FINAL TRANSCRIPT

Agnico Eagle Mines Limited

Third Quarter Results 2022 Conference Call

Event Date/Time: October 27, 2022 — 11:00 a.m. E.T.

Length: 59 minutes

CORPORATE PARTICIPANTS

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

Dominique Girard
Agnico Eagle Mines Limited — Executive Vice President and Chief Operating Officer, Nunavut, Quebec and Europe

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

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

Eric Kallio
Agnico Eagle Mines Limited — Executive Vice President, Exploration Strategy and Growth

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

Jean Robitaille
Agnico Eagle Mines Limited — Executive Vice President and Chief Strategy and Technology Officer

CONFERENCE CALL PARTICIPANTS

Josh Wolfson
RBC Capital Markets — Analyst

Anita Soni
CIBC World Markets — Analyst

John Tumazos
John Tumazos Very Independent Research — Analyst

Tanya Jakusconek
Scotiabank — Analyst

Michael Parkin
National Bank Financial — Analyst

PRESENTATION

Operator

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

After the speakers' remarks, there will be a question-and-answer session.

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

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

Thank you very much, and good morning, everyone. Thank you for taking the time out of your busy day to join us on our call this morning.

Last quarter, we started the call by thanking our operating teams for delivering some exceptional operating results, and this quarter, we'd also like to thank our operating teams not just for delivering solid operating results, but notably and importantly, we'd like to thank our operating team for delivering the best quarterly safety performance in the Company's 65-year history. Nothing is more important than the safety of our people and our communities. A safe mine is a well-run mine, and a well-run mine is a safe mine, so thank you very much to all of our employees and our operating teams for delivering that.

With the strong results in this third quarter, we've now got nine months under our belt and we are pleased to be able to say that we are reiterating guidance for 2022: production guidance, capital expenditure guidance, and importantly, cost guidance, and that hasn't been easy in the highest inflation environment in probably 40 or 50 years. The team has done a very good job, and again, congratulations on that. We are maintaining our guidance on all of those, albeit at the higher end of the cost guidance.

This strong quarterly production allows us to have strong earnings per share, cash flow per share, and create value per share, and maintain our strong financial position on both liquidity and cash flow generation.

The real story that I think you'll see during this call is the continued progress on our expansion projects and some excellent and exciting drill results. These are the items that are going to drive value creation going forward, and I think what really separates us and differentiates us versus our peers.

Finally, as an introduction, we are proud to say that we are announcing an interim target of a 30 percent reduction in greenhouse gas emissions by 2030 on our way to a target of zero greenhouse gas emissions by 2050. This is not a challenge we take lightly, it's not a challenge we think is going to be easy, but it's a challenge we are prepared to undertake and are confident we’ll achieve.

Next slide, please. Thank you.

Some of the third quarter highlights: solid quarterly production and costs; 817,000 ounces of production at cash costs of $779 and all-in sustaining costs of about $1,100; quarterly net income of $0.17, but adjusted to $0.52, and Dave will talk about that later; operating cash flow at a solid $1.26 per share.

Some of the highlights of the operating results include record gold production at Amaruq. That's 123,000 ounces this quarter. I think that is a world-class mine by any standards, and some material improvements at Macassa, a great orebody that is coming into its stride, and I'm going to be asking Dominique Girard and Natasha Vaz in a moment to talk a little bit about progress on those two projects.

Pressures related to cost inflation, workforce availability, and COVID-19 remained. We were able to manage them during the third quarter. We see continued pressure on inflation. We are starting to see some potential relief. I think it's too early to say that we are completely past this situation. We are, in fact, expecting and planning for continued cost pressures going forward, but the team is focused on that, and focused not just on mitigating cost pressures where we can, but optimizing mine efficiency, mine throughput, gold production, which also helps to offset some of the cost pressures, and the team has done a good job with that.

Financial position remains very strong. We have paid down another $100 million of debt as it came due. We told all of you we are planning to pay our debt as it comes due through cash flow, and that's what we're doing. Some additional share buybacks of about $43 million, about a million shares this past quarter, and a quarterly dividend of $0.40, continually paying a dividend since 1983, and maybe Dominique, if I can ask you to talk a little bit about Amaruq, and then Natasha a little bit about Macassa.

Dominique Girard — Executive Vice President and Chief Operating Officer – Nunavut, Quebec and Europe, Agnico Eagle Mines Limited

Thank you, Ammar.

Amaruq did a strong quarter and a record quarter also for the division. This has been obtained with a very good result with operation, maintenance, mill throughput, and also a good grade coming from the pits. As we mentioned in the past, more we go deep in Whale Tail, more the grade is going higher, and also, we have an also interesting grade at the IVR pit, plus the underground ore, which is coming in right now, and underground did also an important milestone. We mentioned in February 2021 that's going to be $180 million to build it, and we did it at the cost and on schedule too, which is a good achievement despite COVID situation and inflationary situation where we are, and I would like to thank all the employees, the contractors, suppliers, and also the local community support which we developed that project. We also celebrated in Q3 four million ounces pour at Meadowbank, so quite a good success this quarter.

