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Agnico Eagle Mines Limited

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PRESENTATION

Operator

Good morning. My name is Marcella, and I will be your conference Operator today. At this time, I'd like to welcome everyone to the Agnico Eagle Fourth Quarter Results 2019 Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there'll be a question-and-answer session. If you'd like to ask a question during this time, simply press * and the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Mr. Sean Boyd, you may begin your conference.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Limited

Thank you, Operator, and good morning, everyone, and thank you for calling in to our fourth quarter and full year 2019 results conference call.

Before we get into the slides, please be aware that this presentation includes forward-looking statements.

I'd like to begin by just summarizing 2019 and the fourth quarter. In the fourth quarter, we had record gold production as we brought on the two new mines in Nunavut. We also had record cash generation in 2019. With that added production, we see 18 percent production growth from 2019 out to 2022, and we'll provide some details on that production growth in a minute.

Although we had a very strong 2019 and in fourth quarter 2019, we still have some work to do in Nunavut through the first quarter of this year as we ramp up those two newly built mines. So we'll also talk about that.

When we look at the fourth quarter numbers in a bit more detail, we produced almost 500,000 ounces in the fourth quarter, which is record production. For the full year, we exceeded our full year guidance, which had been increased during the year. We finished at 1.782 million ounces at a total cash cost of $673 per ounce. Our unit costs in the fourth quarter were impacted by the slower-than-expected ramp-up in Nunavut, and we'll talk about the details, as we said, in a minute.

With the record cash generated from operations in 2019 and the ability to continue to grow production while generating free cash flow, our dividend was increased in the quarter to a quarterly rate of $0.20 per share.

From the three-year guidance perspective, as we said, we've got production growing 18 percent off of the record production level in 2019. We should see costs decline in 2021/2022. When we look at our 2020 guidance, our number is down 4 percent from previous guidance in terms of total production to 1.875 million ounces, which is largely driven by the expected Q1 impact as we ramp up Nunavut and we do additional ground support at LaRonde, and we'll get into details of that in a minute.

In 2021, there's no change in the production guidance, although our cash cost guidance is up $50 an ounce. So that's due to increases in costs but also just inflationary cost pressures in the business.

When we look at Nunavut and LaRonde, starting with Nunavut, as we said, the ramp-up was slower than we had expected, and that's clearly on all of us. We should have done a much better job in anticipating and reacting to some of these issues. We have high expectations, and we didn't meet those expectations. Fortunately, we continue to make steady progress in productivity and efficiency efforts at Nunavut, and we expect to see production increase and costs decrease in Q2 and through the second half of 2020.

At Meadowbank, essentially, as we had explained in 2019, we did get delayed due to excess water. We had had the entire pit was pumped out in October of 2019, and that allowed us to improve the efficiency in the open pit, although we were still limited in the fourth quarter with a smaller footprint due to having just pumped out the pit in October. We are seeing improvements in the mining rate now and drilling performance. There's still optimization efforts around those initiatives in the pit. We will also see optimization efforts as we ramp up construction and eliminate costs that still are on-site after the construction.

One of the areas that we're focused on is equipment availability and maintenance. We've made major headway there. The warehouse is now complete. We've begun the changeover in terms of stocking that warehouse from Meadowbank. So all of those things will help with the performance at Amaruq and Meadowbank as we move through 2020.

We're still assessing the underground opportunity there at Amaruq. We would expect to have more information in the second half of this year, and we could expect production to begin from the underground in 2022.

At Meliadine, we continue to ramp up at Meliadine. Mining is actually going well at Meliadine. In December, we were approaching budget levels in terms of mine performance. We mined almost 4,000 tonnes a day in December of 2019, which was a significant improvement over what we were doing in the third quarter of 2019. So there's more work to do in underground maintenance on mobile equipment, but that's more optimization efficiency.

Where we did have more of a challenge is not in recoveries in the mill. Our recoveries are, as expected, approaching 95 percent. The plant can handle and did handle, in the fourth quarter, an average of over 3,500 tonnes a day. What we're experiencing now is at the front of the plant in the apron-feeder area. So we have a temporary fix there. That's limiting the amount of tonnes that we can get through the plant. We should have that fixed as we move into the second quarter of this year, which will result in a much more efficient operation of the plant.

We've also decided that we're moving forward with the Phase 2 expansion. That provides more flexibility in the mine plan, and that is currently underway. And we'd expect to see production from that as we move through 2021/2022.

