COEUR D ALENE MINES CORP
Form 10-K/A
July 26, 2002

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Amendment No. 3 to**

# FORM 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2001

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

*Commission File Number 1-8641*

**COEUR D ALENE MINES CORPORATION**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Idaho | 82-0109423 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 505 Front Ave., P.O. Box I<br>Coeur d Alene, Idaho | 83816 |
| (Address of principal Executive Offices) | (Zip Code) |

Registrant s telephone number, including area code: (208) 667-3511

Securities Registered pursuant to Section 12(b) of the Act:

Common Stock, par value $1.00 per share
6 3/8% Convertible Subordinated Debentures due January 31, 2004
7 1/4% Convertible Subordinated Debentures due October 31, 2005
13 3/8% Convertible Senior Subordinated Notes due December 31, 2003

(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

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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 [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

State the aggregate market value of the voting stock held by non-affiliates of the registrant. (The aggregate market value is computed by reference to the last sale price of such stock, as of March 22, 2002, which was $1.23 per share.)

$69,832,070

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of March 22, 2002.

56,774,041 shares of Common Stock, Par Value $1.00

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We filed our original Annual Report on Form 10-K for the year ended December 31, 2001 with the Securities and Exchange Commission ( SEC ) on March 29, 2002, filed our Amendment No. 1 to the Annual Report on Form 10-K/A containing Exhibit 23 with the SEC on April 1, 2002, and filed our Amendment No. 2 to the Annual Report on Form 10-K/A containing the information required under Part III with the SEC on April 30, 2002. We are filing this Amendment No. 3 to the Annual Report on Form 10-K/A to amend and restate Items 1, 6, 7 and 7A in their entirety. For the purpose of this Amendment No. 3 to the Annual Report on Form 10-K/A, we have amended and restated in its entirety our original Annual Report on Form 10-K filed on March 29, 2002, as amended by Amendment No. 1 to the Annual Report on Form 10-K/A filed on April 1, 2002, and Amendment No. 2 to the Annual Report on Form 10-K/A filed on April 30, 2002. In order to preserve the nature and character of the disclosures as of March 29, 2002 and, with respect to Part III only, as of April 30, 2002, no attempt has been made in this Amendment No. 3 to the Annual Report on Form 10-K/A to modify or update such disclosures for events which occurred subsequent to the original filings on March 29, 2002 and April 30, 2002, respectively.

## PART I

### Item 1. Business

### INTRODUCTION

Coeur d Alene Mines Corporation is the largest primary silver producer in North America and is engaged through its subsidiaries in the operation and/or ownership, development and exploration of silver and gold mining properties and companies located primarily within the United States (Nevada, Idaho and Alaska) and South America (Bolivia and Chile). Coeur d Alene Mines Corporation and its subsidiaries are hereinafter referred to collectively as Coeur or the Company.

### OVERVIEW OF MINING PROPERTIES AND INTERESTS

The Company s most significant mining properties and interests are:

The **Rochester Mine** is a silver and gold surface mining operation located in northwestern Nevada and is 100% owned and operated by Coeur. It is one of the largest and lowest cost of production primary silver mines in the United States. During 1999, the Company acquired the mineral rights to the **Nevada Packard** property which is located one and one-half miles south of the Rochester mine. The Company is in the process of permitting the Nevada Packard property and may commence mining there in the second half of 2002.

Coeur owns 100% of the capital stock of **Coeur Silver Valley ( Silver Valley** ), which owns and operates the **Galena** underground silver mine that resumed production in May 1997 and owns the **Coeur** underground silver mine that discontinued operations on July 2, 1998. In addition, Silver Valley owns the **Caladay** property that adjoins the Galena Mine and has operating control of several contiguous exploration properties in the Coeur d Alene Silver Mining District of Idaho.

Coeur owns 100% of the **Cerro Bayo Mine** (formerly the Fachinal Mine) in southern Chile, which is a high grade gold and silver underground mine. The Cerro Bayo deposit was discovered during 2000 and exploration drilling continued thereafter. Initial ramp development commenced in late 2001 and ore processing is scheduled to start in May 2002. The Company previously suspended operations at the Fachinal Mine, adjacent to the Cerro Bayo deposit, in December of 2000 in order to develop the Cerro Bayo Mine and prepare it for production.

