

ECHO BAY MINES LTD

Lupin Operations
9818 Edmonton International Airport
Edmonton, Alberta
T5J 2T2

Bill Danyluk, P.Eng.
General Manager
Telephone: (780) 890-8777
Fax: (780) 890-8766

November 15, 2001

Nunavut Water Board
P.O. Box 119
Gjoa Haven, NT
X0E 1J0

Attention: Philippe di Pizzo
Executive Director

Dear Sir:

RE: **Echo Bay Mines Ltd., Lupin Operations**
Water Licence Number NWB1LUP0008
Reclamation Security and Payment Schedule Proposal

With respect to our amendment request to our current water licence for the Lupin operation and the subsequent November 15, 2001 hearing on this subject, a written intervention was provided by the Department of Indian Affairs and Northern Development. Section 4 from the DIAND intervention statement is copied below:

4. *Form and Schedule of Security*

If the Board rules that the lack of ministerial approval does not prevent the Board from entertaining an application for an amendment to the quantum of security, it is DIAND's submission that the Board must at the same time determine the date by which the quantum decided upon by the Board is to be posted. As part of determining the date by which the quantum is to be posted, the Board must determine whether posting is to be made in instalments and, if so, the schedule (amounts and due dates) for the instalments.

DIAND submits that it is the responsibility of the Board to set the schedule.

The form of security is the concern of the department. The department will continue to work with Echo Bay to ensure that security is posted in a suitable form or forms.

DIAND will address the issue of the form(s) of security, in consultation with Echo Bay.

Echo Bay Mines Ltd. (EBM) agrees that it should be the responsibility of the Nunavut Water Board (NWB), the body having jurisdiction over the granting of the water licence, to set the security amount and subsequent payment schedule.

In the decision pertaining to our water licence, the NWB gave notice that the reclamation security issue is to be reviewed annually, with the possibility of adjusting the security amount as new evidence or circumstances arise. The proposal by EBM, set out in this letter, is intended to be a reasonable basis on which to establish a funding mechanism for meeting reclamation needs. EBM wants to make additional contributions to a fund, over and above monies already on deposit with the Government of Canada. The annual review process, as specified by the Board, would be the mechanism by which both parties could review the security amount and revise the schedule of payment, if necessary relative to new developments. Such an annual review would serve as an excellent forum for EBM to update the Board on the year's reclamation activities, research progress and to present any proposed changes to the plan. EBM recommends that such a review process take place at the Lupin mine, in the fall of each year starting in 2002. This will be the best time of year for the Board to view first hand the work that has been completed during each summer's reclamation season. With this proposal we can develop a true team approach between EBM, the NWB and other stakeholders to satisfy all concerns regarding the progress of the reclamation work. Reclamation work was completed at the site during 2000, during 2001 and more is scheduled to be completed in each and every year of the remaining mine life.

Upon the Board setting the security amount and subsequent payment schedule, EBM will continue to work with DIAND to determine the form in which the security will be transferred. EBM and DIAND have a meeting scheduled for December 15, 2001, to continue to discuss this issue. If the Board agrees with this proposal by EBM, we could possibly have a completed security plan in place by year-end. Since all parties have had ample time to contemplate this issue over the last year, we do not feel this is an unworkable time frame.

As to the amount and timing for security, EBM proposes the following and believes it to be fair and reasonable.

Nuna / Clarke / EBA / EBM Reclamation Cost Estimate

(Based on 1.0 metre of esker cover on tailings)

Estimated cost per proposal	\$18,839,000
Add:	
Post-closure monitoring	125,000
Engineering @1.5%	<u>369,000</u>
TOTAL	<u>\$19,333,000</u>

Applying the same discount rates as the NWB used in determining the original security amount (10 percent for our compliance record + 10 percent to reflect that Lupin is an existing mine with almost 20 years of operation), the revised reclamation security amount would be **\$15.466 million**.

Proposed Reclamation Security	\$15,466,000
Deduct:	
Current down payment	\$ 2,920,000
2001-2008 Reclamation Forecast	<u>\$ 7,676,000</u>
Balance Remaining at Closure	\$ 4,870,000
Salvage Value (equipment and machinery)	\$ 7,454,000 (Attachment)
Deduct 50% for contingency	\$ 3,727,000
Warehouse Inventory	\$ 8,000,000*
Deduct 80% for obsolescence	\$ 1,600,000
Required Trust Fund Payments **	<u>\$ (457,000)</u>

* Typically, warehouse inventory is valued between \$8-10 million.

