Agnico Eagle Mines Limited

Second Quarter Results 2023 Conference Call

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PRESENTATION

Operator

Good morning. My name is Michelle, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Agnico Eagle Second Quarter Results 2023 Conference Call. All lines have been placed on mute to prevent any background noise.

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

And now, I will turn the call over to Mr. Ammar Al-Joundi. You may begin.

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

Thank you very much and good morning, everyone. Before we jump in, I would like to point out that we will be talking about some forward-looking concepts and statements. And there's some documents at the beginning of the package that you might want to go through.

We have our team with us today. We're going to be in a very good position to talk about the quarter, in a very good position to answer questions afterwards. But really, today, there are only three key takeaways that we'll go through.

One, we had a very strong operating quarter, consistent performance by the team across all the sites and, I'm proud to say, now for several quarters in a row.

Two, excellent progress on our Abitibi optimization programs. As many of you know, we have a very ambitious program to consolidate and optimize our Abitibi platform. We believe we have the potential to add several hundred thousand ounces of additional production, potentially, and we've made some good progress on that. And we'll talk about that and where we are.

And the third point is we've had some excellent exploration results. Guy will talk about that, but excellent results across many of the operations. And I would say that all of these results are in places we already operate, we have infrastructure, we have teams, and we have the capacity to utilize and leverage off existing infrastructure.

These are not exploration results at the top of a mountain range in the middle of nowhere. These are in our backyard, and they will make a big difference. Guy will talk about it. In fact, we're so confident that we've increased his exploration budget, putting us over $300 million this year, demonstrating again the confidence we have in the business.

When we talk about strong operations, just hitting some highlights: record quarterly production; costs, $840 cash costs at the bottom of our guidance range; all with another quarter of exceptional safety performance. I'm proud to say that we have now had the safest first half of the year ever in the 66-year history of the Company.

There is nothing more important than the safety of our people and our communities. And I've said it before, I'll say it again, you cannot have that kind of safety performance without excellent operating capabilities, and you can't have the kind of operating results we've had without that type of safety performance.

That's all led to, impressively, record quarterly cash flow, and Jamie Porter will be talking about our financials later on.

So hitting some highlights: payable gold production of 873,000 ounces; good cost control; all-in sustaining costs of $1,150 an ounce; cash costs of $840 an ounce, at the bottom end of our guidance, generating almost $1 billion of operating cash flow this quarter.

Just getting into a few more—just frankly, I'm quite proud of this, so I'm going to hit a few points.

Malartic produced its 7 millionth ounce since we've had it in 2011.

We've updated the Odyssey project. Dominique is going to talk about that, but just some highlights: an additional 1.7 million ounces; additional three years out to 2042; and most importantly, still open at depth, still getting some very good exploration results and geologic upside.

I mentioned on a call this morning, Malartic was discovered by the Gouldie brothers in 1923. So that mine has been around for 100 years. It's produced, with us and previously, over 12 million ounces. It's got a mine life out another 20 years; it's still open. It is just a great example of putting yourself in the best places in the world based on geologic potential and political stability, 100 years and plus.

Detour, Natasha's going to talk about some of the great progress the team has made there to build that mine, but from an operating perspective, proudly, a record quarterly mill throughput at Detour.

At Goldex, record quarterly mill throughput since the restart.

At Macassa, record quarterly mill throughput, record skip tonnes, record underground development. The team there has really, frankly, delivered on that mine. Great ore body; a great operating team.

Meliadine, record monthly mill throughput in May. And Meadowbank, record production for the first six months of the year, again, with one of the safest quarters in the Company's history.

I'll address the question now because we'll get it later, I'm sure. With the very strong start of the year, we are already being asked, are we going to update and improve guidance?

What I would say is, it's very early. We've only had the first two quarters. But I will say we are clearly off to a very strong start. And we are clearly tracking production that would be above the midpoint of our guidance, and we are clearly tracking costs very well relative to our guidance. So, an excellent start of the year, we're very confident, and we're confident going forward.

Next slide. Actually, keep it on this slide here. So, if we do the update on the key drivers, again, Natasha and Dominique are going to talk about it. I'll just hit a few points.

As I mentioned, Canadian Malartic, we updated the internal study in June. We talked about the additional ounces, the additional years, the potential there. But really, what's exciting more than anything is the significant geologic upside that we continue to see there. That is a fantastic asset.

At Detour Lake, Natasha's going to talk about it, the great progress we've made. But also, Guy is going to talk about some of the exploration results to bring in, potentially, underground ore. Remember, our objective at Detour, our vision, is to try to get that to 1 million ounces a year.

