

Edgar Filing: COEUR D ALENE MINES CORP - Form 10-Q/A

COEUR D ALENE MINES CORP  
Form 10-Q/A  
August 29, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C.

FORM 10-Q/A No. 1

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Amendment No. 1 to Quarterly Report on Form 10-Q for the period ended  
June 30, 2002.

COEUR D'ALENE MINES CORPORATION

-----  
(Exact name of Registrant as specified in its charter)

|  |                             |   |
|--|-----------------------------|---|
| Idaho  | 1-8641                      | 82-0109423                              |
| -----  | -----                       | -----                                   |
| (State or other jurisdiction<br>of incorporation)      | (Commission<br>File Number) | (IRS Employer<br>Identification Number) |
| 505 Front Avenue, P.O. Box "I"<br>Coeur d'Alene, Idaho |                             | 83814                                   |
| -----  |                             | -----                                   |
| (Address of principal executive offices)               |                             | (zip code)                              |

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

The undersigned registrant hereby includes the following portion of its  
Quarterly Report on Form 10-Q for the period ended June 30, 2002, as set forth  
in the pages attached hereto:

Part I. Item 1. Financial Statements.

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

COEUR D'ALENE MINES CORPORATION

Date: August 29, 2002

By: /s/ Wayne L. Vincent

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Wayne L. Vincent  
Controller and Chief Accounting Officer

COEUR D'ALENE MINES CORPORATION

AMENDMENT NO. 1 TO QUARTERLY REPORT ON FORM 10-Q  
FOR THE PERIOD ENDED JUNE 30, 2002

We filed our original Quarterly Report on Form 10-Q for the quarter  
ended June 30, 2002 with the Securities and Exchange Commission on August 19,  
2002. We are filing this Amendment No. 1 to the Quarterly Report on Form 10-Q to  
amend and restate Part I, Item 1 in its entirety. This Amendment No. 1 to the  
Quarterly Report on Form 10-Q revises Note I ("New Accounting Standards and

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Requirements") of the Notes to the Consolidated Financial Statements to state that the Company has adopted SFAS No. 145. No other revisions to the Quarterly Report Form 10-Q for the quarter ended June 30, 2002 are made by this amendment.

### PART I - Financial Information (unaudited)

Item 1.

#### COEUR D'ALENE MINES CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited)

|   | June 30,<br>2002 | December 31,<br>2001 |
|---|------------------|----------------------|
| (In Thousands)  |                  |                      |
| <b>ASSETS</b>   |                  |                      |
| <b>CURRENT ASSETS</b>                                   |                  |                      |
| Cash and cash equivalents                               | \$ 11,955        | \$ 14,714            |
| Short-term investments                                  | 763              | 3,437                |
| Receivables and prepaid expenses                        | 6,217            | 5,902                |
| Inventories   | 47,636           | 46,286               |
|   | 66,571           | 70,339               |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                    |                  |                      |
| Property, plant and equipment                           | 100,580          | 99,096               |
| Less accumulated depreciation                           | (69,390)         | (65,422)             |
|   | 31,190           | 33,674               |
| <b>MINING PROPERTIES</b>                                |                  |                      |
| Operational mining properties                           | 121,410          | 117,555              |
| Less accumulated depletion                              | (82,936)         | (79,697)             |
|   | 38,474           | 37,858               |
| Developmental properties                                | 46,724           | 46,685               |
|   | 85,198           | 84,543               |
| <b>OTHER ASSETS</b>                                     |                  |                      |
| Restricted investments                                  | 11,591           | 11,219               |
| Debt issuance costs, net of accumulated<br>amortization | 3,585            | 3,262                |
| Other   | 4,537            | 7,343                |
|   | 19,713           | 21,824               |
|   | \$ 202,672       | \$ 210,380           |

See notes to consolidated financial statements.

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(Unaudited)

|   | June 30,<br>2002 | December 31,<br>2001 |
|---|------------------|----------------------|
|   | -----            | -----                |
|   | (In Thousands)   |                      |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |                  |                      |
| CURRENT LIABILITIES   |                  |                      |
| Accounts payable  | \$ 5,637         | \$ 3,721             |
| Accrued liabilities   | 8,044            | 7,561                |
| Accrued interest payable  | 2,274            | 2,720                |
| Accrued salaries and wages  | 3,947            | 4,542                |
| 6% convertible subordinated debentures<br>due 2002  | -                | 23,171               |
|   | -----            | -----                |
| TOTAL CURRENT LIABILITIES   | 19,902           | 41,715               |
| LONG-TERM LIABILITIES   |                  |                      |
| 13 3/8% convertible senior subordinated<br>notes due December 2003 (Series I)   | 25,327           | 41,399               |
| 13 3/8% convertible senior subordinated<br>notes due December 2003 (Series II)<br>(net of discount of \$5,175)  | 16,304           | -                    |
| 6 3/8% convertible subordinated debentures<br>due January 2004  | 65,457           | 66,270               |
| 7 1/4% convertible subordinated debentures<br>due October 2005  | 14,394           | 14,650               |
| Reclamation and mine closure  | 13,696           | 14,462               |
| Other long-term liabilities   | 5,663            | 5,096                |
|   | -----            | -----                |
| TOTAL LONG-TERM LIABILITIES   | 140,841          | 141,877              |
| SHAREHOLDERS' EQUITY  |                  |                      |
| Common Stock, par value \$1.00 per share-<br>authorized 125,000,000 shares, issued<br>80,090,060 and 49,278,232 shares at June 30,<br>2002 and December 31, 2001 (including 1,059,211<br>shares held in treasury), respectively | 80,090           | 49,278               |
| Capital surplus   | 395,607          | 388,050              |
| Accumulated deficit   | (420,750)        | (397,999)            |
| Shares held in treasury   | (13,190)         | (13,190)             |
| Accumulated other comprehensive income  | 172              | 649                  |
|   | -----            | -----                |
|   | 41,929           | 26,788               |
|   | -----            | -----                |
|   | \$ 202,672       | \$ 210,380           |
|   | =====            | =====                |

See notes to consolidated financial statements.

