

CAPITAL GOLD CORP  
Form DEFM14A  
February 18, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington D.C. 20549  
**SCHEDULE 14A**  
**(Rule 14a-101)**  
**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant  x  
Filed by a party other than the Registrant  ..  
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for the use of the Commission only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14(a)-12

**CAPITAL GOLD CORPORATION**

(Name of Registrant as Specified in its Charter)

**n/a**

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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2. Aggregate number of securities to which transaction applies:
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**PROPOSED MERGER TRANSACTION YOUR VOTE IS VERY IMPORTANT**

Capital Gold Corporation, or CGC or Capital Gold, has entered into an Agreement and Plan of Merger, dated October 1, 2010, as amended on October 29, 2010, which we refer to collectively as the merger agreement, among CGC, Gammon Gold Inc., or Gammon Gold, and Capital Gold AcquireCo, Inc., a wholly-owned subsidiary of Gammon Gold, which provides for Gammon Gold to acquire CGC. If the merger is completed, you will receive 0.5209 common shares of Gammon Gold and a cash payment in the amount of U.S.\$0.79 per share (plus cash in lieu of any fractional share interests) for each share of CGC common stock you hold immediately prior to the completion of the merger, unless you exercise and perfect your appraisal rights under the Delaware General Corporation Law, or DGCL. The exchange ratio of 0.5209 Gammon Gold common shares for the stock consideration portion is fixed and will only be adjusted in limited circumstances. The exchange ratio will not be adjusted to reflect changes in the stock price of Gammon Gold or CGC. The dollar value of the stock consideration portion CGC stockholders may receive will change depending upon changes in the market price of Gammon Gold common shares and will not be known at the time you vote on the merger.

Based upon the closing price of Gammon Gold common shares of U.S.\$7.26 as reported on the New York Stock Exchange, or NYSE, on September 24, 2010, the last trading day preceding the announcement by Timmins Gold Corp. detailing its previous non-binding proposal to merge with CGC, the merger consideration represented approximately U.S.\$4.57 in value for each share of CGC common stock. Based upon the closing price of Gammon Gold common shares of U.S.\$7.01 as reported on the NYSE on September 30, 2010, the last trading day before public announcement of the proposed merger, the merger consideration represented approximately U.S.\$4.44 in value for each share of CGC common stock, and based upon the closing price of Gammon Gold common shares as reported on the NYSE on February 14, 2011, the last practicable date before the date of this document, the merger consideration represented approximately U.S.\$5.34 in value for each share of CGC common stock. Gammon Gold's common shares are listed on the NYSE and the Toronto Stock Exchange, or TSX, under the symbols GRS and GAM, respectively, and CGC's common stock is listed on the NYSE Amex Equities market, or NYSE Amex, and the TSX under the symbol CGC. You should obtain current market quotations for both securities. As of the closing of the merger, it is expected that current CGC stockholders will own approximately 20% of Gammon Gold's outstanding shares on a fully diluted basis. If the merger is completed, CGC's common shares will no longer be traded on the NYSE Amex or the TSX.

You are invited to attend a special meeting of CGC's stockholders to be held at Ballard Spahr LLP, 1735 Market Street, 5<sup>th</sup> Floor, Philadelphia, Pennsylvania 19103, on March 18, 2011, at 10:00 a.m. local time. At the special meeting, you will have the opportunity to vote on the proposal to approve and adopt the plan of merger contained in the merger agreement. The CGC board of directors unanimously recommends that you vote FOR the proposal to approve the plan of merger and FOR the proposal to approve any adjournment or postponement of the special meeting, if necessary or appropriate, including to permit further solicitation of proxies. Once the proposed merger has been approved by CGC's stockholders and the other closing conditions under the merger agreement have been satisfied or waived, Capital Gold AcquireCo, Inc. will merge with and into CGC, and the separate corporate existence of Capital Gold AcquireCo, Inc. will cease and CGC will survive as a wholly-owned subsidiary of Gammon Gold.

**Your vote is very important.** Holders of a majority of CGC shares of common stock issued and outstanding and entitled to vote at the special meeting must be present in person or by proxy in order to hold the special meeting and conduct business. Approval of the plan of merger contained in the merger agreement requires (i) the affirmative vote of a majority of the votes entitled to be cast at the special meeting by the holders of CGC common stock and (ii) the affirmative vote of a majority of the votes cast by holders of CGC common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter, excluding the votes cast by certain persons entitled to receive change of control payments in connection with the merger. An abstention or failure to vote or to instruct your broker how to vote will have the same effect as voting against the plan of merger contained in the merger agreement. Whether or not you plan to attend the meeting, please promptly return your completed proxy so that your shares are voted at the meeting. If your shares are held in street name, you must instruct your broker in order to vote. The merger does not require the approval of Gammon Gold's shareholders.

**This proxy statement/prospectus contains detailed information about the special meeting, the proposed merger, documents related to the merger and other related matters, and we urge you to read it carefully, including the section entitled Risk Factors beginning on page 19.**

We appreciate your continued support.

Sincerely,

Chairman of the Board of Directors

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION, OR SEC, NOR ANY U.S. STATE OR CANADIAN PROVINCIAL OR TERRITORIAL SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES TO BE ISSUED IN CONNECTION WITH THE MERGER OR DETERMINED IF THIS PROXY STATEMENT/PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this proxy statement/prospectus is February 16, 2011, and it is first being mailed or otherwise delivered to CGC stockholders on or about February 17, 2011.

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**REFERENCES TO ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates important business and financial information about CGC and Gammon Gold from documents that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can also obtain the documents incorporated by reference into this proxy statement/prospectus by accessing the SEC's website maintained at <http://www.sec.gov>.

In addition, CGC's filings with the SEC are available to the public on CGC's website, <http://www.capitalgoldcorp.com>, and Gammon Gold's filings with the SEC are available to the public on Gammon Gold's website, <http://www.gammongold.com>. Information contained on CGC's website, Gammon Gold's website or the website of any other person is not incorporated by reference into this proxy statement/prospectus, and you should not consider information contained on those websites as part of this proxy statement/prospectus.

You can also obtain documents related to CGC and Gammon Gold that are incorporated by reference in this proxy statement/prospectus, other than certain exhibits to the documents, without charge, by requesting them in writing or by telephone from the appropriate company.

Gammon Gold Inc.	Capital Gold Corporation
Investor Relations	Investor Relations
1701 Hollis Street, Suite 400	76 Beaver Street, 14th Floor
Founders Square	New York, New York 10005
P.O. Box 2067	(212) 344-2785
Halifax, Nova Scotia, B3J 2Z1	<a href="mailto:kelly@capitalgoldcorp.com">kelly@capitalgoldcorp.com</a>
Canada	
(902) 468-0614	
<a href="mailto:anne.day@gammongold.com">anne.day@gammongold.com</a>	

Such documents are also available free of charge under CGC's and Gammon Gold's respective profiles on SEDAR (the System for Electronic Document Analysis and Retrieval which has been established by the Canadian Securities Administrators) at <http://www.sedar.com>.

In addition, if you have questions about the merger or the special meeting, need additional copies of this document or need to obtain proxy cards or other information related to the proxy solicitation, you may contact the appropriate contact listed below. You will not be charged for any of these documents that you request.

Laurel Hill Advisory Group

Toll free telephone: 1-800-385-3006

Brokers and banks, please call: (917) 338-3181

**In order to receive timely delivery of requested documents in advance of the special meeting, you should make your request no later than March 4, 2011.**

**See Where You Can Find More Information beginning on page 156.**

Information contained in this proxy statement/prospectus regarding Gammon Gold has been provided by, and is the responsibility of, Gammon Gold and information contained in this proxy statement/prospectus regarding CGC has been provided by, and is the responsibility of, CGC. No

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one has been authorized to give you any other information, and neither Gammon Gold nor CGC take responsibility for any information that others may give you. This proxy statement/prospectus is dated February 16, 2011. You should not assume that the information contained in, or incorporated by reference into, this proxy statement/prospectus is accurate as of any date other than that date. Neither CGC's mailing of this proxy statement/prospectus to CGC stockholders nor the issuance by Gammon Gold of common shares in connection with the merger will create any implication to the contrary.

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**CAPITAL GOLD CORPORATION**  
**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON MARCH 18, 2011**

To the Stockholders of Capital Gold Corporation:

We will hold a special meeting of stockholders of Capital Gold Corporation at Ballard Spahr LLP, located at 1735 Market Street, 51<sup>st</sup> Floor, Philadelphia, Pennsylvania, on March 18, 2011, at 10:00 a.m., local time, to consider and vote upon the following matters:

1. a proposal to approve and adopt the plan of merger contained in the Agreement and Plan of Merger, dated as of October 1, 2010, among Gammon Gold Inc., Capital Gold AcquireCo, Inc. and Capital Gold Corporation, as amended on October 29, 2010, pursuant to which Capital Gold AcquireCo, Inc. will merge with and into Capital Gold Corporation, and the separate corporate existence of Capital Gold AcquireCo, Inc. will cease and Capital Gold Corporation will survive as a wholly-owned subsidiary of Gammon Gold Inc., as more fully described in the attached proxy statement/prospectus. A copy of the Agreement and Plan of Merger, as amended, is included as Annexes A and A-1 to the proxy statement/prospectus;
2. a proposal to approve the adjournment or postponement of the special meeting, if necessary or appropriate, including to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the meeting; and
3. such other business as may properly come before the special meeting or any adjournments or postponements thereof.

The close of business on February 14, 2011 has been fixed as the record date for determining those CGC stockholders entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. Only the holders of record of CGC common stock at the close of business on that date are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. A list of CGC stockholders eligible to vote at the special meeting will be available for inspection at the special meeting and at the executive offices of CGC during regular business hours for a period of no less than ten days prior to the special meeting.

Approval of the plan of merger contained in the merger agreement requires (i) the affirmative vote of a majority of the votes entitled to be cast at the special meeting by the holders of CGC common stock and (ii) the affirmative vote of a majority of the votes cast by holders of shares of CGC common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter, excluding the votes cast by certain persons entitled to receive change of control payments in connection with the merger.

If you wish to attend the special meeting and your shares are held in the name of a broker, trust, bank or other nominee, you must bring with you a proxy or letter from the broker, trustee, bank or other nominee to confirm your beneficial ownership.

All properly signed and dated proxies that CGC receives prior to the vote at the special meeting, and that are not subsequently revoked, will be voted in accordance with the instructions indicated on the proxies. All properly signed and dated proxies received by CGC prior to the vote at the special meeting that do not provide any instructions as to how to vote with respect to the proposal to approve and adopt the plan of merger contained in the merger agreement will be voted **FOR** the proposal to approve and adopt the plan of merger contained in the merger agreement.

By order of the Board of Directors,

Christopher M. Chipman, Chief Financial Officer and Corporate Secretary

February 16, 2011

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**YOUR VOTE IS IMPORTANT!**

**WHETHER OR NOT YOU PLAN TO BE PRESENT AT THE SPECIAL MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN YOUR PROXY CARD IN THE ENCLOSED ENVELOPE, OR AUTHORIZE THE INDIVIDUALS NAMED ON YOUR PROXY CARD TO VOTE YOUR SHARES BY CALLING THE TOLL-FREE TELEPHONE NUMBER OR BY USING THE INTERNET AS DESCRIBED IN THE INSTRUCTIONS INCLUDED WITH YOUR PROXY CARD. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE THE SPECIAL MEETING. IF YOUR SHARES ARE HELD IN THE NAME OF A BANK BROKER OR OTHER FIDUCIARY, PLEASE FOLLOW THE INSTRUCTIONS ON THE VOTING INSTRUCTION CARD FURNISHED TO YOU BY SUCH RECORD HOLDER.**

**CAPITAL GOLD S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE PLAN OF MERGER AND FOR APPROVAL OF ANY ADJOURNMENT OR POSTPONEMENT OF THE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE, INCLUDING TO PERMIT FURTHER SOLICITATION OF PROXIES.**



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**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND RELATED MATTERS**

*The following are some questions that you, as a stockholder of CGC, may have regarding the special meeting and the proposed merger, and brief answers to those questions. For more detailed information about the matters discussed in these questions and answers, please read the entire document. CGC and Gammon Gold urge you to read this document carefully because the information in this section does not provide all the information that might be important to you with respect to the proposed merger and the other matters being considered at the special meeting. In this proxy statement/prospectus, the terms Capital Gold and CGC and any derivation thereof, refer to Capital Gold Corporation prior to the merger with Capital Gold AcquireCo, Inc., a wholly-owned subsidiary of Gammon Gold. All references in this proxy statement/prospectus to dollars, \$ or U.S.\$ are to U.S. dollars and all references to C\$ are to Canadian dollars.*

**Q: Why am I receiving this proxy statement/prospectus?**

A: Under the terms of the merger agreement that is described in this proxy statement/prospectus, Gammon Gold will acquire CGC and CGC will become a wholly-owned subsidiary of Gammon Gold and will no longer be a publicly held corporation. Please see Proposal No. 1: The Merger and The Merger Agreement. A copy of the merger agreement is included in this proxy statement/prospectus as Annexes A and A-1.

This document is both a proxy statement of CGC and a prospectus of Gammon Gold. It is a proxy statement of CGC because the CGC board of directors is soliciting proxies from its stockholders to vote on the proposal to approve and adopt the plan of merger contained in the merger agreement at a special meeting of its stockholders, as well as the other matters set forth in the notice of the special meeting and described in this proxy statement/prospectus, and your proxy will be used at the special meeting or at any adjournment or postponement of the special meeting. It is a prospectus because Gammon Gold will issue Gammon Gold common shares to the holders of CGC common stock in the merger. This document contains important information about the merger agreement, the merger and the special meeting of the stockholders of CGC. You should read this document carefully.

**Q: What are CGC stockholders voting to approve and why is this approval necessary?**

A: CGC stockholders are voting on a proposal to approve and adopt the plan of merger contained in the merger agreement. The approval by the majority of CGC stockholders of the proposal to approve and adopt the plan of merger contained in the merger agreement is required by Delaware law and is a condition to the completion of the merger. In addition, Canadian securities law requires the proposal to approve and adopt the plan of merger contained in the merger agreement to be approved by a majority of the holders of shares of CGC common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter, excluding the votes cast by certain persons entitled to receive change of control payments in connection with the merger. See Proposal No. 1: The Merger Regulatory Matters Related to the Merger and Stock Exchange Listings Canadian Securities Law Matters. CGC stockholders are also voting on a proposal to adjourn or postpone the special meeting, if necessary or appropriate, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting in favor of the proposal to approve and adopt the merger agreement. The approval by CGC stockholders of the proposal to adjourn or postpone the special meeting is not a condition to the completion of the merger.

**Q: What will I receive in exchange for my CGC common stock in the merger?**

A: If the merger is completed, you will receive 0.5209 common shares of Gammon Gold and a cash payment in the amount of \$0.79 per share for each share of CGC common stock you hold immediately prior to the completion of the merger, unless you exercise and perfect your appraisal rights under the DGCL.

Gammon Gold will not issue fractional shares in the merger. Instead, it will pay cash in U.S. dollars for fractional shares of common stock in an amount equal to the fractional interest in a Gammon Gold common share multiplied by the average of the closing sale prices of a Gammon Gold common share on the NYSE for the five trading days immediately preceding the date of completion of the merger.



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**Q: How much stock will the current CGC stockholders own in Gammon Gold after the merger?**

A: As of the closing of the merger, it is expected that current CGC stockholders will own approximately 20% of Gammon Gold's outstanding shares on a fully diluted basis.

**Q: Will CGC stockholders be taxed on the Gammon Gold common shares that they receive in exchange for their CGC common stock?**

A: For U.S. federal income tax purposes, the merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, or the Code. If the merger is treated as a reorganization for these purposes and certain other requirements are met, then U.S. Holders (as defined in Material U.S. Federal Income Tax Considerations) of CGC common stock that receive both cash and Gammon Gold common shares generally will recognize gain, but not loss, to the extent of the cash received. See Material U.S. Federal Income Tax Considerations. CGC stockholders who are resident in Canada will recognize gain/loss as a result of their receipt of cash and Gammon Gold common shares in exchange for their CGC common stock for the purposes of the Income Tax Act (Canada). See Material Canadian Federal Income Tax Considerations Shareholders Resident in Canada.

Generally, Canadian Resident Shareholders (as defined in Material Canadian Federal Income Tax Considerations) will realize a capital gain (or sustain a capital loss) on the disposition of their CGC common stock to the extent that the Canadian Resident Shareholder's total proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such CGC common stock to the Canadian Resident Shareholder. Generally, one-half of any capital gain realized by a Canadian Resident Shareholder in a taxation year will be included in computing the Canadian Resident Shareholder's income for such year (a taxable capital gain), and one-half of any capital loss realized by a Canadian Resident Shareholder in a taxation year (an allowable capital loss) may be deducted from the Canadian Resident Shareholder's taxable capital gains realized in that year in accordance with the rules in the Tax Act.

Tax matters can be complicated, and the tax consequences of the transaction to you will depend on your particular tax situation. You should consult your tax advisor to determine the tax consequences of the transaction to you.

**Q: When do you currently expect to complete the transaction?**

A: We expect to complete the transaction during the first quarter of 2011. However, CGC and Gammon Gold cannot assure you when, or if, the transaction will occur or that it will be completed. CGC and Gammon Gold must first obtain the required approvals of the CGC stockholders and the necessary regulatory approvals.

**Q: How will Gammon Gold be managed after the merger? Will CGC have representation on the Gammon Gold board of directors?**

A: Following the merger, CGC will become a wholly-owned subsidiary of Gammon Gold, subject to the management of the Gammon Gold board of directors. Upon the closing of the merger, one current member of the board of directors of CGC will be appointed to Gammon Gold's board of directors. At each of Gammon Gold's annual shareholder meetings in 2011 and 2012, the CGC nominee will, if deemed advisable by the nominating and corporate governance committee comprised of Gammon Gold directors, be nominated for election as a director of Gammon Gold.

**Q: Do persons involved in the merger have interests that may conflict with mine as a CGC stockholder?**

A: Yes. When considering the recommendation of CGC's board of directors, you should be aware that certain CGC directors and officers have interests in the merger that are different from, or are in addition to, yours. These interests include the possible employment of certain of

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CGC's executive officers by Gammon Gold after the merger, although no agreements have been proposed or entered into, the immediate vesting of stock options and other equity-based awards granted to executive officers and directors of CGC, change in control

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agreements that provide severance to executive officers upon a qualifying termination of employment in connection with the merger, the expected appointment of one CGC director to the Gammon Gold board of directors, and the receipt of indemnification and liability insurance benefits by directors and officers of CGC from Gammon Gold.

**Q: How does the CGC board of directors recommend that CGC stockholders vote?**

A: After careful consideration, and upon the recommendation of a special committee of the CGC board of directors, which is referred to as the M&A Committee, comprised solely of independent directors, the CGC board of directors unanimously approved the plan of merger contained in the merger agreement and determined that entry into the merger agreement is advisable and in the best interests of CGC and its stockholders. Accordingly, the CGC board of directors unanimously recommends that CGC stockholders vote FOR the proposal to approve and adopt the plan of merger contained in the merger agreement and FOR the proposal to adjourn or postpone the special meeting, if necessary or appropriate.

**Q: Are there risks associated with the transaction that I should consider in deciding how to vote?**

A: Yes. There are a number of risks related to the transaction, risks related to the combined company if the transaction is completed and risks relating to each of Gammon Gold and CGC that are discussed in this proxy statement/prospectus. *Please see the section entitled Risk Factors beginning on page 19 for a discussion of the risks associated with the transaction.*

**Q: When and where will the CGC special meeting be held?**

A: The CGC special meeting will take place at Ballard Spahr LLP, 1735 Market Street, 51<sup>st</sup> Floor, Philadelphia, Pennsylvania 19103, on March 18, 2011, at 10:00 a.m., local time.

**Q: Who can attend and vote at the CGC special meeting?**

A: Only holders of record of CGC common stock at the close of business on February 14, 2011, are entitled to notice of, and to vote at, the special meeting. As of the record date, there were 61,338,136 shares of CGC common stock outstanding and entitled to vote at the special meeting, held by 970 holders of record. Each holder of CGC common stock is entitled to one vote for each share of CGC common stock owned as of the record date.

**Q: What constitutes a quorum?**

A: In accordance with CGC's amended and restated bylaws, which are referred to as CGC's bylaws, holders of a majority of the shares of stock issued and outstanding and entitled to vote at any meeting of stockholders must be present in person or by proxy in order to hold the special meeting and conduct business. This is called a quorum. Shares of CGC common stock are counted as present at the special meeting if the holder of such shares (i) is present and votes in person at the special meeting or (ii) has properly submitted a proxy card by mail, telephone or Internet. Abstentions will be counted as present for purposes of determining a quorum.

**Q: What vote of CGC stockholders is required to approve the proposal to approve and adopt the plan of merger contained in the merger agreement and the proposal to adjourn or postpone the special meeting?**

- A: In accordance with Delaware law and CGC's governing documents, the approval by CGC stockholders of the proposal to approve and adopt the plan of merger contained in the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of CGC common stock entitled to vote on the matter. In addition, Canadian securities law requires the affirmative vote of a majority of the



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votes cast by holders of shares of CGC common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter, excluding the votes cast by certain persons entitled to receive change of control payments in connection with the merger. The approval of the proposal to adjourn or postpone the special meeting requires the affirmative vote of the holders of a majority of the shares of CGC common stock present in person or represented by proxy at the special meeting, whether or not a quorum is present.

**Q: Are any stockholders already committed to vote in favor of the merger?**

A: Yes. In connection with the execution of the merger agreement, Gammon Gold entered into voting and support agreements with CGC's directors and executive officers, which provide, among other things, that each such person will vote all of the shares of CGC's common stock beneficially owned by such person in favor of the proposal to approve and adopt the plan of merger contained in the merger agreement. CGC's directors and executive officers, as of the record date for the special meeting, collectively held 449,196 shares of the then-outstanding CGC common stock, or less than 1% of the shares entitled to vote at the special meeting, all of which is subject to the terms of the voting and support agreements. For additional information, please see the section entitled "The Voting and Support Agreements" beginning on page 134 of this proxy statement/prospectus. The form of voting and support agreement is also attached to this proxy statement/prospectus as Annex B.

**Q: What should CGC stockholders do now in order to vote on the proposals being considered at the special meeting?**

A: Stockholders of record of CGC as of the record date may submit a proxy in any of the following three ways:

By Internet, following the instructions to vote online that appear on the proxy card;

By telephone, using the telephone number printed on the proxy card; or

By mail, by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed postage-paid envelope.

Submitting a proxy means that you give someone else the right to vote your shares in accordance with your instructions. In this way, you ensure that your vote will be counted even if you are unable to attend the special meeting. If you execute your proxy, but do not include specific instructions on how to vote, the individuals named as proxies will vote your shares as follows:

FOR the proposal to approve and adopt the plan of merger contained in the merger agreement; and

FOR the proposal to adjourn or postpone the special meeting.

If you hold CGC shares in "street name," which means your shares are held of record by a broker, bank or nominee, you must provide the record holder of your shares with instructions on how to vote your shares. Please refer to the voting instruction card used by your broker, bank or nominee to see if you may submit voting instructions using the Internet or telephone.

Additionally, you may also vote in person by attending the special meeting. If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held in "street name," and you wish to vote in person at the special meeting, you must bring a proxy from the record holder of the shares authorizing you to vote at the special meeting. Whether or not you plan to attend the special meeting, you are encouraged to grant your proxy as described in this proxy statement/prospectus.

**Q: What are broker non-votes?**

**A:** Broker non-votes occur when nominees, such as banks and brokers holding shares on behalf of beneficial owners, do not receive voting instructions from the beneficial owners at least ten days before the special meeting and do not have discretion to vote on a specific matter.

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**Q: What will happen if I abstain from voting, fail to vote or do not direct how to vote on my proxy?**

A: The failure of a CGC stockholder to vote or to instruct his or her broker, bank or nominee to vote if his or her shares are held in street name may have a negative effect on the ability of CGC to obtain the number of votes necessary for approval of the proposals. An abstention or the failure of a CGC stockholder to vote or to instruct his or her broker, bank or nominee to vote if his or her shares are held in street name will have the same effect as voting against the proposal to approve and adopt the plan of merger contained in the merger agreement. An abstention will have the same effect as a vote against the proposal to adjourn or postpone the special meeting; however, a failure to vote or a broker non-vote will have no effect on such proposal. All properly signed proxies that are received prior to the special meeting and that are not revoked will be voted at the special meeting according to the instructions indicated on the proxies or, if no direction is indicated, they will be voted FOR the proposal to approve and adopt the plan of merger contained in the merger agreement and FOR the proposal to adjourn or postpone the special meeting.

**Q: What happens if I sell my shares after the record date but before the special meeting?**

A: The record date for the special meeting is earlier than the date of the special meeting and the date that the merger is expected to be completed. If you transfer your CGC shares after the record date but before the date of the special meeting, you will retain your right to vote at the special meeting (provided that such shares remain outstanding on the date of the special meeting), but you will not have the right to receive the merger consideration to be received by CGC's stockholders in connection with the merger. In order to receive the merger consideration, you must hold your CGC shares through completion of the merger.

**Q: Can I change my vote after I have delivered my proxy?**

A: Yes. If you are a holder of record, you can change your vote at any time before your proxy is voted at the special meeting by:

delivering a signed written notice of revocation to the Secretary of CGC at:  
Capital Gold Corporation

76 Beaver Street, 14th Floor

New York, New York 10005

Attn.: Secretary

submitting another proxy bearing a later date (in any of the permitted forms); or

attending and casting a ballot in person at the special meeting, although your attendance alone will not revoke your proxy. If your shares are held in a street name account, you must contact your broker, bank or other nominee to change your vote.

**Q: What should CGC stockholders do if they receive more than one set of voting materials?**

## Edgar Filing: CAPITAL GOLD CORP - Form DEFM14A

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

**Q: Should CGC stockholders send in their CGC stock certificates now?**

A: No. Please DO NOT send your CGC common stock certificates with your proxy card. After the transaction is completed, CGC stockholders will be sent written instructions for exchanging their shares of CGC common stock for the merger consideration.

