FINAL TRANSCRIPT

Agnico Eagle Mines Limited

Second Quarter 2020 Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Jesse, and I'll be your Conference Operator today.

At this time, I'd like to welcome everyone to the Agnico Eagle Second Quarter results 2020 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 star, then the number one on your telephone keypad. If you'd like to withdraw your question, press the pound key.

Thank you. Mr. Sean Boyd, you may begin your conference.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Thank you, Operator, and good morning, everyone, and welcome to our second quarter 2020 conference call.

Prior to getting into the slides, just be forewarned, we are presenting forward-looking statements in this presentation, and there are two slides which go through the disclaimers on forward-looking statements, so please at your leisure, read those.

What I'd like to do is talk a little bit about Q2 and how we've managed through the pandemic, but focus more on how we're positioned going forward, what the emphasis will be on our business in terms of driving a free cash flow and using that to reinvest in the business and increase our dividends as we move forward.

As you know, it has been a challenge. It's been a challenge for everyone from a business standpoint. We had seven of our eight mines were impacted either with temporary shutdowns or with significant reductions in our activity levels at those mines due to COVID-19, and the fact that in some of our jurisdictions, mining was not considered an essential business. We were fortunate to be able to restart those operations earlier than we had expected.

We continued our dialogue with the governments in our respective regions, on our safety protocols and how we were positioned to restart and keep our employees safe, and in both in Quebec and Mexico, both of those governments allowed the mining industry to restart before many other industries. That allowed us to ramp up and get things moving quicker than what was in our original plan.

As we've said before, the number one priority for us was to ensure that our employees were not only safe, but they were comfortable, their families were comfortable with our approach, also our communities were comfortable with our approach, and we used some unique—our team put some unique ideas forward, particularly with respect to testing, and that just added an extra layer of comfort and protection. We'll talk a little bit about that. We closed Q2 strong. We started Q3 strong.

As a result of that, we expect to have a strong second half in terms of production, declining costs, and also free cash flow generation. It was important for us because, in a lot of the meetings that we've had over the last few months with investors and analysts, the question was always, well, how much is it going to cost to manage through the pandemic in terms of impact, their costs on putting mines, on care and maintenance, but more importantly, going forward, what was that going to do to your productivity, what was that going to do to your unit costs.

On Page 5 on the slide in our press release, we've broken those down and it's giving you the accounting treatment. In the quarter, we incurred a little over $22 million. Roughly $8 million of that was strictly the care and maintenance costs at those operations where we were on temporary suspension. We had an additional $14 million roughly which were our payroll costs for employees that we temporarily laid off during the COVID. Those amounts of $22 million were not included in our unit costs, either cash costs or all-in sustaining costs, and we did not back those out of earnings in calculating our adjusted earnings.

There have been indifferent treatments in the industry, we've chosen to leave them in our earnings calculation and not back them out for adjusted earnings. But I think it's more important to focus on the cost going forward. In the quarter, we had $2.3 million in costs around increased hygiene and screening and testing. Those were factored into our unit cost calculation, and we didn't adjust our normalized EPS for them.

As we look forward, I think there was a couple of things in terms of moving parts. We do know we have additional expenditures to continue with the protocols around screening and hygiene and testing. Our number for that is about $1 million a month, which amounts to about $6 per ounce in additional costs. That's a number that the market's certainly been interested in for a number of the companies. That's where our number has landed.

We view that as not significant in the overall picture, but we've also been able to, because of our unique situation, having to reduce employment levels at seven of the eight mines, and in some cases drastically reduce employment levels. On the restart, we reintroduced employees in stages. We gradually reintroduced employees and that allowed us to get a pretty good feel and match our employment levels and headcount levels against our productivity and our production levels.

We feel that there's going to be some cost savings there in terms of the total headcount count, particularly on the contractor side. It looks like we won't have to call back as many contract workers as we had prior to the pandemic, which we think is a bit of an opportunity. We do have an additional cost of $1.4 million per month. One of the things that was done early on is that in Nunavut, the communities are at high risk for COVID-19, it was important to ensure and protect the communities that we had to separate our operations from those communities.

As a result, as you know, we sent our Nunavut workforce home, they are still at home. We want them back, but we want them back when they're comfortable. We believe we have a safe environment for them to come back, but we are still in discussions with the Nunavut public health authorities, the government of Nunavut, local government community leaders, on when is the most appropriate time to bring them back and ensure that the communities remain protected.

So, there's no set timeline for that, but as we say, we continue to work with that. We have back-filled that workforce with some additional contract workers and some seasonal workers to help us manage while our Nunavut workforce is at home.

In terms of second quarter highlights, we produced a little over 330,000 ounces, which is a bit more than we expected. When we started to see the impacts of the virus, there was a lot of uncertainty around the restart. Our costs were higher on a unit basis because of producing less gold in the quarter. Going forward, we expect those costs to come down. We'll talk about that.

