004              | 60,000                       | 302                                     |
| 2005              | 15,000                       | 302                                     |
|                   | 225,000                      | \$ 302                                  |

The Company's gold option positions at June 30, 2001 were as follows.

|                   | Call Options Purchased |                           | Call Options Sold |                           |
|-------------------|------------------------|---------------------------|-------------------|---------------------------|
|                   | Ounces                 | Strike Price<br>per Ounce | Ounces            | Strike Price<br>per Ounce |
| Remainder of 2001 | 30,000                 | \$ 360                    | --                | \$ --                     |

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

|       |         |        |         |        |
|-------|---------|--------|---------|--------|
| 2002  | 60,000  | 360    | --      | --     |
| 2003  | 60,000  | 360    | --      | --     |
| 2004  | 60,000  | 360    | --      | --     |
| 2005  | 120,000 | 395    | 105,000 | 340    |
| ----- |         |        |         |        |
|       | 330,000 | \$ 373 | 105,000 | \$ 340 |
| ===== |         |        |         |        |

8

ECHO BAY MINES LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

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

Currency position

At June 30, 2001, the Company had an obligation under foreign currency exchange contracts to purchase C\$6 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 June 30, 2001 and December 31, 2000.

|                            | June 30, 2001   |                      |                 |
|----------------------------|-----------------|----------------------|-----------------|
|                            | Carrying Amount | Estimated Fair Value | Carrying Amount |
| -----                      |                 |                      |                 |
| Gold forward sales         | \$ --           | \$ 4,600             | \$ --           |
| Silver forward sales       | --              | --                   | --              |
| Gold options               |                 |                      |                 |
| - puts purchased           | --              | --                   | --              |
| - calls sold               | (3,000)         | (1,200)              | (3,000)         |
| - puts sold                | --              | --                   | --              |
| - calls purchased          | 6,000           | 1,000                | 6,000           |
| Silver options             |                 |                      |                 |
| - puts purchased           | --              | --                   | --              |
| - puts sold                | --              | --                   | --              |
| - calls purchased          | --              | --                   | --              |
| Foreign currency contracts | --              | (200)                | --              |
| -----                      |                 |                      |                 |
|                            |                 | \$ 4,200             |                 |
| =====                      |                 |                      |                 |

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

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

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.

9

ECHO BAY MINES LTD.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

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

### 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 a claim for 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 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

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

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

June 30, 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 \$266 per ounce during the first six months 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 June 30, 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 30,000 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 deferred interest accrued at June 30, 2001, totaling \$52.1 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.

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION

June 30, 2001  
(U.S. dollars)

#### LIQUIDITY AND CAPITAL RESOURCES

Net cash flow provided from operating activities was \$10.7 million for the first six months of 2001 compared to \$14.5 million for the first six months of 2000. The 2001 results compared to 2000 reflect decreased silver cash revenue (\$19.0 million) and increased operating costs in 2001 (\$12.1 million) related to Lupin operations and increased fuel and related costs. These factors were partially offset by increased gold cash revenue (\$10.4 million), Lupin start-up costs in 2000 (\$4.8 million) and increases in inventories in 2000 (\$12.1 million).

Net cash used in investing activities was \$7.5 million in the first six months of 2001, primarily related to mining properties, plant and equipment.

Net cash used in financing activities included \$7.5 million for loan repayments in the first six months of 2001.

At June 30, 2001, the Company had \$10.0 million in cash and cash equivalents and \$2.1 million in short-term investments.

At June 30, 2001, the Company's current debt was \$19.0 million and its long-term debt was \$6.4 million.

The Company's syndicated bank debt, which had a balance of \$19.0 million at June 30, 2001, has been extended to September 5, 2001. The Company expects to finalize terms and have agreements to a refinancing with the current syndicate on or before that date. The Company is not permitted to make further draws under the current facility. 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 and there would be substantial doubt about the Company's ability to continue its operations in the normal course of business.

