Agnico Eagle Mines Limited

First Quarter Results 2022 Conference Call

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PRESENTATION

Operator

At this time, I would like to welcome everyone to the Agnico Eagle First Quarter Results 2022 Conference Call.

Mr. Ammar Al-Joundi, you may begin your conference.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Thank you, and good morning, everyone.

Well, it's been 65 days since we last spoke and we've been very busy. We've been working hard, and I think what we'll demonstrate today is some very good progress. There's a lot to cover this morning. We're excited about where we are. We're excited about where we're going, and for all of you who know us at Agnico, we can go on and on talking about the Company, so we'll try to be quick and leave some time for questions.

Before I jump in, really, there are four things to take away from this call.

One, on the operations side, we had a good quarter, a good start to the year. We are reiterating our production guidance. We are, importantly, in this inflationary environment, reiterating our cost guidance, and I would say, while the—as we go through the numbers, the numbers are strong, but I would say particularly pleased given the challenges on the production side, and again, we'll get into it, a little bit ahead of our internal budget in the first quarter, which is quite exceptional given the initial challenges with Omicron and the situation in January, and on the cost side, we're a little below our internal budget on costs, which, again, is exceptional, given the inflationary environment. Again, reaffirming our combined company full-year production guidance of 3.2 million to 3.4 million ounces and our combined company full year cash costs of $725 to $775.

The second item to take away is the integration of the merged entity. We would say it's gone exceptionally well. The Senior Management team is well in place. Everyone knows what they're doing. We took the opportunity to quickly, as promised, streamline the organization, and as you see from our results in our press release, that streamlining has resulted in roughly double the synergy savings that we had estimated. We had estimated approximately $15 million a year in streamlined organizational costs, and we're already closer to $30 million on that.

Most importantly, however, the team—the new team is energized, we're excited, and we're focused on the value drivers, which is our third item to take away in this call, are the value drivers. Strong pipeline, as always, but strong pipeline, again, in the Agnico way, largely off existing assets in existing jurisdictions. We'll go through this in detail, but it's interesting that as we talk about the great potential at Detour and we talk about the great potential at Malartic, among others, those are the two biggest mines—gold mines in Canada. They are two of the biggest gold—two of the top 10 largest gold mines in the world, and the fact that they have decades of future ahead of them from existing infrastructure in safe jurisdictions, again, that's always the best return on capital and the best risk-adjusted return on capital, but we'll go through that in more detail.

Then finally, the fourth item to take away, while this was a strong quarter, remember two things. One, this was a stub quarter, so we really see the—there's a lot of complexity in this first quarter, the merger, the stub period, but the second, third, and fourth quarter and going forward are going to be full quarters, and again, we are reiterating that our expectation is the first quarter's going to be our weakest quarter, so we are expecting stronger quarters going forward.

Just before we jump into the presentation—Pages 2 to 5 on the presentation, understand that we will be talking about some non-GAAP numbers, and we are also going to be discussing some forward-looking statements, and we always need to appreciate that in a volatile industry, so maybe just jumping on to Page 6, some of the highlights.

Again, solid quarterly production on a combined entity post-merger—incorporating the Kirkland assets post-merger; 661,000 ounces of production at a cash cost at $811, but for the full Company, full quarter, those equivalent numbers are 806,000 ounces at cash costs of $755, so well within our guidance and a very strong start to the year, as we discussed. Some exceptional results out of key cornerstone assets, and we'll talk about it, but LaRonde knocked it out of the park. Fosterville knocked it out of the park, as did Detour, and then solid results from most of the other operations as well.

Talking briefly about COVID-19, it seems over the past 12 months, it's gone and it comes back, it's gone, it comes back. Omicron was difficult in December and the beginning of January. We feel that's largely behind us. We were back at full production pretty much by the end of January and have continued to progress going forward.

The inflationary environment, that is the big discussion, something we're focused on, something investors are focused on. The challenges are out there. We acknowledge it, but kudos to the team. They did a great job managing costs, and so far, continue to do a great job managing costs. That said, it is out there, and we're all aware of it and focused on it.

As we know, the merger completed on February 8. The integration has gone exceedingly well. The synergies are ahead of schedule, and most important, we are now focused, really, on the key value drivers that we're going to be discussing.

We repaid $125 million of debt with cash as it came due, and a quarterly dividend of $0.40, once again.

Hitting on some of these key value drivers—and I give credit to Brian Christie and his team, they did a great job in the press release, and I would encourage you to review that in detail, but hitting some of the highlights, the Odyssey project remains on schedule, on budget. We get asked a lot about, can you find people, and what we're finding is while the labour market is tight, one of the advantages of being the biggest employer and being there for decades is Agnico Eagle and our partners, Yamana, in this project—but this project is the project of choice in the region, and we're able to get high-quality people. That is a competitive advantage.

We're going to talk a little bit about it, but it's not just that the project's on time and on budget, but it's really the potential of the project. As some of you know, as we transition from Canada's largest open-pit mine to Canada's largest underground mine, we are going to have excess mill capacity in the neighbourhood of 35,000 tonnes or 40,000 tonnes a day in the most prospective gold region in Canada and one of the most prospective in the world, and we have made some good progress in looking at opportunities to fill that mill, and we expect maybe this time next year to give a little bit more guidance on that, but good progress on that front.