This is a mine that's already out to 2052, that is still going to be increasing. And to get it to 1 million ounces a year, it's going to be a combination of increasing the mill throughput and bringing in higher-grade ore from the underground. And we're working on that, and we'll be looking to give some updates in the first half of next year.

On optimizing some of the other assets, good progress, looking at the potential of Macassa, the upper zones in Amalgamated Kirkland. We're doing our work on Upper Beaver. We're doing our work at Wasamac.

As I remind everyone, the opportunities there are not just the base case standalone for those projects, but really, what we're excited about and what we're working hard on is, can we develop those assets without having to build additional mill capacity and utilize existing infrastructure, mill infrastructure and tailings infrastructure, at either Malartic or at LaRonde.

As a reminder, the Upper Beaver and Wasamac each have a potential for between 150,000 to 200,000 ounces a year. Amalgamate at Kirkland and the upper zones at Macassa, 20,000 to 40,000 ounces a year, and that's progressing well.

So just between those projects, we have the potential for an additional 350,000 to 450,000 ounces a year using existing infrastructure, which reduces our permitting risk, which reduces our environmental footprint, and materially increases our return on capital. That's something we're very focused on. And that doesn't include other projects, for example at Camflo; for example, potentially, a second shaft at some point at Malartic.

Now before I turn it over, we're also getting questions on how are these studies going? Frankly, they're going well. There are no delays whatsoever. We expect to start to come out with some guidance in the first or second quarter of next year.

But understand, something as simple as the underground at Malartic, it just takes a lot of drilling. These things just take a little bit of time and, frankly, I'm very impressed with the way the team is working and the progress made. And again, we expect to be able to start giving some guidance in the first or second quarter next year. Not everything is probably going to work, but things are looking pretty well so far.

So with that introduction, I will turn it over to Dominique to talk first about Odyssey.

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

Thank you, Ammar.

Odyssey project, if we put it in perspective, the first hole where we discovered the East Gouldie Zone in 2018; in 2021, we released our first study, and we just updated that one last June. Very good improvement where our production profile increased by three years, so we have now in front of us a 20-years life of mine with 8.5 million ounces on the production plan, and this is just the beginning. As Ammar said, there's still full of potential to just increase those zones and eventually maybe also on the regional aspect too.

Maybe one important point about that updated study and where we are today is we de-risked the project with now—in 2020, we had 5 percent of the ounces which were under indicated resources. Now we're up to 53 percent, which is a good news. And the grade is still there. There's no discrepancy. The team are happy about that.

And also, we have now 60 percent of the surface construction completed in the last two year-and-a-half, which was not the easiest year to do that. But I need to say the fact that we were in Abitibi, the fact that also we had good guys, good leaders with experience to deliver that, this has been done—very well done in those years. And I have in the room here, Serge Blais and Daniel Paré, which are two leaders, key guys which have worked on that.

We are now going to reduce the pace of the construction. The workers at site going to decrease from 400 to 150, so it's going to be easier pace. And now we're getting into the next phase, which is sinking the shaft.

But overall, at the current gold price, the value of the project is $2.5 billion with a 33 percent return on the investment.

An update on the ramp, how it's going, Odyssey South ramp-up is going on track, so the team did over 1 kilometre drilling last month—no, in May; it was a record. So we are now at 600 metres below the surfaces, and we start the production from the Odyssey South Zone, which is the first one. We're going to mine there for the next three, four, five years at approximately 80,000 ounces per year. We are on track with that.

Maybe a good news on the reconciliation so far, we talked to you about the internal zones, which was something difficult to see from the surfaces or to understand from the surfaces. Now we're touching it, and we see that there is upside through those zones, and that could potentially add more ounces from

2024 to 2027, but it is still early. We're defining the infill drilling program right now to better understand those zones. The first stope was supposed to be 30 tonnes at 2.6; it ends up to be 45 tonnes at 2.9. So this is a great bonus that we had.

The next important phase also is all the shaft sinking. So to access the East Gouldie Zone, which you could see on the bottom left of the figure, there's two things. We need to bring the ramp and to build all the infrastructure and to start to develop the first pyramids. We also need to sink the shaft, so it's a 1.8-kilometre shaft. Today, we're at 76 metres done, and we are also in the step that is now back to the—or we're just initiating the full cycle to sink the shaft. So we took the first 4-metre bench last week, and the next one is coming in the coming weeks, and we start installing the seals.

So that's a good news. That was an important step, and all the construction done behind in the past year was to achieve that. So everything is on track on that side.

