AGNICO-EAGLE

mines limited

Annual Report 1988

Ruth Bernache

The strength of the silver division — three miners and three shift bosses, with more than a century and a half experience between them.

Agnico-Eagle Mines Limited
1988 Annual Report

Highlights

- *Sale of real estate investment nets approximately $7 million*
- *New aggressive exploration division*
- *43% owned Dumagami Mines begins commercial production*
- *Lucky Eagle Mines Limited: exciting new joint exploration venture*

JOHN MURRAY 1911 – 1989

John Robertson Murray first joined the Agnico-Eagle board of directors in 1976, a position he held until his death. A former Metropolitan Toronto deputy police chief, he was the embodiment of all a man should be: generous, compassionate, intelligent, and humane. He was a gentleman, and a gentle man. A man of honor.

Although he will be remembered publicly as the police officer who initiated the concept of the spot check and the mandatory breathalyzer test to reduce impaired driving, we will remember him as a friend of the company, who offered his personal assets to help ease the debt load in the very early days when debts threatened the completion of the Eagle mine.

John Murray was like the mighty oak, whose immense stature is really only perceived and appreciated once it is felled. We will miss his sound advice, his quiet strength, his steadfast loyalty. There was a time that he did not exist. And that time has tragically come again. We can only take solace in the fact that we knew John Murray in the time he was here. And for this we are grateful.

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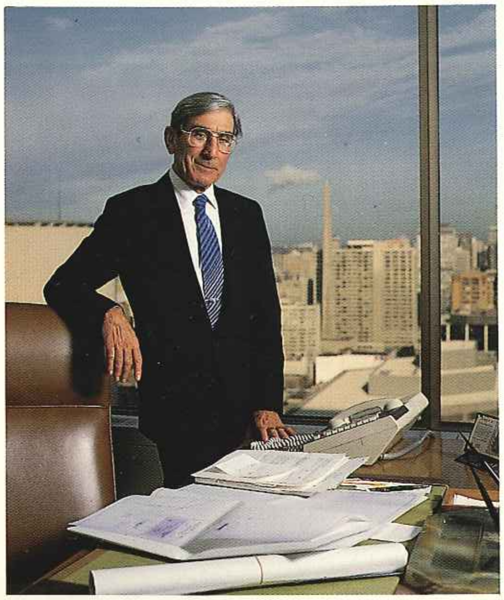
President Paul Penna and these seven smiling 15-year veterans celebrate the gold division's 15th anniversary.

Corporate Profile:

Agnico-Eagle, with corporate headquarters in Toronto, operates separate gold and silver mining divisions, respectively located in Joutel, Quebec, and the Cobalt area of Ontario. The company has no long-term debt. On February 20, 1989 the Eagle mine celebrated 15 years of continuous gold production. During that time, the gold division has produced almost 900,000 ounces of gold from the mining and milling of some 5 million tons of ore. In addition, the various operating units of the silver division have produced almost 30 million troy ounces of silver since incorporation in 1953.

In celebration of the anniversary of the Eagle mine, and in recognition of the loyal employees who have honored Agnico-Eagle with at least 15 years of service, the company recently presented twenty-two dedicated people with commemorative gold rings bearing the Agnico-Eagle symbol. Together, these remarkable men and women have been part of the Agnico-Eagle family for a total of 500 years, ranging individually from 15 to 38 years. We wish to thank them publicly for their commitment to this company, and we introduce them to you, within the pages of this 1988 annual report.



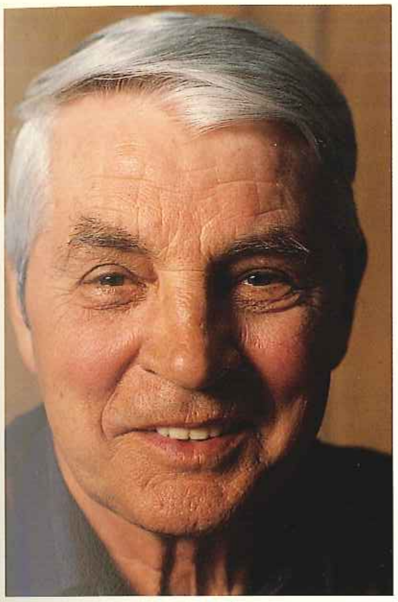
Paul Penna, President

PRESIDENT'S MESSAGE

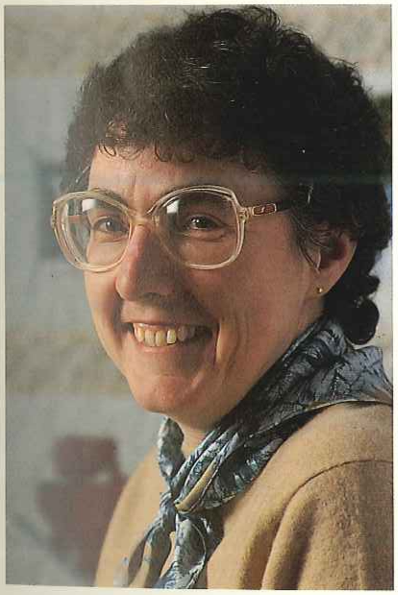
Loyalty, that rare and precious quality, separates the great from the mundane. It is a gift freely offered, it cannot be purchased. Agnico-Eagle is fortunate that a number of talented and loyal employees who celebrated the opening of the Eagle Mine in Joutel in 1974, are with us today as we commemorate that gold mine's 15th anniversary.

This annual report will introduce these 22 dedicated people. They are the strength of our company, responsible for its enduring culture and continuity. Five have been part of the Eagle mine since it began commercial production 15 years ago. Three are vital members of our senior operating staff. In Cobalt, where the silver division recently celebrated its 25th anniversary under present management, 14 employees have been with us for more than 15 years. These include the experienced miners and shift bosses who can "smell the silver", the engineers who fine tune the machinery, and the office workers who keep an efficient accounting of the company's progress. We thank this diehard and committed group of gifted men and women, who form the life blood of Agnico-Eagle.

It has been written that this company is unique in the loyalty of its shareholders, who have stayed with the company through the good years and the bad. This support is vital during the difficult times which are an intrinsic part of the cyclical nature of gold mining. In some ways, 1988 was such a year. Reduced tonnage and ground problems at the gold division, coupled with increasing costs at the silver division has resulted in disappointing operating results, and the first annual loss recorded since 1977. The 11% reduction in bullion prices over 1987 exacerbated the situation. This company eschews revenue management, preferring to take full advantage of upswings in the price of gold. This policy has served us well during the years of higher bullion prices, however when the gold price is depressed we must deal with decreased revenues and cash flows.



General Superintendent Armand Côté has guided the fortunes of the silver division for 31 years.



Ruth Bernache, the silver division's office manager for 36 years is an accomplished and celebrated Cobalt artist.

Several significant initiatives have been implemented to improve the current situation. These include suspending mining operations at the Silver Division, and concentrating on the development of the Penna Shaft until an improved price of silver or the discovery of a more cost-effective orebody justifies the resumption of operations. At the gold division, an independent consultant is completing a review of operations and mining methods in an effort to decrease production costs.

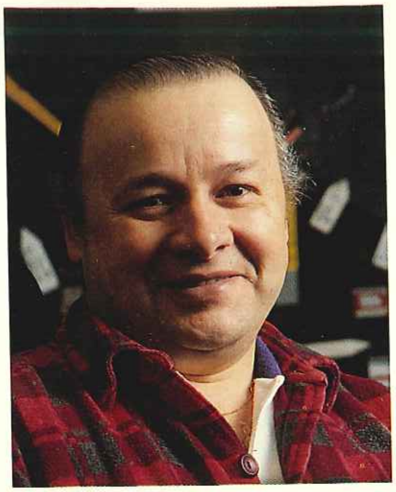
On the positive side, the sale of the real estate investment which closed on May 4, 1989 will net approximately $7 million after tax, resulting in a 50% increase in the 1988 annual dividend. Because the transaction did not close prior to year end, this profit does not appear in the 1988 operating results, yet it improves the Company's financial condition and focuses Agnico-Eagle's efforts squarely on the production of and search for precious metals.

In this regard, the success of Dumagami Mines Limited, which began commercial production in October, 1988, cannot be underestimated. Agnico-Eagle has increased its ownership interest in Dumagami, which we manage, to 43%. Agnico-Eagle has been providing management, technical, administrative and financial services to Dumagami. Under a recently signed formal agreement Dumagami will pay Agnico-Eagle a management fee equal to 7% of all operating and capital costs.

Dumagami continues to exceed expectations. It has increased reserves to 7 million tons grading 0.139 ounces per ton, and has announced a $12 million expansion program to increase tonnage and further explore its excellent deposit. It is important to recall that Dumagami owes its success to Agnico-Eagle's financial support and mining competence. Approximately $10 million is still owing to Agnico-Eagle for pre-production financing. Appropriately, Dumagami will play a vital role in Agnico-Eagle's future. The Board of Directors of both companies are currently discussing merger possibilities.

The new, strengthened, merged company would enjoy all the resultant economies of scale. It would boast reserves containing approximately 1.4 million ounces of gold. The outstanding Dumagami gold deposit, added to Agnico-Eagle's gold and silver divisions and its formidable portfolio of outstanding exploration properties in Northwestern Quebec would create a new, major force in Canadian precious metals mining. With a higher combined cash flow and greater flexibility, Agnico-Eagle would take its place near the top of North America's mid-level producers. The merged company could produce up to 200,000 ounces of gold annually by 1991.

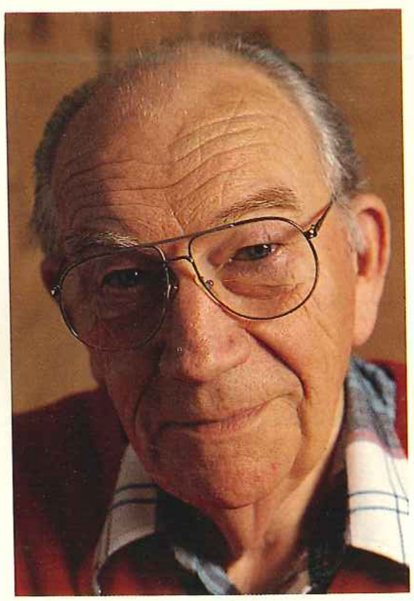
Another exciting development confirming our commitment to increased gold exploration is the establishment of an aggressive new division. The Exploration Division will examine important targets on Agnico-Eagle's vast holdings in northwestern Quebec, which stretch some 35 miles between the Joutel and Casa Berardi major ore deposits. A $2.4 million exploration and diamond drilling program in nine specific areas is scheduled for 1989.



Jean-Paul Breault has operated the hoist since 1964. His son and brother also hold this vital position at the silver division.

The exploration division is already reporting some very promising results. It is concentrating in particular on a previously unexplored area of the Telbel property, 2,000 feet from the mine. Early diamond drilling results in 1989 indicate mineralization which could be a potential repeat of the Agnico-Eagle orebody.

Initial diamond drilling has produced encouraging results in the Allard River-Vezza-Cavelier area. The company is negotiating an agreement regarding the exploration of additional properties in Vezza township, 35 miles from Joutel. Under the proposed arrangement, a known deposit of 1.9 million tons of ore with an undiluted grade of 0.16 ounces per ton would be examined for possible future mining. The Exploration Division will focus primarily on the company's Quebec properties.

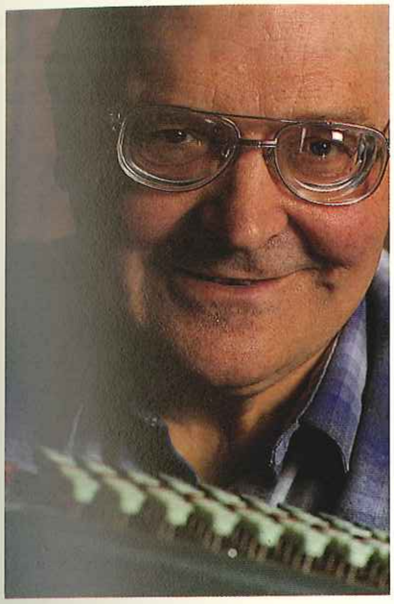


Gordon Kirk joined the silver division in 1954, was Mine Manager for 19 years, and continues as a consultant.