Detour Lake, an exceptional mine. As Natasha Vaz said yesterday, we're just now scratching the surface of the life of mine on that project. The mill optimization projects are going well. We're going to be giving a technical report middle of the year that talks about incorporating some of the additional ounces, the additional 10,000—10 million resource ounces from last year into the mine plan, so a considerable amount of that will be incorporated.

We'll be discussing moving from 24 million tonnes to 28 million tonnes a year, but again, this is a mine that has decades of run room, and we are already looking at the potential to move to the permitted 32.4 million tonnes a year, and at a very high level, when you think about it, and this is just at a high level conceptually, but a roughly one gram a tonne at 32.4 million tonnes a year, that's about a million ounces a year of production potential on that. We are, and maybe Eric can talk about this later, continuing to find some excellent—exceptional, frankly, drill results as we continue, and we're now even getting excited—now, this is down the road, but we're getting excited about an underground potential there as well.

The Kirkland Lake update, we'll talk about that, but the real potential there isn't $20 million here, $40 million there. It's really about consolidating that land package and bringing all of the different opportunities and holdings we have there together. We're working on that. That's a big project. We'll probably have better guidance on that in about a year or so, but there's a lot of potential there.

We mentioned Hope Bay. We acquired Hope Bay a year ago. We got our feet wet. We understood what we've got. We made the decision, as you know, at the end of last year, to focus 100 percent on exploration. That was always the plan, and we've had some exceptional drill results that Guy can talk about. We mentioned a couple of them here; 23 grams over 5 metres, 9.5 grams over 15 metres. The potential there, as we've always said, is to develop a project that's 300,000 ounces to 400,000 ounces a year, and we're working on it, and again, we'll leave that for question period maybe with Guy.

It's not on the page, but we have to highlight Meliadine growing to 6,000 tonnes a day; LaRonde, a mine that's been in place for 34 years, had some of the best results ever with three exploration drifts; Macassa and Kittila, the shafts coming in, so a lot of key value drivers we're focused on.

Importantly, another good quarter of demonstrating our ESG credentials. I'd like to congratulate Detour Lake who was awarded the Leading Practice Award by the International Network for Acid Prevention for some of the work, and frankly, some of the research that they're doing, so congratulations to the team there.

We'll be publishing our 2021 Sustainability Report in the second quarter, and congratulations to our team there as Agnico Eagle was nominated by *IR Magazine* for having—nominated for best ESG disclosure among large-cap Canadian companies. It's important to do the right thing, and it's also important to make sure you're able to talk about it and demonstrate it.

You see the numbers here on the page. We continue to have one of the lowest greenhouse gas intensities of gold miners anywhere in the world, and we are getting better. We've made a commitment to zero carbon emissions—net carbon emissions by 2050, and I think we're going to get there before that, but the most important thing is if you look at our strategy, which is to go to places in the world where we can operate multiple mines for multiple decades and be there for multiple decades, that, in itself, frankly, is a cornerstone of why you have to be good at ESG, and that's part of who we are.

If we take a look at some of the operations, again, a strong quarter, but I just want to point out some of the mines that, again, were exceptional.

LaRonde, 105,000 ounces at cash cost of $560.

We talked about Detour Lake. This shows post-merger, 100,000 ounces at $600. For the full quarter, that's 182,000 ounces; again, a stellar quarter.

Fosterville, post-merger, 81,000 ounces at a remarkable cash cost of $309 an ounce. For the full quarter, that's 127,000 ounces.

Just to be consistent and finish, Macassa shows 24,000 ounces, but for the full quarter, it was 44,000 ounces, so a pretty decent quarter.

Operating margin, post-merger, six—well, incorporating Kirkland assets post-merger, $663 million. For the entire company for the quarter, that number was closer to $900 million, which shows you the potential of this company.

I might ask our excellent CFO, Dave Smith, to talk a little bit about the strong financial position.

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Thanks, Ammar.

As mentioned, the strong operations allowed Agnico—as well as good pricing, of course, allowed Agnico to add cash to the balance sheet during the quarter. We had free cash flow of about $200 million. We have liquidity of approximately $2.3 billion, in fact, not including an uncommitted accordion of $600 million.

As Ammar mentioned, subsequent to quarter-end, we repaid $125 million of notes that matured. We paid that off with cash, of course; continued our $0.40 per share dividend, and pleased to announce a new tool. Our normal course issuer bid should be in place next week, and that will provide us with a very flexible way to continue to increase shareholder returns.

I'd like to add, as well, that financially, our hedge book helped offset some of the inflationary pressures that, certainly, the entire industry is seeing, and I think Agnico is in a great position to continue with a strong year. Every quarter is going to be better than this quarter, we hope. I'm knocking on wood right now, and we're very excited to continue delivering very strong financial results to you quarter-after-quarter.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Thank you, Dave.

Talking about synergies, we made a commitment to all of you on our last call that we would get into details. We've been doing a lot of work on this. This is important. This is something that our investors want us to work hard on, so I'll take a minute to go through this, and again, congratulations to our team on the press release. There's a lot of details in there, as promised, but hitting some of the highlights.

On the corporate synergies, as we discussed, we have not only exceeded our expectations. We are at a point now where we are upping our guidance on what we think the—what we know the synergies are going to be. We had guided \$15 million to \$25 million in the corporate synergies category for this year. We've already achieved \$45 million, \$35 million of which is annual, and we are now anticipating a run rate of between \$40 million to \$50 million a year, up from \$35 million a year, and we are guiding to \$200 million pre-tax in the first five years, up from \$145 million, and we're guiding to \$400 million over the next 10 years, up from \$320 million, so a very good start to that. Again, most important, it's not just the dollars. It's that the team is in place and working well and focused.

