

**IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

IN THE MATTER OF AGNICO-EAGLE MINES LIMITED

**SETTLEMENT AGREEMENT BETWEEN STAFF OF THE
ONTARIO SECURITIES COMMISSION and
AGNICO-EAGLE MINES LIMITED**

I. INTRODUCTION

1. On April 22, 2005, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to Section 127 of the Securities Act R.S.O. 1990, c. S.5, as amended (the "Act") respecting Agnico-Eagle Mines Limited ("Agnico-Eagle") to approve this Settlement Agreement.

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff agree to recommend Settlement of the proceeding respecting Agnico-Eagle initiated by the Notice of Hearing in accordance with the terms and conditions set out below. Agnico-Eagle consents to the making of an order against them in the form attached as Schedule "A" based on the facts set out in Part III of this Settlement Agreement.

III. STATEMENT OF FACTS

Acknowledgment

3. Solely for the purposes of this proceeding, and of any other proceeding commenced by a securities regulatory agency, Staff and Agnico-Eagle agree with the facts set out in paragraphs 4 through 33 of this Settlement Agreement.

Agnico-Eagle

4. Agnico-Eagle is an intermediate sized Canadian gold producer with operations located in Northwestern Quebec and exploration and development activities in Eastern Canada and the Southwestern United States. Agnico-Eagle was formed under the laws of the Province of

Ontario in June 1972 as a result of the amalgamation of Agnico-Eagle and Eagle Gold Mines Ltd. Agnico-Eagle's principal operating divisions are the LaRonde Division, which is responsible for the LaRonde Mine (described below), and the Exploration Division. Shares of Agnico-Eagle trade on the TSX and the NYSE.

General Background of LaRonde Mine

5. The LaRonde Mine is located approximately 35 miles west of Val d'Or in the Bousquet and Cadillac Townships in Quebec. The LaRonde Mine has a single production shaft (the "Penna Shaft") which has a depth of 7,380 feet. Production at the LaRonde Mine is approximately 7,000 tons of ore per day. As at December 31, 2002, the LaRonde Mine Division had established proven and probable reserves of approximately 4.0 million ounces of contained gold, the largest gold deposit in Canada. The LaRonde Division of Agnico-Eagle has approximately 575 employees.

The Rock Fall and its Impact on Gold Production

6. On or about January 31, 2003, normal production blasting triggered a rock fall (the "Rock Fall") in stope 212-20-49 ("stope 212"). Material fell into stope 215-20-49 ("stope 215"), which is located below stope 212. Stope 212 was not scheduled for production in 2003, but stope 215 was. Visual inspection on that day revealed that an estimated 27,000 tons of material had fallen. The fall continued until about February 9, 2003. Production continued unimpeded in stope 215 until February 11, 2003, because the material that fell into that stope was ore, not waste.

7. The Rock Fall did not result in any injuries, damaged equipment or damage to the underground infrastructure at the mine. The reserve and resource base was unaffected. Mining, development, construction, exploration and processing operations continued uninterrupted.

8. A rock fall was not unexpected and had, in fact, been predicted and planned for when the mining of stope 215 was geomechanically simulated prior to the blasting of that stope. However, a fall of only 5,000 – 10,000 tons had been predicted.

9. Initially, mine management assessed that the Rock Fall was an isolated incident that would not have a material impact on gold production. Mine management initially expected that any impact would be short term and temporary in nature given that the Rock Fall was confined to a relatively small portion of the mine. This expectation was based, in part, on the fact that at the LaRonde Mine there were five other mining horizons from which operators could source and extract ore if any problem developed within the area affected by the Rock Fall. IN fact, the area directly affected by the Rock Fall was budgeted to produce less than 1% of budgeted gold production for 2003 and only 4.4% for the first quarter of 2003. Therefore there was no expectation at the time the Rock Fall first occurred that it would have an adverse impact on production at the mine for the balance of the year.

10. There have been 10 rock falls at the LaRonde mine since it began production in 1988. However, after 9 of the 10 rock falls, Agnico-Eagle was able to adjust the mine plan to either meet or come very close to meeting the annual production budget. None of these rock falls were disclosed to the public, or reported to the Board of Directors.

11. On February 11, 2003, Agnico-Eagle was able to insert equipment into stope 212 to measure the size of the Rock Fall. At that time, Agnico-Eagle was able to determine that 27,000 tons of ore had fallen. As a result, the decision was made to halt production in stope 215 to allow the stope to stabilize. Mining of other stopes at this level continued including, for example, 215-20-42.

12. The Rock Fall appeared to Agnico-Eagle to have substantially stabilized by March 3, 2003 and, as a result, mining operations in stope 215 were recommenced on that date. In late March 2003, approximately 13,000 additional tons of ore and rock fell into stope 215, bringing the total size of the Rock Fall to 40,000 tons. As a result, mining operations in stope 215 were suspended again in early April.