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

Thank you.

Natasha?

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

Thanks, Ammar, and good morning, everyone.

With respect to Macassa, the site had a very solid quarter, and more importantly, the mine is starting to become more reliable. As the press release mentions, a big factor that led to our strong performance in the quarter was the added ventilation through the mine. The connection of Shaft 4 to our existing workings resulted in improved ventilation in the areas we were mining, and that also contributed to lower temperatures and improved working conditions, and so this improved ventilation and helped with our productivity gains in the quarter relative to our budget.

Now, besides the ventilation improvements, we're also seeing better adherence to plan, quarter-over-quarter, so there's been a lot of focus by the site on the short-term plans to deliver our weekly and monthly targets, so kudos to the team on that.

Then on the equipment side, we're starting to see slightly better availability on our battery trucks, but with the added ventilation, we also have the flexibility of utilizing our conventional trucks if and when needed, and then if we look out further, I'm sure everyone wants to know about the future of Macassa, and we continue to work on that, and we continue to work on the new mine strategy. We're planning on running a few scenarios when we get the year-end model to better understand the optimum production levels at Macassa and the possible benefits associated with the AK zone, but all in all, a very good quarter. The mine's starting to stabilize and we're very, very proud of the entire team at Macassa for their hard work and dedication to get us to this point.

With that, I'll pass it back to Ammar.

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

Thanks, Natasha and Dom.

Look, the real excitement continues to be on the key value drivers, and I'll just hit a few highlights quickly.

Dominique mentioned Amaruq Underground completed on schedule, on budget. That's never easy. It's particularly tough in Nunavut and it's particularly difficult in an inflationary environment where not only are costs going up, but access to people and access to equipment, so congratulations on that.

The Odyssey project remains on schedule. The shaft sinking activities are expected to resume early in January. Again, excellent performance by the team there. I'm going to go so far as to say that I think it would be difficult for any company in this environment to keep a project as ambitious as that on schedule. Our team has done it, and I think the way we’re able to do it is because we've got access to the best people, the best contractors, and the best suppliers in the regions where we have been operating for 60-plus years.

The Detour Lake mine, we were up there just a couple of days ago. What an exceptional property. We've installed the screen in front of the second crusher. The team did a great job doing that in the quarter, on schedule, on budget. They used the 610 refeed, which worked flawlessly, and importantly, in September, we reached the equivalent of 28 million tonnes per annum throughput at lower energy usage, so we are very confident with what the team has done. We are looking forward to installing the second screen into the first circuit in the fourth quarter, and with that—and it's early, but we are confident that not only will we be able to reach the 28 million tonne per annum target, but one, possibly reach it ahead of schedule and, two, possibly exceed that number.

On Kirkland Lake, the commissioning of the Number 4 Shaft is expected to be done at the end of this year. The underground ramp from Macassa to the Amalgamated Kirkland deposit has been completed. When we did the merger, we identified this as an opportunity to create some synergies. It's done now, eight months after the merger, and I think and I hope that's a demonstration of our commitment to hit the ground running and to deliver some of the synergies that we promised that we would. And some exceptional, by the way, drill results in that area that the team will talk about in a moment.

The Kittila shaft sinking is completed and commissioning expected to start in the fourth quarter.

The Meliadine expansion to 6,000 tonnes per day progressing as expected.

I just want to make two points.

One is, and we've mentioned this before, everything we’ve just talked about is exciting and all of it is at existing assets leveraging existing infrastructure leveraging competitive advantages. That's how you always get, in our business, the best return on capital and the best risk-adjusted return on capital.

Secondly, every single one of these expansions are not just expansions in throughput but open up the potential at all of these mines, which still have exceptional exploration upside, and we’ll talk about that next.

Next slide, please. Thank you.

I'll just talk very briefly about this, and then I'll ask Guy and Eric to comment, being the experts they are in there, but what I would say to you is that at Odyssey and Detour, two world-class, multi-decade mines, very good infill, continued results, but what's really exciting to me and to all of us is the step-out drilling. Both of these multi-decade assets, we had good step-out results, one to two kilometres beyond the existing perimeter of the orebody. It's early to say what that means, but it is exceptionally promising for these world-class mines.

At Macassa, as I mentioned, the ramp to the Amalgamated Kirkland deposit is now complete. I just want to point out the one hole we talk about here, effectively 31 grams over 3.5 metres. That's pretty impressive 64 metres underground.

At Fosterville, Eric will talk a little bit about it, and maybe what I'll do is I'll just ask Guy and Eric to briefly talk about some of the things they're most excited about.

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

Thank you, Ammar.

Overall, 2022 will be obviously the most important year in terms of exploration spending in the Company. From the original budget of $325 million that we've announced early in the year, we've added an additional $30 million that was announced in the August press release following good results, so year-to-date, we have successfully completed in excess of one million metre of core, on schedule to complete our total of 1.2 million metre of drilling, which is a lot. Thanks to all our drill contractor and service provider on each of the projects.

With all of that, we’re certainly positioning ourselves favourably for the year-end reserve and resources update. We've seen at midyear the addition of Detour with 5.4 million ounces, and good success at several of the mines, which will more than offset the production depletion of 3.2 to 3.4 we’re anticipating this year.