I'm going to jump first to strategic optimization before operational.

On the strategic optimization, we are not changing our guidance. We're keeping our guidance, but I have to say, again, we are well ahead of where we thought we would be. We have talked about, at a very high level, the opportunity to bring Amalgamated Kirkland in to the Macassa Mine. That seems to be going very well. We will probably make a decision on that before the end of this year, and we think there's the potential to bring in potentially another 40,000 ounces a year in production; roughly has the potential to generate an additional \$40 million a year into that project with resources in around the 600,000 to 700,000 ounces and the drilling going pretty well, so you can see that one project alone has the potential to generate well more than half of the total synergies that we anticipated strategically over the next 10 years, and there are other things going on. A very simple example, potentially \$20 million in savings on equipment, one-time, associated with the Upper Beaver shaft just from equipment that's available from the Macassa shaft sinking, so again, good progress on the strategic optimization.

Then on the operational synergies, again, a good write-up in the press release, but I'll hit some of them.

Procurement, we're still targeting $50 million a year by 2024, and we're making good progress there.

Some ideas on optimizing availability of the mill at Detour, something as simple as that, potentially $5 million a year. Some good work on the potential to steepen the pit wall slopes at Detour. That has the potential—that one item alone has the potential, given the size and tenor of that mine, of potentially $100 million over the life of the mine.

Then a basket of other things we talk about in the press release; centralized control systems, energy management, core scanning, renegotiating, refining contracts. Those, together, potentially $75 million a year.

If there are questions afterwards, we can get into it, but suffice to say, very good progress, and we really have just started.

Again, Agnico Eagle, we want to maintain a simple, consistent, disciplined, and importantly, proven approach to value creation, which has three key components; low cost, strong margins, strong cash flows, a robust production profile with a strong growth pipeline in the safest and best jurisdictions in the world with proven leadership and a track record of building value per share. Importantly, value per share, and it’s interesting, I was talking with Dave Smith yesterday about, look, what’s the key message we want to give today, and Dave said, it’s the same one always. We focus on value per share, all the time doing this with ESG leadership. It is simply the right thing to do, and it is a core part of our strategy.

Growth potential from existing mines and growth potential from a pipeline of high-quality exploration and development assets, and again, some excellent exploration results in the first quarter that we’re excited about and going to build on, and then, building on a long history of capital return to shareholders; 38 years of consecutive dividend payments, and we haven’t mentioned it, but we think the—well, the normal course issuer bid will be approved probably next week or the week after, so that’s good.

I’ve been going on for a while. I’m just going to take a couple of more minutes to flip through some of the operational highlights. I’ll be very quick because we want to leave time for questions.

LaRonde, exceptional quarter. You’ve seen the numbers, but there are some details that I think are also exciting. Thirty-one percent of our production mucking was done autonomously at LaRonde. That’s impressive. We are almost at a-third being done autonomously, and at LaRonde Zone 5, 21 percent of mucking done in automated mode, so this is a mine that has been operating for 34 years that we’re continuing to invest in. We’re investing in three exploration drifts, and we’re investing in modernizing it; an exceptional cornerstone asset for Agnico Eagle.

Canadian Malartic, we talked about the project on surface and shaft is on budget, on schedule, and then, again, interestingly, we make the point here, and this gets to the full potential of this asset, which is not just the underground, but the available mill capacity.

The final point on this page, we added the Camflo property to the partnership's landholding, and this is an asset that has potential to provide some of that feed into the mill.

Goldex continuing to get good exploration results, continuing to get good production. The Rail-Veyor set a record average for the quarter, above the design capacity and a record single day performance of 10.7 tonnes; again, exceptional progress.

Detour Lake, full quarter, 182,000 ounces. I just had to repeat that. That's quite remarkable. Very good cost control in the first quarter, considering fuel and electricity costs and all of those associated things, and again, to repeat, we will be giving a technical report in the middle of the year, but that's really just the next step in what we think is going to be a long path of value added in the Detour potential.

Macassa, I'll go quickly. Macassa and Kittila, both having their shafts on schedule coming in at either the end of this year or early next year, Meliadine going up to 6,000 tonnes a day and Fosterville, again, an exceptional quarter and hard work and good effort by our team in Mexico, as always.

With that, I think, we will stop and open it up for questions.

Q & A

Operator

Your first question comes from Tanya Jakusconek with Scotiabank.

Please go ahead.

Tanya Jakusconek — Analyst, Scotiabank

Oh, great. Thank you. Good morning, everyone, and congrats on your first quarter as the new co. A couple of questions, if I could.

First off, just a quick one, maybe Dave can help me on this one. Just to reconcile the numbers that you provide on an annual basis for guidance for production and costs, you mentioned Q1 would have had production of 806,000 ounces at $755 total cash cost. Do you have the all-in sustaining costs so that I can reconcile that too, please?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

We can give you that, Tanya. I don't have that available with me right now, but we'll get you that.

