FINAL TRANSCRIPT

Agnico Eagle Mines Limited

Fourth Quarter Results

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Agnico Eagle Fourth Quarter 2013 Conference Call.

At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session, and instructions will be provided at that time. If anyone has any difficulties hearing the conference, please press *, followed by 0 for Operator assistance at any time.

I would like to remind everyone that this conference call is being recorded today, February 13, 2014.

I will now turn the conference over to Mr. Sean Boyd, President and CEO. Please go ahead, sir.

Sean Boyd — President and Chief Executive Officer, Agnico Eagle Mines Limited

Thank you, Operator, and good morning, everyone, and thanks for joining our Q4 2013 conference call.

Before I begin the presentation, I would just like to caution everyone that this presentation contains estimates and forward-looking statements.

If we summarize the quarter and the year, I think from our perspective what we could control is our operations and our costs, and again, for the second consecutive year we had a record production year, producing 1.1 million ounces of gold, which exceeded the guidance that was revised upwards in Q3 of 1.06 million ounces.

We also exceeded and beat our cash cost and all-in sustaining cost guidance due to the strong performance from all of our operations. One of the big contributors to 2013, and also going forward, is Meadowbank, where we had record production of over 430,000 ounces at costs below $800 an ounce cash cost.

Meadowbank is set for a strong next three years, and a particularly strong first half of 2014. Reserve grades are up based on our mining experience over the last couple of years, so we've got some pleasant surprises there, and we're going to have an extremely strong first half, as we said.

Growth going forward also comes from the restart at Goldex, where we reached commercial production in Q4, and also on the new La India mine, which is expected to reach commercial production this quarter.

To adjust to the lower gold price environment, we used a $1,300 gold price in conjunction with our auditors to review the carrying value of our assets. That resulted in an impairment charge after tax of $436 million principally at Meadowbank, and we wrote off the entire goodwill on the transaction to acquire Meliadine of about $200 million.

Our quarterly dividend was reduced from $0.22 to $0.08. This is the 32nd consecutive year of paying a cash dividend. The last increase in the cash dividend was two years ago when gold was approximately $400 higher than it is today.

So we just thought it made really good business sense to reduce the dividend and take the cash outflow from the dividend on an annual basis from about 150 million a year down to about $50 million a year.

On the reserve side we used a lower gold price. We used 1,200. That's down from 1,345 to 1,490, which was used last year. What that did is we saw about a 700,000 ounce reduction in reserves without including the production in 2013, so that was about a 4 percent reduction. But more importantly, the reserve grade increased 11 percent to 3.5 grams per tonne, so a nice increase in grade at several of our key deposits. We'll talk about that later in the presentation.

As far as the operating results, we got strong performance from a number of our operations. At LaRonde, we saw a strong fourth quarter. We see increasing grade at LaRonde. We see more tonnage coming from the lower mine.

What we've got in the lower mine is the cooling plant is now operational. The ventilation upgrades continue. They'll all be in place in the second quarter. That improves our ability to develop the ore body, opens it up. We've got three pyramids operating right now, so much more flexibility. That'll drive production as we go forward. I'll talk about that in a minute.

Lapa continues to be a steady performer. Good cost control at Lapa and also good operating margin. So they've done a really good job at a mine that's narrow and has a short mine life.

At Goldex, as we said, a successful restart ahead of schedule. Cost performance is very good. Indications are below CDN $40 a tonne going forward, which is what we've been using in all of the studies. So that potentially opens up opportunities to put more of the resource into reserve going forward and ultimately into the mine plan.

At Kittila, excellent mill recoveries, around 90 percent; very good cost control; improving our operating margin at Kittila.

Meadowbank, as we said, record year. Tonnes processed were up. The grade's up; an extremely good cash flow generator for us.

In Mexico, Pinos Altos and Creston Mascota, excellent performance, low cost business, very strong margins, and excellent cash flow generator.

And La India, as we said, ramping up in the ramp-up mode, and we anticipate being in commercial production this quarter.

So again, across the board we got contributions from all of our mines in terms of not only more throughput and increasing gold output, but also in controlling costs. And I'll talk about that in a slide in a few minutes.