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|  | 3 MONTHS ENDED<br>JUNE 30 |            | 6 MONTHS ENDED<br>JUNE 30 |             |
|--|---------------------------|------------|---------------------------|-------------|
|  | 2002                      | 2001       | 2002                      | 2001        |
| (In thousands except for per share data)               |                           |            |                           |             |
| REVENUES   |                           |            |                           |             |
| Product sales  | \$ 19,565                 | \$ 18,213  | \$ 36,034                 | \$ 36,219   |
| Interest and other                                     | 2,564                     | 1,838      | 3,092                     | 1,854       |
| Total Revenues   | 22,129                    | 20,051     | 39,126                    | 38,073      |
| COSTS AND EXPENSES                                     |                           |            |                           |             |
| Production   | 16,262                    | 17,836     | 34,276                    | 36,093      |
| Depreciation and amortization                          | 3,533                     | 2,549      | 5,411                     | 5,366       |
| Administrative and general                             | 2,464                     | 2,163      | 4,569                     | 4,440       |
| Exploration  | 983                       | 1,882      | 1,611                     | 3,274       |
| Prefeasibility   | 960                       | 555        | 1,782                     | 1,121       |
| Interest   | 5,447                     | 3,638      | 9,848                     | 7,382       |
| Other  | 667                       | 856        | 1,460                     | 1,073       |
| Loss (gain) on retirement of debt                      | 2,668                     | (5,791)    | 2,920                     | (8,972)     |
| Total Costs and Expenses                               | 32,984                    | 23,688     | 61,877                    | 49,777      |
| LOSS BEFORE INCOME TAXES                               | (10,855)                  | (3,637)    | (22,751)                  | (11,704)    |
| Income tax provision                                   | -                         | -          | -                         | 1           |
| NET LOSS   | (10,855)                  | (3,637)    | (22,751)                  | (11,705)    |
| Unrealized holding gain (loss) on securities           | (578)                     | 296        | (477)                     | 711         |
| COMPREHENSIVE LOSS                                     | \$ (11,433)               | \$ (3,341) | \$ (23,228)               | \$ (10,994) |
| BASIC AND DILUTED LOSS PER SHARE DATA                  |                           |            |                           |             |
| Weighted average number of shares of Common Stock      | 67,654                    | 43,100     | 60,008                    | 39,729      |
| Net Loss per share attributable to Common Shareholders | \$ (0.16)                 | \$ (0.08)  | \$ (0.38)                 | \$ (0.29)   |

See notes to consolidated financial statements.

COEUR D'ALENE MINES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Three and Six Months Ended June 30, 2002 and 2001  
(Unaudited)

| 3 MONTHS ENDED<br>JUNE 30 | 6 MONTHS ENDED<br>JUNE 30 |
|---------------------------|---------------------------|
|---------------------------|---------------------------|

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|   | 2002           | 2001       | 2002       | 2001       |
|---|----------------|------------|------------|------------|
|   | -----          | -----      | -----      | -----      |
|   | (In Thousands) |            |            |            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                |            |            |            |
| Net loss  | \$(10,855)     | \$ (3,637) | \$(22,751) | \$(11,705) |
| Add (deduct) noncash items:                                     |                |            |            |            |
| Depreciation, depletion, and amortization                       | 3,533          | 2,549      | 5,411      | 5,366      |
| (Gain) loss on early retirement of debt                         | 2,920          | (5,791)    | 2,920      | (8,972)    |
| Other   | 100            | 622        | 917        | 2,811      |
| Non-cash interest expense                                       | 4,185          | -          | 5,388      | -          |
| Unrealized loss (gain) on written calls                         | -              | 158        | -          | (221)      |
| Changes in Operating Assets and Liabilities:                    |                |            |            |            |
| Receivables   | 864            | 3,108      | (435)      | 3,927      |
| Inventories   | (1,348)        | 1,600      | 1,374      | 2,640      |
| Accounts payable and accrued liabilities                        | 698            | (8,603)    | 1,754      | (9,811)    |
|   | -----          | -----      | -----      | -----      |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES             | 97             | (9,994)    | (5,422)    | (15,965)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                |            |            |            |
| Purchases of short-term investments                             | (782)          | (468)      | (782)      | (1,723)    |
| Proceeds from sales of short-term investments                   | 2,420          | 337        | 3,684      | 5,603      |
| Proceeds from sale of assets                                    | 6              | -          | 6          | 14,733     |
| Expenditures on mining assets                                   | (3,177)        | (1,908)    | (4,731)    | (3,885)    |
| Other   | 115            | (303)      | (22)       | (562)      |
|   | -----          | -----      | -----      | -----      |
| NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES             | (1,418)        | (2,342)    | (1,845)    | 14,166     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                |            |            |            |
| Retirement of debt  | (9,427)        | -          | (9,427)    | -          |
| Proceeds from issuance of long-term debt, net of issuance costs | 14,050         | -          | 14,050     | -          |
| Other   | (54)           | (75)       | (115)      | (371)      |
|   | -----          | -----      | -----      | -----      |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES             | 4,569          | (75)       | 4,508      | (371)      |
|   | -----          | -----      | -----      | -----      |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                | 3,248          | (12,411)   | (2,759)    | (2,170)    |
| Cash and cash equivalents at beginning of period                | 8,707          | 45,468     | 14,714     | 35,227     |
|   | -----          | -----      | -----      | -----      |