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**Q: Who pays for the cost of proxy preparation and solicitation?**

A: CGC will pay for the cost of proxy preparation and a portion of the cost of solicitation, including the reasonable charges and expenses of brokers, banks or other nominees for forwarding proxy materials to street name holders; however, CGC and Gammon Gold will share equally the costs and expenses incurred in connection with the filing, printing and mailing of this proxy statement/prospectus and the registration statement of which this proxy statement/prospectus forms a part. In addition, Gammon Gold will pay the cost of engaging the proxy solicitor, Laurel Hill Advisory Group, to solicit proxies from CGC stockholders.

**Q: Will I have appraisal rights in connection with the merger?**

A: Under the DGCL, holders of CGC common stock who do not vote for the proposal to approve and adopt the plan of merger contained in the merger agreement have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they comply with all requirements of Delaware law, which are summarized in this document. This appraisal amount could be more than, the same as, or less than the amount a CGC stockholder would be entitled to receive under the merger agreement. Any holder of CGC common stock intending to exercise appraisal rights, among other things, must submit a written demand for appraisal to CGC prior to the vote on the proposal to approve and adopt the plan of merger contained in the merger agreement and must not vote or otherwise submit a proxy in favor of approval and adoption of the plan of merger contained in the merger agreement. Failure to follow exactly the procedures specified under Delaware law will result in the loss of appraisal rights. Because of the complexity of the Delaware law relating to appraisal rights, if you are considering exercising your appraisal rights, CGC encourages you to seek the advice of your own legal counsel. These procedures are summarized in this proxy statement/prospectus in the section titled Proposal No. 1: The Merger Appraisal Rights. Please see Annex D for the text of the applicable provisions of the DGCL.

**Q: Who can help answer my questions?**

A: If you have any questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement/prospectus, the enclosed proxy card or voting instructions, you should contact:

Laurel Hill Advisory Group

Toll free telephone: 1- 800-385-3006

Brokers and banks, please call: (917) 338-3181

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**SUMMARY**

*This summary highlights material information from this proxy statement/prospectus. It may not contain all of the information that may be important to you. You should carefully read this entire document, including the annexes and the other documents to which this document refers you, for a more complete understanding of the matters being considered at the special meeting. In addition, we incorporate by reference into this document certain important business and financial information about Gammon Gold and CGC. You may obtain the information incorporated by reference into this document without charge by following the instructions in the section entitled "Where You Can Find More Information" beginning on page 156. Where applicable, each item in this summary includes a page reference directing you to a more complete description of that item. All references in this proxy statement/prospectus to dollars, \$ or U.S.\$ are to U.S. dollars and all references to C\$ are to Canadian dollars.*

**The Companies**

*Gammon Gold Inc. (see page 135)*

1701 Hollis Street, Suite 400

Founders Square

P.O. Box 2067

Halifax, Nova Scotia, B3J 2Z1

Canada

(902) 468-0614

Gammon Gold Inc. is a Quebec, Canada corporation that, through its subsidiaries, engages in the acquisition, exploration, development, and mining of gold and silver deposits in Mexico. Gammon Gold owns and operates the Ocampo mine in Chihuahua State, and the temporarily suspended El Cubo mine in Guanajuato State, as well as the Guadalupe y Calvo advanced exploration property in Chihuahua State, Mexico. Gammon Gold recently completed option purchase agreements to acquire the Mezquite Project in Zacatecas State, Mexico and the Venus project located north of the Ocampo mine. Gammon Gold also recently signed a definitive agreement to acquire the Los Jarros Project in Chihuahua State and has made strategic investments in Golden Queen Mining Co. Ltd. and Corex Gold Corporation. Gammon Gold was founded in 1986 and began mining at the Ocampo and El Cubo sites in 2006. Gammon Gold's common shares are listed on the Toronto Stock Exchange (TSX: GAM), the New York Stock Exchange (NYSE: GRS) and the Berlin Stock Exchange (BSX: GL7).

Additional information about Gammon Gold can be found on its website at <http://www.gammongold.com>. The information provided on Gammon Gold's website is not part of this proxy statement/prospectus and is not incorporated herein by reference.

*Capital Gold AcquireCo, Inc. (see page 136)*

2711 Centerville Road, Suite 400

Wilmington, Delaware 19808

(902) 468-0614

Capital Gold AcquireCo, Inc. is a Delaware corporation and a wholly-owned subsidiary of Gammon Gold. Capital Gold AcquireCo, Inc. was organized solely for the purpose of effecting the merger with CGC described in this proxy statement/prospectus. It has not carried on any activities other than in connection with the merger agreement.

*Capital Gold Corporation (see page 136)*

76 Beaver Street, 14th Floor

New York, New York 10005

(212) 344-2785

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Capital Gold Corporation is a Delaware corporation engaged in the mining, exploration and development of gold properties in Mexico. Its primary focus is on the operation and development of the El Chanate project, an open-pit, heap-leach mine in Sonora State, which began commercial operations in August 2007. CGC also owns and leases mineral concessions in other locations in Sonora, Mexico that are undergoing preliminary exploration for gold and silver mineralization. On August 2, 2010, CGC acquired Nayarit Gold Inc., or Nayarit Gold. CGC's common stock is listed on the TSX and the NYSE Amex under the symbol CGC.

Additional information about CGC can be found on its website at <http://www.capitalgoldcorp.com>. The information provided on CGC's website is not part of this proxy statement/prospectus and is not incorporated herein by reference.

**The Merger (see page 117)**

The merger agreement provides for Gammon Gold's wholly-owned subsidiary, Capital Gold AcquireCo, Inc., to merge with and into CGC, with CGC surviving the merger as a wholly-owned subsidiary of Gammon Gold. In addition, following completion of the merger, the registration of CGC common stock and its reporting obligations with respect to such common stock under the Securities Exchange Act of 1934, as amended, or the Exchange Act, will be terminated upon application to the SEC. Gammon Gold will also submit applications to the securities regulatory authorities in the relevant Canadian jurisdictions on behalf of CGC to have CGC classified as a non-reporting issuer. Upon completion of the proposed merger, shares of CGC common stock will no longer be listed on any stock exchange or quotation system, including the NYSE Amex or the TSX. A copy of the merger agreement is attached to this proxy statement as Annexes A and A-1.

**Merger Consideration (see page 117)**

If the merger is completed, you will be entitled to receive as merger consideration, in exchange for each share of CGC common stock you own immediately prior to the merger, 0.5209 common shares of Gammon Gold and a cash payment in the amount of \$0.79 per share, unless you exercise and perfect your appraisal rights under the DGCL. If there are fractional shares, you will receive cash in U.S. dollars in an amount equal to the fractional interest in a Gammon Gold common share multiplied by the average of the closing sale prices of a Gammon Gold common share on the NYSE for the five trading days immediately preceding the date of completion of the merger. We refer to these amounts collectively in this proxy statement/prospectus as the merger consideration. Following the merger, you will own shares of Gammon Gold. If the merger is not approved, CGC will remain an independent public company and its common stock will continue to be listed and traded on the NYSE Amex and the TSX.

For example, if the merger was completed on January 10, 2011 and you owned 1,000 shares of CGC common stock immediately prior to the effective time of the merger, you would have received:

520 common shares of Gammon Gold;

\$790.00 in cash; and

\$7.87 in cash for the fractional shares of Gammon Gold common shares (calculated by multiplying 0.90 (the remaining 0.90 fractional interest in a Gammon Gold common share) by the average of the closing sale prices of a Gammon Gold common share on the NYSE for the five trading days immediately preceding January 10, 2011 (the hypothetical date of completion of the merger)).

If after the merger has been completed, you hold fewer than 100 common shares of Gammon Gold, you will have a so-called "odd lot" rather than a "round lot". Trading in odd lots may be more difficult and/or expensive than trading in round lots.



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The exchange ratio relating to the Gammon Gold common shares you will receive is a fixed ratio, which means it will not be adjusted based on any changes in the trading price of Gammon Gold common shares or CGC common stock between now and the time the merger is completed. Therefore, the market value of the Gammon Gold common shares you will receive in the merger in exchange for any shares of CGC common stock will depend upon the price of the Gammon Gold common shares at the time the merger is completed and will not be known at the time CGC stockholders vote on the merger.

The following table shows the closing prices for Gammon Gold common shares and CGC common stock and the implied per share value in the merger to CGC stockholders for September 24, 2010, the last trading day preceding the announcement by Timmins Gold Corp. detailing its previous non-binding proposal to merge with CGC, September 30, 2010, the last trading day before public announcement of the proposed merger, and on February 14, 2011, the last practicable day before the date of this proxy statement/prospectus:

	Gammon Gold Common Shares	CGC Common Stock	Implied Value of One Share of CGC Common Stock(1)
September 24, 2010	\$ 7.26	\$ 3.80	\$ 4.57
September 30, 2010	\$ 7.01	\$ 4.83	\$ 4.44
February 14, 2011	\$ 8.73	\$ 5.37	\$ 5.34

- (1) The implied value per share reflects the value of Gammon Gold common shares that CGC stockholders would receive in exchange for each share of CGC common stock if the merger were completed on the date indicated. Such price reflects the 0.5209 of a Gammon Gold common share that CGC stockholders will be entitled to receive for each share of CGC common stock in the merger and a cash payment in the amount of \$0.79 per share. Holders of CGC common stock will also receive cash in lieu of any fractional share interests.

For information on recent market prices of the Gammon Gold common shares and CGC common stock, see [Comparative Per Share Market Price and Dividend Information](#) beginning on page 28. See also [Risk Factors](#) beginning on page 19.

**Completion of the Merger (see page 128)**

We are working toward completing the merger as quickly as possible, and we currently anticipate that it will be completed in the first quarter of 2011. However, we cannot predict the exact timing of the completion of the merger or whether the merger will be completed. In order to complete the merger, CGC must obtain stockholder approval and meet the other closing conditions under the merger agreement, including receipt of certain regulatory approvals, must be satisfied or, to the extent legally permitted, waived. For a discussion of the conditions to the completion of the merger and of the risks associated with the failure to satisfy such conditions, please see [The Merger Agreement](#) [Conditions to the Closing of the Merger](#) beginning on page 128 and [Risk Factors](#) beginning on page 19.

**Opinion of Stifel, Nicolaus & Company, Incorporated (see page 80 and Annex C)**

Stifel, Nicolaus & Company, Incorporated, or Stifel Nicolaus, delivered its opinion to the board of directors of CGC, on September 30, 2010 that, based upon and subject to the factors, considerations, qualifications, limitations and assumptions set forth in the opinion, the per share merger consideration to be paid to the holders of shares of CGC's common stock (excluding shares owned by Gammon Gold, Capital Gold AcquireCo, Inc. or CGC, shares owned by any locked-up stockholder, and shares issuable upon exercise or conversion of any CGC stock options, warrants or restricted stock) by Gammon Gold in connection with the merger pursuant to the merger agreement was fair to such holders of shares, from a financial point of view.

The full text of the written opinion of Stifel Nicolaus, dated September 30, 2010, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex C to this proxy statement/prospectus. CGC's stockholders should read the opinion in its entirety, as well as the section of this proxy statement/prospectus entitled [Proposal](#)

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No. 1: The Merger Opinion of Stifel, Nicolaus & Company, Incorporated beginning on page 80. Stifel Nicolaus provided its opinion for the information and assistance of the board of directors of CGC in connection with the board of directors of CGC's consideration of the merger. Stifel Nicolaus addressed its opinion to the board of directors of CGC, and its opinion does not constitute a recommendation to any CGC stockholder as to how such stockholder should vote at the special meeting with respect to the merger or as to any other action that a stockholder should take with respect to the merger.

### **Role of Cormark Securities Inc. (see page 88)**

CGC's board of directors engaged Cormark Securities Inc., or Cormark, to provide financial advisory services and to assist CGC in assessing, structuring and negotiating a business combination to the extent a suitable transaction could be identified.

### **Interests of CGC's Directors and Executive Officers in the Merger (see page 96)**

All CGC directors and executive officers are stockholders, or beneficially own stock options, of CGC. Some of CGC's directors and executive officers have interests in the merger other than their interests as stockholders. The CGC board of directors knew about these additional interests and considered them when it approved the merger agreement.

### ***Directors of CGC***

CGC's equity compensation plan and award agreements for directors generally provide for the vesting of equity awards upon completion of the merger. The merger agreement also provides that all restricted stock will vest at the effective time of the merger. Therefore, the outstanding options and restricted stock held by directors, including CGC's president and CGC's chief operating officer, will vest upon completion of the merger. As of the effective time of the merger, each outstanding option to acquire CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and converted into an option to purchase a number of shares of Gammon Gold common shares equal to the number of shares of CGC common stock subject to such CGC stock option immediately prior to the closing of the merger multiplied by the conversion number. The exercise price for each outstanding option will be adjusted to equal the exercise price per share of CGC common stock at which such option was exercisable immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each option will be assumed by Gammon Gold in accordance with its existing terms, except that it will be amended to provide that, following termination of employment, the option can be exercised until the earlier of 180 days from the date of such termination and the date of the expiration of the original option term and the exercise price and the number of Gammon Gold common shares exercisable pursuant to the assumed stock options shall be subject to such adjustments as may be necessary for the foregoing conversion to satisfy the requirements of Sections 409A, 422 and 424 of the Code and Treasury Regulations thereunder.

Gammon Gold has agreed in the merger agreement to indemnify all present and former directors, officers and employees of CGC and its subsidiaries against costs and expenses in connection with certain claims arising from matters existing or occurring prior to completion of the merger. In addition, Gammon Gold has agreed to maintain a directors' and officers' insurance and indemnification policy (or an equivalent tail insurance policy) for present and former officers and directors of CGC and its subsidiaries with respect to facts or events occurring prior to merger completion, subject to certain limitations.

Gammon Gold and CGC have also agreed that, upon the closing of the merger, one current member of the board of directors of CGC will be appointed to Gammon Gold's board of directors. At each of Gammon Gold's annual shareholder meetings in 2011 and 2012, the CGC nominee will, if deemed advisable by the nominating and corporate governance committee comprised of Gammon Gold directors, be nominated for election as a director of Gammon Gold.

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### ***Officers of CGC***

Three of CGC's executive officers are party to change in control agreements with CGC that provide severance and other benefits in the case of qualifying terminations of employment in connection with or following a change in control, including completion of the merger.

CGC equity compensation plans and award agreements generally provide for the vesting of equity awards upon completion of the merger. The merger agreement also provides that all restricted stock will vest at the effective time of the merger. Therefore, the outstanding options and restricted stock held by executive officers will vest upon completion of the merger. As of the effective time of the merger, each outstanding option to acquire CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and converted into an option to purchase a number of shares of Gammon Gold common shares equal to the number of shares of CGC common stock subject to such CGC stock option immediately prior to the closing of the merger multiplied by the conversion number. The exercise price for each outstanding option will be adjusted to equal the exercise price per share of CGC common stock at which such option was exercisable immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each option will be assumed by Gammon Gold in accordance with its existing terms, except that it will be amended to provide that, following termination of employment, the option can be exercised until the earlier of 180 days from the date of such termination and the date of the expiration of the original option term and the exercise price and the number of Gammon Gold common shares exercisable pursuant to the assumed stock options shall be subject to such adjustments as may be necessary for the foregoing conversion to satisfy the requirements of Sections 409A, 422 and 424 of the Code and Treasury Regulations thereunder.

### **Recommendation of the CGC Board of Directors (see page 78)**

The CGC board of directors believes that the merger and the other transactions contemplated by the merger agreement are in the best interests of CGC stockholders and that the merger consideration is fair to CGC stockholders and has approved the merger and the merger agreement and other transactions contemplated thereby, and unanimously recommends that you vote **FOR** the proposal to approve and adopt the plan of merger contained in the merger agreement. For the factors considered by the CGC board of directors in reaching its decision to adopt the merger agreement and recommend adoption of the merger agreement to the CGC stockholders, see **Proposal No.1: The Merger** CGC's Reasons for the Merger; Recommendation of the CGC Board of Directors.

### **Restrictions on Solicitation of Alternative Transactions (see page 126)**

CGC has agreed that it will not, directly or indirectly (i) solicit, approve, recommend or encourage any inquiry, announcement or consummation of any takeover proposal or take any similar actions, (ii) participate in any way in any discussions regarding any takeover proposal, (iii) approve or recommend any agreement, whether or not binding, or any merger or similar agreement intended or expected to lead to a takeover proposal, (iv) waive, terminate, modify or fail to enforce any confidentiality or standstill obligation or (v) propose publicly or resolve to agree to do any of the foregoing.

Further, CGC has agreed not to withdraw or withhold its support for the merger and must publicly reaffirm the desirability of the merger in response to any third-party offer to engage in a business combination with CGC.

At any time prior to receipt of approval of the merger by CGC's stockholders, CGC may respond to a *bona fide* unsolicited written takeover proposal that is, or is reasonably likely to lead to, a superior proposal, provided that CGC first notifies Gammon Gold of such superior proposal and enters into a confidentiality agreement with the person making such takeover proposal. Gammon Gold has five business days to make a counter proposal to any superior proposal or amendment thereof and CGC will negotiate in good faith with Gammon Gold to permit Gammon Gold to draft an acceptable counter proposal such that the competing proposal is no longer a superior

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proposal. If Gammon Gold submits an acceptable counter proposal, CGC is obligated to (i) cease discussions with the person who made the formerly superior proposal and (ii) recommend Gammon Gold's counter proposal to its stockholders.

On October 12, 2010, Timmins Gold Corp. submitted a letter offering to acquire CGC at a price per share of CGC common stock equal to \$4.63 (valued as of the day of the offer) consisting of 2.27 shares of Timmins Gold Corp. common shares (valued as of the offer date at C\$2.06). On October 14, 2010, CGC consulted with Cormark and outside legal counsel and advised Timmins Gold Corp. that the Timmins Gold Corp. offer did not constitute a superior proposal. On December 2, 2010, Timmins Gold Corp. submitted a letter offering to acquire CGC at a price per share of CGC common stock equal to \$4.48, based upon the average closing share prices for the prior 20 trading days. This Timmins Gold Corp. proposal eliminated a due diligence condition, but otherwise contained the same terms as the proposal Timmins Gold Corp. submitted on October 12, 2010. On December 5, 2010, CGC consulted with Cormark and outside legal counsel and advised Timmins Gold Corp. that the Timmins Gold Corp. offer did not constitute a superior proposal.

On December 28, 2010, the CGC board of directors held a meeting at which the CGC board of directors determined that the proposal Timmins Gold Corp. submitted on December 2, 2010 is reasonably likely to lead to a superior proposal. On January 3, 2011, CGC and Timmins Gold Corp. entered into a confidentiality agreement. On January 6, 2011, certain members of CGC's board of directors and management and CGC's financial advisors and legal counsel met with the chief executive officer of Timmins Gold Corp. and Timmins Gold Corp.'s financial advisors and legal counsel. On January 9, 2011, the CGC board of directors held a meeting at which the CGC board of directors determined that the proposal Timmins Gold Corp. submitted on December 2, 2010 is reasonably likely to lead to a superior proposal and commenced the due diligence process with respect to Timmins Gold Corp. After conducting site due diligence, meeting with certain members of management of Timmins Gold Corp., reviewing the operations of Timmins Gold Corp. and material provided by Timmins Gold Corp., on January 31, 2011, the CGC board of directors concluded unanimously that the proposal Timmins Gold Corp. submitted on December 2, 2010 did not constitute a superior proposal. Four of the five directors based their conclusion that the proposal Timmins Gold Corp. submitted on December 2, 2010 was not a superior proposal on a variety of different factors, including a review and analysis of the proposal Timmins Gold Corp. submitted on December 2, 2010, the due diligence materials provided by Timmins Gold Corp., the failure of Timmins Gold Corp. to substantiate its ability to pay the termination fee and other costs and expenses of a transaction with CGC without risk to the future day-to-day operations of a combined entity, and the failure of Timmins Gold Corp. to provide all of the due diligence materials requested by CGC. One director concluded that the proposal Timmins Gold Corp. submitted on December 2, 2010 did not constitute a superior proposal solely on account of the fact that, based upon the information and analysis presented by the M&A Committee, Timmins Gold Corp. did not have sufficient cash to pay the termination fee. On February 1, 2011, the M&A Committee notified Timmins Gold Corp. that the CGC board of directors decided to terminate its consideration of the proposal Timmins Gold Corp. submitted on December 2, 2010 and discontinue negotiations with Timmins Gold Corp. regarding this proposal because the CGC board of directors determined that this proposal is not a superior proposal. CGC issued a press release to this effect.

On February 9, 2011, Timmins Gold Corp. sent a letter to the CGC board of directors responding to CGC's rejection of the proposal Timmins Gold Corp. submitted on December 2, 2010.

On February 10, 2011, Timmins Gold Corp. issued a press release disclosing the February 9 letter it had sent to CGC's board of directors and announcing Timmins Gold Corp.'s intention to make its offer directly to CGC's stockholders. Later on that day, Timmins Gold Corp. filed with the Securities and Exchange Commission a registration statement containing a preliminary prospectus/offer to exchange, a preliminary proxy statement soliciting proxies in opposition to the Gammon Gold transaction and a preliminary consent statement soliciting

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written consents from CGC stockholders to (i) repeal certain provisions of CGC's by-laws, (ii) remove members of the CGC board of directors and (iii) elect certain individuals nominated by Timmins Gold Corp. to the CGC board of directors.

On February 11, 2011, the M&A Committee met to discuss Timmins Gold Corp.'s registration statement, preliminary proxy statement and preliminary consent statement and determined to call a meeting of CGC's board of directors to review and discuss a response to Timmins Gold Corp.

On February 14, 2011, the CGC board of directors met to discuss CGC's response to Timmins Gold Corp.'s registration statement, preliminary proxy statement and preliminary consent statement. At this meeting, a representative from Cormark advised that no new financial information had come to light that would impact the CGC board of directors' prior determination that the Timmins Gold Corp. proposal was not a superior proposal. Later that day, CGC issued a press release affirming the CGC board of directors' support for the Gammon Gold transaction. See Proposal No.1: The Merger – Background of the Merger.

### **Required Stockholder Approval (see page 125)**

In order to adopt the merger agreement, the holders of a majority of the shares of CGC common stock outstanding as of February 14, 2011, the record date for the special meeting, must vote in favor of the proposal to approve and adopt the plan of merger contained in the merger agreement. In addition, Canadian securities law requires the affirmative vote of a majority of the votes cast by holders of shares of CGC common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter, excluding the votes cast by certain persons entitled to receive change of control payments in connection with the merger. As of the record date, CGC's directors and executive officers had the right to vote 449,196 shares of the then-outstanding CGC common stock, or less than 1% of the shares entitled to vote at the special meeting.

### **Voting and Support Agreements (see page 134)**

In connection with the execution of the merger agreement, Gammon Gold entered into voting and support agreements with CGC's directors and executive officers, which provide, among other things, that each such person will vote all of the shares of CGC's common stock beneficially owned by such person in favor of the proposal to approve and adopt the plan of merger contained in the merger agreement. CGC's directors and executive officers, as of the record date for the special meeting, collectively held 449,196 shares of the then-outstanding CGC common stock, or less than 1% of the shares entitled to vote at the special meeting, all of which is subject to the terms of the voting and support agreements. The form of voting and support agreement is attached to this proxy statement/prospectus as Annex B.

### **Treatment of CGC Warrants, CGC Stock Options and Other CGC Equity-Based Awards (see page 100)**

#### ***CGC Warrants***

As of the effective time of the merger, each outstanding warrant to purchase CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and will thereafter be exercisable to purchase a number of Gammon Gold common shares equal to the product of the number of shares of CGC common stock underlying such warrant immediately prior to the completion of the merger multiplied the conversion number (rounded down to the nearest whole share). The exercise price for each outstanding warrant will be adjusted to equal the exercise price per share of CGC common stock issuable upon exercise of the warrant immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each warrant will be assumed by Gammon Gold in accordance with its existing terms.

#### ***CGC Stock Options***

CGC's equity-based compensation plan provides that, at the effective time of the merger, each outstanding unvested option to purchase shares of CGC common stock will vest and become exercisable. As of the effective

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time of the merger, each outstanding option to acquire CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and converted into an option to purchase a number of shares of Gammon Gold common shares equal to the number of shares of CGC common stock subject to such CGC stock option immediately prior to the closing of the merger multiplied by the conversion number. The exercise price for each outstanding option will be adjusted to equal the exercise price per share of CGC common stock at which such option was exercisable immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each option will be assumed by Gammon Gold in accordance with its existing terms, except that it will be amended to provide that, following termination of employment, the option can be exercised until the earlier of 180 days from the date of such termination and the date of the expiration of the original option term and the exercise price and the number of Gammon Gold common shares exercisable pursuant to the assumed stock options shall be subject to such adjustments as may be necessary for the foregoing conversion to satisfy the requirements of Sections 409A, 422 and 424 of the Code and Treasury Regulations thereunder.

### ***CGC Restricted Stock***

Immediately prior to the effective time of the merger, each outstanding restricted share of CGC common stock issued under CGC's equity-based compensation plan will become fully vested, subject to applicable income and employment withholding taxes.

### **Holders of CGC Common Stock Have Appraisal Rights (see page 100)**

Under the DGCL, holders of CGC common stock who do not vote for the proposal to approve and adopt the plan of merger contained in the merger agreement have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they comply with all requirements of Delaware law, which are summarized in this document. This appraisal amount could be more than, the same as, or less than the amount a CGC stockholder would be entitled to receive under the merger agreement. Any holder of CGC common stock intending to exercise appraisal rights, among other things, must submit a written demand for appraisal to CGC prior to the vote on the proposal to approve and adopt the plan of merger contained in the merger agreement and must not vote or otherwise submit a proxy in favor of approval and adoption of the plan of merger contained in the merger agreement. Failure to follow exactly the procedures specified under Delaware law will result in the loss of appraisal rights. Because of the complexity of the Delaware law relating to appraisal rights, if you are considering exercising your appraisal rights, CGC encourages you to seek the advice of your own legal counsel. Please see Annex D for the text of the applicable provisions of the DGCL.