Coeur owns 100% of Empressa Minera Manquiri S.A. ( Manquiri ), a Bolivian company, that controls the mining rights for the **San Bartolomé** silver project, which is a silver property in Bolivia where a final feasibility study is scheduled for completion in 2002. Depending on the price of silver, construction and development of San Bartolomé could start in late 2002 with production commencing in 2004.

The Company owns 100% of the **Kensington Property**, located north of Juneau, Alaska and is evaluating it as an underground gold mine. Optimization studies completed in 1999 and 2000 estimated cash operating costs of $200 per ounce of gold and estimated capital costs to develop the mine of approximately $150 million. Coeur is currently in the process of seeking a joint venture partner for the Kensington Property.

Coeur also has interests in other properties which are the subject of silver or gold exploration activities at which no mineable ore reserves have yet been delineated.

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**Exploratory Mining Properties**

The Company either directly or through wholly-owned subsidiaries owns, leases and has interests in certain exploration-stage mining properties located in the United States and Chile. In keeping with its overall efforts to focus its resources, the Company conducted approximately 52% of its exploration activities during 2001 on or near existing properties where infrastructure and production facilities are already in place.

**SIGNIFICANT DEVELOPMENTS IN 2001**

On February 7, 2001, the Company sold (effective as of December 31, 2000) its 50% shareholding in Gasgoyne Gold Mines NL ( Gasgoyne ), which owns 50% of the Yilgarn Star Mine located in Western Australia and certain other exploration stage properties.

In connection with its ongoing debt restructuring programs, the Company reduced its convertible indebtedness by $59.1 million during 2001, enabling the Company to record an extraordinary gain of $48.2 and significantly reduce future interest payments.

The Company commenced the development of the 100%-owned Cerro Bayo high-grade gold and silver mine in Chile, where production is expected to begin in May 2002.

The Company commenced a final feasibility study at its 100%-owned San Bartolomé silver property in Bolivia with the assistance of a $760,000 grant from the U.S. Trade and Development Agency.

The Company introduced trackless mining in selected areas of the Galena Mine at Silver Valley that will improve workforce productivity by increasing the number of tons of ore that can be mined per manshift and therefore significantly reducing future cash mining costs per ton of ore extracted.

In March 2001, the Company entered into a final settlement agreement with the U.S. Government, which terminated the Company s involvement and obligations with respect to litigation for the cleanup of the Coeur d Alene Basin.

The Company was awarded the industry s top safety honor in 2001, the Sentinals of Safety Award for surface mining operations at the Company s Rochester mine near Lovelock, Nevada.

In January 2001, the Company announced that it received notice from the New York Stock Exchange that the Company had fallen below the continued listing requirement relating to its market capitalization and shareholders equity. During the year, the Company submitted and periodically updated a plan pursuant to which it expects to be in compliance with that listing requirement by May 27, 2002 (within 18 months of receipt of the Exchange s notice).

The Petorca Mine, an underground and surface gold and silver mine wholly-owned and operated by Coeur in central Chile, was closed by the Company in August 2001 due to high cash production costs and continued low gold prices.

**SIGNIFICANT DEVELOPMENTS IN EARLY 2002**

In connection with its ongoing debt restructuring programs, Coeur further reduced its convertible indebtedness by $9.1 million during the period January 1, 2002 to March 15, 2002. The Company has entered into agreements, which are expected to close before March 31, 2002 to exchange $3.4 million in face value of its 6% Convertible Subordinated Debentures due June 2002 for

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3.4 million shares of the Company s common stock. In addition, $5.7 million of the Company s 13 3/8% Convertible Senior Subordinated Notes due December 2003, were voluntarily converted into 4.7 million shares of the Company s common stock per the terms of the indenture.

The Company discovered additional high-grade gold and silver mineralization at the Cerro Bayo property in southern Chile in January and February 2002.

In February 2002, the Company entered into agreements in principle to acquire 100% of the Martha high-grade underground silver mine from Yamana Resources Inc. The Martha mine is located in Argentina approximately 270 miles east of the Cerro Bayo Mine. Ore produced from the Martha Mine will be transported to and processed at the Cerro Bayo Mine. In addition, the Company has agreed to purchase by way of a private placement 10.0 million shares (approximately 10%) of Yamana Resources, Inc. common stock.