Tanya Jakusconek — Analyst, Scotiabank

Okay. That's perfect, and then, maybe just keeping on, just on the quarters. You mentioned that we're going to see much stronger quarters going forward. In the press release, you did give guidance on your mines and what we're seeing quarterly at LaRonde, Fosterville, Meadowbank, and Kittila. Can you just give us maybe from a bigger picture, are we looking at 55 percent second half or 53 percent second half? I know it's quarter-over-quarter improvement, but just a bit more that we can help us with some of the other mines?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Well, I think what we said the last time was, roughly, the first quarter would be 20,000 ounces less than the next three. I think that's not a bad number for the second quarter, but—and again, we're working on this, but actually, we think that we're going to get stronger throughout the year, so the 55 percent, 45 percent is probably not a bad number at a high level, Tanya.

Tanya Jakusconek — Analyst, Scotiabank

Just maybe on the (inaudible), just Dave, again, just to come back on—you've used CA$0.90 per litre for diesel. I think the sensitivity for a 10 percent move was $6 an ounce. Is that still correct?

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Yes.

Tanya Jakusconek — Analyst, Scotiabank

You do have about 40 percent of your oil (audio interference).

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

That's correct.

Tanya Jakusconek — Analyst, Scotiabank

Can you just remind me when you would be purchasing all of your fuel for Nunavut and what you're seeing out there for purchase price?

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Yes. Beginning in July and the forward rate for the remainder of the year on diesel is about $1.13 a litre. That number was about a week old.

Tanya Jakusconek — Analyst, Scotiabank

Thanks, and when do you expect to have all of this done and having to put it all in and complete?

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

I think the shipping season ends September, October.

Tanya Jakusconek — Analyst, Scotiabank

(Audio interference). I just wanted to ask about other inflationary pressures. You say that your labour, you're not seeing it. Are you seeing it in any other consumable?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

We are seeing it, and interestingly, Tanya, probably where we're getting the most pressure is in Finland, and that's because it's closest to where the supply chain disruptions are most acute, so we are seeing it, but the team has done a good job, and it's a combination of—they got out ahead—we got out ahead of some of this. We're trying to manage it contemporaneously, and also some of it, frankly, is they've done a good job on efficiency of operations, which has offset some of that, but we are seeing inflation in consumables. We're seeing it in reagents. We're seeing it in steel. It's out there.

Tanya Jakusconek — Analyst, Scotiabank

Can I ask what sort of levels are you seeing the inflationary pressures at in those items?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

You mean percentages?

Tanya Jakusconek — Analyst, Scotiabank

Just a round number.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Well, in general, we gave sort of 5 percent to 7 percent. I would say the numbers are higher than that, but we've been able to offset some of that, so again, frankly, some—there are some items that are 30 percent and some items that haven't moved. It moves across the board. Probably the most sensitive one—again, if there is a geographic split, but probably the most sensitive ones have been around in Finland, and it's mostly to deal with steel and items that are derivatives of natural gas, which, again, is logical.

Tanya Jakusconek — Analyst, Scotiabank

(Inaudible) and I'll leave it to someone else. Thank you.

Operator

Thank you.

Your next question comes from Fahad Tariq with Credit Suisse.

Please go ahead.

Fahad Tariq — Analyst, Credit Suisse

Hi. Good morning. Thanks for taking my questions.

Maybe first for Dave Smith, just an accounting question, so I can see that the Kirkland operations, the sales exceeded production by about 56,000 ounces. I just want to clarify, after all the adjustments and everything, those 56,000 ounces are included in revenue, but the costs are not included in the quarter. Is that correct?

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Yes. The inventory cost went through the production costs, and you're talking about the re-value, right?

Fahad Tariq — Analyst, Credit Suisse

Correct.

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Because they had to be re-valued to market.

Fahad Tariq — Analyst, Credit Suisse

Yes.

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

That's correct.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

The costs did go through, Fahad. They would go through our costs.

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Because you value them at—basically at spot.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Increment goes through the production cost.

Fahad Tariq — Analyst, Credit Suisse

Okay. I understand, and then, just switching gears to the operational synergies that you highlighted for 2022, you mentioned in the press release that it could be about $10 an ounce this year. Is there a particular quarter or timing when that comes in, or is it gradually through the year?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

It's gradually through the year.

Fahad Tariq — Analyst, Credit Suisse

Okay, and then just the last one for me on Macassa. Any update on the battery electric fleet, and you mentioned in previous conversations that you might be looking to use conventional diesel or something to get the productivity back up. Any update on that?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Natasha?

Natasha Vaz — Executive Vice President and Chief Operating Officer, Ontario, Australia and Mexico, Agnico Eagle Mines Limited

Yes, sure. Thanks, Ammar. Hi, Fahad.

Yes, so we are continuing to work with the OEMs on that. In terms of the performance, we are continuing to troubleshoot with Sandvik in terms of our battery issues. We're seeing a supply chain concern. I think there's a chip shortage that's plaguing the automotive industry, but seeing a slight increase in availability. We're fixing some of the issues, but still a lot of work to do on that end.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Natasha, maybe just talk a little about the ventilation progress and the flexibility that'll give you.

Natasha Vaz — Executive Vice President and Chief Operating Officer, Ontario, Australia and Mexico, Agnico Eagle Mines Limited

Right, so at the end of this year, we plan on completing the ventilation upgrades, so we're going from 300,000 CFM to about 750,000 CFM with the shaft and the two raised bores that we're doing. We've completed the excavation of the raised bores. We are putting the fans on later this year and changing out the entire vent system, so we should have additional flexibility in our options.