At LaRonde, we've decided that, as we move into the West mine area, which is our highest-grade area, to add additional ground support. As we said, LaRonde had outstanding performance in the fourth quarter. It had record production from that mine. It had cash costs of $422 an ounce. It had an average grade in November of over 7 grams per tonne, so that's a big part of the future of the mine at LaRonde and the cash-generating ability of LaRonde. LaRonde actually, last year, set a record for safety performance; an all-time record for safety performance.

As we moved into the West mine area, geology's a bit more complex, and we thought that it was prudent and cautious to add additional ground support in the major infrastructure. So that includes additional bolting, additional screening, additional shotcrete. We expect this to be completed in a few weeks at minimal capital cost and also has a very minimal effect on future costs per tonne.

So you combine that in the first quarter with a slower ramp-up in Nunavut, and you have the impact that we have on guidance going down 4 percent for 2020, but also, you have the impact on unit costs and most of that is being felt in the first quarter of 2020. And as we move into Q2 and beyond, not only does production increase but unit costs go down.

Moving beyond the three-year guidance just on the production growth, as we mentioned, production growth is 18 percent from 2019 to 2022 with the newly released guidance in 2022 of 2.1 million ounces with a focus now on the project pipeline to see which projects actually make sense to allocate capital to and grow the business in a steady, measured fashion beyond 2022. So we continue to do work on Amaruq underground and on Kirkland Lake, on Odyssey, East Malartic.

Our reserves, we used a $1,200 gold price to calculate our reserves. Our reserves were down slightly, but our grade increased almost 5 percent to 2.83 grams per tonne from 2.7 grams per tonne. But we saw a significant increase in our mineral resources and our inferred mineral resources. Our indicated grew by 4 percent and our inferred grew by 19 percent. So it's those resources in our project pipeline that we're currently studying now to see how we allocate capital and which projects we decide to build to continue the growth beyond 2022 from 2.1 million ounces.

Just looking at some of the mines in particular in more detail in the fourth quarter, we mentioned LaRonde had record performance when you combine LaRonde and LaRonde Complex; 112,000 ounces at LaRonde, almost 100,000 ounces, as we mentioned, at 422 per ounce.

We also had good, solid performance at Goldex, which continues to exceed budget. Goldex actually had its best year ever from a safety performance.

Canadian Malartic, steady producer. Good cash costs at $630 an ounce.

Kittila, a better performance. Also set an all-time record in safety in 2019.

You can see the impact of Meadowbank in the fourth quarter. A little over 60,000 ounces but cash costs of 1,400, which skews the entire combined cash costs number up, and that's the issue in Q1 of this year as we continue to ramp-up. A bit higher unit costs in Nunavut, which skew all of 2020, so that's why we're looking for better cost performance in Q2 and beyond.

And in Mexico, we continue to get good cash generation out of that business.

From a financial highlight perspective, we mentioned earlier in the call we had record cash provided from operating activities of almost $900 million in 2019 on 1.782 million ounces of production, which was also a record.

From a financial position perspective, we continued to add to our cash position. We closed, essentially, with 328 million in cash at the end of December. Our $1.2 billion credit line is fully undrawn. We have a debt maturity in April, and we've got several options to pay that; draw down some cash, draw down a bit of the line of credit, potentially term some of that $360 million out. Not all of it, but we could do some of it.

Interest rates would be less than half of what we're currently paying on the $360 million maturity. So really good financial flexibility as we move forward in a way that allows us to grow production, as we said, 18 percent and generate free cash flow.

On Page 12 in the slide deck, we see continued growth in operating margin coming out of the mines with relatively flat CapEx as we go forward. We still haven't decided how we're going to allocate that CapEx. We're still doing assessments on the pipeline, but our focus is on stretching those projects out and stretching that CapEx out. So while we're growing, we're still generating net free cash flow to invest in the business, pay down debt, and increase the dividends.

And before we take questions, I'll just end on the dividend slide. Our dividend is now $0.80 a share with the increase in the quarterly amount to $0.20 for this quarter. You can see that we've increased our total cash paid out in dividends in the last six years, and that was during a period of heavy construction as we built the expanded Nunavut platform.

So I'll close on that, and, Operator, if you can, please open the line up. And we'd be happy to take questions.