We tightened up our guidance. We increased the lower end of the range. The guidance is now for the full year, 2020, 1.68 million to 1.73 million ounces. We had a fairly broad range when we revised guidance at 1.63 to 1.73, and we needed to do that because we were still in a period of a lot of uncertainty. We really weren't sure at that point when we were going to be able to restart and how quickly we were going to be able to ramp up. Now we've gone through the second quarter, so we're comfortable tightening up that range and increasing the lower end of that range.

In terms of full year guidance or going out into 2021 and 2022, we left that the same. What that means is second half of this year, we expect to produce between 480,000 to 500,000 ounces per quarter at declining costs. In the next year, a little over 2 million ounces, which puts us about 500,000 ounces per quarter, and beyond that over 500,000 ounces per quarter, as we continue to ramp up. We continue to declare our dividend of $0.20 a share. We'll certainly lock in the third quarter at revisiting that, and given our track record of 37 years of consecutive dividend payments, and given the free cash flow generation, I think it's logical to assume that over time, that dividends continue to go up.

Also in the second quarter, I think what’s important to note that we did receive some critical permits in the quarter. We received a permit to increase our processing rate in Finland to 2 million tonnes a year. We received a permit at Meadowbank for the IVR open-pit and for the Amaruq underground. We also, at Meliadine, received approval to double the amount of salient water we can discharge to the sea. So, those were three important permits that we were anticipating, and we did receive them in the second quarter. In terms of the ramp up, we did talk about the faster ramp up in the previous slide.

As we said, we got able to restart earlier in Quebec than expected, about two weeks earlier. We got to restart in Mexico about 12 days earlier than we had expected. As a result, we closed the quarter strong in June and that allowed us to gradually ramp up, and in July over 160,000 ounces of production, so that sets us up for a strong second half as we said.

On an operational update, I'm not going to go into individual slides, although they are in the slide deck, but as we go through the next series of slides, I'll touch on each of the operations of LaRonde.

Prior to the onset of the pandemic, we had completed the planned infrastructure upgrades in the West mine area of LaRonde. We were actually developing in the West mine area before we had to reduce activities there. We have been mining in the West mine area in the second quarter and we continue to see higher grade than we had forecast in the block model, which I think is important to see that realized as we mine out those areas. We're expecting, in the second half, to average about 8,500 tonnes a day from the LaRonde complex, about 3,000 tonnes of that from LZ5, about 12 percent of the tonnage ore will be sourced from the higher grade West mine area.

At Meliadine in June, our throughput in the mill exceeded 4,300 tonnes a day. We had always talked about 4,000 tonnes a day as a level that we needed to achieve. We beat that in June. In the third quarter here, we will replace the repaired apron feeder, so to reach 4,300 tonnes a day with the repaired apron feeder really speaks to the success of those repairs. We will put in a new unit in the third quarter. We will upgrade the filter press system and other components that will allow us to go to 4,600 tonnes a day in the plant in the fourth quarter of 2020.

I think what's also important is we've been able to pump out the third mining horizon at Meliadine, which was always in the plan. Those are higher grade areas, and that's set up so that we can start mining in those higher grade blocks in August and September and into the fourth quarter. We did make reference to our water discharge at Meliadine. We did get approval to double the discharge limit at Meliadine. We're doing that by truck in the third quarter. We can continue to do that by truck going forward, but we feel strongly that the best solution is a water line, so we're moving forward with the process to get the waterline permanent. That's going to involve a lot of community discussion.

One of the concerns that the community would have about a water line is, does it impact the ability of the caribou to move? They had that initial concern back in the early days of Baker Lake back in 2007, and it was pretty evident pretty quickly, once the road was built, that the caribou were not bothered by the road and they easily cross the road. We think that's the same thing with the waterline. In that 35 kilometer long waterline, there are 70 crossover points for caribou. Ultimately, if we need to cover the entire water line, we'll do it. Longer term solution, eventually we'll get it approved, but in the meantime, we can continue with trucking the water at Meliadine.

At Meadowbank, we made a lot of progress, even though we reduced activities to catch up on the backlog of maintenance. You can see that in the results in June where we mined over 110,000 tonnes of ore and waste per day. Our target, as you know, was 100,000 tonnes of ore and waste per day.

The mill restarted in late May, which was a couple of weeks sooner than we had planned. The mill is currently running in excess at 9,500 tonnes a day, both from the mine ore and from existing stockpile. In the balance of 2020, we expect higher grades, between 2.5 and 3 grams per tonne, which helps with our production in the second half and helps us to achieve our increased production for the second half. As we mentioned earlier, we received the permit for the Meadowbank complex to mine the IVR open pit and the Amaruq underground.