In order to take advantage of the dynamic and flourishing U.S. market, Agnico-Eagle and Hecla Mining Company of Coeur d'Alene Idaho have agreed to form a joint exploration company, Lucky Eagle Mines Limited. Lucky Eagle will explore both grass roots and advanced exploration precious metals properties in the continental U.S. and Canada.

Working together, the two companies have developed an imaginative strategy for optimum efficiency and productivity. The concept is innovative and unique. Agnico-Eagle will direct exploration of all Canadian targets, and Hecla will similarly direct all U.S. exploration initiatives. Hecla is a century-old experienced producer, like Agnico-Eagle in management style and philosophy. We look forward to co-operating with Hecla in this dynamic new venture.

In the accompanying notice, shareholders will be asked to approve a strategy which will protect them in the event of an unwelcome takeover. This Shareholder Rights plan will ensure all



Herb Johnson, the silver division's Chief Accountant has been with the company for 38 years — our longest serving employee.

Engineering Superintendent and avid curler Allan Young joined us in 1974. He founded the gold division's annual bonspeil.

shareholders are treated fairly, equally and without exclusion by persons seeking to acquire control of the company. The plan will protect their long-term investment in the company, while preserving their right to take advantage of any fair offer that might be tendered. The board of directors believes that the true value of Agnico-Eagle, including its investments, mining assets and massive land holdings are not reflected in the current market price of the Company's shares. This initiative will protect all shareholders of the company during cycles of vulnerability.

It has always been the policy of this Company to tell the good with the bad, unexaggerated and unembellished. Although 1988 was a difficult and challenging year, we believe that the comprehensive measures recently initiated will prove effective in the coming year.

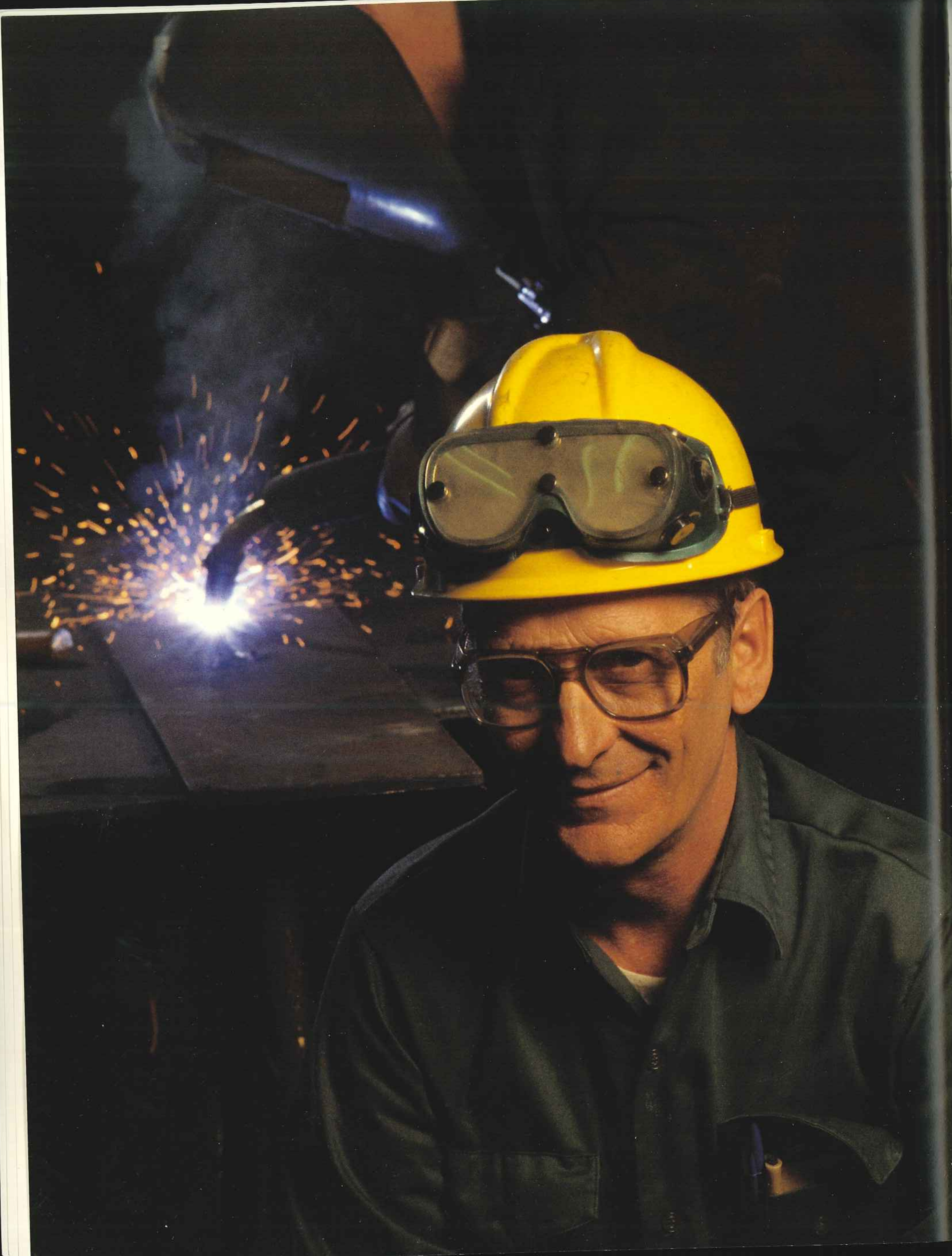
In conclusion, we again recognize and thank the 15 year veterans for their loyalty and dedication. And we wish to express our appreciation to our loyal shareholders, who share with us pragmatism, optimism, and an eternal fascination for this enduring, alluring, and remarkable industry — the search for and mining of gold.

Respectfully submitted on behalf of the board of directors,

Paul Penna

Paul Penna,
President

May 12, 1989.



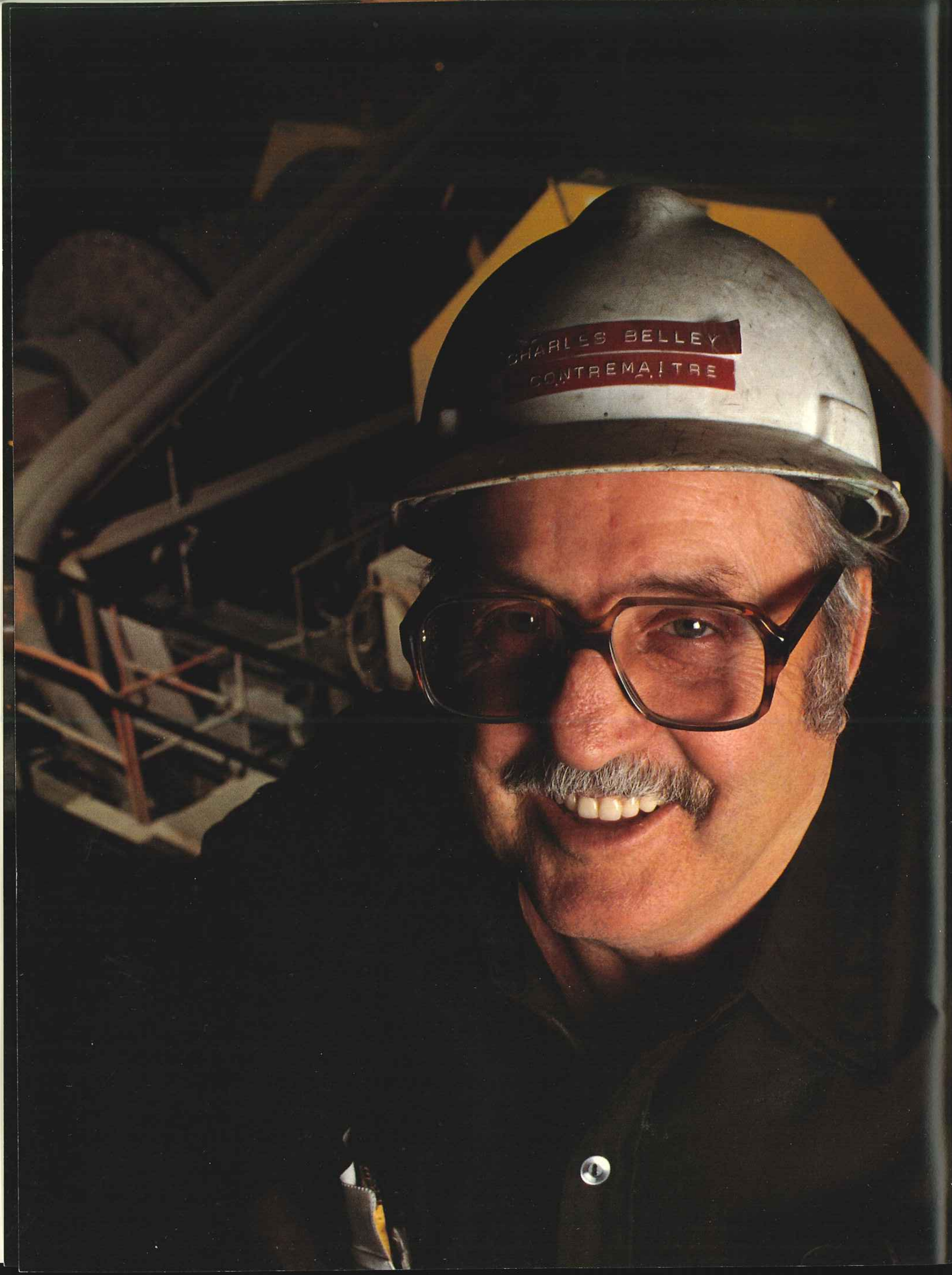
Diminutive Fidel Dubuc is a legend in Joutel for his only accident. Nine years ago, the wind caught a sheet of plywood the 105 lb carpenter was laying on a roof. Rather than letting go, he struggled to control it. Clinging tenaciously to the airborne ply, like riding a magic carpet he soared off the roof, and laughing broke his ankle.

REVIEW OF OPERATIONS: GOLD DIVISION

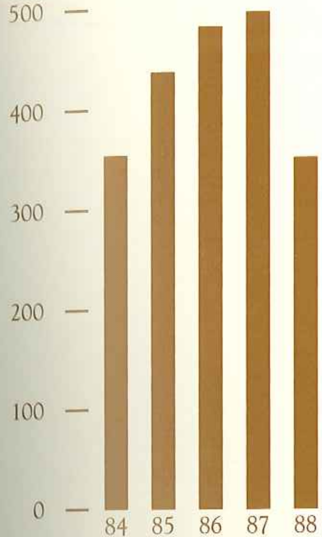
PRODUCTION: GOLD DIVISION

	1988	1987	1986
Tons of ore milled	348,425	498,131	484,051
Mill recovery: %	90.54	90.43	89.16
Grade: oz gold/ton	0.191	0.167	0.175
Gold production: ozs	60,371	74,818	75,646
Silver production: ozs	17,006	18,799	16,358
Average gold price (Cdn)	$534	$597	$511

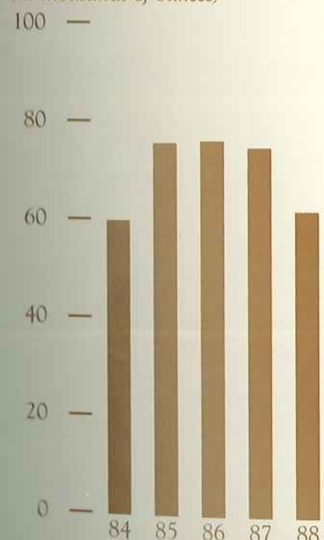
First Class welder Roger Belanger joined the gold division in 1973. His modifications to underground equipment won an important 1988 Quebec government award for innovation.


CHARLES BELLEY
CONTREMAITRE

Tons of Ore Milled
(in thousands)



Gold Production
(in thousands of ounces)



PRODUCTION

Gold production during 1988 totalled 60,371 ounces with by-product recovery of 17,006 ounces of silver. Although the new sub-level retreat mining method has helped to improve recovered grades to 0.191 ounces per ton up from 0.167 ounces per ton in 1987 the Eagle-Telbel mine is still encountering difficulties with dilution. When combined with an 11% decrease in bullion prices received and lower mill throughput, income from production was down 28% over 1987, at $32.2 million in 1988 compared to $44.7 million in 1987.