**BUSINESS STRATEGY**

The Company s business strategy is to capitalize on the ore reserve/mineralized material bases located at its operating mines and the expertise of its management team to become the leading primary silver production company through long-term, cash flow generating growth. The principal elements of the Company s business strategy are as follows: (i) increase the Company s silver production and reserves in order to remain the nation s largest primary silver producer and one of the world s larger primary silver producers; (ii) decrease cash costs and increase production at the Company s existing silver mining operations; (iii) acquire operating mines, exploration and/or development properties with a view to reducing the Company s cash and total costs, provide short-term positive cash flow return and expand its silver production base and reserves; and (iv) continue to explore for new silver discoveries primarily near its existing mine sites.

**SOURCES OF REVENUE**

The Rochester Mine and Silver Valley s Galena Mine, each operated by the Company, constituted the Company s principal sources of mining revenues in 2001. The following table sets forth information regarding the percentage contribution to the Company s total revenues (i.e., revenues from the sale of concentrates and doré plus other income) by the sources of those revenues during the past five years:

| Mine/Company | Coeur Percentage Ownership at December 31, 2001 | Percentage of Total Revenues in Years Ended December 31, 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Rochester Mine | 100% | 40.5% | 56.2% | 49.2% | 51.3% | 68.2% |
| Petorca Mine(1) | 100% | 11.3 | 8.5 | 8.0 | 6.5 | 7.0 |
| Fachinal Mine(2) | 100 | 9.8 | 14.6 | 8.0 | 9.6 | 0.2 |
| Silver Valley(3) | 100 | 0.9 | (0.9) | 4.6 | 17.0 | 22.0 |
| Gasgoyne(4) | | 5.2 | 12.1 | 9.2 | 9.2 | (1.2) |
| Golden Cross Mine(5) | 80 | 23.7 | 0.2 | 19.4 | | |
| Other | | 8.6 | 9.3 | 1.6 | 6.4 | 3.8 |
| | | 100% | 100% | 100% | 100% | 100% |

(1) The Petorca Mine was closed in August 2001.

(2) Operations at the Fachinal mine were suspended December 2000.

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(3) The Company increased its ownership interest in Silver Valley from 50% to 100%, and commenced accounting for Silver Valley on a fully consolidated basis on September 9, 1999.

(4) The reported percentages reflect the fact that Coeur s interest in Gasgoyne s revenue was 35% prior to February 1997, 36% from March 1997 to May 1997 and 50% after May 1997. The Company s interest in Gasgoyne was reported in accordance with the equity method. The Company s interest in Gasgoyne was sold on February 7, 2001.(5) The Company discontinued mining and milling operations at the Golden Cross Mine in New Zealand in April 1998. The revenue received in 1999 represents the net proceeds received from the settlement of the outstanding litigation with Cyprus relating to the Golden

Cross mine.

**DEFINITIONS**

The following sets forth definitions of certain important mining terms used in this report.

**Cash Costs** are costs directly related to the physical activities of producing silver and gold, and include mining, processing and other plant costs, deferred mining adjustments, third-party refining and smelting costs, marketing expense, on-site general and administrative costs, royalties, in-mine drilling expenditures that are related to production and other direct costs. Sales of by-product metals are deducted from the above in computing cash costs. Cash costs exclude depreciation, depletion and amortization, corporate general and administrative expense, exploration, interest, and pre-feasibility costs and accruals for mine reclamation. Cash costs are calculated and presented using the Gold Institute Production Cost Standard applied consistently for all periods presented.

**Doré** is bullion produced by smelting which contains gold, silver and minor amounts of impurities.

**Gold** is a metallic element with minimum fineness of 999 parts per 1000 parts pure gold.

**Heap Leaching Process** is a process of extracting gold and silver by placing broken ore on an impermeable pad and applying a diluted cyanide solution that dissolves a portion of the contained gold and silver, which are then recovered in metallurgical processes.

**Mineralized Material** is gold and silver bearing material that has been physically delineated by one or more of a number of methods including drilling, underground work, surface trenching and other types of sampling. This material has been found to contain a sufficient amount of mineralization of an average grade of metal or metals to have economic potential that warrants further exploration evaluation. While this material is not currently or may never be classified as reserves, it is reported as mineralized material only if the potential exists for reclassification into the reserves category. This material cannot be classified in the reserves category until final technical, economic and legal factors have been determined. Under United States Securities and Exchange Commissions standards, a mineral deposit does not qualify as a reserve unless the recoveries from the deposit are expected to be sufficient to recover total cash and non-cash costs for the mine and related facilities and make a profit.