Fahad Tariq — Analyst, Credit Suisse

Okay, and just a follow-up on that, so Natasha, it sounds like it's not—the focus is not really trying to go back to conventional diesel just yet. It's still trying to figure out the battery electric fleet. Is that…

Natasha Vaz — Executive Vice President and Chief Operating Officer, Ontario, Australia and Mexico, Agnico Eagle Mines Limited

Absolutely, we're committed to pursuing this, but it's nice to have that optionality.

Fahad Tariq — Analyst, Credit Suisse

Okay, great. That's it for me. Thank you very much.

Operator

Thank you.

Your next question comes from Lawson Winder with Bank of America.

Please go ahead.

Lawson Winder — Analyst, Bank of America Securities

Good morning, Ammar and Dave. Very nice to hear from you both, and thank you for today's update.

Ammar, I wanted to address my first question to you. In the Aussie press in late March, you made some comments that Agnico wants to own more Aussie assets. I just would be curious what form that expansion might take, and would that be acquisitions of existing operations, development stage or exploration stage, and would you consider partnering as well?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Hi Lawson, and it's nice to hear your voice.

Well, I tell you, we had a fantastic trip to Australia and the team there is really a great team; nice people, very capable, and a lot—and they're doing a lot of really leading-edge technical things there.

Australia absolutely meets the criteria of geologic potential for multiple mines over multiple decades, and meets the criteria of you can actually operate there for multiple decades, so it is—it has great potential. It would be tough for us to go there from nothing, because the Australians are good miners, but what we've got now with the merger is an exceptional team, an exceptional asset, and a strong foothold, and also as we discovered, some really good relationships with the local communities and government officials, so it is now in the category of good regions in which we operate.

To the extent we expand in Australia, Lawson, we do it the same way you would. Any opportunities there have to compete with opportunities everywhere else in the world, and we typically think we make a lot more money for our shareholders through the drill bit, and so we probably would do what we've done successfully for over 60 years, which is take a small position early based on knowledge and then try to create value from there, so good region, good potential, and the opportunity to expand will be a function of what we see and it'll have to compete with everything else.

Lawson Winder — Analyst, Bank of America Securities

Okay, and in that same sort of vein, are there any assets in the portfolio that might be worth considering divesting?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

There are some positions that we have that we look at. Those are non-operating assets, and we're always looking at optimizing the portfolio that we have, but all of the operating assets we have right now, we're pleased with.

Lawson Winder — Analyst, Bank of America Securities

Okay, great, and if I could ask on the diesel costs again, you guys made a comment in the release that the hedges you have in place, you expect to provide some degree of protection against inflation for the 2022 sealift diesel cost. Maybe just a little colour on that, particularly in terms of the strikes on the hedges. Is there a large strike that happens in July when you guys are going to be paying for those diesel costs, and yes, just the moving parts around that would be helpful.

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Yes. It might be helpful. Our hedge rate is $0.57 a litre. The guidance rate was $0.90 a litre, and as I mentioned, the forward rate was $1.13 a litre, so mark-to-market, our hedge book right now is about $20 million in the money, which certainly will help us.

Lawson Winder — Analyst, Bank of America Securities

Okay, got it. Thanks very much, guys.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Thank you.

Operator

Thank you.

Your next question comes from Jackie Przybylowski with BMO Capital Markets.

Please go ahead.

Jackie Przybylowski — Analyst, BMO Capital Markets

Thanks very much.

I want to congratulate you guys on the synergy so far. It's really terrific to see that's ahead of schedule, and maybe if I could ask you a question just to get some more colour on that, are the synergies that you've achieved year-to-date so far and that you're expecting to achieve this year, are those new synergies that you had not previously identified, or are you bringing forward things that you weren't really expecting so far, and maybe if you could just give us a little bit more info on that, I'd appreciate it.

Thanks.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Yes. Thanks, Jackie.

It's a bit of both. As you look at this, we did a lot of due diligence on this deal, including on the synergy potential, and for every 10 units of synergies you identify, four of them don't pan out and then you find four that you never thought of, so it is a bit of a combination, but the biggest thing is I think Dave and his team did a great job on cutting some of the financial costs very quickly within weeks. You don't need two bank facilities. You don't need two insurance policies, so some of that had been identified, but they did it in weeks rather than months, so that's good. A big difference is, frankly, on the streamlining. It's hard to know exactly what you were going to have when you get together, and then when you put pencil to paper and make the decisions.

We wanted to move quickly, and the reason we wanted to move quickly on the streamlining, it's not just about cost, it's about human beings. The worst thing you can do is leave people out there and they don't know if they have a job or not or what their future is, so we made a commitment that within 30 days, we would have that all worked out, and we did it within 20 days, and so part of it was—clearly, we achieved them faster than we thought, but it really—to be honest, it was mostly about treating our people fairly.

Jackie Przybylowski — Analyst, BMO Capital Markets

That's great. Thank you, and maybe I could ask about the NCIB that you announced in February and now that you've approved. Can you talk a little bit about—and I know it's always hard to know exactly, but can you talk a little bit about what the strategy will be in terms of how quickly that gets executed? Is this something you expect to do fairly quickly, or is there $500 million over a year or something like that?

