AGNICO-EAGLE

mines limited

Annual Report 1987

Agnico-Eagle Mines Limited
1987 Annual Report
Silver Anniversary Issue

Highlights

- *Record income from production*
- *New mill on-stream at Silver Division*
- *Major new silver underground exploration program*
- *Dumagami mine to begin gold production*

Tenacity, perseverance and unwaivering faith in a property seem unlikely necessities in this modern age of computerized accountancy and state-of-the-art geological technology. But those old-fashioned qualities have been required by mining men throughout the decades, and will continue to be vital in exploration.

The year 1988 will be remembered for several important reasons: It marks the 25th anniversary of our association with Agnico and the silver division, and the 35th anniversary of the birth of Agnico Mines itself — the predecessor of the silver division of Agnico-Eagle. Agnico represented a commitment to the historic Cobalt camp at a time when others had abandoned it for golden pastures.

In addition, 1988 is the 85th anniversary of the discovery of Cobalt's silver. The early mining men who developed the Cobalt camp in the beginning of this century indeed had tenacity, perseverance and an unwaivering faith in history's richest silver deposit.

That commitment to the promise of mining endures. For in mid-1988, Agnico-Eagle's faith in a gold property in Bousquet, Quebec will be rewarded when Dumagami Mines Limited's new mill and mining complex will pour its first bar of gold — the culmination of 5 years of intensive exploration.

Hence we pay tribute to the past, as it provides the mirror through which we may see the future.

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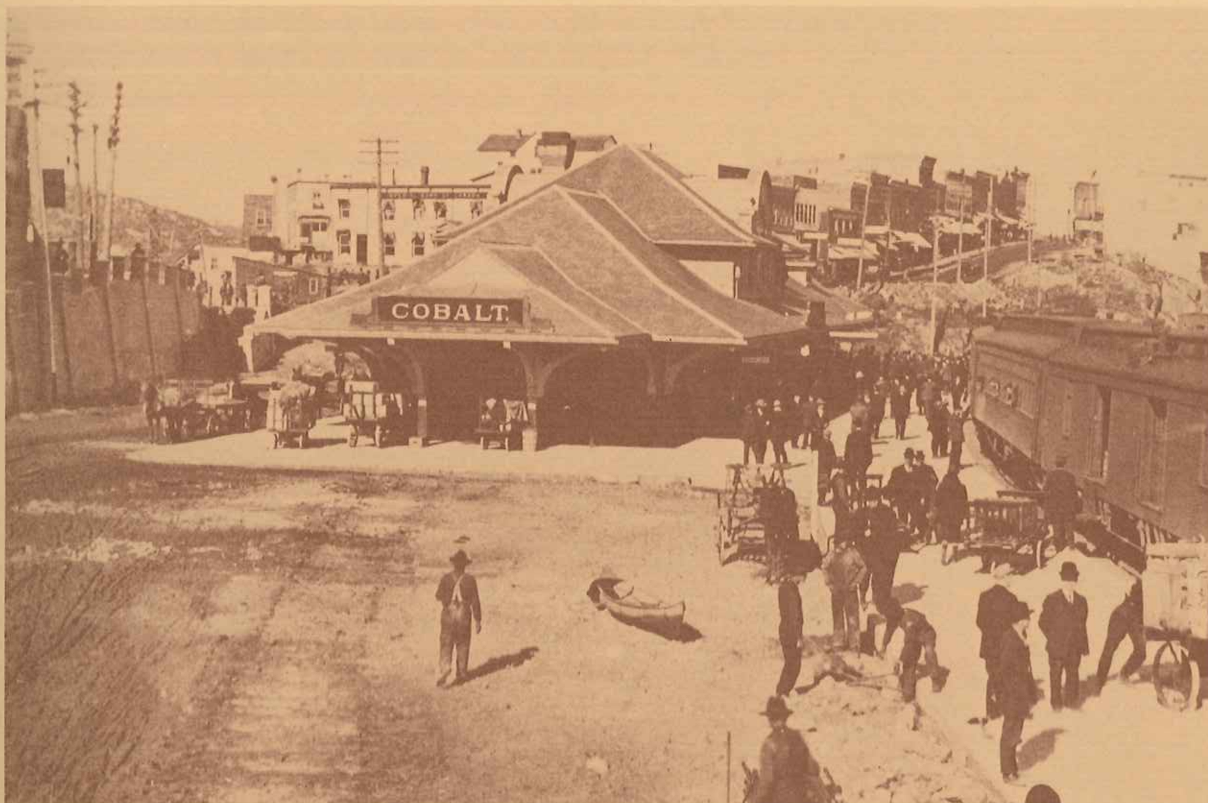
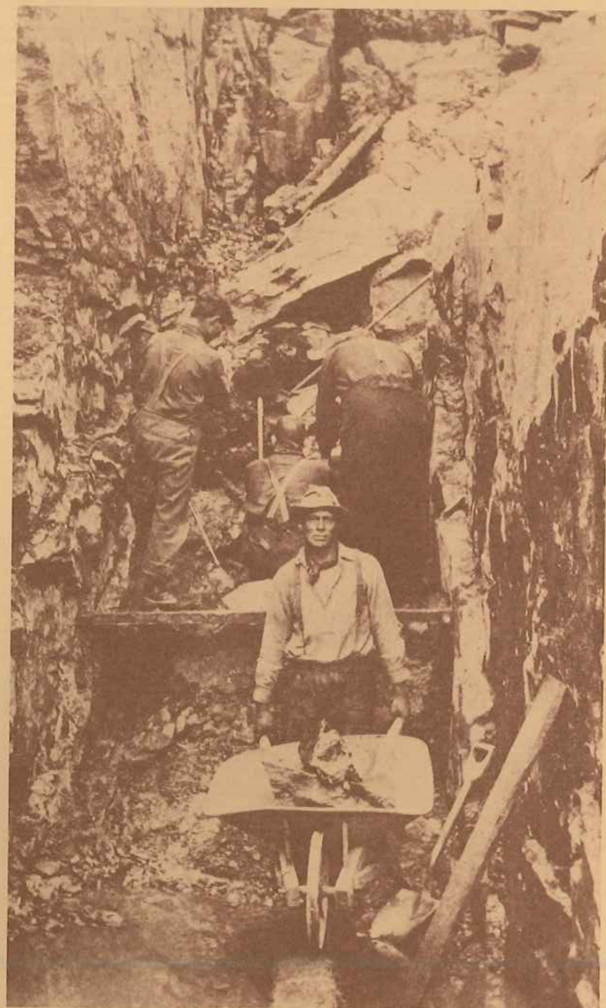


In 1988, the town of Cobalt, Ontario celebrates its 85th anniversary — 85 years of uninterrupted silver production, yielding half a billion ounces. Agnico-Eagle's emergence as the dominant force in the Cobalt camp is the culmination of the town's colourful and roller-coaster history.

Although Cobalt is important historically as Canada's leading silver producer, its greatest contribution was the impetus it gave to the exploration and development of other mining camps. Cobalt spawned the Ontario mining industry. The mining areas of Porcupine, Timmins, Larder Lake and Kirkland Lake owe their existence to Cobalt.

Cobalt has been called "the town that wouldn't die". Like the Phoenix, it has arisen from its own ashes. Over and over again the town has fluctuated between disaster and success. Ask any old miner or prospector, and he'll spin a tale which will demonstrate the fervent and eternal optimism that only a mining town can breed.

He may repeat the legend of the father of Cobalt, a blacksmith named Fred LaRose, who, it is said, threw his hammer at a curious fox. He missed, but hit a rock, exposing native silver, and precipitating the Cobalt silver rush. LaRose was indeed one of the first miners in Cobalt. (In fact his ramshackled blacksmith's cabin survives today at the entrance to Agnico-Eagle's Silver Division's offices.) But the actual discovery of Cobalt's silver occurred less sensationally.



Picks, shovels and wheelbarrows — the tools of the early Cobalt miners

Fred LaRose, one of the earliest Cobalt mining men, in front of his blacksmith's cabin

In the early days of this century, the Ontario government committed itself to developing the verdant farmland north of North Bay to accommodate the great number of immigrants flooding into Canada. In order to open up the northern countryside, it began construction of the Temiskaming and Northern Ontario Railroad from North Bay to New Liskeard. James McKinley and Ernest Darragh were tie cutting contractors. In August, 1903, while searching for timber for railroad ties, they noticed glints of metallic flakes on the shore of Long Lake (now Cobalt Lake). It was native silver, which assayed a spectacular 4,000 ounces to the ton.

Although McKinley and Darragh quickly staked their claims, it took a year before the real silver rush began. Mining men had traditionally believed there were no precious metals east of the Rocky Mountains. According to lore, mining booms always occurred in obscure places, causing suffering and hardships. Prospectors were sceptical such riches could exist so close to civilization.

But as the news spread, silver fever gripped the dream seekers. In 1905 Cobalt's population swelled from 200 to 6,000, and by the end of the year 16 mines were in operation.

Cobalt was popularly described as the town whose streets were paved with silver. Indeed, many early prospectors did make their fortunes digging up the streets using pick axes, shovels and wheelbarrows. Later, as the surface riches were skimmed, enterprising mining operators invested their profits from the accessible surface silver to sink shafts, and exploit their mines underground.

The town grew and flourished. By 1911, Cobalt had a population of 10,000. Finally, the town that had begun as a tent city in a sea of mud boasted attractive wide sidewalks, numerous fancy stores, and the Bijoux Theatre on Lang Street. Cobalt spawned several firsts: Ontario's first streetcar system, the Nipissing Central Railway, lasted until 1935. The first Northern Ontario hockey team was formed. The fore-runner of the Ontario Provincial Police began in Cobalt. And two legendary newspapers, The Weekly Nugget (now The North Bay Nugget) and The Northern Miner newspaper began publishing here.

Prior to 1903, Canada's total silver production was 5 million ounces annually. In 1907, Cobalt alone produced 9 million ounces. By 1909, it was producing 12% of the world's silver. And two years later, at its peak, thirty four mining companies produced 31 million ounces of silver.

But the joy was soon tempered by tragedy. Alternatively cursed and blessed, Cobalt saw more than its share of misfortune. The town struggled with a five year typhoid epidemic caused by poor sanitary conditions. Diptheria and smallpox were common. In 1906 an explosion on Lang Street demolished many new homes. Three years later, a fire destroyed more homes and shops.

Underground mining was particularly dangerous. Candles, used to illuminate the tunnels created an eerie light and often ignited gas explosions. By the end of 1912, more than 100 men had died underground. A dozen years later, the brake holding the cage at Redrock Mine gave out and three young miners were killed. Finally, these deaths were not in vain. The outcry led to the upgrading of equipment and in the stricter safety regulations that govern modern mines today.

Tolling church bells mourned individual miners. But the death knell for the town was sounded by the crashing of the stock market and silver prices in 1929. And, to compound the disaster, the silver veins of Cobalt consistently dried up 300 feet below the surface. Although more than 500 million oz. of silver had been extracted, the unwelcome news had to be faced. The town *seemed* to be mined out.

Miners and their families abandoned the town and moved on to the new, thriving mining areas the Cobalt boom had spawned; Porcupine, Larder Lake

"The rusting skeletons of abandoned headframes"

and Kirkland Lake. By 1937, all the original mines had ceased production. Only the hardiest entrepreneurs remained, picking over the dry bones of once flourishing mines. The rusting skeletons of abandoned headframes became a silent reminder of the glory that had once been Cobalt, the town that refused to die.

The town was revitalized briefly in the 1940's, resulting in one new mine, Cobalt Lode, which would eventually form the nucleus of today's Agnico-Eagle. But the flurry of activity was short-lived. In the early 1950's again it seemed that the town might thrive again, due to its namesake — cobalt. However, in 1957 the United States government, the principal purchaser of the mineral, allowed its contract to lapse, as its needs were met domestically. Without the major market for cobalt, and little production of silver, it appeared that Cobalt would become a ghost town again.

However, the beginning of Cobalt's return to prominence began 35 years ago with the creation of a silver producer named Agnico Mines Limited — the predecessor company to today's Agnico-Eagle Mines. And the final, important element in Cobalt's recovery occurred with the advent of the present management in 1963 — exactly 25 years ago.

Agnico-Eagle is respectful and mindful of its responsibility to the town of Cobalt and its colourful history. Today, "the town that wouldn't die" thrives due to the company's faith in the promise of its past. Agnico-Eagle celebrates Cobalt's resurgence, and is committed to continuing the camp's future as an important Canadian silver producer.

The Penna Shaft — Agnico-Eagle's newest silver undertaking represents the company's enduring faith in the richness of the Cobalt camp

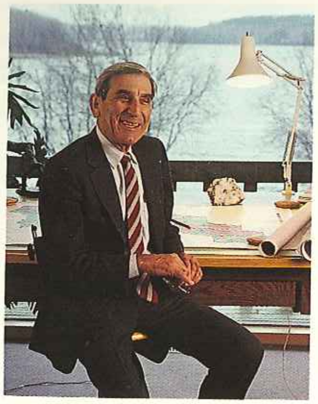
Corporate Profile:

Agnico-Eagle was formed from the 1972 amalgamation of Agnico Mines Limited, incorporated in 1963, and Eagle Gold Mines Limited, incorporated in 1945. It operates separate gold and silver mining divisions at Joutel, Quebec, and Cobalt, Ontario, respectively.

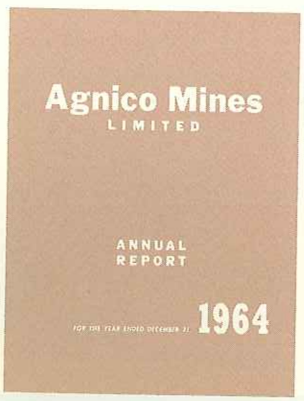
The operating properties of the gold division consist of the original Eagle mine and the contiguous 97%-owned Telbel mine. The Eagle mine has been in commercial operation since 1974.

The company's silver mining division, in Ontario, controls 70% of the Cobalt camp, and operates several excellent old producers. The main production units are the Beaver-Temiskaming mine, situated in the Brady Lake area of Cobalt; the Langis Mine, in New Liskeard; and the Castle Mine, in Gowganda.

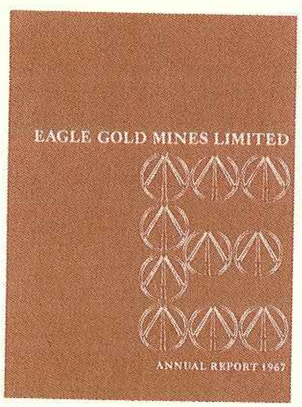
Agnico-Eagle holds a 32% direct and indirect interest in Dumagami Mines Limited, a gold property in Bousquet Township, Quebec, which will begin production in June, 1988.