Q&A

Operator

At this time I'd like to remind everyone, in order to ask a question, please press * and the number 1 on your telephone keypad.

Your first question comes from the line of Fahad Tariq from Credit Suisse. Your line is open.

Fahad Tariq — Credit Suisse

Hi. Good morning. It's Fahad from Credit Suisse.

Sean Boyd

Morning.

Fahad Tariq

What are the critical steps really to rightsize Amaruq in Q1? I'm just curious. It sounds like the dewatering's kind of done. It's more to do with maybe logistics like equipment availability, moving the workforce. Like if you could just walk us through what are the kind of steps that are needed to kind of get back on track at Amaruq? Thanks.

Yvon Sylvestre — Senior Vice-President, Operations, Canada & Europe, Agnico Eagle Mines Limited

Well, the—Hi, it's Yvon. Presently, the drilling is essentially progressing very well—drilling and blasting. That's pretty well under control at this stage. Our inventory of broken material is also under control at this stage.

We're opening up more surfaces in the pit and getting access to the remainder of the pit that's under lakebed. So a lot of digging in these areas. So that's a little bit of a challenge because, in some cases, we're still getting some influence from the water.

But overall, at this stage, other than weather issues presently, we're progressively ramping up and getting a progressive increase in production, basically month by month. And this will continue pretty well into the second quarter, mid-second quarter, at which point, we'll pretty well be on a rhythm of normal mining going forward.

Fahad Tariq

Okay. And just on like the—specifically in the release, there was something on equipment availability, moving the workforce. What are the issues that you're encountering there?

Yvon Sylvestre

Well, I think, in the beginning, late December and the beginning of the year, a lot of focus has been toward improving utilization for the equipment. We've had a lot of progress in that area.

Where we're still lagging a bit and we're getting some support internally and externally is basically on maintenance. And I think we've sort of restructured their maintenance areas where, because of delivery, late delivery, of some of the infrastructure, all our maintenance now done on the long-haul truck is done exclusively through our Meadowbank maintenance facilities. And the hauling fleet and mining fleet at Amaruq is essentially done at site with the warehouse present.

So the reassembly of the team, the redistribution of the people, essentially complete in Q4. And they're in the process of putting in the rest in place.

I think up until Q4, we still had a significant amount of major rebuild going on. Those are not all complete, but they're less of a burden on the total crew. And basically, it's trying to get the availability up over the next few months.

Fahad Tariq

Okay. Thank you.

Operator

Your next question comes from the line of Matthew Murphy from Barclays. Your line is open.

Matthew Murphy — Barclays

Hi. Just a question on costs. I mean there's some discussion in the release about inflation, specifically consumables and labour. And I guess how recent have you been seeing that? And to what degree do you think this is kind of a permanent move versus (unintelligible) site to sort of improve productivity and get costs back down?

Yvon Sylvestre

Well, I think the inflation has been relatively steady over the years. I think one of the biggest factors we're probably dealing with is we still have a fair proportion of contractor usage. And I think with the current economical cycle, the quality of some this manpower and the productivity of some of this manpower is sort of not necessarily helping, which is contributing to, in some cases, greater costs. I think that has been more the issue and probably more predominant in Nunavut, actually.

Matthew Murphy

Okay. And I mean, depending on the trajectory for costs and the gold price, I've got a question on the dividend. If we saw costs remaining fairly sticky and the gold price going back to 1,400 or something like that, what's the thinking on funding the dividend?

Sean Boyd

The dividend at $0.80 is secure. From a cost perspective, as we said in the release, we expect to have unit costs lower as we move through 2020 and into 2021 and '22, and we have a growing production base. So the combination of the growing production base and costs that are trending down on a unit cost basis allows us to pay that dividend of roughly $200 million a year.

Matthew Murphy

Okay. Thank you.

Operator

Your next question comes from the line of Josh Wolfson from RBC. Your line is open.

Josh Wolfson — RBC Capital Markets

Thank you. Going back to the Nunavut costs, I think historically, if you had looked at the life-of-mine costs for Amaruq, guidance there was around 800 an ounce. And Meliadine was in the low 600 per ounce. Would you expect changes to those long-term numbers? And what sort of order of magnitude would that be?

Yvon Sylvestre

I'll start with the costs at Amaruq for now. I think this year's 2020 numbers are mostly aligned with the higher stripping ratio and a lower grade overall in the pit, which contributes to lower production profile and, essentially, higher cash costs.