At June 30, 2001, the fair value of the Company's hedge portfolio was \$4.2 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.

For the full year 2001, the Company expects to incur \$22 million in capital expenditures, of which \$13 million has been incurred in the first six months 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.

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

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

12

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

### FINANCIAL REVIEW

#### Three month results

The Company reported a net loss of \$0.4 million (\$0.03 per share) in the second quarter of 2001, compared to net earnings of \$10.2 million (\$0.04 per share) in the second quarter of 2000. The 2001 results compared to 2000 reflect decreased gold and silver sales volume (\$14.9 million) and lower prices realized (\$5.7 million), partially offset by decreased operating costs (\$2.4 million) and depreciation and amortization (\$2.9 million).

Gold production decreased 6% to 176,284 ounces in the second quarter of 2001 compared to 188,475 ounces in the second quarter of 2000. This year's quarter reflects the reducing production profile from the McCoy/Cove mine, partially offset by an increase in gold production at the Round Mountain mine. Silver production from McCoy/Cove in the second quarter of 2001 was 1.7 million ounces, 51% lower than the 3.6 million ounces produced in the second quarter of 2000.

Cash operating costs were \$218 per ounce of gold in the second quarter of 2001, versus \$186 in the second quarter of 2000. The increase was primarily a result of decreased grades and lower production at McCoy/Cove. Total production costs were \$291 per ounce in the second quarter of 2001, versus \$262 per ounce in the second quarter of 2000.

#### Six month results

The Company reported net earnings of \$3.4 million (\$0.04 loss per share) in the first six months of 2001, compared to net earnings of \$7.5 million (\$0.00 per share) in the first six months of 2000. The 2001 results compared to 2000 reflect decreased gold and silver sales prices realized (\$8.2 million) and six months of Lupin operations in 2001 compared to three months in 2000 (\$10.4 million). These factors were partially offset by decreased exploration and development spending (\$5.4 million), depreciation and amortization (\$3.7 million), interest and other expenses (\$2.8 million) and reclamation and mine closure (\$2.0 million).

Gold production increased 6% to 349,754 ounces in the first six months of 2001 compared to 328,645 ounces in the first six months of 2000 reflecting increased production at Round Mountain and the re-commissioned Lupin mine offset by the reduced production from McCoy/Cove. Silver production from McCoy/Cove was 3.3 million ounces, 56% lower than the 7.4 million ounces produced in 2000.

Cash operating costs were \$215 per ounce of gold in the first six months of 2001, versus \$179 in the first six months of 2000. The increase was primarily a result of decreased grades and lower production at McCoy/Cove. Total production costs were \$285 per ounce in the first six months of 2001, versus \$257 per ounce in the first six months of 2000.

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

13

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

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

### Revenue

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

| Revenue Data                                   | 2001      | Three months ended<br>June 30<br>2000 |    |
|------------------------------------------------|-----------|---------------------------------------|----|
| <hr/>                                          |           |                                       |    |
| <b>Gold</b>                                    |           |                                       |    |
| <hr/>                                          |           |                                       |    |
| Ounces sold                                    | 185,825   | 182,372                               |    |
| Average price realized/ounce -- revenue basis  | \$ 298    | \$ 322                                | \$ |
| Average price realized/ounce -- cash basis (1) | \$ 273    | \$ 302                                | \$ |
| Average market price/ounce                     | \$ 268    | \$ 280                                | \$ |
| Revenue (millions of U.S. \$)                  | \$ 55.4   | \$ 58.7                               | \$ |
| Percentage of total revenue                    | 87%       | 70%                                   |    |
| <b>Silver</b>                                  |           |                                       |    |
| <hr/>                                          |           |                                       |    |
| Ounces sold                                    | 1,824,329 | 4,886,675                             | 3, |
| Average price realized/ounce -- revenue basis  | \$ 4.52   | \$ 5.23                               | \$ |
| Average price realized/ounce -- cash basis (1) | \$ 4.30   | \$ 5.18                               | \$ |
| Average market price/ounce                     | \$ 4.40   | \$ 5.06                               | \$ |
| Revenue (millions of U.S. \$)                  | \$ 8.2    | \$ 25.6                               | \$ |
| Percentage of total revenue                    | 13%       | 30%                                   |    |
| <hr/>                                          |           |                                       |    |
| Total revenue (millions of U.S. dollars)       | \$ 63.6   | \$ 84.3                               | \$ |
| <hr/>                                          |           |                                       |    |