13. After the size of the initial Rock Fall was measured, on February 11, 2003, mine operators began to assess the options available. The entire mine plan was revised on February

28, 2003 taking into account, among other things, the potential impact of the Rock Fall. The revised gold production estimate for 2003 that resulted from the new mine plan was 284,000 ounces, considerably less than the 375,000 ounces that had previously been forecast for 2003.

14. The development of a new mine plan is an iterative process involving the remodelling of all 158 stopes in the mine located in six mining horizons by a team of mine engineers, geologists and operating staff. It also involves a review of development schedules, resource allocation, backfill availability, construction projects and hoisting capacity.

15. In the February 28, 2003 iteration of the mine plan, as well as the further iterations described below, Agnico-Eagle was also dealing with an issue of "end wall failure" in the area of the mine affected by the Rock Fall. (End wall failure occurs when the walls of a stope balloon out, creating a barrel shape due to stress). This end wall failure, in turn, caused oversized ore to fall into the stopes in the area of stope 215, creating further production problems and delays.

16. Upon receiving the February 28, 2003 iteration of the mine plan, mine management thought it was possible that Agnico-Eagle might not meet its 2003 gold production targets, but remained optimistic that it could improve the mine plan. Accordingly, a second iteration of the mine plan was completed on March 10, 2003. The revised production estimate that resulted from this mine plan was 301,010 ounces of gold.

17. Agnico-Eagle continued in its efforts to reduce the impact the Rock Fall would have on its gold production for 2003. A third iteration of the mine plan was completed on March 17, 2003, which yielded a forecast of 311,753 ounces of gold for 2003. A fourth iteration was completed on April 1, 2003, which yielded a forecast of 320,242 ounces of gold for 2003. A fifth and sixth iteration was completed on April 8, 2003 and April 16, 2003, respectively, both of which yielded a forecast of 308,880 ounces of gold for 2003.

18. In a news release dated March 31, 2003, Agnico-Eagle disclosed the Rock Fall and stated that the incident would result in a 20% (75,000 ounce) reduction in total gold production for 2003.

19. By some time between March 10, 2003 and March 17, 2003, mine management determined that a shortfall in gold production for 2003 could not be avoided. The expected production shortfall was a material change in the business of Agnico-Eagle, and Agnico-Eagle ought to have issued a press release forthwith thereafter.

News Release of February 19, 2003

20. On February 19, 2003, while Agnico Eagle was assessing the impact of the Rock Fall, Agnico-Eagle issued a news release (the "February Release") to announce its 2002 year end results. In the February Release it reported "significantly improved net earnings of \$4.0 million, or \$.06 per share in 2002, compared with a net loss of \$5.4 million, or \$0.9 per share in 2001." The February Release stated under the heading "LaRonde on Track for Increased Gold Production in 2003":

LaRonde is in a strong position to achieve its 2003 target of 375,000 ounces of gold at a total cash operating cost of \$125 per ounce.

Under the heading "outlook for 2003" in the February Release, Agnico-Eagle said the following:

"Despite the expansion challenges encountered in 2002, Agnico-Eagle set a gold production record of 260,183 ounces at LaRonde in 2002. Agnico-Eagle expects to overcome the last of the development difficulties encountered in 2002. With the mine operating in excess of 7,000 tons per day for a full year, gold production is targeted to increase 44% to 375,000 ounces and cash operating costs are targeted to decrease by 31% to \$125 per ounce."

The March 31, 2003 News Release

21. By news release dated March 31, 2003 (the "March Release"), Agnico-Eagle announced the Rock Fall had occurred in "two production stopes at its LaRonde gold mine in Quebec." The March Release also stated that the Rock Fall "occurred **this month** above level 215 at 2.150m (7050 feet) below surface." [emphasis added] As noted above, Agnico-Eagle also

announced its preliminary estimate that total gold production would be reduced by up to 20% as a result of the Rock Fall.

22. The members of the Board of Directors of Agnico-Eagle were not apprised of the Rock Fall and its impact on gold production until shortly before the March Release was issued on March 31, 2003. The President contacted members of the Board individually by telephone for this purpose.

23. The March Release was inaccurate in that the Rock Fall did not occur in March only but rather initially occurred between January 31, 2003 and February 9, 2003 and then resumed in March.

24. In its communications with OSC regarding the Rock Fall, Agnico-Eagle immediately recognized and admitted its error in this regard.