Cash and cash equivalents at

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|               |           |           |           |           |
|---------------|-----------|-----------|-----------|-----------|
| end of period | \$ 11,955 | \$ 33,057 | \$ 11,955 | \$ 33,057 |
|               | =====     | =====     | =====     | =====     |

See notes to consolidated financial statements.

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### Coeur d'Alene Mines Corporation and Subsidiaries Notes to Consolidated Financial Statements (Unaudited)

#### NOTE A: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month and six month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Coeur d'Alene Mines Corporation ("Coeur" or the "Company") Annual Report on Form 10-K for the year ended December 31, 2001.

#### NOTE B: Summary of Significant Accounting Policies

**Principles of Consolidation:** The consolidated financial statements include the wholly-owned subsidiaries of the Company, the most significant of which are Coeur Rochester, Inc., Coeur Silver Valley, Inc., Coeur Alaska, Inc., CDE Cerro Bayo Ltd., Compania Minera CDE Petorca, Coeur Australia and Empresa Minera Manquiri S.R.L. The consolidated financial statements also include all entities in which voting control of more than 50% is held by the Company. The Company has no investments in entities in which it has greater than 50% ownership interest accounted for using the equity method. Intercompany balances and transactions have been eliminated in consolidation. Investments in corporate joint ventures where the Company has ownership of 50% or less and funds its proportionate share of expenses are accounted for under the equity method. The Company has no investments in entities in which it has greater than 20% ownership interest accounted for using the cost method.

**Revenue Recognition:** Revenue is recognized when title to silver and gold passes at the shipment or delivery point to the buyer. The effects of forward sales contracts and purchased put contracts are reflected in revenue at the date the related precious

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metals are delivered or the contracts expire. All by-product sales and third

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party smelting and refining costs are recorded as revenue product sales. By-product sales are primarily derived from copper which is produced as part of the silver recovery process at Coeur Silver Valley. On an annual basis, by-product sales represent less than 5% of revenues recognized as product sales.

**Cash and Cash Equivalents:** Cash and cash equivalents include all highly-liquid investments with a maturity of three months or less at the date of purchase. The Company minimizes its credit risk by investing its cash and cash equivalents with major international banks and financial institutions located principally in the United States and Chile with a minimum credit rating of A1 as defined by Standard & Poor's. The Company's management believes that no concentration of credit risk exists with respect to investment of its cash and cash equivalents.

**Short-term Investments:** Short-term investments principally consist of highly-liquid United States, foreign government and corporate securities with original maturities in excess of three months and less than one year. The Company classifies all short-term investments as available-for-sale securities. Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income as a separate component of shareholders' equity. Any decline in market value judged to be other than temporary is recognized in determining net income. Realized gains and losses from the sale of these investments are included in determining net loss.

**Inventories:** Inventories include ore on leach pads, ore in the milling processes, concentrates, dore and ore in stock piles. The classification of inventory is determined by the stage at which the ore is in the production process. The gold and silver content of inventories of ore on leach pads is calculated based on samples taken of the ore prior to placement on the leach pad. The ore on leach pads is then valued based on the lower of actual costs incurred or estimated net realizable value based upon the period ending prices of gold and silver. Material that does not contain a minimum quantity of gold and silver is not placed on the leach pad and is classified as waste with no value. Inventories of ore in stock piles and ore in the milling process are also sampled for gold and silver content and are valued based on the lower of actual costs incurred or estimated net realizable value based upon the period ending prices of gold and silver. Material that does not contain a minimum quantity of gold and silver to cover estimated processing expense to recover the contained gold and silver is not classified as inventory and is assigned no value. Inherent in estimating net realizable value is an estimate of the percentage of the minerals on leach pads and in process that will ultimately be recovered. There have been no adjustments to the recovery rates used in estimated net realizable value for the periods presented in these financial statements. Management evaluates this estimate on an ongoing basis and adjustments are accounted for prospectively. All inventories are stated at the lower of cost or market, with cost being determined using the first-in, first-out and weighted average cost methods. Concentrate and dore inventory includes product at the mine site and product held by refineries and are also valued at lower of cost or market.

**Property, Plant, and Equipment:** Expenditures for new facilities, new assets or expenditures that extend the useful lives of existing facilities are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs

over the shorter of estimated productive lives of such facilities or the useful life of the individual assets. Productive lives range from 7 to 31 years for buildings and improvements, 3 to 13 years for machinery and equipment and 3 to 7

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years for furniture and fixtures. Certain mining equipment is depreciated using the units-of-production method based upon estimated total proven and probable reserves. Maintenance and repairs are expensed as incurred.