The unexpected reduction in mill throughput from 498,131 tons in 1987 to 348,425 tons in 1988 was the result of lost operating time due to major renovations to the bulkhead on the main ore pass and replacement of the primary underground crusher during the second quarter. In addition, in November major repairs were made to a section of the Telbel shaft. These repairs, which have improved hoisting efficiency in 1989, interrupted hoisting operations and provided milling time for a bulk sample test of associated Goldex Mines Limited development muck.

In 1988 the gold division realized a cash operating profit of $7.5 million, which was well below expectations. In an effort to improve this performance, the Company has recently undertaken an extensive review of operations and mining methods employed at the division. The review is being directed by an independent consultant and is focussed on reducing operating costs and improving recovered gold grades through reduced dilution. The Company fully expects that changes made to operations will result in improved efficiency and increased production.

FINANCIAL: GOLD DIVISION
(thousands)

Income from production	$32,255	$44,718	$38,548
Mine operating costs	24,768	24,571	21,885
Mine operating profit	$ 7,487	$20,147	$16,663

ORE RESERVES: GOLD DIVISION

Proven ore —	tons	1,551,838	1,583,419	853,711
	oz/ton	.19	.202	.189
Probable ore —	tons	656,952	450,845	1,249,269
	oz/ton	.20	.156	.209
Total reserves —	tons	2,208,790	2,034,264	2,102,980
	oz/ton	.193	.192	.201

◀ *Civic-minded mill Mechanical Foreman Charles Belley is active in the curling club, and several Joutel service and sporting clubs. He even plays Santa at the children's Christmas party. His team won a 1988 safety award for 50,000 accident-free man hours.*

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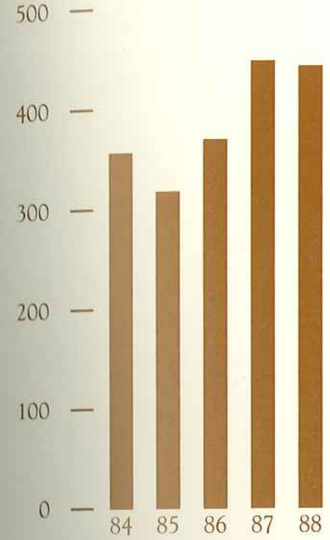
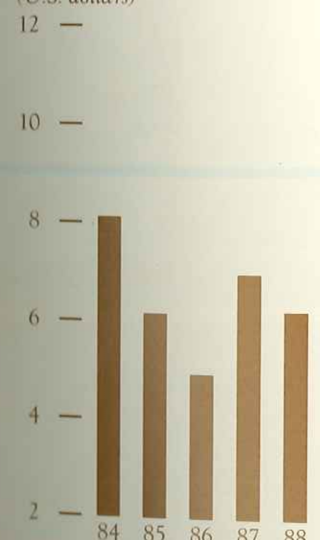
Average Gold Price
(U.S. dollars)



Average Silver Price
(U.S. dollars)



Calm, competent, and confidence-inspiring, Mine Captain Guy Lachance leads the gold division's underground rescue team. Happily, the 35 pounds of rescue equipment he wears has only been used in practise.

EXPLORATION AND DEVELOPMENT:

NEW EXPLORATION DIVISION:

Agnico-Eagle holds an additional 654 claims in northwestern Quebec, consisting of 26,350 acres, much of which encircles the producing gold division properties of Eagle and Telbel in Joutel Township. A new exploration division has been created to aggressively explore the potential of these extensive holdings and to acquire new exploration properties in Quebec. With a budget of $2.4 million in 1989, the exploration division will complete in excess of 40,000 feet of surface diamond drilling in its first years of operation. The annual budget will be progressively increased over several years as new project areas are acquired and added to Agnico-Eagle's property portfolio.

Areas of particular interest include the Telbel property where two targets with excellent ore potential will be followed up by diamond drilling in excess of 14,000 feet during 1989. One of these areas has been discovered in 1989 in diamond drill holes 89-T-3 and 89-T-4 which intersected 0.152 oz Au/ton over 25.8 feet and 0.148 oz Au/ton over 19.7 feet respectively. This mineralization has the potential of being a further repeat of the Agnico-Eagle zone on strike and two thousand feet to the east of the Telbel mine. The second target is located 1,400 feet northeast of Telbel. Diamond drilling is continuing on the Valrennes ACE properties after completion of an initial 7,000 feet in early 1989. This drilling has successfully located a complex environment on strike and geologically similar to that of the Agnico-Eagle mine approximately 5 miles to the southeast. Work is continuing to establish continuity and tonnages.

Other areas of particular interest include the Allard River – Vezza – Cavelier Groups which have also produced encouraging results in initial diamond drilling. The Vezza claims were staked to cover the possible north extension of the North American Rare Metals discovery (1.9 million tons bearing 0.16 ounces of gold per ton) and 1989 exploration will focus on this area. Negotiations are underway to acquire contiguous claims to the Vezza property. Additional work is planned in 1989.

COMINCO JOINT VENTURES

The 55% Cominco-45% Agnico-Eagle joint venture controls three areas in the Joutel region, consisting of 766 claims in Estrades, Valrennes, Joutel and Douay Townships. These three areas cover the immediate extensions of, and regional possibilities for the structural rock packages that host the Agnico-Eagle and Telbel deposits. In addition, the western end of this block lies 600 meters south of the Golden Hope massive sulphide deposit. The joint-venture has spent an estimated $3.8 million to date. The 1989 program will consist of 16,000 feet of diamond drilling plus 35 reverse circulation holes which will establish further diamond drilling targets.

An additional 50% Cominco-50% Agnico-Eagle 302 claim joint venture in the Macho River area 100 miles northeast of Val d'Or completed 3,120 feet of diamond drilling in 1988. Two significant discoveries made on neighboring properties have accelerated the diamond drilling program on this property, and 8,775 feet over 15 holes is planned for 1989.

Shift bosses Jean-Marc Lauzon (L), André Camirand (middle) and Eugène Dubé (R) at the cage of the Penna Shaft. They share the same hobbies, camping and fishing, and their dedication (25, 35 and 16 years) to the silver division.

REVIEW OF OPERATIONS: SILVER DIVISION

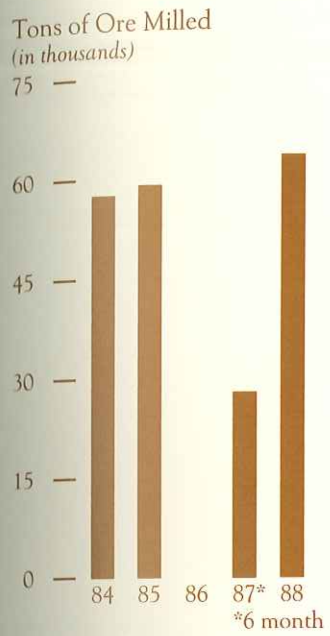
PRODUCTION: SILVER DIVISION

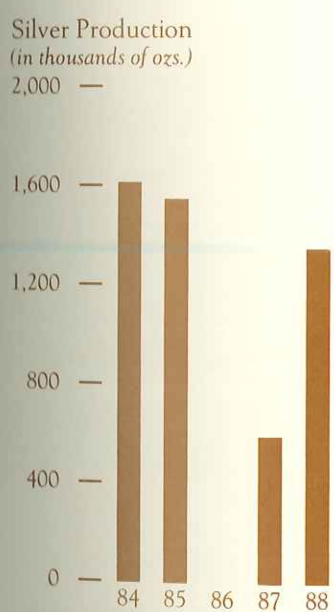
	1988	1987*	1986**
Ounces of silver produced	1,349,035	577,001	–
Tons of ore milled	63,877	28,608	–
Recovered oz. ag/ton	22.44	21.15	–
Bullion revenue (thousands)	$10,058	$ 7,033	$(1,152)

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

Engineer Don Stewart (L) and Chief Geologist and Assistant Mine Manager, Brian Thorniley assess targets in the silver division's exploration office. The company has benefitted from their expertise since 1971 and 1972, respectively.


BILL MONTGOME





Mill Superintendent William Montgomery (L) joined the silver division in 1958. Mechanical Superintendent Bill Sutton followed 12 years later, after an adventurous western career from washing placer gold to breaking wild horses in Alberta.

PRODUCTION:

The 300 ton per day Penn Mill processed 63,877 tons of ore to produce 1,349,035 ounces of silver. The main source of mill feed was the Beaver-Temiskaming mine, which provided 60% of the ore. The Castle mine provided 32%, and the remaining 6% came from the Langis mine.

With mining costs increasing significantly, and the price of silver remaining low, a decision was made in November, 1988 to focus all efforts on the new Penna shaft area, and to suspend current mining operations until the price of silver justifies the profitable extraction of the white metal. The majority of the mines in the silver division can be quickly and cost-effectively readied for further production, and the company is well positioned to take expeditious advantage of a rise in bullion prices, due to its extensive holdings in the Cobalt camp.

TABLE OF EXPLORATION AND DEVELOPMENT
SILVER DIVISION

	1988 Footage	Unit Cost	1987 Footage	Unit Cost
Crosscutting and drifting	4,339	$307	3,383	$269
Raising	890.5	$443	1,309	$270
U/G diamond drilling	51,019	$ 24	95,582	$ 22
Surface drilling	7,689	$ 13	17,348	$ 15

EXPLORATION AND DEVELOPMENT: 1988

Underground Drilling Program Completed

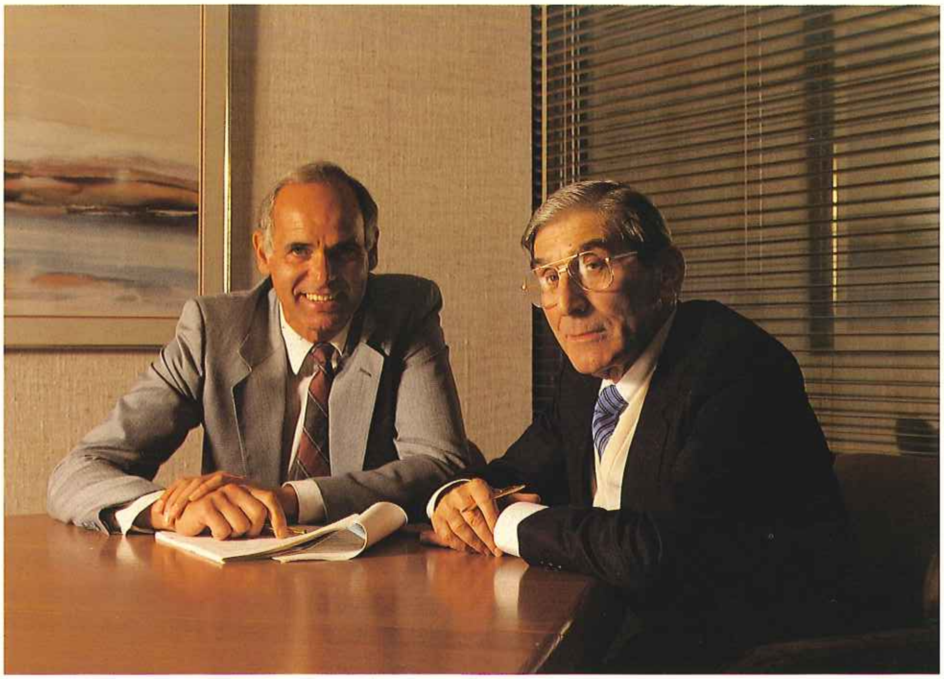
A total of 48,427 feet of underground exploration drilling was completed at the Beaver-Temiskaming, Castle and Langis Mines. Work will concentrate on the Penna Shaft in 1989.

Penna Shaft:

The sinking of the new 1,200 foot Penna shaft and the construction of the surface facilities was completed. Thirteen stations were cut during the year and the 4th level crosscut had advanced 301 feet by year end. In addition 120 feet of raise was advanced to establish ore passes for the 4th and 8th level. A total of 2,672 feet of diamond drilling was also completed. The 4th level 2,000 foot lateral drive will explore several silver vein intersections discovered in 1986, which have been traced over a 3,000 foot strike length to a depth of 800 feet.

CONTACT ZONE REACHED:

On May 2nd, 1989 the drive on the 4th level reached the contact zone. This area consists of a zone of massive Cobalt and leaf silver in the host rock which is open to the South and the North. The area of main intersections is now only 500 feet away. With all efforts in Cobalt directed exclusively to this project, it is anticipated that the drive will be completed by the end of June, 1989.