**Noncash costs** are costs that are typically accounted for ratably over the life of an operation and include depreciation, depletion and amortization of capital assets, accruals for the costs of final reclamation and long-term monitoring and care that are usually incurred at the end of mine life, and the amortization of the economic cost of property acquisitions, but exclude amortization of deferred tax purchase adjustments relating to property acquisitions.

**Ore Reserve** is the part of a mineral deposit which can be economically and legally extracted or produced at the time of the reserve determination.

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**Probable Reserve** is a part of a mineralized deposit which can be extracted or produced economically and legally at the time of the reserve determination. The quantity and grade and/or quality of a probable reserve is computed from information similar to that used for a proven reserve, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. Mining dilution has been factored into the estimation of probable reserves. The Company used a price estimate of $5.00 per ounce for silver, and $300 per ounce for gold in estimating probable reserves at December 31, 2001.

**Proven Reserves** are a portion of a mineral deposit which can be extracted or produced economically and legally at the time of the reserve determination. The quantity of a proven reserve is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and the sites for inspections, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of a proven reserve is well-established. Mining dilution has been factored into the estimation of proven reserves. The Company used a price estimate of $5.00 per ounce for silver and $300 per ounce for gold in estimating proven reserves at December 31, 2001.

**Run-of-mine Ore** is mined ore which has not been subjected to any pretreatment, such as washing, sorting or crushing prior to processing.

**Silver** is a metallic element with minimum fineness of 995 parts per 1000 parts pure silver.

**Stripping Ratio** is the ratio of the number of tons of waste material to the number of tons of ore extracted at an open-pit mine.

**Ton** means a short ton which is equivalent to 2,000 pounds, unless otherwise specified.

**Total Cash Costs per Ounce** are calculated by dividing the cash costs computed for each of the Company s mining properties for a specified period by the amount of gold equivalent or silver equivalent produced by that property during that same period. Management uses cash costs per ounce produced as a key indicator of the profitability of each of its mining properties. Gold and silver are sold and priced in the world financial markets on a US dollar per ounce basis. By calculating the cash costs from each of the Company s mines on the same unit basis, management can easily determine the gross margin that each ounce of gold and silver produced is generating.

**Total production costs** are the sum of cash costs and noncash costs.

Total cash costs per ounce is a non-GAAP measurement and investors are cautioned not to place undue reliance on it and are urged to read all GAAP accounting disclosures presented in the consolidated financial statements and accompanying footnotes.

**IMPORTANT FACTORS RELATING TO FORWARD-LOOKING STATEMENTS**

This report contains numerous forward-looking statements relating to the Company s gold and silver mining business, including estimated production data, expected operating schedules and other operating data and permit and other regulatory approvals. Such forward-looking statements are identified by the use of words such as believes, intends, expects, hopes, may, should, plan, projected, contemplates, anticipates or similar words. Actual production, operating schedules, results of operations, ore reserve and resource estimates and other projections and estimates could differ materially from those projected in the forward-looking statements. The factors that could cause actual results to differ materially from those projected in the forward-looking statements include (i) the risk factors set forth below under this Item 1, (ii) the risks and hazards inherent in the mining business (including environmental hazards, industrial accidents, weather or geologically related conditions),

(iii) changes in the market prices of gold and silver, (iv) the uncertainties inherent in the Company s production, exploratory and developmental activities, including risks relating to permitting and regulatory delays, (v) the uncertainties inherent in the estimation of gold and silver ore reserves, (vi) changes that could result from the Company s future acquisition of new mining properties or businesses, (vii) the effects of environmental and other governmental regulations, and (viii) the risks inherent in the ownership or operation of or investment in mining properties or businesses in foreign countries. Readers are cautioned not to put undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.

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**SILVER AND GOLD MINING OPERATIONS**

**North America**

**Rochester Mine (World s 7th Largest Primary Silver Mine)**

The Rochester Mine is a silver and gold surface mine located in Pershing County, Nevada, approximately 25 road miles northeast of Lovelock. The mine commenced operations in 1986. The Company owns 100% of the Rochester Mine by virtue of its 100% ownership of its subsidiary, Coeur Rochester, Inc. ( Coeur Rochester ). The property consists of 16 patented and 541 unpatented contiguous mining claims and 54 mill-site claims totaling approximately 11,000 acres.