We've seen solid result at near (inaudible) mine at several of our operations like Kittila, LaRonde, Meliadine, and Amaruq, but more importantly on the key value driver project, we've seen some solid result. Good step-out, as mentioned by Ammar.

Starting by Odyssey in Malartic, we continue to have 14 drill rig operating. We’re on our way to complete our target program for this year with 160 kilometres of drilling. We've been getting solid result infilling the Odyssey, and Odyssey will be potentially moved towards reserve at year-end 2022, and we are anticipating to start production at the end of Q1 2023 with some very positive results in the core portion with the deposit up to 5.7 gram over 21 metres at 367 metres below surface.

At East Gouldie at depth, the infill is continuing. Some of the notable intercept, 4.6 gram over 50 metre in the core portion of the deposit, and we continue to get pleasantly surprised by the western extension of the East Gouldie moving towards the Norrie Zone with some intercept located 670 metres west of the current resources, returning 4.2 grams over 12 metres, so quite interesting to see how the East Gouldie continue to shape up towards the west.

Moving at Nunavut at Hope Bay, we’re conducting a very aggressive drill program over there focusing on exploration only, completing through the end of the third quarter, 76,000 metres.

We’re getting good result at depth in Doris, and we’re pleasantly surprised at depth recently.

We are ramping up activity in Madrid. We've mobilized a second drill contractor that has two rigs over there, and we’re starting to drill a deeper drill hole in the Madrid deposit, and we've seen good visual intercept reporting interesting width with the quartz vein and visible gold, which we will continue to see the outcome of those, and we anticipate to continue ramp-up of activity in Madrid and Doris, and to have a better, a clearer picture of the full potential of the asset by later on in 2023.

Closer, in the Abitibi, at AK, as mentioned by Ammar, we've been aggressively drilling since the merger, both from surface and underground. The team has been closely working to get over there. We have in excess of 135 drill holes that were completed year-to-date. We're going to be updating resources over there at year-end, and that could have a near-term impact, potentially adding to production as early as 2024.

On that, I will pass to Eric to talk about Detour and Fosterville.

Eric Kallio — Executive Vice President, Exploration, Strategy and Growth, Agnico Eagle Mines Limited

Great. Thanks, Guy.

In terms of Detour, we had again some very good progress in the quarter, both in terms of the productivity of the drilling and the results. We drilled about 74,000 metres in total, and the main focus remaining on the west side of the pit and to the (inaudible), and the extension of that up to about two, 2.5 kilometres to the west, and showing some additional, really good results. The intercepts closer to the pit showing broad zones of mineralization similar to what we see in the pit and including some more high-grade intercepts, as we previously announced, and further to the west, again, showing some more higher-grade holes with quartz and visible gold, so everything coming together very well there, and we believe we're on track to again add more to the open pit and underground project as we go ahead.

Macassa, the project continued to focus on both the Deep mine and on the AK project. In the Deep mine, the main targets were really the Main Break and the South Mine Complex to the east. Main Break, we were looking at the high-grade corridor, which is actually just east of Number 4 Shaft. This is a new target. We haven't been able to drill much until we get the recent drilling in there, and there was a very high-grade hole that we've announced in there, 25 grams over about 2.5 metres we believe, and to the SMC east, additional extension of the zone there.

Fosterville was also very exciting this quarter. We finally got a lot more of the drilling in progress there. Remember, we were having to delay a lot of that to the second half of the year, and so we now are starting to receive quite a few results and showing a number of holes with high-grade, and the continuation of the zone up to about 200 metres down plunge. We've also identified a new structure which we call the Cardinal zone that has additional high-grade results similar to the Swan zone. Still a lot to evaluate with the Cardinal, but in total, showing good continuation of the Swan zone to depth with more high-grade lenses, and so we're very pleased with that and we think that it bodes very well for the future of Fosterville.

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

Thank you very much.

Those are excellent results, and what I want to emphasize again is none of these are results at the top of a mountain in a country we've never been in. These are at operations where we have the people, we have the infrastructure, we have the competitive advantage, and will immediately create value for our shareholders. So thank you, guys.

Just moving on to the next slide, as Sean Boyd has always said, as important as what we do is how we do it, and we are continuing to demonstrate the culture of the Company. We talk in this slide about—and I've mentioned the record quarterly safety performance. Again, that is fantastic and a representation of the culture of the Company, but also how we operate. The interim target of 30 percent we discussed, but what I want to talk a little bit about very briefly are the bottom points.

We are well-rated by all the external agencies. If you take a look at greenhouse gas emission and water usage relative to our peers, we are doing very, very well, but take a look at some of these points at the bottom, and I'm going to focus maybe a little bit on Mexico.

Agnico Eagle was awarded the 17th Best Place to Work anywhere in Mexico, and this is not just mining companies. This is against any company in Mexico as measured by this Best Place to Work award. That is pretty impressive and shows who we are, and look at the one below, La India. Now, La India isn't a huge mine, but the team there won a Distinction of Social Responsible Company, not by the mining industry, but by the Mexican Center for Philanthropy and the Foundation for Sustainability and Equity. Sometimes it's the small things on the ground at the communities that really make a difference, and it's these types of things that show the culture of the Company, so while these are small, potentially, awards, they're very important and they show who we are.