At Kittila, that was the one mine where we were able to operate our plant continuously through the quarter. We also received an important permit there allowing us to move forward with the expansion in the processing facility to 2 million tonnes a day. We were impacted with our shaft sinking because the shafting sinking crew was Canadian. They were brought home during the pandemic. They've now been allowed to return and resume shaft sinking activities. We did continue on with the other construction related to that expansion program.

Ultimately, we believe the future at Kittila is beyond 2 million tonnes a day and that's why we're thinking about the opportunities we may see to increase the mining rate there. We've had some good exploration success there. I'll talk about that in a minute. As we step back and look at our production profile, we see our graph, how we have gradually increased production over time. We're now pushing on that sort of run rate of 2 million ounces a year. We expect to exceed that in 2021 and beyond, and we continue to work our project pipeline, Kittila expansions under construction, so is Meliadine phase two. Amaruq Underground is in planning, was delayed due to COVID. We're working on ways where it will not impact our 2022 production number. We think we can be successful doing that in terms of timing. I'll talk in a minute about the opportunity at Canadian Malartic underground, which is an important project.

Exploration has become—continues to be a major focus here, but I think what we've learned in the last 12 to 18 months, as we've said before, is there's still a lot of potential left in these mature mining camps, whether it's LaRonde, whether it's Malartic, or whether it's Kirkland Lake.

As we mentioned that Kittila is a very long life asset, but we continue to drill that deposit and we continue to intercept ore grade material beyond the current resource limits. So, we're going to continue to prowl that depth and that's been a big part of our success. We don't find drilling deep drill holes simply from the perspective, we'd like to know what we own for planning purposes. That is the same story at Canadian Malartic Underground. The reason East Gouldie was found is because we were attempting to drill a hole about 2 kilometers underground. That was the target, tracing the plunge from the old East Malartic underground and we hit the East Gouldie deposit.

We've got 10 drills currently working there. We've expanded the program to increase the drill meters by almost 20 percent which is important to gather information on the potential size, but also tightening up the drill spacing and improving our confidence in the East Gouldie deposit. It's the East Gouldie deposit that makes this underground work. Without that, even in East gold prices, Odyssey and the East Malartic side was still low grade. It's now the volume and the number of mining horizons and the potential to make this a large tonnage underground mine that East Goldie introduces.

We certainly combined with Yamana, Agnico have the skills to understand what we own and what steps need to be taken to optimize it and turn it into a meaningful part of our business. We're doing that now. The first stage of that, as we said, is to increase our drilling. We're working on a preliminary economic assessment, which we expect to be ready in early 2021. The initial work on an underground exploration program, which is essentially the ramp, we're going to begin that this quarter.

We've taken important steps to move that project forward and essentially what that will do is extend the mine life at Canadian Malartic and have the potential to extend it for many, many years. Kirkland Lake and other old mining camp, we continue to drill up for Beaver. It is a mine. The question is, where do we stage it in our pipeline? We continue to drill and we continue to assess the economics. We've now started to drill more targets along that plan package, including amalgamated Kirkland, which is close to the boundary with Kirkland Lake gold, so we're interested to see what those drill results return.

In Mexico, we continue to get high grade results at the Amelia deposit. It's going to need some more drilling. The team is focused on completing those drill programs and then updating a study on the potential at Santa Gertrudis.

I'll just add LaRonde here. We continue to drill both LZ5, the old Bousquet Barrick property to the West of LaRonde. Our intention there is to ultimately mine out several hundreds of thousands of more ounces there. We're also drilling to the East of our main LaRonde ore deposit where we picked up massive sulfide mineralization over the last several months in the 20 North zinc Southlands, so that continues to be a focus for us on the exploration front.

On the operating results, we talked about most of these mines, but I'll talk about Goldex here. Goldex is actually doing extremely well. Prior to the pandemic, it was exceeding its budget, getting very good productivity from the Rail-Veyor system, getting good productivity in the high grade South Zone. We expect as we move through this year to be able to increase the mining rate in the South Zone. We expect more production coming out of Goldex in the second half, so the team has done a really good job optimizing that asset generating free cash flow. At Malartic, we've talked about the underground potential, but the mine during the second quarter actually did extremely well in terms of ramp up. In May, the monthly tonnage mill was 64,000 tonnes a day, so that's a record. We have to congratulate the team because they did produce in the second quarter their 5 million pounds since the mine started. So that's a tremendous achievement in a short period of time. There's a lot more ounces to come, particularly as we look at the underground, but there's a top notch team there that's doing a really good job maximizing the open pit and now looking at the opportunity to extend the mine life with the underground component.

In Mexico, the focus continues to be on advancing satellite opportunities, whether at Sinter or Cubiro or Pinos Altos, or Chipriona at La India, but I should also give our thanks to our Mexican team. The mines are in a region where communities have been hit fairly hard with the virus, unfortunately, and I think what that has done is it's allowed our teams to really be helpful at the community, and what we've been able to do, what the team has been able to do is we've brought in additional medical resources and medical personnel to help the community. We have the logistics, we have better medical facilities in some of the communities, we're in a better position to respond and our team has done an exceptional job of working together with the communities to help them deal with the pandemic in the communities.