### **Conditions to the Merger (see page 128)**

Gammon Gold and CGC's obligations to complete the merger are subject to the satisfaction or waiver of various conditions, including the following:

the adoption of the merger agreement by the holders of a majority of the outstanding shares of CGC common stock;

the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, referred to as the HSR Act, the receipt of antitrust clearance under applicable Canadian competition law;

the absence of any law or order prohibiting the merger;

the effectiveness of the registration statement for the shares of Gammon Gold common shares to be issued in the merger and the approval for listing of such shares on the NYSE;

subject to certain exceptions and limitations, the accuracy of the other's representations and warranties and the performance in all material respects of its covenants;



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the absence of any material adverse effect (as defined in the merger agreement) with respect to either CGC (in the case of Gammon Gold) or Gammon Gold (in the case of CGC);

the voting and support agreements entered into by each director and officer of CGC will each be in full force and effect and all obligations thereunder shall have been performed by such director or officer with Gammon Gold in respect of all shares of CGC common stock owned by such director or officer;

the change of control agreements are amended; and

certain other conditions contained in the merger agreement.

Where permitted by applicable law, either of Gammon Gold or CGC could choose to waive a condition to its respective obligation to complete the merger even when that condition has not been satisfied. Gammon Gold and CGC cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

**Regulatory Matters (see page 98)**

Under the provisions of the HSR Act, the merger may not be consummated until notification and report forms have been filed with the Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission by Gammon Gold and CGC, and the applicable waiting period has expired or been terminated. Gammon Gold and CGC filed the notification and report forms under the HSR Act with the Federal Trade Commission and the Antitrust Division and received early termination of the waiting period on November 5, 2010.

The completion of the merger is also subject to prior notification to and approval by the Mexican Federal Antitrust Commission (*Comisión Federal de Competencia Económica*).

Gammon Gold is obligated under the merger agreement to cause the Gammon Gold common shares issuable in the merger to be approved for listing on the TSX and the NYSE, subject to official notice of issuance, prior to the completion of the merger.

**Termination of the Merger Agreement (see page 130)**

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval of the matters presented in connection with the merger to the stockholders of CGC, as follows:

by mutual written agreement;

by CGC or Gammon Gold if:

any governmental entity has denied a necessary approval or permanently enjoined or otherwise prohibited the consummation of the merger;

- (i) the merger has not been consummated on or before the date that is nine months from the date of the merger agreement, or
- (ii) CGC's stockholders do not approve the merger at the special meeting;

the other party has breached any of its covenants, agreements or representations or warranties set forth in the merger agreement, which would result in the failure of the closing conditions set forth in the merger agreement and such breach



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either is not cured within 30 days following written notice of such breach or, by its nature or timing, cannot be cured within such time period; or

by Gammon Gold if:

CGC has failed to recommend the approval of the merger to its stockholders;

CGC has failed to publicly reaffirm its recommendation within two business days after a takeover proposal has been made to the holders of CGC common stock or any person has publicly announced an intention to make a takeover proposal;

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CGC has failed to comply with any provision of the No Solicitation covenant contained in the merger agreement;

CGC has, among other things, (i) withheld, withdrawn, amended, modified or qualified (or resolved or publicly proposed to do so) its recommendation, (ii) caused or permitted its recommendation to be less than unanimous, (iii) approved or recommended, or publicly proposed to approve or recommend, a takeover proposal, or (iv) taken any other action or made any public statement in connection with its recommendation or its stockholder approval that is in any manner adverse to Gammon Gold;

CGC's stockholders do not approve the merger at the special meeting;

since the date of the merger agreement, there has been any event, occurrence, development or state of circumstances that, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on CGC or the surviving corporation of the merger;

any of the governmental approvals necessary to complete the merger result in the imposition of any condition or restriction that would reasonably be expected to have a material adverse effect on Gammon Gold, CGC or the surviving corporation;

for any reason not otherwise set out in the termination provisions in the merger agreement; or

by CGC if:

a takeover proposal that constitutes a superior proposal has been made and Gammon Gold fails to make a counter-proposal within five business days of notification of such a proposal by CGC, which causes the takeover proposal to no longer be a superior proposal, CGC has complied fully with the No Solicitation covenant set out in the merger agreement and CGC enters into a binding, definitive agreement to consummate the takeover proposal and the appropriate termination fee has been paid;

Gammon Gold or any of its subsidiaries enters into any agreement concerning any acquisition, joint venture, or equity or debt financing and the merger is not completed on or prior to the date that is 12 months from the date of the merger agreement as a result of such acquisition, joint venture, or equity or debt financing; or

since the date of the merger agreement, there shall have been any event, occurrence, development or state of circumstances that, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on Gammon Gold.

**Termination Fees (see page 132)**

The merger agreement contains provisions requiring CGC to pay Gammon Gold a termination fee of \$10.3 million in the event that the merger agreement is terminated under specified circumstances, including if CGC (i) fails to appropriately recommend the approval of the merger, (ii) does not comply with the No Solicitation covenant in the merger agreement, (iii) terminates the merger agreement in order to enter into an agreement relating to a superior proposal or (iv) does not obtain stockholder approval of the merger, but only if certain conditions are satisfied.

The merger agreement contains provisions requiring Gammon Gold to pay CGC a termination fee of \$2 million in the event that the merger agreement is terminated under specified circumstances, including if Gammon Gold (i) enters certain transactions and the merger is not completed on or prior to the date which is 12 months from the date of the merger agreement as a result of such transaction or (ii) terminates for any reason not otherwise set out in the termination provisions of the merger agreement.

**Litigation Related to the Merger (see page 104)**

Subsequent to the announcement of the merger, thirteen putative shareholder class action complaints were filed challenging Gammon Gold's proposed merger with CGC. The defendants, including CGC, its directors and officers, Gammon Gold and Capital Gold AcquireCo, Inc., believe all of the actions lack merit and will contest them vigorously.

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**Material U.S. Federal Income Tax Considerations to Holders of CGC Common Stock (see page 106)**

The exchange by U.S. Holders, (as defined in Material U.S. Federal Income Tax Considerations ) of CGC common stock for Gammon Gold common shares is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code and the merger has been structured consistently with such intent. However, neither Gammon Gold nor CGC has requested an opinion of counsel to this effect and neither Gammon Gold nor CGC intends to request any ruling from the IRS as to the U.S. federal income tax consequences of the merger. If the merger is treated as a reorganization for these purposes and certain other requirements are met, then U.S. Holders of CGC common stock that receive both cash and Gammon Gold common shares generally will recognize gain, but not loss, to the extent of the cash received.

If the merger does not qualify as a reorganization, then U.S. Holders of CGC common stock that receive Gammon Gold common shares and cash in the merger will recognize gain or loss equal to the difference between (i) the value of the Gammon Gold common shares and cash received and (ii) the holder's tax basis in its CGC common stock. If the merger does qualify as a reorganization but the other requirements are not met, U.S. Holders of CGC common stock that receive Gammon Gold common shares and cash will recognize any gain, but not loss, that they realize in the merger. The tax on such gain may exceed the amount of cash received in the merger.

A Non-U.S. Holder, (as defined in Material U.S. Federal Income Tax Considerations ) of CGC common stock generally will not be subject to U.S. federal income tax with respect to the merger unless such Non-U.S. Holder has certain connections to the United States.

Holders of CGC common stock should consult with their own tax advisors as to the tax consequences of the merger in their particular circumstances, including the applicability and the effect of the alternative minimum tax and any state, local or foreign and other tax laws and of changes in those laws.

**Material Canadian Federal Income Tax Considerations to Holders of CGC Common Stock (see page 113)**

Certain Canadian federal income tax considerations under the Income Tax Act (Canada), or the Tax Act, apply to the disposition of CGC common stock by a CGC stockholder pursuant to the merger agreement. The tax considerations that apply differ according to whether the shareholder is a Canadian resident, a Canadian Resident Shareholder (as defined in Material Canadian Federal Income Tax Considerations ), a non-resident of Canada or a Non-Resident Shareholder (as defined in Material Canadian Federal Income Tax Considerations ).

Generally, Canadian Resident Shareholders will realize a capital gain (or sustain a capital loss) on the disposition of their CGC common stock to the extent that the Canadian Resident Shareholder's total proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such CGC common stock to the Canadian Resident Shareholder. Generally, one-half of any capital gain realized by a Canadian Resident Shareholder in a taxation year will be included in computing the Canadian Resident Shareholder's income for such year (a taxable capital gain ), and one-half of any capital loss realized by a Canadian Resident Shareholder in a taxation year (an allowable capital loss ) may be deducted from the Canadian Resident Shareholder's taxable capital gains realized in that year in accordance with the rules in the Tax Act.

A Non-Resident Shareholder generally will not be subject to tax under the Tax Act in respect of any capital gain realized by such shareholder on a disposition of CGC common stock pursuant to the merger agreement unless the CGC common stock constitutes taxable Canadian property of the Non-Resident Shareholder for the purposes of the Tax Act.

**Risk Factors (see page 19)**

In evaluating the proposed merger, you should carefully read this proxy statement/prospectus and consider the factors discussed in the section entitled Risk Factors beginning on page 19.

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### **Your Rights as a Holder of Gammon Gold Common Shares Will Be Different from Your Rights as a Holder of CGC Common Stock (see page 145)**

The conversion of your shares of CGC common stock into Gammon Gold common shares in the merger will result in changes from your current rights as a CGC stockholder, which generally are governed by the DGCL, and CGC's organizational documents, to your rights as a Gammon Gold shareholder, which generally will be governed by the Quebec Companies Act and Gammon Gold's organizational documents.

### **Solicitation of Proxies (see page 52)**

CGC will pay for the cost of proxy preparation and a portion of the cost of solicitation, including the reasonable charges and expenses of brokers, banks or other nominees for forwarding proxy materials to street name holders; however, CGC and Gammon Gold will share equally the costs and expenses incurred in connection with the filing, printing and mailing of this proxy statement/prospectus and the registration statement of which this proxy statement/prospectus forms a part. In addition, Gammon Gold will pay the cost of engaging the proxy solicitor, Laurel Hill Advisory Group, to solicit proxies from CGC stockholders.

The proxies are being solicited by and on behalf of CGC's board of directors. In addition to solicitation by use of the mails, proxies may be solicited by CGC's directors, officers and employees, as well as by officers and employees of Gammon Gold, by personal interview, telephone, mail, electronic mail, facsimile or other means of communication. Those persons will not be additionally compensated for solicitation activities, but may be reimbursed for out-of-pocket expenses in connection with any solicitation. CGC also may reimburse custodians, nominees and fiduciaries for their expenses in sending proxies and proxy material to beneficial owners. In addition, Gammon Gold has retained Laurel Hill Advisory Group to assist in the solicitation of proxies on behalf of CGC's board of directors for the special meeting. Gammon Gold will pay Laurel Hill Advisory Group a fee for its services, plus reimbursement for any additional services requested, and out-of-pocket disbursements incurred in connection with its engagement by Gammon Gold.

### **Market Price of Common Stock (see page 28)**

CGC common stock is listed on the NYSE Amex and the TSX under the trading symbol CGC. The closing sale price of CGC common stock on the NYSE Amex and the TSX on September 30, 2010, the last trading day prior to the first public announcement of the proposed merger, was \$4.83 and C\$4.95, respectively. On February 14, 2011, the last practicable day before the date of this proxy statement/prospectus, CGC common stock closed at \$5.37 per share and C\$5.31 per share on the NYSE Amex and the TSX, respectively.

Gammon Gold common shares are listed on the NYSE and the TSX under the trading symbol GRS and GAM, respectively. The closing sale price of Gammon Gold common shares on the NYSE and the TSX on September 30, 2010, the last trading day prior to the first public announcement of the proposed merger, was \$7.01 and C\$7.17, respectively. On February 14, 2011, the last practicable day before the date of this proxy statement/prospectus, Gammon Gold common shares closed at \$8.73 per share and C\$8.62 per share on the NYSE and TSX, respectively.

### **Additional Information**

For additional questions about the merger, assistance in submitting proxies or voting shares of CGC common stock, or to request additional copies of the proxy statement/prospectus or the enclosed proxy card, please contact our proxy solicitor:

Laurel Hill Advisory Group

Toll free telephone: 1- 800-385-3006

Brokers and banks, please call: (917) 338-3181

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**RISK FACTORS**

*In addition to the other information included or incorporated by reference in this proxy statement/prospectus, you should carefully consider the matters described below relating to the proposed merger in deciding whether to vote for approval of the plan of merger. Although Gammon Gold and CGC believe that the matters described below cover the material risks related to the merger, they may not contain all of the information that is important to you in evaluating the merger. Accordingly, we urge you to read this entire proxy statement/prospectus, including the appendices and the information included or incorporated by reference in this document. Please also refer to the additional risk factors identified in the periodic reports and other documents of Gammon Gold and CGC incorporated by reference into this proxy statement/prospectus and listed in the section entitled "Where You Can Find More Information" beginning on page 156.*

**Risk Factors Related to the Merger**

*Because the exchange ratio for the stock consideration is fixed and the market price of Gammon Gold common shares may fluctuate, you cannot be certain of the dollar value of the stock consideration that you will receive upon completion of the merger.*

Upon completion of the merger, each CGC stockholder of record will be entitled to receive, in exchange for each share of CGC common stock owned by such stockholder 0.5209 Gammon Gold common shares and a cash payment in the amount of \$0.79 per share (plus cash in lieu of any fractional share interests), unless such stockholder exercises and perfects his or her appraisal rights under the DGCL. Because the exchange ratio for the stock consideration of 0.5209 Gammon Gold common shares is fixed, the value of the Gammon Gold common shares that may be issued to you as stock consideration in the merger will depend on the market price of Gammon Gold common shares at the time they are issued. There will be no adjustment to the fixed number of Gammon Gold common shares that may be issued to you as stock consideration based upon changes in the market price of Gammon Gold common shares or CGC common stock prior to the closing.

The market price of Gammon Gold common shares at the time the merger is completed may vary from the price of Gammon Gold common shares on the date the merger agreement was executed, on the date of this proxy statement/prospectus and on the date of the special meeting as a result of various factors that are beyond the control of Gammon Gold and CGC, including the following:

the prices of gold and silver;

changes in the business, operations or prospects of Gammon Gold or CGC;

governmental or regulatory developments, including any limitations on or conditions to consummation of the merger;

changes in the interest rate environment;

changes in general economic conditions and the outlook for economic conditions;

changes in securities markets, including changes due to terrorist activities, other world events or other factors;

changes in currency exchange rates including changes in U.S. dollar/Canadian dollar exchange rates, which may affect the trading prices of Gammon Gold's common shares as reported in U.S. dollars;

the outcome of litigation related to the proposed merger; and

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the timing of the completion of the proposed merger.

In addition to the approval of CGC's stockholders, completion of the merger is subject to receipt of regulatory approvals and satisfaction of other conditions that may not occur until some time after the special meeting. Therefore, at the time of the special meeting you will not know the precise U.S. dollar value of the stock consideration you may become entitled to receive at the closing of the merger. You are urged to obtain a current market quotation for Gammon Gold common shares.

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### ***Many of the anticipated benefits of combining Gammon Gold and CGC may not be realized.***

Gammon Gold and CGC entered into the merger agreement with the expectation that the merger would result in various benefits including, among other things, synergies, cost savings and operating efficiencies. The success of the merger will depend, in part, upon Gammon Gold's ability to realize these anticipated benefits and cost savings from combining the businesses of Gammon Gold and CGC. However, to realize these anticipated benefits and cost savings, Gammon Gold must successfully combine the businesses of Gammon Gold and CGC, including CGC's recently acquired subsidiary, Nayarit Gold. If Gammon Gold is not able to achieve these objectives, the anticipated benefits and cost savings of the merger may not be realized fully or at all or may take longer to realize than expected.

Gammon Gold and CGC have operated and, until the completion of the merger, will continue to operate independently. It is possible that the integration process could take longer than anticipated and could result in the loss of key employees or the disruption of each company's ongoing businesses, which could adversely affect Gammon Gold's ability to achieve the anticipated benefits of the merger. Gammon Gold may have difficulty coordinating the operations and personnel of the two companies and addressing possible differences in corporate cultures and management philosophies. Integration efforts between the two companies will also divert management attention and resources. These integration activities could have an adverse effect on the businesses of both Gammon Gold and CGC during the transition period. The integration process is subject to a number of uncertainties. The uncertainties regarding the outcome of these integration efforts are heightened by the recent completion by CGC of a significant acquisition, Nayarit Gold, on August 2, 2010. CGC has not fully integrated Nayarit Gold's operations and personnel into CGC and, as a result, the integration efforts between CGC and Gammon Gold will also depend upon the ability of Gammon Gold to integrate both CGC and Nayarit Gold's operations and personnel into Gammon Gold. Although Gammon Gold's plans for integration are focused on minimizing those uncertainties to help achieve the anticipated benefits, no assurance can be given that these benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect Gammon Gold's future business, financial condition, operating results and prospects. In addition, Gammon Gold may not be able to eliminate duplicative costs or realize other efficiencies from integrating the businesses to offset part or all of the transaction and merger-related costs incurred by Gammon Gold and CGC.

### ***CGC may not terminate the merger agreement to accept a superior proposal to acquire CGC after CGC stockholders have adopted the merger agreement.***

In certain circumstances, prior to the adoption of the merger agreement by CGC's stockholders, CGC may furnish nonpublic information to and participate in discussions or negotiations with a person making an unsolicited competing proposal to acquire CGC, provided, that the CGC board of directors determines in good faith (after consultation with its financial advisors and outside legal counsel) that such proposal constitutes, or would reasonably be expected to result in, a superior proposal. After the CGC stockholders adopt the merger agreement, CGC may not participate in discussions or negotiations with a person making a competing proposal and may not terminate the merger agreement in order to accept a superior proposal to acquire CGC.

### ***Any delay in completing the merger may substantially reduce the benefits that Gammon Gold expects to be obtained from the merger.***

In addition to obtaining the required governmental clearances and approvals, the merger is subject to a number of other conditions beyond the control of Gammon Gold and CGC that may prevent, delay or otherwise materially adversely affect its completion. See The Merger Agreement Conditions to the Closing of the Merger. Gammon Gold and CGC cannot predict whether or when the conditions required to complete the merger will be satisfied. The requirements for obtaining the required clearances and approvals could delay the effective time of the merger for a significant period of time or prevent it from occurring. Moreover, each of Gammon Gold and CGC may terminate the merger agreement if the merger is not consummated by July 1, 2011.



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Any delay in completing, or failure to complete as a result of such delay, the merger may materially adversely affect the synergies and other benefits that Gammon Gold expects to achieve if the merger and the integration of their respective businesses are completed within the expected timeframe.

*Upon completion of the merger, holders of CGC common stock will become holders of Gammon Gold common shares, and the market price for Gammon Gold common shares may be affected by factors different from those that historically have affected CGC.*

Upon completion of the merger, holders of CGC common stock will become holders of Gammon Gold common shares. Gammon Gold's business differs from that of CGC and, accordingly, the results of operations of Gammon Gold will be affected by some factors different from those currently affecting the results of operations of CGC. For a discussion of the businesses of CGC and Gammon Gold and of some important factors to consider in connection with those businesses, see the documents incorporated by reference in this proxy statement/prospectus and referred to under "Where You Can Find More Information" beginning on page 156.

*Some directors and executive officers of CGC have interests in the merger that may differ from the interests of stockholders including, if the merger is completed, the receipt of financial and other benefits.*

Some of the directors of CGC who recommend that you vote in favor of the proposals to be considered at the special meeting of CGC stockholders, and the officers of CGC who provided information to CGC's board of directors relating to the merger, have employment, indemnification and severance benefit arrangements, rights to ongoing stock options and other equity-based awards and rights to ongoing indemnification and insurance that provide them with interests in the transaction that may differ from, or be in addition to, yours. The receipt of compensation or other benefits in the merger might result in these directors and officers being more likely to support and vote to adopt the merger agreement than if they did not have these interests. CGC stockholders should consider whether the interests and benefits of the directors and officers may have influenced these directors and officers to support or recommend adoption of the merger agreement. These interests are described in more detail in the section entitled "Proposal No. 1: The Merger - Interests of CGC's Directors and Executive Officers in the Merger" beginning on page 96.

*The merger agreement contains provisions that may discourage other companies from trying to acquire CGC for greater merger consideration.*

The merger agreement contains provisions that may discourage a third party from submitting a business combination proposal to CGC that might result in greater value to CGC's stockholders than the proposed merger. These provisions include a general prohibition on CGC from soliciting, or, subject to certain exceptions, entering into discussions with any third party regarding any acquisition proposal or offers for competing transactions and the requirement that CGC pay a termination fee of up to \$10.3 million if the merger agreement is terminated in specified circumstances. The termination fee may result in a potential competing acquiror proposing to pay a lower per share price to acquire CGC than it might otherwise have proposed to pay. For further information, please see the section entitled "The Merger Agreement - Termination Fees and Expenses" beginning on page 132.

*Certain rights of CGC stockholders will change as a result of the merger.*

Following the completion of the merger, CGC stockholders will no longer be stockholders of CGC, a Delaware corporation, but will instead be shareholders of Gammon Gold, a Quebec, Canada corporation. There will be certain differences between your current rights as a stockholder of CGC, on the one hand, and the rights to which you will be entitled as a shareholder of Gammon Gold, on the other hand. For a more detailed discussion of the differences in the rights of shareholders of CGC and Gammon Gold, see "Comparison of Shareholder Rights" beginning on page 145.

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***Future results of the combined company may differ materially from the Unaudited Pro Forma Condensed Combined Financial Information of Gammon Gold and CGC presented in this proxy statement/prospectus.***

The future results of Gammon Gold, as the combined company following the merger, may be materially different from those shown in the unaudited pro forma financial information presented in this proxy statement/prospectus that show only a combination of Gammon Gold's and CGC's historical results, after giving effect to the acquisition by CGC of Nayarit Gold and the merger. Gammon Gold has estimated that Gammon Gold will record approximately \$7 million of aggregate acquisition-related fees and expenses, as described in the notes to the pro forma financial information included in this proxy statement/prospectus. In addition, the final amount of any charges relating to acquisition accounting adjustments that Gammon Gold may be required to record will not be known until following the closing of the merger. These expenses and charges may be higher or lower than estimated.

***Gammon Gold expects to maintain its status as a foreign private issuer in the U.S. and thus will be exempt from a number of rules under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, and will be permitted to file less information with the SEC than a company incorporated in the United States.***

As a foreign private issuer, Gammon Gold is exempt from rules under the Exchange Act that impose disclosure requirements, as well as procedural requirements, for proxy solicitations under Section 14 of the Exchange Act. In addition, Gammon Gold's officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act. In addition, Gammon Gold is permitted, under a multi-jurisdictional disclosure system adopted by the United States and Canada, to prepare its disclosure documents filed under the Exchange Act in accordance with Canadian disclosure requirements, including preparing its financial statements in accordance with Canadian GAAP, which differs in some respects from U.S. GAAP.

***Gammon Gold is chartered under the laws of Quebec, Canada and a substantial portion of its assets are, and many of its directors and officers reside, outside of the United States. As a result, it may not be possible for shareholders to enforce civil liability provisions of the securities laws of the United States in Canada.***

Gammon Gold is chartered under the laws of Quebec, Canada. A substantial portion of Gammon Gold's assets are located outside the United States, and many of Gammon Gold's directors and officers and some of the experts named in this proxy statement/prospectus are residents outside of the United States. As a result, it may be difficult for investors to effect service within the United States upon Gammon Gold and those directors, officers and experts, or to realize in the United States upon judgments of courts of the United States predicated upon civil liability of Gammon Gold and such directors, officers or experts under the United States federal securities laws. There is uncertainty as to the enforceability in Canada by a court in original actions, or in actions to enforce judgments of United States courts, of the civil liabilities predicated upon the United States federal securities laws.

***If Gammon Gold's disclosure controls and procedures and/or internal control over financial reporting are found to be ineffective, Gammon Gold's financial results or its stock price may be adversely affected.***

Gammon Gold's most recent evaluation by management of its disclosure controls and procedures and its internal control over financial reporting resulted in management's conclusion that, as of September 30, 2010, in compliance with Section 404 of the Sarbanes-Oxley Act of 2002, Gammon Gold's disclosure controls and procedures and its internal control over financial reporting were effective. However, during the preparation of Gammon Gold's first quarter financial statements for fiscal year 2010, Gammon Gold determined that a restatement of its previously issued financial statements was necessary. As a result of the restatement, Gammon Gold reassessed its disclosure controls and procedures and its internal control over financial reporting and determined that a material weakness existed at December 31, 2009 and, as a result, its disclosure controls and procedures and its internal control over financial reporting were not effective. As defined in the standards

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established by the Public Company Accounting Oversight Board of the United States, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified related to a deficiency that resulted in the correction of future income tax liability balances that arose from a business acquisition during Gammon Gold's 2006 fiscal year. Gammon Gold restated its financial statements for the years ended December 31, 2008 and 2009 to correct the accounting treatment for this item. See Management's Discussion and Analysis Controls and Procedures in Gammon Gold's filings with the SEC for additional information with respect to the deficiencies identified in its internal control over financial reporting. Management of Gammon Gold engaged in efforts to address the material weakness in internal control over financial reporting identified above by performing a thorough review of Gammon Gold's recognition of future income tax liabilities arising from business acquisitions in accordance with Canadian GAAP. Management also amended procedures related to business acquisitions to include procedures to consider and record assets and liabilities acquired in the appropriate currency. Gammon Gold believes that it currently has adequate internal control procedures in place for future periods. However, if Gammon Gold's disclosure controls and procedures and/or internal control over financial reporting were found to be ineffective or if Gammon Gold identifies a material weakness or significant deficiency in its financial reporting, investors may lose confidence in the reliability of Gammon Gold's financial statements, which may adversely affect its financial results or its stock price.