** The combination of the current down payment, forecasted progressive reclamation and conservative salvage value are sufficient to cover the proposed reclamation security provision. However, EBM realizes that both the NWB and DIAND want to see a reclamation trust fund built up as quickly as possible relative to the company's ability to fund it. EBM proposes to annually perform reclamation work and to contribute to the trust fund, at a combined rate that closely approximates \$7.50 per ounce of gold produced. EBM proposes to contribute \$500,000 annually to the fund for the first four years and a reduced amount during year five. After year four of the process, accruing interest will continue to add significantly to the trust fund such that contributions continue to approximate \$500,000 annually.

The following table represents the forecasted spending on progressive reclamation work during the remaining mine life. Also shown is the build-up of the proposed reclamation trust fund and the declining reclamation security balance.

Year	Reclamation Security Balance (Jan. 1)	Forecasted Progressive Reclamation Work	EBM Payment To Reclamation Trust Fund * (July 1)	Revenue From Salvage Of Warehouse Inventory	Revenue From Salvage Of Machinery & Equipment
2001	\$ 15,466,000	\$ 194,000	\$ 2,920,000		
2002	\$ 12,352,000	\$ 59,000	\$ 500,000 *\$ 117,000		
2003	\$ 11,676,000	\$ 945,000	\$ 500,000 *\$ 141,000		
2004	\$ 10,090,000	\$ 1,288,000	\$ 500,000 *\$ 167,000		
2005	\$ 8,135,000	\$ 1,044,000	\$ 500,000 *\$ 194,000		
2006	\$ 6,397,000	\$ 1,119,000	\$ 335,000 *\$ 222,000		
2007	\$ 4,721,000	\$ 1,230,000	*\$ 244,000	\$ 400,000	
2008	\$ 2,847,000	\$ 1,797,000	*\$ 254,000	\$ 500,000	\$ 1,000,000
2009 Total	\$ (704,000)	\$ 7,676,000	\$ 6,594,000	\$ 900,000	\$ 1,000,000
Balance	\$ (704,000)	\$ 0	\$ 6,594,000	\$ 700,000	\$ 2,727,000

* Note: Trust fund grows by annual contributions and by accrued interest at an expected rate of 4%.

Key points to note from the above reclamation cash flow plan are:

- The reclamation security balance and hence the reclamation liability declines each and every year of the remaining mine life. Production is expected to be completed in 2007. The remaining security balance is paid off during 2008.
- The reclamation spending shown in 2008 (\$1.797 million) will complete the covering of the entire tailings containment area to a depth of 1.0 metre. The total cost to reclaim the TCA is \$7.676 million.
- The reclamation trust fund will have grown to \$6.594 million by 2009. When combined with the conservative salvage value estimate, there would be sufficient funds to complete the remainder of the site-related reclamation.

Total Reclamation Estimate	\$19,333,000
Deduct:	
Progressive Reclamation Completed (2001-2008)	-\$ 7,676,000
Reclamation Trust Fund (2001-2008)	-\$ 6,594,000
Warehouse Inventory (20%) (2007-2009)	-\$ 1,600,000
Equipment & Machinery (50%) (2008-2009)	<u>-\$ 3,727,000</u>
Balance of Unfunded Reclamation Liability (2009)	<u>(\$ 264,000)</u>

If the Board finds this proposal acceptable, or would like further clarification on any information contained herein, EBM will be available at the Board's request to discuss the next step in the process.

If you have any questions, comments or require additional information, please contact me at (780) 890-8777 or (780) 910-7407.

Yours truly,

Bill Danyluk, P.Eng.
General Manager, Lupin Operations

cc Mr. Thomas Kudloo, Chairman, Nunavut Water Board
 Mr. David Milburn, Manager, Water Resources Division, DIAND
 Mr. Jerry McCrank, VP Operations, Echo Bay Mines Ltd.
 Mr. Tom Yip, CFO, Echo Bay Mines Ltd.