Moving on to some of the financial results. David, would you mind covering this?

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

I don't mind at all, Ammar.

I'll just focus on a few numbers here. Just looking on the extreme right of the slide of Page 10, the operating margin, it's US$2.4 billion, year-to-date. That's a big number, and I think the size, the scale, and the liquidity of companies are more important in this market than ever, and certainly, Agnico is delivering on these important metrics.

If you look at the pie graph just below that for Q3, operating margin in line with what we've done year-to-date, about $800 million, but importantly, it's well-balanced between our regions, and I think that diversification and balance throughout the portfolio is very important and very comforting to our investors as well.

The last number I'd focus on on this slide is the quarterly and year-to-date cash flow per share numbers, and that extrapolates to a yearly number of more than $5 per share of cash flow, and I guess this is just a commentary on current market conditions, but if you told me a few years ago that Agnico was going to generate more than $5 per share of cash flow, I would have said the share price might be close to or above $100 per share, so I guess we're seeing a market where we're certainly not near the top of the market for valuation of gold equities, and I think we've got a really solid base here for the share price to continue moving higher as the equities and the gold price recover going into next year.

Flipping over to the next page, just talking about the balance sheet briefly, of course, we do have strong liquidity, more than $800 million of cash, and undrawn bank facilities of $1.2 billion.

If you look at the debt maturity schedule at the bottom, it's a very light maturity schedule spread out over time on purpose, so we've got tremendous financial flexibility to make sure that we can continue doing what we've been doing for decades.

That's it. Thank you.

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

Thank you, Dave.

Next slide, please.

On the synergies, I'll hit these very quickly. We divide them into corporate synergies, operational, optimization, and strategic optimization.

On the corporate synergies, I don't want to say it was easy, but we've done a really good job on that, frankly, better even than we anticipated and roughly double the original estimate that we gave, so congratulations to the team, and we are continuing to do it every chance we get. There was another $2 million savings annually by consolidating some insurance policies that we had. Small things that add up, and thank you to the team on that.

The real slice is obviously on the operational side of it. We are targeting $130 million a year. I will tell you we have identified more than $130 million a year of opportunities, but not everything you identify happens. We remain confident on the $130 million a year. We said it'll take a couple of years to get there, and we are going to exceed our expectation for 2022.

Then on the strategic optimization, we talked a little bit about Amalgamated Kirkland. Eight months into it, the ramp is done. The drilling is well underway, and we're hopeful to bring production in in 2024, and again, I mentioned that we were up at, well, frankly, all the sites recently, but including Detour, and I can tell you that the combination of the two companies, the technical discussions are already making a big difference in a mine as big and as important as Detour; things like improvement in the maintenance programs, and even the move and the analysis towards the underground mine and our target of a million ounces a year. We've made good progress, and I can assure everyone that progress is happening faster with the combination of the companies rather than individually.

Then moving on, our vision remains the same. We have a simple, consistent, disciplined, and proven approach to value creation. It's the same approach we've had for 65 years, and it's based on the following.

First, build a high-quality business. To us that means low costs, strong margins, strong cash flows, and we've delivered that again so far this year.

It means robust production profile from premier jurisdictions. Our strategy is to go into places in the world that have the geologic potential for multiple mines over multiple decades, and the political stability to operate multiple mines over multiple decades, and to build a competitive advantage in those regions and to leverage that competitive advantage, and that's what we're doing with our expansion projects, with our exploration.

Proven leadership with a track record of building value per share. We don't care how big we get. We only care about creating value on a per-share basis in a responsible manner, and that's what we're going to continue to do.

Finally, to always have a strong balance sheet, strong financial position. You need to have that in a cyclical business. It's essential, and we're doing that.

To always do this in the most responsible way, environmentally, socially, and from a governance perspective, to be not just—frankly to be not just trusted and welcomed, but to actually be a part of the community in which you operate.

To have growth potential from existing mines and a high-quality exploration program. I think you've seen that. We have largely built this Company over many decades through the drill bit, and we're continuing to do that.

A long history of capital returns. Thirty-eight years of dividend payments without missing a beat, and we're very proud of that.

In conclusion, the story of Agnico remains the same this quarter as it was last quarter, and it'll be the same next quarter and it'll be the same next year, and hopefully, the year after.

One, deliver strong operational results consistently, reliably. As Dave Smith, our CFO, always says, "Our desire is not only to create value but to be the sleep easy at night investment for investors."

Two, to have the best growth profile possible and the lowest risk possible, which we get by being in regions where we've been for decades and building off existing infrastructure with existing teams.

Three, to continue to deliver value through the drill bit through exceptional programs in those good regions.

Four, finally, to always do it with the best ESG credentials and to be a welcome member of the communities in which we operate.

With that, our part of the call will end and we'll transfer over to questions, Operator.