**Operational Mining Properties and Mine Development:** Mineral exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs incurred to develop such property including costs to further delineate the ore body and remove over burden to initially expose the ore body, are capitalized. Such costs are amortized using the unit-of-production method over the estimated life of the ore body based on proven and probable reserves. Significant payments related to the acquisition of the land and mineral rights are capitalized as incurred. Prior to acquiring such land or mineral rights the Company generally makes a preliminary evaluation to determine that the property has significant potential to develop an economic ore body. The time between initial acquisition and full evaluation of a property's potential is variable and is determined by many factors including: location relative to existing infrastructure, the property's stage of development, geological controls and metal prices. If a mineable ore body is discovered, such costs are amortized when production begins using the units-of-production method based on proven and probable reserves. If no mineable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value. Interest expense allocable to the cost of developing mining properties and to construct new facilities is capitalized until assets are ready for their intended use. Gains or losses from sales or retirements of assets are included in other income or expense.

**Asset Impairment:** Management reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Company utilizes the methodology set forth in Statement of Financial Accounting Standard ("SFAS") No. 121, "Accounting for the Impairment of Long Lived Assets and Long Lived Assets to be Disposed Of" to evaluate the recoverability of capitalized mineral property costs. An impairment is considered to exist if total estimated future cash flows or probability-weighted cash flows on an undiscounted basis, is less than the carrying amount of the assets, including property plant and equipment, mineral property, development property, and any deferred costs such as deferred stripping. An impairment loss is measured and recorded based on discounted estimated future cash flows or the application of an expected present value technique to estimate fair value in the absence of a market price. Future cash flows include estimates of proven and probable

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recoverable ounces, gold and silver prices (considering current and historical prices, price trends and related factors), production levels, capital and reclamation costs, all based on detailed engineering life-of-mine plans. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions and market conditions and/or the Company's performance could have material effect on the Company's financial position and results of operations. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other groups. Generally, in estimating future cash flows, all assets are grouped at a particular mine for which there is identifiable cash flow.

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," that established a single accounting model, based on the framework of SFAS No. 121, for long-lived assets to be disposed of by sale. The statement was adopted



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on January 1, 2002, and there was no impact on the Company upon adoption.

**Restricted Investments:** The Company, under the terms of its lease, self insurance, and bonding agreements with certain banks, lending institutions and regulatory agencies, is required to collateralize certain portions of the Company's obligations. The Company has collateralized these obligations by assigning certificates of deposit that have maturity dates ranging from three months to a year, to the respective institutions or agency. At June 30, 2002 and December 31, 2001, the Company had certificates of deposit under these agreements of \$11.6 million and \$11.2 million, respectively, restricted for this purpose. The ultimate timing for the release of the collateralized amounts is dependent on the timing and closure of each mine. In order to release the collateral, the Company must seek approval from certain government agencies responsible for monitoring the mine closure status. Collateral could also be released to the extent the Company was able to secure alternative financial assurance satisfactory to the regulatory agencies. The Company believes there is a reasonable probability that the collateral will remain in place beyond the twelve-month period ending December 31, 2002, and has therefore classified these investments as long-term.

**Deferred Stripping Costs:** Deferred stripping costs are unique to the mining industry and are determined based on the Company's estimates for the life of mine strip ratio for each mine. These costs are capitalized in periods when the life of mine ratio is below the current mining strip ratio, and amortized during periods where the life of mine strip ratio is above the current strip ratio. The Rochester mine is the only mine that has previously capitalized deferred stripping costs. The life of mine strip ratio that was used to accumulate the deferred stripping amounts was 1.8 to 1 (waste to ore) and was based on the estimated average stripping ratio for the life of the mine, compared to the then current ratio of 2.2 to 1 (waste to

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ore) for the periods presented in the Statements of Operations. The deferred stripping costs have been amortized as waste and ore have been removed from the Rochester mine pit. At present the remaining life of mine plan estimates the future stripping ratio as 1.1 to 1 (waste to ore), and the remaining costs will be amortized over the remaining life of the mine. At June 30, 2002 and December 31, 2001 the carrying amount of the deferred stripping costs were \$1.6 million and \$1.7 million, respectively, and are included in other assets in the accompanying balance sheet. No additional deferred stripping costs were capitalized during the periods presented. Based on current reserves and current production levels the amortization would be no less than four years. The amounts that were amortized for the six months ended June 30, 2002 and June 30, 2001 were \$0.1 million and \$0.2 million, respectively which we included in depreciation and depletion in the Statement of Operations.

**Reclamation and Remediation Costs:** Estimated future costs are based principally on legal and regulatory requirements. Such costs related to active mines are accrued and charged over the expected operating lives of the mines using the unit-of-production method. Future remediation costs for inactive mines are accrued based on management's best estimate at the end of each period of the undiscounted costs expected to be incurred at the site. Such cost estimates include, where applicable, ongoing care and maintenance and monitoring costs. Changes in estimates are reflected in earnings in the period an estimate is revised.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which established a uniform methodology for accounting for estimated reclamation and abandonment costs. The statement will be adopted

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January 1, 2003, when the Company will record the estimated present value of reclamation liabilities and change the carrying amount of the related asset. Subsequently, the reclamation costs will be allocated to expense over the life of the related assets and will be adjusted for changes resulting from the passage of time and revisions to either the timing or amount of the original present value estimate. The Company is in the process of quantifying the effect of adoption.