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

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

| Revenue Variance Analysis<br>2001 vs. 2000<br>(millions of U.S. dollars) | Three months ended<br>June 30 |
|--------------------------------------------------------------------------|-------------------------------|
| <hr/>                                                                    |                               |
| Lower gold prices                                                        | \$ (4.4)                      |
| Lower silver prices                                                      | (1.3)                         |
| Change in volume                                                         | (14.9)                        |
| <hr/>                                                                    |                               |
| Decrease in revenue                                                      | \$ (20.6)                     |
| <hr/>                                                                    |                               |

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

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

### Production Costs

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

| Production Costs per<br>Ounce of Gold Produced | Three months ended<br>June 30 |    |      |
|------------------------------------------------|-------------------------------|----|------|
|                                                | 2001                          |    | 2000 |
| Direct mining expense                          | \$ 209                        | \$ | 190  |
| Deferred stripping and mine development costs  | 9                             |    | (3)  |
| Inventory movements and other                  | --                            |    | (1)  |
| Cash operating costs                           | 218                           |    | 186  |
| Royalties                                      | 12                            |    | 10   |
| Production taxes                               | 1                             |    | 3    |
| Total cash costs                               | 231                           |    | 199  |
| Depreciation                                   | 38                            |    | 31   |
| Amortization                                   | 14                            |    | 20   |
| Reclamation and mine closure                   | 8                             |    | 12   |
| Total production costs                         | \$ 291                        | \$ | 262  |
|                                                |                               |    | \$   |

### Expenses

Operating costs per ounce vary with the quantity of gold and silver sold and with the cost of operations. Cash operating costs were \$218 per ounce of gold in the second quarter of 2001 and \$186 in the second 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

|                                              | Three months ended<br>June 30 |    |          |
|----------------------------------------------|-------------------------------|----|----------|
|                                              | 2001                          |    | 2000     |
| Operating costs per financial statements     | \$ 46,521                     | \$ | 48,880   |
| Change in finished goods inventory and other | (1,434)                       |    | (3,214)  |
| Co-product cost of silver produced           | (6,657)                       |    | (10,602) |
| Cash operating costs                         | \$ 38,430                     | \$ | 35,064   |
| Gold ounces produced                         | 176,284                       |    | 188,475  |
| Cash operating costs per ounce               | \$ 218                        | \$ | 186      |
|                                              |                               |    | \$       |

Reserve estimates

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

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 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.

15

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

#### OPERATIONS REVIEW

Operating data by mine is set out below.

| Operating Data by Mine     | 2001      | Three months ended<br>June 30<br>2000 |     |
|----------------------------|-----------|---------------------------------------|-----|
| -----                      |           |                                       |     |
| Gold production (ounces)   |           |                                       |     |
| (a) Round Mountain (50%)   | 97,770    | 76,408                                | 1   |
| (b) McCoy/Cove             | 27,385    | 49,448                                |     |
| (c) Lupin                  | 34,756    | 38,359                                |     |
| (d) Kettle River           | 16,373    | 24,260                                |     |
| -----                      |           |                                       |     |
| Total gold                 | 176,284   | 188,475                               | 3   |
| =====                      |           |                                       |     |
| Silver production (ounces) |           |                                       |     |
| (b) McCoy/Cove             | 1,738,056 | 3,581,898                             | 3,2 |
| -----                      |           |                                       |     |
| Total silver               | 1,738,056 | 3,581,898                             | 3,2 |
| =====                      |           |                                       |     |