We had up to 16 drills on the property in the second quarter, so as you could see, we're still drilling intensively. In the past year, we've put emphasis onto doing conversion, again, to de-risk that study, but now we're turning back to do more exploration and potentially add resources.

And on top of that, we need to recall that the mill, at a 40,000-tonne-per-day capacity, is still available in one of the best places in the world, so we have homework to do to bring some ounces through that mill.

So on that, I will pass the microphone to Natasha.

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

Thank you, Dom, and good morning, everyone.

I’m on Slide 9. The slide highlights the evolution of Detour and the journey that it has been on to make operational improvements on all fronts, actually, from the mine to the mill, and on the maintenance front as well.

The culture of Detour has always been one that’s focused on safety and on minimizing our footprint, but also one that focuses on cost control and value generation by just going back to basics on how we operate, by assessing innovative approaches, by constantly pursuing efficiencies and, most importantly of all, by empowering our people.

As you see here, there are some initiatives that the sites have successfully achieved, and what we’ve shown here just scratches the surface. The bottom line is that you can see that we have a track record of delivering improvements, and these improvement initiatives is an ongoing process. And so we continue the transformation of Detour into one of the world’s largest and most profitable gold mines by assessing the potential, like Ammar said, to achieve the 1 million ounces annually.

As you know, this comes in the form of two main projects, increasing the mill capacity and assessing the underground potential. As Ammar mentioned, both are currently ongoing, but from a mill tonnage perspective, as shown on the graph, we have steadily been delivering year over year and growing mill capacity by 5 percent on an annual basis.

This past year, we have completed the installation of the screens on the secondary crusher, and we believe that we can add an additional 1.4 million tonnes to the throughput from 2022 to get us to an annual throughput of about 27 million tonnes. And as mentioned before, we’re also advancing several projects to improve the runtime and the sustained throughput of 28 million tonnes by 2025 or even sooner.

And as a result of our ongoing efforts, this quarter, the tonnes per operating hour improved significantly. And combined with the high mill availability, the mill recorded its best quarterly mill throughput and close to what we need to achieve the 28 million tonnes a year.

Now we are looking at sustaining it, and so we're looking at small modifications in different areas. We're looking to improve the efficiencies of the SAG discharge screens. We're looking at small changes to extend liner life. We're tweaking the refeed system so that it operates better and more efficiently in the winter. We're relocating some of the pipelines in the mill to maximize efficiency of pipe replacement during our shutdowns.

And in parallel, we're also assessing a few projects to potentially exceed the mill throughput beyond 28 million tonnes a year. And we're going to be trialling the ore sorting, and we're going to be working on an expert system like we have at some of our other mills.

And then in terms of the underground study, we're continuing to advance this based on a revised mineral resource that factors in additional drilling that was completed earlier this year. And as Ammar mentioned, we expect the report and the results of the study to be shared with you sometime in the first half of 2024.

But in parallel, the exploration team is continuing to carry out an aggressive drilling program at Detour, and Guy will be expanding on this and some other exploration programs next.

But before I end, I just want to commend the sites on an incredible quarter and a year so far. So on behalf of Dom and myself, thank you for all your hard work, your passion to continually look at ways of improving and optimizing our business, not just at Detour, but at all our sites, and for making our jobs a little bit easier.

So with that, I'll turn the call over to Guy.

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

Thank you, Natasha, and good morning, everybody.

So to continue at Detour, on page 10 of the slide deck, we continue to see excellent results below the West Pit and the extension. So now the focus is really to get to an underground resources model, reduce the drill spacing over that large area. We look at the scale where we continue to get good results, up to 2 kilometres away from the pit.

So based on those good results we've been getting year to date—and I'm not going to go through the long list we've seen in the press release—but those are the kind of grade and width that makes it, at first sight, for an underground scenario. So the focus is really to continue to advance.

We're currently ahead of schedule with the drilling. We see unit costs that are better than expected with good productivity on our drill over there, on our drilling program. So we're planning to add, as part of what Ammar mentioned, an overall addition of $32 million. A portion of that, $5 million, is to carry on drilling at the same pace with those 10 drill rigs, and in order to be in a better position by year-end to provide sort of a first overview of what could be underground resources for Detour, around which we're going to be building our business case for the underground project.

At a larger scale, I would say, if we go to next slide, 12, on the overall—the rest of the portfolio, we've seen, overall, very good results on several assets.

For example, at Meliadine during Q1 and Q2, we've seen results in Tiriganiaq at depth at some of the deepest drill holes ever drilled at Meliadine, that support what we believe that the deposit remains open, has significant upside. It's one of those that we see a very good potential for reserve replacement, so we want to be a bit more aggressive.