Production at Rochester in 2001 was approximately 6.3 million ounces of silver and 78,201 ounces of gold, compared to 6.7 million ounces of silver and approximately 75,886 million ounces of gold in 2000. Mining operations for much of 2001 were confined to areas within and along the south and west boundaries of the Rochester pit. Cash costs per equivalent ounce of silver decreased by 6% to $3.65 per ounce in 2001, compared to $3.90 per ounce in 2000. Reduced cash costs were largely the result of ongoing optimization and cost cutting measures.

The mine utilizes the heap leaching process to extract both silver and gold from ore mined using conventional open pit methods. Approximately 40,560 tons of ore and waste per day were mined from the open pit in 2001 compared to 45,760 tons per day in 2000. The average strip ratio for the remaining life of the mine will vary based primarily on future gold and silver prices; however, it is anticipated to be less than 1:1.

Ore is crushed to approximately 3/8 inch and is then transported by conveyor and 85 and 150 ton trucks to leaching pads where solution is applied via drip irrigation to dissolve the silver and gold contained in the ore. Certain low-grade ores are hauled directly, as run-of-mine, by 85 ton haul trucks to leaching pads where solution is applied to dissolve the silver and gold contained in the ore. The solutions containing the dissolved silver and gold are collected in a processing plant where the zinc precipitation method is used to recover the silver and gold from solution.

Based upon actual operating experience and certain metallurgical testing, the Company estimates recovery rates of 59% for silver and 89% for gold. The leach cycle at the Rochester Mine requires approximately seven years from the point ore is placed on the leach pad until all recoverable metal is recovered. However, a significant proportion of metal recovery occurs in the early years.

A total of 152 reserve circulation and diamond drill holes were completed during 2001 comprising approximately 57,769 feet, including Nevada Packard drilling. Coeur has continued its program to reduce costs at Rochester as well as to replace reserves mined in 2001. A total of 37,000 feet in 88 reverse circulation holes were drilled at and near the Rochester pit in 2001 mainly to the south and west of the current pit boundary. As a result of the exploration efforts, Coeur added 9.4 million tons of proven and probable reserves containing 5.6 million ounces of silver, replacing 48% of the silver reserves mined during 2001, and containing 27,000 ounces of gold, replacing 30% of the gold reserves mined during 2001.

At the Nevada Packard satellite deposit, all work required for permitting the deposit for mining has been submitted to regulatory authorities in 2001. Mining at Nevada Packard is scheduled to commence in the second half of 2002.

In October of 2001, Coeur s Rochester mine was presented with the Sentinals of Safety Award for metal and non-metal surface mining operations. This is a very prestigious achievement as it represents the industry s highest safety award and the dedication and commitment of Coeur s Rochester employees to mine safety. Rochester also received a Certificate of Honor from the Joseph H. Holmes Safety Association for completing over four million working hours without the incidence of a single fatality or permanently disabling injury.

The Company s capital expenditures at the Rochester Mine totaled approximately $0.8 million in 2001. The Company plans approximately $2.2 million of capital expenditures at the mine during 2002, most of which is for Nevada Packard development, and planned expansion of the Stage IV leach pad.

Asarco Incorporated ( Asarco ), the prior lessee, has a net smelter royalty interest which is payable only when the market price of silver equals or exceeds $17.57 per ounce up to maximum rate of 5%. No royalties were required to be paid by the Company during the three years ended December 31, 2001.

**Year-end Proven and Probable Ore Reserves Rochester Mine**
(includes Nevada Packard)

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Tons (000 s) | 48,272 | 53,844 | 50,257 |
| Ounces of silver per ton | 1.09 | 0.93 | 0.85 |
| Contained ounces of silver (000 s) | 52,508 | 49,966 | 42,512 |
| Ounces of gold per ton | 0.008 | 0.008 | 0.007 |
| Contained ounces of gold | 381,000 | 410,000 | 346,000 |

**Year-end Mineralized Material**

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Tons (000 s) | 46,393 | 65,897 | 62,958 |
| Ounces of silver per ton | 0.82 | 0.65 | 0.76 |
| Ounces of gold per ton | 0.01 | 0.005 | 0.005 |