Gold production decreased 6% to 176,284 ounces in the second quarter of 2001 compared to 188,475 ounces in the second quarter of 2000. Decreased production reflects the reducing production profile from the McCoy/Cove mine offset by an increase in gold production at the Round Mountain mine. Silver production from McCoy/Cove was 1.7 million ounces, 51% less than the 3.6 million ounces produced in 2000, reflecting decreased grades and recoveries. With the better than anticipated gold production achieved during the first half of 2001, production for the full year is now expected to total 670,000 ounces, 18% higher than originally forecast primarily due to better grades at Round Mountain and more production from McCoy/Cove.

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

| Operating Data by Mine                   | Three months ended |                 |
|------------------------------------------|--------------------|-----------------|
|                                          | 2001               | June 30<br>2000 |
| Cash operating costs (per ounce of gold) |                    |                 |
| (a) Round Mountain                       | \$ 194             | \$ 202          |
| (b) McCoy/Cove                           | 234                | 163             |
| (c) Lupin                                | 230                | 213             |
| (d) Kettle River                         | 274                | 201             |
| Company average                          | \$ 218             | \$ 186          |

Cash operating costs were \$218 per ounce of gold in the second quarter of 2001, versus \$186 in the second 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 expects to achieve the planned cash operating costs of \$225 per ounce of gold produced for the full year 2001.

16

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

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

| OPERATING DATA                              | Three months ended |                 |
|---------------------------------------------|--------------------|-----------------|
|                                             | 2001               | June 30<br>2000 |
| Gold produced (ounces):                     |                    |                 |
| Heap leached -- reusable pad (50%)          | 30,572             | 18,452          |
| Heap leached -- dedicated pad (50%)         | 58,118             | 41,114          |
| Milled (50%)                                | 9,080              | 16,842          |
| Other (50%)                                 | --                 | --              |
| Total (50%)                                 | 97,770             | 76,408          |
| Mining cost/ton of ore and waste            | \$ 0.88            | \$ 0.82         |
| Heap leaching cost/ton of ore               | \$ 0.81            | \$ 0.63         |
| Milling cost/ton of ore                     | \$ 3.18            | \$ 2.80         |
| Production cost per ounce of gold produced: |                    |                 |
| Direct mining expense                       | \$ 173             | \$ 206          |
| Deferred stripping cost                     | 20                 | (4)             |
| Inventory movements and other               | 1                  | --              |
| Cash operating cost                         | 194                | 202             |
| Royalties                                   | 22                 | 23              |
| Production taxes                            | 1                  | 1               |

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

|                                       |         |         |
|---------------------------------------|---------|---------|
| Total cash cost                       | 217     | 226     |
| Depreciation                          | 40      | 45      |
| Amortization                          | 15      | 18      |
| Reclamation and mine closure          | 9       | 9       |
|                                       | -----   | -----   |
| Total production costs                | \$ 281  | \$ 298  |
|                                       | -----   | -----   |
| Heap leached -- reusable pad:         |         |         |
| Ore processed (tons/day) (100%)       | 26,844  | 27,630  |
| Total ore processed (000 tons) (100%) | 2,443   | 2,514   |
| Grade (ounce/ton)                     | 0.031   | 0.030   |
| Recovery rate (%)                     | 72.9    | 58.1    |
| Heap leached -- dedicated pad:        |         |         |
| Ore processed (tons/day) (100%)       | 128,231 | 145,198 |
| Total ore processed (000 tons) (100%) | 11,669  | 13,213  |
| Grade (ounce/ton)                     | 0.011   | 0.011   |
| Recovery rate (1)                     |         |         |
| Milled:                               |         |         |
| Ore processed (tons/day) (100%)       | 10,097  | 8,581   |
| Total ore processed (000 tons) (100%) | 919     | 781     |
| Grade (ounce/ton)                     | 0.040   | 0.051   |
| Recovery rate (%)                     | 80.5    | 82.9    |