Our screening program has been effective. For the most part, we've been able to screen out employees prior to getting on site. We've had some that were asymptomatic that did pass through screening. We isolated them immediately. We're using rapid testing, followed by the detailed testing after, so the testing has been a big factor in our ability to manage through this. As I said earlier, our team did an exceptional job implementing testing in April in Nunavut. We now have a test facility in Quebec, at Val-d'OR, which basically prescreens and pretests every employee we bring up from the South into Nunavut. So, by the time the plane arrives in Nunavut, we have the test results essentially. If all the tests are positive, all the employees are released to work on their 14 day shifts.

So, I think using testing, the highlights for us was early adoption of testing. The fact that our team thought about it and were able to execute, and the fact that in the regions where we've been, we found ourselves in a strong position to help the communities and our team really stepped up and done that. Just quickly on financial highlights, even though the quarter was down from the production standpoint due to COVID, we did have good earnings and good cash flow generation.

We expect all those numbers to improve as we move through the second half. We did draw down $1 billion on our credit line as the pandemic struck just to be extra cautious. We have now fully repaid the $1 billion that we had drawn on the credit line.

We've made reference to the dividend, but I think it's important to note that over the last six years, even though we were in a heavy construction period and the gold price averaged around $1,200, we increased our dividend in each and every one of those years. We raised the dividend in February of this year given where the gold price is and given our growth trajectory in terms of production. We would expect that dividend to continue to increase as we move forward.

Just to wrap up, we talked about our ability to manage through COVID and make sure not only were the employees safe, but the assets remain properly positioned to manage and deal with some things that we had to get done largely in Q1, and a little bit into Q2, we successfully did that, which sets us up for a strong second half and a strong 2021 and 2022.

Again, renewed exploration focus where we feel we can continue to add a lot of value on some of our mature mines. There's still good opportunity there and those are high quality ounces given their, at existing mines, not only near physical infrastructure, but near our skilled workforce who's demonstrated a track record of being able to add value.

So, Operator, that's the formal part of our presentation. We'd like to open up the lines if you could, and take questions.

Q & A

Operator

Certainly. Again, if you'd like to ask a question, please press star, then one, on your telephone keypad. Again, that's star, one to queue for a question. We'll pause briefly to compile the Q&A roster.

The first question comes from Ralph Profiti with Eight Capital. Your line is open.

Ralph Profiti – Analyst, Eight Capital

Hi, good morning, everyone.

I'd like to ask two questions if I may please. Firstly, what's your gut feel on how big Kittila can be? You talked about sort of the sweet spot being above the 2 million tonne per annum rate. Maybe you can give us some context around what you're thinking, how big the investment can be, and is this going to be sort of a larger high grade or a larger low grade deposit compared to what we see now?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Our sense is that we're just taking it a step at a time. I think that it's pretty clear that we bought it initially for CAD 150 million when it was a little over 2 million ounces resource because we expected it to get bigger. I think the reserve and resource roughly 8 million ounces or so, we mined over a million ounces. We're in the middle of that program to get the 2 million tonnes a year. We started at around a million tons a year, I think. So we've doubled it.

The challenge we always had was to try to match the production rate with the size of the ore body. It's an anomaly, as you know, in Scandinavia, most deposits tend to be around a million ounces. This one we will likely mine out at maybe 10 million ounces because it's still wide open. It's still growing. So, I think our next level, our team is now starting to think beyond 2 million tonnes a day. I think a logical next level could be 2.4 million to 2.5 million tonnes a day.

That'll take a few years, but we're already in the initial stages of thinking about how that could be done. As we drill the scissors on a depth, maybe that opens up another mining horizon for us to allow us to increase the mining rate. So it's still early, but given the size of the opportunity, the fact that we've been staging investments over a number of years to increase capacity there, I think that was the right approach. We'll continue with that steady sort of measured approach to maximizing what is a strong geological asset for us.

Ralph Profiti – Analyst, Eight Capital

Okay. Sean, will we see from East Goldie more drill results before the year end 2020 reserve and resource statement comes out? Maybe just a broader question, given the care and the due diligence you're doing around all these operations, when it comes to reserve and resource replacement, how were you guys shaping up as you bring back the full capabilities of the exploration program?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Okay. We'll start with the East Gouldie. Our plan is to have drill results come out with the Q3 results. Exploration activities were suspended in Quebec for actually longer than the production activities were suspended, so we weren't able to drill things like LaRonde deep and the targets at Canadian Malartic underground. That's resumed, as we've said in the release with 10 drills. There's certainly lots of information that will be available to us prior to the end of October when we put out our Q3. So, the expectation is that we will put those results out.