So with that, again, that stage-gate approach, we want to add to the budget that was approved, adding another 25 kilometres of drilling, and also extending that drill platform to the east so that we have a better understanding of how much we can continue to grow Meliadine.

Moving to Kittila, we've seen, again, some very good results, close to the Rimpi-Roura infrastructure. Those are very near-term opportunities where we can quickly bring additional resources, bring them to reserve very close from existing infrastructure.

And in parallel, while conducting some geotechnical drilling closer to surface, we've encountered some of that Parallel/Sisar Zone in an area that was previously, maybe, not understood properly. We started to understand the Sisar Zone about six or seven years ago at a certain depth, and now we realize that some of those drill holes closer to surface will potentially stop a bit short.

So now, we are reassessing, have we left any of those potential parallel structures in the upper part of the mine, which could be very appealing because we already have all of those infrastructure over there, which could provide additional flexibility for the team over there at Kittila.

Moving to Macassa, continue to get good results in the extension, both of the Main Break and the South Mine Complex. But more importantly, now that we have Shaft #4 in place and a much, much better capacity both with the ventilation and access and everything, so now we are starting to put some long-term thinking and establishing long-term exploration platform, like we did back in the days at LaRonde, so establishing long-term exploration drift to the east, to the west of Shaft 4, because we know that the deposit remains open at depth and all of those. And so we opened up our Shaft #4 infrastructure, a very good playground to think long term at Macassa.

And maybe to wrap up on a little bit on Malartic, that Dominique covered in the beginning of the presentation. Again, another site where we want to continue to add additional drilling in the second half, based on the good results that have been delivered.

We see, again, Meliadine, the opportunity to continue to grow. We just took about 9 million ounces out of the total 16 million ounces. So we see the opportunity to continue to convert the remaining resources that are currently not in the plan and bring them into a further update of the project, while we continue to grow the footprint of the deposit that continues to be open laterally.

Moving to next page quickly. Hope Bay, this is another one where we took sort of a stage-gate approach. We were basically starting with a budget for the first six months, but based on the very good result we've seen, both at Doris and more recently at Madrid.

And I think this is why we see, maybe, a change in the dynamic. We always knew that Madrid was open at depth and laterally. Now we are seeing excellent grades with good thicknesses at depth that shows that the structure seems to be maybe better defined, higher grade with visible gold; and with large step-out that we've conducted, like at Drill Hole 105, which is 500 metres step-out below.

So we see excellent potential to significantly grow, so it's going to continue to take time to bring it to resources. But now, we see what we believe when we did the acquisition, that we can significantly grow the deposit and identify a higher-grade source of ore. Ao those things are unravelling, and we're pleased with the results so far, which convinced us to add another $14.5 million for the second half of the year.

And on that, I will be handing over to Jamie, I think.

Jamie Porter — Executive Vice President, Finance & Chief Financial Officer, Agnico Eagle Mines Limited

Great. Thank you, Guy. Yeah. Just some brief comments on the financial results for the quarter.

Overall, as Ammar summarized up front, just a phenomenal performance from an operating and a safety perspective, leading to phenomenal financial results, which resulted in a number of new records.

From a gold production perspective, we hit a new record of 873,000 ounces, and that reflected 100 percent of Canadian Malartic for the second quarter.

In terms of operating margin, again, close to $1 billion of operating margin with very strong contributions from our two biggest mines, which happen to be the two biggest mines in Canada, Detour and Canadian Malartic, and also a strong contribution from Fosterville.

From a cash cost and all-in sustaining cost performance, we're in great shape relative to guidance. We came in at $840 per ounce total cash cost, which is $25 below the midpoint of our guidance, and $1,150 in terms of all-in sustaining costs, $15 below the midpoint of our guidance.

So our cost did benefit from the Canadian dollar weakness in the quarter relative to what we've guided, but also the strong operating performance really helped to ensure that we had a strong cost performance.

You can see in the table at the bottom right that we've been successful in managing our costs, keeping a lid on our costs over the past three quarters, where they've actually been fairly stable or in decline.

We move over to the next slide, just some financial highlights here on Slide 14. We'll walk through our overall—the records that I mentioned. We had record revenues for the quarter.

We sold 859,000 ounces. We're benefitting from the strong gold price environment at a realized price of $1,975 per ounce so, again, record revenues.

Very strong earnings, our adjusted earnings per share were $0.65 in the quarter, again, reflecting the strong operating performance.