News Release of July 30, 2003 (the "July Release")

25. In the July Release, Agnico-Eagle released its second quarter results. The July Release stated that gold production was lower than in the second quarter of 2002 due to the production problems caused by Rock Fall. However, the July Release also stated that production was "on track" to achieve the 300,000 ounces of gold for 2003, as previously forecast.

News Release of October 29, 2003 (the "October Release")

26. Agnico-Eagle released its 2003 third quarter results after the close of market on October 29, 2003. The October Release disclosed four significant negative items of information:

- (i) a net loss of \$0.14 per share in the third quarter of 2003;
- (ii) that gold production in the third quarter was 51,192 ounces, "well below expectations";
- (iii) that Agnico-Eagle would not meet its gold production target for 2003; and
- (iv) the reduction in LaRonde's long-term gold production target from 400,000 ounces per year to 300,000 ounces per year;

27. During the period September 8 to 10, 2003, members of Agnico-Eagle's senior management went to the LaRonde Mine to host a visit by representatives of an investment banking firm. At that visit, senior management learned that although production was 10% below September's target, the production problems were improving and mine management expected production for the month of September, and the remainder of the year, to come in close to target.

28. However, throughout the remainder of the month of September, 2003, it became obvious to senior management that the production problems were persisting, and the production forecast presented to them on September 10, 2003 would not be met by Agnico-Eagle.

29. On October 7, 2003, Agnico-Eagle's senior management received September's final production figures. Senior management had expected the numbers to show significant improvement over the month of September. Instead, the production figures were lower than expected. On October 9, 2003, Agnico-Eagle's senior management met to review the production figures for the month of September and to try to understand what had caused the results to be so much worse than had been expected. At that meeting, it was clear to Agnico-Eagle's senior management that the gold production forecast for 2003 was not going to be met. The expected production shortfall was a material change in the business of Agnico-Eagle, and Agnico-Eagle ought to have issued a press release on or about Monday, October 13, 2003.

30. As noted above, the fact that Agnico-Eagle would not meet its 2003 production forecast was ultimately disclosed on October 29, 2003 in the October Release.

31. Agnico-Eagle acknowledges that contrary to the public interest:

- (a) after determining at some point between March 10, 2003 and March 17, 2003 that a gold production shortfall could not be avoided as a result of the Rock Fall, it failed to issue a press release forthwith disclosing the Rock Fall and the expected

gold production shortfall and failed to timely file a Material Change Report with the Commission;

- (b) its March Release was inaccurate in that the Rock Fall did not occur in March only but rather initially occurred between January 31, 2003 and February 9, 2003 and then resumed in March; and
- (c) after determining on October 9, 2003 that there would be a gold production shortfall, Agnico-Eagle failed to issue a press release by October 13, 2003 disclosing the gold production shortfall and failed to file a Material Change Report with the Commission.

IV. COOPERATION OF AGNICO-EAGLE

32. Staff notes that Agnico-Eagle, its employees and advisors have been exceptionally cooperative with Staff at every stage and have assisted Staff in gathering the facts giving rise to this proceeding. Agnico-Eagle's co-operation has assisted Staff in its review and analysis of those facts and has been instrumental in the expeditious resolution of this matter.

V. CHANGES IMPLEMENTED BY AGNICO-EAGLE

33. As part of an overall corporate governance/Sarbanes Oxley review of practices and procedures, and prior to the allegations made by Staff, Agnico-Eagle had established enhanced disclosure controls and procedures for the preparation and review of press releases and other public disclosure documents. These controls include the establishment of a disclosure committee charter and an updated policy entitled "Disclosure Controls, Procedures and Policies." The policy re-enforces the principle that all communications to the public must be timely, factual, complete and accurate.

VI. TERMS OF SETTLEMENT

34. Agnico-Eagle agrees to settle this matter on the basis of an Order:

- (i) approving this settlement;
- (ii) that within 30 days of this Settlement Agreement being approved, Agnico-Eagle will initiate a review of its disclosure and reporting practices and procedures by an independent third party, acceptable to both Agnico-Eagle and Staff, at the expense of Agnico-Eagle; and
- (iii) that Agnico-Eagle will implement any recommendations made by the independent third party referred to above that are approved by Staff, within a reasonable period as approved by Staff.

VII. STAFF COMMITMENT

35. If this settlement is approved by the Commission, Staff will not initiate any other proceeding under the Act against Agnico-Eagle or any of its directors or officers in relation to the facts set out in Part III of this Settlement Agreement.

36. If this settlement is approved by the Commission and at any subsequent time, Agnico-Eagle fails to honour the terms of settlement contained in paragraph 34 of this Settlement Agreement, Staff reserve the right to bring proceedings against Agnico-Eagle based on the facts set out in part III of this Settlement Agreement, and based on the breach of this Settlement Agreement.