Then the plan is to update the resource in February to put out a PEA at some point in the first part of 2021. Our sense is that we'll have to make a bigger decision for the overall project, which would include a shaft and we'll have to make that decision based on resource. We won't have or won't be in a position to drill it all off to the levels of a reserve. We're comfortable doing that based on what we know, we believe.

We think the drilling now where we tighten up the spacing will increase our confidence level to be able to do that. We've done this a number of times. I think what we're seeing in East Gouldie is thick and higher grade with a higher grade core. It's still open. I think that's what we're facing in terms of decisions as we move forward. That's why we're not rushing it. We're taking this a step at a time, but I think it's important. I think Yamana and Agnico both recognize now that it adds a lot of value because you could have potentially a significantly sized underground mine from a tonnage perspective that would extend the life of Canadian Malartic for a long time.

So now it's to sort of put our collective experience together, try to work it into our own respective pipelines. It's clearly a priority given the potential here and that's how we kind of work it. So that's going to require us to regularly update the market on our thinking which we're in a position to do as we go forward.

Reserve resource replacement, another question. I would expect we're working on a number of areas where we believe we can convert our resource to reserve. We had a slight decline this year, but it's not just drilling, it's completing studies.

It's a great question because we spent some time while our drills were down talking about strategy around what resources do we need to put to work in the second half of the year to make up for that lost time of drilling, but also to ensure that we get the studies done on a timely basis to move resources to reserve. We're confident that we can, at a minimum, maintain what we have. Hopefully, we can grow it.

This isn't a prediction, but all I can say is the plan is designed to ensure that we pick up the pace of drilling in the second half to make up for the time we lost in Q2. We're well-positioned to complete the studies we feel we need to get completed to convert resource to reserve. What the final number is, we never know but I think we're well positioned.

Ralph Profiti – Analyst, Eight Capital

That's great, Sean. Thanks.

Operator

The next question comes from Jackie Przybylowski with the BMO Capital Markets. Your line is open.

Jackie Przbylowski – Analyst, BMO Capital Markets.

Thanks very much. I just want to ask, I guess, another exploration question. The results that you've put out on the on the zinc deposits at LaRonde look fantastic. I know it's still very early. I guess more strategically, how do you guys think about zinc in your portfolio? Is this something that you'd be comfortable mining yourself and having in your portfolio longer term?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Absolutely. At one point, our friends at Barrick years ago, when Agnico was 50 percent zinc revenue and 50 percent gold out of LaRonde, and we were happy to take that zinc because we were selling it at a $1.50, my friends at Barrick used to see me at conferences and say, "How's the zinc mine going, Sean?" We have a history of zinc, we've made a lot of money at zinc. We've used the money we made at zinc to build the gold business, partly to build the gold business, so we'd be really comfortable with that.

We hope it's a sizeable lens. These things are lenses. It's relatively near infrastructure down there. It would certainly give us flexibility. The NSR value of some of these holes is very high, so it's not a surprise. It's something we're used to seeing. I think that the fact that we've hit something, I think, just reinforces the fact that we have to continue the systematic drilling. So, what we've decided to do is focus more drilling there. Ultimately, we will need to extend the ramp Eastward to give us a better platform to drill below 3 kilometers as we move to the East and potentially move on to the adjoining property which we own, which used to be Barricks called El Coco because that wasn't really drilled at depth at all.

As we moved to the West Barrick and Bousquet never really drilled that at the depths we're mining at Laronde, so there's lots of potential there. Really what you have is you have a very wide felsic package of rocks which run through that belt. And there's still lots of open areas which haven't been drilled. So, it's our job over the next few years to ensure we keep drills turning to see what we have there because it's not only the physical infrastructure we can leverage off of it, it's the skillset that we have in place there. So, that's part of our strategy.

Jackie Przbylowski – Analyst, BMO Capital Markets.

That's great. Thanks so much, Sean.

Operator

Your next question comes from John Tumazos with John Tumazos Very Independent. Your line's open.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Hello, John Tumazos.

John Tumazos – Analyst, John Tumazos Very Independent Research.

Congratulations on the good times.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Thank you.

John Tumazos – Analyst, John Tumazos Very Independent Research.

As you go forward, how do you plan for 2021 or investment decisions, whether it's, probably not $1,200 gold two years ago, but you probably aren't using $19.50 for today either. How do you plan vis-a-vis health protocols and manning? Clearly if you have less people at your site, it spreads less virus and that's a great advance. Thank you.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

I think we're assuming that most of the protocols remain in place. Ultimately, I guess there's a vaccine possibly, or there's an effective treatment. If that occurs, then I'd say face coverings go away and testing goes away, but I think hygiene and the focus on hygiene and possibly screening, I think probably stays going forward. I think the way we've looked at this strategically not knowing whether there's a second wave or whether we stay at an increased level going forward.