Q & A

Operator

Your first question comes from Josh Wolfson of RBC Capital Markets. Please go ahead.

Josh Wolfson – Analyst, RBC Capital Markets

Thanks. Good morning.

I had a couple of questions on inflation. The commentary in the release that mentions inflation ramping up for the next couple of months, I guess I'm curious to understand what's causing that to be realized now versus maybe the prior disclosures or prior quarters? Is that a matter of inventory or hedging that's now sort of rolling off or rolling on?

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

Hi, Josh. It's Ammar here.

We don't really see an acceleration of inflation. In fact, we're hopeful that we're past the peak and we're starting to see a little bit of light at the end of the tunnel. What we are trying to say, though, is that it's, I think, too early to say that it's over, and we are still planning to do everything we can to control costs, because it's our job to do that, and we just want to be responsible, so I don't think we're seeing, and we didn't intend to suggest, that inflation is accelerating, but rather that we're still taking it very seriously and doing everything we can to mitigate it.

Josh Wolfson – Analyst, RBC Capital Markets

Okay, and then the other question on inflation relates to Odyssey and the cost re-evaluation there. Could you maybe provide a bit more information on what was incorporated in the original study, maybe in terms of flexibility, and whether we should think about the greater than 5 percent to 7 percent upside to the cost this year also being applicable there?

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

Yes, that's a good question, so we are making good progress at Odyssey, and we're going to start to have some production as you know in the first quarter. Every year, we go through a budget process, and every year, we take a look at all the costs. We are going through that process right now at Odyssey and taking into consideration what we've seen over the last 12 months. It's too early right now. We will give guidance on that as we go through, but our expectation is that we're going to have to work extra hard to offset some of these cost pressures.

What I will say, and I'm going to ask Dominique to talk a little bit about this, because the team has done sort of two really good things. There are two parts to inflation. There's the cost of material goes up and you manage that the best you can, but one of the big issues that the industry's been struggling with, but that Dominique and his team I think have done an exceptional job with is you can't lose out on the efficiency, and in this case, efficiency of construction means are you getting the manpower, are you getting the contractors, are you getting the suppliers, and they've done a very good job with that, but they've also done a good job in looking at opportunities to increase the revenue side of things on that project.

Maybe, Dominique, if you can talk a little bit about that.

Dominique Girard — Executive Vice President and Chief Operating Officer – Nunavut, Quebec and Europe, Agnico Eagle Mines Limited

Yes. One of the opportunities that we have is the Internal zone at Odyssey South, so we know that the mineralization is there. It is complex, but still, that's going to be just close to our infrastructure, so we're going to see in the coming years some answers coming, let's say, over what we already planned, coming from those zones, and I need to say that the construction team is quite a strong team there and they're looking to different alternative by phasing or revising the scope, by doing engineering and let's say to mitigate the costs.

Two things also important about costs. On the ramp development side, our cost per metre is better than expected, so that's going to be helpful overall, and also on the sinking, that's the best place in the world to sink a shaft, so right now, the partnership team is staffed with people from over 20 years of experience into shaft sinking, that did LaRonde, that did Lapa project. Also people that has been to the Kittila project and the shaft sinking, and now our contractor, Redpath, is also doing A team using people that, say, have been at Macassa, have been at Kittila. We're in the (inaudible) area, a very good place to sink a shaft, let's see proof in the pudding, but let's see what's going to be the performance, but they're going to have good infrastructure with a very robust Galloway system that we've—we did achieve on that. We've put a good set-up, and they're going to have A team, so overall, I think that's going to be okay on (inaudible).

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

Yes, and just to finish, I think the message, Josh—because a lot of people are interested in this, obviously—the message is we still see an inflationary environment out there. We are working very hard to mitigate it. We can't predict with any level of accuracy, frankly, what the inflationary environment's going to be. We couldn't do it in January. We can't do it now. I don't think anybody can, but I can tell you the project is going well and the team is doing a good job.

Josh Wolfson – Analyst, RBC Capital Markets

All right. I guess the shaft disclosures speak well towards I guess the costs for the eventual second shaft.

Maybe if I can tuck in one more question on the inflation side of things. Just because there is a larger amount of inventory stocking practices, I guess, across the northern operations, and then also some hedging in place, is there any kind of percentage impact you could provide of what the overall exposure has been to inflation so far? Would you say half, two-thirds, 75 percent, 100 percent, whatever the case is of the actual inflation we're seeing today that's been reflected in the cost structure?

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

Well, again, we're going through the budget right now, but you're right in that we have to do barge shipments, and so a fair number of the items have been purchased. What I would say is that I would expect that, on average, it's in that sort of 7 percent more expensive than it was last year, and I'll ask Dave to talk a little bit about fuel in a second, because that's a big chunk of it, but we've also had some relief on the currency side of things, and we've had less movement on wage inflation, so there is some inflation. We're going through the budgets. Again, the message I would give everyone is we're not immune to it, but the team has done a good job, and again, just to emphasize before I ask Dave to talk about oil, it's not just the input cost. We are really focusing as well on doing everything we can with efficiency to help offset some of those pressures.