Hecla President and Chairman, Arthur Brown and Agnico-Eagle President Paul Penna sign the important document creating Lucky Eagle Mines Limited.

LUCKY EAGLE MINES LIMITED

NEW NORTH AMERICAN EXPLORATION COMPANY:

An exciting new exploration company has been formed by pooling the resources and expertise of Agnico-Eagle with a renowned American gold and silver producer. In July 1988, Agnico-Eagle announced that a letter of understanding had been signed with Hecla Mining Company of Coeur d'Alene, Idaho, to form a joint exploration company which would search for precious metals within specifically identified areas of North America. In early 1989, the formal Letter of Intent to form Lucky Eagle Mines Limited was signed. Both companies have vast experience in the mining of precious metals. Hecla, listed on the New York Stock Exchange, celebrates its centennial in 1991. A company similar in style and philosophy to Agnico-Eagle, it is known for its lean, efficient management and excellent mining skills.

Lucky Eagle (a combining of the names of two of the companies' mines — Hecla's Lucky Friday silver mine, and Agnico-Eagle's Eagle gold mine) is poised to present the highest possibility of beating the odds of finding a mine.

Its holdings will consist of a balanced portfolio of grass roots and advanced exploration properties located in the United States and Canada. Agnico-Eagle will direct the exploration of all Canadian properties and Hecla will oversee the exploration of the U.S. properties. Thus both companies will maximize their expertise and comprehensive geological knowledge of their own countries, providing North America's newest exploration company with greater opportunities for success.

Lucky Eagle will provide Agnico-Eagle with expanded opportunities and capabilities for U.S. exploration, as well as additional funding for Canadian programs.

With 15, 33 and 22 years of drifting, stoping and timbering in Agnico-Eagle's Cobalt properties, experienced silver miners Rheal Allard, Aldege Pelletier and Jacques Laguerre prepare to go underground at the new Penna Shaft in nearby New Liskeard.

Mine Manager Ebe Scherkus proudly holds Dumagami 1 at the official pour on June 28, 1988. He is surrounded by the jubilant team of miners, mill employees, office staff, construction workers and consultants responsible for Dumagami's success.

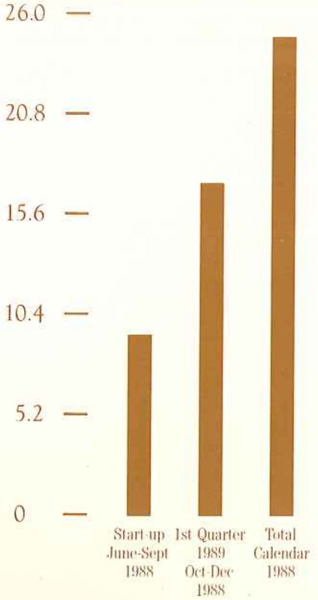
A historic moment — the first official bar is poured in Dumagami's refinery.

DUMAGAMI MINES LIMITED

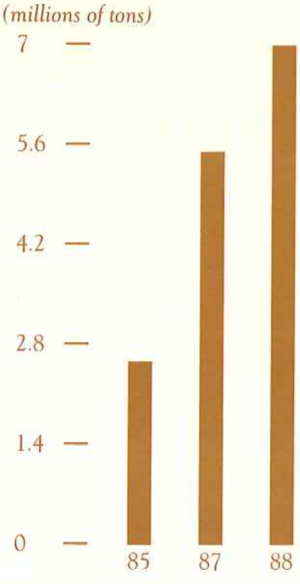
Corporate Profile:

Dumagami Mines Limited began start-up operations on June 28, 1988 at its Donald J. LaRonde mine and milling complex on its principal property in the province of Quebec. These 26 claims, totalling 1,215 acres, straddle Cadillac and Bousquet townships, between the traditional gold mining centres of Rouyn-Noranda and Val d'Or. After an extended Phase I exploration program, which began in July 1983, a Phase II program commenced in September, 1986 to prepare the mine for production. This included the deepening of the 1,400 foot shaft to 3,200 feet, the necessary underground development, and the construction of a 2,000 tons per day concentrator complex. The 17,600 square foot milling complex was completed in less than one year, a remarkable two months ahead of schedule. The first bars of gold were poured on June 28, 1988, less than five years from the beginning of the Phase I exploration program. Dumagami is managed by senior personnel of Agnico-Eagle which holds approximately 43% of the company.

Summary of Production
(thousands of ounces)



Reserves
Proven and Probable
(millions of tons)



DUMAGAMI: REVIEW OF OPERATIONS

PRODUCTION:

Dumagami Mines Limited officially poured its first bars of gold on June 28, 1988. The necessary fine-tuning and modifications associated with start-up continued until year end, September 30, 1988. Full-scale commercial production began during October of 1988. A total of 16,108 ounces of gold were produced in that period, plus by-product production of 29,501 ounces of silver and 275,996 pounds of copper. Total production for the 1988 calendar year was 25,792 ounces of gold, 39,868 ounces of silver and 412,270 pounds of copper. Dumagami began production with no long term debt, however, pre-production financing of $9.9 million provided by Agnico-Eagle remains to be repaid.

RESERVES INCREASED:

Dumagami continues to exceed initial production expectations. Further definition of the orebody has resulted in the upgrading of reserves for the second time since 1986. At that time the reserve estimate was stated as 2.2 million tons, grading 0.093 ounces of gold per ton. The reserve inventory was increased in 1987 to 5.5 million tons, averaging 0.134 ounces of gold per ton.

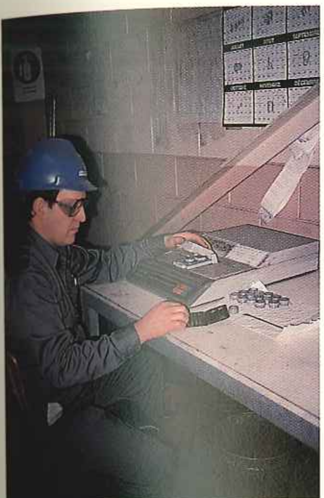
Development of the open pit has exposed several unexpected areas of higher grade ore, including some visable gold. The reserves for the open pit area have increased by almost 170,000 tons — from 430,400 tons to 600,000. The open pit will be expanded in 1989 to take advantage of the higher tonnage.

Underground reserves have also been increased. The west zone reserves have been calculated at 3.1 million tons grading 0.164 ounces of gold per ton. Total reserves are now upgraded to 7,022,000 tons of proven and probable ore, grading 0.139 ounces of gold per ton. The orebody is still open at depth.

PRODUCTION INCREASED

Due to the increased tonnage and grade, a decision was made to increase production, beginning in November, 1988, from 1,500 tons per day to 2,000 tons per day. This will increase 1989 gold production from the previous estimate of 63,000 ounces to 70,000 - 75,000 ounces of gold, plus by-product recovery of 180,000 ounces of silver and 2 million pounds of copper. These projections increase to 85,000 ounces of gold in 1990 and possibly up to 100,000 ounces in 1991.

The expanded open pit will provide the mill with 60% of its ore during 1989. However, by mid-1990, the open pit will be depleted and all ore will be mined from underground. Since the core of the orebody is at depth, it is important to accelerate the development of the mine to sustain the mill at 2,000 tons per day.



An Outokompo X-Ray Analyser maintains precision control of the copper flotation system.

NEW EXPANSION AND EXPLORATION PROGRAM:

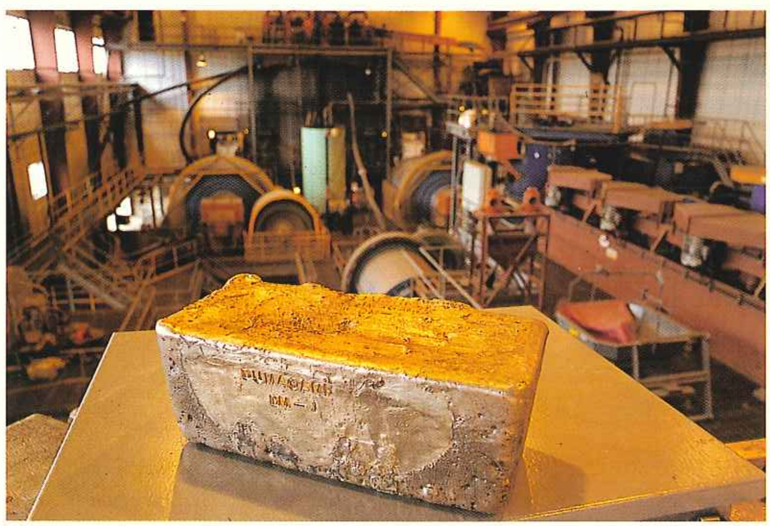
A new expansion program has been initiated to attain quicker access to the higher grade, lower level ores. The budgeted cost of this program is $12.6 million. It includes $4.2 million in expansion and modifications to the hoist and shaft, $3.2 million in underground equipment, $3 million in further underground development and $2.2 million in related surface expansions.

In addition to the new expansion program, Dumagami will embark upon an ambitious exploration initiative. Budgeted at $1 million per year over a four year period, it will be funded entirely out of cash flow. The program will provide important information concerning the existing orebody and will explore new targets on the Dumagami property.

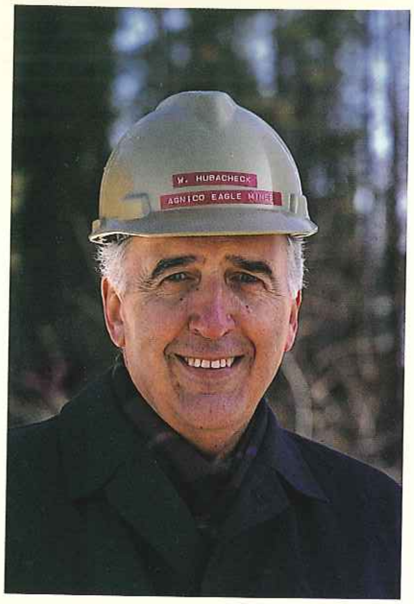
ROLE OF AGNICO-EAGLE:

It is important to recognize the role Agnico-Eagle played in Dumagami's success. Dumagami's current position as a world-class gold producer is directly due to the vision and persistence of Agnico-Eagle. Since exploration began on the property, Agnico-Eagle has contributed in excess of $13 million, including the key financing that assured the continuance of the extended exploration program that discovered higher grade copper and gold mineralization in the western portion of the Dumagami ore zone. In addition, it provided the guidance and expertise that only an experienced senior mining company could offer. Agnico-Eagle's renowned operational and financial competence resulted in cost-effective exploration and development programs and efficient construction of Dumagami's 2000 tons per day mining and milling complex. The total expenditure during the five-year exploration and development period was $59.6 million — well below the standard industry costs of bringing a mine of this size into production, and thus, a truly remarkable achievement.

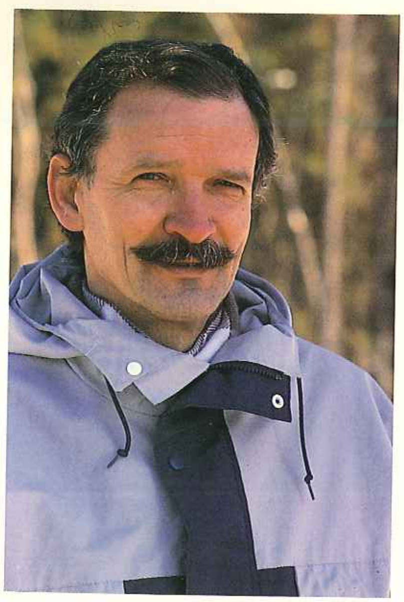
A mill instrumentation control panel with programmable logic controllers automatically monitors and adjusts milling operations.



Dumagami 1, weighing 588 ounces contained gold, silver and copper. The copper flotation system in the mill (background) began operation later in the start-up period.



Wencel Hubachek has been the company's Consulting Geologist since 1969.



Anton Adamcik, Agnico-Eagle's General Manager, oversees all gold operations.

GOLDEX MINES LIMITED

Agnico-Eagle currently holds an 18% interest in Goldex Mines Limited of Val d'Or, Quebec. In 1988 it advanced a total of $0.8 million to Goldex for exploration purposes.