What we tried to do in the second quarter is get to our governments who made a call that mining is not essential. The fact that we were able to open up earlier or mining was able to open up early, I think the governments in those regions have concluded that mining can operate safely because there's a lot of natural physical distancing. The government's got very comfortable with our screening and hygiene and testing procedures, so I think that was part of the equation. Part of the reason for doing it was the unknown. If there were more cases in the regions we operate in, we wanted to be able to make the strong case that mining was essential to be able to continue to operate. I think we've done that. I think the fact that we've been able to open up earlier than other industries is a testament to that.

I think in our dialogue with the governments, the governments have said to us, they've congratulated us on the massive procedures to keep our employees safe in the communities, things like sending the Nunavut workforce home, the extra testing. They've also added that they have included that mining will be important going forward because of the economic damage done to large parts of the economy. I think they've concluded as all of us have concluded that mining, particularly gold mining, can be very profitable, which means we're paying a lot of taxes and we have a lot of high paying jobs, so I think we've made the case that we can continue to go.

As far as investment decisions, as we look on out, I think there's a few things there and that's sort of the number one question we're getting is, is the industry going to have a better result this time versus 12 years ago or so when gold brand and we didn't deliver the margin expansion? There's a couple of keys to that. One major difference is the fact that we're not seeing the input price pressures we saw 12 years ago across the board, probably due to a lack of activity in terms of big projects in the resource space. We're also—we’re not in that position where 12 years ago, the gold price went from sub $300 to over $1,000 in a short period of time. The industry made a strategic mistake where they kept calculating reserves, as you know, at a higher and higher price every year, which saw a dramatic dilution in the quality of businesses over a short period of time. Here we are now as an industry where we've had a relatively stable reserve price anywhere between $1,100 and $1,300 for a number of years, which means the base on which the mine plans are built to deliver the margin expansion over the next three to five years is pretty solid and conservative.

It's up to the industry to maintain that conservatism in terms of the reserve and resources. We're at $1,200 so we're not going to be tempted to go a lot higher. I think for us, it's our focus on free cash flow generation, stay disciplined, work our pipeline in a measured fashion, but be mindful that the price level is good. Let's continue to explore. Let's continue to understand what we own. Let's continue to look at early stage opportunities, which we could bring into the pipeline. There's no real significant change in how we think about this. It's really about, how can we continue to be a high quality business that can continue to drive per share value?

We were asked a question today, the fact that, "Did it matter to you that this week your stock went through CAD$100, and that you've hit an all-time high in Canadian dollars and that other companies have not returned to all time high? Does that matter?" I said, "Well, it really only matters from the perspective that it actually reinforces that the strategy that we put together in the late 90’s when we were single asset $50 million in revenue, $4 million in EBITDA, one mine, the strategy was to diversify away from one mine to get bigger, but do it in a way that actually added value, and I think the share price in August of 1998 was less than $5. The fact that it's hit a hundred sort of reinforces that strategy worked. It's just stay focused and trying to make sure that we continue to be a high quality business.

John Tumazos – Analyst, John Tumazos Very Independent Research.

Thank you.

Operator

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

Anita Soni – Analyst, CIBC.

Hi, good morning, everyone. My question, let's go back to Canadian Malartic East Gouldie. I'm just wondering what kind of—I know it's very early stage. We're going to do a PFS and that's going to be out in early 2021. If we're trying to figure out how to envision this opportunity here, what kind of tonnage would you be able to pull from an underground because you've got a 50,000 tonnes per day mill that you're going to be feeding into?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Yes, it's too early to really give some clarity on that, but I think the reason that, I think both Yamana and Agnico—there's two reasons I think it's sort of become elevated in terms of priority. It was the ability to have multiple mining horizons now when you include Odyssey, when you include the old East Malartic, and then you add East Gouldie, which is thicker and better grade. What that ultimate number is, it's too early to put a number out. We still need to do the work, but I think it's at a level which gives both Yamana and Agnico some comfort. When you layer in the higher grade from East Gouldie, you potentially have a sizable opportunity here. So I think we have to be able to drill it.

I think the fact that we're starting to ramp this quarter is important. We had that permitted a while ago, but it makes sense now to move that forward. That creates an ability to drill it better. In planning the exploration ramp can easily be converted to a production ramp and ultimately meeting shafts. So we've got ore coming up from a ramp ultimately, and the shaft.

When you think about the shaft, that's further down the line. You may have some impact in terms of production before a shaft is completed. Not that significant; helpful, but not that significant. Ultimately, need the shaft to augment what's coming out of the ramp. So, we'll provide more clarity early in 2021 on those types of numbers.

Anita Soni – Analyst, CIBC.