**Foreign Currency:** Substantially all assets and liabilities of foreign subsidiaries are translated at exchange rates in effect at the end of each period. Revenues and expenses are translated at the average exchange rate for the period. Foreign currency transaction gains and losses are included in the determination of net income.

**Derivative Financial Instruments:** The Company uses derivative financial instruments as part of an overall risk-management strategy. These instruments are used as a means of hedging exposure to precious

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metals prices and foreign currency exchange rates. The Company does not hold or issue derivative financial instruments for trading purposes. Written options do not qualify for hedge accounting and are marked to market each reporting period with corresponding changes in fair value recorded to operations as other income.

The Company uses forward sales contracts and combinations of put and call options to fix a portion of its exposure to precious metals prices. The underlying production for forward sales contracts is designated for physical delivery at the inception of the derivative. If the Company enters into derivatives that qualify for hedge accounting, deferral accounting is applied only if the derivatives continue to reduce the price risk associated with the underlying hedged production. Contracted prices on forward sales contracts are recognized in product sales as the designated production is delivered or sold. In the event of early settlement of hedge contracts, gains and losses are deferred and recognized in income at the originally designated delivery date.

The Company uses foreign currency contracts to hedge its exposure to movements in the foreign currency translation amounts for anticipated transactions. These contracts are marked-to-market to earnings each reporting period.

**Income Taxes:** The Company accounts for income taxes using the liability method, recognizing certain temporary differences between the financial reporting basis of the Company's liabilities and assets and the related income tax basis for such liabilities and assets. This method generates a net deferred income tax liability or asset for the Company as of the end of the year, as measured by the statutory tax rates in effect as enacted. The Company derives its deferred income tax charge or benefit by recording the change in the net deferred income tax liability or asset balance for the year.

The Company's deferred income tax assets include certain future tax benefits. The Company records a valuation allowance against any portion of those deferred income tax assets that it believes will more likely than not fail to be realized.

**Comprehensive Income:** In addition to net loss, comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners. Items of comprehensive income include foreign currency exchanges, the effective portions of hedges and unrealized gains and losses on investments classified as available-for-sale.

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**Loss Per Share:** Loss per share is computed by dividing the net loss attributable to common stock by the weighted average number of common shares outstanding during each period. All stock options outstanding at each period end have been excluded from the weighted

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average share calculation. The effect of potentially dilutive stock options outstanding was antidilutive in 2001 and 2000.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications:** Certain reclassifications of prior year balances have been made to conform to current year presentation. The Company has reclassified restricted investments to long-term restricted investments on December 30, 2001 balance sheet to conform to the June 30, 2002 balance sheet.

### Note C: Business Acquisitions

On April 2, 2002, the Company completed the acquisition of Compania Minera Polimet S.A. ("Polimet") from Yamana Resources Inc. ("Yamana") for \$2.5 million in cash. The acquisition of Polimet has been accounted for under the purchase method of accounting in accordance with APB No. 16. The carrying values of assets and liabilities other than the mining properties have been estimated to approximate fair market value. Polimet owns 100% of the Martha Mine and an exploration land package consisting of approximately 202,000 acres located in the western portion of the Santa Cruz Province, Argentina. The results of operations of Polimet has been included in the Company's financial statements for the time period after the date of acquisition, April 2, 2002. Coeur also acquired warrants to purchase 10 million common shares of Yamana for an additional \$600,000. The Company purchased 5 million shares in May, and may purchase 2.5 million shares in September, and 2.5 million shares in December.

### NOTE D: Inventories

Inventories are comprised of the following:

|  | JUNE 30,<br>2002 | DECEMBER 31,<br>2001 |
|--|------------------|----------------------|
|  | -----            | -----                |
|  | (In Thousands)   |                      |
| In process, stockpiles and on leach pads | \$ 36,603        | \$ 39,794            |
| Concentrate and dore' inventory          | 5,886            | 1,567                |
| Supplies                                 | 5,147            | 4,925                |
|  | -----            | -----                |
|  | \$ 47,636        | \$ 46,286            |
|  | =====            | =====                |
| Long-term in process and on leach pads   | \$ -             | \$ 2,725             |
|  | =====            | =====                |

Inventories of ore on leach pads and in the milling process are valued based on actual costs incurred or estimated net realized value,

less costs allocated to minerals recovered through the leaching and milling processes. Inherent in estimating net realized value is an estimate of the percentage of the minerals on leach pads and in process that will ultimately be recovered. All inventories are stated at the lower-of-cost or market, with cost being determined using the first-in, first-out and weighted-average-cost methods. Concentrate and dore inventory includes product at the mine site and product held by refineries.

NOTE E: Income Taxes

The Company has reviewed its net deferred tax asset as of June 30, 2002, together with net operating loss carry forwards, and has decided to forego recognition of potential tax benefits arising therefrom. In making this determination, the Company has considered the Company's history of tax losses incurred since 1989, the current level of gold and silver prices and the ability of the Company to use accelerated depletion and amortization methods in the determination of taxable income. As a result, the Company's net deferred tax asset has been fully reserved at June 30, 2002 and December 31, 2001.