Financial results. Essentially earnings were negatively impacted by the asset impairment that we talked about. Also, a $47 million deferred tax charge, and that's simply a function of the increase in the Mexican mining royalties.

Lower gold price also affected not only earnings, but also cash flow. Our realized gold price from 2012 to 2013 dropped by $300 an ounce, and that really essentially accounts for the decline in our operating cash flow.

On the production side, you can see the numbers. Again, record production, both in the quarter and the year, and what we've been focused on is trying to produce more higher quality ounces in our business. And that's certainly been paying off in 2013. So essentially we've had since the beginning of 2012 eight consecutive quarters where we've achieved or exceeded our production cost guidance.

Our financial position, net debt of 830 million; we have available credit line undrawn of $1 billion. So that provides us with additional liquidity.

We have a very manageable debt repayment schedule. But despite the manageable debt and available liquidity of $1 billion, we just thought it made good sense to reduce capital spending, which we talked about last year going into this year. And also to lower the dividend to enhance our financial flexibility and reduce our financial risk as we move forward.

I'd like to talk about productivity in production. At a number of our mines we saw a number of our cost saving initiatives have an impact on our ability to lower the dollar outlay at each mine. In addition, we've been able to increase throughput at a number of our mines. And as a result, we've lowered our cost per tonne at many of our mines while we've increased our production.

At LaRonde, as we said, we're really starting to benefit now from more development in the lower mine, more stopes available to us, which gives us more flexibility in the mine plan, and as a result, more tonnes coming from the high-grade lower mine. We're estimating about 80 percent of the tonnage in 2014 coming from the higher-grade lower mine.

Year over year, the grade at LaRonde was up in 2013 11 percent, and as we indicated earlier, LaRonde is one of the mines that benefitted from improving quality of reserve with an increase in the gold grade. And we'll talk about that in a minute.

Lapa, as we said, despite the short mine line and narrow deposits, the Lapa team continues to deliver good, solid, steady production at low cost, generating good cash flow for a short life mine.

Meadowbank, excellent cost performance, increasing throughput. Tonnes were up 8 percent; grade was up 8 percent. Cost per tonne year over year down; about $10 down to about the CDN $80 per tonne. So that's a mine that's come a long way in a couple of years. A couple of years ago we were over CDN $100 a tonne. So the team has done a good job optimizing that operation.

At Kittila recoveries have been good, which has certainly helped. Cost per tonne's been steady and below budget, and that's important because the mine was in a transition phase in 2013 from a combination of open pit ore and underground. So now it's transitioned to a fully underground mine and it's been able to do that and maintain its costs, but also be below budget on its cost per tonne.

Pinos Altos, we're seeing steady gold output, lower cost per tonne. I think more importantly at Pinos Altos as well, more emphasis on the lower—on the underground mine, and the on-site total operating costs have been steady. So they've had a good handle on the costs.

So from our perspective, this type of solid across the board performance really sets us up to deliver on our growth that we've laid out over the next three years. We're looking for about a 16 percent growth in production.

That's really driven by grade at LaRonde, where we see growth and production over the next three years at LaRonde of about 50 percent off of the 2013 level driven by the grade, but also a function of more tonnes coming from the lower mine. Our reserve grade is now up to 5 grams per tonne, so improving quality reserve at that mine, which is important when we're mining in the lower part of that deposit.

Lapa, a relatively short life mine, so we see in 2016 production begin to tail off, but there's still some potential to grow that number in 2016. We have had some good exploration results. We're still working on those and trying to see if we can incorporate some of that resource into our mine plan.

At Goldex, as we said, the restart's gone well; cost control has been very good. And what that cost control does is it opens up the possibility for further growth in production at Goldex beyond 2016. We're working on those studies now. We should have more information on those studies before the middle of this year.

At Kittila, we're expecting the mill expansion to be complete in 2015. We have an ability, actually, to optimize that mill expansion. We're looking at that possibility. That may help us to produce a bit more gold at Kittila. So good steady cost performance, great recoveries at 90 percent, and now as the mill expansion proceeds, we're going to be in a position next year to ramp up tonnage and process more ore at that mine.