Okay. Thank you, and then a question with regards to 2021 costs. Second half of the year you're guiding out to $740 to $690 on the cash cost range and you can see that with the graphs that you've put out that you're starting to hit those kinds of number with higher production levels. Is that an okay run rate to be using for next year considering the production levels are similar, if not slightly higher?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

I think it's reasonable. We're still in the middle of our budgeting process, but I think it's reasonable.

Anita Soni – Analyst, CIBC.

Okay, and then in terms of capital, I know you said there's sort of an ongoing $500 million to $700 million that people should be using for their combined growth capital and their sustaining capital projections, and then you add exploration on top of that. Do you think that continues to remain a valid assumption, or should we be sort of tweaking things in terms of the exploration with a higher gold price or some projects moving forward, accelerating some spending?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Yes. I think the fact that Kitilla starts to come down gives us some room to add things. Next year at Canadian Malartic, it's not that significant, it's the ramp which is not a totally big number. We'll move some things in there to replace things like Kitilla. I think it's reasonable to assume we're at the higher end of that range at $700 million, explorations around a hundred. So, I don't think that's unrealistic, but we still have to do the work, and that's part of the budget process, which concludes in November or December of this year.

Anita Soni – Analyst, CIBC.

Last question because that's been the focus of questions from investors just about the gold companies in general. Are there any view to changing the gold price assumptions that you're using on your reserves going into next year?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Not significantly, no. That's always a healthy discussion here, exploration, their bias is for more ounces, which they'd like a higher price, but our operating teams have won that arm wrestling match for the last several years. So the bias is, knowing it's important to deliver on production and cost targets, you need to stay conservative, we feel, as we calculate reserve and resource.

The way our plan is laid out is to maintain reserves, maybe increase them a bit without having to adjust the gold price. We'll see how that all sort of unfolds over the next six months as we pick up drilling and try to make up for the meters we didn't get in Q2.

Anita Soni – Analyst, CIBC.

Okay, and then just last comments, congrats to Yvon on making it out, and I know you're still with us until the end of the year, but congratulations, and to Dominique on his promotion.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Yes. Thank you. You didn't mention Ammar who's got more reports to him and the fact that Ammar...

Anita Soni – Analyst, CIBC.

Yeah. I'm not sure if I should congratulate Ammar.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

No. That's okay because Ammar has been wandering around the halls here since he came back from Barrick a second time with nothing to do, so we figured, you know what, we better give him something to do. No, just kidding. I think everybody's earned their increasing responsibility. I think we're fortunate here that we have some pretty deep bench strength and we've been very focused on how we bring along our younger people and give them different exposure and different levels of responsibility. Dominique's a good example of that.

He started as a summer student, 20 plus years ago. He's worked at a number of our operations in Abitibi and Kitilla and Nunavut. He's gone through tech services, mine planning, and involved in strategy. I think we're fortunate and that's just part of a natural process that good companies do. They develop people, so we're lucky. Thanks for congratulating Yvon. Yvon really though, his focus—his wife beats him at golf all the time and he just couldn't take it anymore. So, he said he needed to spend more time golfing.

Anita Soni – Analyst, CIBC.

All right. Thank you very much, and congrats, Ammar, as well.

Operator

Your next question comes from Carey MacRury with Cannacord Genuity. Your line is open.

Carey MacRury – Analyst, Canaccord Genuity

Hi. Good morning, Sean.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Morning.

Carey MacRury – Analyst, Canaccord Genuity

Maybe just another question on cash costs for the second half, in terms of you've had the quick ramp up now back at Meliadine and Amaruq. Just wondering what we can expect on a cash cost front on those two operations?

Male Speaker

Yes. At Meadowbank, that's going to decrease because you see the unit is going to decrease, cash flow is going to be between $1,100 and $1,200 for the second half at the Meadowbank. Meliadine is going to be in the $650 ish around that for the second half. This is what we (inaudible) for now.

Carey MacRury – Analyst, Canaccord Genuity

Then maybe, just a lot of questions around the Malartic underground. Do you envision that this operation will be concurrent with the open pit or really it's sort of a post open pit opportunity.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Yes. That's a tough one now because of the need for a shaft. The timeline is very much a focus, but you can see how we manage the timeline in Nunavut. We didn't sort of go too fast. We wanted to make sure that we were careful with respect to the timeline. So we don't want to have to speed up. If there's a gap, there's a gap because the underground could be around for 10 to 20 years. So we've got to make sure we get all the right infrastructure in place in the right timeframe.

Carey MacRury – Analyst, Canaccord Genuity

In the event of an underground only scenario, can you just reconfigure the mills sort of to operate at lower level, is that a potential thinking?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Yes, we can.

Carey MacRury – Analyst, Canaccord Genuity

Okay, great. That's for me. Thanks.

Operator

Again, if you'd like to ask a question, please press star, one. Your next question comes from Tanya Jakusconek with Scotiabank. Your line is open.