Paul Penna, President



1964 – The first full year under present management



1967 – First Annual report of Eagle Gold Mines Limited

PRESIDENT'S MESSAGE

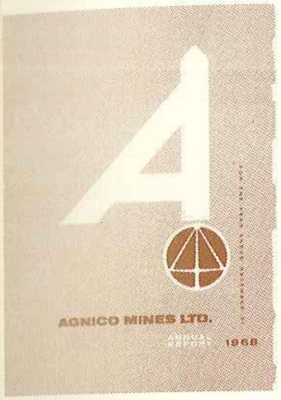
The year 1987 will be remembered as a record year for income from production. Bullion revenue reached $51.8 million, an even higher figure than the previous record year of 1980, when gold hit an all-time high of $850 per ounce.

Nevertheless, 1987 is also important as a time of preparation – preparation which will make subsequent years even more successful. Construction of the new Penn Mill at the silver division was completed in the early summer, and the first silver was processed in July. An important new exploration program, beginning with the sinking of a new shaft 17 miles north of Cobalt, got underway in September. At the gold division, stopes were prepared for the transition to a new method of mining. And at Dumagami Mines Limited, construction of the milling complex is being completed, in preparation for gold production scheduled for mid-1988.

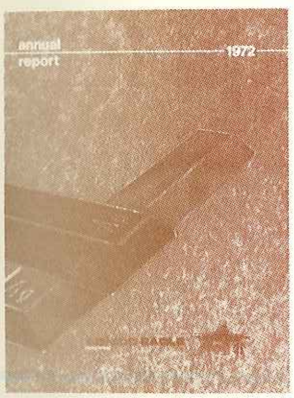
Also, 1987 marked the 13th year of continuous gold production in Joutel, Quebec, and the 24th year of consecutive silver production since 1963, when the present management became associated with the silver division. Since that time, the gold division has produced some 836,000 ounces of gold from the mining and milling of some 5 million tons of ore. And the silver division has produced more than 15 million ounces of silver.

The company is proud of its record of providing support to its associated companies. By utilizing the expertise of senior staff and advancing exploration capital, these junior companies have a higher than average opportunity to achieve their production goals. The remarkable success of Dumagami, which will begin gold production in June 1988, at its new mining and milling complex in Bousquet/Cadillac townships in Quebec, is a concrete example of that commitment. And the same skilled people whose dedication enabled Dumagami Mines Limited to fulfill its important production potential, are currently overseeing the development of Goldex Mines Limited.

The dilution problem that occurred last year at Telbel is being resolved. The new sublevel retreat mining method has proven its effectiveness by improved ore grades in the second half. Gold production of 74,818 ounces plus 18,799 ounces of silver resulted in $44.7 million of income from production in 1987 from the gold division. This represents almost $6 million in additional bullion revenue over 1986, due to a 16% rise in world gold prices. In addition, revenue from the silver division in the final half of 1987, with the



1968 — Fifth anniversary of the present management



1972 — The first Annual Report of the merged Company, Agnico-Eagle Mines Limited

1973 — Eagle gold mine commences operation

newly constructed 300 tons per day Penn Mill onstream since July 1987, added an additional $7 million of silver bullion revenue, totalling a record $51.8 million. Gold production in 1988 is expected to reach 80,000 ounces.

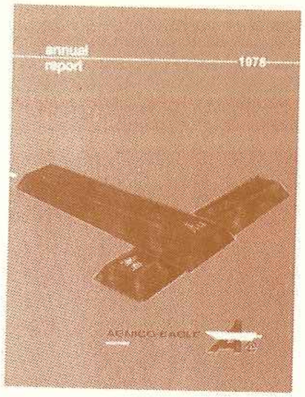
Demonstrating management's stated policy that the company puts its money into the ground, there are ongoing exploration programs in programs in both the gold and silver divisions. $2.1 million was spent on exploration by the silver division, and $1.8 million by the gold division, to total $3.9 million in 1987. In addition, Agnico-Eagle continues to support the exploratory programs of junior, associated companies.

It is particularly satisfying on this, the 25th anniversary of the present management's association with the silver division, to report that the commitment to exploration and production in the Cobalt camp continues as strongly today as it did for the mining operators who first discovered and developed the area 85 years ago. The highlight in 1987 is the important new underground program near the Langis mine, 3,400 feet southeast of the site of the present No. 6 shaft. A new silver zone, more than 3,000 feet in length, and 800 feet in width was discovered in 1986. This area, 17 miles north of Cobalt, had not been explored to any degree previously, due to the thickness of the overburden.

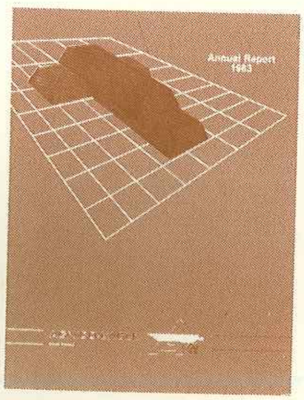
The budgeted costs for this program are $6.5 million over a three year period. Construction of a new shaft began in the summer. It is scheduled to reach a depth of 1,200 feet, and upon completion, in August, 1988, will begin a 2,000 foot lateral exploratory drive into the new silver zone. This major undertaking is probably the largest in the recent history of the Cobalt camp, and re-affirms Agnico-Eagle's faith in the unlimited richness of this historic silver area.

Agnico-Eagle continues to be a fiscally conservative company, applying the economies of scale and utilizing its expert staff over all divisions. For example, the shaft sinking at the new Penna shaft is being done by the same efficient team (and utilizing the same equipment) who sank the shaft at Goldex, and deepened the shaft at Dumagami.

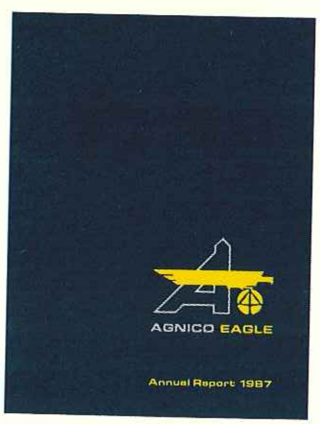
Another example of Agnico-Eagle's conservative financial management is to eschew any hedging or forward selling techniques. The company policy is to remain fiscally responsible, with no long-term debt, utilizing working capital in responsible, long-term investments. For example, in early 1987 the company took advantage



1978 — Agnico-Eagle pays initial dividend of 10 cents a share (US)



1983 — Silver Division produces record $10.3 million in bullion revenue



1988 — Income from production achieves a record $51.8 million

of an important investment opportunity with a new, wholly-owned r estate division. Administered by a dynamic core group whose level o expertise in the realty market is unsurpassed, the division has made several long-term investments. Taking advantage of the extraordinar boom in the Toronto market, these acquisitions have already more than doubled their book value, resulting in significant unrealized profits.

In conclusion, we wish to thank our staff and employees at the mines and at head office for the dedication and loyalty that makes thi company special. The future is safe in their hands. We look forward t the new production from the Dumagami mine, and the potential which may be realized from the new silver zone at the Penna Shaft. The year 1987 may have been a record year, but we look forward to the day that these records are broken again.

Respectfully submitted on behalf of the board of directors,

Paul Penna

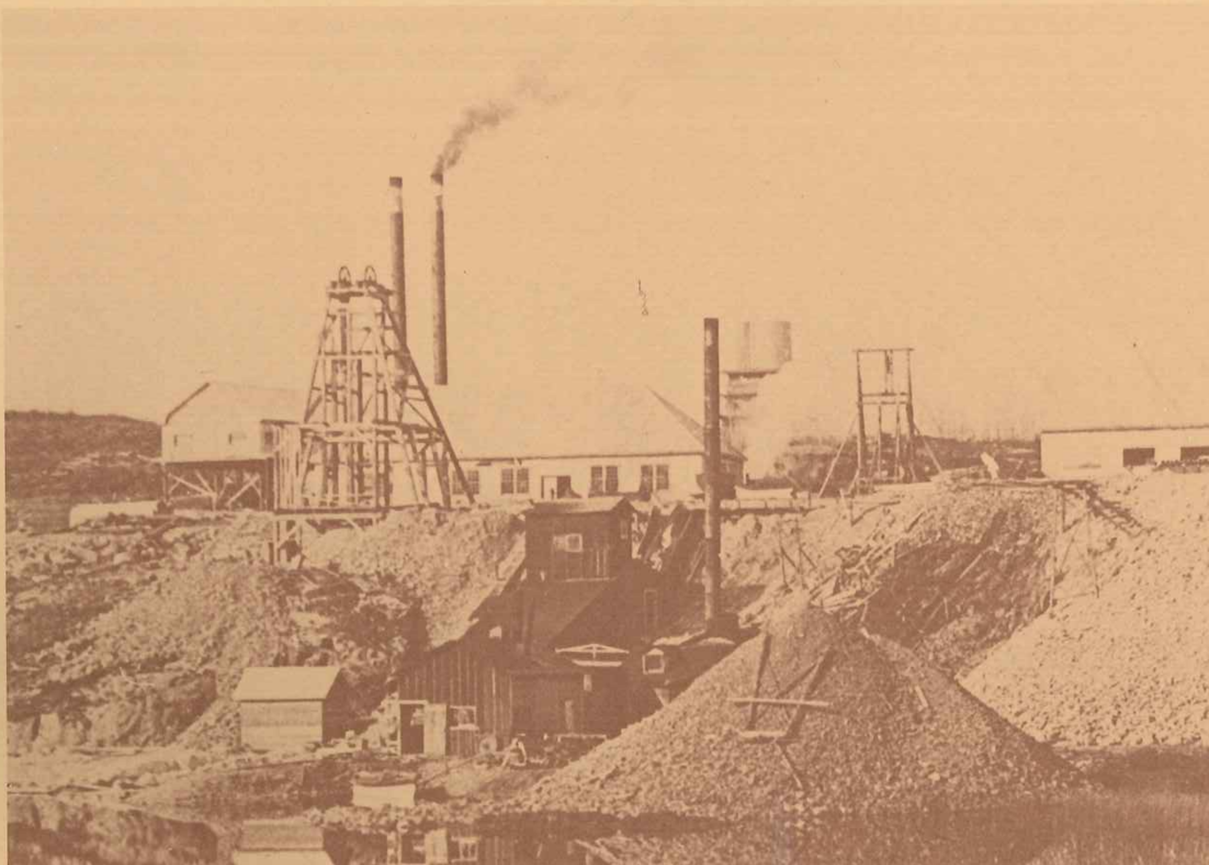
Paul Penna,
President

April 29, 1988.

The Beaver Mine as it was in the early 1900's. This outstanding producer has yielded over 7 million ounces

The decade of the 1950's flourished innocently and happily in Canadian cities. Teenagers in saddle shoes, crewcuts and poodle skirts developed a universal identity through movies, television and the primeval throbs of rock and roll. Their parents, benefitting from the post-war boom economy lived out the good life in suburban homes bursting with modern appliances. But Cobalt did not share the air of optimism breathed by the rest of the country. Despite the fact that the town had produced 302 million ounces of silver, worth $186 million, between 1904 and 1920, mining companies could barely produce enough silver from the dregs that remained to keep themselves viable. Consequently, in 1953, five small companies joined together for strength, to become Cobalt Consolidated Mining Company Limited.

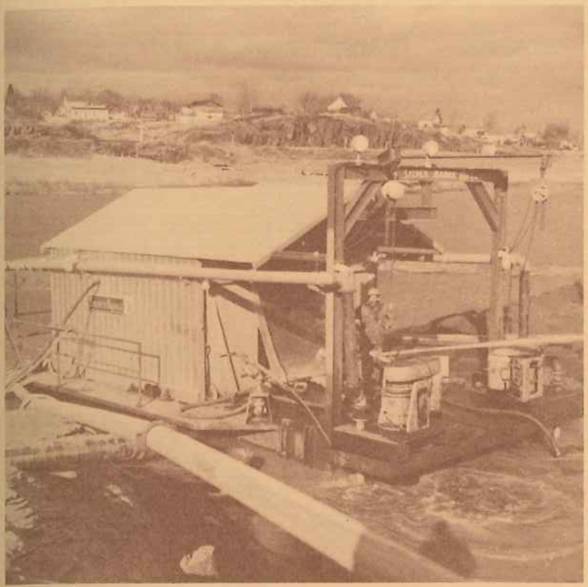
Between them, they held many of the Cobalt camp's finest original producers, including the Violet Mine and Foster Mine. In 1955, the company acquired two legendary producers, the Beaver and Temiskaming mines. In 1957 the company was reorganized and its name changed to Agnico Mines Limited, due to the presence of silver (metallic symbol Ag), nickle (Ni) and cobalt (Co) in its ore.



The Temiskaming Mine in 1911. At 1600 feet, the deepest mine in the Cobalt camp is also the most successful, having produced over 12 million ounces of silver

Over the next three years Agnico acquired the Nipissing-O'Brien mine, an old-timer which had produced 40 million ounces of silver since 1905, and Christopher Silver Mines, which was also established in 1905. A management change in 1960 saw 13 months of successive losses, but the fortunes of the company would soon improve. On July 12, 1963 the majority of Agnico's shareholders determined that there should be a change of management. Since that time, a quarter of a century ago, the present management has successfully run the company.