***CGC's merger with Gammon Gold is subject to certain conditions to closing that could result in the merger not being completed or being delayed, either of which could negatively impact its stock price and future business and results of operations.***

Completion of the merger is subject to a number of customary conditions, including, but not limited to, the approval of the agreement and plan of merger by the stockholders of CGC, the effectiveness of the Form F-4 registration statement, of which this proxy statement/prospectus forms a part, filed by Gammon Gold with the SEC to register the shares of Gammon Gold common shares to be issued in connection with the merger and expiration of the applicable waiting period under the HSR Act, the Mexican Antitrust Commission and other mining, regulatory and other authorities in the U.S., Canada and Mexico. These authorities may impose conditions on the completion of the merger or require changes to the terms of the merger. Gammon Gold and CGC received early termination of the HSR waiting period on November 5, 2010. While Gammon Gold and CGC do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of imposing additional costs on or limiting the revenues of Gammon Gold following the merger, any of which may have an adverse effect on Gammon Gold. In addition, if any action is taken or legal or regulatory restrictions or conditions deemed applicable to the merger that would be reasonably likely to have a material adverse effect on CGC or Gammon Gold, Gammon Gold may elect not to consummate the merger. There is no assurance that CGC will receive the necessary approvals or satisfy the other conditions necessary for completion of the merger. If any of the conditions to the merger are not satisfied or, where waiver is permissible, not waived, the merger will not be consummated. Failure to complete the merger would prevent CGC from realizing the anticipated benefits of the merger. CGC has already and expects to continue to incur significant costs associated with transaction fees, professional services, taxes and other costs related to the merger. In the event that the merger is not completed, CGC will remain liable for these costs and expenses. Furthermore, if the merger is not consummated, under some circumstances, CGC may be required to promptly pay a \$10.3 million breakup fee to Gammon Gold, which could impact CGC's liquidity and results of operations. In addition, the current market price of CGC common stock may reflect a market assumption that the merger will occur, and a failure to complete the merger could result in a negative perception by the market of CGC generally and a resulting decline in the market price of CGC's common stock. Any delay in the consummation of the merger or any uncertainty about the consummation of the merger could also negatively impact CGC's stock price and future business and results of operations. The merger may not be consummated, there may be delay in the consummation of the merger or the merger may be consummated on the terms contemplated by the merger agreement.

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***Whether or not the merger is completed, the announcement and pendency of the merger could impact or cause disruptions in CGC's business, which could have an adverse effect on CGC's business and results of operations.***

Whether or not the merger is consummated, the announcement and pendency of the merger could cause disruptions in or otherwise negatively impact CGC's business and results of operations. Among others:

CGC's employees may experience uncertainty about their future roles with the combined company, which might adversely affect CGC's ability to retain and hire key personnel and other employees;

the attention of CGC's management may be directed toward the completion of the merger and transaction-related considerations and may be diverted from the day-to-day operations and pursuit of other opportunities that could be beneficial to CGC's business; and

business partners may seek to modify or terminate their business relationships with CGC.

These disruptions could be exacerbated by a delay in the completion of the merger or termination of the merger agreement and could have an adverse effect on CGC's business, results of operations or prospects if the merger is not completed or on the business, results of operations or prospects of the combined company if the merger is completed.

***CGC stockholders will have a reduced ownership and voting interest after the merger and will exercise less influence over the management and policies of Gammon Gold than they do over CGC.***

CGC stockholders currently have the right to vote in the election of the board of directors of CGC and on other matters affecting CGC. When the merger occurs, each CGC stockholder that receives Gammon Gold common shares will become a shareholder of Gammon Gold with a percentage ownership of the combined company that is much smaller than the stockholder's percentage ownership of CGC. It is expected that the former stockholders of CGC as a group will own approximately 20% of the outstanding shares of Gammon Gold, on a fully diluted basis, immediately after the merger. Because of this, CGC stockholders will have less influence over the management and policies of Gammon Gold than they now have over the management and policies of CGC.

***The receipt of Gammon Gold common shares in the proposed merger may be taxable to CGC stockholders.***

If the proposed merger is not treated as a reorganization within the meaning of Section 368(a) of the Code, the exchange of CGC shares for shares of Gammon Gold in the proposed merger will be taxable to U.S. Holders of CGC shares for U.S. federal income tax purposes. Certain Non-U.S. Holders of CGC shares may also be subject to U.S. federal income tax liability if the merger is not treated as a reorganization. The merger agreement does not require counsel to Gammon Gold or CGC to render opinions at the closing of the proposed merger that the proposed merger will qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code.

In addition, because Gammon Gold is organized in Canada, even if the transaction qualifies as a reorganization within the meaning of Section 368(a) of the Code, a U.S. Holder may have certain reporting obligations under Section 367 of the Code. Failure to comply with these reporting obligations may cause a U.S. Holder to recognize gain, but not loss, on the transaction.

If the proposed merger does not qualify as a reorganization under Section 368(a) of the Code, the proposed merger will be treated as a taxable sale of CGC common stock in exchange for cash and Gammon Gold common shares. If that occurs, U.S. Holders of CGC shares and certain Non-U.S. Holders of CGC shares will be required to recognize gain or loss based on the value of both the cash consideration and stock consideration received in the proposed merger. The related tax liability may exceed the cash received in the transaction. See Material U.S. Federal Income Tax Considerations.

CGC stockholders should consult their tax advisors to determine the specific tax consequences to them of the proposed merger, including any federal, state, local, foreign or other tax consequences, and any tax return filing or other reporting requirements.

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***Several lawsuits have been filed against Capital Gold and other parties challenging the proposed merger, and an adverse judgment in such lawsuits may prevent the merger from becoming effective or from becoming effective within the expected timeframe.***

CGC, the members of CGC's board of directors, Gammon Gold, and in some instances CGC's CFO, or Capital Gold AcquireCo, Inc. have been named as defendants in purported class action lawsuits brought by CGC stockholders challenging the proposed merger, seeking, among other things, to enjoin the defendants from consummating the merger on the agreed-upon terms.

The outcome of the pending and potential future litigation is difficult to predict and quantify and the defense of such claims or actions can be costly. In addition to diverting financial and management resources and general business disruption, we may suffer from adverse publicity that could harm CGC's reputation, regardless of whether the allegations are valid or whether we are ultimately held liable. A temporary or permanent injunction could delay or prevent completion of the merger and such delay or failure of the transaction could cause the adverse results discussed above.

A judgment or settlement that is not covered by or is significantly in excess of CGC's insurance coverage for any claims, or CGC's obligations to indemnify the individual defendants, could materially and adversely affect CGC's financial condition, results of operations and cash flows.

***The fairness opinion obtained by CGC from Stifel Nicolaus will not reflect subsequent changes.***

In connection with the proposed merger, Stifel Nicolaus delivered to the CGC board of directors its opinion dated as of September 30, 2010. The opinion of Stifel Nicolaus stated that, as of such date of its opinion and based upon and subject to the factors and assumptions set forth in such opinion, the total amount of cash and stock consideration to be received pursuant to the merger agreement was fair, from a financial point of view, to the holders of the outstanding shares of CGC common stock. The opinion does not reflect changes that may occur or may have occurred after the date of the opinion, including changes to the operations and prospects of Gammon Gold or CGC, changes in general market and economic conditions or regulatory or other factors. Any such changes, or other factors on which the opinion is based, may materially alter or affect the relative values of Gammon Gold or CGC.

***Gammon Gold may pursue strategic transactions in the future, which could be difficult to implement, disrupt its business or change its business profile significantly.***

Gammon Gold will continue to consider opportunistic strategic transactions, which could involve acquisitions or dispositions of businesses or assets. Any future strategic transaction could involve numerous risks, including:

potential disruption of Gammon Gold's ongoing business and distraction of management;

difficulty integrating acquired businesses, such as CGC, or segregating assets to be disposed of;

exposure to unknown and/or contingent or other liabilities, including litigation arising in connection with the acquisition, disposition and/or against any businesses Gammon Gold may acquire, and

changing Gammon Gold's business profile in ways that could have unintended consequences.

If Gammon Gold enters into significant strategic transactions in the future, related accounting charges may affect its financial condition and results of operations, particularly in the case of any acquisitions. In addition, the financing of any significant acquisition may result in changes in its capital structure, including the incurrence of additional indebtedness. Conversely, any material disposition could reduce its indebtedness or require the amendment or refinancing of a portion of its outstanding indebtedness. Gammon Gold may not be successful in addressing these risks or any other problems encountered in connection with any strategic transactions.

**Table of Contents****COMPARATIVE PER SHARE DATA**

The following tables present, as at the dates and for the periods indicated, selected historical and pro forma consolidated per share financial information of Gammon Gold and CGC. You should read this information in conjunction with, and the information is qualified in its entirety by, the consolidated financial statements and accompanying notes of Gammon Gold and CGC incorporated into this proxy statement/prospectus by reference. See *Where You Can Find More Information* beginning on page 156.

The pro forma amounts in the tables below are presented for informational purposes only. You should not rely on the pro forma consolidated or pro forma equivalent amounts as being necessarily indicative of the financial position or results of operations of Gammon Gold or CGC that would have actually occurred had the transaction been effective during the periods presented or of the future financial position or results of operations of Gammon Gold or CGC. The pro forma consolidated financial information as at or for the periods presented may have been different had the transaction actually been effective as at or during those periods. The pro forma information, although helpful in illustrating the financial characteristics of the pro forma consolidated company under one set of assumptions, does not reflect the benefits of expected cost savings, opportunities to earn additional revenue, the impact of restructuring and merger-related costs, or other factors that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results.

**Gammon Gold Historical and Pro Forma Common Share Data**

The following table presents the earnings (loss) per share, dividends per share and book value per share with respect to Gammon Gold on a historical basis and pro forma consolidated basis giving effect to the merger. The Gammon Gold pro forma consolidated amounts are presented as if the transaction had been effective for the period presented based on the acquisition method of accounting. The Gammon Gold pro forma consolidated amounts do not include any cost savings or revenue enhancements which may arise from the merger, and do not include restructuring or integration costs.

	As at and for the Nine Months Ended September 30, 2010 (U.S.\$)	As at and for the Year Ended December 31, 2009 (U.S.\$)
<b>Basic Earnings (Loss) Per Share:</b>		
Gammon Gold historical (Canadian GAAP)	(1.24)	0.07
Gammon Gold historical (U.S. GAAP)	(1.33)	(0.08)
Gammon Gold pro forma consolidated (U.S. GAAP)(1)	(1.06)	(0.06)
<b>Diluted Earnings (Loss) Per Share:</b>		
Gammon Gold historical (Canadian GAAP)	(1.24)	0.07
Gammon Gold historical (U.S. GAAP)	(1.33)	(0.08)
Gammon Gold pro forma consolidated (U.S. GAAP)(1)	(1.06)	(0.06)
<b>Dividends Per Share:</b>		
Gammon Gold historical and pro forma(2)		
<b>Book Value Per Share at Period End:</b>		
Gammon Gold historical (Canadian GAAP)	4.59	5.77
Gammon Gold historical (U.S. GAAP)	3.87	5.13
Gammon Gold pro forma consolidated (U.S. GAAP)(1)	4.59	N/A

- (1) Pro forma consolidated amounts are calculated by adding together the historical amounts reported by Gammon Gold and CGC based on each entity's most recent financial information as filed with the SEC, reconciled to U.S. GAAP as adjusted for certain items related to the proposed merger, including (i) estimated acquisition accounting adjustments to be recorded in connection with the merger (consisting of fair value adjustments for assets acquired and liabilities assumed and adjustments for intangible assets established, and the resulting amortization/accretion of these adjustments over appropriate future periods)

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and (ii) the estimated number of Gammon Gold common shares to be issued upon closing of the merger based upon the terms of the merger agreement. The pro forma adjustments assume completion of the merger as at the beginning of the period indicated.

- (2) Gammon Gold pro forma consolidated results for the nine months ended September 30, 2010 and year ended December 31, 2009 were calculated using the latest annual financial information filed with the SEC. CGC's results for the six months ended January 31, 2010, the twelve months ended July 31, 2010 and the three months ended October 31, 2010 have been used to calculate the Gammon Gold pro forma combined results for the nine months ended September 30, 2010 and the year ended December 31, 2009. Financial information for the three months ended October 31, 2010 of Nayarit Gold is included in the unaudited consolidated interim financial statements of CGC for the three months ended October 31, 2010 because CGC's acquisition of Nayarit Gold was completed on August 2, 2010. Nayarit Gold's results prior to the acquisition by CGC for the twelve months ended September 30, 2009, the three months ended December 31, 2009 and the six months ended June 30, 2010 have been used to calculate Gammon Gold's pro forma consolidated results for the nine months ended September 30, 2010 and the year ended December 31, 2009, in order to provide the additional information necessary to assess the implications of the merger between CGC and Nayarit Gold on August 2, 2010.

**CGC Historical Share Data and Unaudited Pro Forma Equivalent Share Data**

The following table presents the earnings per share, dividends per share and book value per share with respect to CGC on a historical basis and an equivalent basis. The equivalent amounts with respect to the CGC common stock are calculated by multiplying the CGC historical amount by the exchange ratio of 0.5209 Gammon Gold common shares constituting the stock consideration.

	<b>As at and for the Three Months Ended October 31, 2010 (U.S.\$)</b>	<b>As at and for the Year Ended July 31, 2010 (U.S.\$)</b>
<b>Basic Earnings Per Share:</b>		
CGC historical	\$ 0.05	\$ 0.25
CGC equivalent	0.03	0.13
<b>Diluted Earnings Per Share:</b>		
CGC historical	\$ 0.05	\$ 0.25
CGC equivalent	0.03	0.13
<b>Dividends Per Share:</b>		
CGC historical		
CGC equivalent		
<b>Book Value Per Share at Period End:</b>		
CGC historical	\$ 1.70	\$ 1.04
CGC equivalent	0.89	0.54

**Table of Contents****COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION**

Gammon Gold's common shares are listed on the NYSE and the TSX under the trading symbols GRS and GAM, respectively. CGC's common stock is listed on the NYSE Amex and the TSX under the trading symbol CGC. The following table sets forth, for the respective periods and dates indicated, the high and low closing prices per share of CGC common stock as reported on the NYSE Amex and the TSX, and the high and low closing prices per Gammon Gold common share as reported on the NYSE Composite Tape and the TSX. The TSX closing prices of Gammon Gold common shares and CGC common stock are presented in Canadian dollars, and the NYSE closing prices of Gammon Gold common shares and the NYSE Amex closing prices of CGC common stock are presented in U.S. dollars. For comparison purposes, the following table uses calendar quarters, but it should be noted that CGC's fiscal year end is July 31 and Gammon Gold's fiscal year end is December 31.

Period	NYSE (U.S.\$) Gammon Gold Common Shares		TSX (C\$) Gammon Gold Common Shares		NYSE Amex (U.S.\$) CGC Common Stock		TSX (C\$) CGC Common Stock	
	High	Low	High	Low	High	Low	High	Low
	August 2010	\$ 7.26	\$ 5.80	\$ 7.64	\$ 6.00	\$ 3.75	\$ 3.25	\$ 3.84
September 2010	7.50	6.75	7.70	6.98	4.83	3.32	4.95	3.42
October 2010	7.35	6.67	7.40	6.88	4.82	4.30	4.91	4.41
November 2010	7.11	6.23	7.12	6.35	4.61	4.22	4.68	4.32
December 2010	8.19	6.82	8.20	6.92	5.13	4.60	5.19	4.64
January 2011	8.31	7.20	8.22	7.15	5.24	4.58	5.07	4.57
February 2011 (through Feb. 14, 2011)	8.73	7.83	8.66	7.71	5.39	4.87	5.34	4.81
<b>2008</b>								
First Quarter	\$ 10.26	\$ 6.02	\$ 10.17	\$ 6.05	\$ 3.12	\$ 2.48	\$ 3.32	\$ 2.32
Second Quarter	10.88	7.24	10.96	7.41	2.86	2.42	2.92	2.40
Third Quarter	11.23	6.58	10.81	6.81	2.80	1.76	2.80	1.80
Fourth Quarter	7.19	2.28	7.73	2.95	1.84	1.08	2.12	1.28
<b>2009</b>								
First Quarter	\$ 7.88	\$ 4.59	\$ 10.00	\$ 5.43	\$ 2.84	\$ 1.56	\$ 3.60	\$ 1.86
Second Quarter	8.57	5.92	9.46	7.26	2.86	2.08	3.16	2.52
Third Quarter	8.51	6.14	9.16	6.63	2.68	2.20	2.92	2.48
Fourth Quarter	12.20	7.84	12.80	8.45	4.24	2.36	4.40	2.56
<b>2010(1)</b>								
First Quarter	\$ 12.02	\$ 7.19	\$ 12.44	\$ 7.27	\$ 3.90	\$ 2.94	\$ 4.00	\$ 3.12
Second Quarter	8.04	5.46	8.30	5.82	4.24	3.16	4.39	3.31
Third Quarter	7.50	5.27	7.70	5.47	4.83	3.25	4.95	3.42
Fourth Quarter	8.19	6.23	8.20	6.35	5.13	4.22	5.19	4.32
<b>2011</b>								
First Quarter (through Feb. 14, 2011)	\$ 8.73	\$ 7.20	\$ 8.66	\$ 7.15	\$ 5.39	\$ 4.58	\$ 5.39	\$ 4.57
<b>Last five calendar years</b>								
2006	\$ 18.38	\$ 9.25	\$ 21.27	\$ 10.49	\$ 1.72	\$ 1.04	\$ 1.92	\$ 1.22
2007	18.56	6.89	21.55	6.84	3.24	1.42	3.08	1.56
2008	11.23	2.28	10.96	2.95	3.12	1.08	3.32	1.28
2009	12.20	4.59	12.80	5.43	4.24	1.56	4.40	1.86
2010	12.02	5.27	12.44	5.47	4.95	2.94	4.99	3.12

(1) Amounts reflected in the two CGC columns have been adjusted for the 4-for-1 reverse stock split that occurred during the fiscal year ended July 31, 2010.



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As of February 14, 2011, there were approximately 170 stockholders of record of Gammon Gold common shares and approximately 970 stockholders of record of CGC common stock. Neither Gammon Gold nor CGC has ever paid cash dividends on its common shares or common stock, respectively, and neither anticipates paying cash dividends in the foreseeable future.

Following completion of the merger, Gammon Gold common shares will continue to be listed on the NYSE and the TSX, and there will be no further market for CGC common stock.

The following table shows the closing prices for Gammon Gold common shares and CGC common stock and the implied per share value in the merger to CGC stockholders for September 24, 2010, the last trading day preceding the announcement by Timmins Gold Corp. detailing its previous non-binding proposal to merge with CGC, September 30, 2010, the last trading day before the public announcement of the proposed merger, and on February 14, 2011, the last practicable day before the date of this proxy statement/prospectus. We urge you to obtain current market quotations for both Gammon Gold common shares and CGC common stock.

	<b>Gammon Gold Common Shares (U.S.\$)</b>	<b>CGC Common Stock (U.S.\$)</b>	<b>Implied Value of One Share of CGC Common Stock (U.S.\$)(1)</b>
September 24, 2010	\$ 7.26	\$ 3.80	\$ 4.57
September 30, 2010	\$ 7.01	\$ 4.83	\$ 4.44
February 14, 2011	\$ 8.73	\$ 5.37	\$ 5.34

- (1) The implied value per share reflects the value of Gammon Gold common shares that CGC stockholders would receive in exchange for each share of CGC common stock if the merger were completed on the date indicated. Such price reflects the 0.5209 of a Gammon Gold common share that CGC stockholders will be entitled to receive for each share of CGC common stock in the merger and a cash payment in the amount of \$0.79 per share. Holders of CGC common stock will also receive cash in lieu of any fractional share interests.

**Table of Contents****CURRENCY EXCHANGE RATE DATA**

The following tables show, for the date or periods indicated, certain information regarding the U.S. dollar/Canadian dollar exchange rate and the Canadian dollar/U.S. dollar exchange rate. The information is based on the noon buying rate as reported by the Bank of Canada.

	<b>C\$ per U.S.\$1.00</b>	<b>U.S.\$ per C\$1.00</b>
September 30, 2010 (the last trading day before public announcement of the proposed merger)	C\$ 1.0298	U.S.\$ 0.9711
February 14, 2011	C\$ 0.9885	U.S.\$ 1.0116

	<b>Average Rate(1)</b>	
	<b>C\$ per U.S.\$1.00</b>	<b>U.S.\$ per C\$1.00</b>
<b>Year Ended December 31,</b>		
2005	C\$ 1.2085	U.S.\$ 0.8275
2006	1.1308	0.8843
2007	1.0666	0.9376
2008	1.0716	0.9332
2009	1.1374	0.8792
<b>Nine Months Ended September 30,</b>		
2009	1.1631	0.8598
2010	1.0416	0.9601

(1) The average rate is calculated as the average of the noon buying rate as reported by the Bank of Canada on the last day of each month during the period. The following table shows the high and low U.S. dollar/Canadian dollar exchange rates for each of the months indicated. The information is based on the noon buying rate as reported by the Bank of Canada.

	<b>High</b>	<b>Low</b>
	<b>(C\$ per U.S.\$1.00)</b>	
August 2010	C\$ 1.0642	C\$ 1.0158
September 2010	1.0520	1.0222
October 2010	1.0320	1.0030
November 2010	1.0264	1.0013
December 2010	1.0178	0.9946
January 2011	1.0022	0.9862

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF GAMMON GOLD**

The following table sets forth certain selected consolidated financial information of Gammon Gold prepared in accordance with generally accepted accounting principles in Canada, which we refer to as Canadian GAAP, except as otherwise indicated. The information as at and for each of the years in the five-year period ended December 31, 2009 has been derived from the consolidated financial statements of Gammon Gold as filed with the SEC. The information as at and for the nine months ended September 30, 2010 and 2009 has been derived from the unaudited interim consolidated financial statements of Gammon Gold and the notes thereto filed by Gammon Gold with the SEC, which reflect, in the opinion of Gammon Gold's management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of such information. Results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the fiscal year as a whole. The information presented below is only a summary and should be read in conjunction with the respective audited financial statements of Gammon Gold, including the notes thereto, incorporated by reference in this proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 156.

Amounts determined under generally accepted accounting principles in the U.S., which we refer to as U.S. GAAP, are different from those determined under Canadian GAAP. For a reconciliation to U.S. GAAP of Gammon Gold's consolidated financial statements for the nine months ended September 30, 2010, see Gammon Gold's Form 6-K for the nine months ended September 30, 2010, filed with the SEC on December 10, 2010, and for a discussion of the principal differences between Canadian GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of Gammon Gold's consolidated financial statements for the year ended December 31, 2009, see Exhibit 99.4 to Gammon Gold's Amendment No. 1 to Form 40-F/A for the year ended December 31, 2009, filed with the SEC on May 13, 2010, which Exhibit 99.4 is incorporated by reference in this proxy statement/prospectus. A reconciliation to U.S. GAAP for other periods presented is included in the notes to the applicable historical consolidated financial statements of Gammon Gold filed by Gammon Gold with the SEC. See "Where You Can Find More Information" beginning on page 156.

	At and for the Nine Months Ended September 30,		Fiscal Year Ended December 31,				Five Months Ended	Twelve Months Ended
	2010	2009	2009	2008	2007	2006	Dec. 31, 2005(1)	July 31, 2005(1)
	(U.S.\$ in thousands, except per share data or otherwise noted)							
	(unaudited)							
<b>Statement of Operations Data:</b>								
Revenues from mining operations	\$ 167,249	\$ 138,581	\$ 206,801	\$ 212,522	\$ 152,059	\$ 64,236	\$	\$
Earnings before other items	35,135	5,891	27,434	12,884	(61,622)	(21,238)	(10,865)	(16,352)
Interest on long-term debt	(2,374)	(2,467)	(3,314)	(1,936)	(3,897)	(5,273)	(206)	
Foreign exchange (loss)/gain	(1,945)	(3,276)	(4,896)	17,600	2,961	(4,132)	570	251
Interest and other income	1,243	500	633	410	772	785	170	1,147
Net earnings (loss) applicable to common shares	(170,945)	(5,448)	8,205	38,652	(89,690)	(27,943)	(10,152)	(15,943)
Net earnings (loss) applicable to common shares (U.S. GAAP basis)	(184,063)	(17,437)	(9,735)	27,309	(89,868)	(30,060)	(10,135)	(26,491)
<b>Per Common Share:</b>								
Net earnings (loss) (basic)	\$ (1.24)	\$ (0.04)	\$ 0.07	\$ 0.33	\$ (0.79)	\$ (0.32)	\$ (0.14)	\$ (0.23)
Net earnings (loss) (basic) (U.S. GAAP basis)	(1.33)	(0.14)	(0.08)	0.23	(0.79)	(0.34)	(0.14)	(0.40)
Net earnings (loss) (fully diluted)	(1.24)	(0.04)	0.07	0.32	(0.79)	(0.32)	(0.14)	(0.23)
Net earnings (loss) (fully diluted) (U.S. GAAP basis)	(1.33)	(0.14)	(0.08)	0.23	(0.79)	(0.34)	(0.14)	(0.40)
<b>Consolidated Balance Sheet at period end:</b>								
Total assets	\$ 788,372	\$ 830,616	\$ 964,368	\$ 796,563	\$ 753,952	\$ 716,321	\$ 222,107	\$ 171,582
Net assets	637,270	667,011	792,337	646,257	595,693	478,524	167,011	155,067
Capital stock (excluding long term debt and redeemable preferred stock)	881,811	755,181	866,716	719,426	699,512	463,333	168,759	156,132
Common shares outstanding (in millions)	138	123	137	120	117	102	76	73

- (1) Gammon Gold changed its fiscal year end from July 31 to December 31. The reason for the change of fiscal year end was to make the reporting period of Gammon Gold consistent with other emerging precious metal producing issuers.

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**SELECTED HISTORICAL CONSOLIDATED AND COMBINED FINANCIAL DATA**  
**OF CAPITAL GOLD**

The following table sets forth certain selected consolidated financial information of CGC prepared in accordance with U.S. GAAP. This information as at and for the three months ended October 31, 2010 and 2009 and as at and for each of the years in the five year period ended July 31, 2010 has been derived from the consolidated financial statements of CGC and notes to the consolidated financial statements as filed with the SEC. The information presented below is only a summary and should be read in conjunction with the respective audited financial statements of CGC, including the notes thereto, incorporated by reference in this proxy statement/prospectus. See [Where You Can Find More Information](#) beginning on page 156.