Tanya Jakusconek – Analyst, Scotiabank

Good morning, everybody. I'm going to ask, I think, a question to the technical team, so I don't know who wants to take it, Yvon, Dominique, Ammar. What do you guys need to see at Amaruq to start on the underground again?

Male Speaker

Well, the development, we started which we continue to do the ramp. The underground is an opportunity, which is a higher grade that would put add with the open bit. Underground alone is not a project, but on top of the ore with the pit, it is a project. We're still doing the study on that to finalize our numbers. We're going to provide information beginning next year about the results of that.

Tanya Jakusconek – Analyst, Scotiabank

Then how ultimately it fits into the mine plan?

Male Speaker

Sorry, what's the question?

Tanya Jakusconek – Analyst, Scotiabank

How it fits into the mine plan, we will have more details on more of a mine plan in February of next year?

Male Speaker

Yes. That's going to be integrated. Again, the underground could be as long as we have open pits, so we should be able to have answers starting in 2022 going to the end of the life of mine that we have right now of 2027.

Tanya Jakusconek – Analyst, Scotiabank

Okay. More to come there. Okay, and then maybe Sean, just for you, I mean, I'm just looking at your 480,000 to 500,000 ounces per quarter coming to second half of the year and into next year. You choose the gold price, but you look like you're going to be generating a lot of cash flow, and then you deduct that 700 million of CAPEX. You know, I think debt repayment is minimal. You are going to generate quite a bit of really free cashflow on allocated free cash flow. Can you talk a little bit about how you see that and your priorities for that, and what minimum cash balance you're going to keep on the balance sheet so that we can have an idea of where we can go with the dividends?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Yeah. I'll just start with the allocation of the free cashflow. Dave can talk about sort of the strategy and thinking around the balance sheet. I think it's pretty clear that our current dividend at $0.80, which is around $200 million a year, based on where the gold price is now, we can certainly pay more and a lot more. The propensity and the track record is to pay more, so that's certainly something we're looking at now, now that we've come through the impact of the virus on the operations of Q2, and we're heading into a stronger period of production and cash generation, so that'll certainly be a priority. We'll continue to work the project pipeline, exploration to focus for us. I think the Canadian Malartic Underground has sort of moved up the ladder in terms of priorities. That's a focus, but that doesn't chew up a lot of cash next year. It's more when we decide to go with a shaft, so we need to make room for that as we look at it.

Certainly part of it will be increasing our financial flexibility. I think this is a period where the gold industry will find itself with a lot of cash like it did back in the late 70’s and in 1980, when gold went from $50 to $800. We certainly have that potential now.

Our debt repayment, as you mentioned, there isn't anything until 2022. So we're going to sort of build up a bunch of flexibility, but I'll let Dave talk about some of his thoughts on that.

David Smith – Chief Financial Officer, Agnico Eagle Mines Ltd.

Tanya, as you may know, we used to carry a minimum balance of about $100 million of cash for working capital purposes. I think given the virus and all the uncertainty related to that, it's probably prudent to carry more than that, at least in the near term. So, I would think that we would be more like $150 million to $200 million of cash as a minimum balance just due to that uncertainty. As Sean was saying, starting basically now, we expect to start generating strong net free cash flow.

I think you're going to see our cash balance start to grow very quickly, especially next year, which leads us, of course, to the fun problems of what are you going to do with all the money. Sean already talked about increasing the dividend so I think we're probably going to have the opportunity to do that.

Again, near term, we'll carry more cash. I think, longer term we're a bigger company than we used to be, so maybe we will carry a little bit more cash for working capital purposes. So let's just round off my answer at about $150 million minimum.

Tanya Jakusconek – Analyst, Scotiabank

Okay. So we've got that $100 million of exploration which Sean had mentioned. Going through, we've got about $700 million or there about of the CAPEX, really not much in terms of debt repayment and anything in excess of $150 million or there about in the balance sheet could potentially go to dividends.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Yeah, theoretically. It's just how we split it up. I just think that it's not all going to go to dividends.

Tanya Jakusconek – Analyst, Scotiabank

I appreciate that. Yes.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

I think we'll have a bigger question on the balance sheet, but I think our track record of 37 years, and the fact that we didn't eliminate it when others did a few years back, and we were the first to actually start it up again, and increase it, and it's gone up in each of the last six years, I think sort of demonstrates our mindset around dividends. It kind of means it's going up, but it's really up to the Board and we'll have those discussions around the Q3 results.

Tanya Jakusconek – Analyst, Scotiabank

Okay. All right. Thank you so much.

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Thanks, Tanya.

Operator

There are no further questions at this time. I'll turn the call back to the presenter for any closing remarks?

Sean Boyd — Chief Executive Officer, Agnico Eagle Mines Ltd.

Thank you, Operator. Thank you, everyone. Thanks for your attention. If there's any follow-up questions, feel free to contact us. Thanks again. Bye.

Operator

This concludes today’ conference call. You may now disconnect.