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

Yes, so on the fuel front, for 2023, we're about 36 percent hedged on our exposure. It is, actually, above our budget guidance rate, probably a little bit less than 10 percent from what we told you last February, but we're feeling pretty comfortable about that position, but again, who knows what the oil price is going to be in the second half of next year when we're more exposed on the physical side, because, of course, in the second half, we'll have to do our shipments to Nunavut for the coming year, so it's going to be something we watch, as always, to make sure that we can have confidence to give guidance in February and continue to do what we said we're going to do, but certainly, inflation is something on the top of our mind.

Josh Wolfson – Analyst, RBC Capital Markets

Thank you very much.

Operator

Thank you.

The next question comes from Anita Soni of CIBC World Markets. Please go ahead.

Anita Soni – Analyst, CIBC World Markets

Hi. Good morning. Thanks for taking my call.

I just had a question with regards to some of the exploration highlights, and specifically at the TMAC zone. Could you talk about some of the—sort of the high hits that you would say that are more interesting to you, and what do you need to see that develop to before you would go ahead with that project?

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

Hi, Anita. It's Guy.

Yes, we're quite pleased. We've been focusing for the first part of the year in the Doris at depth, because we were seeing, obviously, some potential fold and repetition at depth, and we continued to validate that apparent second fold hinge, which, as you saw in the press release, we've been getting some quite interesting results, up to 7.3 gram over 15 metres, 19.6 over 4.5, so that fold hinge continued to shape up.

Obviously, the drill spacing, it's not there yet to make it resources, but we were very close by some of the lower portion of the mining infrastructure in the BTD. Therefore, we've undertook quite early this year to extend the drift into that area very early when we saw the first sign of those good results, and we're currently in a position now to drill it from underground as well with two drill rig addressing from that BCO area, so quite interesting.

As I mentioned as well, we also mobilized the second drill contractor major to help at beefing up our drilling capacity at Madrid, and we're now drilling some extension drill hole at the bottom of Madrid, stepping out at depth and to the north, and we're quite pleased, again, when assays are still bending, when we see good quartz vein with visible gold at depth in the down plunge extension, so we are really trying to demonstrate our theory when we acquired the project that we think we can significantly grow the resources at Madrid and Doris with a couple of years of drilling, and then come back with a better assessment on how we can think about developing the project in the future.

Anita Soni – Analyst, CIBC World Markets

Thank you, and then can I just move to some of the more operational items like at Malartic, the grades came down a little bit, but I think you're running a little bit below right now what the average for the year would be, so I'm just wondering if that—or the guidance that you had provided, I think, was 1.14 for the year, so I'm just wondering if we could see a grade uptick going into Q4, and then similarly at Detour, that came down about 10 percent, and are you expecting a rate uptick into Q4 on that one?

Dominique Girard — Executive Vice President and Chief Operating Officer – Nunavut, Quebec and Europe, Agnico Eagle Mines Limited

Yes. Hi, Anita. Dominique speaking.

We are aligned with guidance at Canadian Malartic. Everything is as planned. I will say it's just a question of sequence and stockpile that we process more a bit in Q3, but everything is going as planned there.

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

Hi, Anita. With respect to Detour, we're still tracking against guidance, well against guidance, so I think the grade was about 0.94 for the year, and that's where we expect to be. The first half of the year, we were in Phase 2, which was higher-grade material, so yes. Thanks.

Anita Soni – Analyst, CIBC World Markets

Then the last question, just while having Natasha, is on the Macassa costs. They seem bucking the trend. It seems like the unit costs are going down, and I was just wondering what was the main driver of that. Is that the newly installed ventilation this quarter, and could we see further gains in Q4?

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

Yes, Anita, so we did see lower costs, but that's a function of higher throughput in comparison to budget, so yes, the ventilation has helped us, and hopefully it continues to, going into the future, and then when the Number 4 Shaft comes along, we should see improvements there as well.

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

That's a perfect example, Anita, of never underestimate the importance of throughput and good old-fashioned efficiency trying to mitigate costs.

Anita Soni – Analyst, CIBC World Markets

Thank you. I'll leave it at that.

Operator

Thank you.

The next question comes from John Tumazos of Very Independent Research. Please go ahead.

John Tumazos – Analyst, John Tumazos Very Independent Research

Thank you.

As the new shaft ramps up at Macassa, can we expect the tonnage to go from 814 in the September quarter toward the 2,000 tonne a day capacity of the mill with the grade staying around 21 grams? I guess some of the deeper zones are higher-grade and lower-grade. I don't know which stokes you would access first. If you can hold the grade and get toward 2,000 tonne a day, it's a 400,000 ounce mine, and I was wondering what year we should hope for that.

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

Well, I'll start with that, John, and it's nice to hear from you again, and then I'll pass it to Natasha.

What you've done is you've done an excellent job of outlining the potential of that orebody. It is a great orebody, and that's why we're investing the shaft, the infrastructure, the ventilation. We are working on the budget right now. It's going to take, frankly, a couple of years to get there, but you're absolutely right. This mine has the potential to be a significant producer, again, in a very good jurisdiction, and I would also say with a lot of exploration potential remaining.