We're also processing some low-grade material, also contributing to some of the cost structure for 2020. As we move into 2021 onwards, strip ratio remains a little bit high, but the proportion of high-grade ore increases. And thus, from year to year, the production profile at Amaruq will increase, I think, 120,000 ounces more next year. So the cost structure will come down with time.

At Meliadine, I think we have available capacity in the plant. And so far, the mine has responded quite well and will continue to ramp up, tonnage-wise. I think so far, early in the year, we're surpassing 4,000 tonnes per day from the underground mine. And we have stockpile on surface.

So we will maximize that tonnage through time. And the costs will also come down a bit and go back to the life-of-mine numbers that we're showing at this stage.

Josh Wolfson

Okay. Maybe put another way on that, I guess the historical cost targets, is it same to assume that the inflation experienced in Nunavut will be above that roughly 3 to 5 percent that was discussed? And in terms of the underlying related items?

Yvon Sylvestre

Well, I think the first half of the year will show similar or some cost pressures. But as we pursue the ramp-up and we get to, I guess, steady state, the costs are expected to go down because we've added quite a bit of resource to support our continuous improvements initiative to get productivity and cost structures down.

So at this stage, we're expecting some, and we've already seen some results so far, but we're not just hoping that costs will go down. We're putting efforts and an action plan in place to ensure that.

Josh Wolfson

Okay. And then second question on the cost side of things. For Mexico, we saw a general increase in 2019 costs over 2018, and the guidance seems similar year over year for 2020. Should we be assuming kind of steady stabling the Pinos Altos costs going forward at their current figures?

Sean Boyd

In short, yes. I think the costs that we saw last year are from some instabilities that we had at Pinos Altos mainly. At La India, it was the effect of clay in the ore, but measures taken during 2019 to mitigate those into bringing the costs down and bringing the production up, which is the underlier in 2020.

So we'll see the costs reduced during 2020. But essentially, that's where we are.

Josh Wolfson

Okay. That's very helpful. Thank you.

Operator

Your next question comes from the line of Anita Soni from CIBC. Your line is open.

Anita Soni — CIBC

Good morning. Can you hear me?

Sean Boyd

Yes, we can.

Anita Soni

Thanks. So my question, I guess, is a little bit more on Meliadine. Not to put too fine a point on it, but in terms of the throughput rates, you mentioned that you were at 4,000 in December. So once you have the apron feeder fixed, I guess, in the first quarter, would you expect to get back up to the 4,000 tonne per day? Is it like really low in Q1 and then a Q2, Q3 rebound?

Yvon Sylvestre

Well, when I said we're at 4,000 tonnes per day, that's the underground mine.

Anita Soni

Yes.

Yvon Sylvestre

The mill has been operated actually, in 2019, anywhere between 3,000 up to almost 5,000 tonnes per day. So—

Anita Soni

Mm-hmm.

Yvon Sylvestre

—once the crushing part of the equation is out of the picture, it is expected to bring back up past 4,000 tonnes per day. And then and in Q4, as we sequence, mining-wise, with the pit comes into play, it's already expected that they'll be able to ramp up to around 4,600 tonnes per day at that stage. But we'll probably be in a catch-up mode before that.

Anita Soni

Okay. And then just on the costs, not to beat a dead horse on Amaruq. But 145, how much of that is just equipment availability issues? And how much of that is just the fact that the milling rates are sort of 7,700 tonne per day, and that's a 10,000-tonne-per-day mill? Like how much is it dependent on getting new ore sources in in 2022?

Yvon Sylvestre

Well, I think at this stage, it's mostly mining costs and grade that's the big issue. I think our processing costs have been a little bit higher because we've been operating at lower tonnage, but that's part of the reality as we're ramping up, so. Not sure I'm answering your question here.

Anita Soni

I think you are. And then just in terms of the LaRonde sequencing, so you're moving to sort of a 350, 360 level on the unit costs. Are the—sorry, on the production side of the equation. Are the unit costs, like is there room for improvement on the unit costs, once you get the rock mechanics issues settled and figure out how to improve upon your mining there?

Yvon Sylvestre

I'd have to say probably not. I think our biggest challenge, going forward, is that as we continue to advance the mining sequence in the LaRonde Deep, the overall tonnage per day keeps going down in life-of-mine sequence. So productivity's actually going down, so it'll put pressure on the costs.