EXPLORATION AND DEVELOPMENT PROGRAMS COMPLETED:

Between 1985 and 1988, Goldex completed an ambitious two-phased exploration and development program. Phase I, a $6.9 million program was designed to establish the grade and continuity of the gold bearing ore structures, and included the sinking of a 1,500 foot shaft. The Phase II program continued underground exploration and development of the property. Between both programs, Goldex achieved 13,214 feet of lateral development, 1,920 feet of raising, and over 105,000 feet of underground diamond drilling.

The Goldex orebody proved a challenge not because of a lack of gold, but due to a high percentage of erratic visable gold in complex vein structures. This 'nugget effect' affected assays significantly, and hampered an accurate assessment of tonnage and grade.

Consequently, development muck was stockpiled during 1988, in preparation for a controlled mill test. This was the final step in the three year exploration program to establish continuity of the gold bearing structures and representative grades of the contained gold. In November, a 37,600 ton mill test, using the bulk sample and development muck, was carried out at Agnico-Eagle's mill in Joutel, Quebec. The bulk sample graded .083 ounces of gold per ton, compared to the mine assayed grade of .123 ounces of gold per ton.

The program results and the bulk sample indicate a proven, diluted reserve of 857,851 tons in the main zone, with an average grade of .073 ounces of gold per ton, using bulk mining methods. Selective mining would increase the grade to .098 with a reduction in tonnage. These reserves apply only to the main zone on the 1100 foot level. Two additional zones of similar character and size are currently drill indicated at higher elevations.

CONCLUSION:

Goldex has the potential to become an operating mine. However, it has been the philosophy of management to put a mine into production only when all elements, including reserves, bullion price and economic climate are maximized to ensure profitability. Goldex continues to be an important, viable property, and the advantage of its proximity to Val d'Or cannot be underestimated. Goldex plans to spend up to $2 million in 1989 on a new exploration program to determine the quality and extent of a newly discovered area of mineralization at depth on the property, which indicates a potential fourth zone. A production decision will be postponed to further explore the property and increase the reserves, or until appreciably higher bullion prices prevail.

Summarized 1988 Quarterly Data

Consolidated Financial Results	Quarterly Period Ended March 31st	June 30th	Sept. 30th	Dec. 31st	Year 1988
Income from production (thousands)	$12,866	$ 9,678	$ 11,521	$ 8,248	$ 42,313
Income (loss) before extraordinary items (thousands)	$ 400	$ (1,645)	$ (422)	$ (3,892)	$ (5,559)
Per share	$0.03	$(0.12)	$(0.03)	$(0.27)	$(0.39)
Cash position (deficiency) at end of period (thousands)	$ (8,307)	$(13,703)	$(14,964)	$(17,921)	$(17,921)
Weighted average number of shares outstanding (thousands)	14,024	14,118	14,144	14,247	14,247

Divisional Operating and Financial Summary

GOLD DIVISION

	March 31st	June 30th	Sept. 30th	Dec. 31st	Year 1988
Income from production (thousands)	$10,469	$ 6,743	$ 9,291	$ 5,752	$ 32,255
Cash mine operating costs (thousands)	6,342	6,315	6,330	5,781	24,768
Cash mine operating profit (loss) (thousands)	$ 4,127	$ 428	$ 2,961	$ (29)	$ 7,487
Tons of ore milled	110,032	75,314	93,077	70,002	348,425
Grade — oz. ton gold	0.184	0.180	0.212	0.181	0.19
Gold production — ozs.	18,532	12,337	17,994	11,508	60,371
Average cost per oz. gold	$342	$512	$352	$502	$410
Average gold price/oz.	$565	$546	$516	$500	$534

SILVER DIVISION

	March 31st	June 30th	Sept. 30th	Dec. 31st	Year 1988
Income from production (thousands)	$ 2,397	$ 2,935	$ 2,230	$ 2,496	$ 10,058
Cash mine operating costs (thousands)	3,455	3,171	2,469	1,871	10,966
Cash mine operating profit (thousands)	$ (1,058)	$ (236)	$ (239)	$ 625	$ (908)
Tons of ore milled	15,903	16,616	15,556	15,802	63,877
Recovered grade — ozs./ton	21.3	21.6	19.0	22.5	21.1
Silver production — ozs.	338,778	359,513	295,384	355,360	1,349,035
Average cost oz./silver	$10.20	$ 8.82	$ 8.36	$ 5.26	$ 8.13
Average silver price/oz.	$ 7.08	$ 8.16	$ 7.55	$ 7.02	$ 7.46

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 $534
U.S. equivalent $434

Average silver price — Canadian funds $7.46
U.S. equivalent $6.06

Unit cost per oz. gold produced — Canadian funds $410
U.S. equivalent $333

Unit cost per oz. silver produced — Canadian funds $8.13
U.S. equivalent $6.60

Selected Financial and Operating Data

Financial Summary	1984	1985	1986	1987	1988
Income from production (thousands)	$41,187	$44,680	$37,396	$51,751	$ 42,313
Costs of production (thousands)	30,219	33,461	32,204	41,699	43,313
Other income (expense) and discontinued real estate operations (thousands)	928	1,005	3,861	3,928	(3,455)
Income and resource taxes (recovery) (thousands)	5,624	5,387	3,219	5,166	(581)
Share of income (loss) of associated companies (thousands)	(65)	(312)	(644)	912	(1,685)
Income (loss) before extraordinary items (thousands)	$ 6,207	$ 6,525	$ 5,190	$ 9,726	$ (5,559)
Per share	$0.45	$0.47	$0.37	$0.69	$(0.39)
Net income (loss)	$ 6,207	$ 6,525	$ 6,625	$13,852	$ (5,120)
Per share	$0.45	$0.47	$0.47	$0.99	$(0.36)
Cash dividends per share — $U.S.	$0.15	$0.20	$0.20	$0.20	$ 0.30
Capital expenditures (thousands)	$ 7,739	$ 8,318	$16,805	$19,823	$ 29,936
Working capital (thousands)	$21,734	$26,324	$12,845	$ 5,709	$ 1,823
Total assets (thousands)	$69,161	$75,890	$83,089	$91,811	$116,820
Shareholders' equity (thousands)	$52,006	$57,221	$61,367	$69,486	$ 79,257
Weighted average number of shares outstanding (thousands)	13,803	13,816	14,010	14,028	14,247

Production Summary

Gold Division

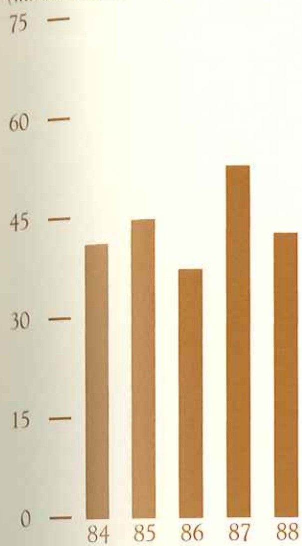
	1984	1985	1986	1987	1988
Income from production (thousands)	$27,826	$33,266	$38,548	$44,718	$ 32,255
Cash mine operating costs (thousands)	16,339	16,311	21,885	24,571	24,768
Cash mine operating profit (thousands)	$11,487	$16,955	$16,663	$20,147	$ 7,487
Tons of ore milled	366,761	439,864	484,051	498,131	348,425
Average grade — oz./ton gold	0.180	0.191	0.175	0.167	0.191
Gold production — ozs.	59,871	75,597	75,646	74,818	60,371
Silver production — ozs.	9,259	10,840	16,358	18,799	17,006
Average gold price — per oz.	$466	$441	$511	$597	$534
Cash operating costs — per ton milled	$45	$36	$45	$49	$71
Cash operating costs — per oz. gold	$273	$216	$289	$328	$410

Silver Division

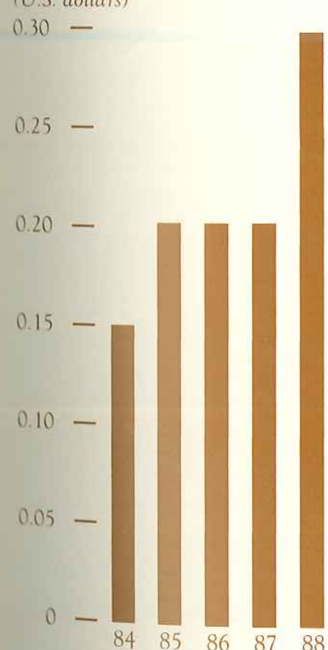
	1984	1985	1986	1987	1988
Income (loss) from production (thousands)	$13,361	$11,414	$(1,152)	$ 7,033	$ 10,058
Cash mine operating costs (thousands)	8,107	8,984	580	6,757	10,966
Cash mine operating profit (loss) (thousands)	$ 5,254	$ 2,430	$(1,732)	$ 276	$ (908)
Tons of ore milled	58,290	59,720	—	28,608	63,877
Silver production — ozs.	1,602,357	1,570,094	—	577,001	1,349,035
Average silver price — per oz.	$9.51	$8.21	—	$12.19	$ 7.46
Cash operating cost — per oz. silver	$5.06	$5.72	—	$11.71	$ 8.13

NOTE: All dollar figures are expressed in Canadian funds unless otherwise indicated.

Income from Production
(millions of dollars)



Dividends Per Share
(U.S. dollars)



MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

In 1988, the Company recorded its first annual loss since 1977. The 1988 consolidated loss before extraordinary items amounted to $5.6 million or $0.39 per share compared to consolidated earnings of $9.7 million or $0.69 per share in 1987 and $5.2 million or $0.37 per share in 1986. The substantial decline in operating results was a direct result of lower precious metal prices realized and lower than anticipated production at the Company's gold division. The average gold price realized in 1988 was $534 ($434 U.S.) per ounce compared to $597 ($450 U.S.) in 1987 and $511 ($367 U.S.) in 1986.

Due to a decline in the amount of ore processed, gold production decreased 19% to 60,371 ounces from 74,818 ounces in 1987 and 75,646 ounces in 1986. Despite a substantial increase in silver production in 1988, the effects of lower bullion prices and lower gold production resulted in a decrease in income from production of 18% to $42.3 million down from $51.8 million in 1987. In 1986, income from production amounted to $37.4 million as silver division production was suspended due to the loss of milling facilities which were destroyed by fire during the year.

Total operating costs and expenses excluding corporate administration and depreciation and amortization increased $4.4 million in 1988 to $35.7 million, primarily due to the commencement of full year operations at the silver division. At the gold division despite a 30% decrease in the amount of ore treated, operating costs increased marginally by $0.2 million to $24.8 million in 1988.

The production difficulties experienced at the gold division resulted in short periods of reduced output at various times throughout 1988, therefore operations could not be substantially curtailed. As such, costs did not decrease in proportion to the decrease in the volume of ore treated. Accordingly, 1988 production costs per ton at the Eagle-Telbel Mine, excluding depreciation and amortization, increased to $71 up from $49 per ton in 1987 and $45 in 1986.

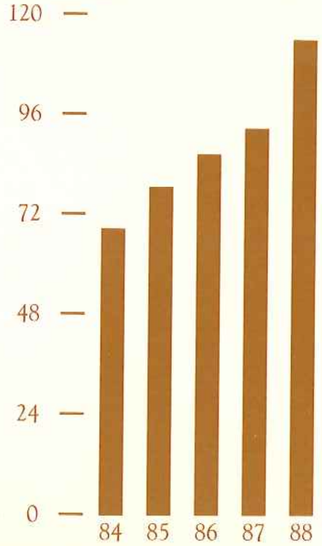
To preserve the company's assets and financial strength during this current period of reduced output and lower metal prices the Company has (1) sold, during 1989, its substantial portfolio of real estate holdings; (2) scaled down unprofitable operations at the silver division; (3) replaced financial support of subsidiary companies with outside exploration financing; (4) instituted, in 1989, a formal method for charging subsidiary and associated companies for management and technical services provided by the Company; and (5) recently commissioned an extensive study of operations and mining methods employed at the Company's gold division to improve operating efficiency and increase production.

In 1988, Agnico-Eagle's share of losses of associated companies was $1.7 million compared to the $0.9 million share of income in 1987 and $0.6 million share of losses in 1986. The decline in income is attributable to losses realized by an associated company on the sale of certain marketable securities and investments.