If we look at our capital spending for the second quarter, we came in, if we include capitalized exploration at $416 million, which is in line with our guidance, so great results overall, Q2.

My last slide just talks—well, summarizes our balance sheet position, the current strength and financial flexibility that we have.

We were active in terms of debt repayment in the quarter. You'll recall that at the end of the first quarter, we drew $1 billion on our credit facility as part of the acquisition of the other 50 percent of Canadian Malartic. We repaid $900 million of that in the second quarter: $600 million via the term credit facility and $300 million from cash on hand.

So we ended the quarter with $433 million in cash, down about $300 million from where we were at the end of the first quarter. But overall, very strong financial position to be in. We actually improved our net debt position to $1.5 billion in the quarter and increased our overall liquidity to $2.1 billion, so we're in great financial shape.

And with that, I'll turn it back to Ammar.

Ammar Al-Joundi

Thank you, Jamie. And I would like to, on this first call for Jamie, formally welcome him to the Company.

We have a great leadership team, and we're also very protective of our culture. And I think with Jamie, we got a super-smart guy with a lot of experience, but also a nice guy who fits in very well. So welcome, Jamie, and congratulations for already delivering the highest cash flow record ever for the Company. We know that was mostly you.

So just finishing off before we jump into questions, look, this is the same strategy we've had for 66 years, which is, we want to provide—we want to build a high-quality, reliable, consistent gold company with superior leverage to gold, but not only superior leverage to gold but, importantly, superior leverage to gold on a per-share basis and on a risk-adjusted basis.

And we're going to do that by building profitable, high-quality, low-risk business based on two key factors—well, several—a few key factors: one, a leading position in what we strongly believe are the best mining jurisdictions in the world, based on two criteria—one, obviously, the geologic potential, but it has to have the geologic potential for multiple mines over multiple decades; and two, associated with that, the political stability to actually operate multiple mines in multiple decades.

When you look at Malartic, around since 1923, when you look at Detour, originally as an underground mine, going to Canada's largest open pit mine, going back potentially to an underground mine, when you look at all of the things that Guy talked about, all of those exploration results, they're tremendous, but they're in established camps where we've been for a long time. This strategy works, it's worked for years, and we think it's even more important, given the geopolitical issues going on in the world today.

We have built this business largely on demonstrated technical skills. All of these projects we're working on are tough, but we're going to make them happen, or we're confident we're going to make them happen.

We've had Jean Robitaille and his team talk about some of the things they're working on. We have an excellent technical team. We delivered these results—let me step back—the team delivered these results not in an easy quarter. We had the fires in Ontario and Quebec. We had the earliest and longest caribou migration season that we've experienced in Nunavut. That's a good thing. It shows the health of the herds up there. But the team delivered record results with those challenges.

We're going to continue our emphasis on per-share metrics. We're going to continue to understand that, if you want to be in a region for 50 years or 60 years or 100 years, you can't just be good at ESG. You can't just be accepted in the community. You have to be part of the community. And that's what we've always done, and we're going to continue to do.

We're going to continue to focus on creating value through the drill bit. We are going to continue disciplined capital investments, based on knowledge and diligence. And we're going to continue to return capital to shareholders, building on our 39 years of consecutive dividends.

Sometimes, people at meetings mention that Agnico Eagle is the sleep-well-at-night gold stock. And I would say that I hope that even with the challenges, what we've been able to deliver in this quarter demonstrates that we are, in fact, the sleep-well-at-night gold stock.

And so with that, Operator, I'd like to turn it over to questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we'll now conduct a question-and-answer session. If you have a question, please press the * key, followed by the number 1 on your touch-tone phone. You will hear a one-tone prompt acknowledging your request. If you would like to withdraw your question, please press the # key. Also, ensure you lift the handset if you're using a speakerphone before pressing any keys.

One moment while we stand by for questions.

First question in the queue comes from Ralph Profiti with Eight Capital. Your line is open. Please proceed.

Ralph Profiti — Eight Capital

Great. Thanks, Operator. Good morning, everyone. Ammar, two questions from me.

Firstly, there was some discussion about the challenges in defining some of the internal zones at Odyssey. And when we think about potentially adding production, 2024 to 2027, is that dependent on sort of a successful surface exploration drilling program? Or will we need to move more towards an underground drilling strategy to better define those resources?

Dominique Girard

I'm going to take that one. No. The internal zones were originally recognized from surface drilling, but they are a bit different in nature than the Odyssey South and Odyssey North that sits at the contact of the porphyry.

Now as we are getting closer, we're having a lot more access, a lot more drilling as we are infilling and bringing the Odyssey South into production. Now we get to better understand the shape of those.