Meadowbank. We talked about that. Strong first half; about 60 percent of the forecast production next year from Meadowbank comes in the first half. We also see a good strong 2015 and 2016 at Meadowbank, and we'll be looking at those numbers based on experience in 2014 to see if we can possibly do better at Meadowbank.

The Mexican business continues to grow. We're expecting about a 36 percent increase in output coming from our Mexican operations based off of the 2013 level. So that's good, solid growth. It's our lowest cost business with excellent margins.

So again, what we've laid out here for the market over the next three years is growth and guidance that we would term as solid and achievable. And I think, most importantly, it's coming from mines that are already built and producing gold.

Just a bar chart on our growth. You can see we've been in a steady growth phase since 2011 as we completed our mine building phase in 2010. As we've optimized these mines they become more predictable; they become more efficient. We've lowered the cost per tonne, and we've been able to increase the output.

The growth that we show in our forecast is largely driven by LaRonde and Goldex and La India and also at Meadowbank. To achieve that growth, we actually see a decline in our capital spending, and again we talked about that earlier on our financial balance sheet slide, so lower CapEx required to deliver good, solid growth from existing mines.

Our reserves were done, as we said, at 1,200, down from 1,345 to 1,490 used last year. Net of production, as we said, we saw about a 4 percent decline in reserves as we had some really successful drilling that helped to offset the effect of using that lower gold price on some of our deposits. So the exploration team did a really good job this year at adding to the reserve base and proving up resources, and more importantly, quality resources because even though we saw a slight decline in the reserves due to the lower gold price, we saw, as we said, an increase in the average grade up by 11 percent.

So our average grade of our reserves is now 3.5 grams per tonne, and we saw several key mines with increases in grade. LaRonde, we talked about, it went up 10 percent from 4.5 grams to 5 grams. That's a 3.9 million ounce reserve with a significant resource. So higher grade, better quality reserves, which I think will be beneficial to us when we're sourcing 100 percent of the ore from the lower mine in a couple of years.

At Pinos Altos we saw an 11 percent increase in grade to 2.5 grams per tonne. At Meadowbank we saw a 15 percent increase in grade to 3.24 grams. We tried to in our calculation capture some of the upside we were seeing in our production as we reconciled to the block model.

We're seeing in the first quarter very strong grades as well, so we're off to an exceptional start at Meadowbank. That's going to build a very strong 2014.

And at Meliadine, importantly as well for a large development project, we saw the grade of that reserve increase from 7 grams to 7.4 grams. So that will be incorporated in the updated feasibility study that we expect to deliver before the end of this year.

Just in terms of sensitivity, the reserves are not that sensitive to a drop in the gold price. At about $150 lower gold price, we estimate a decline in our reserves of about 5 percent. So we have a lot of low cost reserves in our total reserves, and that gives it that good, solid protection as gold prices—if gold prices decline.

Just to summarize and then we'll take questions. As we said, we had good, solid production, record production, in fact, that exceeded not only our budget, but also the guidance, both in terms of production and also in terms of cost.

We saw higher grades at Meadowbank that's expected to drive good, solid performance over the next two to three years. We saw good optimization and cost reduction programs leading to lower costs per tonne, so that came from a number of our mines, so it just wasn't one mine carrying it; good contribution from all the mines.

Our production forecast going forward through 2016 is for 16 percent growth in production. And again, we would term that as solid and achievable, and it's also improved from the guidance we put out for 2014 and '15 earlier last year.

We talked about the reserve quality. It's improving at several of our key assets using a $1,200 gold price.

And at the start we talked about the dividend. I've been here for 29 years. We paid a dividend for 32 years, so I've been involved in a lot of those dividend discussions over the years and it's gone up and it's gone down, but I think one thing that we can say: it's certainly an important part of the way we think about our business and returning cash to our shareholders. But sometimes you have to manage the business and create the right balance.

We did go to our employees last year, and our employees gave up a substantial amount in terms of benefits, et cetera. And it made sense to us that we spread things around and do it in a way that we can get the right balance and improve the financial flexibility of our business and reduce the financial risk going forward.