**Operating Data**

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| **Production** | | | |
| Tons ore mined (000 s) | 9,569 | 11,276 | 10,630 |
| Tons crushed/leached (000 s) | 9,537 | 10,996 | 11,884 |
| Ore grade silver (oz./ton) | 1.25 | 1.10 | 0.98 |
| Ore grade gold (oz./ton) | 0.009 | 0.009 | 0.008 |
| Silver produced (oz.) | 6,195,169 | 6,678,274 | 6,348,292 |
| Gold produced (oz.) | 70,396 | 75,886 | 78,200 |
| **Cost per Ounce of Silver Equivalent(1)** | | | |
| Cash costs | $ 3.97 | $ 3.90 | $ 3.65 |
| Noncash costs | 0.81 | 1.12 | 0.79 |
| Total production costs | $ 4.78 | $ 5.02 | $ 4.44 |

(1) Silver equivalent gold production is calculated by multiplying actual gold ounces produced by the ratio of the yearly average gold price to silver price. This total is then added to actual silver production for the year to determine total silver equivalent production for purposes of calculating cash and noncash costs per ounce.

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**Coeur Silver Valley (World s 11th Largest Primary Silver Mine)**

The Company acquired 50% of Silver Valley from Asarco on September 9, 1999, thereby increasing the Company s ownership interest to 100%. The benefits identified by Coeur when it consummated that acquisition included (i) an increase of 1.8 million ounces in the Company s estimated annual silver production, (ii) the addition of 16.2 million ounces of silver to its proven and probable reserves and significant mineralized material, (iii) the potential to further increase reserves and mineralized material through systematic exploration, (iv) the potential to increase production at the Galena Mine and reduce cash costs, and (v) the consolidation of the Company s ownership position and control of Idaho s Silver Valley.

Silver Valley owns the Coeur and Galena Mines and the Caladay property situated in the Coeur d Alene Mining District of Idaho. Silver Valley recommenced operations at the Coeur mine portion of its property in June 1996 and continued mining existing reserves there through July 2, 1998, when operations were terminated after known reserves at the Coeur mine were depleted. Silver Valley resumed production at the Galena Mine in May 1997 and operations continue.

Silver Valley plans to continue exploratory and developmental activities at the Coeur, Galena and Caladay Mines as well as at several contiguous properties in the Coeur d Alene Mining District with a view toward the development of new silver reserves.

**Galena Mine**

The Galena Mine property is located immediately west of the City of Wallace in Shoshone County in northern Idaho. The property consists of 52 patented mining claims and 25 unpatented mining claims totaling approximately 1,100 acres.

Silver production at the Galena Mine in 2001 was 4.5 million ounces of silver, an increase of 12% as compared to 4.0 million ounces in 2000. Accelerated underground development has provided much improved access to the higher-grade, most productive vein systems at depth such as the 117 and 72 veins.

Total cash costs for 2001 increased slightly to $4.62 per ounce compared to $4.59 per ounce in 2000. Cash costs would have been significantly lower than the previous year except for difficult ground conditions that temporarily restricted full access to some of the high-grade veins and set production back from areas designed for mechanized mining and bulk stopping. Measures have been taken to alleviate these problems and the mechanized mining initiative has resumed. The introduction of a new sand backfill system has also been instrumental in significant operating improvements experienced in January 2002 when cash costs declined to $4.05 per ounce of silver produced.

A comprehensive geological study of the immediate mine area has led to a much greater understanding of the various stratigraphic and structural ore controls at Coeur Silver Valley. As a direct consequence, Coeur has been able to discover new high-grade silver veins and to more efficiently extend many of the most prolific vein systems to depth and, in some instances, back towards the upper levels of the Galena Mine. Of particular importance is the very productive 117 vein that has already been traced back up to the 3,100 level. The 2001 exploration drilling program consisted of 129 diamond drill holes totaling 39,513 feet. The Company added 210,000 tons of proven and probable reserves containing 6.0 million ounces of silver during 2001, which more than replaced reserves mined during the year.

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The Galena Mine is an underground silver-copper mine and is served by two vertical shafts. The No. 3 shaft is the primary production shaft and is 5,800 feet deep. The Galena shaft primarily provides utility access for water, electrical power and sand backfill for underground operations.

The mine utilizes the drift and fill mining method with sand backfill to extract ore from the high grade silver-copper vein deposits that constitute the majority of the ore reserves. Silver and copper are recovered by a flotation mill that produces a silver rich concentrate which is sold to third-party smelters in Canada. Silver recovery through the mill averaged 96% in 2001 and in 2000.

Waste material from the milling process is deposited in a tailings pond located approximately two miles from the minesite. The tailings containment pond has capacity for approximately nine additional years at current production rates.