NOTE F: Long-Term Debt and Supplemental Cash Flow Information

In May 2002, The Company issued \$21.5 million principal amount of new Series II 13 3/8% Convertible Senior Subordinated Notes ("Series II Notes") due December 2003, for proceeds of approximately \$14.1 million, net of discount of \$5.5 million and offering costs of approximately \$1.9 million. Proceeds from this transaction were used to retire the outstanding \$9.4 million of 6% Convertible Subordinated Debentures due June 10, 2002 upon their maturity along with accrued interest and for general corporate purposes. The new Series II Notes were issued on similar terms, subject to certain contingent provisions, as the Company's previously issued, currently outstanding Series I 13 3/8% Convertible Senior Subordinated Notes ("Series I Notes") due December 31, 2003.

During the 2nd quarter of 2002, the Company repurchased \$10.3 million, \$0.8 million and \$0.3 million principal amount of its outstanding 6%, 6-3/8% and 7-1/4% Convertible Subordinated Debentures, respectively, in exchange for 11.9 million shares of common stock and recorded a loss on retirement of debt of approximately \$2.9 million. In addition, holders of \$10.3 million of the Series I Notes voluntarily converted such Notes, under the terms of the indenture, into approximately 7.7 million shares of common stock. The Company also issued 2.7 million shares of common stock as payment of \$4.2 million of accrued interest on the 13 3/8% Notes.

During the 1st quarter of 2002, the Company repurchased \$3.5 million principal amount of its outstanding 6% Convertible Subordinated Debentures in exchange for approximately 3.4 million shares of common stock. In addition, holders of \$5.7 million

principal amount of Series I Notes voluntarily converted their Notes into 5.1 million shares of common stock.

During the 2nd quarter of 2001, the Company repurchased \$11.0 million principal amount of its outstanding 7-1/4% Convertible Subordinated Debentures in exchange for 4.3 million shares of common stock.

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During the 1st quarter of 2001, the Company repurchased \$5.0 million principal amount of its outstanding 7-1/4% Convertible Subordinated Debentures in exchange for 1.8 million shares of common stock.

### NOTE G: Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group is comprised of the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer.

The operating segments are managed separately because each segment represents a distinct use of Company resources and contribution to the Company's cash flows in its respective geographic area. The Company's reportable operating segments are the Rochester, Coeur Silver Valley and Cerro Bayo mining properties, the Kensington development property, and the Company's exploration programs, which includes the San Bartolome silver development property. All operating segments are engaged in the discovery and/or mining of gold and silver and generate the majority of their revenues from the sale of precious metal concentrates and/or refined precious metals. The Coeur Silver Valley and Cerro Bayo mines sell precious metal concentrates, typically under long term contracts to smelters located in Canada (Noranda Inc. and Cominco Ltd.), in the United States (Asarco Inc.) and Japan (Sumitomo Ltd. and DOWA Mining Company). Refined gold and silver produced by the Rochester mine is primarily sold on a spot basis to precious metal trading banks such as Goldman Sachs, Morgan Stanley, Mitsui and N.M. Rothschild.

Intersegment revenues consist of precious metal sales to the Company's metals marketing division and are transferred at the market value of the respective metal on the date of the transfer. The other segment includes earnings from unconsolidated subsidiaries accounted for by the equity method, the corporate headquarters, elimination of intersegment transactions and other items necessary to reconcile to consolidated amounts. Revenues in the other segment are generated principally from interest received from the Company's cash and investments that are not allocated to the operating segments. The

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accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K. The Company evaluates performance and allocates resources based on each segments profit or loss before interest, income taxes, depreciation and amortization, unusual and infrequent items, and extraordinary items.

### Segment Reporting (In Thousands)

|                                | Rochester | Galena    | Cerro Bayo | Petorca | Ex |
|--------------------------------|-----------|-----------|------------|---------|----|
|                                |           |           |            |         |    |
| Six Months Ended June 30, 2002 |           |           |            |         |    |
| Total net sales and revenues   | \$ 24,992 | \$ 13,275 | \$ -       | \$ -    |    |
|                                |           |           |            |         |    |
| Depreciation and depletion     | 2,137     | 1,629     | 1,407      | -       |    |
| Interest income                | -         | -         | -          | -       |    |

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|  |         |        |        |     |
|--|---------|--------|--------|-----|
| Interest expense                           | -       | -      | 776    | -   |
| Gain on forward sale contracts             | -       | -      | -      | -   |
| Write-down of mine property and other      |         | 245    | 396    |     |
| Loss on early retirement of debt           | -       | -      | -      | -   |
| Profit (loss)                              | (1,420) | 4,004  | 1,193  | -   |
| Investments in non-consolidated affiliates | -       | -      | -      | -   |
| Segment assets (A)                         | 63,144  | 27,642 | 28,641 | 501 |
| Capital expenditures for property          | 300     | 582    | 2,164  | -   |