So we took a conservative approach so far, not putting any of that into the mine plan and now they are showing up as incremental tonne. And we see more of that, that will show up as production will take place, and we're going to get a better understanding. Because they are not as well defined in the South Zone. So it takes more drilling, takes more development, and you're going to see them showing up progressively along with—in the life of mine.

Ammar Al-Joundi

And one thing—and maybe, Dominique, you can mention on this and it's a good question—and the team has already changed the ramp positioning so that when we're down there, we're much better able to exploit the additional ounces to the extent that they're there.

Dominique, I don't know if you want to—I guess I've explained it well enough.

Dominique Girard

No, that's fine. Thank you.

Ralph Profiti

Okay. Great. Great. Yeah. That's quite helpful. Maybe a question for Detour and Natasha.

On first onset, does the nature of the mineralization show favourability to ore sorting? And is this simply sort of a low density, unmineralized versus high density?

And would ore sorting sort of be more amenable in the underground scenario versus the open pit? Or both?

Natasha Vaz

Hi, Ralph. I'll start, and then I'll let Jean add to this. So, with respect to the ore sorting, we haven't started the Phase 2 trial, but we are looking at about 1.5 million tonnes of material that we plan on trialling this year, a majority of which is—all of it is actually at the pit.

Jean, do you want to add?

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

Yeah. Yeah. I will step in. Listen, the purpose is to use marginal ore on stockpile mainly and just do an upgrade with the ore sorting.

So it's ongoing, 1.5 million tonnes. We anticipate to complete the study in the next, let's say, 12 months, and we'll see from there.

Ralph Profiti

Okay. Thanks very much.

Ammar Al-Joundi

Thank you.

Operator

Your next question in the queue comes from Anita Soni with CIBC. Please proceed.

Anita Soni — CIBC

Hi. Good morning, everyone, and congratulations on a strong result. My question is with respect to the drill results at Hope Bay.

Could you just give us some context in what that means to the mine plan? And when you expect to restart Hope Bay and the time frame on that project?

Guy Gosselin

Hi, Anita. I'm going to put some colour maybe on that. Obviously, in order for Hope Bay to work, we see the need for the mine to be much larger, like we are doing at Meadowbank, Meliadine, something that will be between 300,000 ounces to 400,000 ounces of gold a year. Therefore, we were needing either to find additional mining area to be able to ramp up the tonnage or find better grade.

And I think what we are demonstrating, and with that new drilling at Madrid, is that we have potentially identified another mining area with good grade, better grade. So it shows that we can not only potentially grow the critical mass of resources, but get better grade. And that will eventually be incorporated as we're going to get more drilling into updated study.

So it just means that we know we were right that there are a lot more gold over there. Locally, it seems that it's even better grade, and we're going to continue to need more time for drilling. But we now recognize that it's not just a wishful thinking. It's there, and those drill holes are demonstrating that it's worth to carry on drilling on it.

Anita Soni

Thank you. And secondly, on Fosterville, so you received your permits to resume mining at your—and processing at your prior rate. I think you didn't upgrade the guidance because you're catching up on development work. But would that have an impact to 2024? I think my understanding was it was about 30—in the order of 40,000 ounces, give and take 10,000, for next year, that could have a potential positive impact.

Natasha Vaz

Hi, Anita. So right now, we're currently working on updating the mining sequence based on the midyear models and getting ready for the budget season and looking at the production profile for the remainder of 2023 and going into 2024, onwards.

So I would say, for now, we've decided to focus in on the capital development in an effort to get ahead of the critical areas of the mine. And we'll have an update on the rest of the life of mine towards the end of this year.

Anita Soni

Okay. Thank you. I'll leave it there.

Operator

Thank you. And, ladies and gentlemen, as a reminder, should you have a question, please press *, followed by the 1.

The next question in the queue comes from Mike Parkin with National Bank. Please proceed.

Mike Parkin — National Bank Financial

Hi, guys. Congrats on a good quarter and, Jamie, welcome aboard officially.

A couple just kind of housekeeping items. With Canadian Malartic, the depreciation per ounce reported for Q2, is that fair to kind of assume a similar rate going forward? Or is the book value still not quite set in stone and, therefore, depreciation per ounce could be a little bit volatile at that asset?

Jamie Porter

Yes. Thanks, Mike. It's the latter. The way the accounting works for that is, you have really 12 months from the time of acquisition to do the purchase price allocation. But I'd say we recorded in the second quarter is a good—is the best estimate for Q3, Q4, and if there's an update, it would be towards the early end of the year.