Total capital expenditures by Silver Valley at the Galena Mine in 2001 were $3.2 million of which $2.2 million was for mine development. Coeur made this significant capital investment at the Galena Mine as part of a long-term strategy to increase annual production to five million ounces.

Silver Valley has planned for capital expenditures of approximately $2.1 million for the Galena Mine during 2002. Mine development will again account for the majority of this expenditure.

**Year-end Proven and Probable Ore Reserves Galena Mine(1)**

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Tons (000 s) | 1,858 | 1,621 | 1,471 |
| Ounces of silver per ton | 18.51 | 19.13 | 20.43 |
| Contained ounces of silver (000 s) | 34,386 | 31,015 | 30,042 |

**Year-end Mineralized Material(2)**

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Tons (000 s) | 1,200 | 1,731 | 1,897 |
| Ounces of silver per ton | 10.31 | 11.11 | 11.00 |

**Operating Data (Coeur s interest)**

| | 1999(3) | 2000(3) | 2001(3) |
|---|---|---|---|
| **Production** | | | |
| Tons ore mined | 131,646 | 204,576 | 198,294 |
| Ore grade silver (oz./ton) | 17.61 | 20.43 | 23.66 |
| Recovery (%) | 97 | 96 | 96 |
| Silver produced (oz.) | 2,238,370 | 4,013,891 | 4,507,652 |
| **Cost per Ounce of Silver** | | | |
| Cash costs | $ 5.09 | $ 4.59 | $ 4.62 |
| Noncash costs | 0.93 | 0.68 | 0.76 |
| Total production costs | $ 6.02 | $ 5.27 | $ 5.38 |

(1) The Galena Mine reserve estimate is based on a minimum mining width of 4 to 4.5 feet diluted to 5.0 feet minimum width for most silver-copper and silver-lead veins. Cutoff grade is based on the cost of breaking and producing ore from a stope, but does not include development costs and administrative overhead.

(2) Mineralized material

includes both the Galena and Coeur mines.(3) Operating data in 1999 reflects the Company s 50% interest in the Galena Mine from January 1 to August 31, 1999 and 100% interest from September 1 to December 31, 1999. Operating data in 2000 and 2001 reflects the Company s 100% interest.

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**Coeur Mine**

The Coeur Mine is an underground silver mine located adjacent to the Galena Mine in the Coeur d Alene Mining District in Idaho, and consists of approximately 868 acres comprised of 38 patented mining claims and four unpatented mining claims.

Operations at the Coeur Mine were suspended on April 3, 1991 due to then prevailing silver prices and placed on a care and maintenance basis to conserve ore reserves. Silver Valley resumed production activities at the Coeur Mine in June 1996 and terminated operations there on July 2, 1998 after known reserves were depleted.

There was no mining activity at the Coeur Mine in 2002 and the property remained on care and maintenance. However, the Company believes that significant potential exists to discover additional high grade silver veins beneath the current limit of the underground workings.

**Caladay Property**

The Caladay property adjoins the Galena Mine. Prior to its acquisition by the Company in 1991, approximately $32.5 million was expended on the property to construct surface facilities, a 5,101 ft. deep shaft and associated underground workings to explore the property. Based on Silver Valley s analysis of existing Galena Mine underground workings and drilling results on the Galena Property, the Company believes that similar geologic conditions which exist at the Galena may extend into the Caladay property below the level of the current Caladay workings. In addition, the Caladay facilities are used to benefit the Galena Mine operations, by exhausting ventilation.

**SILVER AND GOLD DEVELOPMENT PROPERTIES**

In early 2001, the Company announced its intention to consider the sale of its Chilean properties, including the Fachinal and Petorca Mines. In early 2002, the Company announced that it would no longer consider offers to purchase the Fachinal Mine and that it would commence development of the Cerro Bayo property which is located nine miles east of the Fachinal Mine processing facilities. Mining operations at the Fachinal and Petorca Mines were discontinued in December 2000 and August 2001, respectively.

**South America**

**Chile Cerro Bayo Mine (formerly the Fachinal Mine)**

The Fachinal property covers about 90 square miles and is located south of Coihaique, the capital of Region XI in southern Chile, and approximately 10 miles west of the town of Chile Chico. The project lies on the east side of the Andes mountain range at an elevation ranging from 600 to 4,500 feet and is serviced by a gravel road from Chile Chico. The Fachinal property is known to include multiple epithermal veins containing gold and silver. The Company has been granted exploitation concessions (the Chilean equivalent to an unpatented claim except that the owner does not have title to the surface which must be separately acquired from the surface owner) covering the mineralized areas of the Fachinal property as well as the necessary surface rights to permit mining.