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

The Company has a 50% ownership interest in, and is the operator of, the Round Mountain mine in Nevada. The Company's share of mine production was 97,770 ounces for the second quarter compared with 76,408 ounces in 2000. The mine continues to have an excellent year, which is attributable to better heap leach recoveries as well as the benefit of higher grade ore having been placed on the pads during the first quarter of the year. Cash

17

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

operating costs for the second quarter were \$194 per ounce, compared to \$202 in the second quarter of 2000. The higher production helped offset increased reagent and power costs.

With the improved operating performance during the first half of the year, the Company has revised its total year production forecast to 370,000 ounces from 300,000 ounces (the Company's share) at cash operating costs of \$200 per ounce.

A \$1.2 million exploration program is underway which includes further drilling, target identification and other activity in the large area of mutual interest surrounding Round Mountain.

18

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

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

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

| OPERATING DATA                              | 2001      | Three months ended<br>June 30<br>2000 |
|---------------------------------------------|-----------|---------------------------------------|
| <hr style="border-top: 1px dashed black;"/> |           |                                       |
| Gold produced (ounces):                     |           |                                       |
| Milled                                      | 19,746    | 33,005                                |
| Heap leached                                | 7,639     | 16,443                                |
|                                             | -----     | -----                                 |
| Total gold                                  | 27,385    | 49,448                                |
| Silver produced (ounces):                   |           |                                       |
| Milled                                      | 1,636,147 | 3,229,514                             |
| Heap leached                                | 101,909   | 352,384                               |
|                                             | -----     | -----                                 |
| Total silver                                | 1,738,056 | 3,581,898                             |
| Mining cost/ton of ore and waste            | \$ --     | \$ 0.70                               |
| Milling cost/ton of ore                     | \$ 7.29   | \$ 6.75                               |
| Heap leaching cost/ton of ore               | \$ --     | \$ 1.91                               |
| Production cost per ounce of gold produced: |           |                                       |
| Direct mining expense                       | \$ 245    | \$ 155                                |
| Deferred stripping cost                     | (10)      | 5                                     |
| Inventory movements and other               | (1)       | 3                                     |
|                                             | -----     | -----                                 |
| Cash operating cost                         | 234       | 163                                   |
| Royalties                                   | 1         | 3                                     |
| Production taxes                            | --        | 6                                     |
|                                             | -----     | -----                                 |
| Total cash cost                             | 235       | 172                                   |
| Depreciation                                | 44        | 22                                    |
| Amortization                                | 8         | 28                                    |
| Reclamation and mine closure                | --        | 11                                    |
|                                             | -----     | -----                                 |
| Total production costs                      | \$ 287    | \$ 233                                |
|                                             | -----     | -----                                 |
| Average gold-to-silver price ratio (1)      | 61.1:1    | 55.1:1                                |
| Milled:                                     |           |                                       |
| Ore processed (tons/day)                    | 11,209    | 11,313                                |
| Total ore processed (000 tons)              | 1,020     | 1,029                                 |
| Gold grade (ounce/ton)                      | 0.043     | 0.054                                 |
| Silver grade (ounce/ton)                    | 2.69      | 3.78                                  |
| Gold recovery rate (%)                      | 45.7      | 52.2                                  |
| Silver recovery rate (%)                    | 66.1      | 72.7                                  |
| Heap leached:                               |           |                                       |
| Ore processed (tons/day)                    | --        | 9,010                                 |
| Total ore processed (000 tons)              | --        | 820                                   |
| Gold grade (ounce/ton)                      | --        | 0.019                                 |
| Silver grade (ounce/ton)                    | --        | 0.83                                  |
| Recovery rates (2)                          |           |                                       |
| <hr style="border-top: 1px dashed black;"/> |           |                                       |

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

- (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.