Innovation and courage have produced profitability. Management's philosophy is to encourage and financially support the expertise of its senior staff. It was well-known that there was silver in Cobalt Lake. Mine operators had dumped tailings into the lake in the early days. But "the million dollar lake", as it was called locally, had eluded attempts to extract its silver. In 1966, under the direction of mine manager Gordon Kirk, Agnico began constructing a 1,000 ton reclamation plant on the lake's southeastern shore. The 200 acre lake was then lowered an incredible 20 feet, and a barge was utilized to carry three 75 hp



The pumping barge, (above) which extracted $1.1 million of silver from tailings in Cobalt Lake. The 200 acre lake was lowered 20 feet, by pumping water into a collection dam constructed at the south end

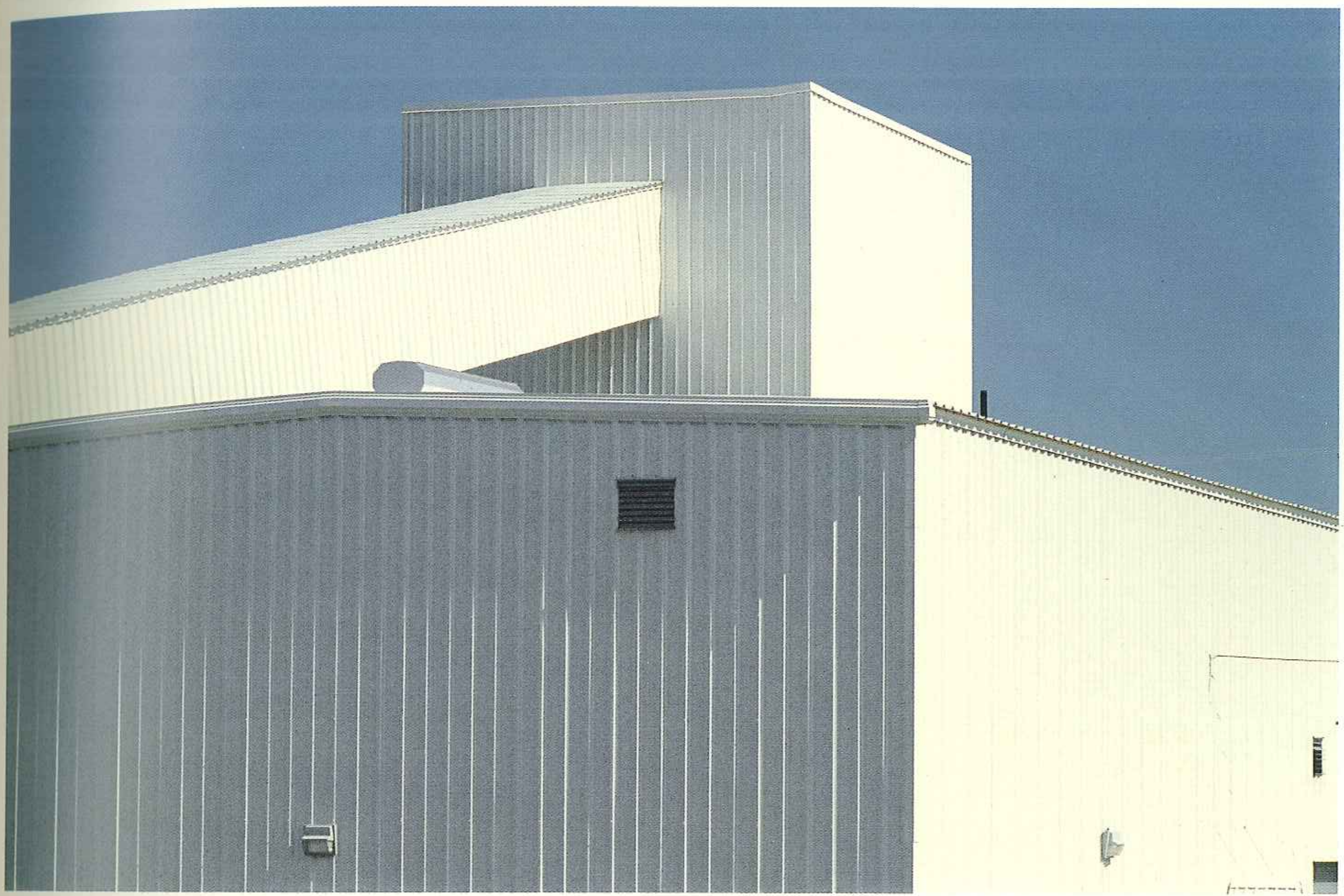
pumps which sucked the slurry of tailings at a rate of 60 tons an hour. Working over three summers, Agnico extracted 607,000 ounces of silver, worth $1,143,000 from 303,000 tons of waste material.

But the most daring and enduring operation began in 1971. Once the million dollar lake was conquered, Agnico prepared to challenge conventional wisdom. Chief geologist Brian Thorniley wanted to test a theory that the silver beyond the town of Cobalt was not limited to a depth of 300 feet. The experienced geologist believed there was a second layer of silver veins, over 1,500 feet from surface, and that Cobalt's original producers had never exploited that lower level. (Some had looked, however. Temiskaming's shaft, the deepest in the Cobalt camp, had been lowered to 1,600 feet, but its early miners had not discovered any silver there.) Thorniley was given the green light to find the lower zone. It took more than a year and 3,000 feet of crosscutting, under the dogged supervision of mine superintendant Armand Cote, but the theory finally became a reality — they found the lower contact. And since that time the company has taken 10 million ounces of silver from that lower zone.

Armand Cote, Brian Thorniley and Gordon Kirk (L to R) — between them over 100 years of operating experience

Since the 1972 merging of Agnico Mines with Eagle Gold Mines Limited, Agnico-Eagle Mines had continued to prosper in the Cobalt area. Funds from the profitable gold division supported the purchase of a silver refinery, making the division fully integrated. Today the company holds more than 5,000 acres in the most productive section of the Cobalt camp, including 12 of the finest original producers; the same legendary properties that have already yielded almost 500 million ounces of silver since the early 1900's.

The company's commitment to exploration has resulted in the discovery of an exciting new silver zone 17 miles north of Cobalt. Surface diamond drilling has indicated several silver veins along a strike length of 3000 feet to a depth of 800 feet. A new shaft, the second in 40 years (the first was drilled by an associate company Mentor Exploration and Development Co., Limited) is presently under construction. Utilizing the company's own shaft-sinking crews, the $6.5 million project, named the Penna Shaft, is expected to be completed by late summer, 1988. Mining men are fond of saying that 'you can't find gold or silver unless you look for it'. Agnico-Eagle echoes that philosophy, and the promise of the new mine demonstrates that wisdom.



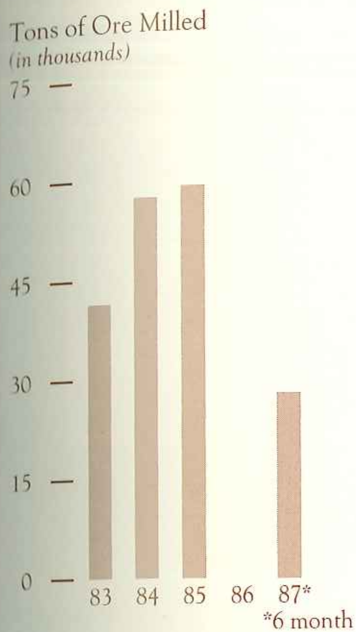
A section of the new Penn Mill, which began production in July, 1987

REVIEW OF OPERATIONS: SILVER DIVISION

PRODUCTION: SILVER DIVISION

	1987*	1986**	1985
Ounces of silver produced	577,001	–	1,570,094
Tons of ore milled	28,608	–	59,720
Income (loss) from production (thousands)	$7,033	$(1,152)	$11,414

*Mill start-up July, 1987
**Mill under construction



PRODUCTION:

The new 300 ton per day Penn Mill, replacing the old mill destroyed by fire in early 1986 was completed in June, 1987. Production at the silver division resumed on July 2nd, beginning with lower-grade stockpiled ore from Brady Lake which was used for start-up. For the initial tune-up period between July and September, a total of 14,238 tons of ore were processed, producing 186,507 ounces of silver with an average recovered grade of 13.10 ozs. per ton. Since September the mill has continued in full production with mill feed from the Langis, Beaver-Temiskaming and Castle mines, and is now averaging a recovery rate of 98%.

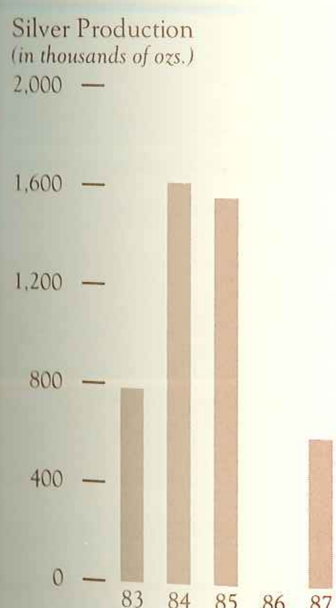
EXPLORATION AND DEVELOPMENT:

Beaver-Temiskaming:

The development of the Brady Lake area continued with a decision to drive a crosscut on the 1340′ level out to this area. At year end, 1,287 feet had been advanced, and 23,064 feet of underground exploration diamond drilling was completed, with encouraging results.

Castle Mine:

During the year, 882 feet of drifting and crosscutting were completed, which developed new stoping areas, investigated diamond drill intersections and established diamond drill stations. Stoping produced 4,721 tons of ore, and new stoping areas were initiated. The diamond drill program continued with 44,898 feet of drilling completed, 14,420 of which was surface drilling, and the remaining 30,478 feet underground drilling.



Langis Mine:

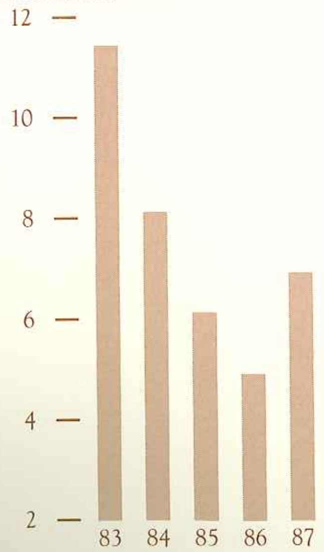
Mining during the year was done on the 335′ and 400′ level of the No. 6 shaft. Two stopes were completed and another two begun during 1987. Diamond drilling was carried out chiefly from the new crosscut driven on the 400′ level. A new silver zone was intersected by this drilling, and further drilling on this zone will be conducted when a diamond drill station is established on the 335′ level.

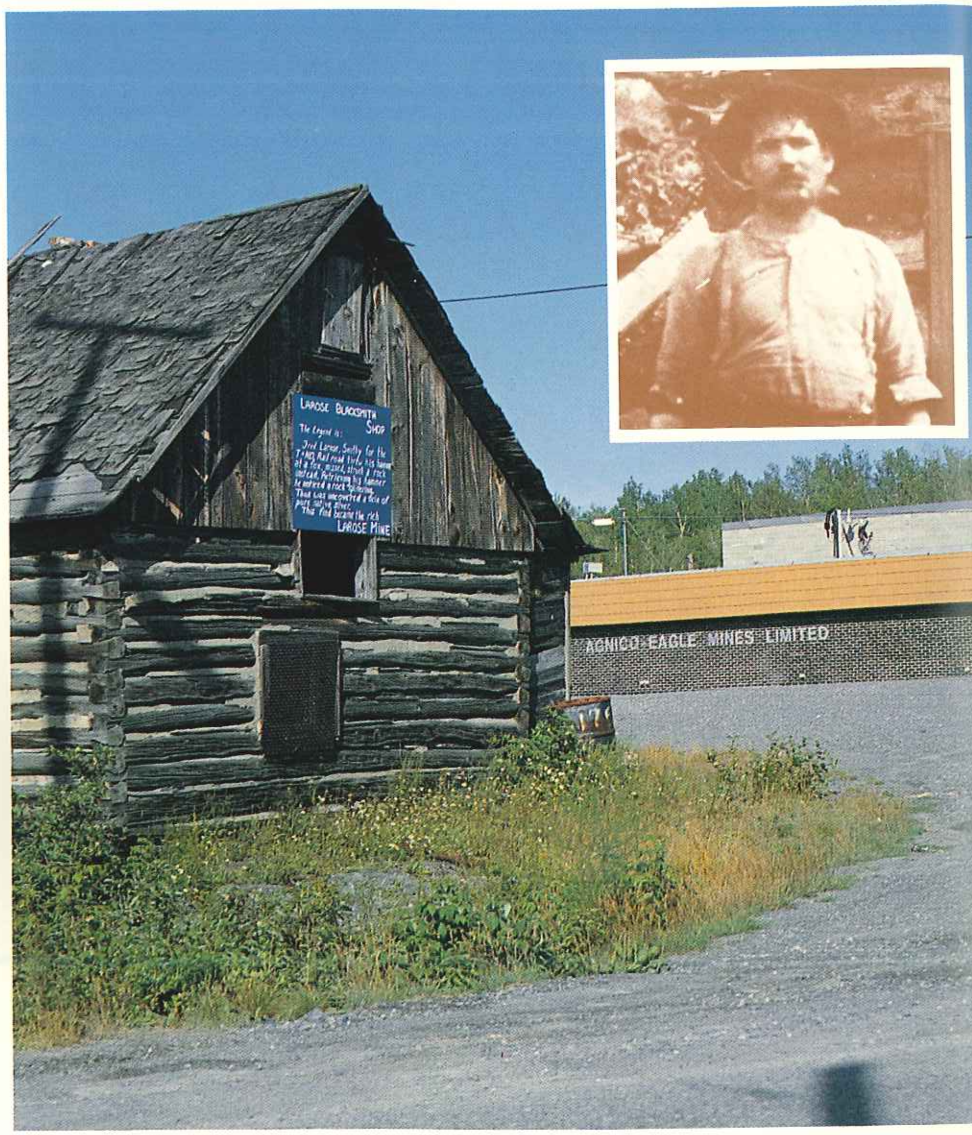
Penna Shaft:

The sinking of the new 1,200 foot Penna Shaft and the construction of the ancillary facilities began during the summer. By year end the shaft had reached a depth of 174.5 feet. By the end of March, 1988, the shaft had been deepened to 564 feet. Upon completion, scheduled for August, 1988, a 2,000 foot lateral drive will explore the new silver zone, discovered in 1986. To date, diamond drilling has revealed several vein intersections along a 3,000 foot strike length to a depth of 800 feet. The three year exploration program has budgeted costs of $6.5 million.

