

PALOS

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Weekly Commentary

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Agnico Eagle/Kirkland Lake Merger: Creating a Premiere Canadian Gold Giant

On September 28, **Agnico Eagle Mines Ltd. (TSX/NYSE: AEM)** and **Kirkland Lake Gold Ltd. (TSX/NYSE: KL)** announced plans to combine their operations into a single company. As per the terms of the deal, KL shareholders will receive 0.7935 shares of the new company for each share currently held. Upon closing, which is expected in Q4/2021 or Q1/2022, KL shareholders will own 46% of the combined company and AEM will retain a 54% share. The new company (“Newco”) will retain the Agnico Eagle name.

Widely viewed as a “merger of equals”, Newco will become one of the largest gold miners in the world with an estimated market capitalization of USD\$25 billion. The combined companies will boast 12 operational mines located in some of the best gold mining jurisdictions in the world. Presently, Newco mining operations are in Canada, Mexico, Finland, and Australia. From a jurisdictional risk perspective, these nations carry extremely low-risk profiles.

Synergies, namely the streamlining of costs and the consolidation of some mining operations (e.g. procurement and infrastructure), are expected to generate savings of approximately USD\$ 2 billion over the next decade. This operational optimization will create value for shareholders. Newco will hold a dominant position on one of the most prolific mining camps in the world; the Abitibi Greenstone region of Northeast Ontario and Northwest Quebec (Kirkland Lake, Detour Lake, and Val d’Or).

Newco will become an ESG leader from the start. Presently AEM is on record with its commitment to a **Sustainable Development Policy** which encompasses worker safety, wellness and respect for employees, engagement with communities where AEM operates, diversity and inclusion, and finally, the environment. AEM is recognized as a world leader in low intensity energy (consumption), environmental impact (GHG emissions), and water management initiatives. Newco will allow for its combined technical expertise to lead the adoption of new technologies, automation, electrification, and artificial intelligence in Newco’s quest to “build smarter mines”. Pre-merger, AEM as stated its goal is to become a Net Zero CO2 emitter by 2050 or sooner.

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The unanimous approval from the boards of AEM and KL is already in place. For the transaction to be completed, 50% of AEM shareholders and 66.7% of KL shareholders must vote to approve of the arrangement. The new board will be comprised of seven directors from AEM and six directors from KL. Sean Boyd, currently CEO of AEM, will assume the position of Executive Chair and Tony Makuch (CEO of KL) will remain CEO of Newco.

Upon completion, the merger of AEM and KL will create one of the highest quality, lowest cost, lowest risk senior gold producers in the world. Synergies will significantly improve on AISC (all in sustaining costs) and drive earnings growth. Newco will have estimated reserves of 48 million ounces of gold reserves with 85% located in Canada, 12% in Australia, 7% in Finland and 6% in Mexico, considered to be top tier mining jurisdictions due to low political risk and existing 'mining friendly' cultures. A deep pipeline of potential new discoveries combined with technological expertise in mine-life extension should drive organic production growth and long-term sustainability.

This merger will create a Canadian-based, top tier leader in the gold mining industry. Historically, AEM has maintained a highly disciplined approach to creating shareholder value. A strengthened balance sheet with over USD\$ 2.3 billion in liquidity and a strong credit profile will provide Newco with the financial strength to capitalize on consolidation opportunities, finance new projects and develop new technologies that will improve operational costs and sustainability.

The rationale behind the merger is simple; to create a high quality, low-risk, senior gold producer that holds assets in the best gold regions of the world. This will be complemented with a corporate culture that's firmly committed to sustainability and adherence to the principles of ESG. In our view, AEM is one of the premier gold producers in the world and the pending merger with KL strengthens our conviction.

NOTE: The Palos Equity Income Fund, Palos Income Fund LP, and the Palos Mitchell Alpha Fund are currently invested in Agnico Eagle Mines.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.86	19.81%
Palos Equity Income Fund - RRSP	PAL101	\$7.57	19.88%
Palos Merchant Fund L.P. (Dec 31, 2020) ²	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$22.84	43.31%
Palos-Mitchell Alpha Fund ³	PAL300	\$11.60	24.39%
S&P TSX Composite (Total Return with dividends reinvested)			17.98%
S&P 500 (Total Return with dividends reinvested)			17.24%
S&P TSX Venture (Total Return with dividends reinvested)			-1.00%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.46%
Canadian Government 10-Year			1.47%
Crude Oil Spot			US \$75.88
Gold Spot			US \$1757.00
US Gov't10-Year/Moody BAA Corp. Spread			188 bps
USD/CAD Exchange Rate Spot			US \$0.7907

¹ Period ending October 1, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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