Anita Soni

Okay.

Yvon Sylvestre

We're doing some work on the adapting strategies around manpower and automation down the road, which will eventually become like the template for LR-3 at depth. But I think that at this stage think our cost structure currently is going to stay pretty well in that range.

Anita Soni

Okay. Then a last one on Canadian Malartic. So I think I was discussing with Brian last night that there was issues in accessing some of the higher grades in the old stope workings. When do you think that will be resolved? And when you'll get back into sort of more stabilized mining there?

Yvon Sylvestre

Well, just adding to LaRonde, I think although tonnage will be going down, the grade is going up. And as the proportion of ore being mined from the western sector of the mine, grades in that area are in excess of 8 grams per tonne. So that's sort of stabilized. Although costs per tonne are going up, the cash costs are basically staying flat.

Anita Soni

Okay.

Yvon Sylvestre

As far as Malartic is concerned, I think we have about two-and-a-half years of mining left in the pit. We will continue to deal with underground workings like we have in the past. I think the challenge will be to essentially continue to ramp up, and we're been getting good progress in Barnat. We'll probably sequence some of the Barnat differently, potentially, but it's a day-to-day challenge with the blasting.

And at this stage, the biggest issue has been related towards remote mucking, basically. That's the biggest challenge that we've had, and we're finishing some access work on the main ramps and on the walls that will be, in the second half of the year, will be easier for the operation.

Anita Soni

Okay. And then, sorry, can I just revert back to LaRonde. You mentioned the higher grades of 8 grams per tonne. Obviously, there are two ore sources there, right, so it's not going to be straight 8-gram-per-tonne material.

Yvon Sylvestre

That's correct. Yeah.

Anita Soni

Yeah. But when you hit the 8 grams, what does that do to the rest of the by-products? As I recall, is it gold, copper, and silver, zinc? So you probably get higher copper but lower silver and zinc?

Yvon Sylvestre

Correct. Yeah.

Anita Soni

Okay. All right.

Yvon Sylvestre

Copper goes up, and the zinc is almost nonexistent.

Anita Soni

All right. That's it for my questions. Thank you.

Operator

Your next question comes from the line of John Tumazos. Your line is open.

John Tumazos — Very Independent Research

Thank you for taking my call, and thank you for your service to the Company. Could you give us your philosophy on share buybacks? We all hate volatility, and we got a little taste this morning. And second, could you talk a little bit about the step-up in inferred resources this year? And you've got 55 million, 60 million ounces total reserved in resources, which of the zones might get into reserves in year-end 2020, '21, and '22. I know the documentation always takes longer.

Sean Boyd

Sure. Just on share buybacks, I think our focus with the increased cash flow will be to reduce overall debt. At this point, we're not contemplating share buybacks. I think we prefer to improve the strength of the balance sheet. As far as the increase in resources, I'll let Guy provide some of his colour on that.

Guy Gosselin — Vice-President, Exploration, Agnico Eagle Mines Limited

Hi, John. So basically, as you saw this year, we've been bringing more resources in Kootenay, for example, as we are continuing to drill and grow the footprint of those deposits. Same thing in Amaruq, where we've been adding more drilling and been able, through a study on the portion of the deposit above the permafrost limit, to bring it into reserve. And in Malartic as well, we're continuing successful drilling at East Gouldie, has grown that new East Gouldie Zone.

On the latest one, I think more drilling will be needed. So we're going to continue to expand the footprint, to infill it. So it's not going to end it up into the reserve anywhere soon because much more drilling will be needed to get there and better assess the viability. But we're making good progress. I know expanding the footprint as well in Mexico on the Santa Gertrudis where it's been a good contributor to the addition of inferred.

So I think we've been getting good news on several fronts from growing resources. And as you can understand, you know how once in a while, some of those projects will end up being supported by a study and be converted into reserve. So it's an ongoing process. This year, we've brought additional satellite open pit at Meliadine into the reserve and brought Amaruq underground. And we're working on the next big block that will be moved from resources to reserve.

John Tumazos

Bon chance, mon ami, Guy.

Guy Gosselin

Thank you.

Operator

Your next question comes from the line of Ralph Profiti from Eight Capital. Your line is open.