	At and for the Three Months Ended October 31,			Fiscal Year Ended July 31,				
	2010(4)	2009	2010	2009	2008	2007	2006	
	(unaudited)			(in thousands)				
	(in thousands)							
<b>Statement of Operations Data:</b>								
Revenues(1)	\$ 18,952	\$ 11,727	\$ 60,645	\$ 42,757	\$ 33,104	\$	\$	
Net income (loss)	2,954	2,939	11,994	10,407	6,364	(7,472)	(4,805)	
Income (loss) per share								
Basic(2)	0.05	0.06	0.25	0.22	0.15	(0.20)	(0.17)	
Income (loss) per share								
Diluted(2)(3)	0.05	0.06	0.25	0.21	0.13			
Weighted average								
shares outstanding								
Basic	60,970,736	48,482,400	48,512,828	48,315,116	43,760,000	37,452,816	28,051,118	
Weighted average								
shares outstanding								
Diluted(3)	61,158,138	48,669,802	48,703,035	49,882,770	48,867,282	37,452,816	28,051,118	
<b>Balance Sheet Data:</b>								
Cash and cash								
equivalents	\$ 9,254	\$ 6,773	\$ 12,125	\$ 6,448	\$ 10,992	\$ 2,225	\$ 2,741	
Inventories	39,239	24,988	34,849	21,405	13,113	3,171		
Property and equipment,								
net	68,913	19,467	21,390	18,492	22,617	17,817	1,036	
Total assets	144,026	57,332	72,495	52,484	53,189	30,806	9,979	
Reclamation and								
remediation liability	2,665	1,652	2,373	1,594	1,666	1,249		
Long-term debt	400	3,500	800	4,400	8,375	12,500		
Total debt	3,500	7,100	4,400	8,000	12,500	12,500		
Total stockholders								
equity	104,434	39,356	50,929	35,765	32,507	15,241	9,453	

- (1) There were no revenues for the fiscal years ended July 31, 2007 and 2006 because CGC's first gold sale from production was in August 2007. Certain reclassifications and restatements have been made to conform to the current presentation.
- (2) Amounts were adjusted for retroactive effect of 4-for-1 reverse stock split.
- (3) The effect of stock options and warrants was considered anti-dilutive because CGC incurred losses for the fiscal years ended July 31, 2007 and 2006. Accordingly, CGC's presentation of diluted net loss per share is the same as that of basic net loss per share.
- (4) Amounts include CGC acquisition of Nayarit Gold as of August 2, 2010.

**Table of Contents****Acquisition of Nayarit Gold Inc.**

On August 2, 2010, CGC completed its acquisition of Nayarit Gold Inc. As a result of this transaction, Nayarit Gold became a wholly-owned subsidiary of CGC. In connection with the transaction, each outstanding share of Nayarit Gold common stock was converted into 0.134048 shares of CGC common stock, plus cash paid in lieu of any fractional share. CGC issued 12,454,354 shares of its common stock to Nayarit Gold's then current stockholders in the transaction and has reserved for issuance an additional 1,621,981 and 903,483 shares of CGC common stock upon the exercise of former Nayarit Gold warrants and options, respectively. Based upon the closing price of CGC's common stock on August 2, 2010, the consideration received by Nayarit Gold shareholders had a value of approximately \$47.6 million as detailed below.

	Conversion Calculation	Estimated Fair Value	Form of Consideration
(In thousands, except per share amounts)			
Number of Nayarit Gold shares outstanding as of the transaction date	92,910		
Exchange ratio(1)	0.134048		
Number of shares issued to Nayarit Gold shareholders	12,454		
Value of Capital Gold common stock issued(1)			Capital Gold
Value of Nayarit Gold's options and warrants to be exchanged for Capital Gold options and warrants(2)	\$ 3.71	\$ 46,206	common stock Capital Gold stock options and warrants
		1,393	
Total consideration transferred		\$ 47,599	

- (1) In accordance with ASC 805, the fair value of equity securities issued as part of the consideration transferred was the closing market price of CGC's common stock on the effective date of the acquisition. The pro forma shares issued equaled 12,454,354 shares of CGC common stock, which is calculated by multiplying 0.134048 by 92,909,659, being the number of shares of Nayarit Gold common stock outstanding on August 2, 2010. Nayarit Gold shareholders own approximately 20.4% of the issued and outstanding shares of CGC common stock.
- (2) Represents the fair value to acquire 1,621,981 and 903,483 shares of CGC common stock upon the exercise of former Nayarit Gold warrants and options, respectively. The fair value of the warrants and options were estimated using the Black-Scholes valuation model utilizing the assumptions noted below.

Stock price	\$ 3.71
Post conversion strike price	\$ 3.28 9.92
Average expected volatility	70%
Dividend yield	None
Average risk-free interest rate	0.29%
Average contractual term	0.79 years
Black-Scholes average value per warrant and option	\$ 0.57

The expected volatility of CGC's stock price is based on the average historical volatility, which is based on daily observations and duration consistent with the expected life assumption and implied volatility. The average contractual term of the warrants and options is based on the remaining contractual exercise term of each warrant and option. The risk free interest rate is based on U.S. treasury securities with maturities equal to the expected life of the warrants and options.

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The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The following table summarizes the estimated fair values of major assets acquired and liabilities assumed on August 2, 2010:

	<b>Fair Value (in thousands)</b>
Cash and cash equivalents	\$ 50
Short-term investments	2
Prepaid expenses and sundry receivables	1,238
Property, plant and equipment	196
Mineral interests indicated and inferred	43,780
Exploration interests	16,730
Goodwill	3,394
Accounts payable and liabilities assumed	(1,336)
Deferred tax liability	(16,455)
 Net assets acquired	 \$ 47,599

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. CGC's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact CGC's results from operations. CGC's management allocated the acquisition cost to the assets acquired and liabilities assumed based on the estimated fair value of Nayarit Gold's tangible and identifiable assets and liabilities. The amount allocated to the mineral and exploration interests was based on a valuation report prepared by a third party appraisal firm. The allocation is considered final as of the date of this report as management reviewed certain of the underlying assumptions and calculations used in the allocation to the assets and liabilities of Nayarit Gold that were acquired.

During the three months ended October 31, 2010, CGC incurred transaction costs consisting primarily of legal, professional, investment advisory and accounting fees of \$945. These costs are included in general and administrative expenses on the consolidated statement of operations.

**Pro forma Information**

The following unaudited pro forma results of operations of CGC for the three months ended October 31, 2010 and 2009 assume that the acquisition of the operating assets of the significant business acquired during 2010 and 2009 had occurred on August 1 of the respective year in which the business was acquired and for the comparable period only (i.e., 2010 acquisitions are reflected in 2009). These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, nor are they necessarily indicative of future results of operations.

	<b>Three Months Ended October 31, 2010</b>	<b>Three Months Ended October 31, 2009</b>
	<b>(in thousands)</b>	
Revenues	\$ 18,952	\$ 11,727
Net income (loss)	\$ 2,954	\$ 2,037
Income (loss) per common share:		
Basic net income (loss)	\$ 0.05	\$ 0.03
Diluted net income (loss)	\$ 0.05	\$ 0.03

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

**(Expressed in thousands of U.S. dollars, unless otherwise noted)**

The unaudited pro forma condensed consolidated income statement for the fiscal year ended December 31, 2009 and for the nine months ended September 30, 2010 combine the historical consolidated income statements of Gammon Gold and CGC, giving effect to the merger of Gammon Gold and CGC as if it had occurred on January 1, 2009.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2010 combines the historical consolidated balance sheets of Gammon Gold and CGC, giving effect to the merger as if it had occurred on September 30, 2010. The historical consolidated financial information has been adjusted to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the income statements, expected to have a continuing impact on the consolidated results. The unaudited pro forma condensed consolidated financial information has been prepared in accordance with U.S. GAAP and should be read in conjunction with the accompanying notes to the unaudited pro forma condensed consolidated financial statements.

On August 2, 2010, prior to the proposed merger of Gammon Gold and CGC, CGC acquired Nayarit Gold pursuant to a merger agreement. Following the completion of this transaction, the combined entity became known as CGC. The operating results and financial position of Nayarit Gold are reflected in the financial statements of CGC as at and for the three months ended October 31, 2010. The operating results of Nayarit Gold are not reflected in the financial statements of CGC for any periods prior to August 2, 2010. Management of Gammon Gold has reflected the consolidated financial information of Nayarit Gold in the pro forma condensed consolidated income statements for the year ended December 31, 2009 and the nine months ended September 30, 2010 in order to provide the additional information necessary to assess the implications of the merger with CGC.

Management has determined that no material adjustments to the CGC or Nayarit Gold financial statements are required to comply with the accounting policies used by Gammon Gold in the preparation of its consolidated financial statements.

In addition, the unaudited pro forma condensed consolidated financial information was based on and should be read in conjunction with the:

separate historical consolidated audited financial statements of Gammon Gold as at and for the year ended December 31, 2009, prepared in accordance with Canadian GAAP, and the supplemental financial statement schedule entitled Reconciliation with United States Generally Accepted Accounting Principles, and the related notes included in Gammon Gold's Annual Report on Form 40-F for the fiscal year ended December 31, 2009, as amended by Amendment No.1 to Form 40-F/A for the fiscal year ended December 31, 2009, which are incorporated by reference to this proxy statement/prospectus;

unaudited consolidated financial statements of Gammon Gold as at and for the nine months ended September 30, 2010, prepared in accordance with Canadian GAAP and the supplemental financial statement schedule entitled Reconciliation with United States Generally Accepted Accounting Principles, and the related notes included in Gammon Gold's Report of Foreign Issuer on Form 6-K filed on December 10, 2010 which is incorporated by reference into this proxy statement/prospectus;

audited consolidated financial statements of CGC as at and for the fiscal year ended July 31, 2010 and 2009, prepared in accordance with U.S. GAAP, and the related notes included in CGC's Annual Report on Form 10-K for the fiscal year ended July 31, 2010, which is incorporated by reference into this proxy statement/prospectus;

unaudited consolidated financial statements of CGC as at and for the six months ended January 31, 2010 and 2009, prepared in accordance with U.S. GAAP, and the related notes included in CGC's



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Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2010, which is incorporated by reference into this proxy statement/prospectus;

unaudited consolidated financial statements of CGC as at and for the three months ended October 31, 2010 and 2009, prepared in accordance with U.S. GAAP, and the related notes included in CGC's Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2010, which is incorporated by reference into this proxy statement/prospectus;

unaudited interim consolidated financial statements of Nayarit Gold as at and for the nine months ended June 30, 2010, prepared in accordance with Canadian GAAP and reconciled to U.S. GAAP, and the related notes included in Annex E to this proxy statement/prospectus, which is incorporated by reference into this proxy statement/prospectus; and

audited consolidated financial statements of Nayarit Gold as at and for the year ended September 30, 2009, prepared in accordance with Canadian GAAP and reconciled to U.S. GAAP, and the related notes included in Amendment No. 1 to CGC's Current Report on Form 8-K/A, as filed with the SEC on October 13, 2010, which is incorporated by reference into this proxy statement/prospectus.

The pro forma condensed consolidated financial information should be read in conjunction with the description of the proposed merger in this document and the financial statements, together with notes thereon, that are included in this document, or incorporated by reference herein.

The financial information presented for Nayarit Gold was prepared based on the historical financial statements of Nayarit Gold prepared and presented in Canadian dollars and was translated from Canadian dollars to U.S. dollars at the average exchange rate for the applicable period for the income statement data. In addition, the historical income statements for Nayarit Gold used in the preparation of the pro forma condensed consolidated income statement were adjusted in the pro forma only to reflect the reconciliation from Canadian GAAP to U.S. GAAP. The main adjustments in the pro forma income statements as it relates to the unaudited consolidated income statements of Nayarit Gold for the nine months ended June 30, 2010, the twelve months ended September 30, 2009, and the three months ended December 31, 2009 and 2008, were adjustments to exploration expense of C\$934, C\$6,865, C\$360 and C\$2,310, respectively.

Financial information for the three months ended October 31, 2010 of Nayarit Gold is included in the unaudited consolidated interim financial statements of CGC for the three months ended October 31, 2010, as CGC's acquisition of Nayarit Gold was completed on August 2, 2010. The income statement data of Nayarit Gold for the six months ended June 30, 2010, prior to the acquisition by CGC, has been reflected separately in the unaudited pro forma condensed consolidated income statement. Nayarit Gold's unaudited consolidated income statement for the six months ended June 30, 2010 was constructed by deducting the three months ended December 31, 2009 from the nine months ended June 30, 2010.

The unaudited consolidated income statement for Nayarit Gold for the year ended December 31, 2009 was constructed by adding and deducting the three months ended December 31, 2009 and the three months ended December 31, 2008, respectively, from the year ended September 30, 2009.

The audited consolidated financial statements of Capital Gold for the years ended July 31, 2010 and 2009, the unaudited consolidated financial statements of Capital Gold for the six months ended January 31, 2010 and 2009 and the unaudited consolidated financial statements of Capital Gold for the three months ended October 31, 2010 have been used to approximate the year ended December 31, 2009 and the nine months ended September 30, 2010. The unaudited consolidated income statement for the nine months ended October 31, 2010 was constructed by adding and deducting the three months ended October 31, 2010 and the six months ended January 31, 2010, respectively, from the year ended July 31, 2010. The unaudited income statement for the year ended January 31, 2010 was constructed by adding and deducting the six months ended January 31, 2010 and the six months ended January 31, 2009, respectively, from the year ended July 31, 2009.

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The unaudited pro forma condensed consolidated financial information has been presented for informational purposes only. The pro forma information is not necessarily indicative of what the combined company's financial position or results of operations actually would have been had the merger been completed as of the dates indicated. In addition, the unaudited pro forma condensed consolidated financial information does not purport to project the future financial position or operating results of the combined company. There were no material transactions between Gammon Gold and CGC during the periods presented in the unaudited pro forma condensed consolidated financial information that would need to be eliminated. Transactions between Capital Gold and Nayarit Gold during the periods presented in the unaudited pro forma condensed consolidated financial information have been eliminated as a pro forma adjustment. See notes to the pro forma condensed consolidated financial information below.

The unaudited pro forma condensed consolidated financial information has been prepared using the acquisition method of accounting under U.S. GAAP, which is subject to change and interpretation. Gammon Gold has been treated as the acquirer for accounting purposes. Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in connection with the unaudited pro forma combined financial information. In the opinion of Gammon Gold's management, all adjustments considered necessary for a fair presentation have been included.

The acquisition accounting is dependent upon certain valuations and other studies that have not yet begun or are not yet completed, and will not be completed until after the closing of the merger. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed consolidated financial information and are necessarily based upon preliminary information available at the time of the preparation of this proxy statement/prospectus. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the accompanying unaudited pro forma condensed consolidated financial information and the combined company's future results of operations and financial position.

The unaudited pro forma condensed consolidated financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the merger, the costs to integrate the operations of Gammon Gold, CGC and Nayarit Gold or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements. The merger is currently expected to be completed during the first quarter of 2011, subject to receipt of CGC stockholder approval and other usual and customary closing conditions.

**Table of Contents****Gammon Gold Inc.****Unaudited Pro Forma Condensed Consolidated Balance Sheet**

As at September 30, 2010

(in thousands of U.S. dollars)	Gammon Gold	CGC		Pro Forma Adjustments (note 6)	Consolidated
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 106,998	\$ 9,254		(v) \$ (48,457)	\$ 60,795
				(iv) (7,000)	
Accounts and other receivables	16,266	2,665			18,931
Stockpiles and ore on leach pads	77,534	36,933		(vi) 44,586	159,053
Material and supply inventories	20,379	2,306			22,685
Other current assets	3,449	898			4,347
<b>Total current assets</b>	<b>\$ 224,626</b>	<b>\$ 52,056</b>		<b>\$ (10,871)</b>	<b>\$ 265,811</b>
Mining interests, property and equipment	338,247	68,948		(vii) 73,397	480,592
Exploration property interests	79,599	17,666			97,265
Intangible assets, net (note 5, vi)	3,549	734			4,283
Goodwill		3,480		(viii) 124,812	128,292
Other assets	16,516	1,142		(ix) (1,065)	16,593
<b>Total assets</b>	<b>\$ 662,537</b>	<b>\$ 144,026</b>		<b>\$ 186,273</b>	<b>\$ 992,836</b>

See accompanying notes

**Table of Contents****Gammon Gold Inc.****Unaudited Pro Forma Condensed Consolidated Balance Sheet**

As at September 30, 2010

(in thousands of U.S. dollars)	Gammon Gold	CGC	Pro Forma Adjustments (note 6)	Consolidated
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 40,083	\$ 7,584	\$	\$ 47,667
Current portion of deferred tax liability	7,909	7,666	(x) 12,484	28,059
Current portion of long-term debt and capital leases	4,399	3,100		7,499
Current portion of other long-term obligations	1,872			1,872
<b>Total current liabilities</b>	<b>\$ 54,263</b>	<b>\$ 18,350</b>	<b>\$ 12,484</b>	<b>\$ 85,097</b>
Reclamation and remediation liabilities	6,533	2,665		9,198
Other liabilities	3,632	308		3,940
Long-term debt and capital leases	29,596	400		29,996
Employee future benefits	2,785			2,785
Deferred tax liability	28,713	17,869	(x) 20,551	67,133
<b>Total long-term liabilities</b>	<b>71,259</b>	<b>21,242</b>	<b>20,551</b>	<b>113,052</b>
<b>Total liabilities</b>	<b>\$ 125,522</b>	<b>\$ 39,592</b>	<b>\$ 33,035</b>	<b>\$ 198,149</b>
<b>Stockholders equity</b>				
Common stock	881,811	6	(i) (6)	1,143,170
			(ii) 261,359	
Contributed surplus	20,267		(iii) 3,313	23,580
Additional paid-in capital		113,354	(i) (113,354)	
Accumulated deficit	(367,459)	(7,150)	(i) 7,150	(374,459)
			(iv) (7,000)	
Accumulated other comprehensive income (loss)	2,396	(1,776)	(i) 1,776	2,396
<b>Total stockholders equity</b>	<b>537,015</b>	<b>104,434</b>	<b>153,238</b>	<b>794,687</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 662,537</b>	<b>\$ 144,026</b>	<b>\$ 186,273</b>	<b>\$ 992,836</b>

See accompanying notes

**Table of Contents****Gammon Gold Inc.****Unaudited Pro Forma Condensed Consolidated Income Statement****For the Nine Months ended September 30, 2010**

(in thousands of U.S. dollars)	Gammon Gold	CGC	Nayarit Gold	Pro Forma Adjustments (note 6)	Consolidated
<b>Revenue from mining operations</b>	\$ 167,249	\$ 54,642		(xi) \$ 1,403	\$ 223,294
<b>Expenses</b>					
Production costs, excluding amortization and depletion	(87,483)	(20,492)		(xi) (1,403)	(109,378)
Refining costs	(1,424)				(1,424)
General and administrative costs	(19,302)	(8,447)	(751)		(28,500)
Amortization, depletion and accretion	(38,337)	(2,657)	(26)	(vii) (4,769)	(45,789)
Exploration	(13,487)	(1,558)	(599)		(15,644)
Impairment charge	(212,090)				(212,090)
Loss on disposal of assets	(2,437)				(2,437)
	(374,560)	(33,154)	(1,376)	(6,172)	(415,262)
<b>Earnings (loss) before other items</b>	<b>(207,311)</b>	<b>21,488</b>	<b>(1,376)</b>	<b>(4,769)</b>	<b>(191,968)</b>
Interest on long-term debt	(2,374)	(966)	(2)		(3,342)
Foreign exchange gain (loss)	(1,945)		3		(1,942)
Interest and other income (expense)	656	(57)	1		600
Transaction costs			(630)		(630)
	(3,663)	(1,023)	(628)		(5,314)
<b>Earnings (loss) before income taxes</b>	<b>(210,974)</b>	<b>20,465</b>	<b>(2,004)</b>	<b>(4,769)</b>	<b>(197,282)</b>
Income tax expense (recovery)	(26,911)	11,401		(x) (1,335)	(16,845)
<b>Net earnings (loss)</b>	<b>\$ (184,063)</b>	<b>\$ 9,064</b>	<b>\$ (2,004)</b>	<b>\$ (3,434)</b>	<b>\$ (180,437)</b>
<b>Earnings (loss) per share</b>					
Basic (xii)	(1.33)				(1.06)
Diluted (xii)	(1.33)				(1.06)
<b>Weighted average number of shares outstanding (in thousands)</b>					
Basic (xii)	138,339				170,793
Diluted (xii)	138,339				170,793

*See accompanying notes*

**Table of Contents****Gammon Gold Inc.****Unaudited Pro Forma Condensed Consolidated Income Statement****For the Year ended December 31, 2009**

(in thousands of U.S. dollars)	Gammon Gold	CGC	Nayarit Gold	Pro Forma Adjustments (note 6)	Consolidated
<b>Revenue from mining operations</b>	\$ 206,801	\$ 47,168	\$ (xi)	\$ 1,096	\$ 255,065
<b>Expenses</b>					
Production costs, excluding amortization and depletion	(104,491)	(15,921)	(xi)	(1,096)	(121,508)
Refining costs	(2,855)				(2,855)
General and administrative costs	(37,054)	(6,686)	(2,091)		(45,831)
Amortization, depletion and accretion	(48,327)	(2,292)	(46)	(vii)	(6,359)
Exploration	(11,801)	(1,385)	(4,267)		(17,453)
	(204,528)	(26,284)	(6,404)	(7,455)	(244,671)
<b>Earnings (loss) before other items</b>	<b>2,273</b>	<b>20,884</b>	<b>(6,404)</b>	<b>(6,359)</b>	<b>10,394</b>
Interest on long-term debt	(3,314)	(1,383)	(16)		(4,713)
Foreign exchange loss	(4,896)		(124)		(5,020)
Interest and other income	633	27	22		682
Loss on change in fair value of derivative		(1,397)			(1,397)
Other expense		(143)			(143)
	(7,577)	(2,896)	(118)		(10,591)
<b>Earnings (loss) before income taxes</b>	<b>(5,304)</b>	<b>17,988</b>	<b>(6,522)</b>	<b>(6,359)</b>	<b>(197)</b>
Income tax expense (recovery)	4,431	6,830		(x)	(1,780)
<b>Net earnings (loss)</b>	<b>\$ (9,735)</b>	<b>\$ 11,158</b>	<b>\$ (6,522)</b>	<b>\$ (4,579)</b>	<b>\$ (9,678)</b>
<b>Earnings (loss) per share</b>					
Basic (xii)	(0.08)				(0.06)
Diluted (xii)	(0.08)				(0.06)
Weighted average number of shares outstanding (in thousands)					
Basic (xii)	125,689				157,640
Diluted (xii)	125,689				157,640

*See accompanying notes*

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**Gammon Gold Inc.**

**Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements**

**September 30, 2010 and December 31, 2009**

**(In thousands of U.S. dollars, unless otherwise noted)**

**1. Description of the transaction**

Gammon Gold and CGC have entered into a definitive merger agreement pursuant to which Gammon Gold will offer to acquire all of the issued and outstanding common stock of CGC in a cash and share transaction. In order to effect the merger transaction, CGC will merge with and into a wholly-owned subsidiary of Gammon Gold. As a result of this merger, the shares of CGC common stock will no longer be listed on any stock exchange or quotation system.

Under the terms of the merger agreement, each share of common stock of CGC will be exchanged for 0.5209 common shares of Gammon Gold and a cash payment in the amount of \$0.79 per CGC share.

**2. Basis of presentation**

The unaudited pro forma condensed consolidated financial information was prepared using the acquisition method of accounting under U.S. GAAP in accordance with Accounting Standards Codification, or ASC, Topic 805, *Business Combinations* ( ASC 805 ). Gammon Gold is considered the legal and accounting acquirer and Capital Gold is the legal and accounting acquirer of Nayarit Gold. The unaudited pro forma condensed consolidated financial information was based on the historical financial statements of Gammon Gold, CGC and Nayarit Gold. Certain reclassifications have been made to the historical financial statements in preparation of the pro forma condensed consolidated financial information to conform to the financial statement presentation currently adopted by Gammon Gold.

The acquisition accounting is dependent upon certain valuations and other studies or events that have yet to progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed consolidated financial information. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the accompanying unaudited pro forma condensed consolidated financial information and the combined company's future results of operations and financial position.

ASC 805 establishes that the consideration transferred be measured at the closing date of the acquisition at the then-current market price. This particular requirement may result in the equity consideration being valued differently from the amount reflected in this unaudited pro forma condensed consolidated financial information. See note 4 for the estimate of consideration expected to be transferred.

Under the acquisition method of accounting, the assets acquired and liabilities assumed of CGC will be recorded as of the completion of the merger, primarily at their respective fair values and added to those of Gammon Gold. The results of operations of CGC and will be included in the financial statements of the combined company entity as of the date of the completion of the merger.

Under ASC 805, acquisition-related transaction costs (i.e., advisory, legal, valuation, other professional fees) and certain acquisition-related restructuring charges affecting the target company are not included as a component of consideration transferred but are accounted for as expenses in the periods during which the costs are incurred. Total acquisition-related transaction costs expected to be incurred by Gammon Gold are estimated to be approximately \$7,000. The estimated transaction costs are reflected in the unaudited pro forma condensed consolidated balance sheet as a reduction to cash and cash equivalents and an increase to accumulated deficit. The unaudited pro forma condensed consolidated income statements do not reflect any acquisition-related transaction costs, or restructuring charges expected to be incurred in connection with the merger; these charges are expected to be in the range of approximately \$7,000 and \$5,000, respectively, on a pre-tax basis.

**Table of Contents****Gammon Gold Inc.****Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)****September 30, 2010 and December 31, 2009****(In thousands of U.S. dollars, unless otherwise noted)****3. Accounting policies**

The pro forma condensed consolidated financial information has been prepared using accounting policies consistent with the policies used in preparing Gammon Gold's audited consolidated financial statements for the year ended December 31, 2009, in accordance with Canadian GAAP, reconciled to U.S. GAAP.

Upon consummation of the merger, Gammon Gold will review, in detail, the accounting policies of CGC and Nayarit Gold. As a result of that review, Gammon Gold may identify differences between the accounting policies of the two companies that, when conformed, could have a material impact on the consolidated financial statements. At this time, Gammon Gold is not aware of any differences that would have a material impact on the pro forma condensed consolidated financial information.