Mike Parkin

Okay. Sorry about that. Second, where are you in terms of being cash taxable on Detour Lake? Are you paying taxes? Are you still consuming tax pools?

Jamie Porter

Yeah. So I think our forecasts have us actually paying cash taxes—I mean, obviously, we're paying Ontario mining taxes,—but cash taxes starting next year, but that's all dependent, of course, on the plans with respect to underground development, which would defer the payment of cash taxes to subsequent years.

Mike Parkin

Right. Okay. Good point. And then also on Detour, I remember in the past, from past owners, they negotiated discounted power costs. Is that something that's behind you now, and you're paying these kind of average grid prices? Or do you still have those rolling contracts with discounted rates applied?

Natasha Vaz

Hi, Mike. We still have the contract in place until the end of this year, and we're working on a new program starting next year, hopefully.

Mike Parkin

And is the discount—I remember it was pretty significant. Is it still kind of that similar scale where it's meaningful savings for you guys?

Natasha Vaz

Right. Until the end of this year, yes.

Mike Parkin

Okay. Okay. That's it for me. Thanks very much.

Operator

Thank you. And the next question in the queue comes from Tanya Jakusconek. Your line is open. Please proceed.

Tanya Jakusconek — Scotiabank

Great. Good morning, everyone. Congrats on a good quarter and thank you so much for taking my questions.

Well, I think I'm going to start with Guy first, just on the exploration results. Guy, I know I asked this question on the Q1 call as well, and you've had more drilling done to date. And I know we talked about reserve replacement. With what you're seeing today, is that still on track to replace your reserves this year?

Guy Gosselin

Overall, yeah. With what we foresee with the addition of East Gouldie on the top of the ongoing replacement at each of the sites, we expect the overall reserve to be at least replaced, if not growing, by year-end.

Tanya Jakusconek

One asset that you didn't talk about on these exploration results or maybe—and I apologize, the press release was long, and maybe I missed it—but you didn't talk about Fosterville. Has anything changed there with respect to what you think you see on the exploration side or the exploration upside?

Guy Gosselin

No. We continue to drill in specifically two areas. We continue to infill in the Robbins Hill area, where we are getting kind of a mixed bag of results, but I think it is kind of in line with the known part of Robbins Hill above the decline so far.

And at the bottom of the Phoenix, in what we call the Cardinal's play, we continue to see some interesting results, sometimes wide, the average grade within it with some smaller-scale vein with VG. Obviously, nothing like the Swan Zone yet, but we see again good potential in the down-plunge extension of the Phoenix.

Tanya Jakusconek

Okay. Okay. Thank you for that. My second question is just a little bit to talk about the inflationary pressures, and maybe that's over to Ammar. You mentioned in the press release that you are seeing some relief. I know I ask, in what areas are you seeing the relief?

I'm just trying to understand, because different companies with different assets are seeing different things, so I'm just interested in where you're seeing relief versus your guidance that included the 2022 pricing.

Ammar Al-Joundi

Thanks, Tanya. So, one, we had some tailwinds with the currency which helped, which continues to. But certainly, we have seen relief on some of the consumables. Energy is a big one, as I think you can see on the press release. We've been able to hedge a good portion of our diesel. I think it's at $0.65, if I recall, versus $0.93 in our budget.

So the team did a pretty spectacular job, in my view, of waiting out the peak and coming in when the markets were more advantageous.

We're seeing relief on steel, grinding material, a number of consumables. We're also starting to see—and often, exploration is a leading indicator—we're starting to see better drillers available, higher quality, more numbers, better performance.

The biggest challenge probably remains, with respect to cost pressure, is people. We are still working very hard to make sure we get the people and the highest quality people.

Now I'll repeat what I've said before: as difficult as it is for us, when you are the number one employer, and you've been there for 60 years, and you have the best projects, you always get the best teams available. So while it's difficult, I would say our strategy leaves us in a competitive advantage, even in that area.

Tanya Jakusconek

And just on the same thing with explosives and cyanide, you're seeing some relief there as well?

Ammar Al-Joundi

Yes.

Tanya Jakusconek

Okay. That's good. And I know that most of—and maybe just for myself, like you would have very low inventories on site, given your location, except your isolated mines, but your other mines would have very low inventory on-site, so you'd be pretty much buying on spot markets now. Would that be a fair statement?

Ammar Al-Joundi

That's right. I mean, as you correctly stated, it's a different story up in Nunavut because you have the barge season. But yes, where we operate in the Abitibi in particular, it's a very substantial mining district, and we can operate with lower inventory so, yeah, much more spot pricing.