Mining operations at the Fachinal Mine, which consisted of both surface and underground mining, were discontinued in December 2000 in order for the Company to focus on the development of the Cerro Bayo deposit. The Company changed the name of the Fachinal Mine to the Cerro Bayo Mine in late 2001.

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The ore processing mill at the Cerro Bayo Mine uses the standard flotation process to produce a high grade gold and silver concentrate. The concentrate previously processed at this mill was sold to third-party smelters, primarily in Japan. The mill has a design capacity of 1,650 tons per day. The Company estimates, based on operating experience, recovery rates of 90% for gold and 89% for silver. Electrical power is generated on-site by diesel generators and process water is obtained from a combination of the adjacent General Carrera Lake and from tailings re-circulation.

During 2001, the Company aggressively continued its exploration and development program at the Cerro Bayo deposit, which is located approximately nine miles east of the processing facilities. This zone includes a vein structure named Lucero that has a greater strike length, width and grade than anything previously encountered in the district. The Cerro Bayo deposit, which consists of multiple veins and veinlettes is characterized by a surface expression of at least 8,200 feet along strike and is up to 3,300 feet in width. The Lucero vein, which at the present time contains the majority of the reserves within this zone, has been traced for more than 2,600 feet along strike and to approximately 250 feet at depth. The Lucero vein is open in all directions and contains sections that are characterized by high-grade gold and silver mineralization.

Construction of two ramps to intersect the high-grade Lucero Vein in the Cerro Bayo deposit commenced in November 2001 and were completed in February 2002. During construction, three additional mineralized high-grade gold and silver vein systems were discovered, the Celia, Soledad East and Andrea, in addition to a mineralized loop of the main Lucero vein. Completion of the two access ramps provided new geological information as well as new discoveries. Sampling programs on both the Lucero and Luz Eliana veins also have encountered grades and thickness in excess of reserve model expectations. Development drifting is underway to the north and south of the upper and lower access ramp along the Lucero and Luz Eliana veins toward previously delineated high-grade ore zones. Both surface and underground diamond drill programs are also underway to test these vein structures for additional high-grade gold and silver mineralization.

Coeur previously had prepared a detailed three-year mine plan based solely on proven and probable reserves with initial production to begin in May 2002. In light of the recent discoveries, projected production in 2002 has been increased from approximately 60,000 gold equivalent ounces to 82,000 gold equivalent ounces. Total cash costs are estimated to be less than $150 per ounce in the initial year of mining operations.

The total capital investment to develop Cerro Bayo for production is estimated at approximately $5 million to $6 million, which includes a significant recoverable working capital component. Total capital expenditures at the Cerro Bayo property in 2001 were $2.3 million and the Company plans approximately $2.5 million of additional capital expenditures there in 2002. The Company has been in contact with several banks and lending institutions interested in providing short-term project financing to cover the needs for working capital and continued development.

During 1999, the Company exercised its option to purchase 100% of the Furioso property located approximately 50 miles southwest of the Cerro Bayo mine. The high-grade Furioso ores will be processed at the Cerro Bayo mill. During 2000, the Company completed its 11-mile portion of a new road to allow haulage of Furioso ore to Cerro Bayo at a cost of $1.8 million. The government has committed to, and is currently working to complete, the balance of the access road. Production from Furioso is expected to start in the third quarter of 2002 and will be in addition to ore mined from the Cerro Bayo deposit.

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**Year-end Proven and Probable Ore Reserves (1) Cerro Bayo Mine**

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Tons (000 s) | 510 | 787 | 855 |
| Ounces of silver per ton | 4.27 | 8.69 | 8.25 |
| Contained ounces of silver (000 s) | 2,181 | 6,838 | 7,047 |
| Ounces of gold per ton | 0.11 | 0.17 | 0.14 |
| Contained ounces of gold | 56,000 | 134,000 | 122,000 |

**Year-end Mineralized Material(1)**

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Tons (000 s) | 1,961 | 2,166 | 1,675 |
| Ounces of silver per ton | 5.18 | 4.80 | 7.10 |
| Ounces of gold per ton | 0.11 | 0.09 | 0.12 |

**Operating Data(2)**