19

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

At McCoy/Cove in Nevada, gold production was 27,385 ounces for the second quarter compared with 49,448 ounces in the second quarter of 2000. Silver production amounted to 1.7 million ounces in the second quarter compared with 3.6 million ounces in the second quarter of 2000. The lower production level reflects the processing of low grade stockpiles as mining was completed last year. With the lower production, cash operating costs for the quarter were \$234 per ounce, compared to \$163 per ounce in 2000.

The Company had been concerned about its ability to ensure the processing of stockpiled concentrates, given the shutdown of a major smelter which had been contracted to handle this material. During the quarter, however, alternate arrangements were secured and the processing challenge has been overcome. Therefore, the Company has revised its production forecast upward for the full year to 90,000 ounces of gold from 60,000 ounces and 6.5 million ounces of silver from the previous 5.0 million ounces. Cash operating costs per ounce for the year are now expected to be \$250 compared with \$275 per ounce previously disclosed.

Reclamation activities continued during the quarter with contouring of rock stockpiles, infiltration basins, and leach pads. Contouring of slopes, application of an alluvial growth media, and seeding with a mixture of native plant species has been accomplished on 1,571 acres. Reclamation will be underway on an additional 500 acres by the end of the year.

20

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

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

Three months ended  
June 30

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

| OPERATING DATA                              |    | 2001     |    | 2000     |    |
|---------------------------------------------|----|----------|----|----------|----|
| Gold produced (ounces)                      |    | 34,756   |    | 38,359   |    |
| Mining cost/ton of ore                      | C  | \$ 48.14 | C  | \$ 38.50 | C  |
| Milling cost/ton of ore                     | C  | \$ 13.54 | C  | \$ 14.45 | C  |
| Production cost per ounce of gold produced: |    |          |    |          |    |
| Canadian dollars:                           |    |          |    |          |    |
| Direct mining expense                       | C  | \$ 400   | C  | \$ 341   | C  |
| Deferred mine development cost              | C  | \$ (18)  | C  | \$ (4)   | C  |
| Inventory movements and other               | C  | \$ 2     | C  | \$ --    | C  |
| Cash operating cost                         | C  | \$ 384   | C  | \$ 337   | C  |
| U.S. dollars                                |    |          |    |          |    |
| Cash operating costs                        | US | \$ 230   | US | \$ 213   | US |
| Royalties                                   |    | --       |    | --       |    |
| Production taxes                            |    | --       |    | --       |    |
| Total cash cost                             |    | 230      |    | 213      |    |
| Depreciation                                |    | 30       |    | 28       |    |
| Amortization                                |    | 7        |    | 9        |    |
| Reclamation and mine closure                |    | 14       |    | 17       |    |
| Total production costs                      | US | \$ 281   | US | \$ 267   | US |
| Milled:                                     |    |          |    |          |    |
| Ore processed (tons/day)                    |    | 1,818    |    | 1,934    |    |
| Total ore processed (000 tons)              |    | 165      |    | 176      |    |
| Grade (ounce/ton)                           |    | 0.226    |    | 0.235    |    |
| Recovery rate (%)                           |    | 92.9     |    | 92.9     |    |

Gold production for the quarter was 34,756 ounces compared with 38,359 ounces in the second quarter of 2000. Cash operating costs were \$230 per ounce compared to \$213 per ounce in the second quarter of 2000. Mining costs were higher and grades lower than in 2000 due to the sequencing of production areas in the mine. Production rates are expected to improve in the second half of the year with Lupin meeting its 2001 production target of 150,000 ounces. The cash operating costs include a \$0.7 million benefit (\$19 per ounce) in the second quarter 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.

The internal hoisting system (winze) was commissioned during the quarter and is operating well, allowing a more cost effective method of transporting ore and waste from the lower levels of the mine.