The Beaver and Temiskaming headframes today. Now re-furbished, the shafts still produce an average of 500,000 ounces per year

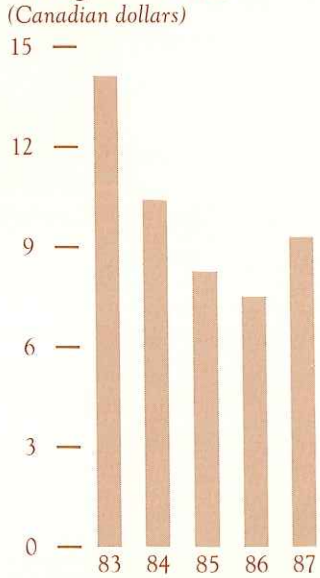
Average Silver Price
(US dollars)





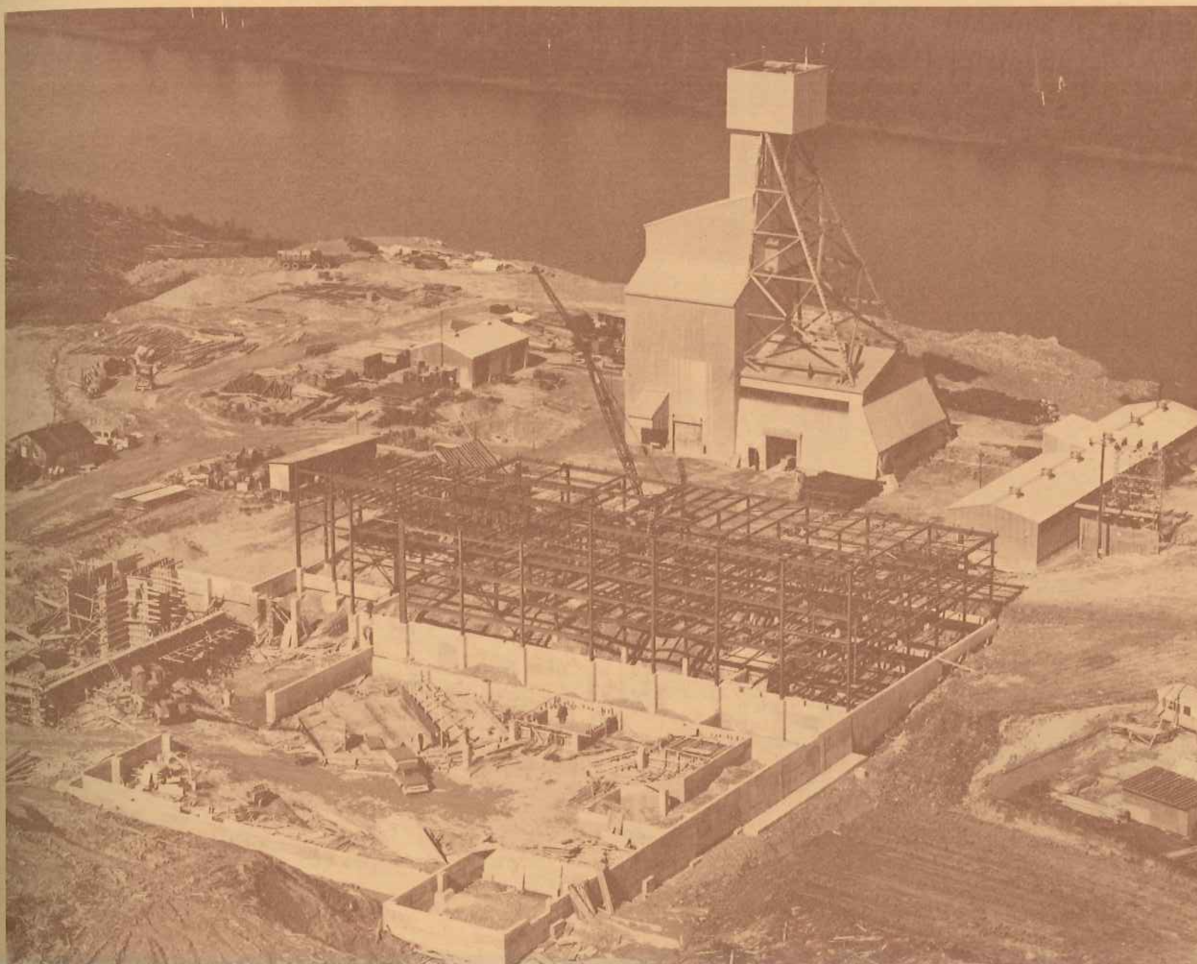
Fred LaRose's original cabin merges the past with the present, at the entrance to Agnico-Eagle's silver division offices in Cobalt

Average Silver Price
(Canadian dollars)



EXPLORATION AND DEVELOPMENT
SILVER DIVISION

	1987 Footage	Unit Cost	1986 Footage	Unit Co
Crosscutting and drifting	3,383	$269	3,290	$35
Raising	1,309	$270	986	$22
U/G diamond drilling	95,582	$ 22	108,093	$ 2
Surface drilling	17,348	$ 15	15,557	$ 1



The massive Eagle headframe under construction in 1970

> *'Para desarrollar una mina de oro se necesita una mina de plata'*
> *'It takes a silver mine to develop a gold mine'* Spanish proverb.

Eagle Gold Mines Limited had known several other names and had several other exploratory targets (such as copper, zinc and uranium) since its original incorporation in 1945. But by 1966, when today's management first became associated with the company, its focus was set on gold, on 98 claims in Joutel, in northwestern Quebec.

Eagle's drilling program confirmed the presence of an economic orebody. But before the mining complex could begin construction, a 3.3 mile access road had to be built, to connect the property to the town of Joutel.

Carving a road out of the wall of spruce in northern Quebec's formidable forests compares to an ant pushing its way through a dense lawn. But despite the icy winter winds, spring floods and insidious summer blackflies the road was completed by autumn 1967.

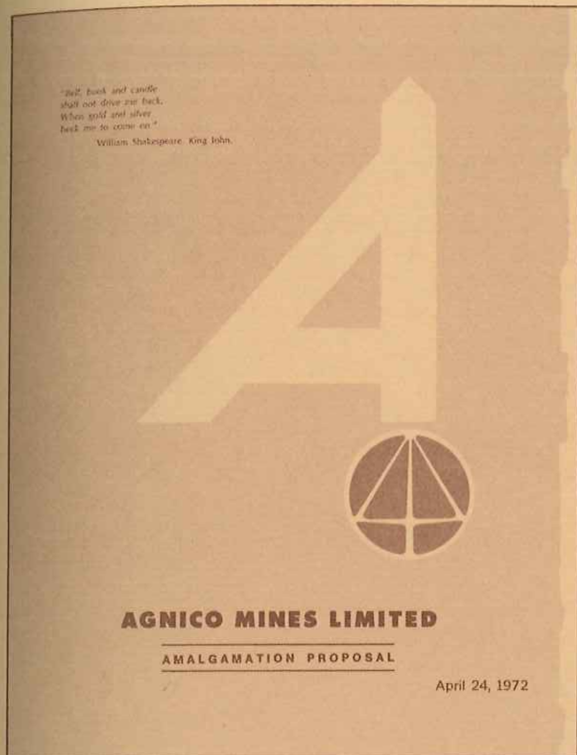
An aerial photo of the town of Joutel in 1969. Today it has a flourishing population of 1,300

Underwritings totalling $6 million gave the company self-sufficiency. It financed the construction of the three-compartment shaft, headframe, and ancillary buildings. Housing for the mine employees was being erected simultaneously in the burgeoning town of Joutel. The town buzzed with activity and excitement. Then, suddenly, everything went horribly wrong.

The first blow was the death of Walter Brown, Agnico and Eagle's talented consulting mining engineer, a man with a real "feel" for gold. Next, the international price of gold fell abruptly from $44 U.S. to $35 U.S. an ounce. And the final, fatal straw was the unwelcome news that it would cost Eagle twice its budgeted capital to complete the project.

Although the milling complex had just begun construction, President Paul Penna stopped all work, cancelled orders and returned equipment, putting the mine on care and maintenance.

Initially the future of Eagle looked bleak. But, in a tangible demonstration of the wisdom of that ancient Spanish proverb, Agnico Mines Limited came to Eagle's financial rescue. In this situation, it indeed took a silver mine to develop a gold mine.



The Agnico Mines and Eagle Gold Mines amalgamation proposals. Shareholders approved the merger in 1972

The two companies were merged on May 26th, 1972, to become Agnico-Eagle Mines Limited, and work resumed on the completion of the mining complex. The first brick of gold was poured on February 20, 1974, amid acclaim for the company and praise for the determination of its management. The company earned the respect and admiration of the mining community, as Eagle was the first new Canadian gold mine in eight years.

Since that time, Agnico-Eagle has become the essence of synergism, each division assisting the other whenever necessary. For example, once the gold division in Joutel began to thrive, it advanced the required capital to allow the silver division to purchase its own refinery, thus totally integrating all aspects of the silver mining process.

The icing on the cake for the gold division was the acquisition in 1971 of Telbel Mines Limited, which held property contiguous to the Eagle mine. These 375 acres contained reserves of 1,459,145 tons of gold, averaging 0.2 ounces per ton, fully justifying the 1982 construction of a new 4,000 foot shaft, and the impressive, towering 150 foot Telbel headframe.

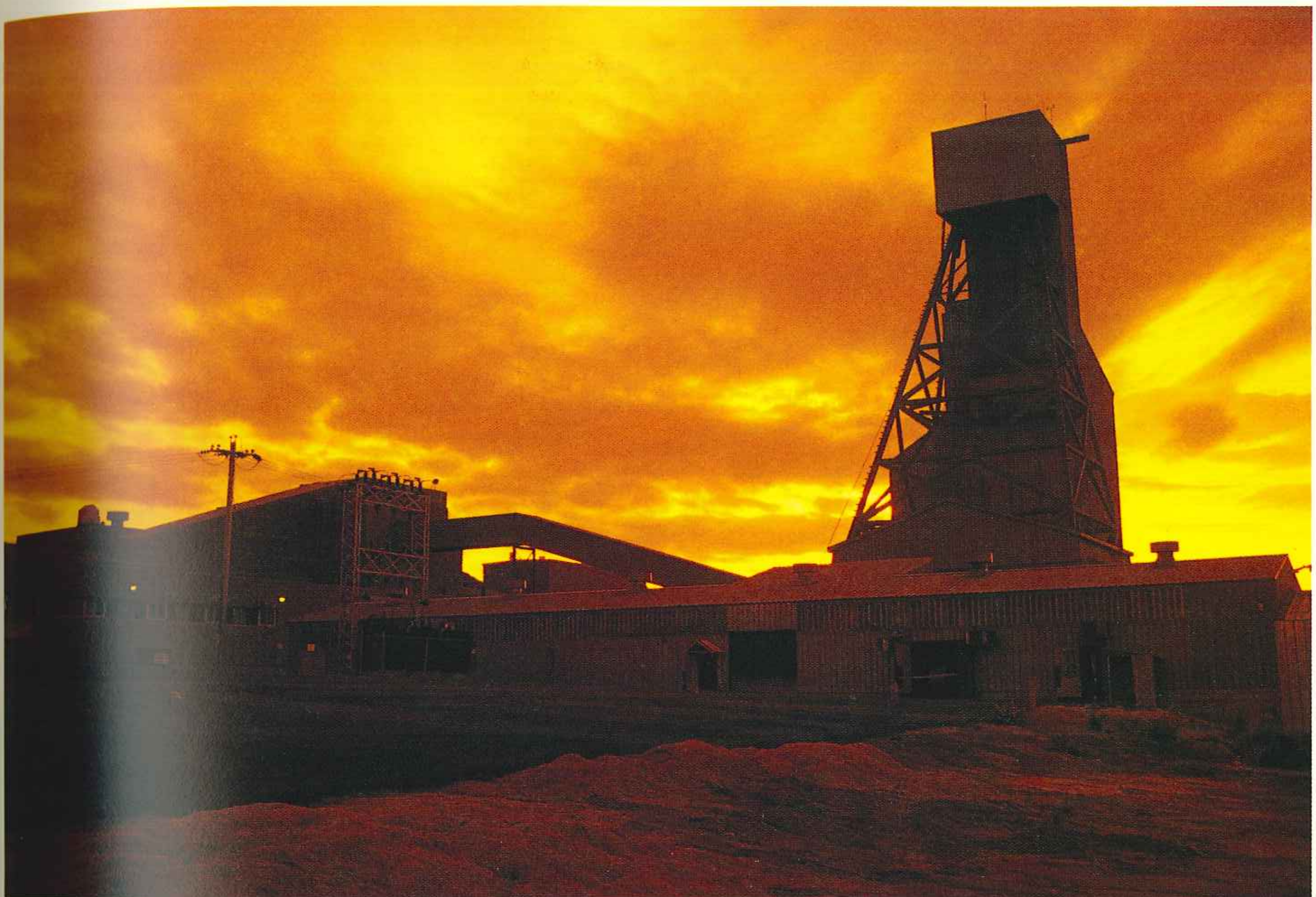
As the gold division prospered, so did the town of Joutel, population 1,300, 5 miles from the mine, where the company has provided miners and their families with comfortable company houses. In addition, Agnico-Eagle has

Today the Eagle mining, milling and refining complex supports a staff of over 280 employees

supported the building of a curling rink and a hockey arena, and promoted a spirit of community in the town.

Agnico-Eagle's senior staff at the gold division also oversaw the exploration and development of an associated company, Dumagami Mines Limited, which is now in the final months of its pre-production stage. Dumagami will pour its first brick of gold, (expected in June 1988), in its newly constructed 2,000 tons per day mill — which, thanks to the company's efficient management, is debt free. And that same expertise is now carefully assessing the progress of another associated company, Goldex Mines Limited.

It did take a silver mine to develop a gold mine. But it also took years of tenacity and dedication. The same dedication that revived the ailing historic town of Cobalt through the silver division, also developed two new gold mines in the province of Quebec through its gold division. And that dedication is the constant fuel that drives the Agnico-Eagle group of mining companies today.

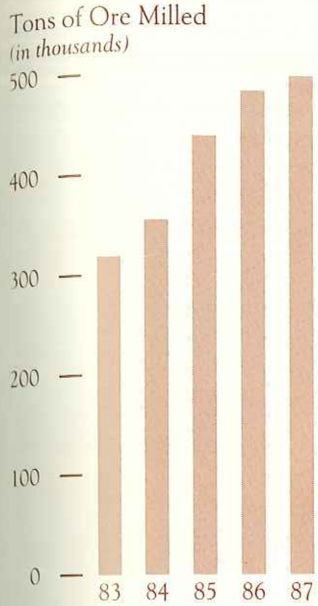


Sunset casts its fiery glow over the Eagle mining complex

REVIEW OF OPERATIONS: GOLD DIVISION

PRODUCTION: GOLD DIVISION

	1987	1986	1985
Tons of ore milled	498,131	484,051	439,864
Mill recovery: %	90.43	89.16	90.05
Grade: oz gold/ton	0.167	0.175	0.191
Grade production: ozs	74,818	75,646	75,597
Silver production: ozs	18,799	16,358	10,840
Average gold price (Cdn)	$597	$511	$441
Average silver price (Cdn)	$9.49	$7.69	$8.25



PRODUCTION

During 1987, gold production totalled 74,818 ounces with byproduct recovery of 18,799 ounces of silver, from 498,131 tons of ore treated. The calculated average grade was 0.167 ounces per ton. However, due to the 16% increase in bullion prices, income from production from the gold division increased a corresponding 16% from $38.5 million in 1986 to $44.7 million in 1987.

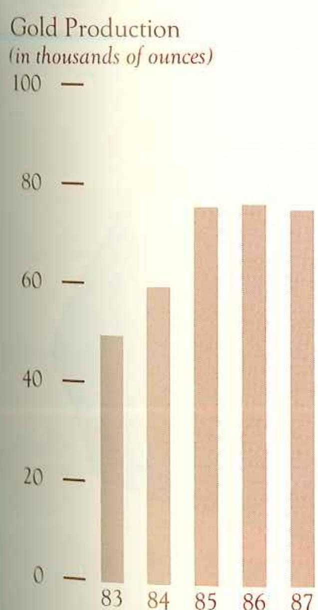
The dilution problems which resulted in the lower than anticipated production in 1987 are now being controlled by the sublevel retreat mining method. Although this method has a higher unit cost than the open stope blast hole method, which was previously utilized for the initial 13 years of production, its effectiveness is evident in the increasing grades and ounces produced in the third quarter of 1987.

