

Gammon Gold

22:13 01 Oct 2010

Mexico-focused Gammon tops Timmins Gold, agrees to purchase Capital Gold for \$288m

Mexico-focused gold producer Gammon Gold (NYSE: GRS, TSX: GAM) said Friday it has agreed to acquire Capital Gold (TSX and NYSE AMEX: CGC) in a cash and share transaction totaling about US\$288 million.

The US\$4.57 per share deal follows Timmins Gold's offer of \$4.50 per share, which was announced earlier this week. Unsurprisingly, since Timmins' proposal, Capital Gold's shares have moved up sharply, from around \$3.82 on Monday morning to trade at around \$4.68 on Friday.

The Gammon bid represents a 1.5% premium to Timmins' offer and a 20% premium to Capital Gold's closing price on Friday September 24th, the last business day prior to Timmins Gold's announcement.

Under the terms of the acquisition, each common share of Capital Gold will be exchanged for 0.5209 common shares of Gammon Gold, and a cash payment in the amount of US\$0.79 per share.

The deal no doubt strengthens Gammon's position as a Mexico-focused growing gold producer, as Capital Gold owns and operates the El Chanate gold mine in Sonora as well as the Orion development project in Nayarit, both in Mexico.

Capital Gold has increased reserves at its El Chanate mine by 1.3 million gold ounces since 2002, and it is thought that there is still potential to be realized. The company also owns and leases mineral concessions near the town of Saric, also located in Sonora, that are undergoing exploration for gold and silver mineralization.

"Both Gammon Gold and Capital Gold have operating teams that possess extensive experience in Mexico, which supported by Gammon Gold's strong financial foundation, will allow El Chanate and Orion's potential to be fully realized," said Capital Gold chairman Stephen Cooper.

Following the transaction, Capital Gold shareholders will own approximately 20% of Gammon Gold on a fully diluted basis.

Both board of directors have already approved the transaction, and senior officers and directors of Capital Gold have also agreed to vote in favour of the acquisition.

Should the acquisition not be completed, Capital Gold has agreed to pay a break fee of US\$10.3 million to Gammon, under specific circumstances.

The deal, which is still subject to customary closing conditions, is expected to close in late 2010.

Toronto-based Gammon Gold's flagship property is Ocampo in Chihuahua State, which achieved commercial production in January 2007. The company also owns the suspended El Cubo mine in Guanajuato State and the Guadalupe y Calvo development property in Chihuahua State, with several option purchase agreements signed for

Share Information

Code: GAM
Listing: TSX
Sector: Gold & silver
Website: www.gammongold.com

Company Synopsis:

Gammon Gold Inc. is a Nova Scotia based mid-tier gold and silver producer with properties in Mexico. The Company's flagship Ocampo Project in Chihuahua State achieved commercial production in January 2007. Gammon Gold also operates its El Cubo operation in Guanajuato State.

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other properties in Mexico.

Since 2008, the company has increased its Mexican land position by over 59%.

Gammon slipped more than 2.6% on Friday, trading at \$6.98 at 12:10pm ET.

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