21

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

For the Three and Six Months Ended June 30, 2001  
(U.S. dollars)

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

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

| OPERATING DATA                              | Three months ended |                 |
|---------------------------------------------|--------------------|-----------------|
|                                             | 2001               | June 30<br>2000 |
| Gold produced (ounces)                      | 16,373             | 24,260          |
| Mining cost/ton of ore                      | \$ 23.37           | \$ 20.01        |
| Milling cost/ton of ore                     | \$ 10.15           | \$ 11.15        |
| Production cost per ounce of gold produced: |                    |                 |
| Direct mining expense                       | \$ 192             | \$ 238          |
| Deferred mine development cost              | --                 | --              |
| Inventory movements and other               | 82                 | (37)            |
|                                             | -----              | -----           |
| Cash operating cost                         | 274                | 201             |
| Royalties                                   | 12                 | 13              |
| Production taxes                            | 1                  | 1               |
|                                             | -----              | -----           |
| Total cash cost                             | 287                | 215             |
| Depreciation                                | 7                  | 10              |
| Amortization                                | 40                 | 8               |
| Reclamation and mine closure                | 15                 | 15              |
|                                             | -----              | -----           |
| Total production costs                      | \$ 349             | \$ 248          |
|                                             | -----              | -----           |
| Milled:                                     |                    |                 |
| Ore processed (tons/day)                    | 1,303              | 1,378           |
| Total ore processed (000 tons)              | 119                | 125             |
| Grade (ounce/ton)                           | 0.167              | 0.223           |
| Recovery rate (%)                           | 82.7               | 86.9            |

Production for the second quarter was 16,373 ounces, down from 24,260 ounces in the second quarter of 2000. Production in 2001 was from existing stockpiles and the K-2 mine and, as anticipated, was lower than 2000 production, due to the completion of mining at the Lamefoot deposit in the fourth quarter of 2000. Cash operating costs per ounce were \$274 in the second quarter of 2001 compared to \$201 per ounce in the second quarter of 2000, reflecting the lower production. Kettle River is expected to produce 60,000 ounces with cash operating costs of \$240 per ounce in 2001.

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

22

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

For the Three and Six Months Ended June 30, 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 second quarter of 2001, the Company spent \$1.1 million on exploration activities. Exploration costs are expensed as

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

incurred.

In 1997, the Company deferred a final construction decision on its planned gold mine, the 100% owned Aquarius in Ontario, Canada. Development holding costs are expensed as incurred. During the second quarter of 2001, the Company expensed \$0.1 million in holding costs related to Aquarius.

Other

See note 11 to the interim consolidated financial statements.

23

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

For the Three and Six Months Ended June 30, 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 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.

24

### ECHO BAY MINES LTD.

#### PART II - OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

Summa

See note 11 to the interim consolidated financial statements.

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

Other

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

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

(a) The Company's Annual General Meeting was held June 15, 2001.

(c) (1) Election of Directors

| Nominee<br>-----           | Votes For<br>----- | Votes Against<br>or Withheld<br>----- |
|----------------------------|--------------------|---------------------------------------|
| John Norman Abell          | 69,747,510         | 985,907                               |
| Latham Cawthra Burns       | 69,710,331         | 1,023,086                             |
| John Gilray Christy        | 69,810,255         | 923,162                               |
| Peter Clarke               | 69,761,268         | 972,149                               |
| Robert Leigh Leclerc, Q.C. | 69,816,834         | 916,583                               |
| John Frederick McOuat      | 69,747,506         | 985,911                               |
| Monica Elizabeth Sloan     | 69,701,288         | 1,032,129                             |

(c) (2) Appointment of Ernst & Young LLP as Auditors of the Company.

|                                  | Votes For<br>----- | Votes Against<br>or Withheld<br>----- |
|----------------------------------|--------------------|---------------------------------------|
| Appointment of Ernst & Young LLP | 70,016,826         | 368,854                               |

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K                      None.

25

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)

August 3, 2001

-----  
Date

/s/ David A. Ottewell

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