Ralph Profiti — Eight Capital

Hi there. Thanks for taking my questions. Firstly, I see that you've outlined the proportion of the west area at LaRonde in terms of the ore feed. Just wondering what the plan or the mitigation strategy if you get into 2020 and into 2021 and those ground conditions sort of don't really support the mine plan as it stands now or your visibility. What would be the mitigation plan then?

Yvon Sylvestre

Well, we're sort of applying that already in Q1 because we've resequenced the development into the eastern sector to compensate for the lost tonnage. And the team has been quite successful at that. I think longer term to that, we're also in the process of developing other areas within the satellite ore bodies like the Zone 11–3 at Bousquet,—

Ralph Profiti

Yeah.

Yvon Sylvestre

—which will bring some production down the road. So we are thinking all the time about providing not just risk tonnage but also incremental tonnage to the plant because we've got available capacity. So I think that's the plan at this stage.

And as far as the current period as far as increasing support in the western sector is essentially to ensure production in that area. And we're pretty confident at this stage that the activities that are being put in place will secure that production for the rest of the year.

Ralph Profiti

Okay.

Sean Boyd

I think I'll just add on that, Ralph. As far as sort of strategy at LaRonde, the strategy's been to, as we go deeper, to take a very measured approach. So essentially, the cautious mine plan calls for about a 13 percent reduction in tonnage from the original plan as we move into the deeper part of the ore body. And the strategy over time is to ensure that we can access that higher-grade material by boosting up the ground support in the major infrastructure.

So that's just being cautious, and that was a recommendation that came to us in January from the team there, who have developed a pretty unique skill set around rock mechanics. So I think that's critical to the future of LaRonde to be measured as we go deeper.

But I think what we're finding in the Abitibi, as we look at some drilling we're seeing on the old Bousquet property, drilling we're getting at East Malartic, at East Gouldie, there's still a lot of life in these old camps. But in order to access and take advantage and build value as these resources grow, like John said, you need the skills to be able to go deeper. And we certainly see that also at Kirkland Lake, another old camp where we have a buildable mine at Upper Beaver.

So I think the opportunity is there. We just have to be measured cautious in the approach there. But we have some really good skills that have been developed, that are all in-house, and we sort of take our lead from the team there on how we should approach it.

Ralph Profiti

Yeah. Yeah. Thanks for that. Sean, if I could stay with you on a different topic. You talked about this $360 million payment due in April.

Sean Boyd

Yup.

Ralph Profiti

Fifty percent of it which would be refinanced. It differs a little bit from what I've heard before, which is paying down debt as it comes due.

Sean Boyd

Yup.

Ralph Profiti

How are you thinking about, sort of, capital allocation? Has this changed, sort of in that first half of 2020? Or is this cost of financing just too attractive?

Sean Boyd

I think it's the cost of financing is very attractive. I think the stuff we're retiring now is 6.4 percent or 6.6; 6.6, Dave reminds me, and you probably replace that for an interest rate of less than half of that.

So we will repay some of the gross debt. That's part of the plan. But we're just reviewing those alternatives over the next week or two.

Ralph Profiti

Got it. Okay. Yep. Good clarity. Thank you.

Operator

Your next question comes from the line of Tanya Jakusconek from Scotiabank. Your line is open.

Tanya Jakusconek — Scotiabank

Hey. Good morning. I think that's me.

Sean Boyd

Morning.

Tanya Jakusconek

Yeah. I know. Right? Got to get an easier name. I just wanted to circle back, if I could, to LaRonde, so that I just understand what's happening. How I interpreted it what Yvon was saying, is that we've had a change in the mine plan in that, as we've gone deeper with the rock mechanics, looks like this is going to be more a 360,000-ounce, long-term mine. Is that a correct way to interpret it?

Yvon Sylvestre

I think the way you need to interpret it is that we cannot sequence as quickly as we had earlier anticipated in the western sector. And that has been evident from the start of development in that zone. The biggest challenge that we have in that sector has not been mining so far. It's been the development. And the protocols that are necessary in the various headings are like much more important in that area. And the sequence at which we can adapt the rest of the sequence is like affected by it.

So this area is a very high-grade sector, and we just need to ensure that we do the mining properly. And so far, we've had a lot of success, production-wise. We've had very little minimal impact on the production side. And we intend to keep it that way. So that's part of why, the reasons we're taking this pause to increase the support.