Since lower grade muck from the older stopes was utilized during the transitional period, the annual production figures and grades are lower than 1986. However, during the first quarter of 1988, grade had increased to an average of 0.184 oz. per ton.

FINANCIAL: GOLD DIVISION

(thousands)

Income from production	$44,718	$38,548	$33,266
Mine operating costs	24,571	21,885	16,311
Mine operating profit	$20,147	$16,663	$16,955



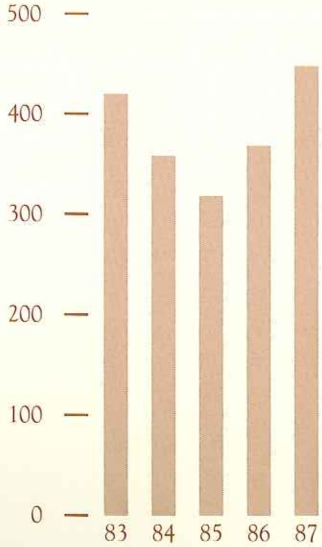
1988 MINING PLAN:

The more efficient sublevel retreat method will be used exclusively in 1988. The 1988 mining plan forecasts treatment of 480,000 tons of ore, which will produce a total of 80,000 ounces of gold. In addition, since a shortage of experienced miners has contributed to the lower than expected production levels, the company will embark on a training program designed to produce new, skilled miners. The selective use of underground contractors will also be considered to increase the number of production working areas.

A minimum of 20,500 feet of underground development will continue during 1988. Exploration drives on the 2250 and 3150 foot levels of Telbel will be given a high priority in order to explore the area east of the presently known ore zone. And if manpower permits, an exploration drift will commence west of the Telbel shaft.

The impressive 150 foot headframe at the Telbel Gold Mine

Average Gold Price
(US dollars)



ORE RESERVES: GOLD DIVISION

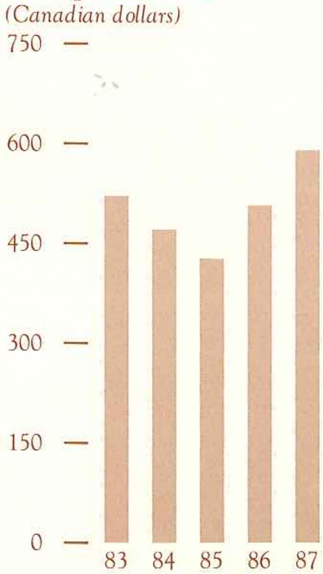
	1987	1986	1985
Proven ore — tons	1,583,419	853,711	675,818
oz/ton	.202	.189	.197
Probable ore — tons	450,845	1,249,269	1,120,707
oz/ton	.156	.209	.200
Total reserves — tons	2,034,264	2,102,980	1,796,525
oz/ton	.192	.201	.199

EXPLORATION AND DEVELOPMENT:

A total of $1.8 million was spent on exploration in 1987. Exploration continued on the McLure claims in the Casa Berardi area of Quebec controlled by the Cominco-Agnico-Eagle joint venture. The company's agreement with Cominco required it to commit $1.5 million, in order to earn a 45% interest in the Cominco properties. That money has now been spent on exploration, and Cominco, who are managing the venture, are continuing the ongoing diamond drilling program.

In addition, Agnico-Eagle controls 345 claims, consisting of 11 properties totalling 13,460 acres, much of which encircles the producing gold division properties of Eagle and Telbel in Joutel township. Geophysical surveys followed by a limited amount of diamond drilling was completed on 9 of the properties, and additional work is planned for the coming field season.

Average Gold Price
(Canadian dollars)



dumagami
MINES LIMITED (NPL)

The 120 foot thickener, under construction at Dumagami's mill

Highlights

- *Pre-production stage nears completion*
- *Construction of mill complex ahead of schedule, for start-up June '88*
- *Shaft sinking completed, stope preparation underway for production*
- *Exploration: Total ore reserve estimate upgraded*
- *Financial: $24.6 million underwriting*


GILLIES

INTRODUCTION

Dumagami Mines Limited will become Canada's newest gold mine on or before June, 1988. The milling complex is approaching completion on its principal property in the province of Quebec. These 26 claims, totalling 1,215 acres, straddle Cadillac and Bousquet township, between the traditional gold mining centres of Rouyn-Noranda and Val d'Or.

Construction of the 2,000 tons per day milling complex continues slightly ahead of schedule. The commencement of production at the Dumagami mine is of great significance, as Agnico-Eagle's total current direct and indirect interest in Dumagami Mines is 32%. It is anticipated that the new Donald La Ronde mine and milling complex will produce between 22,000 and 30,000 ounces of gold in its first half-year of production, and 63,000 ounces each year thereafter.

SURFACE DEVELOPMENT:

The construction of the new 2,000 tons per day concentrator complex, which began in May 1987, continues ahead of schedule towards a June, 1988 start-up.

By the end of December, 1987, the shell of the mill building was completed, and all interior floors poured. The leach and water tanks, water lines, and mine pumphouse foundations were also completed. Work continued on the electrical systems, lighting, 120 foot thickener, crusher building, compressor building, orebins, tanks and conveyor galleries. In addition, the mechanical installation of ball and re-grind mills, and cone crushers began.

By the end of April, 1988, the entire milling complex, with the exception of piping, electrical installations, and the jaw crusher, was virtually completed, one month ahead of schedule.

UNDERGROUND DEVELOPMENT:

Stope preparation for production is underway. Production will begin with a minimum 10 year ore reserve. However, these reserves are presently being re-evaluated due to recent developments on the property. A new zone, south of the West Zone, was discovered with limited tonnage but well above-average grade. In addition, current drifting into the West Zone will provide important information as to the continuity and grade of ore in the deeper parts of the West Zone.

FINANCIAL:

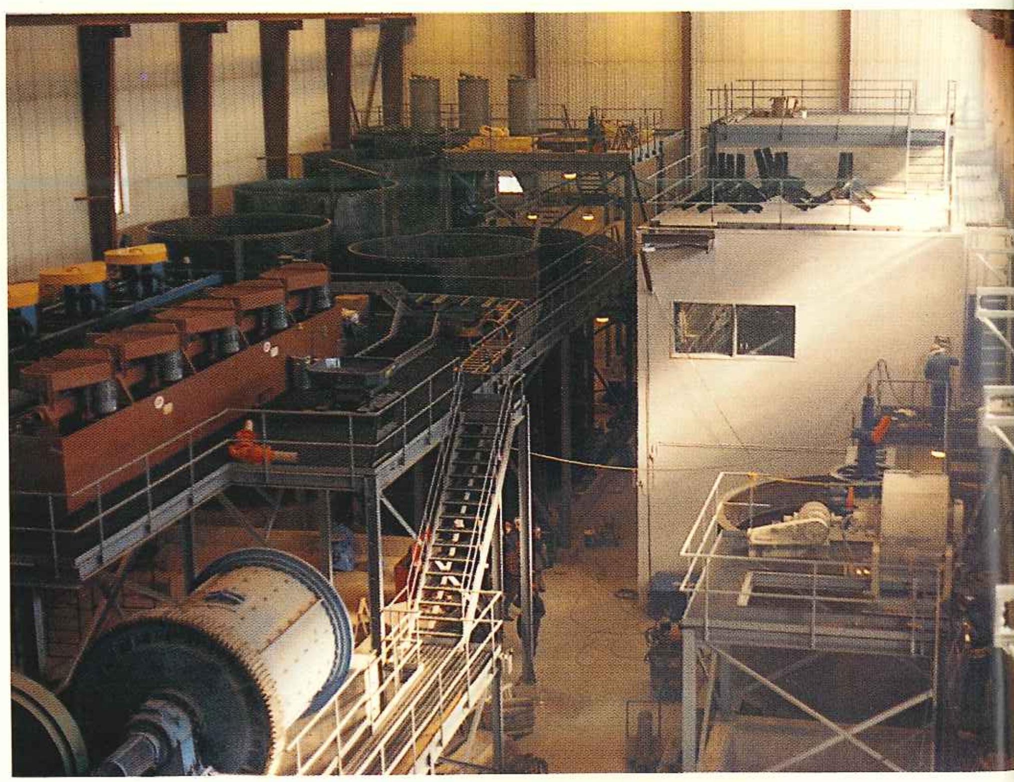
The remarkable success of Dumagami's Phase I exploration program, (completed on September 1986, at a total cost of approximately $13.2 million), resulted in the decision to undertake the $32.2 million Phase II program. Expenditures on Phase II, the development and pre-production phase, which will bring the mine into production, (scheduled for June, 1988), totalled $15 million in the 1987 fiscal year.

Construction materials for the new Dumagami mill reflect in a pond

By March 31, 1988, total Phase II program expenditures were approximately $30 million. At December 31, 1987 cash resources were $16.1 million, a decrease of $7.9 million from the September 30, 1987 balance, a direct result of the ongoing costs of the pre-production program. Working capital at Dec. 31, 1987 amounted to $14.9 million, which is sufficient to cover the remaining budgeted Phase II expenditures. In addition, Agnico-Eagle Mines Limited has committed a further $3.5 million by way of a subordinated loan.

Dumagami's strong working capital position is a direct result of an equity financing completed in 1987. Reflecting the company's stated policy of avoiding funded debt, $24.6 million was raised through the public sale of 1,540,000 Units, each Unit consisting of one common share and one common share purchase warrant. The proceeds of this offering are being used to carry out and complete Phase II. Once in production, the company will be poised to increase its already strong working capital position.

Current budget estimates based on a mill throughput rate of 1500 tons per day, or 525,000 tons per year indicate a mining and milling cash cost per ton of between $40 and $41. This translates into a cash cost per ounce of approximately $260 U.S. using the reserve average grade of .134 ounces per ton. Based on these cost projections it is evident that at current gold prices, Dumagami will be adding significantly to its cash reserves once production commences.



The mill interior, showing the carbon-in-pulp and flotation areas. Photograph was taken March 11, 1988

INTRODUCTION

Agnico-Eagle holds a minority interest in Goldex Mines Limited and advanced a total of $.5 million to Goldex in 1987 for exploration purposes. It is important to note that the same financial support and senior staff responsible for Dumagami Mines' transition from an exploration company to a producing gold mining company is also applying that expertise to Goldex Mines Limited, in Val d'Or, Quebec.

FINANCIAL

On September 22, 1987, an underwriting agreement was signed for the sale of 1,200,000 Goldex Units; each Unit consisting of one common share and one common share purchase warrant (series 2). Gross proceeds under the offering of $8.4 million were received on October 14, 1987. After costs and the settlement of interim financing instruments totalling $2.4 million arranged by Agnico-Eagle, Goldex has approximately $5 million with which to support its 1988 exploration and development program. Those exploration and development costs are expected to account for $4.3 million; and the balance of the $5 million will be spent on mine site buildings and equipment. Cash resources at Dec. 31, 1987 were $4.3 million. The company's working capital amounted to $3.8 million.

EXPLORATION AND DEVELOPMENT

Prior surface diamond drilling has indicated a total of 856,000 tons at an average grade of 0.21 oz per ton. Since 1985 a total of 3,970 feet of drifting and 6,500 feet of underground diamond drilling yielded encouraging results, however, the complexity of the deposit demanded that further exploration was necessary.

In March 1987 a Phase II program was initiated; $6.5 million was budgeted for exploration and $.3 million for mine equipment. Phase II will include further lateral development of the 1100 and 1250 foot levels, new development on the 800 foot level to explore the west zone, and proposed exploration drilling to the west and east of the Main Zone, and to depth.

Between March 1st and December 31st 1987, a total of 56,353 feet was diamond drilled, and underground exploratory work was advanced by 5,921 feet. Exploration since September has concentrated on drifting on the 800 and 1100 foot levels. Cross-cutting and longitudinal drifting on the 1100 foot level focussed on a flat lying vein zone which will be mapped and sampled. The silling out of this zone, under strict geological control, should provide a clearer understanding of mineralization, ore limits, grade and continuity.

OUTLOOK

The cooperation between the associated companies that are all managed by Agnico-Eagle's officers and senior staff will again prove beneficial when Dumagami Mines Limited's new milling complex in Bousquet township, 38 miles from Goldex, begins production. A bulk sample of 45,000 tons of stockpiled development muck will be shipped from Goldex to the Dumagami mill at the completion of the Phase II program, projected for Autumn, 1988. This bulk milling test is primarily designed to confirm the amenability of the Goldex ore to the Dumagami treatment process, and to establish the 'nugget' effect of ore grades determined from muck sampling and metallurgical recoveries.

The Goldex headframe, looking north

CONCLUSION:

Goldex's $6.5 million Phase II program has been established to determine the character, continuity and distribution of the mineralized area. A production decision can be made in the fall of 1988 after the development muck sample is treated at the Dumagami milling complex.

Because of the advantageous relationship with near-by Dumagami, Goldex is fortunate to have several cost-effective options available with respect to the future milling and refining of ore. However, in keeping with the corporate commitment to conservative and efficient fiscal management, a production decision will address all factors, including the fluctuating price of bullion. The successes of related companies Dumagami, and Agnico-Eagle Mines Limited, assures that any Goldex production decision will be appropriate, timely, financially responsible, and in the best interest of all shareholders.

Summarized 1987 Quarterly Data — Unaudited

Consolidated Financial Results	Quarterly Period Ended March 31st	June 30th	Sept. 30th	Dec. 31st	Year 1987
Income from production (thousands)	$ 9,982	$12,260	$15,091	$14,418	$51,751
Cash generated from operations (thousands)	$ 2,970	$ 4,817	$ 3,165	$ 3,753	$14,705
Per share	$0.21	$0.34	$0.22	$0.27	$1.05
Net income before extraordinary items (thousands)	$ 920	$ 4,221	$ 1,855	$ 2,730	$ 9,726
Per share	$0.07	$0.30	$0.13	$0.19	$0.69
Cash position at end of period (thousands)	$ 4,447	$ 6,305	$ 3,515	$ 736	$ 736
Weighted average number of shares outstanding (thousands)	14,033	14,049	14,058	14,028	14,028

Divisional Operating and Financial Summary

GOLD DIVISION	March 31st	June 30th	Sept. 30th	Dec. 31st	Year 1987
Income from production (thousands)	$ 8,938	$11,022	$13,519	$11,239	$44,718
Cash mine operating costs (thousands)	5,995	6,306	6,043	6,227	24,571
Cash mine operating profit (thousands)	$ 2,943	$ 4,716	$ 7,476	$ 5,012	$20,147
Tons of ore milled	130,694	136,932	132,808	97,697	498,131
Grade — oz./ton gold	0.141	0.142	0.185	.203	0.167
Gold production — ozs.	16,495	18,010	22,381	17,932	74,818
Average cost per oz. gold	$363	$350	$270	$347	$328
Average gold price/oz.	$542	$612	$604	$627	$597

SILVER DIVISION	March 31st	June 30th	Sept. 30th	Dec. 31st	Year 1987
Income from production (thousands)	$ 1,044	$ 1,238	$ 1,572	$ 3,179	$ 7,033
Cash mine operating costs (thousands)	187	224	2,296	4,050	6,757
Cash mine operating profit (loss) (thousands)	$ 857	$ 1,014	$ (724)	$ (871)	$ 276
Tons of ore milled	—	—	14,238	14,370	28,608
Recovered grade — ozs./ton	—	—	13.1	27.2	20.2
Silver production — ozs.	—	—	186,507	390,494	577,001
Average cost oz./silver	—	—	$12.31	$10.37	$11.71
Average silver price/oz.	—	—	$ 8.43	$ 8.14	$12.19

Note: Cash mine operating profit (loss) is before mining taxes or tax recovery, and before non-cash deductions for amortization and depreciation. All dollar amounts above are in Canadian funds.
Average gold and silver prices include the effects of sales of bullion produced in prior periods.