Six Months Ended June 30, 2001

|                              |           |          |        |          |
|------------------------------|-----------|----------|--------|----------|
| Total net sales and revenues | \$ 24,409 | \$ 8,531 | \$ 160 | \$ 3,451 |
|------------------------------|-----------|----------|--------|----------|

|  |        |         |         |         |
|--|--------|---------|---------|---------|
| Depreciation and depletion                 | 3,775  | 1,154   | -       | 265     |
| Interest income                            | -      | -       | 1       | 2       |
| Interest expense                           | -      | -       | -       | -       |
| Gain on forward sale contracts             | -      | -       | -       | -       |
| Income tax (credit) expense                | -      | 1       | -       | -       |
| Gain on early retirement of debt           | -      | -       | -       | -       |
| Profit (loss)                              | 1,976  | (1,723) | (1,528) | (1,050) |
| Investments in non-consolidated affiliates | -      | -       | -       | -       |
| Segment assets (A)                         | 76,437 | 27,526  | 23,296  | 2,885   |
| Capital expenditures for property          | 611    | 1,730   | 801     | -       |

Notes:

(A) Segment assets consist of receivables, prepaids, inventories, property, plant and equipment

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Segment Reporting Cont.

(In Thousands)

|  | Six Months Ended June 30, |             |
|--|---------------------------|-------------|
|  | 2002                      | 2001        |
| (Loss)   |                           |             |
| Total loss from reportable segments              | \$ (3,049)                | \$ (7,076)  |
| Depreciation, depletion and amortization expense | (5,411)                   | (5,366)     |
| Interest expense                                 | (9,848)                   | (7,382)     |
| (Loss) gain on early retirement of debt          | (2,920)                   | 8,972       |
| Other  | (1,523)                   | (852)       |
| Loss before income taxes                         | \$ (22,751)               | \$ (11,704) |
|  | June 30,                  |             |
|  | 2002                      | 2001        |
| Assets   |                           |             |
| Total assets for reportable segments             | \$ 171,826                | \$ 187,330  |
| Cash and cash equivalents                        | 11,955                    | 33,057      |
| Short-term investments                           | 763                       | 3,951       |
| Other assets                                     | 18,128                    | 17,340      |
| Total consolidated assets                        | \$ 202,672                | \$ 241,678  |

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Geographic Information

(In thousands)

| June 30, 2002           | Revenues  | Long-Lived Assets |
|-------------------------|-----------|-------------------|
|                         | -----     | -----             |
| United States           | \$ 39,419 | \$ 75,080         |
| Chile                   | (293)     | 21,922            |
| Bolivia                 | -         | 18,850            |
| Other Foreign Countries | -         | 2,121             |
|                         | -----     | -----             |
| Consolidated Total      | \$ 39,126 | \$ 117,973        |
|                         | =====     | =====             |

| June 30, 2001           | Revenues  | Long-Lived Assets |
|-------------------------|-----------|-------------------|
|                         | -----     | -----             |
| United States           | \$ 36,016 | \$ 88,394         |
| Chile                   | 1,857     | 21,406            |
| Bolivia                 | -         | 18,850            |
| Other Foreign Countries | 200       | 559               |
|                         | -----     | -----             |
| Consolidated Total      | \$ 38,073 | \$ 129,209        |
|                         | =====     | =====             |

Revenues are geographically separated based upon the country in which operations and the underlying assets generating those revenues reside.

NOTE H: Hedging

For the first half of 2001 the Company recorded a realized loss of approximately \$0.2 million in connection with its hedge program. The Company has 14,000 ounces in forward sales in its gold protection program, whereby over the next six months the Company will receive an average price of \$320.

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The following table summarizes the information at June 30, 2002 associated with the Company's financial and derivative financial instruments that are sensitive to changes in interest rates, commodity prices and foreign exchange rates. For long-term debt obligations, the table presents principal cash flows and related average interest rates. For gold call options and amortizing forward sales, the table presents ounces contracted to be delivered and the related average price per ounce in U.S. dollars. For foreign currency exchange contracts, the table presents the notional amount in Chilean Peso's to be purchased along with the average foreign exchange rate.

| (dollars in thousands)             | 2002    | 2003     | 2004      | 2005      | 2006  | Thereafter | T     |
|------------------------------------|---------|----------|-----------|-----------|-------|------------|-------|
|                                    | -----   | -----    | -----     | -----     | ----- | -----      | ----- |
| Liabilities                        |         |          |           |           |       |            |       |
| Long Term Debt (prior to exchange) |         |          |           |           |       |            |       |
| Fixed Rate                         | \$ -    | \$46,806 | \$ 65,457 | \$ 14,394 | \$ -  | \$ -       | \$12  |
| Average Interest Rate              | 10.668% | 9.061%   | 7.006%    | 7.250%    |       |            |       |

Derivative Financial

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|                                     |          |          |   |   |   |   |   |
|-------------------------------------|----------|----------|---|---|---|---|---|
| Instruments                         |          |          |   |   |   |   |   |
| Gold Forward                        |          |          |   |   |   |   |   |
| Sales - USD                         |          |          |   |   |   |   |   |
| Ounces                              | 14,000   | -        | - | - | - | - | - |
| Price Per Ounce                     | \$320.00 | -        | - | - | - | - | - |
| Foreign Currency                    |          |          |   |   |   |   |   |
| Contracts                           |          |          |   |   |   |   |   |
| Chilean Peso - USD                  | \$ 1,500 | \$ 2,100 | - | - | - | - | - |
| Exchange Rate<br>(CLP to USD)       | 705      | 705      | - | - | - | - | - |
| (A. Entered into<br>August 1, 2002) |          |          |   |   |   |   |   |

Fair value is determined by trading information on or near the balance sheet date. Long term debt represents the face amount of the outstanding convertible debentures and timing of when these become due. Interest rates presented in the table are calculated using the weighted average of the outstanding face amount of each debenture for the period remaining in each period presented. All long term debt is denominated in US dollars.