So we just thought it made good business sense to do it, and hopefully if things go well down the road, we'll have an opportunity to increase it. It's gone up and down over 32 years. It's never easy to reduce it. It's always better, clearly, to increase it, but we've got a good, solid business that's going to generate good returns going forward, and that's what we're focused on.

So, Operator, I'd love to open up the lines for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you have a question, please press the *, followed by the 1 on your touchtone phone. Please ensure you lift the handset, if you are using a speakerphone, before pressing any keys. Once again, if you would like to ask a question, you can press *, 1 at this time. And one moment, please, for your first question.

Your first question will come from the line of John Bridges from JPMorgan. Please go ahead.

John Bridges — JP Morgan

Good morning Sean, everybody. Congratulations on the results. I just wanted to dig a little bit deeper into where you see reserve replacement a little bit longer term. The point being that Lapa is relatively short lived, Meadowbank is apparently quite short lived, and you're using the better results you're seeing from these existing operations to take production higher. I just wondered where you see the replacement for Meadowbank and Lapa coming from in a few years' time.

Sean Boyd

Well, at this point from the Meadowbank perspective or the ability to replace Meadowbank, from a production side we see additional growth possibilities at Kittila. We see additional growth possibilities at Goldex, and that's by including a resource into our reserve and ultimately our mine plan. We see possibilities to grow our business in Mexico.

But also Meliadine we still have to do our work. I think our drilling suggests that we have a higher-grade deposit certainly focused on underground. So our feasibility work is now geared to and focused on an underground scenario. And what we're looking at is getting a production base established largely focused on the underground, which lowers upfront capital and focuses on the best part of the deposit.

So we see that as a possibility, but we're not in a position to make a decision on that until later this year.

John Bridges

Okay. Great. That was the key question. Thanks a lot, and congratulations.

Sean Boyd

Thank you.

John Bridges

Thanks.

Operator

Your next question will come from the line of David Haughton from BMO. Please go ahead.

David Haughton — BMO

Good morning, Sean. Thanks for the update. For Meadowbank, it continues to outperform. I see in the words that you've reinterpreted the block model, and as a consequence better grade is shown in the reserves, but kind of better reflects what you're mining. What's the substance of that reinterpretation?

Sean Boyd

I'll turn that over to one of the operating guys. They'll give you a sense of what we were seeing and what we've tried to bring into it. And I think we've still tried to be conservative, but I'll turn it over to them.

David Haughton

Thank you.

Unidentified Speaker

Mostly on better understanding continuity of the Super High Grade in the lens in that area, so I think it's more on the continuity and the interpretation.

David Haughton

Okay. With the continuity of the Super High Grade, I mean it comes and goes; very hard to pick up obviously in widely spaced drilling. Have you changed the way that you've been doing your drill patterns? Or anything like that to be able to pick up these lenses?

Unidentified Speaker

No. Not necessarily. I think when we started mining in Goose we recognized some of these continuity issues with high-grade sectors, and we pursued the mining as we went through various—as we deepened the pit. And somewhere in Q3 we started getting back at some of these continuity areas, and we've remodeled the block modelling in Q4 and updated our forecast for next year.

So we're pretty comfortable with the numbers that are there. Tonnes are slightly down a bit, but the grade is up quite a bit.

David Haughton

And did the model reasonably predict the kind of 4 grams that you got in that fourth quarter?

Unidentified Speaker

Yeah. That's correct. Yeah.

David Haughton

Okay. That's encouraging. The second question, if I may, over to Kittila. You've got your expansion to 3,750 tonnes a day. You're suggesting to look forward to that mid-2015. What's your thinking about taking the expansion beyond that?

Sean Boyd

There's a couple things there. We were at the site a few weeks ago, and what we're trying to do is look at how much head room is in that 3,750 tonne number. It's a little bit too early, but there's certainly signs that there's a possibility to stretch it beyond that. So that would be phase I, and we could do that with the existing setup.

Beyond that, we really need a shaft and we really need development around the Rimpi zone where we have better grades and better thicknesses. So to go beyond, much beyond 3,750 we could tweak it up from there with the existing configuration, but to go much beyond that we need a new source of ore, which would likely be a shaft. So we've got studies underway there on several phases of a shaft, which would incorporate getting access to the Rimpi zone. And that would be supplemental or potentially supplemental tonnage at some point down the road.