Tanya Jakusconek

Yeah. No. I appreciate that. I'm just thinking more from a longer-term perspective. I think the camps, when we talked about it, was going to be ultimately, about a 400,000-ounce producer camp. Is that still what you see, excluding this area that you've talked about? I think we talked a bit about lowering the tonnage. Ultimately, we've got to get to reserve grade. So I'm just wondering if the balance of lowering the tonnage and getting to reserve grade still keeps us at this 360,000-ounce rate? Or do we move back to that 400,000 ounce longer term.

Yvon Sylvestre

We'll be in between the two, I guess. We'll be in the 360 to 400. A lot of it will come from greater production from LZ5. As we get more productivity from that site, we also have a lot more flexibility from that site. And we're going to maximize it to make sure the complex stays near its objective as much as possible.

Tanya Jakusconek

Okay. Okay. That's helpful. Okay. Well, thank you for that. If I can still just come back Nunavut so that I—again, to summarize on my understanding of what has to be done at Amaruq to get the mine back on track. It appears that in the pit what you need to get is just more surface areas exposed in there to get to your mining throughput, which you think you'll get there by midyear. And it looks like the maintenance now has been adjusted between what you're doing at Amaruq site versus what you're doing at Meadowbank. Is it just the improvement of the utilization of equipment that still has to be done to get you there? And if so, what's the timing on that?

Yvon Sylvestre

Well, it's getting everybody up to speed in its time. I think we are doing all of this. We're trying to optimize, probably in the most difficult period of the year,—

Tanya Jakusconek

Yeah.

Yvon Sylvestre

—under very difficult climatic conditions. So the speed at which we will do this in Q1 is one. We'll accelerate significantly in Q2. But at this stage, it's more the equipment availability, particularly on the loading side. There's still some challenges equipment availability-wise on the drilling side. But it's mostly on the loading side that we need to focus and get some of our digging equipment with more hours. The rest is okay at this stage.

Tanya Jakusconek

Okay. And then just maybe on the Amaruq underground, if I could just ask. Saw that you have some of that guidance for production into your 2022 numbers and ultimately beyond. Is it safe to assume, on the capital side, that most of the spend is in 2020/2021?

Yvon Sylvestre

It would be mostly second half, if we were to approve it. And in '21.

Tanya Jakusconek

Yeah. And most is—Okay. And it would be in that 650 million to 700 million that would be accounted for in that guidance range? Hello?

Sean Boyd

Yes. For next year? Yeah?

Tanya Jakusconek

Yes. Okay.

Sean Boyd

Can you hear that?

Tanya Jakusconek

Yeah, yeah. Yes, thanks.

Sean Boyd

Yeah. Six-fifty to seven hundred in next year.

Tanya Jakusconek

In next year. So it would be in—okay. Perfect.

Sean Boyd

Yeah.

Tanya Jakusconek

And then if I could just ask one question on Meliadine. We talked about what's happening at the mill in terms of dealing with the apron feeder. Is that something that, Yvon, we're going to need to replace? Or is it something that is fixable short term?

Yvon Sylvestre

Yeah. We're waiting for parts. It's a unit that's fabricated in Italy. It's a custom unit, so parts and delivery are very long. So we're looking with a local supplier to provide parts that are fabricated to replace them. And the plan is to replace the unit after barge season later this summer.

But once the new parts are put in in March, we're expected to be back and running at normal capacity.

Tanya Jakusconek

Okay. And then maybe just on the underground because we also have changed the mining sequence in the underground for lower grade. Can you just talk about what happened there for the 2020 plan?

Yvon Sylvestre

Mostly, I think the sequence was pretty well mine as planned. The only area, our RP3 area, which we had a little bit more ceiling water in that sector, and we needed to understand the behaviour in that area. Some of these stopes were significant tonnage and significant grade that sort of put pressure on the overall grade profile for the rest of the year. This will resorb itself probably in the second half of this year. And we're expected to restart mining in that area. So I think we'll be back on grade profile from there.

Tanya Jakusconek

Okay. So second half of the year. Okay. Great. Thank you so much.

Operator

Again, if you'd like to ask a question, please press * and the number 1 on your telephone keypad.

There are no further questions at this time. I turn the call back over to Mr. Boyd.

Sean Boyd

Thank you, Operator, and thank you, everyone. If there's any sort of additional information as a follow-up to this call, please feel free to reach out and we can set up separate calls if you like. Thank you very much.

Operator

This concludes today's conference call. You may now disconnect.