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Well, I think it's a very flexible tool that we have, and we'll try and be opportunistic in the buying, and I anticipate it'll probably be spread out over most of the year, but again, that could change if there is a moment that we feel we should be opportunistic, and that's what I like about this tool in terms of return of capital. We've always represented that this would be our variable, very flexible tool that we have for return of capital.

Jackie Przybylowski — Analyst, BMO Capital Markets

Thanks, Dave.

Maybe if I could just ask one last question, Ammar, you mentioned this earlier and you sort of promised us that we could ask about this on the Q&A, so I'll bite. Can we hear a little bit more colour from Guy about the changes to Hope Bay and the exploration that's going on so far and what the current thinking is for once it restarts production?

Thanks.

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

Hi Jackie. It's Guy.

We've been ramping back up our capacity to drill, and the first thing we really want to wrap our head around was the potential at depth in Doris. As you know, there's currently—there was all of the mining infrastructure, and we came out of our due diligence with some good idea about potential to connect some of those deep patch at Doris basically below the dyke, and we've been positioning some drills specifically on surface in the first quarter, and we got, as you can see in the press release, some pretty nice 10 gram-plus, even 25 gram over five metres in an area that was left untested before we took over, so we're quite pleased to see that within that—those fold limb at depth because it's a tight fold at Doris that we're dealing with that not only we're getting good results in the fold inch like they were used to mine in the past, but now we're developing and confirming that within the full (inaudible). There is some pretty decent high-grade vein system, and it's wide open at depth and laterally, so we're going to continue to ramp up drilling in this area.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Again, it's not just at Doris. The key there, Jackie, is—and maybe Dominique can talk a little bit more about this. We know what it takes to operate in the North, and our vision is, again, 300,000, 400,000, maybe more for that project, and Madrid has had a lot of drilling, and we know there's gold there and we know we can bring it in, but Doris is important in and of itself, but as part of the bigger strategy, it is additional high-grade tonnes that are right there, right beside the mill that would supplement the Madrid, and we haven't even talked about Boston yet, but it's—again, it's not just Doris, but it's how Doris fits into the overall strategy.

I don't know, Dominique, if you wanted to make a few points on that?

Dominique Girard — Senior Vice President, Operations – Canada and Europe, Agnico Eagle Mines Limited

Yes. We're looking to have, let's say, a first project, 300,000 ounces, 10 years project to kick out and to start the foundation; looking to work probably with the current mill, improve the throughput to 4,000 tonnes per day, so this is our first, let's say, initial project, and as exploration goes, eventually increase that to, I don't know, could be 500,000 ounces at some point. This is still early. I'm very happy that we see a good hit, and we're—right now, really the focus is full blast on drilling and exploration.

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

If I may add, Jackie, we are excited as well to go back to Boston as soon as possible, and one of the things we've—but we had to bring supply on the barge last summer, and we did the winter road hauling to bring all of the new equipment to refurbish that camp that dates from the 80’s when BHP put that camp together, so there was—we had to give a little bit of love to that camp to be in a position to resume drilling, and because we know that the deposit remains open down there with some very high grade sitting at depth kilometer (inaudible) was still open with 56 gram over 10 metre at the kilometre depth, so we know there’s a lot more to find over there as well. It’s all that we can ramp up activity from the small scale. It was on their (inaudible) bring more rig and increase our drawing capacity over there.

Jackie Przybylowski — Analyst, BMO Capital Markets

That’s a super helpful update. Thank you. Sound like there’s a lot of opportunity there. Thanks very much.

Operator

Thank you.

Your next question comes from Greg Barnes with TD Securities.

Please go ahead.

Greg Barnes — Analyst, TD Securities

Yes, thank you.

Ammar, I just want to talk about Detour and the upcoming mine plan. Do you see that more as an incremental step, and then 18 to 24 months or 12 to 18 months from that point, you’ll have another mine plan with the expanded mill, the underground, and would the undergrounds be the source of all the feed to fill the mill from the 28 million tonnes to 32 million tonnes?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Well, Greg, thank you for asking the question, because that's exactly right, and we want to make that point. We see this update midyear as just an increment to a much longer path. Again, as I've said it, and I like Natasha's quote yesterday, this is just scratching the surface of the life of mine potential, so yes, Greg, I think that's the right way to think about it. The update in mid this year will be the work that's been done to incorporate some of the drilling from last year and to incorporate some of the steps to go from 24 million tonnes to 28 million tonnes.

Probably, and Jean and Natasha are working on this closely together, the next step is to look at the potential to grow from 28 million tonnes to 32 million tonnes a year, and importantly, to get to 32 million tonnes a year, it's not just the underground, because the pit continues to expand, and maybe, Eric, after this—Eric Kallio is on the line, he can jump in on the exploration, but we think the pit can support a lot of throughput through the mill, but the underground—when we get to the underground, that would be at, say, three grams—2.5, three grams versus one gram, so it would be an opportunity, Greg, to add higher grade through the mill which could potentially get your annual production even above—again, hypothetically, if you do the math, above a million ounces a year, but that's the idea; expand the mill—or at least that's the potential, expand the mill, expand the pit, expand the potential and go underground to get some higher grade feed.

Greg Barnes — Analyst, TD Securities

The mill is licensed to 32 million tonnes is what I understand. It wouldn't require significant CAPEX to achieve those levels.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

It is permitted at 32.4 million tonnes. You're exactly right, and we are going through the process of getting there, and we were talking to Jean about this yesterday. Jean's our local mad scientist. He's got 10 different things he's thinking about, but this is something that's probably going to take us a year or a year-and-a-half to really come back with something more focused, but what I would ask, maybe, Eric, I know you're on the line. Eric, maybe you can just hit a couple of the—just briefly some of the highlights on the exploration progress.