David Haughton

And do you see that as potentially viable, even with the gold price where we are now?

Sean Boyd

Yes. We do.

David Haughton

Okay. Well, I'll stay tuned. Thank you.

Operator

Your next question will come from Anita Soni from Credit Suisse. Please go ahead.

Anita Soni — Credit Suisse

Hi, guys. My question is with regards to the calculations in doing reserve. What does that include when you use the $1,200? What's the cost that you embed as the offset to calculate the cut-off grade?

Sean Boyd

Anita, it was hard to hear the question. Your line was breaking up.

Anita Soni

Sorry about that. Okay. I will talk louder. So on the reserves, when you're calculating your reserves at $1,200 per ounce, what costs are included? Are you including sustaining capital within that? Or—and also are you including any corporate overhead costs as well?

Sean Boyd

I'll just give you a bit of a summary. We've done some sensitivities, and the way we've done some of our estimates, we're estimating that about 89 percent of our reserves would have a cash cost associated with them of about $950 an ounce. So you can see that there's some really profitable ounces there.

It's based on the mine. Some mines have different overheads applied to it than others, but I'll turn it over to the exploration guys to provide a more detailed update.

Anita Soni

Thank you.

Operator

Your next question will come from the line of Andrew Quatil from Goldman Sachs. Please go ahead.

Sean Boyd

We'll finish that answer, Anita. We'll just take this question, but we'll also finish the answer on that one.

Andrew Quatil — Goldman Sachs

Hi, Sean, guys. Congratulations on a very strong quarter and positive outlook comments. I think like Dave's question, mine was about Kittila and sort of a potential expansion, beyond the expansion, and if you've done any studies on sort of adding an autoclave as well? Sort of as with the shaft, obviously with the low tax rate it seems like a good mine and a place to park some more capital over other places. Can you guys comment on what sort of cost that would be? And how far down the road you'd be on a new autoclave?

Sean Boyd

Well, that's—to go beyond, much beyond 3,750, we would obviously have to have additional autoclave capacity. We've done some initial studies on it, and the capital for an extra autoclave is sort of in the 80 million to $100 million range. So those are all part of the study, and we'll have sort of the results of that probably in the third quarter of this year, mid-year through the third quarter of this year.

So all of that's being considered, shaft, ramp access to Rimpi, autoclave capacity. So the Rimpi, I think, is what can drive this, given the grade and the thicknesses and hopefully the potential to expand the mineralization at Rimpi.

Andrew Quatil

And last question, Sean, just on both obviously the Mexican tax situation. Is that sort of much of a deterrent for future capital allocation?

Sean Boyd

Well, we don't like it.

Andrew Quatil

Yeah.

Sean Boyd

If you actually look at it, it takes about $100 million out of our NAV.

Andrew Quatil

Mm-hmm.

Sean Boyd

We saw a deferred tax charge, which is noncash, but the real impact is really the cash impact, which reduces the value of our business in Mexico by about $100 million based on spot prices. But there are good opportunities there.

There's a good skilled workforce. It's one of our best businesses. So we know how to do business there, but we have to—all of our decisions are made after tax. So any time that the tax burden increases, it could potentially impact our decisions on where we allocate capital.

We do know in Finland that the effective tax rate there is about 20 percent. It's gone down. So other jurisdictions have gone up. Finland's gone down. So from an after-tax perspective, Finland has put itself in a position where they can stack up pretty well on an after-tax basis. So that all plays into it, but we still do like Mexico as a place to do business.

Andrew Quatil

Thanks, Sean.

Sean Boyd

Maybe what I will do, just before, Operator, we take the next question; we didn't get the opportunity to respond to Anita's question. And we'll do that now.

Operator

Okay.

Unidentified Speaker

Okay. The cut-off grade we use the operating cost base using the mining cost, the processing cost, and the G&A. That's the costs included in the calculation based on the LOM, life of mine plan.

Sean Boyd

I think that's it. Operator, I think we're ready to get—have another question.