Maybe I'll ask Natasha to comment.

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

Yes, that's correct, Ammar. So John, with respect to the shaft, it has the capability of pulling in 2,000 tonnes of ore a day, and it's right near our main reserves, which is the South Mine Complex, so we expect our throughput to increase. We're running scenarios right now. We're looking at a new mine strategy. We're looking at different scenarios: mining methods, changing up mining sequences to see how we can optimize the deposit, and also the exploration potential. We believe in the exploration potential here, so our reserve grade right now sits at 16, 17 grams, and we hope to continue that trend.

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

But it is a couple of year endeavour, John.

John Tumazos – Analyst, John Tumazos Very Independent Research

For next year, for example, what might be reasonable expectation for tonnes per day?

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

We'd feel uncomfortable giving specific guidance for next year right now. That'll all come out in February.

John Tumazos – Analyst, John Tumazos Very Independent Research

If I can switch back to Agnico legacy properties, the underground Malartic and measured, indicated, and inferred resources is almost eight million ounces now in four zones, where the East Gouldie is about 3.2 grams and the other three zones average about 2 grams in resources. When the infill drilling is done and the engineering is detailed and the optimization iterations have gone through, should we be modeling 3 grams for East Gouldie and 2 grams for the other zones, or is it going to get higher with optimization and infill drilling or is it going to get lower? Sometimes those mining engineers taking an incremental tonne into it a little bit.

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

Well, I mean, I'll—Guy, go ahead.

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

Yes, I think on the grade, when you're going to see the resources update when we are having—moving to indicated, we are incorporating dilution, we're expecting using our realistic mining scenarios, so you're going to see, obviously, a lower-grade transiting from inferred to indicated because we are adding that dilution, but as you indicate, East Gouldie is closer to 3 grams overall, inferred, so when adding the infill—so we don't see—we don't add any surprise in terms of the infill. In fact, we confirm the thickness. The grade is as expected, so I do believe that the zone is growing laterally. This is the most positive surprise that we see. So the core portion is being confirmed by infill drill hole. We're going to be adding the dilution when moving to indicated, and the math you did is about that, and then after that, it will be a matter of the blend, incorporating the Odyssey South and the Odyssey North and the East Gouldie, so each of the three areas, I think, their respective grade into the mining sequence to get to the average grade of the operation.

John Tumazos – Analyst, John Tumazos Very Independent Research

So the 3 grams and the 2 grams, it doesn't feel as good as Macassa or Fosterville, but it's a lot of tonnes and a lot of ounces.

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

Yes, it’s 19,000 tonnes a day. I mean, it’s a big, big mine.

John Tumazos – Analyst, John Tumazos Very Independent Research

The gold price isn’t so good this week, and we do have this problem with inflation. It makes me wonder if your partner, Peter, thought this was so good that he sold his company and traded it for South Deep in South Africa, but how low do you think your costs per tonne are going to be at 19,000 tonnes to make real good money on this?

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

Well, we’re going through all those economics right now, but as you’re pointing out, it is a big underground mine. It’s going from the biggest open pit mine in Canada to the biggest underground mine in Canada, and we’re going through the economics, but I think as Guy said, this is something that I think we are uniquely able to develop because of Goldex, our experience at Goldex, and this is going to be bulk underground mining like Goldex, which, as you know, was our view right from the beginning when we acquired this asset.

John Tumazos – Analyst, John Tumazos Very Independent Research

Thank you.

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

Thank you.

Operator

Thank you.

The next question comes from Tanya Jakusconek from Scotiabank. Please go ahead.

Tanya Jakusconek – Analyst, Scotiabank

Great. Good morning, everyone. Thank you so much for taking my questions.

Just wanted to circle back to just the inflation picture, just the bigger picture. Ammar, I know I asked on the Q2 conference call where inflation was running in your cost at the time, and I think 7 percent, 8 percent is what you said in Q2. Is that sort of similarly what you saw in your Q3 costs?

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

Yes. Yes, Tanya. Nice to hear from you, by the way.

Tanya Jakusconek – Analyst, Scotiabank

Okay, thank you.

So I just wanted to circle back on the relief that you are seeing out there. Encouraging, and we all want to see that. Fuel, you mentioned, and we see that with oil coming off. You mentioned supply constraints. Is that transportation—so a relief in transportation costs? Like how should we think about the supply constraint helping or the relief you're seeing there?

Dominique Girard — Executive Vice President and Chief Operating Officer – Nunavut, Quebec and Europe, Agnico Eagle Mines Limited

Tanya, Dominique speaking.

We start to see some positive news on the supply where containers from China to North America was at some point 10 times the costs during COVID. Let's say we are right now around two times the cost pre-COVID, and it is still going down, so this is good news showing that the supply chain is slowly, let's say, improving. When we also hear from our main supplier that their inventory level is the easiest (phon) since the start of the COVID and the back orders are at the lower level, so that's signs that it's getting in the right place.