Yearly Average Unit Factors — Canadian and U.S. Dollar Comparisons

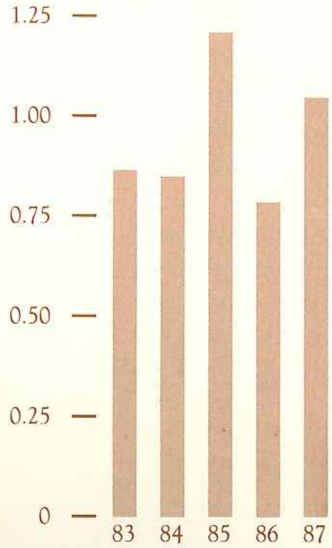
Average gold price — Canadian funds $597
U.S. equivalent $450

Unit cost per oz. gold produced — Canadian funds $328
U.S. equivalent $247

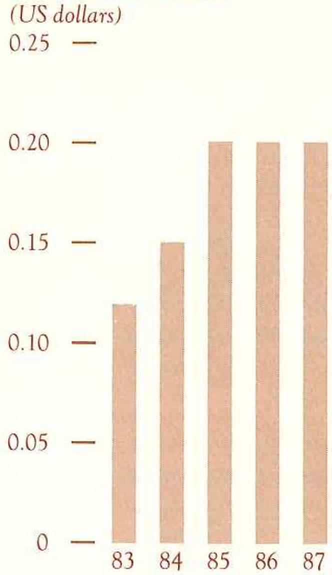
Average silver price — Canadian funds $12.19
U.S. equivalent $ 9.19

Unit cost per oz. silver produced — Canadian funds $11.71
U.S. equivalent $ 8.82

Cash Generated from Operations Per Share
(Canadian dollars)



Dividends Per Share
(US dollars)



FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

In 1987 cash flow generated from operations increased to $14.7 million, or $1.05 per share, from $11.1 million, or $0.79 per share, in 1986, due to increased consolidated earnings. At December 31, 1987 the Company's cash resources were $.7 million, a decrease of $6.2 million from December 31, 1986 and $13.2 million from December 31, 1985. This decline is largely attributable to an increase in spending on long term investments particularly real estate properties which were purchased in 1986 and 1987 primarily with internally generated funds.

Working capital at the end of 1987 stood at $5.7 million, and the Company had no long term debt, in keeping with its policy of remaining free of funded debt.

The capitalization of Agnico-Eagle essentially remained unchanged during 1987 as the Company continues to finance its operations internally, as it has done since its last public offering of shares in the early 1970's. Currently the Company has available an $11 million line of credit, of which $9.1 million remained unutilized at year end.

Capital expenditures totalled $19.8 million, an increase of $3 million from 1986. Among the largest expenditures were $9.9 million for real estate properties, $2.8 million to begin shaft sinking, construct surface facilities and continue exploration work at the Penna Shaft project and $1.9 million to complete the rebuilding of the Penn Mill in Cobalt, Ontario. To date a portion of the costs of rebuilding the Penn Mill have been financed from interim insurance payments of $1.1 million received during 1986 and 1987.

The funds required to meet planned 1988 capital expenditures of $10.6 million, to continue annual dividend payments and pursue investment opportunities are expected to be provided by internally generated cash flow, and if required, utilization of the existing credit line. The Company's real estate subsidiary is currently developing a financing program to fund the development of its properties.

The company's cash flow and future liquidity will depend on the volume of bullion production and bullion prices as well as operating costs. Agnico has some control over production and operating costs, however it has no control over bullion prices and the Company does not engage in hedging or forward selling activities. Therefore, Agnico's earnings and financial condition are sensitive to fluctuations in gold and silver prices, and thus, the Company will focus on controlling costs and increasing production by effectively and efficiently carrying out mining and exploration activities.

EFFECTS OF INFLATION

During the periods under review inflation has not had a significant impact on the Company's operations, as general inflationary price increases for Agnico's labour and material inputs have been more than offset by increases in income from production.

AGNICO·EAGLE
mines limited

Consolidated Financial Statements
(Canadian Funds)
December 31, 1987

AUDITORS' REPORT

To the Shareholders of
Agnico-Eagle Mines Limited:

We have examined the consolidated balance sheets of Agnico-Eagle Mines Limited as at December 31, 1987 and 1986 and the consolidated statements of income, retained earnings, contributed surplus and cash flows for each of the years in the three-year period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and 1986 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1987 in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Toronto, Canada,
March 31, 1988.

CLARKSON GORDON
Chartered Accountants

CONSOLIDATED BALANCE SHEETS
(Canadian Funds)

DECEMBER 31 **AGNICO-EAGLE MINES LIMITED**

(Incorporated under the laws of Ontario)

ASSETS

	1987	1986
CURRENT		
Cash and short-term deposits	$ —	$ 570,958
Bullion awaiting settlement (note 2)	2,664,729	6,365,895
Marketable securities, at cost (quoted market value – $12,955,633; 1986 – $19,173,930)	10,412,514	14,524,312
Concentrates on hand (note 2)	3,810,272	966,658
Prepaid expenses, supplies and other (note 13(a))	2,310,828	2,856,179
Income and mining taxes receivable	29,611	–
Current portion of mortgages receivable (note 3)	144,276	–
Total current assets	19,372,230	25,284,002
MORTGAGES RECEIVABLE (note 3)	3,116,466	–
INVESTMENTS AND ADVANCES		
Investments in shares (note 4)	21,607,009	15,183,546
Loans and advances to related corporations (note 5)	4,464,909	5,839,355
Other (note 6)	693,250	634,853
	26,765,168	21,657,754
FIXED ASSETS (note 7)	13,296,428	12,164,825
DEFERRED EXPENDITURES (note 9)	16,720,189	17,574,512
REAL ESTATE HOLDINGS (note 8)	12,540,702	6,407,977
	$91,811,183	$83,089,070

LIABILITIES AND SHAREHOLDERS' EQUITY

	1987	1986
CURRENT		
Bank indebtedness	$ 1,928,900	$ –
Accounts payable and accrued charges	4,491,471	4,071,409
Dividends payable	3,991,381	4,499,055
Income and mining taxes payable	—	1,408,701
Real estate mortgages payable (note 8)	3,251,944	2,459,840
Total current liabilities	13,663,696	12,439,005
DEFERRED INCOME AND MINING TAXES	8,657,514	9,278,741
MINORITY INTEREST IN SUBSIDIARY	4,216	4,216

SHAREHOLDERS' EQUITY

	1987	1986
CAPITAL STOCK – Authorized 20,000,000 common shares Issued 14,358,547 common shares (1986 – 14,326,377) (note 10)	17,618,737	17,184,442
CONTRIBUTED SURPLUS	5,859,988	4,436,930
RETAINED EARNINGS	53,518,831	43,809,696
COMPANY'S PRO RATA INTEREST IN ITS OWN SHARES HELD BY AN ASSOCIATED COMPANY (note 10)	(7,511,799)	(4,063,960)
Total shareholders' equity	69,485,757	61,367,108
Commitments and contingency (notes 11 and 17)		
	$91,811,183	$83,089,070

On behalf of the Board:

John R. Murray — Director

Paul Penna — Director

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF INCOME
(Canadian Funds)

YEARS ENDED DECEMBER 31

	1987	1986	1985
INCOME FROM PRODUCTION (note 2)	$51,751,207	$37,396,086	$44,679,987
COSTS OF PRODUCTION			
Mining	20,514,666	13,637,542	16,161,185
Milling	10,813,438	8,826,603	9,133,633
Depreciation and amortization	7,739,992	6,771,654	5,604,381
Administration (note 13(c))	2,819,645	2,967,998	2,561,523
	41,887,741	32,203,797	33,460,722
	9,863,466	5,192,289	11,219,265
OTHER INCOME (EXPENSE)			
Interest and sundry income (note 13(b))	717,798	749,898	715,435
Gain on sale of marketable securities and investments (note 13(d))	3,098,174	3,110,639	289,791
Write-off of organization costs	(81,251)	–	–
Real estate operations (note 15)	784,651	–	–
	4,519,372	3,860,537	1,005,226
INCOME BEFORE INCOME AND MINING TAXES, SHARE OF INCOME (LOSSES) OF ASSOCIATED COMPANIES AND EXTRAORDINARY ITEMS	14,382,838	9,052,826	12,224,491
PROVISION FOR (RECOVERY OF) INCOME AND MINING TAXES (note 12)			
Current	6,039,200	4,965,482	3,088,768
Deferred	(471,227)	(1,746,782)	2,298,713
	5,567,973	3,218,700	5,387,481
SHARE OF INCOME (LOSSES) OF ASSOCIATED COMPANIES	911,493	(644,418)	(312,249)
INCOME BEFORE EXTRAORDINARY ITEMS	9,726,358	5,189,708	6,524,761
EXTRAORDINARY ITEMS			
Gain on disposal of assets destroyed by fire, net of related income and mining taxes of $428,238, including deferred taxes of $158,016 (note 16(a))	–	1,435,107	–
Write-off of investment in an associated company, net of related income taxes of $241,559 (note 16(b))	(1,153,932)	–	–
Gain on sale of investment in an associated company	5,279,831	–	–
NET INCOME FOR THE YEAR	$13,852,257	$ 6,624,815	$ 6,524,761
EARNINGS PER SHARE BEFORE EXTRAORDINARY ITEMS	$ 0.69	$ 0.37	$ 0.47
EARNINGS PER SHARE AFTER EXTRAORDINARY ITEMS	$ 0.99	$ 0.47	$ 0.47

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND CONTRIBUTED SURPLUS

(Canadian Funds)

YEARS ENDED DECEMBER 31

	1987	1986	1985
RETAINED EARNINGS			
Balance, beginning of year	$43,809,696	$41,043,965	$38,495,560
Net income for the year	13,852,257	6,624,815	6,524,761
	57,661,953	47,668,780	45,020,321
Dividends declared (1987, 1986 and 1985 – U.S. $0.20 per share)	(3,601,014)	(3,859,084)	(3,976,356)
Company's proportionate interest in capital transaction of an associated company: Share issue costs	(542,108)	–	–
Balance, end of year	$53,518,831	$43,809,696	$41,043,965
CONTRIBUTED SURPLUS			
Balance, beginning of year	$ 4,436,930	$ 3,166,381	$ 2,033,053
Gain on sale of own shares held by an associated company	1,423,058	1,270,549	1,133,328
Balance, end of year	$ 5,859,988	$ 4,436,930	$ 3,166,381

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian Funds)

YEARS ENDED DECEMBER 31

	1987	1986	1985
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Income before extraordinary items	$ 9,726,358	$ 5,189,708	$ 6,524,761
Add (deduct) items not affecting cash:			
Depreciation and amortization	7,739,992	6,771,654	5,604,381
Deferred income and mining taxes (recoverable)	(471,227)	(1,746,782)	2,298,713
Decrease in stockpiled ore costs	—	–	2,212,665
Share of (income) losses of associated companies	(911,493)	644,418	312,249
Gain on sale of real estate	(1,281,610)	–	(58,594)
Gain on sale of fixed assets	(178,238)	–	–
Write-down of interest in joint venture	—	215,787	–
Write-off of organization costs	81,251	–	–
	14,705,033	11,074,785	16,894,175
Net change in non-cash working capital balances related to operations	639,120	5,176,446	(2,535,913)
	15,344,153	16,251,231	14,358,262
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES			
Additions to deferred expenditures	(4,104,880)	(7,359,912)	(5,158,885)
Additions to fixed assets	(5,816,154)	(3,037,425)	(3,158,742)
Proceeds on disposal of fixed assets	1,382,000	–	–
Increase in investments and advances	(2,711,997)	(6,707,375)	(2,332,477)
Net cash from sale of real estate	1,790,141	–	1,564,435
Land under and held for development	(9,901,998)	(6,407,977)	–
Less related real estate mortgage payable	2,500,000	2,500,000	–
Proceeds from insurance	700,000	400,000	–
	(16,162,888)	(20,612,689)	(9,085,669)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Dividends declared	(3,701,516)	(3,946,289)	(3,976,356)
Increase (decrease) in dividends payable	(407,172)	92,082	1,237,645
Capital stock issued (note 10(a))	434,295	1,312,202	758,475
Repayment of real estate mortgages payable	(1,707,896)	(40,160)	–
	(5,382,289)	(2,582,165)	(1,980,236)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	(6,201,024)	(6,943,623)	3,292,357
CASH POSITION, BEGINNING OF YEAR	6,936,853	13,880,476	10,588,119
CASH POSITION, END OF YEAR	$ 735,829	$ 6,936,853	$ 13,880,476
CHANGES IN COMPONENTS OF CASH			
Cash and short-term deposits	$ (570,958)	$ (656,741)	$ (5,426,411)
Bullion awaiting settlement	(3,701,166)	(6,286,882)	8,718,768
Bank indebtedness	(1,928,900)	–	–
	$ (6,201,024)	$ (6,943,623)	$ 3,292,357

(See accompanying notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Canadian Funds)

DECEMBER 31, 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION –

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which, as applied in these consolidated financial statements, are consistent in all material respects with accounting principles generally accepted in the United States, except as described in note 14.

These consolidated financial statements include the accounts of Agnico-Eagle Mines Limited ("Agnico" or "the Company") and its subsidiaries. Interests in associated companies in which Agnico has significant influence but not majority share ownership are accounted for on the basis of cost plus equity in undistributed earnings since the dates of investment. The difference between the cost of the shares of associated companies and the underlying net book value of the assets is amortized over the lives of the assets to which the difference is attributed. As at December 31, 1987, the unamortized difference amounted to approximately $4,587,000 (1986 – $4,629,000).