Operator

Thank you. Your next question will come from Don MacLean from Paradigm Capital. Please go ahead.

Don MacLean — Paradigm Capital

Good morning, guys. Well done on Q4. New year; I guess new challenges. Can you give us a bit of a sense, and this is sort of taking from John Bridges' comment about reserve replacement, what are the odds that you will be able to find more resources at Lapa? Sean, we heard several times you said it was a short life mine. But also very importantly on Meadowbank, is there anything from this high-grade zone that gives us more hope into the exploration potential to add more life there? Or anything else maybe that's been found in the region for Meadowbank to potentially extend its life?

Sean Boyd

Well, Lapa, if we're successful—we were just there last week—we're talking in the order of magnitude months rather than adding years…

Don MacLean

Okay.

Sean Boyd

With some of the recent drilling, so maybe we have a more robust 2016 than we expected. It's not for lack of trying.

At Meadowbank the reserve that we see now has incorporated some of the higher grade we see in the existing pit, but we did subtract some ounces out of Vault, and they were lower-grade ounces that we decided to take out of Vault. I think it was around 0.25 million ounces or so.

So I don't think we—we may mine this out over the next four years at a slightly higher grade than is in the reserves. That wouldn't surprise us, given the amount of visible gold and the extent of the visible gold in the structure, so we may have a more robust next four years. But to find more gold on the mine site or in close proximity to the mine site before we mine the remaining reserve is going to be challenging.

Don MacLean

Yeah.

Sean Boyd

We did have some exploration results about 50 kilometres away and they actually look very good, and we've allocated some of our drilling budget to follow up those structures, and who knows? But I would suggest that maybe there's a higher gold price that allows us to go beyond the pit, maybe take another 300,000 or 400,000 ounces. That's always been something that we've been hoping to do, but we've never really got enough continuity.

So from our perspective, we just look at Meadowbank as a good, solid four years; maybe get more production than we hoped because of the high-grade nature and what we're seeing. Some of the regional exploration, it's early, but seems to be paying off, but given where we are with it and its location, even if we had a really successful drill program in 2014 and started to extend the structure, it's highly unlikely we could get something developed before the four-year remaining mine life at Meadowbank.

That's where Meliadine comes into play.

Sean Boyd

Mm-hmm.

Don MacLean

It's still early, but we've refocused the feasibility work to focus on the underground. There's lots of gold in that system. It's sort of—in terms of the way we play it, it almost reminds us a bit like LaRonde. LaRonde, it was important, it looked marginal, it was important for us at the time to get LaRonde built, so we built a small mine at 1,500 tonnes a day, a mine that we could afford and finance. Meliadine, we're trying to look at ways that we can get a production base established. It's an 80-kilometre greenstone belt. We own it 100 percent. There's lots of gold. We've only drilled 10 percent of it. So that's where we're putting a lot of energy and time.

Don MacLean

And maybe if I can ask sort of more of a big picture thing on the financials; in Q4 you drew down another 50 million on the line of credit, but your working capital went up, what was it, 27 or something? So there's kind of a net addition to the debt of about 22 million. If you look at all the changes to much lower capital, you're going to save money on the dividend, but gold prices lower, and operating costs a bit higher. If you look at 2014, do you think you'll be able to exit the year without having to draw down on the line of credit more if prices sort of stay the way they are, Sean?

Sean Boyd

Well, that's the plan. The plan was always as we work through the budget, the strategy was to put together a plan that we wouldn't have to draw down on the debt. And as a result, we decided to reduce the dividend and reduce the capital requirements and still do the growth that we set out to the market.

So we've got a good balanced planned. It's a plan that works. It's very doable for us. We're hoping we can do better than the plan. We'll see how the year unfolds, but we still like our position, and we like our position to weather a storm if we do see lower gold prices.

Don MacLean

Good. Yeah. Everybody loves the dividend, but it shouldn't be at the cost of the balance sheet.

Sean Boyd

Yup.

Don MacLean

Thank you.

Sean Boyd

Thank you.

Operator

Your next question will come from the line of Mr. Stephen Walker from RBC Capital Markets. Please go ahead.