### NOTE I: New Accounting Standards and Requirements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). Under SFAS 145, most gains and losses from extinguishments of debt will not be classified as extraordinary items unless they meet much more narrow criteria in Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a

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Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"). SFAS 145 may be early adopted, but is otherwise effective for fiscal years beginning after May 15, 2002, and must be adopted with retroactive effect.

The Company has elected to early adopt this standard and under SFAS No. 145, the Company has made the determination that its gains and losses from early extinguishment of debt do not fall under APB Opinion No. 30. Consequently, the Company has reclassified all prior extraordinary items relating to the early extinguishment of debt to be included as part of loss from continuing operations.

### NOTE J: Litigation and Other Events

#### Federal Natural Resources Action

On March 22, 1996, an action was filed in the United States District Court for the District of Idaho by the United States against various defendants, including the Company, asserting claims under CERCLA and the Clean Water Act for alleged damages to federal natural resources in the Coeur d'Alene River Basin of Northern Idaho as a result of alleged releases of hazardous substances from mining activities conducted in the area since the late 1800s.

On March 16, 2001, the Company and representatives of the U.S. Government, including the Environmental Protection Agency, the Department of Interior and the Department of Agriculture, reached an agreement to settle the lawsuit. Pursuant to the terms of the Consent Decree dated May 14, 2001, the Company has



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paid the U.S. Government a total of approximately \$3.9 million, of which \$3.3 million was paid in May 2001 and the remaining \$.6 million was paid in June 2001. In addition, the Company will (i) pay the United States 50% of any future recoveries from insurance companies for claims for defense and indemnification coverage under general liability insurance policies in excess of \$600,000, (ii) accomplish certain cleanup work on the Mineral Point property (i.e., the former Coeur Mine site) and Calladay property, and (iii) make available certain real property to be used as a waste repository. Finally, commencing five years after effectiveness of the settlement, the Company will be obligated to pay net smelter royalties on its operating properties, up to a maximum of \$3 million, amounting to a 2% net smelter royalty on silver production if the price of silver exceeds \$6.50 per ounce, and a \$5.00 per ounce net smelter royalty on gold production if the price of gold exceeds \$325 per ounce. The royalty would run for 15 years commencing five years after effectiveness of the settlement.

### Noranda Smelter Strike

On June 18, 2002 we received notification from Noranda that the employees working at the smelter in Quebec were on strike. This

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smelter is where Coeur Silver Valley ships essentially 100% of its concentrate. Under the terms of our contract with Noranda, they have declared a "Force Majeure" and do not have to accept the concentrate sent to them by the Company's Galena Mine. Noranda has agreed to accept 650 tonnes of the Galena concentrate, which represents almost 100% of the concentrate produced by Coeur Silver Valley. Although there is no written contract for Noranda to continue to accept this amount, the Company is currently looking for alternative purchasers of the concentrate, and has been able to spot sell 400 tonnes to an alternative purchaser. Management believes that Noranda will continue to purchase all produced concentrate from Coeur Silver Valley. However, the Company would see a significant decrease in product sales from Coeur Silver Valley in the event Noranda does not continue to do so.

### Lawsuit to Recover Inventory

During the first quarter of 2000, Handy & Harman Refining Group, Inc. ("Handy & Harman"), to which the Rochester Mine had historically sent approximately 50% of its dore, filed for Chapter 11 bankruptcy. The Company had inventory at the refinery of approximately 67,000 ounces of silver and 5,000 ounces of gold that has been delivered to certain creditors of Handy & Harman. On February 27, 2001 the Company commenced a lawsuit against Handy & Harman and certain others in the U.S. Bankruptcy Court for the District of Connecticut seeking recovery of the metals and/or damages. Handy & Harman's Chapter 11 liquidation plan was confirmed by the Bankruptcy Court in August 2001 and on November 3, 2001, the Company received approximately \$294,000 from Handy & Harman as a partial payment under the plan. The liquidating custodian of Handy & Harman under the liquidation plan recently advised the Company that Handy & Harman intends to file suit against the Company prior to March 28, 2002 for the value of 100,000 ounces of silver (i.e., approximately \$500,000) as a preference based on the Company's draw-down of its account at Handy & Harman in mid-March 2000. Based on this more recent legal action, the Company has determined that the recovery of any additional amounts would be remote. As a result the Company has recorded a \$1.4 million write-down of the carrying amount in the fourth quarter of 2001. Management of the Company and legal counsel believe that the threatened claims are without merit, and will vigorously defend any such suit.

### Bunker Hill Action

On January 7, 2002, a private class action suit captioned Baugh vs. Asarco, et al., was filed in the Idaho District Court for the First District (Lawsuit No. 2002131) in Kootenai County, Idaho against the companies that have been

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defendants in the prior Bunker Hill and natural resources litigation in the Coeur d'Alene Basin, including the Company, by eight northern Idaho residents seeking medical benefits and property compensation from the mining companies involved in the Bunker Hill Superfund site. At this early stage of the litigation, the Company cannot predict the outcome of this suit.