**4. Estimate of consideration expected to be transferred**

The following is a preliminary estimate of consideration to be transferred to effect the acquisition:

	Conversion calculation	Estimated fair value	Form of consideration
<b>Total Capital Gold shares outstanding immediately prior to the acquisition by Gammon Gold</b>	<b>61,338,136</b>		
	31,951,035		
Multiplied by the exchange ratio of 0.5209 common shares of Gammon Gold for each share of CGC outstanding	Gammon Gold shares to be issued		
Multiplied by Gammon Gold's stock price as at February 7, 2011	\$8.18	\$261,359	Gammon Gold Common Stock
Number and estimated fair value of vested CGC stock options and warrants expected to be exchanged for stock options and warrants in the combined company (1)	1,522,084	\$3,313	Gammon Gold Options and Warrants
Cash payment in the amount of \$0.79 per share	\$48,457	\$48,457	Cash
<b>Estimate of consideration to be transferred (2)</b>		<b>\$313,129</b>	

- (1) For this pro forma condensed consolidated financial information and for determining the fair value of consideration paid with regard to Capital Gold's options and warrants, weighted average exercise prices of \$6.53 and \$8.79 have been used for all options and warrants, respectively. The additional purchase price of approximately \$3.3 million relating to the stock options and warrants represents a weighted-average fair value of \$4.30 per replacement option and \$0.48 per replacement warrant, which was calculated using the Black-Scholes option pricing model.

This calculation considered the closing price of Gammon Gold common shares of \$8.18 per share as at February 7, 2011, and the following assumptions:



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Expected volatility:	61.98%
Expected life:	3.6 years (options); 0.1 years (warrants)
Expected dividend yield:	0%
Risk-free interest rate:	1.83%

**Table of Contents****Gammon Gold Inc.****Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)****September 30, 2010 and December 31, 2009****(In thousands of U.S. dollars, unless otherwise noted)**

The expected life of the replacement stock options and warrants was determined by taking into account the contractual life of the replacement stock options and warrants and estimated exercise pattern of the replacement stock option and warrant holders. The expected volatility and risk-free rates were determined based on current market information, and the dividend yield was derived from historical experience as well as information available to management.

- (2) The estimated consideration expected to be transferred reflected in this unaudited pro forma condensed consolidated financial information does not purport to represent what the actual consideration transferred will be when the merger is consummated. In accordance with ASC 805, the fair value of equity securities issued as part of the consideration transferred will be measured on the closing date of the merger at the then-current market price. This requirement will likely result in a per share equity component different from the \$8.18 assumed in this unaudited pro forma condensed consolidated financial information and that difference may be material. For purposes of determining the consideration transferred within this unaudited pro forma condensed consolidated financial information, the closing Gammon Gold common share price of \$8.18 on February 7, 2011 was used in the calculation. Management has used a 5% variability factor to illustrate the impact share price movements have on consolidated goodwill and shareholders' equity. Gammon Gold management deems this variability factor reasonable in light of current share price volatility.

	<b>Pro forma purchase price allocation</b>	<b>Increase in Gammon Gold share price by 5%</b>	<b>Decrease in Gammon Gold share price by 5%</b>
Price per share applied in the determination of consideration	\$ 8.18	\$ 8.59	\$ 7.77
Shares issued	31,951,035	31,951,035	31,951,035
Consideration issued to CGC shareholders (excluding warrants and stock options)	\$ 309,816	\$ 322,917	\$ 296,717
Estimated fair value of replacement stock options and warrants	\$ 3,313	\$ 3,701	\$ 2,966
Total consideration	\$ 313,129	\$ 326,618	\$ 299,683
Consolidated goodwill	\$ 128,292	\$ 141,780	\$ 114,845
Consolidated shareholders' equity	\$ 794,687	\$ 808,175	\$ 781,241

**5. Estimate of assets to be acquired and liabilities to be assumed**

The following is a preliminary estimate of the assets to be acquired and the liabilities to be assumed by Gammon Gold in the merger, reconciled to the estimate of consideration expected to be transferred as a result of the acquisition as at September 30, 2010:

Book value of net assets acquired	\$ 104,434
Fair value adjustments to:	
Stockpiles and ore on leach pads (i)	44,586
Mining interest and property and equipment (ii)	73,397
Exploration property interests (iii)	
Other assets (iv)	(1,065)
Deferred income taxes (v)	(33,035)
Intangible assets (vi)	
Goodwill (vii)	124,812

**Estimate of consideration expected to be transferred**

**\$ 313,129**

**Table of Contents****Gammon Gold Inc.****Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)****September 30, 2010 and December 31, 2009****(In thousands of U.S. dollars, unless otherwise noted)**

- i. Reflects an adjustment of \$44,586 to record CGC's stockpiles and ore on leach pads inventory at their estimated fair values. In connection with the merger, Gammon Gold is required to record this asset on the consolidated balance sheet at fair value. Gammon Gold's assumptions as to the fair value of this asset may change as it conducts a valuation of CGC's stockpiles and ore on leach pads following the completion of the merger. Gammon Gold's pro forma fair value adjustment to stockpiles and ore on leach pads is based on CGC's balance at October 31, 2010, adjusted as follows based on the estimates of Gammon Gold management:
- a. Estimated selling prices of finished goods less the sum of costs to complete, costs of disposal and a reasonable profit allowance for the completing and selling effort of a market participant based on profit for similar finished goods.
- ii. Reflects an adjustment of \$73,397 to record the preliminary fair value adjustment allocated to Capital Gold's mining interests.
- iii. The carrying value of the exploration properties acquired is assumed to approximate fair value, as CGC recorded these properties at fair value upon its acquisition of Nayarit Gold on August 2, 2010.
- iv. Reflects an adjustment of \$1,065 relating to eliminating deferred financing fees previously deferred by CGC. The adjustment reflects the net balance as of October 31, 2010. Gammon Gold management has determined the fair value of this account to be nil. The associated tax benefit for these charges has not been recognized as it does not meet the more likely than not criteria for recognition. The carrying value of all other assets and liabilities is assumed to approximate fair value.
- v. Represents the estimated deferred income tax liability, based on an estimated income tax rate of 28%, multiplied by the estimated differences between the fair value of the purchase price allocation adjustments made to assets and liabilities, excluding goodwill, and the estimated tax bases of the associated assets and liabilities, excluding goodwill. The pro forma adjustment to record the effect of deferred taxes was computed as follows:

<b>Estimated differences between the estimated fair values and the tax bases:</b>	
Stockpiles and ore on leach pads	44,586
Mining interest and property and equipment	73,397
<b>Total estimated differences</b>	<b>117,983</b>
<b>Associated deferred income taxes at 28% tax rate:</b>	<b>33,035</b>
Current portion of deferred tax liability relating to the Stockpiles and ore on leach pads adjustment	12,484
Non-current portion	20,551

- vi. The carrying value of the intangible assets acquired is assumed to approximate fair value.
- vii. Goodwill represents the excess of the preliminary purchase price over the estimated fair value of assets acquired and liabilities assumed.

**6. Pro forma adjustments and assumptions**

Adjustments included in the Pro forma adjustments column represent the following:

- (i) This pro forma adjustment eliminates the historical equity accounts of CGC and Nayarit Gold.

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**Gammon Gold Inc.**

**Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)**

**September 30, 2010 and December 31, 2009**

**(In thousands of U.S. dollars, unless otherwise noted)**

- (ii) This pro forma adjustment reflects the issuance of 31,951,035 shares of Gammon Gold common shares for \$8.18 per share in connection with the acquisition of 100% of the outstanding shares of Capital Gold common stock.
- (iii) This pro forma adjustment reflects the fair value of 677,196 replacement stock options and 796,011 replacement warrants outstanding. 97,756 of the total 796,011 replacement warrants will be exchangeable for 1.5 Gammon Gold common shares, while the remaining replacement stock options and warrants will be exchangeable on a 1:1 basis for Gammon Gold common shares. The replacement stock options and warrants have a fair value of \$4.30 and \$0.48, respectively.
- (iv) This pro forma adjustment reflects the estimated transaction costs of \$7,000 associated with the merger, reflected as an adjustment to cash and cash equivalents, and accumulated deficit as such costs are expensed. These costs are not expected to continue, and as such, an adjustment has not been included within the pro forma condensed consolidated income statements.
- (v) This pro forma adjustment reflects the cash payment of \$0.79 multiplied by 61,338,136, being the common shares of CGC common stock outstanding on February 4, 2011.
- (vi) This pro forma adjustment reflects the estimated adjustment to adjust the stockpiles and ore on leach pads asset to estimated fair market value. The combined company's cost of sales will reflect the increased valuation of CGC's inventory as the acquired inventory is sold, which is expected to occur within the first year post-acquisition. There is no continuing impact of the acquired inventory adjustment on the consolidated income statements, and as such, it is not included in the unaudited pro forma condensed consolidated income statements.
- (vii) This pro forma adjustment reflects the estimated increase to mining interests associated with the preliminary fair value adjustment of approximately \$73,400, and the associated increase to depreciation and amortization of approximately \$6,400 and \$4,800 for the year ended December 31, 2009 and the nine months ended September 30, 2010, respectively.
- (viii) This pro forma adjustment reflects the estimate of acquisition-date goodwill associated with the merger transaction.
- (ix) This pro forma adjustment reflects Gammon Gold management's estimate of the adjustment necessary to reflect the deferred financing fees recorded by Capital Gold.
- (x) This pro forma adjustment reflects an estimate of the tax impacts of the acquisition on the balance sheet and income statements, primarily related to estimated fair value adjustments for stockpiles and ore on leach pads, and mining interests. The estimated rate is based on the historical effective tax rate for Gammon Gold, which is 28% for the year ended December 31, 2009 and the nine months ended September 30, 2010. Gammon Gold believes that using its historical effective tax rate is factually supportable in that it is derived from statutory rates. The actual effective tax rate of the combined company could be significantly different (either higher or lower) than the estimated tax rate, and depends on post-acquisition activities, including repatriation decisions. On January 1, 2010, the Mexican government enacted legislation that increases the regular income tax rate from 28% to 30%. The regular income tax rate will decrease to

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29% in 2013 and then back to 28% in 2014, according to legislation. The preliminary estimate of the deferred tax liability at September 30, 2010 was computed using a rate of 28% and could be significantly different (either higher or lower) depending upon several factors.

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**Gammon Gold Inc.**

**Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)**

**September 30, 2010 and December 31, 2009**

**(In thousands of U.S. dollars, unless otherwise noted)**

- (xi) CGC's accounting policy is to net revenues from sales of silver against production costs as CGC considers silver to be a by-product. Gammon Gold sells silver directly and, accordingly, such amounts are recognized as revenue. A pro forma adjustment has been presented to classify silver sales on a basis consistent with Gammon Gold's accounting policy.
  
- (xii) The unaudited pro forma consolidated basic and diluted earnings (loss) per share for the periods presented are based on the combined basic and diluted weighted-average shares. The historical basic and diluted weighted average shares of CGC were assumed to be replaced by the shares expected to be issued by Gammon Gold to effect the merger.



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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements contained or incorporated by reference in this proxy statement/prospectus, including those relating to Gammon Gold and CGC's strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as expects, anticipates, intends, plans, believes, estimates, will, should, may or similar expressions, are forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended, which we refer to in this document as the Securities Act. Without limiting the generality of the preceding sentence, statements contained in the sections Proposal No. 1: The Merger CGC's Reasons for the Merger; Recommendation of the CGC Board of Directors, Proposal No. 1: The Merger Opinion of Stifel, Nicolaus & Company, Incorporated, and Proposal No. 1: The Merger Gammon Gold's Reasons for the Merger include forward-looking statements. These statements are not historical facts but instead represent only Gammon Gold and/or CGC's expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this proxy statement/prospectus are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results and shareholder values of Gammon Gold and CGC may differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this proxy statement/prospectus due to, among other factors, the matters set forth under Risk Factors beginning on page 19, the parties' ability to obtain the regulatory, shareholder and other approvals required for the merger on the terms and within the time expected, pending litigation, the price of gold and silver, the risks of exploration, development and mining, the risk that Gammon Gold will not be able to integrate successfully the businesses of CGC or that such integration will be more time consuming or costly than expected, the risk that expected synergies and benefits of the merger and other benefits described under Proposal No. 1: The Merger Gammon Gold's Reasons for the Merger will not be realized within the expected time frame or at all, increased operating costs, labor disruption, civil unrest, employee loss and business disruption following the merger and the factors detailed in each company's filings with the SEC, including the factors detailed in Gammon Gold's Form 40-F for its fiscal year ended December 31, 2009, as amended by Amendment No. 1 to Form 40-F/A for its fiscal year ended December 31, 2009, Gammon Gold's reports on Form 6-K and CGC's Annual Report on Form 10-K for the fiscal year ended July 31, 2010, as amended by Form 10-K/A, CGC's Quarterly Report on Form 10-Q for the quarter ended October 31, 2010 and CGC's Current Reports on Form 8-K.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this proxy statement/prospectus, in the case of forward-looking statements contained in this proxy statement/prospectus, or the dates of the documents incorporated by reference into this proxy statement/prospectus, in the case of forward-looking statements made in those incorporated documents. Neither Gammon Gold nor CGC undertakes any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus or to reflect the occurrence of unanticipated events, except as required by law.

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### **THE SPECIAL MEETING**

This section contains information for CGC stockholders about the special meeting that CGC has called to allow its stockholders to consider the proposal to approve and adopt the plan of merger contained in the merger agreement. CGC is mailing this proxy statement/prospectus to its stockholders on or about February 16, 2011. Together with this proxy statement/prospectus, CGC is sending a notice of the special meeting and a form of proxy that CGC's board of directors is soliciting for use at the special meeting and at any adjournments or postponements of the special meeting.

#### **Date, Time and Place**

The special meeting will be held on March 18, 2011, at Ballard Spahr LLP, 1735 Market Street, 51<sup>st</sup> Floor, Philadelphia, Pennsylvania 19103, local time at 10:00 a.m.

#### **Purpose of the Special Meeting**

At the special meeting, CGC stockholders will be asked to:

approve and adopt the plan of merger contained in the merger agreement;

approve the adjournment or postponement of the special meeting, if necessary or appropriate, including to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the special meeting; and

consider and vote on such other business as may properly come before the special meeting or any adjournments or postponements thereof.

#### **Record Date; Outstanding Shares; Shares Entitled to Vote**

Only holders of record of CGC common stock at the close of business on February 14, 2011, are entitled to notice of and to vote at the special meeting. As of the record date, there were 61,338,136 shares of CGC common stock outstanding and entitled to vote at the special meeting, held by 970 holders of record. Each holder of CGC common stock is entitled to one vote for each share of CGC common stock owned as of the record date.

A complete list of CGC stockholders will be available for review at the special meeting and at the executive offices of CGC during regular business hours for a period of ten days before the special meeting.

#### **Quorum and Vote Required**

A majority of the shares of CGC common stock entitled to vote at any meeting of stockholders must be present in person or represented by proxy at the commencement of the special meeting to constitute a quorum. A quorum must have been present at the commencement of any meeting before a vote can be taken on the proposal to approve and adopt the plan of merger contained in the merger agreement, or any other matter except adjournment of the meeting due to the absence of a quorum. Abstentions and broker non-votes, if any, which are described below, will be counted as present for purposes of determining the presence of a quorum at the special meeting. If a quorum is not present or if there are not sufficient votes in favor of the proposal to approve and adopt the plan of merger contained in the merger agreement, CGC expects that the special meeting will be adjourned or postponed to solicit additional proxies. At any subsequent reconvening of the special meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the subsequent meeting.

In accordance with Delaware law and CGC's certificate of incorporation and bylaws, the proposal to approve and adopt the plan of merger contained in the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of CGC common stock entitled to vote thereon. In addition,



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Canadian securities law requires the affirmative vote of a majority of the votes cast by holders of shares of CGC common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter, excluding the votes cast by certain persons entitled to receive change of control payments in connection with the merger. CGC's board of directors urges CGC stockholders to complete, date and sign the accompanying proxy card and return it promptly in the enclosed postage paid envelope, or to vote by telephone or through the Internet.

If you do not vote, or you abstain from voting your shares with respect to the proposal to approve the plan of merger, it will have the same effect as a vote against the approval of the plan of merger contained in the merger agreement. Unless you have exercised your appraisal rights in accordance with the DGCL, if the proposal to approve and adopt the plan of merger contained in the merger agreement receives the required approval of CGC's stockholders and the merger is completed, your shares of CGC common stock will be converted into the right to receive the merger consideration even though you did not vote.

The affirmative vote of a majority of the votes cast by the holders of the CGC common stock at the special meeting is required to approve the proposal to adjourn or postpone the special meeting, if necessary or appropriate, including to solicit additional proxies. If you do not vote, or you abstain from voting, your shares with respect to the proposal to approve such adjournment or postponement, it will have no effect on such proposal.

Additionally, even if you do not vote your shares with respect to either of the proposals that are the subject of the special meeting, your vote will still be counted toward the quorum requirement at the special meeting.

Under the rules that govern brokers who are voting shares held in street name, which means such shares are held of record by a broker, bank or other nominee, brokers who hold shares of CGC common stock in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, brokers are not allowed to exercise their voting discretion with respect to the approval of matters that are non-routine, such as approval of the proposal to approve and adopt the plan of merger contained in the merger agreement, without specific instructions from the beneficial owner. Broker non-votes are shares held by a broker or other nominee that are represented at the meeting, but with respect to which the broker or nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker does not have discretionary voting power on the proposal. If a CGC stockholder's broker holds such stockholder's CGC common stock in street name, the broker will vote such stockholder's shares only if the stockholder provides instructions on how to vote by filling out the voter instruction form sent to the stockholder by his or her broker with this proxy statement/prospectus. It is expected that brokers and other nominees will not have discretionary authority to vote on the proposal to approve and adopt the plan of merger contained in the merger agreement. A broker non-vote will have the same effect as a vote against the proposal to approve and adopt the plan of merger contained in the merger agreement. Abstentions also will have the same effect as a vote against the proposal to approve and adopt the plan of merger contained in the merger agreement.

For purposes of the proposal to adjourn or postpone the special meeting, abstentions will have the same effect as voting against the proposal, however a failure to vote or a broker non-vote will have no effect on such proposal. It is expected that brokers and other nominees will not have discretionary voting authority on this proposal.

## **Voting; Proxies; Revocation**

Holders of CGC common stock as of the record date may submit a proxy or vote in person at the special meeting. Votes cast by proxy or in person at the special meeting will be tabulated and certified by American Stock Transfer & Trust Company, LLC.

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### ***Voting in Person***

CGC stockholders who plan to attend the special meeting and wish to vote in person will be given a ballot at the special meeting. Please note, however, that CGC stockholders who hold their shares in street name, and who wish to vote in person at the special meeting, must bring to the special meeting a proxy from the record holder of the shares authorizing such CGC stockholder to vote at the special meeting.

### ***Voting by Proxy***

The vote of each CGC stockholder is very important. Accordingly, CGC stockholders who hold their shares as a record holder should complete, sign and return the enclosed proxy card whether or not they plan to attend the special meeting in person. CGC stockholders should submit their proxy even if they plan to attend the special meeting. CGC stockholders can always change their vote prior to the vote being taken at the special meeting. Voting instructions are included on the enclosed proxy card. If a CGC stockholder properly gives his or her proxy, and submits it to CGC in time to vote, one of the individuals named as such CGC stockholder's proxy will vote the shares as such CGC stockholder has directed. A proxy card is enclosed for use by CGC stockholders of record.

The method of voting by proxy differs for shares held as a record holder and shares held in street name. If a CGC stockholder holds shares of CGC common stock as a record holder, he or she may submit a proxy by completing, dating and signing the enclosed proxy card and promptly returning it in the enclosed, pre-addressed, postage-paid envelope or otherwise mailing it to CGC, or by submitting a proxy over the Internet or by telephone by following the instructions on the enclosed proxy card. If a CGC stockholder holds shares of CGC common stock in street name, the CGC stockholder will receive instructions from his or her broker, bank or other nominee that the CGC stockholder must follow in order to vote his or her shares. CGC stockholders who hold their shares in street name should refer to the voting instructions from their broker, bank or nominee that accompany this proxy statement/prospectus.

All properly signed proxies that are received prior to the special meeting and that are not revoked will be voted at the special meeting according to the instructions indicated on the proxies or, if no direction is indicated, they will be voted FOR the proposal to approve and adopt the plan of merger contained in the merger agreement and FOR the proposal to adjourn or postpone the special meeting, if necessary or appropriate.

### ***Revocation of Proxies***

A CGC stockholder may revoke his or her proxy, and change his or her vote at any time before the proxy is voted at the special meeting. If you are a holder of record, you can change your vote at any time before your proxy is voted at the special meeting by:

delivering a signed written notice of revocation to the Secretary of CGC at:  
Capital Gold Corporation

76 Beaver Street, 14th floor

New York, New York 10005

Attn.: Secretary

submitting another proxy bearing a later date (in any of the permitted forms); or

attending and casting a ballot in person at the special meeting, although your attendance alone will not revoke your proxy. If you hold your shares in street name, contact your broker, bank or other nominee regarding how to instruct your broker, bank or other nominee to revoke your proxy and change your vote and any deadlines for the receipt of these instructions.



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### **Stock Ownership and Voting by CGC's Directors and Executive Officers**

At the close of business on February 14, 2011, the record date for the special meeting, CGC's directors and executive officers had the right to vote 449,196 shares of the then-outstanding CGC voting stock at the special meeting. At the close of business on February 14, 2011, these shares represented less than 1% of CGC common stock outstanding and entitled to vote at the special meeting. In connection with the execution of the merger agreement, Gammon Gold entered into voting and support agreements with CGC's directors and executive officers, which provide, among other things, that each such person will vote all of the shares of CGC's common stock beneficially owned by such person in favor of the proposal to approve and adopt the plan of merger contained in the merger agreement.

### **Delivery of Proxy Materials**

To reduce the expenses of delivering duplicate proxy materials to CGC stockholders, CGC is relying upon SEC rules that permit us to deliver only one proxy statement/prospectus to multiple stockholders who share an address unless we receive contrary instructions from any stockholder at that address. If you share an address with another stockholder and have received only one proxy statement/prospectus, you may call us at (212) 344-2785 or write us as specified below to request a separate copy of this document and we will promptly send it to you at no cost to you:

Capital Gold Corporation 76 Beaver Street, 14th floor New York, New York 10005 Attn.: Investor Relations

### **Recommendations of CGC's Board of Directors**

**CGC's board of directors has unanimously approved the plan of merger. The board of directors believes that the merger and the merger agreement are advisable and in the best interests of CGC and its stockholders, and unanimously recommends that CGC stockholders vote FOR the approval of the plan of merger and FOR the proposal to adjourn or postpone the special meeting, if necessary or appropriate, including to solicit additional proxies.**

### **Solicitation of Proxies**

The enclosed proxy is being solicited by or on behalf of the board of directors of CGC. CGC will bear the entire cost of soliciting proxies from its stockholders, which is estimated to be approximately \$40,000, except that Gammon Gold and CGC will share equally the costs of filing, printing and mailing this proxy statement/prospectus and Gammon Gold will pay the cost of engaging the proxy solicitor, Laurel Hill Advisory Group, to solicit proxies on behalf of CGC's board of directors from CGC stockholders. In addition to solicitation of proxies by mail, CGC will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of CGC common stock and secure their voting instructions, if necessary. CGC will reimburse the record holders for their reasonable expenses in taking those actions.

Gammon Gold has also made arrangements with Laurel Hill Advisory Group to assist in soliciting proxies on behalf of CGC's board of directors in connection with approval of the plan of merger and in communicating with stockholders. Gammon Gold has agreed to pay Laurel Hill Advisory Group up to \$50,000, plus reimbursement for any additional services requested, and out-of-pocket disbursements incurred in connection with its engagement by Gammon Gold. Proxies may also be solicited by directors, officers and employees of CGC or Gammon Gold in person or by telephone or other means, for which such persons will receive no special compensation.

### **Appraisal Rights**

Under Delaware law, holders of record of CGC common stock who do not vote in favor of adoption of the plan of merger contained in the merger agreement have the right to seek appraisal of the fair value of their shares

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of stock if the merger is completed. To exercise your appraisal rights, you must strictly follow the procedures prescribed by Delaware law, including, among other things, submitting a written demand for appraisal to CGC before the vote is taken on the adoption of the plan of merger contained in the merger agreement, and you must not vote in favor of adoption of the merger agreement. These procedures are summarized in the section titled Proposal No. 1: The Merger Appraisal Rights. The text of the applicable provisions of Delaware law as in effect with respect to this transaction is included as Annex D to this proxy statement/prospectus.

**Other Business; Adjournments**

CGC does not expect that any matter other than the proposals presented in this proxy statement/prospectus will be brought before the special meeting. However, if other matters incident to the conduct of the special meeting are properly presented at the special meeting, the persons named as proxies will vote in accordance with their best judgment with respect to those matters. An adjournment or postponement may be made from time to time by approval of the holders of shares representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting.



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**PROPOSAL NO. 1: THE MERGER**

*The following discussion contains material information about the merger. The discussion is subject, and qualified in its entirety by reference, to the merger agreement included as Annex A and A-1 to this document. We urge you to read this entire document carefully, including the merger agreement included as Annex A and A-1 to this document, for a more complete understanding of the merger.*

Gammon Gold and CGC's boards of directors have unanimously approved the merger agreement. The merger agreement provides for the acquisition of CGC by Gammon Gold through the merger of Capital Gold AcquireCo, Inc., a wholly-owned subsidiary of Gammon Gold, with and into CGC, with CGC as the surviving corporation. Following the merger, CGC will operate as a wholly-owned subsidiary of Gammon Gold.

In the merger, each share of CGC common stock will be converted into the right to receive 0.5209 Gammon Gold common shares and a cash payment in the amount of \$0.79 per share (plus cash in lieu of any fractional share interests), subject to the exercise and perfection of appraisal rights under the DGCL. Gammon Gold common shares issued and outstanding at completion of the merger will remain outstanding and those stock certificates will be unaffected by the merger. Gammon Gold's common shares will continue to trade on the NYSE and the TSX under the symbol GRS and GAM, respectively, following the merger. See The Merger Agreement for additional and more detailed information regarding the legal documents that govern the merger, including information about the conditions to the completion of the merger and the provisions for terminating or amending the merger agreement.