Maybe a bit also—and this is a bit speculating, but on the workforce, I recall, Guy told me at the beginning, this is what, I don't know, two years ago, that watch out because we start having problem with drillers and you're going to be hit in six to 12 months, and he was right, but now what we see on the driller side, it's getting in the better position, so I think we're getting—also on the workforce, that should stabilize. We have some projects. We saw recently some project slowdown in Quebec and in Ontario, so that could be good news for us to take advantage of that.

Tanya Jakusconek – Analyst, Scotiabank

When we talk about labour and a bit of slowdown, I know that your labour negotiations are currently being worked on for the Abitibi and for Nunavut. Should we be thinking that this 7 percent, 8 percent is sort of where we should be thinking about for your sort of wages, or do you think we could do a bit better?

Dominique Girard — Executive Vice President and Chief Operating Officer – Nunavut, Quebec and Europe, Agnico Eagle Mines Limited

No, we could do a bit better. Of course, we need to stay competitive and we need to pay our workforce a fair price. Then negotiations are going to happen. Depends on which divisions, but we're expecting, let's say, depending where in the world, Finland or Canada, if I could say for those ones, between 3.5 percent and 5 percent. This is our expectation for now.

Tanya Jakusconek – Analyst, Scotiabank

That's good, and can I just ask on consumables? Have we seen any relief on consumables? Obviously, not fuel we are, but any other consumables that you're seeing relief on that's not oil based?

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

Well, I can make a quick comment. I get these updates all the time, Tanya, and I can tell you that over the last week are the first time I've seen emails where people are saying, look, there's a little bit of relief. So, for example, in Finland, which has always been our highest inflation environment, they are actually seeing some relief on cyanide, on steel, and other consumables. To be fair, they had the biggest spike, so it's not surprising that they'd be at the vanguard of a possible relief, but we are starting to see that. We are seeing some relief, but our job is to hope for the best but plan for the worst, and we're still all over it.

Tanya Jakusconek – Analyst, Scotiabank

Yes, no, I appreciate it, Ammar. Maybe just the optimism in me coming out on this call. Would like to see a bit of relief in this inflation level that we're seeing right now, so I appreciate that.

If I could fit one more question in just for maybe Guy and Eric, and actually, Ammar, maybe from a bigger picture from you. I know we're starting to think about reserves and resources at year-end, and I know you have your reserves, some of them at 1,250 and some of them at 1,300, and I think resources at 1,575. What are you thinking about for reserve and resource pricing? That's my first question.

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

Hi, Tanya, so we're still evaluating what will be our year-end reserve and resources assumption, looking at the FX rate, looking at the tendency for the gold price, the three-year trimming, so we usually come out with that number only at the back end of the year, early January, so too soon to commit, but we were not too far apart in the portfolio, and now moving forward, obviously, we would like to unify the portfolio with a more across the board assumption, so we're considering all of that and we'll get back to you in February.

Tanya Jakusconek – Analyst, Scotiabank

Okay. No, that's fair enough, but just on what you mentioned previously on the reserve replacements, I got, obviously, Detour as one asset where you're going to grow reserves at your end. I had Kittila, LaRonde, Meliadine, and Amaruq. Did I hear correctly that that's where we're going to be replacing our depletion this year?

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

As I mentioned when we met in August, obviously, you nailed down the most of the assets, so we've seen the update at Detour at the midyear. We continue to update, integrating all of the results in the different mines, and I still sort of reiterate what I told you midyear, that we're going to be having a partial replacement in the operation, plus a net gain at Detour, minus the depletion from operation, so we're going to see an overall net gain. How much is it? Don't know. Again, we'll figure that out once we consolidate everything at the end of the year.

Tanya Jakusconek – Analyst, Scotiabank

Okay. That's fair enough. Thank you very much for taking my questions.

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

Thank you, and maybe, Operator, maybe just one final question and then I think we'll wrap it up.

Operator

Thank you. The final question comes from Mike Parkin of National Bank. Please go ahead.

Michael Parkin – Analyst, National Bank Financial

Thanks, guys, for taking my question.

Just to get a better sense in terms of how we could think about the AK project phasing in. The Macassa mill has spare capacity, but some of that spare capacity is obviously going to get chewed up with the shaft. Is it fair to assume the AK material would be kind of a buffer material filling the mill, but being kind of second priority to primary Macassa ore?

Jean Robitaille — Executive Vice President and Chief Strategy and Technology Officer, Agnico Eagle Mines Limited

Hi, Mike. I will take this one. Jean speaking.

Listen, as Natasha mentioned, we are reviewing the mine plan with the Shaft 4 and the ventilation, so in fact, we will have to optimize the mill. This is the first element, I will say, so it will be which ore will bring the largest or the highest profit first.

On the other side, we have started metallurgical test work since the merge was completed, and we are reviewing the full mill to try to optimize to be more efficient, so it's ongoing, and we expect in the first half of '23 to have all of the information. On that basis, after, we'll make the proper decision how we need to adapt the mill.

Michael Parkin – Analyst, National Bank Financial

Okay. Thank you.

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

Well, thank you, everyone, and I think with that, Operator, we'll terminate the call. Thank you, everyone, and have a nice weekend. Bye-bye.

Operator

Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.