Eric Kallio — Senior Vice President, Exploration, Kirkland Lake Gold

For sure. Yes. Good morning, everyone.

As Ammar said, we feel very positive about the exploration potential at Detour. We had the press release in February, and actually, from that, you could see we've had a lot of new drilling happening on the west side of the pit where previously there was very little drilling done and some very good results both on the north side and deep and on the west limits, so we do expect that we can drill the pit when we do the midyear update already just from the results we have, and then with the press release that we just had yesterday, we announced new holes that were up to 500 metres to the west and showing some—even continuing to show broad intersections, but even some very good grades up to 38 grams over three, 3.3, 3.5 over 48, 3.1 over 10, so these are continuing to make us very positive about growing, so anyways, I think, yes, so it's continuing to look very good, and we know the structure from our regional geophysics and things looks like it tracks for at least another kilometre or two to the west. Beyond that, we don't know, but we're—we continue to see a lot of room for growth.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Thank you, Eric, and again, thanks, Greg, for asking, because that was—that's an important point.

Greg Barnes — Analyst, TD Securities

Thanks, Ammar.

Operator

Thank you.

Your next question comes from Anita Soni with CIBC.

Please go ahead.

Anita Soni — Analyst, CIBC World Markets

Hi. Good morning, guys. Thanks for taking my call.

I just have questions about the nitty-gritty, as I usually do, so on Macassa, the grades were a little lighter than you had just forecast a few weeks ago, so how do we expect the grades to evolve over the year? Will it rebound? I mean, I think you were forecasting 24 and it came in at 16, so could you give us a little bit of colour on that and how we would expect those to rebound over the course of the year?

Natasha Vaz — Executive Vice President and Chief Operating Officer, Ontario, Australia and Mexico, Agnico Eagle Mines Limited

Hi Anita, it's Natasha, so yes, so the grade was slightly down in comparison to what we had predicted for Macassa in the quarter, but in general, as you know, Macassa's a pretty high-grade ore body. It's a small tonnage operation, so we expect to see some great variability in localized—in a localized scale. That, coupled with some changes in the mining sequence, has contributed to the grade variance, so we expect that to stabilize over the next couple of quarters to hit our guidance.

Anita Soni — Analyst, CIBC World Markets

Okay. Similar question. This one goes to Dominique for Meliadine and Amaruq as well in terms of the grades.

Dominique Girard — Senior Vice President, Operations – Canada and Europe, Agnico Eagle Mines Limited

Yes. Good morning, Anita.

At Meliadine and Meadowbank, both were affected with COVID issues early in the year. Now, it's behind us, mainly because now it's much easier to do with contact and contact tracing, so Nunavummiut are back and all the crew is back. Meliadine, we had to process a bit more low grade—not low, but let's say open-pit stockpile while we had decreased the mining activity, so that affected the ounces and the costs, but now we're back on track and grade is going to increase.

At Meadowbank, we started January, stopped. We restarted. The grade going to improve through the year. We did the first quarter at 2.26 gram per tonne, and we're forecasting the year at 3.5, 3.6, so more go—more deep we go into the pit, grade is increasing. We're going to see it this year, in the coming years, but also the underground is coming in, so again, we're going to have the first test stope where we're doing all the commissioning in May and underground is going to be in full production, let's say, in the Q2, Q3, Q4, which is going to be a very good help, and this is a good part of the increased ounces coming in the second half of the year.

Anita Soni — Analyst, CIBC World Markets

Okay, so was the underground not operational yet from Q—I thought I had seen that there was a few stopes in Q4 and Q3, so did it contribute at all yet this quarter, or no?

Dominique Girard — Senior Vice President, Operations – Canada and Europe, Agnico Eagle Mines Limited

Well, we had a bit of, let's say, development ore, but it was very, very minimal. It's going to really start more in May and June, and I'm very happy also—what is an important key KPI is the broken inventory. We are today at 2.5 million tonnes broken, so in good position for the remainder of the year.

Anita Soni — Analyst, CIBC World Markets

Okay, and then, flipping to LaRonde, which was the opposite, some pretty good grades. You said you were—and I'm not going to remember which zone it is, but it was the higher-gold lower-zinc zone. Is that going to persist for—into the next quarter, or does that—are you guys immediately out of that?

Dominique Girard — Senior Vice President, Operations – Canada and Europe, Agnico Eagle Mines Limited

Yes. The upgrade mainly came from the East mine in Q1. I need to say—this month is still good. Let's see how it's going to go through the year, but part of the upside was coming from stope also that were planned in Q4 that has been moved in Q1, so we're now getting those results, but we're—they are still looking to be on forecast for the end of the year.

Anita Soni — Analyst, CIBC World Markets

Okay, and then last two questions on costs, so—and I think these relate a little bit more to—so firstly, on Macassa. Costs there were a little bit better than planned. Could we talk about—I think it was like 523 versus 692 guide, and that's more in line with what was happening last quarter and the prior quarters under the KL fold, so maybe there was a little bit too much conservatism, or is that going to—are the Macassa costs going to trend up over the year?