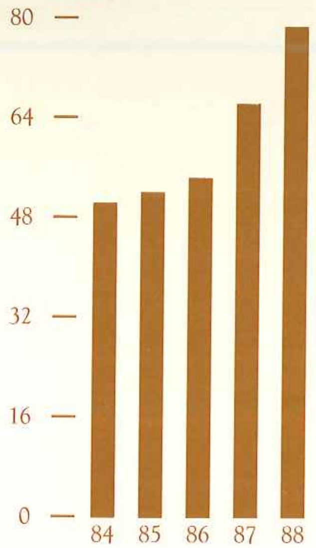
As of December 31, 1988, Agnico-Eagle owned approximately 42% of Dumagami Mines Limited outstanding common stock. Such interest was acquired by Agnico-Eagle through negotiated purchases and open market purchases. Subsequent to December 31, 1988 and through February 2, 1989, Agnico-Eagle purchased an additional 1% interest in Dumagami.

Dumagami had no operating income for its fiscal year ended September 30, 1988 as its mine had not reached commercial production levels until October 1988. Agnico-Eagle's share of Dumagami's future operating results will be reflected in Agnico-Eagle's accounts.

Total Assets
(in millions)



Shareholders' Equity
(in millions)



Other income (expense) amounted to \$2.8 million in net expense compared to income of \$3.5 million in 1987 and \$3.9 million in 1986. The largest item causing the decrease was a \$1 million loss on the sale of marketable securities, which compared to a \$3.1 million profit in each of fiscal 1987 and 1986. Additional expenses were \$0.2 million in interest charges and the write-off of \$2.2 million in deferred exploration costs related to certain silver properties.

The results of operations relating to the Company's real estate activities have been presented as discontinued operations (see notes 15 and 17a). Real estate operations gave rise to an after-tax loss of \$0.6 million compared to an after-tax income of \$0.4 million in 1987. The difference results from interest on mortgages used to purchase additional real estate properties.

FINANCIAL CONDITION: *LIQUIDITY AND CAPITAL RESOURCES*

In 1988, the Company's cash position decreased from \$0.7 million at January 1, 1988 to a year end cash deficit of \$17.9 million, a decrease of \$18.6 million. The major uses of cash in 1988 were \$8.8 million in advances to related corporations, including \$7.4 million to Dumagami Mines Limited; \$6.6 million for mine development costs; \$6.8 million for fixed asset additions and \$3.2 million for dividends.

Working capital at the end of 1988 stood at \$1.8 million and the Company had no long-term debt, in keeping with its policy of remaining free of funded debt.

The Company's working capital position will improve in the second quarter of 1989 when an agreement to sell all of its real estate assets will be concluded. The gross proceeds from the transaction are \$42.8 million, of which, \$16.4 million will be used to repay real estate mortgages. The remaining funds of \$26.4 million will be utilized to pay disposition costs and income taxes related to the transaction and to reduce short-term bank borrowings.

Agnico-Eagle's capitalization increased during the year on the exercise of employee stock options in the amount of \$3.2 million and the issuance of approximately \$18 million in treasury shares for the purchase of 16%, on a gross basis, of the outstanding common shares of Dumagami Mines Limited. With the exception of potential further acquisitions which may require the issuance of treasury common shares, there are currently no other plans to substantially increase the Company's capitalization. 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 lines of credit totalling \$13 million, all of which are presently being used. Once the real estate transaction is concluded, the Company will increase its unused portion of the lines of credit by repaying short-term bank borrowings.

Planned capital expenditures for 1989 of \$5.2 million will be primarily funded internally. The Company's cash position will be enhanced in 1989 from expected loan repayments of \$3.9 million by Dumagami Mines Limited and the receipt of \$1.1 million in mortgages receivable, due in 1989. These additional funds will assist the Company in meeting future capital needs.

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, but 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. With the absence of long-term debt and by focussing its efforts on cost control and increasing gold production through improvements in mining methods, the Company believes it possesses the flexibility to adjust to economic changes.

Inflation has not had a significant impact on the Company's operations.

AGNICO-EAGLE
mines limited

Consolidated Financial Statements
(Canadian Funds)

December 31, 1988

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, 1988 and 1987 and the consolidated statements of income (loss), retained earnings and contributed surplus and cash flows for each of the years in the three-year period ended December 31, 1988. 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, 1988 and 1987 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, 1988 in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Toronto, Canada,
April 3, 1989.

CLARKSON GORDON
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

(Canadian Funds)

DECEMBER 31

AGNICO-EAGLE MINES LIMITED

(Incorporated under the laws of Ontario)

	1988	1987
ASSETS		
CURRENT		
Bullion awaiting settlement (note 2)	$ 887,391	$ 2,664,729
Marketable securities, at cost (quoted market value — $13,423,491; 1987 — $12,955,633)	8,246,687	10,412,514
Concentrates on hand (note 2)	1,849,121	3,810,272
Prepaid expenses, supplies and other (note 13(a))	1,818,439	2,310,828
Income and mining taxes recoverable	1,534,896	29,611
Due from Dumagami Mines Limited (note 3(a))	3,916,875	—
Current portion of mortgages receivable (note 3(b))	1,152,392	144,276
Real estate holdings held for resale net of real estate mortgages payable (notes 8 and 17(a))	12,197,726	—
Total current assets	31,603,527	19,372,230
MORTGAGES RECEIVABLE (note 3(b))	397,821	3,116,466
INVESTMENTS AND ADVANCES		
Investments in shares (note 4)	40,800,694	21,607,009
Loans and advances to related corporations (note 5)	9,400,371	4,464,909
Other (note 6)	1,801,094	693,250
	52,002,159	26,765,168
FIXED ASSETS (note 7)	16,394,164	13,296,428
DEFERRED EXPENDITURES (note 9)	16,421,894	16,720,189
REAL ESTATE HOLDINGS (note 8)	—	12,540,702
	$116,819,565	$91,811,183
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	$ 18,808,221	$ 1,928,900
Accounts payable and accrued charges	4,484,686	4,491,471
Dividends payable	6,488,104	3,991,381
Real estate mortgages payable (notes 8 and 17)	—	3,251,944
Total current liabilities	29,781,011	13,663,696
DEFERRED INCOME AND MINING TAXES	7,777,489	8,657,514
MINORITY INTEREST IN SUBSIDIARY (note 17(b))	4,216	4,216
SHAREHOLDERS' EQUITY		
CAPITAL STOCK —		
Authorized:		
Unlimited number of common shares (note 10)		
Issued:		
16,031,995 common shares (1987 — 14,358,547) (note 10)	38,801,075	17,618,737
CONTRIBUTED SURPLUS	4,890,988	5,859,988
RETAINED EARNINGS	43,043,882	53,518,831
COMPANY'S PRO RATA INTEREST IN ITS OWN SHARES HELD BY AN ASSOCIATED COMPANY (note 10)	(7,479,096)	(7,511,799)
Total shareholders' equity	79,256,849	69,485,757
Commitments and contingency (note 11)		
	$116,819,565	$91,811,183

On behalf of the Board:

Director

Director

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Canadian Funds)

YEARS ENDED DECEMBER 31

	1988	1987	1986
INCOME FROM PRODUCTION (note 2)	$42,313,129	$51,751,207	$37,396,086
COSTS OF PRODUCTION			
Mining	25,010,856	20,514,666	13,637,542
Milling	10,722,440	10,813,438	8,826,603
Depreciation and amortization	4,331,491	7,739,992	6,771,654
Administration (note 13(c))	3,248,330	2,630,374	2,967,998
	43,313,117	41,698,470	32,203,797
	(999,988)	10,052,737	5,192,289
OTHER INCOME (EXPENSE)			
Interest expense	(220,550)	(189,271)	–
Interest and sundry income (note 13(b))	554,012	717,798	785,594
Gain (loss) on sale of marketable securities and investments (note 13(d))	(1,003,055)	3,098,174	3,110,639
Write-off of organization costs	—	(81,251)	–
Write-off of deferred exploration costs	(2,163,325)	–	–
	(2,832,918)	3,545,450	3,896,233
INCOME (LOSS) BEFORE THE UNDERNOTED	(3,832,906)	13,598,187	9,088,522
PROVISION FOR (RECOVERY OF) INCOME AND MINING TAXES (note 12)			
Current	148,234	6,039,200	4,965,482
Deferred	(729,202)	(873,559)	(1,746,782)
	(580,968)	5,165,641	3,218,700
SHARE OF INCOME (LOSSES) OF ASSOCIATED COMPANIES	(1,684,762)	911,493	(644,418)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(4,936,700)	9,344,039	5,225,404
DISCONTINUED REAL ESTATE OPERATIONS (note 15)	(622,035)	382,319	(35,696)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(5,558,735)	9,726,358	5,189,708
EXTRAORDINARY ITEMS			
Gain on disposal of assets destroyed by fire (note 16(a))	438,803	–	1,435,107
Write-off of investment in an associated company (note 16(b))	—	(1,153,932)	–
Gain on sale of investment in an associated company	—	5,279,831	–
NET INCOME (LOSS) FOR THE YEAR	$ (5,119,932)	$13,852,257	$ 6,624,815
EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS	$ (0.35)	$ 0.67	$ 0.37
EARNINGS (LOSS) PER SHARE BEFORE EXTRAORDINARY ITEMS	$ (0.39)	$ 0.69	$ 0.37
EARNINGS (LOSS) PER SHARE AFTER EXTRAORDINARY ITEMS	$ (0.36)	$ 0.99	$ 0.47

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND CONTRIBUTED SURPLUS

(Canadian Funds)

YEARS ENDED DECEMBER 31

	1988	1987	1986
RETAINED EARNINGS			
Balance, beginning of year	$53,518,831	$43,809,696	$41,043,965
Net income (loss) for the year	(5,119,932)	13,852,257	6,624,815
	48,398,899	57,661,953	47,668,780
Dividends declared (1988 – U.S. $0.30 per share; 1987 and 1986 – U.S. $0.20 per share)	(5,355,017)	(3,601,014)	(3,859,084)
Share issue costs of an associated company	—	(542,108)	–
Balance, end of year	$43,043,882	$53,518,831	$43,809,696
CONTRIBUTED SURPLUS			
Balance, beginning of year	$ 5,859,988	$ 4,436,930	$ 3,166,381
Gain (loss) on sale of own shares held by an associated company	(969,000)	1,423,058	1,270,549
Balance, end of year	$ 4,890,988	$ 5,859,988	$ 4,436,930

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian Funds)

YEARS ENDED DECEMBER 31

	1988	1987	1986
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Income (loss) before extraordinary items	$ (5,558,735)	$ 9,726,358	$ 5,189,708
Add (deduct) items not affecting cash —			
Depreciation and amortization	4,331,491	7,739,992	6,771,654
Decrease in stockpiled ore costs	2,692,544	—	—
Deferred income and mining taxes (recoverable)	(880,025)	(471,227)	(1,746,782)
Write-off of deferred exploration costs	2,163,325	—	—
Share of (income) losses of associated companies	1,684,762	(911,493)	644,418
Gain on sale of real estate	(180,535)	(1,281,610)	—
Gain on sale of fixed assets	—	(178,238)	—
Write-down of interest in joint venture	—	—	215,787
Write-off of organization costs	—	81,251	—
	4,252,827	14,705,033	11,074,785
Net change in non-cash working capital balances related to operations	(1,559,578)	639,120	5,176,446
	2,693,249	15,344,153	16,251,231
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES			
Additions to deferred expenditures	(6,603,546)	(4,104,880)	(7,359,912)
Additions to fixed assets	(6,889,527)	(5,816,154)	(3,037,425)
Proceeds on disposal of fixed assets	795,389	1,382,000	—
Increase in investments and advances	(27,052,094)	(2,711,997)	(6,707,375)
Net cash from sale of real estate	73,750	1,790,141	—
Repayment of mortgages receivable	2,163,226	—	—
Land under and held for development	(16,443,262)	(9,901,998)	(6,407,977)
Less related real estate mortgages payable	16,453,156	2,500,000	2,500,000
Proceeds from insurance	1,460,883	700,000	400,000
	(36,042,025)	(16,162,888)	(20,612,689)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Dividends declared	(5,722,170)	(3,701,516)	(3,946,289)
Increase (decrease) in dividends payable	2,496,723	(407,172)	92,082
Capital stock issued (note 10(a))	21,182,338	434,295	1,312,202
Repayment of real estate mortgages payable	(3,264,774)	(1,707,896)	(40,160)
	14,692,117	(5,382,289)	(2,582,165)
NET DECREASE IN CASH DURING THE YEAR	(18,656,659)	(6,201,024)	(6,943,623)
CASH POSITION, BEGINNING OF YEAR	735,829	6,936,853	13,880,476
CASH POSITION, END OF YEAR	$(17,920,830)	$ 735,829	$ 6,936,853
CHANGES IN COMPONENTS OF CASH			
Cash and short-term deposits	$ —	$ (570,958)	$ (656,741)
Bullion awaiting settlement	(1,777,338)	(3,701,166)	(6,286,882)
Bank indebtedness	(16,879,321)	(1,928,900)	—
	$(18,656,659)	$ (6,201,024)	$ (6,943,623)

(See accompanying notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Canadian Funds)

DECEMBER 31, 1988

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, 1988, the unamortized difference amounted to approximately $11,891,000 (1987 – $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 is 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 sale 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(d)).