Stephen Walker — RBC Capital Markets

Great. Thank you very much. And again, Sean, thank you very much for the 2016 guidance as well. That's very helpful. Just on La India, if you would. We see the recoveries starting to increase nicely, 58 percent and 21 percent for gold and silver, respectively. How do the recovery curves look vis-à-vis what you had seen in the column test so far? And then if you could comment on what you think the ultimate recoveries are going to be and whether they could improve?

And then secondly, if you could talk a little bit about the water budget? And I know you had enough water, I believe, accessible for 12 or 16 months when we were through there last fall. But can you talk a little bit about where you stand on the water budget as well going into (unintelligible)?

Tim Haldane — Senior Vice-President, Latin America, Agnico Eagle Mines Limited

Okay. Stephen, it's Tim. I got—you were breaking up, but I think I got most of the question. Your first question was talking about what do we know now about metallurgy at La India; how does it look compared to our expectation? And I think the short answer is pretty early and the stuff that we're—the ore that we're stacking on the pad right now is more of the silica cap. But every—in sum total the bottle roll test results we have, the hot cyanide leach compared to fire assay tests that we have and the column leach curves that we have are where I would expect them to be. So I don't see any surprise either way with metallurgy.

Next question was about our water balance, how's our water budget? And we're fine. And going into year one with ample water supply was critical for us. Year two we'll have the added advantage of having more water storage and also we'll have the saturated heap, which holds quite a bit of water too. So year one was the critical year and we're fine, and I don't expect a problem in year two.

Stephen Walker

Great. Thank you, Tim.

Operator

And your next question will come from the line of Mike Jalonen from Bank of America. Please go ahead, sir.

Mr. Mike Jalonen, you are live.

Sean Boyd

Is that Morse code, Mike?

Operator

He has disconnected, so we will go on to the next question; Mr. Adam Graff from Cohen. Please go ahead.

Adam Graff — Cohen

Thank you. Guys, can you hear all right?

Sean Boyd

We can.

Adam Graff

Great, great. I was just looking through the Pinos Altos guidance, and it looks that on first glance both at Pinos and at Creston that your cost per tonne numbers are rising sharply. What's that—am I seeing that right? And if so, what's that attributable to?

Tim Haldane

Yeah. You're seeing that right with respect to guidance. I think one thing I always like to look at is what is our total operating costs in dollars rather than dollars per tonne because on a mine like Pinos Altos, which has underground and open pit and heap leach and mill, you can easily get distracted by the mine site costs per tonne number.

And the same at Creston Mascota you've got stripping ratio that affects the mine site costs per tonne as well. Total dollars, my expectation, our direct operating expenses next year are going to be lower than they were this year. So costs per tonne I've often said I don't think that's a great metric in Mexico.

Adam Graf

Okay. Even when I'm sort of looking at in on your guidance you gave specific guidance on looks like on a mill basis for Pinos and then on a leach basis for Creston, and then assuming the leach at Pinos is the same...

Tim Haldane

Yeah. Sorry. The thing at Pinos Altos is often our heap leach tonnes are highly variable and unpredictable because we didn't drill for low-grade heap leach resources in that ore body. And when we encounter them we process them, but we don't count for that in our guidance in our plans.

So there's very likely to be a higher devisor at Pinos Altos, and if that were the case then our cost per tonne would be lower. But I'm still going to go back and say I think cost per tonne is not a great metric as (unintelligible).

Adam Graf

Sure. And that's why there's not so much guidance as far as the leach material and grades and such at Pinos?

Tim Haldane

Right. It's highly variable. We do expect less heap leach tonnes in 2014, but we are developing the San Eligio pit, for example, and already we've seen a few extra tonnes coming out of that pit that were low-grade heap leachable. So we'll see.

Adam Graf

How many years do you think you have left at Creston? By your resources and reserves it only looks like a couple.

Tim Haldane

I better not answer because I don't remember. Off the top of my head I'm going to say five.

Adam Graf

Mm-hmm.

Tim Haldane

And then we've got—we're looking around for more. And...

Adam Graf

Mm-hmm.

Tim Haldane

We'll find more, I hope.