Natasha Vaz — Executive Vice President and Chief Operating Officer, Ontario, Australia and Mexico, Agnico Eagle Mines Limited

We expect to be within guidance, Anita. There were some delays with respect to some of the sustaining capital in terms of the #4 shaft and such, so we plan on being within guidance.

Anita Soni — Analyst, CIBC World Markets

I was talking about unit cost, cash cost per ounce.

Natasha Vaz — Executive Vice President and Chief Operating Officer, Ontario, Australia and Mexico, Agnico Eagle Mines Limited

Yes. Yes. Same, same.

Anita Soni — Analyst, CIBC World Markets

Okay. Maybe I'll take that one off line, but the—and then lastly, Kittila, right, so you were guiding that they've got a little bit higher. They're seeing more inflation impacts because they're closer to the supply chain issues, so maybe that's one that might be a little bit higher than guide for the course of the year. Is that correct?

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

Yes. We see more pressure in Kittila energy, and as Ammar mentioned, some supply stuff. Also what affected the first quarter is also because we had less ounces. It was not the question, Anita, but I could answer that one. We had some challenges on the sequence where secondary stope ground condition pushed us to mine smaller stope at the end of the (inaudible) with a bit more dilution, so the higher grade stope plan in Q1 are postponed into the year, so now the team is back on track and we're going to be—we are currently now in those higher grade stopes, so having more ounces going to just help to have a better guide.

Anita Soni — Analyst, CIBC World Markets

Then last one on the cost with Fosterville. That one was a little high too, and that—is that because of the restrictions that are happening in Australia in terms of the labour movement, or have you been impacted by—or you've not been impacted by that and it's something else?

Natasha Vaz — Executive Vice President and Chief Operating Officer, Ontario, Australia and Mexico, Agnico Eagle Mines Limited

No, there's no labour impact. COVID did impact all of our sites, but we were able to mitigate that. In terms of our cost profile, we've been pretty good in comparison to our budget. Yes.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Yes, Anita, so yes, there's a cash cost per ounce and then there's the unit cost per tonne. They do vary a little bit. Overall, though, it went pretty well. That's just kind of normal variance. Yes.

Anita Soni — Analyst, CIBC World Markets

Yes. No, I was just—one of your competitors reported last week, and they were talking about a lot of labour issues in Australia, and then the last—similar to that, I wanted to follow up with—the other thing they mentioned was that they were a bit behind in terms of sequencing on some of their operations. Is there anything that we should be aware of, as we come out of, hopefully, fingers crossed, COVID, the last two years where maybe there's some stuff that you might be trying to work to catch up on in the next two years?

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

No, not really. The first quarter, January, was tough, and so the guys had to do a lot of work, and as Dominique said, a simple example of that is Meliadine had to use more of the stockpile, so we'll be refreshing those stockpiles. Again, it's the normal variance.

Anita Soni — Analyst, CIBC World Markets

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

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Thank you.

Operator

Thank you.

Your next question comes from Mike Parkin with National Bank.

Please go ahead.

Michael Parkin — Analyst, National Bank Financial

Hi, guys. Thanks for taking my question.

Could you just give us an update where and what permits are remaining outstanding at Detour Lake for the—if you're going after West Detour in the Saddle Zone. I recall all those permits quite aren't in hand yet.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Well, Mohammed, why don't you take that one?

Mohammed Ali —Vice President, Sustainability and Regulatory Affairs, Agnico Eagle Mines Limited

Sure. Thanks, Mike.

With respect to the permits remaining for Detour, there's two principal permits that we have submitted to the authorities, and we're waiting for their technical review and approval. They would be the closure plan associated to the West Detour layout and includes closure and closure costs, as well as the—what we call the overall benefits permit for the Caribou. Once those are in place, that would be the two principal permits. Then there's just your construction, various other permits.

Michael Parkin — Analyst, National Bank Financial

Great, and do you have agreements with all your First Nations as well?

Mohammed Ali —Vice President, Sustainability and Regulatory Affairs, Agnico Eagle Mines Limited

Correct, we do, and if I may say, noteworthy that we have our—all our agreements in place and updated agreements that include West Detour.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Including a trip next week to sit down with one of the First Nations and celebrate some of those agreements, so very good progress by the team on that.

Just to close up—I'm sorry, Mike, not cutting you off. Mike, did you have any other questions?

Michael Parkin — Analyst, National Bank Financial

No. No, that's it for me. Thanks so much.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Okay. Well, before we end, I think, Dave, you wanted to make a comment?

David Smith — Senior Vice President, Finance, and Chief Financial Officer, Agnico Eagle Mines Limited

Yes. I just wanted to go back to Fahad's question for clarity. I think Fahad was asking about whether or not the fair value inventory adjustment was included in our non-GAAP KPIs like cash cost. The answer is it's included in the GAAP measures, so it's on the income statement, as I mentioned, in production cost, but it is not—as a non-operating, non-cash, non-recurring item, it is not reflected in the KPIs, the non-GAAP KPI, so I just wanted to make that clear.

Ammar Al-Joundi — President and Chief Executive Officer, Agnico Eagle Mines Limited

Thank you, Dave.

In conclusion, I'd like to thank everyone on the call. Again, 65 days ago, we ended the call by saying we're going to work hard for our investors and our communities, and I think we have been. We've made good progress, and I'd also like to thank all of our employees who really have been working hard, so thank you, everyone. Have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a great day.