



Gold Digger? A Tiny Miner Stakes Its Claim Over Yamana Gold Inc. and Agnico Eagle Mines Ltd.

Description

Yamana Gold Inc ([TSX: YRI](#))([NYSE: AUU](#)) and **Agnico Eagle Mines Ltd** ([TSX: AEM](#))([NYSE:AEM](#)) thought their battle for Osisko Mining ended when they jointly completed the \$3.9 billion takeover earlier this year. The pair teamed up to outbid **Goldcorp** to take control of Canadian Malartic, which is Canada's largest gold mine. However, a new battle is emerging as tiny **Abitibi Royalties Inc** is staking its claim to the Odyssey gold discovery near that mine.

Details on the drama

Odyssey is located in Quebec and is close by Canadian Malartic. Early indications from exploration drilling suggest that there's a significant underground deposit at Odyssey, which if confirmed could extend the life of Canadian Malartic. It represents upside to both Yamana Gold and Agnico Eagle Mines as Canadian Malartic is what the pair were really after when they bought Osisko Mining.

Because the focus was on Canadian Malartic the pair apparently were unaware that Osisko Mining had signed contracts in regard to Odyssey with Abitibi Royalties, which is backed by the founder of Goldcorp and run by its former top executive. These contracts are said to have handed over a 30% interest in the property that contains the northern section of Odyssey. Further, the interest is "fee carried" meaning that Abitibi doesn't have to invest any capital into the development to earn a return.

To make matters worse for both Yamana Gold and Agnico Eagle Mines, the contracts also are said to include a right of first refusal that gives Abitibi the right to buy the 70% it didn't own. These rights were supposedly triggered when Yamana Gold and Agnico Eagle Mines bought Osisko. The buyers, however, reject that claim.

What the drama means for investors

Odyssey wasn't the core asset Yamana Gold and Agnico Eagle Mines were after when they bought Osisko Mining. Because of that, it's not core to the investing thesis or growth of either company. However, Odyssey does represent potential upside from a potentially large gold discovery and no one

ever wants to simply give away upside.

In the interim exploration drilling at Odyssey has been halted. This is both to determine the financial viability of the project as well as to sort out the claims to the assets. Those claims will likely be settled in court as Abitibi has already appealed a decision by a Quebec court that would have sent it into arbitration. Until these claims are settled investors should expect some volatility.

Investor takeaway

It's very rare that a large acquisition goes off without a hitch. Promised synergies fail to materialize, markets fall, and all too often something else unexpected crops up that impacts investors. However, in this case the claims on Odyssey don't appear to be a thesis altering issue as it wasn't the asset that Yamana Gold and Agnico Eagle Mines wanted the most.

The worst case is that the pair would lose some hidden upside, which while disappointing isn't a major blow. That said, we shouldn't expect Yamana Gold nor Agnico Eagle Mines to walk away from this fight given that there could be a lot of gold at stake.

CATEGORY

1. Investing

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1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:AUY (Yamana Gold)
3. TSX:AEM (Agnico Eagle Mines Limited)
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Author

mdilallo

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