2. INCOME FROM PRODUCTION

Income from production consists of:

	1988	1987	1986
Sales of metal	$46,553,358	$53,025,483	$44,795,988
Net change in inventory valued at estimated realizable value (note 1(m))	(3,738,489)	(857,274)	(6,761,555)
Marketing and royalties	(501,740)	(417,002)	(638,347)
	$42,313,129	$51,751,207	$37,396,086

Included in income from production at December 31 is:

	1988		1987		1986	
	Ounces	Value	Ounces	Value	Ounces	Value
Gold Division:						
Bullion awaiting settlement and concentrates on hand, end of year	3,245	$1,558,151	4,283	$2,244,249	3,418	$1,490,307
Silver Division:						
Bullion awaiting settlement and concentrates on hand, end of year	161,863	1,178,361	488,854	4,230,752	828,299	5,842,246
Total		$2,736,512		$6,475,001		$7,332,553
Consists of:						
Bullion awaiting settlement		$ 887,391		$2,664,729		$6,365,895
Concentrates on hand		1,849,121		3,810,272		966,658
		$2,736,512		$6,475,001		$7,332,553

3. (a) DUE FROM DUMAGAMI MINES LIMITED –

The balance due from Dumagami Mines Limited bears interest at the bank's prime lending rate plus ½% and is due on demand. The Company recorded interest income of $142,765 during the year ended December 31, 1988.

(b) MORTGAGES RECEIVABLE –

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

1989	$1,152,392
1990	397,821
	$1,550,213

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		Carrying value	
	1988	1987	1988	1987
Associated companies carried on an equity basis:				
(a) Publicly traded –				
(quoted market value – $65,078,912; 1987 – $45,702,870) –				
Mentor Exploration and Development Co., Limited (notes 4(c) and (e))	49.9%	47.4%	$ 8,272,951	$ 6,806,807
Dumagami Mines Limited (note 4(d))	42.0	28.8	29,282,159	11,686,989
Langis Silver and Cobalt Mining Company Limited	30.0	30.0	Nil	280,382
			37,555,110	18,774,178
(b) Other –			(159,403)	(280,410)
Investments carried at cost (quoted market value – $1,161,386; 1987 – $1,997,500)			3,285,769	2,995,218
Investments carried at cost for which no quoted market value exists			119,218	118,023
			$40,800,694	$21,607,009

(c) During 1988, the Company acquired an additional 2.5% of Mentor Exploration and Development Co., Limited ("Mentor") for cash consideration of $739,745.

(d) On February 28, 1988, the Company acquired an additional 2.5% of the outstanding common shares of Dumagami Mines Limited ("Dumagami") pursuant to a flow-through share arrangement (note 11(a)). On December 16, 1988, the Company acquired from the President of the Company and Mentor another 2.1% and 7.0%, respectively, of the outstanding common shares of Dumagami in exchange for the issuance of treasury common shares of the Company amounting to $2,424,998 and $7,942,386, respectively. Also, during 1988, the Company acquired a further 1.6% of the outstanding common shares of Dumagami for cash consideration of $1,449,044. These purchases have been accounted for by the purchase method and the results of operations of Dumagami are included in the accompanying consolidated statements of income (loss) from October 1, 1988, the date upon which it commenced commercial operations. Details of the Company's share of net assets acquired are as follows:

Purchase price, net of the Company's pro rata interest in its own common shares held by an associated company of $7,637,029	$14,235,310
Net assets acquired	6,245,226
Goodwill	$ 7,990,084

Summarized condensed financial information for Dumagami as at September 30 is as follows:

	1988	1987
Assets:		
Current assets	$ 4,243,355	$24,998,231
Property, buildings and equipment —		
Mining claims	32,000	32,000
Buildings and equipment	24,669,518	9,275,475
Deferred expenditures	28,176,794	15,217,514
	$57,121,667	$49,523,220
Liabilities:		
Current liabilities	$ 7,290,791	$ 3,169,024
Advances from shareholder	6,019,358	2,519,358
Deferred income taxes	—	61,000
	13,310,149	5,749,382
Shareholders' equity	43,811,518	43,773,838
	$57,121,667	$49,523,220

(e) Summarized condensed financial information for Mentor is as follows:

	December 31	
	1988	1987
Assets:		
Current assets	$ 3,644,518	$ 5,810,926
Long-term investments	37,464,357	27,931,432
Other	194,742	177,418
	$41,303,617	$33,919,776
Liabilities:		
Current liabilities	$17,485,739	$14,146,306
Deferred income taxes	2,875,906	5,614
	20,361,645	14,151,920
Shareholders' equity	20,941,972	19,767,856
	$41,303,617	$33,919,776

	For the years ended December 31,		
	1988	1987	1986
Revenue	$ 4,873,310	$ 8,455,465	$ 3,156,615
Income before income taxes	$ 1,928,695	$ 8,066,994	$ 2,858,887
Net income	$ 1,174,116	$ 6,106,278	$ 2,288,970

5. LOANS AND ADVANCES TO RELATED CORPORATIONS

	1988	1987
Advance to a mining company in the exploration stage (note 5(a))	$2,202,435	$1,953,695
Advances to other mining companies (note 5(b))	6,397,513	2,511,212
Advance and loans to associated company (notes 5(c))	800,423	2
	$9,400,371	$4,464,909

(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:

	1988	1987
Outstanding principal	$1,852,540	$1,603,800
Accrued interest	349,895	349,895
	$2,202,435	$1,953,695

The Company has continued to postpone payment of interest on the outstanding principal balance.

(b) These advances are non-interest bearing and are due on demand. Of these advances, $6,009,000 is due from Dumagami and such amount will become interest bearing at the bank's prime lending rate starting October 1, 1989 (note 11(a)).

(c) 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:

	1988
Outstanding principal	$ 650,000
Accrued interest	150,422
	$ 800,422

6. OTHER

	1988	1987
Advances to officer	$1,454,979	$ 326,567
Housing loans, non-interest bearing	193,334	212,917
Organization costs	3,668	4,653
Other advance	149,113	149,113
	$1,801,094	$ 693,250

Advances to officer includes a $1,128,000, 8% interest bearing loan, repayable in annual instalments of $112,800, and accrued interest of $74,912, due from the President of the Company. The proceeds were used, in part, to exercise stock options to acquire 200,000 common shares of the Company for cash consideration of $3,128,000.

Also included in advances to officer is a non-interest bearing loan for $252,067 (1987 — $326,567). The original proceeds from the advance 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. The President is indebted to the Trustees in the same amount and on the same terms.

7. FIXED ASSETS

	1988	1987
Mining claims and properties, at cost	$ 2,128,661	$ 668,661
Plant and equipment, at cost	42,553,917	38,630,662
Accumulated depreciation	(28,288,414)	(26,002,895)
	$ 16,394,164	$ 13,296,428

8. REAL ESTATE HOLDINGS

(a) Transactions during the year consist of the following:

	1988				1987
	Rental properties	Under development (industrial)	Held for development (residential)	Total	Total
Balance, beginning of year	$ 4,828,735	$4,702,595	$3,009,372	$12,540,702	$ 6,407,977
Acquisitions	12,967,411	–	731,938	13,699,349	7,653,031
Deposits and prepaid acquisition costs	–	–	–	–	716,110
Development costs	884,463	99,208	–	983,671	517,363
Cost of sales	–	(128,170)	–	(128,170)	(4,189,433)
Amortization of rental properties	(115,781)	–	–	(115,781)	–
Capitalized charges –					
Interest on real estate mortgages payable	292,830	253,093	670,385	1,216,308	603,806
Engineering and development consultants' fees	13,065	114,984	250,372	378,421	534,059
Salaries and wages, property taxes and other	(881)	16,585	47,848	63,552	297,789
Balance, end of year	$18,869,842	$5,058,295	$4,709,915	$28,638,052	$12,540,702

(b) The following mortgages, with accrued interest, were owing on the real estate holdings.

	1988	1987
Rental Properties –		
First mortgage with an initial balance of $1,300,000, bearing interest at 11¼%, due August 1, 1993	$ 1,308,533	
Collateral first mortgage, bearing interest at the bank's prime lending rate plus 1% (1987 – 5%), due on demand	2,500,000	$ 2,488,434
First mortgage with an initial balance of $4,000,000 bearing interest at 11¾%, due August 1, 1993	4,028,668	–
Loan as a second mortgage with an initial balance of $500,000, bearing interest at the bank's prime lending rate plus 1%, due April 30, 1989	500,000	–
First mortgage with an initial balance of $3,225,000, bearing interest at 12¼%, due October 17, 1993	3,225,000	–
	11,562,201	2,488,434
Property under development (industrial) –		
Collateral first mortgage, bearing interest at the bank's prime lending rate plus 1%, due on demand	1,500,000	763,510
Property under development (residential) –		
Collateral first mortgage, bearing interest at the bank's prime lending rate plus 1%, due on demand	3,000,000	–
First mortgage with an initial balance of $375,000, bearing interest at 10%, due September 1, 1989	378,125	–
	3,378,125	–
	$16,440,326	$ 3,251,944

9. DEFERRED EXPENDITURES

	1988	1987
Gold Division:		
Deferred expenditures, at cost	$28,089,401	$26,066,121
Accumulated amortization	(19,412,280)	(18,084,410)
	8,677,121	7,981,711
Silver Division:		
Deferred expenditures, at cost	21,831,732	18,249,732
Accumulated amortization	(14,862,205)	(9,511,254)
	6,969,527	8,738,478
Exploration Division:		
Deferred expenditures, at cost	775,246	–
	$16,421,894	$16,720,189

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, which amount is included in the Gold Division deferred expenditures.

During 1986, the Company entered into another joint venture exploration and development program with Cominco Ltd. on a 50/50 basis. At December 31, 1988, the Company had spent $372,500 in connection with this joint venture, which amount is included in the Gold Division deferred expenditures. Also, at December 31, 1988, the Company had committed to spend approximately $271,000 during 1989.

10. CAPITAL STOCK

(a) Summary of common share transactions –

	1988		1987		1986	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares issued, beginning of year	14,358,547	$17,618,737	14,326,377	$17,184,442	14,229,177	$15,872,240
Shares issued on purchase of shares of an associated company	1,469,748	18,004,413	–	–	–	–
Shares issued under Employee Stock Option Plan	203,700	3,177,925	32,170	434,295	97,200	1,312,202
Common shares issued, end of year	16,031,995	38,801,075	14,358,547	17,618,737	14,326,377	17,184,442
Agnico's pro rata interest in its own shares held by an associated company	1,028,593	7,479,096	391,393	7,511,799	320,406	4,063,960
Net shares	15,003,402	$31,321,979	13,967,154	$10,106,938	14,005,971	$13,120,482

The earnings (loss) per share calculations on the consolidated statements of income (loss) are based on the net weighted average number of shares outstanding: 14,247,138, 14,028,430, and 14,009,858 for the years ended December 31, 1988, 1987 and 1986, 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, 1988
Directors	March 7, 1993	$18.75	15,000
Employees	February 10, 1993	$16.00	5,000
Employees	November 30, 1993	$12.875	16,000
Officers	June 28, 1990	$13.50	7,000
Officer	October 30, 1992	$18.50	15,000
Employees	August 15, 1989	$13.50	18,580
Employees	October 30, 1992	$18.50	207,500
President	March 7, 1993	$18.75	500,000
Director	October 30, 1992	$18.50	7,500
Consultants	October 30, 1992	$18.50	20,000

The Company has reserved 811,580 common shares in the event that these options are exercised.