**Background of the Merger**

Prior to the strategic alternatives review described in this section, CGC's management and board of directors had from time to time considered strategic alternatives to enhance stockholder value and held informal discussions with other companies concerning strategic combinations and as set forth herein, certain of those discussions resulted in proposals, but did not result in the execution of a definitive agreement. The gold mining industry is fragmented and as a result, gold mining companies frequently consider merger and acquisition proposals.

In early December 2008, CGC began discussions with Nayarit Gold with respect to a potential business combination. These discussions were terminated shortly after they began without entering into a definitive agreement.

During the ensuing twelve months, CGC explored several other opportunities, two of which proceeded to confidentiality agreements and non-binding letters of intent, but none of which led to a definitive agreement.

In January 2009, CGC and Gammon Gold entered into discussions with respect to a potential business combination.

On January 15, 2009, CGC entered into an agreement with a financial advisor, which we refer to as the January 2009 Advisory Agreement, for financial advisory services for a term of one year.

On February 27, 2009, CGC and Gammon Gold entered into a non-binding letter of intent, or the 2009 LOI. Pursuant to the 2009 LOI, Gammon Gold proposed to acquire CGC in an all-stock transaction that implied a value of \$0.75 per share (prior to a 4-for-1 reverse stock split in February 2010) of CGC common stock based upon the then closing price of Gammon Gold shares. From late February 2009 through March 31, 2009, CGC and Gammon Gold negotiated a definitive merger agreement.

On March 12, 2009, CGC and Gammon Gold announced the execution of the 2009 LOI.

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On March 31, 2009, CGC announced its determination to end merger discussions with Gammon Gold. This determination was based upon a number of factors including, but not limited to, the parties' inability to resolve all of the terms of, and arrive at, a definitive agreement.

In early April 2009, a representative from the financial advisor to a company in the gold mining business, which we refer to as Company A, contacted CGC and expressed an interest in a potential business combination with CGC.

During April and May 2009, representatives of Company A met with management of CGC to negotiate a non-binding letter of intent with respect to a potential business combination.

On May 21, 2009, CGC executed a non-binding letter of intent with Company A with respect to a proposed business combination. CGC subsequently amended the non-binding letter of intent with Company A and entered into negotiations with respect to a definitive agreement. The parties were unable to agree on the terms of a definitive agreement and ultimately determined to allow the letter of intent to expire.

On December 17, 2009, CGC and Nayarit Gold entered into a letter of intent.

On January 15, 2010, CGC and its financial advisor entered into an extension to the January 2009 Advisory Agreement to extend the term of such agreement until June 30, 2010.

On February 10, 2010, CGC and Nayarit Gold entered into a definitive business combination agreement pursuant to which Nayarit Gold would become a wholly-owned subsidiary of CGC.

During the week of March 1, 2010, Gammon Gold met with Mr. John Brownlie, CGC's then Chief Operating Officer and President, to discuss the opportunity of reviving the previous year's merger discussions.

Gammon Gold contacted Mr. Brownlie during the week of March 15 to express its interest in meeting with the CGC board of directors to discuss a potential business combination.

In March 2010, Mr. Leonard Sojka, at that time a member of the CGC board of directors, Mr. Christopher Chipman, CGC's Chief Financial Officer, Mr. John Cutler, a member of the CGC board of directors and a consultant to CGC, met with Mr. Rene Marion, President and Chief Executive Officer of Gammon Gold and Gammon Gold's financial advisor in Toronto to discuss the merits of a possible transaction between CGC and Gammon Gold. At the meeting, it was agreed that Gammon Gold could update its technical due diligence investigations on CGC's properties, but CGC's representatives explained that it would be in the best interests of CGC to complete the Nayarit Gold transaction before considering any substantive discussions with Gammon Gold.

At the request of certain of the directors of CGC, Mr. Marion presented a draft non-binding letter of intent with respect to a potential business combination with CGC on April 8, 2010 to describe the proposed terms of a transaction with Gammon Gold. At that time, CGC authorized Gammon Gold to continue its technical due diligence on CGC's mineral projects upon both parties confirming that the confidentiality provisions of their previous confidentiality agreement applied to information provided in connection with this technical due diligence.

On May 3 and 4, 2010, Mr. Richard Peevers from Ausenco Vector Engineering, visited CGC's El Chanate mine to conduct due diligence on behalf of Gammon Gold. Mr. Peevers provided Gammon Gold with a summary of the results of his site visit.

On May 7, 2010, Mr. Cooper, CGC's Chairman of the Board, and Messrs. Sojka, Cutler and Chipman met with Mr. Marion in Dallas, Texas to discuss the merits of a possible business combination. Mr. Marion also updated the group with respect to the status of Gammon Gold's operations and provided feedback with respect to Mr. Peevers' site visit.

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On June 14, 2010, Mr. Chipman met with Mr. Scott Perry, Gammon Gold's Chief Financial Officer, in New York City. The discussions at that meeting were focused upon certain operational and financial matters of Gammon Gold and CGC.

On June 22, 2010, Messrs. Cutler, Cooper, Sojka and a financial consultant met with Mr. Marion and Mr. Chris Richter, Gammon Gold's Vice President, Corporate Development, in New York City. At the meeting, Mr. Marion discussed the shutdown at Gammon Gold's El Cubo mine and its potential long-term implications, and the parties discussed the merits of a potential business combination transaction. The representatives of Gammon Gold were again informed that CGC's board of directors remained focused on closing the Nayarit Gold transaction and that CGC might be willing to revisit a potential transaction involving Gammon Gold after this had occurred.

The January 2009 Advisory Agreement in connection with a proposed business combination with each of Gammon Gold and Nayarit Gold in 2009 was to expire on June 30, 2010. CGC considered it desirable to have a financial advisor on retainer for the purposes of assisting in connection with any future transactions. In early July 2010, CGC had discussions with three investment banks to provide financial advisory services as well as services relating to a potential sale of CGC. Cormark was invited to make a proposal as part of this process.

On July 1, 2010, Mr. Scott Hazlitt was promoted to Chief Operating Officer of CGC, following Mr. John Brownlie's resignation as an officer and director.

On July 13, 2010, Mr. Colin Sutherland, then President of Nayarit Gold, provided the CGC board of directors with an analysis of a potential acquisition by CGC of Timmins Gold Corp., or Timmins Gold, prepared by Cormark. Mr. Hazlitt visited Timmins Gold's San Francisco Mine on July 28. During that visit, Mr. Hazlitt met with Arturo Bonillas, President of Timmins Gold and other members of Timmins Gold's management.

On July 16, 2010, the CGC directors considered the analysis presented by Cormark, together with the consideration that any transaction would likely be structured as an acquisition of Timmins Gold by CGC. Accordingly, the CGC board of directors determined not to pursue a potential transaction with Timmins Gold at that time and remained focused on closing the Nayarit Gold transaction.

August 2, 2010, CGC completed the acquisition of Nayarit Gold and Mr. Sutherland was appointed as CGC's President and a member of the CGC board of directors.

On August 2, 2010, Mr. Hazlitt was appointed a member of the CGC board of directors.

On August 3, 2010, Mr. Sutherland and a representative from Cormark met with Mr. Marion and discussed a potential business combination transaction between CGC and Gammon Gold.

On August 4, 2010, Mr. Sojka resigned from the CGC board of directors for personal reasons.

On August 5, 2010, Mr. Marion submitted another non-binding letter of intent, or the August LOI, to CGC. The August LOI was substantially identical to the draft non-binding letter of intent submitted on April 8, 2010. The August LOI proposed an all-stock transaction at an approximate 30% premium based upon the 20-day volume weighted average trading price of CGC's common stock. The August LOI included certain deal protection provisions, including an exclusivity period, a non-solicitation covenant, subject to certain conditions, and the obligation to pay a break fee if the transaction was terminated for certain reasons. After August 5, 2010, the respective managements of CGC and Gammon Gold negotiated the terms of the August LOI and held various discussions about the terms and conditions of any potential transaction as well as the potential advantages to each company of such a transaction.

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On August 9, 2010, Mr. Sutherland and a representative from Cormark met with Mr. Bragagnolo, Chief Executive Officer of Timmins Gold, in Vancouver, British Columbia. During this meeting a potential business combination transaction between Timmins Gold and CGC was discussed.

On August 10, 2010, Mr. Sutherland and a representative from Cormark met with the Chief Executive Officer of Company A in Toronto, Ontario where a potential business combination transaction between Company A and CGC was discussed.

On August 12, 2010, CGC received a revised letter of intent from Gammon Gold that was on substantially the same terms as the August LOI.

On August 16, 2010, the CGC board of directors met via conference call and discussed the letter of intent received from Gammon Gold and the process for responding to it, including the establishment of a special committee of independent directors and the appointment of financial advisors.

Mr. Hazlitt and Mr. Sutherland visited Timmins Gold's San Francisco Mine on August 18, 2010 where they met with Mr. Bragagnolo, Mr. Bonillas and other members of Timmins Gold management.

On August 18, 2010, the CGC board of directors met via conference call with Ellenoff Grossman & Schole LLP, or Ellenoff Grossman, counsel to CGC, and determined that, in response to the Gammon Gold proposal, it was appropriate to commence a process to assess CGC's strategic alternatives. The alternatives to be considered included the following:

remaining independent, which would require financing to fund the capital expenditures necessary to move from contract mining to owner/operator mining at the El Chanate mine and develop CGC's Orion asset;

entering into strategic partnerships and/or joint ventures; and

pursuing a sale of CGC as a whole or some other form of merger or business combination.

In order to facilitate the review of sale possibilities as part of the overall strategic review, the CGC board of directors designated a special committee, or the M&A Committee, of the CGC board of directors to act as the representative of the CGC board of directors with respect to all merger and acquisition matters presented to management of CGC. John Cutler was appointed Chairman of the M&A Committee. The other committee members are the other independent directors of CGC, including CGC's Chairman of the Board, Mr. Stephen Cooper. In addition, Mr. Chipman was appointed to assist the M&A Committee and to interact with potential strategic partners on behalf of the M&A Committee. At its August 18, 2010 meeting, the CGC board of directors authorized the M&A Committee to select legal and financial advisors.

On August 18, 2010, the M&A Committee retained the law firm of Ballard Spahr LLP, or Ballard Spahr, to act as special counsel to the M&A Committee.

On August 19, 2010, Cormark was formally engaged by the M&A Committee on behalf of the CGC board of directors to provide financial advisory services and to assist CGC in assessing, structuring and negotiating a business combination to the extent a suitable transaction could be identified. Cormark's engagement was based upon several factors, including but not limited to, the experience of its team, its focus on the junior mining sector, and its role as advisor in an aggregate of \$10 billion in merger and acquisition transactions.

The M&A Committee met via conference call on August 19, 2010, with Mr. Chipman, Ballard Spahr and Ellenoff Grossman to review and discuss the process for evaluating strategic alternatives. Cormark attended this meeting and gave a presentation to the M&A Committee that reviewed CGC's strategic alternatives; namely, a transformational merger of equals or an outright sale of CGC to a larger company. Cormark reviewed the key

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considerations for each of these alternatives and presented in detail the operational and financial implications of potential merger transactions and potential sale transactions. Ballard Spahr advised the M&A Committee that if it determined to proceed with a strategic alternative, the CGC board of directors has the fiduciary duty of determining the best transaction reasonably available to CGC stockholders. Mr. Chipman also reviewed for the M&A Committee the history and terms of the Gammon Gold transaction that did not go forward in 2009 and the reasons therefor. With the advice of Cormark, the M&A Committee determined that it was appropriate under the circumstances to conduct a process to identify additional interest in CGC beyond the Gammon Gold proposal. The M&A Committee and CGC board of directors determined that it would initiate a process to solicit interest from a select group of qualified buyers or potential merger partners.

From August 19, 2010 to August 23, 2010, Cormark, the M & A Committee and the other members of the CGC board of directors reviewed the list of qualified potential buyers and potential merger partners identified by Cormark and assessed each potential partner or buyer on the basis, among others, of its likely strategic fit and ability to effect a transaction on a timely basis. During this period, the M&A Committee, certain members of management and certain CGC board members also considered the possibilities of either pursuing an acquisition by CGC or a merger of equals and whether such potential transactions would meet CGC's long term goal to enhance stockholder value, specifically the need to finance its growth plans. Following discussions with Cormark, the CGC board of directors discussed the option of remaining independent, which would require CGC to obtain financing. Accordingly, the M&A Committee came to the preliminary view that it should explore a sale of CGC as an alternative to a strategic partnership or remaining independent, if a suitable transaction was presented.

On August 21, 2010, the August LOI, as revised, was sent to the full CGC board of directors and the CGC board of directors met via conference call to review and discuss the status of negotiations with respect to the August LOI.

From August 23, 2010 to September 9, 2010, Cormark was in contact with a total of 11 companies including Gammon Gold. The companies contacted were selected based on the following factors:

those that had previously expressed interest in a business combination with CGC;

those that had similar regional interests as CGC; and

those that were believed to be acquisitive in the mining sector and potentially interested in a business combination with CGC. Of the 11 companies contacted, three companies (in addition to Gammon Gold) participated in discussions with Cormark and were given access to CGC's due diligence data site. Four companies submitted formal proposals, including Gammon Gold and Timmins Gold. The two other companies are referred to as Company A (with whom CGC had negotiated the terms of a non-binding letter of intent in May 2009) and Company B.

On August 26, 2010, the CGC board of directors, Ellenoff Grossman, Ballard Spahr and Cormark held a conference call and had a discussion with respect to the process of evaluating strategic alternatives. At that meeting, Ellenoff Grossman and Ballard Spahr provided the CGC board of directors with a description of its fiduciary duties in connection with the process. In particular, Ellenoff Grossman and Ballard Spahr advised the CGC board of directors that if it determined to proceed with a strategic alternative, the CGC board of directors has the fiduciary duty of determining the best transaction reasonably available to CGC stockholders.

On August 27, 2010, Mr. Gary Huber was appointed to the CGC board of directors and to the M&A Committee.

On August 28, 2010, Mr. Hazlitt conducted a due diligence site visit with respect to Company A's mining operations.

On August 29, 2010, Gammon Gold submitted a revised letter of intent to CGC, which we also refer to as the Gammon LOI. This letter of intent proposed an all-stock transaction at an approximate 30% premium based upon the 20-day volume weighted average trading price of CGC's common stock. It also included certain deal

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protection provisions, including an exclusivity period, a non-solicitation covenant, subject to certain conditions, and the obligation to pay a break fee if the transaction was terminated for certain reasons.

On August 30, 2010, Mr. Cooper met with a representative of Company A to discuss why Company A believed a business combination with Company A was in the best interest of CGC.

On August 31 and September 1, 2010, Mr. Hazlitt conducted a due diligence site visit with respect to Gammon Gold's Ocampo mining operations.

On September 1, 2010, Timmins Gold submitted a proposal to acquire CGC. This proposal contemplated an all-stock transaction that implied a value of approximately \$3.76 (C\$4.00) per share of CGC common stock, based upon the closing price of Timmins Gold common stock on August 31, 2010.

On September 1, 2010, Company A submitted a non-binding proposal that also contemplated an all-stock transaction that implied a value of approximately \$4.60 (C\$4.83) per share of CGC common stock based upon the closing price of Company A common stock on September 1, 2010.

On September 2, 2010, Mr. Russell Tremayne, Gammon Gold's Chief Operating Officer, conducted a due diligence site visit to CGC's El Chanate mine.

On September 3, 2010, Timmins Gold submitted a revised non-binding proposal. Such proposal was also an all-stock transaction and represented an implied value of approximately \$4.28 (C\$4.50) per share of CGC common stock based upon the closing price of Timmins Gold common stock on September 1, 2010. In addition, Timmins Gold sent CGC a letter on September 3, 2010 in which it requested a meeting with CGC at which it could be afforded the opportunity to formally present its proposal.

On September 3, 2010, Company B submitted a non-binding proposal to Cormark pursuant to which Company B proposed an all-stock transaction that implied a value of approximately \$3.36 (C\$3.49) per share of CGC common stock based upon the closing price of Company B common stock on September 3, 2010.

The value of the Gammon Gold proposal on September 1, 2010 and September 3, 2010 was \$4.68 (C\$4.88) and \$4.58 (C\$4.76), respectively, per share of CGC common stock based on the closing price of the Gammon Gold common stock on such dates.

On September 3, 2010, the M&A Committee met via conference call to review and discuss the status of the sale process. Also in attendance were Messrs. Chipman and Hazlitt and representatives of Cormark, Ballard Spahr and Ellenoff Grossman. Cormark presented the M&A Committee with a summary of each of the proposals received to date. Mr. Hazlitt summarized his due diligence review of the Gammon Gold operations, the Timmins Gold operations and Company A operations. Cormark then presented the M&A Committee with a detailed financial and transactional analysis of each of the proposals. Cormark evaluated the following financial and transactional aspects of each proposal:

immediate premium to CGC's stockholders;

the financial strength of the acquiror and the resultant combined company, which included a proforma review of figures based upon:

2011 and 2012 estimated cash flow;

2011 and 2012 estimated production;

estimates of net asset value; and

the relative liquidity of the consideration offered;

the potential for a long-term re-rating;

the opportunity for synergies; and

the likelihood of closing.

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At this meeting, Cormark advised the M&A Committee that the transaction proposed by Company A, while structured as a premium offer to acquire CGC, would result in a reverse takeover of Company A by CGC. Cormark analyzed the valuation multiples of Company A and CGC and advised that the transaction as proposed would result in significant dilution to the shareholders of Company A. Cormark indicated that this, combined with the fact that Company A was significantly smaller than CGC, would likely have a material negative impact on the share price of Company A, if a transaction were pursued, which would result in a significantly lower implied value per share to CGC stockholders than represented in Company A's proposal. Cormark also advised that the combined company would likely need to raise additional capital in order to fund CGC's growth initiatives. The obligation of Company A to seek the approval of its shareholders, as a condition to closing any transaction with CGC, was considered to increase overall transaction risk.

Cormark advised the M&A Committee that the transaction proposed by Company B was a no premium merger of equals. Cormark advised that, in the context of the current process to identify a proposal that provided, among other things, a material premium, the proposal by Company B did not fit the M&A Committee's criteria.

Cormark advised the M&A Committee that the transaction proposed by Timmins Gold would result in a merger of equals, with CGC receiving a small upfront premium. Cormark indicated that the Timmins Gold proposal presented certain financial risks to CGC given Timmins Gold's current cash balance and its outstanding, short term gold loan, which required repayment of the cash equivalent value of a fixed number of gold ounces on a monthly basis. Cormark advised the M&A Committee that the estimated liabilities of Timmins Gold exceeded its current cash resources. The M&A Committee also discussed the Timmins Gold going concern issue. The obligation of Timmins Gold to seek the approval of its shareholders, as a condition to closing any transaction with CGC, was considered to increase overall transaction risk. Cormark also advised that the combined company would likely need to raise additional capital to fund CGC's growth initiatives.

At the September 3, 2010 meeting, after reviewing the above proposals, Cormark advised the M&A Committee, based on the factors listed below, that the Gammon Gold proposal was, of the proposals received to date, the best transaction reasonably available to CGC's stockholders. Cormark advised the M&A Committee that the Gammon Gold proposal offered a material premium when considering the volume-weighted trading prices of Gammon Gold's common shares over periods of five to 30 trading days and represented an implied value of approximately \$4.58 (C\$4.76) based upon the closing price of Gammon Gold's common shares on September 3, 2010. Cormark noted that Gammon Gold's significant cash balance and cash flow from operations would likely be sufficient to fund CGC's growth initiatives without the need to raise additional capital. In addition, Cormark advised that the superior trading liquidity of Gammon Gold's common shares, when compared to that of Timmins Gold, Company A and Company B, would provide the ability for stockholders of CGC to better monetize value achieved in the merger transaction. Furthermore, the size of Gammon Gold relative to CGC would serve to mitigate the potential negative market impact of dilution once Gammon Gold shares were issued to acquire CGC. Cormark also noted the potential synergies with Gammon Gold due to the possibility of redeploying idle surface mining equipment owned by Gammon Gold to CGC's El Chanate mine, providing for capital savings should CGC transition to owner-operated mining. Finally, Cormark advised that while the long-term valuation re-rating was potentially greater under a transaction with Timmins Gold or Company A, than under a transaction with Gammon Gold due to Gammon Gold's size and established position as a mid-tier producer, a transaction with Timmins Gold or Company A presented greater overall risk to CGC stockholders when compared to the Gammon Gold proposal as a whole.

On September 5, 2010, the M&A Committee met via conference call with Mr. Chipman, representatives of Cormark, Ballard Spahr and Ellenoff Grossman to review and discuss the status of the sale process. The M&A Committee reviewed and discussed the remaining open deal terms in Gammon Gold's August LOI. Cormark reaffirmed its advice that the Gammon Gold proposal was, of the proposals received to date, the best transaction reasonably available to CGC's stockholders for the reasons discussed at the September 3, 2010 meeting.

On September 7, 2010, the M&A Committee met via conference call with Mr. Bruce Bragagnolo, Chief Executive Officer of Timmins Gold, and Arturo Bonillas, President of Timmins Gold, and their respective



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financial advisors. During the course of this meeting, a formal presentation was made with respect to the Timmins Gold proposal. The M&A Committee then discussed the merits of the Timmins Gold proposal compared to the Gammon Gold proposal.

On September 8, 2010, the M&A Committee met with Mr. Chipman and representatives of Cormark, Ballard Spahr and Ellenoff Grossman to review and assess each of the proposals received to date. At the meeting, Cormark presented its updated analysis of each of the proposals. Ballard Spahr provided the M&A Committee with information regarding their fiduciary duties under Delaware law and related matters in connection with the potential transactions. The M&A Committee discussed and reviewed the Timmins Gold proposal as compared to the Gammon Gold proposal and determined that it was inferior to the Gammon Gold proposal. Such determination was based upon factors including: (i) the transaction proposed by Timmins Gold would result in a merger of equals, with CGC receiving a small upfront premium, (ii) the Timmins Gold proposal presented certain financial risks to CGC given Timmins Gold's current cash balance, the going concern issue with respect to the Timmins Gold financial statements and its outstanding short term gold loan, which required repayment of the cash equivalent value of a fixed number of gold ounces on a monthly basis, and (iii) the combined company would likely need to raise additional capital to fund CGC's growth initiatives, presenting incremental dilution to stockholders of CGC. It was determined that the proposed share exchange ratio with respect to the Gammon Gold transaction represented a value of approximately \$4.58 (C\$4.76) per share of CGC common stock based upon the closing price of Gammon Gold's common shares on September 3, 2010 and the Timmins Gold transaction represented a value of approximately \$4.33 (C\$4.50) per share of CGC common stock based upon the closing price of Timmins Gold's common shares on such date. The Company A transaction represented a value of approximately \$4.68 (C\$4.92) per share of CGC common stock and the Company B transaction represented a value of approximately \$3.32 (C\$3.49) per share of CGC common stock based upon the closing price of their respective common stock on such date. Based on the proposals received to date, Cormark advised the M&A Committee that the Gammon Gold proposal continued to represent the best alternative reasonably available to CGC's stockholders based on the factors discussed at the September 3, 2010 meeting. Such factors included Cormark's indication that the transaction proposed by Company A, while structured as a premium offer to acquire CGC, would result in a reverse takeover of Company A by CGC, resulting in significant dilution to the stockholders of Company A. Cormark analyzed that this would likely have a material negative impact on the share price of Company A, if a transaction were pursued, which would result in a significantly lower implied value per share to CGC stockholders than represented in Company A's proposal. The M&A Committee compared the Gammon Gold proposal to the alternative of remaining independent. It was acknowledged that to remain independent would require a financing to strengthen CGC's financial position for its growth plans. It was also acknowledged that no other strategic alternatives or joint ventures had been proposed or were under consideration by CGC at that time, other than the four proposals received to date. The M&A Committee determined to recommend to the CGC board of directors to proceed with the Gammon Gold proposal.

On September 9, 2010, the full CGC board of directors met via conference call to review and discuss the four proposals and received the recommendation of the M&A Committee. Also at the meeting were Mr. Chipman and representatives of Cormark, Ballard Spahr and Ellenoff Grossman. Ballard Spahr and Ellenoff Grossman provided the CGC board of directors with information regarding its fiduciary duties under Delaware law and related matters in connection with the potential transactions. Representatives of Cormark presented to the CGC board of directors their analysis of each of the proposals and advised that the Gammon Gold proposal was, of the proposals received to date, the best transaction reasonably available to CGC's stockholders for the following financial reasons as well as those discussed at the September 3, 2010 meeting:

the consideration represented a material premium to CGC's stockholders;

Gammon Gold's cash balance and operating cash flow would likely be sufficient to fund CGC's growth initiatives;

Gammon Gold's trading liquidity offered a near-cash alternative for CGC stockholders;

the lower risk associated with a transaction with Gammon Gold; and

the potential for significant synergies with Gammon Gold, including, but not limited, to the potential to move excess equipment from Gammon Gold's Ocampo mine to the CGC El Chanate mine, and the potential to utilize excess mill infrastructure from El Cubo at the Orion Project.



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The M&A Committee presented its view that Gammon Gold had a strong management team with open pit, underground and extensive heap leach operating experience that can be leveraged at CGC's El Chanate and Orion properties. Cormark also advised the CGC board of directors that certain stockholders of CGC had expressed their indication of support of a potential transaction with Timmins Gold while acknowledging that they were unaware of any terms of any alternative proposals. The CGC board of directors discussed the potential stockholder support for the Timmins Gold proposal and the M&A Committee discussed its understanding that each of the stockholders that had expressed their support to Cormark were also stockholders of Timmins Gold and one such stockholder was the lender with respect to the Timmins Gold short term gold loan. The CGC board of directors discussed the need to garner the support of the stockholders for any transaction that the board of directors approved. The board of directors discussed the importance of negotiating a definitive agreement that would be approved by CGC's stockholders. Based on Cormark's advice that the Gammon Gold proposal was, of the proposals received to date, the best transaction reasonably available to CGC's stockholders, and the recommendation of the M&A Committee, on the basis of the premium of Gammon Gold's offer, Gammon Gold's strong cash balance and cash flows, Gammon Gold's liquid trading market, Gammon Gold's experience in the mining industry, the potential for significant synergies, the strength of Gammon Gold's management team and the lower risk associated with this transaction, the CGC board of directors unanimously resolved to proceed with the negotiation of a definitive agreement with Gammon Gold and approved CGC entering into the most recent draft of the non-binding letter of intent with Gammon Gold pursuant to which CGC agreed to, among other items, an exclusivity period which would expire on September 27, 2010.