An associated company owns shares in Agnico. Agnico's pro rata interest in the carrying value of such shares has been deducted from the investment in associated company and from shareholders' equity. Similarly, Agnico's earnings per share have been calculated on the number of shares outstanding after reduction for the intercompany holding.

(b) BULLION AWAITING SETTLEMENT –

Bullion awaiting settlement represents refined metal being held for future sale and is valued at estimated realizable value.

(c) MARKETABLE SECURITIES –

Marketable securities are carried at the lower of cost and quoted market value.

(d) CONCENTRATES ON HAND –

Concentrates on hand are valued at estimated realizable value.

(e) SUPPLIES –

Supplies, consisting of mine stores inventory, are valued at the lower of average cost and replacement cost.

(f) LOANS AND ADVANCES TO RELATED CORPORATIONS –

Loans and advances to related corporations include provision for any uncollectable amounts. The repayment of loans and advances to mining companies in the exploration stage is dependent on these companies' mineral deposits being successfully developed into commercial ore bodies.

(g) MINING CLAIMS AND PROPERTIES –

Mining claims and properties are carried at cost and are written off over the estimated life of the mine or when abandoned.

(h) PLANT AND EQUIPMENT ADDITIONS AND REPAIRS –

Repairs and maintenance are charged to costs of production or deferred expenditures. Additions, replacements or improvements to existing plant and equipment are capitalized.

(i) DEPRECIATION –

The Gold Division records depreciation on the equipment in use on a unit-of-production basis based on the estimated total proven and probable ore reserves of the mine.

The Silver Division records depreciation on a 30% declining balance basis.

(j) LAND UNDER AND HELD FOR DEVELOPMENT –

Land is recorded at the lower of cost and estimated net realizable value. The cost of land under and held for development includes the original purchase price plus any expenses of development of the properties, including direct interest charges, real estate taxes and an appropriate portion of general and administrative costs.

(k) RENTAL PROPERTIES –

Rental properties are recorded at cost less accumulated depreciation. Depreciation will be provided on a 5% declining balance basis.

(l) DEFERRED EXPENDITURES –

Deferred expenditures represent accumulated exploration and preproduction costs and are not intended to reflect present or future values. Mineral exploration expenditures are expensed unless they relate to properties from which a productive result is reasonably certain or on which work is in process.

The amortization of deferred expenditures of the Gold Division is calculated on the unit-of-production method based on the estimated total proven and probable ore reserves of the mine.

As the timing and extent of realization of the ore reserves at the Silver Division properties are not predictable, the Company amortizes costs on a mine-by-mine basis to the extent of the greater of income earned and $200,000 per annum. If no production takes place, no amortization is taken.

Deferred expenditures relating to a property which is abandoned or considered uneconomic for the foreseeable future are written off.

Deferred expenditures also include the cost of stockpiled ore. These costs are expensed as the ore is used in production.

(m) REVENUE RECOGNITION –

The Company recognizes revenue only to the extent of sales of refined metals. The income effect of valuing bullion awaiting settlement and concentrates on hand at estimated realizable value is presented separately under income from production (note 2).

The sale of real estate is recognized when all significant conditions of the sale have been fulfilled and the recoverability of the sales proceeds is reasonably assured.

(n) INCOME AND MINING TAXES –

The Company records income and mining taxes on the deferral method of income tax allocation. Differences between accounting and taxable income occur as a result of claiming items for income and mining taxes that differ from those recorded for accounting purposes. The tax effect of the resultant differences is reflected on the consolidated balance sheets as deferred income and mining taxes.

(o) PENSION COSTS AND OBLIGATIONS –

The Company has adopted, on a prospective basis from January 1, 1987, the recommendations of The Canadian Institute of Chartered Accountants relating to pension costs and obligations (note 11(c)). The effects of this change in accounting policy on net income for the year ended December 31, 1987 are not material.

2. INCOME FROM PRODUCTION

Income from production consists of:

	1987	1986	1985
Sales of metal	$53,025,483	$44,795,988	$38,397,266
Net change in inventory valued at estimated realizable value (note 1(m))	(857,274)	(6,761,555)	7,954,307
Less marketing and royalties	417,002	638,347	1,671,586
	$51,751,207	$37,396,086	$44,679,987

Included in income from production at December 31 is:

	1987		1986		1985	
	Ounces	$	Ounces	$	Ounces	$
Gold Division:						
Bullion awaiting settlement and concentrates on hand, end of year	4,283	$2,244,249	3,418	$1,490,307	6,701	$ 3,079,556
Silver Division:						
Bullion awaiting settlement and concentrates on hand, end of year	488,854	4,230,752	828,299	5,842,246	1,346,546	10,635,060
Total		$6,475,001		$7,332,553		$13,714,616
Consists of:						
Bullion awaiting settlement		$2,664,729		$6,365,895		$12,652,777
Concentrates on hand		3,810,272		966,658		1,061,839
		$6,475,001		$7,332,553		$13,714,616

3. MORTGAGES RECEIVABLE

Mortgages receivable bear interest at rates ranging from 10% to 11% per annum and mature as follows:

1988	$ 144,276
1989	836,718
1990	2,279,748
	$3,260,742

The repayment of these mortgages is secured by a charge against the industrial land under development disposed of during 1987.

4. INVESTMENTS IN SHARES

	Direct and indirect interest 1987	Direct and indirect interest 1986	Carrying value 1987	Carrying value 1986
Associated companies carried on an equity basis:				
(a) Publicly traded — (quoted market value — $45,702,870: 1986 — $32,204,346)				
Mentor Exploration and Development Co., Limited	47.4%	46.0%	$ 6,806,807	$ 7,554,044
Dumagami Mines Limited	28.8	31.9	11,686,989	4,383,227
Langis Silver and Cobalt Mining Company Limited	30.0	30.0	280,382	293,655
			18,774,178	12,230,926
(b) Other			(280,410)	(160,221)
Investments carried at cost (quoted market value — $1,997,500; 1986 — $2,927,505)			2,995,218	2,995,218
Investments carried at cost for which no quoted market value exists			118,023	117,623
			$21,607,009	$15,183,546

5. LOANS AND ADVANCES TO RELATED CORPORATIONS

	1987	1986
Advance to a mining company in the exploration stage (notes 5(a) and 17(b)(v))	$1,953,695	$2,452,435
Advances to other mining companies (note 5(b))	2,511,212	2,511,212
Advance to associated company (notes 5(c) and 16(b))	1	400,000
	4,464,908	5,363,647
Loan to associated company (notes 5(c) and 16(b))	1	475,708
	$4,464,909	$5,839,355

(a) The advance bears interest at the bank's prime lending rate plus ½% and is due on demand. The balance at December 31 consists of:

	1987	1986
Outstanding principal	$1,603,800	$2,103,800
Accrued interest	349,895	348,635
	$1,953,695	$2,452,435

The Company has continued to waive interest on the outstanding principal balance.

(b) These advances are non-interest bearing and are due on demand.

(c) The advance bears interest at 10¼% and is repayable in monthly instalments of $3,713 representing principal and interest, with the final balance due and payable on October 31, 1990. The loan bears interest at the bank's prime lending rate plus ½% and is payable on demand. To date, no such payments have been received, and the Company has recognized no interest income on the advance and loan in 1987 (note 16(b)).

6. OTHER

	1987	1986
Advances to officer, non-interest bearing	$ 326,567	$ 326,567
Housing loans, non-interest bearing	212,917	75,309
Organization costs	4,653	83,864
Other advance	149,113	149,113
	$ 693,250	$ 634,853

The original proceeds from the advances to officer were used by the Trustees of the Agnico-Eagle Employee Stock Purchase Plan to purchase 200,000 issued shares of the Company for the benefit of the President of the Company. The loan is repayable in annual instalments of $74,500 and matures on December 21, 2001. Subsequent to December 31, 1987, the President of the Company made a payment of $74,500 against this loan. The President is indebted to the Trustees in the same amount and on the same terms.

7. FIXED ASSETS

	1987	1986
Mining claims and properties, at cost	$ 668,661	$ 1,668,661
Plant and equipment, at cost	38,630,662	34,584,993
Accumulated depreciation	(26,002,895)	(24,088,829)
	$ 13,296,428	$ 12,164,825

8. REAL ESTATE HOLDINGS

Transactions during the year consist of the following:

	1987				1986
	Rental properties	Under development (industrial)	Held for development (residential)	Total	Total
Balance, beginning of year	–	$5,065,498	$1,342,479	$ 6,407,977	–
Acquisitions	$3,712,146	2,567,781	1,373,104	7,653,031	$5,133,088
Deposits and prepaid acquisition costs	716,110	–	–	716,110	–
Development costs (note 11(e))	290,858	226,505	–	517,363	977,893
Cost of sales	–	(4,189,433)	–	(4,189,433)	–
Capitalized charges:					
Interest on real estate mortgages payable	41,404	562,402	–	603,806	100,937
Engineering and development consultants' fees	68,217	280,367	185,475	534,059	105,605
Salaries and wages, property taxes and other	–	189,475	108,314	297,789	90,454
Balance, end of year	$4,828,735	$4,702,595	$3,009,372	$12,540,702	$6,407,977

An industrial property of the Company currently under development is pledged by way of a collateral first mortgage with an initial balance of $2,500,000. The mortgage bears interest at the bank's prime lending rate, is due on demand and is repayable at a minimum amount of $27,249 per month. During the year ended December 31, 1987, $1,696,330 was repaid against the principal balance of the mortgage resulting in an outstanding balance at December 31, 1987 of $763,510.

A rental property is also pledged by way of a collateral first mortgage with an initial balance of $2,500,000. This mortgage bears interest at the bank's prime lending rate, is due on demand and is being repaid at the rate of $26,485 per month. The outstanding principal balance at December 31, 1987 is $2,488,434.

9. DEFERRED EXPENDITURES

	1987	1986
Gold Division:		
Deferred expenditures, at cost	$26,066,121	$24,825,980
Accumulated amortization	(18,084,410)	(16,333,519)
	7,981,711	8,492,461
Silver Division:		
Deferred expenditures, at cost	18,249,732	16,900,739
Accumulated amortization	(9,511,254)	(7,818,688)
	8,738,478	9,082,051
	$16,720,189	$17,574,512

During 1984, the Company entered into an agreement with Cominco Ltd. to participate in a joint venture exploration and development program. In 1987, Agnico earned a 45% interest in the Cominco Ltd. properties on which the program is being conducted by expending $1,557,341.

10. CAPITAL STOCK

(a) Summary of common share transactions —

	1987		1986		1985	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares issued, beginning of year	14,326,377	$17,184,442	14,229,177	$15,872,240	14,170,327	$15,113,765
Shares issued under Employee Stock Option Plan	32,170	434,295	97,200	1,312,202	58,850	758,475
Common shares issued, end of year	14,358,547	17,618,737	14,326,377	17,184,442	14,229,177	15,872,240
Agnico's pro rata interest in its own shares held by an associated company	391,393	7,511,799	320,406	4,063,960	298,832	2,861,837
Net shares	13,967,154	$10,106,938	14,005,971	$13,120,482	13,930,345	$13,010,403

The earnings per share calculations are based on the net weighted average number of shares outstanding; 14,028,430, 14,009,858 and, 13,816,296 for the years ended December 31, 1987, 1986 and 1985, respectively.

(b) Stock options —

The Company has issued the following stock options to employees:

Employee group	Expiry date	Option price per share	Number of options outstanding at December 31, 1987 (note 17(b)(vi))
Officers	June 28, 1990	$13.50	9,500
Officer	October 30, 1992	$18.50	7,500
Employees	August 15, 1989	$13.50	19,780
Employees	October 30, 1992	$18.50	207,500
President	December 16, 1990 (note 17(b)(ii))	$15.64	200,000

The Company has reserved 444,280 common shares in the event that these options are exercised.

11. COMMITMENTS

(a) Pursuant to a financing agreement dated June 16, 1983 and as amended April 15, 1985, Agnico agreed to advance $4,650,000 to Dumagami Mines Limited ("Dumagami") for the purpose of assisting Dumagami in completing a proposed development and preproduction program. This advance is non-interest bearing until the completion of one year of commercial operations of Dumagami's gold property located in Bousquet and Cadillac Townships, Quebec. Commencing at that time, interest will accrue semi-annually at the bank's prime lending rate and the advance will be repayable quarterly out of available cash flow as defined in the agreement.

On February 11, 1986 Agnico acquired the interest of Noranda Inc. ("Noranda") in Dumagami, thereby increasing its direct interest to 30.5%. As a result of this transaction, Agnico assumed Noranda's obligation to advance $4,650,000 to Dumagami on the same terms and for the same purposes as noted above, increasing the total commitment to $9,300,000.

Previously the Company had advanced an additional $2,509,000 to Dumagami, which advance is subordinated, due on demand and non-interest bearing (note 5(b)).

On September 25, 1986 the Company's board of directors resolved to amend this financing by a revised supplementary financing agreement, which replaced the Company's commitment to advance $9,300,000 by total financing of $9,300,000 on the following terms:

(i) $1,800,000 to be advanced to Dumagami for purposes of incurring Canadian exploration expense on behalf of the Company, in consideration for one common share of Dumagami for each $9.50 of Canadian exploration expense incurred;

(ii) a further $4,000,000 to be advanced to Dumagami for purposes of incurring Canadian exploration expense on behalf of the Company, in consideration for one common share of Dumagami for each $17.50 of Canadian exploration expense incurred; and

(iii) a further $3,500,000 to be advanced by the Company by way of a second unsecured subordinated loan, which will be repayable on the same terms as the existing advances described above (note 17(b)(iii)).

As a result of the Company having advanced $1,800,000 in 1986 as described in (i) above and Dumagami having spent such funds on Canadian exploration expense, the Company received 189,474 common shares of Dumagami in 1987.

With respect to the arrangements described in (ii) above, the Company advanced $4,000,000 to Dumagami during the year ended December 31, 1987 and subsequently received 228,571 common shares of Dumagami.

(b) During 1987, the Company entered into an agreement with Peerless Silver and Cobalt Explorations, Ltd. ("Peerless") whereby the Company has the right and option to earn a 51% interest in the Peerless properties by expending $2,000,000 on or before October 30, 1990. At December 31, 1987, $255,000 had been spent under this agreement.