(c) During 1988, a special shareholders' resolution was passed at the annual meeting of shareholders of the Company authorizing an amendment to the articles of the Company to provide that the number of authorized common shares be unlimited.

11. COMMITMENTS AND CONTINGENCY

(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 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, which began on October 1, 1988, 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.

As a result of the Company having advanced $1,800,000 in 1986 and $4,000,000 in 1987 as described in (i) and (ii) above and Dumagami having spent such funds on Canadian exploration expense, the Company received from Dumagami 189,474 common shares in 1987 and 228,571 common shares in 1988.

With respect to the arrangements described in (iii) above, the Company advanced $3,500,000 to Dumagami during the year ended December 31, 1988. This amount, together with the $2,509,000 advanced previously, is included in loans and advances to related corporations (note 5(b)).

(b) In November 1987, Noranda commenced a legal proceeding in the Supreme Court of Ontario against the Company, Dumagami and 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 believes that it has a good defence on the merits and has taken appropriate steps to defend the action vigorously. The parties, through their solicitors, are in the process of exchanging documentation and the examinations for discovery are expected to take place during the summer of 1989.

(c) 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 development of such properties on or before October 30, 1990. At December 31, 1988, $585,024 had been spent under this agreement.

(d) 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:

	1988	1987	1986
Net assets available for plan benefits, at market values	$3,411,932	$2,889,883	$2,825,116
Actuarially determined present value of accumulated pension benefits	$2,923,200	$2,395,500	$2,228,500

In determining the actuarial present value of accumulated plan benefits and pension costs for 1988 and 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 24 years. Total pension costs in 1988 were $242,349 (1987 – $214,582; 1986 – $193,904).

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

1989	$ 37,600
1990	37,600
1991	27,600
1992	17,600
1993 and thereafter	7,800
	$128,200

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

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

Current:	1988	1987	1986
Federal income taxes	$ (191,620)	$ 2,892,933	$ 2,819,519
Provincial income taxes	(68,380)	1,184,680	650,497
Mining duties	408,234	1,961,587	1,495,466
	$ 148,234	$ 6,039,200	$ 4,965,482
Deferred:			
Federal income taxes	$ (475,999)	$ (224,183)	$ (902,039)
Provincial income taxes	(169,861)	(162,898)	(160,071)
Mining duties	(83,342)	(486,478)	(684,672)
	$ (729,202)	$ (873,559)	$(1,746,782)

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:

	1988	1987	1986
Excess of tax over book depreciation	$ (673,579)	$ 86,884	$ 67,932
Excess (deficiency) of tax over book exploration and development expenses	(65,699)	(958,628)	(758,201)
Excess (deficiency) of tax over book inventory valuation adjustments	(274,411)	39,126	(1,125,408)
Other	284,487	(40,941)	68,895
	$ (729,202)	$ (873,559)	$(1,746,782)

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.

	1988	1987	1986
Combined federal and composite provincial income tax rates (rates of recovery)	(42.0)%	47.4%	45.6%
Increase (decrease) in taxes resulting from:			
Federal surtax	(1.0)	1.1	1.8
Provincial mining duties	18.0	18.0	18.0
Resource allowances		(10.1)	(7.1)
Depletion allowances		(8.6)	(5.4)
Processing, investment and treatment allowances net of disallowed expenses	4.7	(3.4)	(4.5)
Non-taxable portion of investment income	1.8	(8.6)	(14.5)
Non-taxable portion of capital gains	4.2		
Miscellaneous items	(3.9)	2.2	1.7
Drawdown rate difference	3.0		
Actual tax rate (rate of recovery) as a percentage of pre-tax income (loss)	(15.2)%	38.0%	35.6%

13. RELATED PARTY TRANSACTIONS

(a) Included in prepaid expenses, supplies and other assets in 1988 is a balance of $165,000 (1987 — $90,000) in prepaid office rental fees paid to an associated company.

(b) Included in interest and sundry income for 1987 is $328,288 (1986 — $558,810) 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 on an advance repaid in 1986.

Also, included in interest and sundry income for 1987 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 for 1987 are equipment and other sales to Dumagami totalling $95,311.

Also, included in interest and sundry income in 1988 is $150,422 earned on advances of $3,750,000 made to Mentor, an associated company, in order to purchase shares of the Company.

(c) Included in administration expense is $135,000 (1987 – $180,000; 1986 – $162,000) paid to an associated company for office rental fees provided throughout the year.

(d) Included in the gain (loss) on sale of marketable securities and investments are losses of $109,333 (1987 – gain of $864,015) and $8,812 incurred on the sale of Goldex and Sudbury Contact Mines Limited shares, respectively. Included in the gain (loss) on sale of marketable securities and investments for 1986 is $3,195,500 earned on the sale of Dumagami shares.

(e) During 1987, 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 exercised its 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 1987, which advance was repaid by December 31, 1987.

(g) During the year, the Company sold assets with an undepreciated cost of $795,389 and inventory of $96,657 to Dumagami for proceeds equal to the Company's book value.

Also, in 1988, the Company received $153,370 from Dumagami for services provided in connection with the sale of Dumagami's metal production.

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 officer and 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.

The write-off of investment in an associated company in 1987 and the gain on sale of investment in an associated company in 1987 recorded in the consolidated statements of income (loss) would have been recorded as other income (expense) in the consolidated statements of income (loss) under U.S. accounting principles, rather than as extraordinary items.

The Company has an investment in an associated company. In 1988, certain preproduction expenditures and recovery from the sale of metals recorded by this associated company as deferred expenditures would be reported as costs of production and income, along with an appropriate provision for depreciation and amortization, under United States accounting principles. Accordingly, in the accompanying table, the Company's share of income (loss) of associated companies has been increased.

United States accounting principles require disclosure on a cash basis of interest paid (net of amounts capitalized), income and mining taxes paid (recovered) and changes in certain components of working capital. In addition, United States accounting principles do not permit the inclusion of bullion awaiting settlement and bank indebtedness in the definition of cash used to analyze cash flows. Changes in such items would be presented as operating and financing activities, respectively.

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:

	1988	1987	1986
Net income (loss) for the year as shown in the financial statements	$ (5,119,932)	$13,852,257	$ 6,624,815
Item having the effect of increasing reported loss: Share of losses of associated companies	(1,589,912)		
Net income (loss) under accounting principles generally accepted in the United States	$ (6,709,844)	$13,852,257	$ 6,624,815
Earnings (loss) per share after extraordinary items (based on weighted average number of shares outstanding of 14,257,119 in 1988; 14,233,642 in 1987 and 14,126,076 in 1986)	$ (.47)	$ 0.97	$ 0.47
Retained earnings	$41,053,065	$53,117,926	$43,408,791
Investments in shares	$38,380,145	$22,804,329	$16,322,509
Contributed surplus	$ 6,122,530	$ 7,091,530	$ 5,668,472
Advances to officer and to the Employee Stock Purchase Plan (deducted in arriving at shareholders' equity)	$ 1,380,067	$ 326,567	$ 326,567
Interest paid during the year (net of amounts capitalized)	$ 791,902	$ 194,942	$ 331,288
Income and mining taxes paid (recovered) during the year	$ 2,112,646	$ 3,602,474	$ (456,612)
Net change in non-cash working capital balances related to operations:			
Concentrates on hand	$ 1,961,151	$ (2,843,614)	$ 95,181
Accounts payable and accrued charges	$ (6,785)	$ 420,062	$ 680,847
Cash provided by operating activities	$ 4,470,587	$19,045,319	$22,538,113
Cash provided by (used in) financing activities	$31,571,438	$ (3,453,389)	$ (2,582,165)

(b) The United States Financial Accounting Standards Board has issued new accounting standards for income taxes. These new standards are to be applied in determining U.S. GAAP financial information for the Company commencing in fiscal 1990. The method of implementing the new standards and their effect on the Company's financial position and operating results have not yet been determined.

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 and 1988. Real estate operations for the years ended December 31, are as follows:

	1988	1987	1986
Proceeds on sale of developed land	$ 335,000	$ 5,391,231	–
Interest and sundry income, net of intersegment elimination of $848,508 (1987 – $248,953; 1986 – nil)	1,056,207	74,929	$ 5,218
	1,391,207	5,466,160	5,218
Cost of sales, net of intersegment elimination of $13,319 (1987 – $210,080)	(141,146)	(4,109,621)	–
Operating expenses	(2,022,919)	(571,888)	(40,914)
Income (loss) before income taxes	(772,858)	784,651	(35,696)
Income taxes – deferred	(150,823)	402,332	–
Discontinued real estate operations	$ (622,035)	$ 382,319	$ (35,696)
Mortgages receivable	$ 1,550,213	$ 3,260,742	Nil
Land under and held for development, net of intersegment elimination of $782,190 (1987 – $537,018; 1986 – $72,493)	$28,638,052	$12,540,702	$ 6,407,977
Identifiable assets, net of intersegment elimination of $782,190 (1987 – $537,018; 1986 – $72,493)	$31,317,366	$16,077,395	$ 6,411,885
Real estate mortgages payable, net of intersegment elimination of $15,834,935 (1987 – $12,599,712; 1986 – $3,269,990)	$16,440,326	$ 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. The final insurance settlement in 1988 resulted in a gain of $438,803, net of related income and mining taxes of $272,080 (1986 – $1,292,107, net of related income and mining taxes of $428,238) 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 a contingent guarantee of $160,000. In 1987, management determined that the loan balance of $995,708, an advance of $400,000, investment in shares of $400,200 and contingent guarantee of $160,000 were not recoverable and, accordingly, an extraordinary write-off of $1,153,932, net of related income taxes of $241,559 and an amount previously written off of $560,417, was recorded.

17. SUBSEQUENT EVENTS

(a) In October 1988, the Company entered into an agreement to dispose of all of its real estate holdings effective March 30, 1989. The disposition did not occur at that time and the closing date has been extended to May 4, 1989. The purchaser has agreed to reimburse the Company for any losses it incurs in connection with the real estate holdings subsequent to March 31, 1989 and up to the time of closing. The total proceeds of disposition are estimated to be $42,775,000. The Company expects to record a gain on disposition of approximately $7 million after deducting estimated costs of disposition and income taxes. The Company received a non-refundable deposit of $1,000,000 at the time it entered into this transaction, and subsequent to December 31, 1988 received an additional non-refundable deposit of $1,000,000.

(b) Subsequent to December 31, 1988, the Company purchased the outstanding minority interest in its subsidiary in exchange for treasury common shares of $1,906,250.

(c) Subsequent to December 31, 1988, the Company advanced $500,000 to Mentor, an associated company. This advance bears interest at the bank's prime lending rate plus ½% and is due on demand.

(d) In January 1989, the Company entered into a letter of intent with Hecla Mining Company ("Hecla") to form a joint operation to prospect, explore for and develop precious metals, platinum group metals and such other minerals as shall be agreed. It is the intention of the Company and Hecla to contribute certain properties and/or interests, which will be mainly grass roots exploration prospects, to a new company in exchange for treasury shares. The Company and Hecla further intend to provide initial funding of U.S. $250,000 each to this new company.

18. COMPARATIVE FIGURES

The consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1988 consolidated financial statements.

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BANKERS
The Toronto-Dominion Bank
Toronto, Ontario

STOCK EXCHANGE 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 30, 1989, 9:30 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

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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

Paul Penna
President, Jakmin Investments Ltd.

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President and Managing Director

Barry Landen
Secretary-Treasurer

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

Sean Boyd, C.A.
Comptroller

Gordon W. Kirk, P.Eng.
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André Godbout, B.Sc., P.Eng.
Mine Manager

Gaetan Goulet
General Superintendent

Jean-Marc Simard
Chief Mine Geologist

Allan Young
Engineering Superintendent

Jean-Claude Bouchard
Chief Electrician

Réne Brunet
Underground Superintendent

Yvon Sylvestre
Mill Superintendent

Gilles Forques
Administrative Manager

Jean-Pierre Flageole
Safety Superintendent

Raymond Legault
Personnel Manager

Gérald Pelletier
Master Mechanic

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Mine Manager

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Chief Geologist and Assistant Mine Manager

Armand R. Côté, 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
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Metallurgist

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