VIII. APPROVAL OF SETTLEMENT

37. Approval of the settlement set out in this Settlement Agreement shall be sought at the public hearing of the Commission scheduled for [April 28, 2005](#) at [11:00 a.m.](#) or such other date as may be agreed to by Staff and Agnico-Eagle (the "Settlement Hearing"). Representatives of Agnico-Eagle will attend at the Settlement Hearing.

38. Counsel for Staff or Agnico-Eagle may refer to any part, or all, of this Agreement at the Settlement Hearing. Staff and Agnico-Eagle agree that this Settlement Agreement will constitute the entirety of the evidence to be submitted at the Settlement Hearing.

39. If this Settlement is approved by the Commission, Agnico-Eagle agrees to waive its rights to a full hearing, judicial review or appeal of the matter under the Act.

40. Staff and Agnico-Eagle agree that if this settlement is approved by the Commission, it will not make any public statement inconsistent with this Settlement Agreement.

41. If, for any reason whatsoever, this settlement is not approved by the Commission, or any order in the form attached as Schedule "A" is not made by the Commission:

- (a) This settlement Agreement and its terms, including all discussions and negotiations between Staff and Agnico-Eagle leading up to its presentation at the Settlement Hearing, shall be without prejudice to Staff and Agnico-Eagle;
- (b) Staff and Agnico-Eagle shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations in the Notice of Hearing and Statement of Allegations of Staff, unaffected by this Settlement Agreement or the settlement discussions/negotiations;
- (c) The terms of this Settlement Agreement will not be referred to in any subsequent proceeding, or disclosed to any person, except with the written consent of Staff and Agnico-Eagle or as may be required by law; and
- (d) Agnico-Eagle agrees that it will not, in any proceeding, refer to or rely upon this Settlement Agreement, the settlement discussions/negotiations or the process of approval of this Settlement Agreement as the basis for any attack on the Commission's jurisdiction, alleged bias or appearance of bias, alleged unfairness or any other remedies or challenges that may otherwise be available.

IX. APPROVAL OF SETTLEMENT

42. Except as permitted under paragraph 41 above, this Settlement Agreement and its terms will be treated as confidential by Staff and Agnico-Eagle until approved by the Commission, and forever, if for any reason whatsoever this settlement is not approved by the Commission, except with the consent of Staff and Agnico-Eagle, or as may be required by law.

43. Any obligations of confidentiality shall terminate upon approval of this settlement by the Commission.

IX. EXECUTION OF SETTLEMENT AGREEMENT

44. This Settlement Agreement may be signed in one or more counterparts that together shall constitute a binding agreement.

45. A facsimile copy of any signature shall be as effective as an original signature.

DATED this “26th” day of April, 2005

AGNICO-EAGLE MINES LIMITED

By: “Sean Boyd”

Name: Sean Boyd

Title: President and CEO

DATED this “25th” day of April, 2005

**STAFF OF THE ONTARIO SECURITIES
COMMISSION**

By: “Michael Watson”

Name: Michael Watson

Title: Director of Enforcement

SCHEDULE “A”

**IN THE MATTER OF THE SECURITIES ACT,
R.S.O. 1990, C. S.5, AS AMENDED**

- AND-

**IN THE MATTER OF
AGNICO-EAGLE MINES LIMITED**

**ORDER
(SECTIONS 127 AND 127.1)**

WHEREAS on April 22, 2005, the Ontario Securities Commission issued a Notice of Hearing pursuant to sections 127(1) and 127.1 of the Securities Act in respect of Agnico-Eagle Mines Limited (“Agnico-Eagle”);

AND WHEREAS Agnico-Eagle entered into a settlement agreement with Staff of the Commission dated April 25, 2005 (the “Settlement Agreement”) in which it agreed to a proposed settlement of the proceeding commenced by the Notice of Hearing, subject to approval of the Commission;

AND WHEREAS Staff recommend approval of the Settlement Agreement;

UPON reviewing the Settlement Agreement and the Notice of Hearing and upon hearing the submissions of Staff and counsel for Agnico-Eagle;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this Order;

IT IS HEREBY ORDERED THAT:

1. the Settlement Agreement attached to this Order is hereby approved;
2. pursuant to clause 4 of subsection 127(1) of the Act, Agnico-Eagle will initiate a review of its disclosure and reporting practices and procedures by an independent third party, acceptable to both Agnico-Eagle and Staff, at the expense of Agnico-Eagle; and
3. pursuant to clause 4 of subsection 127(1) of the Act, Agnico-Eagle will implement any recommendations made by the independent third party referred to above that are approved by Staff, within a reasonable period of time, as approved by Staff.

DATED at Toronto this day of April, 2005

Wendell S. Wigle

Suresh Thakrar

Robert W. Davis