Tanya Jakusconek

And if I could ask just one final question and, Ammar, I know you talked about the guidance and sort of, you're not changing the guidance, but we're about the midpoint on production.

Maybe you can just guide us to—because the whole sector, I would say majority of the sector, is second half-weighted with a strong Q4. Can we just review with you how your second half looks like? Is it evenly distributed? And are any mines taking a lower production profile in the second half that we should be aware of?

Ammar Al-Joundi

I think what I would suggest is the third quarter, at least by my forecasts—and I caveat with I've been in this business for 25 years, and you never know what's going to happen. But the third quarter should be very similar to the second quarter, should be.

The fourth quarter, the variability, Tanya, as you know, is going to be at Kittila, whether we get the SAC approval or not. But what I would say is our guidance is assuming we don't get it. And if we do get the approval to continue to operate at 2 million tonnes a year, then I would—that's 30,000, roughly, extra ounces.

So without changing the guidance, I would expect the third quarter to be similar to the second, and the fourth quarter to be less if we don't get the SAC, but that's in our guidance. And if we do, then it would be similar again to the second quarter.

Tanya Jakusconek

Okay. That's perfect. And then just a clarification. I think Anita asked on the Fosterville. From memory, I had about 30,000 ounces. Maybe Natasha can confirm that, if we were to go back to the additional throughput, what the permit allows you, it would be an additional 30,000. Is that fair?

Ammar Al-Joundi

I think, I mean, we're still working on our budget for next year. What I would say is it allows us to operate those six hours at night that we weren't able to operate. So that's going to have an impact on ounces.

We are catching up a little bit on development. The guys, frankly, did a stellar job in the first half of the year dealing with that restriction.

But also—and this is important, very important—in the scheme of things, it's not a huge number, but it also makes the work environment a lot better for our employees. It was a tough work environment. It was hot. We don't like to do that to anybody. And so I just want to make sure we emphasize that it's not just the ounces; it's also important for our employee—for our employees.

Tanya Jakusconek

Yeah. No. Yeah. For sure. Okay. Thank you. I'll let someone else ask questions.

Operator

And your next question in the queue comes from John Tumazos from John Tumazos Very Independent Research.

John Tumazos — John Tumazos Very Independent Research

Thank you. With the $28 million drop in first half exploration expense from a year ago, could you explain how much of that is more being capitalized due to success versus any streamlinings versus more or less metres being drilled?

Guy Gosselin

Hi, John. It's Guy. So it's mostly, I would say, a reprioritization of the asset. So we are doing less on other projects. Let's say in Mexico, for example, Santa Gertrudis, we've basically stopped drilling over there, reassessing the potential. We've also reduced activity, for example, in Colombia, but I would say the budget on key value drivers or the number of metres hasn't changed.

So it was, (unintelligible) we—in a lower gold price environment like we were facing during the budget period, we thought that less money should be allocated to grassroots projects, and we should focus on operating assets and key value drivers.

John Tumazos

And when you drill in the Abitibi, sort of in your backyard, are the costs lower than when you're operating in Sonora or Colombia or other grassroots places?

Guy Gosselin

It's very variable depending on the location, to be honest, John, if you have no water, if you have to—if it's more labour intensive. But I think, all in all, we are drilling at similar costs in Mexico when you have—it also depends on the size of the project. So when we have a similar scope of work, similar kind of drill program, we can achieve good costs. The costs are just not dispatched the same way. You have to transport water, or if you're in the Abitibi, where you can find water a little bit everywhere.

John Tumazos

Thank you.

Operator

Thank you. And the next question in the queue comes from Anita Soni from CIBC. Please proceed.

Anita Soni

Hello. So it was just a follow-up to Tanya's question about the cadence of Q3 and Q4.

So the downtrend, all else being equal and Kittila not getting its permit, is because you would have to throttle back Kittila in the fourth quarter?

And I think, the second half of the year, LaRonde will have sort of periodic shutdowns to deal with that, I guess, tie-in of the new system there. Is that correct?

Ammar Al-Joundi

Yes, broadly correct, Anita.

Anita Soni

Okay. All right. Thank you very much.

Ammar Al-Joundi

Thank you.

Operator

There are no further questions at this time. Speakers, do you have any closing remarks?

Ammar Al-Joundi

Well, we just want to thank everyone. We know it's a busy day. And then, finally, I hope all of you get a little bit of time off in the next couple of weeks with your families. Summers in Canada are short. So thank you, everyone, for joining us and have a good day.

Operator

Thank you. Ladies and gentlemen, this will conclude your conference. Please disconnect your line.