Adam Graf

And then the leach at Pinos Altos, that could continue for some time in the future, but you just can't give a—you don't have a feel for it?

Tim Haldane

Well, the open pit mines at Pinos Altos deplete somewhere toward the end of this decade, and we're not going to be heap leaching underground ore, so...

Adam Graf

Right. Gotcha. Thank you very much for answering my questions.

Operator

And, ladies and gentlemen, if there are any further questions as this time, please press the *, followed by the 1.

Your next question will come from the line of Mr. Steve Parsons from National Bank Financial. Please go ahead.

Mr. Steve Parsons, you are live.

Steve Parsons — National Bank Financial

Thank you. Just a quick question on Meadowbank, thanks; guidance would appear to be clear that the high-grade component at Meadowbank will enable a stronger H1 this year. Maybe you could talk a little bit about perhaps the geometry of that lens? Trying to get a sense to what extent that lens may continue at depth, whether you can pick it up; when you push the benches deeper in the pit is it pinching out? Trying to get an understanding of how that will affect future years.

Unidentified Speaker

We've looked at underground scenarios, and the economics at this stage, even though grades are high, the overall economics don't generate any potential to deepen the pit. And at this stage, going underground to follow the high-grade vein doesn't appear to be economical as well. So that's the reality.

As far as the—why the stronger grade in the period, we've also—we've talked about the—recognizing the continuity and the grade of that area, but we've also been mining at an accelerated pace and use towards Q4 and on to Q1. So that will be a portion of the reasons why the quarter will also be stronger in performance or stronger in Q4.

Steve Parsons

Okay. And the next question is, as you applied a lower gold price to the reserves, and maybe specific on the underground mines, seen higher grades, but maybe also lower tonnages, could you maybe talk a bit about how this could impact mining methods? I mean are you looking at requiring sort of narrow mining widths, and having to sort of alter mining methods at some of the mines to accommodate the higher grades? Will that require more development, more faces in the narrow areas? Could you maybe just elaborate a bit on that, please?

Unidentified Speaker

I assume we're not talking about Meadowbank anymore?

Steve Parsons

No. No. Let's talk about LaRonde.

Unidentified Speaker

Okay. So I'll—we've just completed our reserves, and our cash cost profile for reserves for most of our underground mine is pretty solid. So the—some of them are still sensitive, but the sensitivity's quite low at this stage, and we're talking probably 5 to 7 percent if the price is gold is lowered. So we're pretty comfortable in position as to where we are now at the current reserve prices.

Steve Parsons

Right. So no change to mining methods?

Unidentified Speaker

No, not at all. No.

Steve Parsons

Okay. That's it for me. Thanks.

Operator

And your next question will come from Miss Anita Soni from Credit Suisse. Please go ahead.

Anita Soni

Thanks. Just a couple of follow-up questions. On Pinos Altos, the development project, I'm not quite sure if you delineated what that was dedicated to, the 29 million. What are you going to be spending there? What are you going to be spending on there?

Tim Haldane

Well, we're sinking a shaft.

Anita Soni

Okay.

Tim Haldane

At Pinos Altos, so that's the shaft sinking during the course of the year.

Anita Soni

And that's the majority of that? Anything else within that 29? Or just the shaft sinking; that's it?

Sean Boyd

Largely the shaft.

Tim Haldane

Yeah.

Anita Soni

Okay. And then just on your tax rate in Canada, what would be the—sorry, the overall tax rate. What portion of that is cash taxes?

Unidentified Speaker

Hi, Anita. That's a bit of a moving target, obviously, but the main cash tax is still just the Quebec mining duty. So it's 16 percent. It shouldn't be much more than that.

Anita Soni

All right. Thank you.

Operator

And, gentlemen, there are no further questions. I'd like to hand the conference back over to Mr. Boyd for closing remarks.

Sean Boyd

Thank you, Operator, and thank you, everyone. We know it's a busy day, so thanks for tuning in to our call. And if there's any follow-up questions, please feel free to give any of our guys here a call.

Thanks again.

Operator

And, ladies and gentlemen, this concludes the conference call for today. Thank you for participating, and please disconnect your lines.

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