(c) The Company has a defined benefit pension plan for its salaried employees. The actuarially determined present value of accumulated pension benefits and net assets available for plan benefits at December 31 are as follows:

	1987	1986
Net assets available for plan benefits, at market values	$2,889,883	$2,825,116
Actuarially determined present value of accumulated pension benefits	$2,395,500	$2,228,500

In determining the actuarial present value of accumulated plan benefits and pension costs for 1987, the Company used a discount rate and expected rate of return on plan assets of 7½% and a salary escalation rate of 6%. The Company amortizes unrecognized gains and losses associated with the plan over the estimated average remaining service life of the employee group covered by the plan, which is estimated to be 25 years. Total pension costs in 1987 were $214,582 (1986 – $193,904; 1985 – $197,774).

(d) The Company leases a number of mining properties in Cobalt, Ontario. Future minimum annual lease payments over the next five years are as follows:

1988	$118,000
1989	148,000
1990	28,000
1991	18,000
1992 and subsequent	6,000
	$318,000

(e) The Company's real estate subsidiary has a contract with one of its suppliers to develop its industrial land. The total contract value was estimated at $1,500,000 of which $224,266 (1986 – $977,893) was expended during the year. Also, this subsidiary has pledged as collateral against mortgages payable of $3,251,944 (1986 – $2,459,840) certain of its real estate assets.

12. PROVISION FOR (RECOVERY OF) INCOME AND MINING TAXES

Provision for (recovery of) income and mining taxes is made up of the following components:

	1987	1986	1985
Current:			
Federal income tax	$2,892,933	$ 2,819,519	$1,669,555
Provincial income tax	1,184,680	650,497	401,402
Mining duties	1,961,587	1,495,466	1,017,811
	$6,039,200	$ 4,965,482	$3,088,768
Deferred:			
Federal income tax	$ 45,817	$ (902,039)	$1,484,032
Provincial income tax	(30,566)	(160,071)	286,979
Mining duties	(486,478)	(684,672)	527,702
	$ (471,227)	$(1,746,782)	$2,298,713

Deferred income and mining taxes result from timing differences in the recognition of revenue and expenses for tax and financial statement purposes. The sources of these differences and the tax effect of each are as follows:

	1987	1986	1985
Excess of tax over book depreciation	$ 86,884	$ 67,932	$1,370,725
Excess (deficiency) of tax over book exploration and development expenses	(958,628)	(758,201)	50,573
Excess (deficiency) of tax over book inventory valuation adjustments	39,126	(1,125,408)	1,153,254
Other	361,391	68,895	(275,839)
	$ (471,227)	$(1,746,782)	$2,298,713

The provision for (recovery of) income and mining taxes is different from the amount that would have been computed by applying Canadian statutory federal and provincial income tax rates due to the permanent differences noted below. As provincial mining duties are levied on a graduated scale, this portion of the tax provision is dependent upon the level of resource income.

	1987	1986	1985
Combined federal and composite provincial income tax rates	47.4%	45.6%	44.1%
Increase (decrease) in taxes resulting from:			
Federal surtax	1.1	1.8	0.9
Provincial mining duties	18.0	18.0	16.0
Resource allowances	(10.1)	(7.1)	(9.8)
Depletion allowances	(8.6)	(5.4)	(2.9)
Processing, investment and treatment allowances	(3.4)	(4.5)	(3.0)
Non-taxable portion of investment income	(8.6)	(14.5)	–
Miscellaneous items	2.9	1.7	(1.2)
Actual tax rate as a percentage of pre-tax income	38.7%	35.6%	44.1%

13. RELATED PARTY TRANSACTIONS

(a) Included in prepaid expenses, supplies and other assets in 1986 is a $122,000 receivable from a related company for fixed assets leased from the Company and in 1987 a balance of $90,000 (1986 — $75,000) in prepaid management fees paid to an associated company.

(b) Included in interest and sundry income is $328,288 (1986 — $558,810; 1985 — $252,000) earned from the leasing of fixed assets to a related company, and in 1986 $49,000 in interest received from the President of the Company from the repayment of the $250,000 advance made in 1985.

Also, included in interest and sundry income is a gain of $184,248 on the sale of fixed assets arising from sales to related companies. The Company received proceeds on these sales of $250,000 and $95,000 from Goldex Mines Limited (Goldex), a related company, and Dumagami, respectively. In addition, included in interest and sundry income are equipment and other sales to Dumagami totalling $95,311.

(c) Included in administration expense is $180,000 (1986 — $162,000; 1985 — $162,000) paid to an associated company for management services provided throughout the year.

(d) Included in the gain on sale of marketable securities and investments is $864,015 earned on the sale of Goldex shares. Included in the gain on sale of marketable securities and investments for 1986 is $3,195,500 earned on the sale of Dumagami shares.

(e) During the year, the Company entered into an arrangement with Goldex whereby the Company advanced $450,000 to Goldex to be spent by Goldex as the Company's agent to incur Canadian exploration expense in consideration for a 1.454% interest in Goldex's gold property in Dubuisson Township, Quebec. Goldex has exercised an option to re-acquire such interest in consideration for the allotment of flow-through shares and renunciation of Canadian exploration expenses, in favour of the Company.

(f) The Company advanced $425,000 to Goldex during the year, which advance was repaid by December 31, 1987.

14. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

(a) These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which differ in some respects from those in the United States. The United States Securities and Exchange Commission (SEC) requires that financial statements contain a reconciliation of reported amounts to the amounts which would have been reported had accounting principles generally accepted in the United States been followed. Differences in accounting principles as they pertain to the accompanying consolidated financial statements are outlined below.

The Company's interest in an associated company which owns shares in Agnico has been accounted for on the cost basis prior to 1982 and on the equity basis beginning in 1982, the year in which the equity method first became appropriate. United States accounting principles require that the equity method be applied retroactively to the date of acquisition. This difference affects contributed surplus to the extent that the associated company recorded gains and losses on sales of Agnico shares prior to 1982 and affects retained earnings to the extent of Agnico's share of losses of the associated company prior to 1982.

Advances to the Employee Stock Purchase Plan have been included in other in the consolidated balance sheets. The SEC requires that accounts receivable arising from transactions involving the Company's capital stock be presented as deductions from shareholders' equity.

Extraordinary items recorded in the 1987 consolidated statements of income would have been recorded as other income (expense) under U.S. accounting principles.

The following table presents amounts that would have been reported had the Company's consolidated financial statements been prepared on the basis of U.S. accounting principles:

	1987	1986	1985
Net income for the year under U.S. accounting principles	$13,852,257	$ 6,624,815	$ 6,524,761
Earnings per share after extraordinary items (based on weighted average number of shares outstanding of 14,233,642 in 1987; 14,126,076 in 1986; and 13,864,959 in 1985)	$ 0.97	$ 0.47	$ 0.47
Retained earnings	$53,117,926	$43,408,791	$40,643,060
Investments and advances	$22,804,329	$16,322,509	$12,420,709
Contributed surplus	$ 7,091,530	$ 5,668,472	$ 4,397,923
Advances to Employee Stock Purchase Plan (deducted in arriving at shareholders' equity)	$ 326,567	$ 326,567	$ 401,067

(b) The Financial Accounting Standards Board has recently issued Statement No. 96 concerning "Accounting for Income Taxes". The Company will be reviewing the recommendations contained in this Statement for adoption at the effective date in 1989 but has not yet determined the impact upon its United States based financial information.

15. SEGMENTED INFORMATION

In 1986 and prior years, the Company was essentially involved exclusively in the mining industry in Canada. As a result of corporate decisions made in 1987 regarding the Company's investments, management has determined the Company's real estate activities to be a reportable industry segment in 1987.

	1987	1986
Proceeds on sale of developed land	$ 5,391,231	–
Interest and sundry income (net of 1987 intersegment elimination of $248,953; 1986 – nil)	74,929	$ 5,218
	5,466,160	5,218
Cost of sales (net of 1987 intersegment elimination of $210,080)	4,109,621	–
Operating expenses	571,888	40,914
Other income (loss)	$ 784,651	$ (35,696)
Mortgages receivable	$ 3,260,742	Nil
Land under and held for development (net of 1987 intersegment elimination of $537,018; 1986 – $72,493)	$12,540,702	$ 6,407,977
Identifiable assets (net of 1987 intersegment elimination of $537,018; 1986 – $72,493)	$16,077,395	$ 6,411,885
Real estate mortgages payable (net of 1987 intersegment elimination of $12,599,712; 1986 – $3, 269,990)	$ 3,251,944	$ 2,459,840

16. EXTRAORDINARY ITEMS

(a) On February 22, 1986 a fire destroyed the Company's silver mill in Cobalt, Ontario. Insurance proceeds to date resulted in a gain of $1,720,345 over the depreciated book value of these assets.

In October 1986, a fire destroyed an electrical substation at the Company's gold mill in Joutel, Quebec. This loss was also covered by insurance resulting in a gain of $143,000.

(b) During 1987, the Company made an additional loan to an associated company of $520,000 and made a contingent guarantee of $160,000. As at December 31, 1987, management has determined that the loan balance of $995,708, the advance of $400,000, investment in shares of $400,200 and contingent guarantee of $160,000 are not recoverable and, accordingly, an extraordinary write-off of $1,153,932, net of related income taxes of $241,559 and an amount previously w itten off of $560,417, has been recorded.

17. SUBSEQUENT EVENTS AND CONTINGENCY

(a) In November 1987, Noranda commenced a legal proceeding in the Supreme Court of Ontario against the Company, Dumagami and Mentor Exploration & Development Co., Limited ("Mentor") as defendants. The plaintiff's claim arises from the sale by Noranda to the Company in February 1986 of 1,455,163 Dumagami shares (note 11(a)).

The claim of Noranda is for:

(i) a declaration that Noranda has a constructive trust over Dumagami shares held by the Company and Mentor;

(ii) alternatively, a declaration that Noranda has a constructive trust on 1,455,163 Dumagami shares sold by it to the Company in February 1986;

(iii) against the Company and Mentor for an accounting of profits from Dumagami shares or alternatively, an accounting from the Company of profits on the 1,455,163 Dumagami shares;

(iv) alternatively for rescission of the February 1986 sale agreement and return of 1,455,163 Dumagami shares to Noranda;

(v) against the three defendants for damages in the amount of $40,000,000 for breach of fiduciary duty and against the Company and Dumagami for breach of contract, negligence and breach of custom and practice.

The plaintiff alleges, inter alia, that the Company and Dumagami failed to make full and timely disclosure to Noranda, prior to the above-noted sale, of the material results, their meaning and the current activity from the Phase I exploration program, as extended, at Dumagami's Bousquet-Cadillac property and did not carry out the exploration in accordance with reasonable or sensible geological practice.

The Company filed a statement of defence with the Supreme Court of Ontario on February 19, 1988. The Company believes that it has a good defence on the merits and has taken appropriate steps to defend the action vigorously.

(b) The following transactions occurred subsequent to December 31, 1987:

(i) the Company advanced $2,950,000 to Mentor, an associated company, in order to purchase shares of the Company. The Company also purchased Mentor common shares from a company under common management for cash consideration of $360,000;

(ii) the President exercised his stock option to purchase 200,000 common shares of the Company for cash consideration of $3,128,000. In addition, the Company advanced to the President $1,128,000 in connection with the exercise of this stock option, which advance is repayable in equal annual instalments of $112,800 with interest at 8% per annum;

(iii) the Company advanced $1,500,000 to Dumagami as part of a second unsecured subordinated loan as outlined in note 11(a)(iii);

(iv) the Company paid $1,375,000 in connection with the purchase of certain real estate;

(v) the Company advanced $200,000 to a mining company in the exploration stage; and

(vi) additional stock options were granted to certain directors of the Company to purchase 515,000 common shares, which are exercisable at $18.75 per common share and expire on March 7, 1993.

18. COMPARATIVE STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 1987 financial statements.

CORPORATE INFORMATION

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Fefergrad & Associates
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT
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BANKERS
The Toronto-Dominion Bank
Toronto, Ontario

SHARE LISTINGS
The Toronto Stock Exchange
Toronto, Ontario

Montreal Exchange
Montreal, Quebec

Trading Symbol AGE

O.T.C. in United States of America
NASDAQ Symbol AEAGF

ANNUAL MEETING OF SHAREHOLDERS
June 24, 1988, 10:00 a.m. (Toronto time)
Library Room, Main Mezzanine
Royal York Hotel, 100 Front Street West,
Toronto, Ontario, Canada

Avis Aux Actionnaires du Québec

Ce rapport, la formule de procuration, la convocation à l'assemblée et la circulaire d'information vous seront envoyés en français par la poste aussitôt que disponibles. Nous vous remercions de votre patience.

Notice to Quebec Shareholders

The French translation of this report and the Proxy and the Notice of Meeting and Information Circular will be mailed to you as soon as it is available. Thank you for your patience.

DIRECTORS

Irving Dobbs
Insurance Executive

Mikey Drutz
Retired, former Secretary-Treasurer of the Corporation

Gordon W. Kirk, P.Eng.
Mining Consultant

Milton Klyman
Financial Consultant

James D. Nasso
President, National Baby Formula Limited

John R. Murray
Retired, Former Deputy Chief, Metropolitan Toronto Police

Paul Penna
President, Jakmin Investments Ltd.

OFFICERS

Paul Penna
President and Managing Director

Barry Landen
Secretary-Treasurer

SENIOR OPERATING STAFF

W. A. Hubacheck, B.Sc., P.Eng.
Consulting Geologist

John M. Mortimer, B.Sc., P.Eng.
Consulting Metallurgist

Sean Boyd, C.A.
Comptroller

GOLD DIVISION

Anton Adamcik, B.Sc., P.Eng.
General Manager

Akbar Sheikh, M.Sc., P.Eng.
Mine Manager

Gaetan Goulet
General Superintendent

John Cafferky, B.A.
Chief Mine Geologist

Donald Theberge, B.Sc., P.Eng.
Exploration Geologist

Allan Young
Engineering Superintendent

Jean-Claude Bouchard
Chief Electrician

Germain Croteau
Underground Superintendent

Yvon Sylvestre
Mill Superintendent

Gilles Forques
Administrative Manager

Alain Thibeault
Metallurgist

Jean-Pierre Flageole
Safety Superintendent

SILVER DIVISION

John Young
Mine Manager

Brian Thorniley, B.Sc., M.Sc., P.Eng.
Chief Geologist and Assistant Mine Manager

Armand R. Cote. P.Eng.
General Superintendent

Jean-Marc Lauzon
Mine Superintendent

Stephen Perrin
Mine Superintendent

William Montgomery
Mill Superintendent

William Sutton
Mechanical and Electrical Superintendent

Max Chartrand
Refinery Superintendent

Frank Basa, B.Sc.
Metallurgist

Herbert O. Johnson
Chief Accountant

Gordon W. Kirk, P.Eng.
Mining Consultant

Kent Saxton
Safety Supervisor

Douglas Robinson, B.Sc., P.Eng.
Mine Geologist

David Marek, B.Sc.
Mine Geologist

Elaine Dodd, B.Sc.
Mine Geologist