Gammon Gold and CGC entered into the non-binding letter of intent on September 9, 2010.

On September 9, 2010, Cormark notified the other parties that submitted bids that the CGC board of directors had determined not to proceed with their proposals.

The nature of Cormark's role as financial advisor to CGC was to provide advice in connection with a sale of CGC. The terms of Cormark's engagement letter provided for payment of advisory fees upon successful completion of a sale of CGC. As such, the board determined to engage an independent investment banker to consider the fairness of the transaction, from a financial point of view, to CGC stockholders. For that reason, the M&A committee determined to engage Stifel Nicolaus.

On September 14, 2010, the M&A Committee engaged Stifel Nicolaus to provide investment banking services, including using its commercially reasonable efforts to provide its opinion as to the fairness, from a financial point of view, of the consideration to be paid to the CGC stockholders in connection with the Gammon Gold transaction.

On September 14, 2010, Gammon Gold and CGC gave each other access to their respective secure data sites in order to facilitate Gammon Gold's ongoing due diligence and permit CGC to start its due diligence.

On September 14, 2010, Company A submitted a revised proposal wherein it proposed an all-stock transaction (with a cash component of up to an aggregate of \$10 million reserved for payment in the event that the implied value of the shares of Company A fell below the proposed offer value) pursuant to which CGC stockholders would receive value of approximately \$4.75 (C\$4.88) per share of CGC common stock based upon the closing price of Company A common stock on September 13, 2010. On this date, the Gammon Gold proposal was valued at \$4.43 (C\$4.56) per share of CGC common stock based upon the closing price of Gammon Gold common shares on such date.

On September 16, 2010, the full CGC board of directors met via conference call with Cormark, Ballard Spahr and Ellenoff Grossman. A lengthy discussion ensued regarding the break up fee provision in the September 9 non-binding letter of intent and CGC's ability to accept and negotiate alternative proposals. Ballard Spahr and Ellenoff Grossman advised the CGC board of directors that pursuant to the Gammon LOI, CGC was permitted to accept and negotiate an alternative proposal if it was determined that a proposal is, or would likely lead to, a superior proposal. The CGC board of directors also discussed the receipt of the revised proposal from

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Company A. Cormark advised the CGC board of directors that while the revised proposal appeared to offer greater consideration than the Gammon Gold proposal, the share exchange ratio had actually been reduced, based upon significant volatility in the trading of the common stock of Company A. At this juncture, the Gammon Gold proposal had emerged as the one most likely to offer the best value to CGC's stockholders and Cormark's presentation featured a comparison of each other proposal to the Gammon Gold proposal, a more detailed analysis of the Gammon Gold proposal and a comparison of the Gammon Gold proposal to recent precedent transactions. The detailed analysis of the Gammon Gold proposal included a summary of recent investment analyst's ratings for Gammon Gold, target prices and analyst commentary. After consultation with its financial advisors, the CGC board of directors determined that, notwithstanding the revision of Company A's proposal, the Gammon Gold proposal continued to represent the best transaction reasonably available to CGC stockholders for the reasons including but not limited to, the following:

Gammon Gold's cash balance and operating cash flow would likely be sufficient to fund CGC's growth initiatives;

Gammon Gold's trading liquidity offered a near-cash alternative for CGC stockholders;

the potential for significant synergies with Gammon Gold, including through redeployment of excess surface mining and mill equipment of Gammon Gold; and

the strength of Gammon Gold's management team, including experience with underground mining and with heap leaches.

On September 16, 2010, CGC sent an initial draft merger agreement to Gammon Gold.

From September 16, 2010 until the execution of the merger agreement on October 1, 2010, CGC, Gammon Gold and their respective advisors negotiated the terms of the merger agreement.

On September 17, 2010, Timmins Gold sent a letter to CGC in which it reiterated its proposal and expressed its disappointment that CGC had rejected it.

On September 19, 2010, the M&A Committee met via conference call with representatives of Cormark, Ballard Spahr and Ellenoff Grossman and discussed the September 17, 2010 letter from Timmins Gold and determined to reiterate to Timmins Gold its determination not to accept the Timmins Gold proposal. Such determination was based upon the following reasons: (i) the transaction proposed by Timmins Gold would result in a merger of equals, with CGC receiving a small upfront premium, (ii) the Timmins Gold proposal presented certain financial risks to CGC given Timmins Gold's current cash balance, its going concern issue with respect to its financial statements and its outstanding short term gold loan, which required repayment of the cash equivalent value of a fixed number of gold ounces on a monthly basis, (iii) the obligation of Timmins Gold to seek the approval of its shareholders, as a condition to closing any transaction with CGC, was considered to increase overall transaction risk, and (iv) the combined company would likely need to raise additional capital to fund CGC's growth initiatives.

On September 20, 2010, the M&A Committee met via conference call with representatives of Cormark, Ballard Spahr and Ellenoff Grossman to review and discuss the status of negotiations with Gammon Gold.

On September 20, 2010, counsel to CGC sent a letter to Timmins Gold in which it reiterated that the CGC board of directors had determined not to accept the Timmins Gold proposal based upon its determination that such proposal was not in the best interest of its stockholders.

On September 20 and 21, 2010, Mr. Chipman and Mr. Mike Aiello, Corporate Controller of CGC, traveled to Gammon Gold's corporate offices in Halifax, Nova Scotia in connection with CGC's due diligence review of Gammon Gold.

On September 21 and 22, 2010, the M&A Committee met via conference call with representatives of Ballard Spahr and Ellenoff Grossman to discuss the status of negotiations with Gammon Gold.

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On September 22, 2010, Messrs. Scott Perry, Dana Hatfield and four other Gammon Gold employees visited CGC's offices in New York to conduct financial due diligence.

On September 23, 2010, CGC executed an amendment to the Cormark engagement letter, pursuant to which Cormark's compensation was amended to provide that Cormark is entitled to a percentage-based fee typical in an advisory mandate where several possible transactions are contemplated, such fee to be payable if any transaction is consummated within 12 months of the date of the agreement. The M&A Committee intended that Cormark receive the same consideration regardless of with whom CGC consummated a transaction.

On September 24, 2010, the full CGC board of directors met via conference call with representatives of Ballard Spahr and Ellenoff Grossman and discussed the potential necessity to extend the exclusivity period of the Gammon LOI. Open issues related to the merger agreement included, but were not limited to, representations and warranties, forbearances, tax treatment, the exchange ratio and the termination fee.

On September 25, 2010, the M&A Committee met via conference call with representatives of Cormark, Ballard Spahr and Ellenoff Grossman and discussed the remaining open items with respect to the merger agreement.

On September 26, 2010, the full CGC board of directors met via conference call with representatives of Ballard Spahr and Ellenoff Grossman and discussed the status of negotiations with Gammon Gold. Open issues related to the merger agreement included, but were not limited to, tax treatment, the exchange ratio and the termination fee.

On September 26, 2010, the parties agreed upon September 24, 2010 as the date on which the exchange ratio would be based.

On September 27, 2010, the full CGC board of directors held a meeting via conference call at which it approved an amendment to the Gammon LOI, pursuant to which the exclusivity period would be extended from September 27, 2010 to September 30, 2010. Such extension was approved to provide for more time to negotiate a definitive agreement with Gammon Gold.

On September 27, 2010, Timmins Gold issued a press release in which it publicly announced the proposal which had been submitted to CGC on September 1, 2010. The Timmins Gold press release also stated that its proposal had garnered support from holders of approximately 17% of CGC's outstanding shares. Following the issuance of the press release, the price of CGC's common stock increased by 14% on September 27, 2010 and another 9% on September 28, 2010, resulting in an aggregate increase over the two trading days of 24.5%. During those trading days the trading volume was approximately 25 times the average daily trading volume of CGC's common stock.

On September 27, 2010, the M&A Committee met via conference call with representatives of Cormark, Ballard Spahr and Ellenoff Grossman to discuss the Timmins Gold release. The M&A Committee discussed the statement made in the press release with respect to stockholder support and noted that Timmins Gold was unable to provide confirmation of such support. In addition, the M&A Committee considered that certain of the CGC stockholders would likely remain undecided until the terms of the transaction with Gammon Gold and full pro forma disclosure with respect to the combined company were publicly disclosed in a Registration Statement on Form F-4. The M&A Committee re-affirmed its decision not to accept the Timmins Gold proposal. Notwithstanding Timmins Gold's statement, the CGC board of directors acknowledged it had a fiduciary obligation to present the best transaction reasonably available to its stockholders and continued to believe that the Timmins Gold proposal was not the best transaction reasonably available. Such determination was based upon the following reasons: (i) the transaction proposed by Timmins Gold would result in a merger of equals, with CGC receiving a small upfront premium, (ii) the Timmins Gold proposal presented certain financial risks to CGC given Timmins Gold's current cash balance, its going concern issue with respect to its financial statements and its outstanding short term gold loan, which required repayment of the cash equivalent value of a fixed number of gold ounces on a monthly basis, (iii) the obligation of Timmins Gold to seek the approval of its shareholders, as a

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condition to closing any transaction with CGC, was considered to increase overall transaction risk, and (iv) the combined company would likely need to raise additional capital to fund CGC's growth initiatives.

On September 27, 2010, at the request of the TSX, CGC issued a press release in which it responded to the Timmins Gold press release and announced that the CGC board of directors had authorized CGC to engage in a process of exploring strategic alternatives. In addition, CGC announced that it had received and reviewed the Timmins Gold proposal and had determined to reject such proposal as it was not in the best interest of CGC's stockholders.

On September 29, 2010, a conference call was held with Mr. Cooper, Mr. Marion and Mr. Chris Richter of Gammon Gold as well as representatives of Ellenoff Grossman and Fasken Martineau DuMoulin LLP, Canadian counsel to Gammon Gold, to discuss the remaining open issues in the merger agreement.

On September 30, 2010, the full CGC board of directors held a meeting via conference call to review the final merger agreement with Gammon Gold. Also attending the meeting at various stages were Mr. Chipman, and representatives of Cormark, Ballard Spahr and Ellenoff Grossman and Stifel Nicolaus. Ballard Spahr and Ellenoff Grossman reviewed the duties of directors under Delaware law in connection with the consideration of the proposed transaction. Representatives of Cormark presented to the CGC board of directors its analysis of the proposed transaction with Gammon Gold as reflected in the merger agreement and advised the CGC board of directors of its conclusion that the Gammon Gold transaction was, of the proposals received to date, the best transaction reasonably available to CGC's stockholders. Cormark advised the CGC board of directors that such conclusion was based upon factors, including but not limited to, the following: (i) the Gammon Gold proposal offered a premium to CGC stockholders of approximately 30% to the 20-day volume weighted average price of CGC as of September 24, 2010, (ii) Gammon Gold's cash balance and operating cash flow would likely be sufficient to fund CGC's growth initiatives, (iii) Gammon Gold trading liquidity offered a near cash alternative for CGC stockholders, (iv) the potential for significant synergies with Gammon Gold, and (v) the Gammon Gold proposal had the least amount of transactional risk of the four proposals. Messrs. Chipman and Hazlitt presented a due diligence review of Gammon Gold to the CGC board of directors. Representatives of Ellenoff Grossman summarized the material terms of the merger agreement to the CGC board of directors. Representatives of Stifel Nicolaus reviewed a presentation to the CGC board of directors with respect to the Gammon Gold transaction and delivered a verbal fairness opinion, which was subsequently confirmed in writing, and stated that the consideration to be received by CGC's stockholders was fair from a financial point of view. See the section entitled "Opinion of Stifel, Nicolaus & Company, Incorporated" beginning on page 80 and the opinion attached as Annex C and incorporated by reference to this section of the proxy statement. The CGC board of directors then discussed the advantages and disadvantages of the Gammon Gold transaction and its reasons for proposing to merge with Gammon Gold and the challenges of remaining independent, including the reasons discussed at the September 3, 2010 meeting. Based upon such discussions and several considerations, including Cormark's advice and Stifel Nicolaus' fairness opinion, the CGC board of directors unanimously determined that the proposed merger agreement and the merger were advisable, fair, and in the best interests of CGC and its stockholders and authorized CGC management to execute the merger agreement on the terms described to the CGC board of directors.

On October 1, 2010, CGC and Gammon Gold finalized the merger agreement and the related schedules thereto. Gammon Gold and CGC then executed the merger agreement and issued a joint press release announcing the transaction.

On October 5, 2010, Timmins Gold issued a press release indicating that since its announcement on September 27, 2010, additional stockholders of CGC had indicated they would support the Timmins Gold proposal.

On October 8, 2010, the full CGC board of directors held a meeting via conference call with representatives of Cormark, Ballard Spahr and Ellenoff Grossman to discuss the October 5, 2010 Timmins Gold press release.

On October 11, 2010, the M&A Committee met via conference call with representatives of Ballard Spahr and Ellenoff Grossman to continue discussions with respect to the Timmins Gold press release.

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On October 12, 2010, the full CGC board of directors held a meeting via conference call. Also attending were Messrs. Richter and Marion and representatives of Ballard Spahr and Ellenoff Grossman. Mr. Marion presented to the CGC board of directors the presentation that had been prepared for CGC's stockholders and filed with the SEC.

On October 12, 2010, Timmins Gold sent CGC a letter in which it resubmitted its proposal to acquire CGC in an all-stock transaction which implied a value of approximately \$4.63 (C\$4.68) per share of CGC common stock based upon the closing price of Timmins Gold common stock on October 12, 2010.

On October 13, 2010, the M&A Committee met with representatives of Cormark, Ballard Spahr and Ellenoff Grossman via conference call to discuss the October 12, 2010 Timmins Gold letter. Representatives of Cormark advised the M&A Committee that the letter presented materially the same proposal that Timmins Gold had previously submitted. In addition, Cormark advised the M&A Committee that, from a financial point of view, it did not believe the Timmins Gold proposal constituted a superior proposal as defined in the merger agreement, owing to the factors discussed at the September 19, 2010 and September 27, 2010 meetings and the volatility in the trading of Timmins Gold shares.

On October 14, 2010, the CGC board of directors held a meeting with representatives of Cormark, Ballard Spahr and Ellenoff Grossman via conference call to discuss the October 12, 2010 Timmins Gold letter, or the Timmins October Proposal. Representatives of Cormark advised the CGC board of directors that the letter presented materially the same proposal that Timmins Gold had previously submitted. In addition, Cormark advised the CGC board of directors that, from a financial point of view, it did not believe the Timmins October Proposal constituted a superior proposal, as defined in the merger agreement, based upon the factors discussed at the September 19, 2010 and September 27, 2010 board meetings and the volatility in the trading of Timmins Gold shares. Based upon that discussion, the CGC board of directors resolved that the Timmins October Proposal did not constitute a superior proposal to the Gammon Gold transaction.

On December 2, 2010, Timmins Gold sent CGC a letter, or the Timmins December Proposal, in which Timmins Gold resubmitted its proposal to acquire CGC in an all stock transaction under which each share of CGC stock would be exchanged for 2.27 common shares of Timmins Gold, which implied a value of approximately \$4.76 (C\$4.77) per share of CGC common stock based upon the closing price of Timmins Gold common stock on December 2, 2010. In addition, Timmins Gold indicated that based on the average closing share prices for the prior 20 trading days, the Timmins December Proposal had a per share value of \$4.48 per CGC share and exceeded the per share value of the Gammon Gold transaction by \$0.22 per CGC share. The Timmins December Proposal eliminated a due diligence condition, but otherwise contained the same terms as Timmins October Proposal.

On December 3, 2010, Timmins Gold issued a press release in which it publicly announced the submission of the Timmins December Proposal to CGC.

On December 3, 2010, the CGC board of directors held a meeting with representatives of Cormark, Ballard Spahr and Ellenoff Grossman via conference call to discuss the Timmins December Proposal and related press release. Cormark advised the CGC board of directors that:

the Timmins December Proposal was at the same exchange ratio as set forth in the proposals previously submitted by Timmins Gold;

the only material change from the prior Timmins Gold proposals was the removal of the due diligence condition;

due to the volatility of the closing price of the stock of each of CGC, Gammon Gold and Timmins Gold, there have been periods of time where the implied value of the Gammon Gold transaction has been at a premium to CGC's stock and there have been periods of time where the implied value of the Timmins December Proposal has been at a premium to both CGC's stock and the implied value of the Gammon Gold transaction; and

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Cormark did not believe that Timmins Gold had demonstrated the ability to pay the break fee required by the Gammon Gold merger agreement to pursue a transaction with Timmins Gold.

Cormark was asked whether the Timmins December Proposal could likely lead to a superior proposal (as that term is defined in the Gammon Gold merger agreement). Cormark advised the CGC board of directors that Cormark needed to conduct its analysis with respect to the Timmins December Proposal before arriving at a conclusion of whether it is, or could likely lead to, a superior proposal. Cormark advised the CGC board of directors that it would conduct such an analysis and present its analysis to the CGC board of directors.

On December 5, 2010, the CGC board of directors held a meeting with representatives of Cormark, Ballard Spahr and Ellenoff Grossman via conference call to discuss Cormark's analysis of the Timmins December Proposal. Cormark advised the CGC board of directors that:

the Timmins December Proposal offered the same exchange ratio as proposals previously submitted by Timmins Gold to CGC;

the only material change in the Timmins December Proposal from the prior Timmins Gold proposals was the removal of the due diligence condition;

when assessing the Timmins Gold proposal, Cormark considered the following:

implied premiums and trading volatility;

balance sheet strength, the ability of Timmins Gold to pay the break fee required by the Gammon Gold merger agreement and Timmins Gold's requirement to raise capital;

the quality of assets and management team, including questions surrounding high-grading and the lack of resource growth;

the potential for long term re-rating;

the opportunity for synergies; and

the ability to execute the transaction;

Cormark advised the CGC board of directors that:

based upon the closing share prices of Gammon Gold and CGC on December 3, 2010, the implied value of the Gammon Gold transaction was at a premium to CGC's stock and represented a premium to the implied value of the Timmins December Proposal;

Timmins Gold is currently in debt in the amount of \$22 million due to its gold loan;

Gammon Gold had the current cash resources to develop CGC's Orion project;



Gammon Gold has an experienced management team;

there was a greater potential for re-rating with Timmins Gold, assuming certain achievements; and

while the Timmins December Proposal may present an opportunity for synergies given the close proximity of the CGC and Timmins Gold properties in Mexico, the necessity for Timmins Gold shareholder approval of a transaction with Timmins Gold presented additional risk.

Cormark then presented its analysis with respect to the arguments raised by Timmins Gold in the Timmins December Proposal with respect to the reasons CGC disclosed in this proxy statement/prospectus as to why CGC determined that the former Timmins Gold proposals were not a superior proposal to the Gammon Gold proposal:

**CGC Reason.** The Timmins Gold transaction would result in a merger of equals.

*Timmins Gold Counter Argument.* On October 1, 2010, the date upon which CGC executed the Gammon Gold merger agreement, the Timmins Gold proposal exceeded the value of the Gammon Gold proposal by \$0.44 per CGC share.

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*Cormark Analysis.* The trading volatility has resulted in the Timmins Gold proposal exceeding the implied value of consideration of the proposed Gammon Gold transaction on occasion, but this situation has not persisted and, as of December 3, 2010, was not the case.

**CGC Reason.** The proposed Timmins Gold transaction presented certain financial risks, including its current cash balance, its going concern issue and its outstanding gold loan.

*Timmins Gold Counter Argument.* Timmins Gold is cash flow positive and has letters from financial advisors indicating a high degree of confidence in their ability to raise funds for Timmins Gold.

*Cormark Analysis.* Based upon Cormark's review of the Timmins Gold financial statements with respect to its last three fiscal quarters, Timmins Gold is in a net deficit position (current liquid assets minus current liabilities). Gammon Gold's most recent balance sheet and available sources of liquidity offer greater certainty that growth can be financed internally without dilution.

**CGC Reason.** The obligation of Timmins Gold to seek shareholder approval is considered to increase overall transaction risk.

*Timmins Gold Counter Argument.* Timmins Gold is confident it would obtain shareholder approval. The Gammon Gold merger agreement is conditional on Gammon Gold stockholder approval, if required. The inclusion of unusual conditions in the Gammon Gold merger agreement including a mutual break fee should raise concerns about certainty of closing.

*Cormark Analysis.* A mutual break fee is not an unusual term in this type of agreement. The merger with Gammon Gold, as structured, does not require the approval of Gammon Gold's shareholders. The requirement for a Timmins Gold shareholder vote presents incremental transaction risk.

**CGC Reason.** The combined company would likely need to raise additional capital to fund CGC's growth initiatives.

*Timmins Gold Counter Argument.* Timmins Gold is cash positive and has the ability to raise financing. Expected re-rating of combined company as a mid-tier producer should result in a reduced cost of capital and diminish concerns regarding dilution.

*Cormark Analysis.* While Cormark agreed that Timmins Gold could likely raise capital in the current market, its current cash balance would not satisfy the requisite break fee under the Gammon Gold merger agreement and any equity financing by Timmins Gold would dilute the interests of CGC's stockholders in the combined company. Further, the Timmins Gold financial statements suggest that Timmins Gold needs to raise capital now. In addition, Gammon Gold's existing cash and non-dilutive sources of capital are expected to adequately cover the anticipated growth of the combined company.

Cormark then presented to the CGC board of directors its balance sheet review of each of Timmins Gold and Gammon Gold. Cormark advised the CGC board of directors that:

Gammon Gold has a superior cash position to Timmins Gold;

the increase in the price of gold may not yield sufficient cash flow for Timmins Gold because one-third of its gold production is pledged to be paid in satisfaction of its gold loan;

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the assertion of Timmins Gold that it is cash flow positive is not supported by its financial statements. Cormark advised the CGC board of directors that in the most recent quarter, Timmins Gold realized a net cash reduction of C\$1.0 million, compared to a net gain of C\$4.0 million for Gammon Gold.

Cormark noted that the removal of the due diligence condition is a material change to the Timmins October Proposal; however, other terms remain unchanged. Cormark advised the CGC board of directors that when assessing whether the Timmins Gold proposal constitutes a superior proposal to the Gammon Gold proposal, Cormark considered the following: (i) total consideration to CGC's stockholders including implied premiums

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and trading volatility; (ii) balance sheet strength, the ability of Timmins Gold to pay the break fee required by the Gammon Gold merger agreement and Timmins Gold's requirement to finance growth opportunities and possibly current operations; (iii) the quality of Timmins Gold's assets and its management team, including questions surrounding high-grading and the lack of resource growth; (iv) the potential for long term re-rating; (v) the opportunity for synergies; and (vi) the ability to execute a transaction.

Based upon Cormark's review and analysis of the Timmins December Proposal and the above considerations, Cormark concluded that, from a financial point of view, the Timmins December Proposal did not constitute a superior proposal. In addition, Cormark indicated that in view of the fact that this is essentially the same proposal that Timmins Gold has now submitted to the CGC board of directors three times, this is likely the best proposal Timmins Gold has the ability to submit and, accordingly, this proposal is not likely, from a financial point of view, to lead to a superior proposal. Following a discussion by the members of CGC's board of directors, and based upon Cormark's analysis and conclusion that the Timmins December Proposal did not, and is not likely to lead to, a superior proposal to the Gammon Gold transaction, the CGC board of directors unanimously resolved to continue to recommend the Gammon Gold proposal as the best deal reasonably available to the Company's stockholders.

On December 21, 2010, Shearman & Sterling LLP, or Shearman & Sterling, legal advisor to Timmins Gold, contacted Ellenoff Grossman and indicated that the Timmins December Proposal remained open for consideration by the CGC board of directors. Shearman & Sterling advised Ellenoff Grossman that Timmins Gold believed its proposal was superior to the proposed merger between Gammon Gold and CGC and also represented that Timmins Gold had sufficient funds to pay the termination fee.

On December 22, 2010, the M&A Committee held a conference call with representatives from Ballard Spahr and Ellenoff Grossman and discussed the telephone conversation between Shearman & Sterling and Ellenoff Grossman.

On December 23, 2010, the M&A Committee held a conference call with representatives from Cormark, Ballard Spahr and Ellenoff Grossman. Cormark advised the M&A Committee that, based upon the stock price of each of Gammon Gold and Timmins Gold on December 23, 2010, the implied per share value of the Timmins December Proposal exceeded the implied per share value of the merger consideration in the Gammon Gold transaction as of such date. That day, Ellenoff Grossman contacted Shearman & Sterling and advised that the M&A Committee had met to consider the Timmins December Proposal and would be making a recommendation to the full CGC board of directors.

On December 28, 2010, the full CGC board of directors held a conference call with representatives from Cormark, Ballard Spahr and Ellenoff Grossman. At the meeting, Cormark presented its analysis of the Timmins December Proposal. Cormark advised that the implied per share value of the Timmins December Proposal was \$5.74 (C\$5.83) per share of CGC common stock based upon the closing price of Timmins Gold common stock on December 22, 2010 and that this value exceeded, as of such date, the implied per share value of the merger consideration in the Gammon Gold transaction by \$0.98 (C\$0.99) per share of CGC common stock. Cormark advised that, during the preceding three weeks, shares of Timmins Gold had outperformed shares of Gammon Gold, resulting in the implied per share premium of the Timmins December Proposal over the implied per share value of the merger consideration in the Gammon Gold transaction.

Ballard Spahr and Ellenoff Grossman advised the CGC board of directors of their fiduciary duties pursuant to Delaware law. Ellenoff Grossman advised the CGC board of directors that pursuant to the terms of the Gammon Gold merger agreement, prior to participating in any discussions with Timmins Gold with respect to the Timmins December Proposal, a confidentiality agreement must be executed with Timmins Gold on terms substantially similar to the confidentiality agreement between Gammon Gold and CGC. The full CGC board of directors then unanimously resolved, after consulting with its legal and financial advisors, that: (i) the Timmins December Proposal, if consummated in accordance with its terms, is reasonably likely to lead to a superior proposal, and (ii) based on its determination that the Timmins December Proposal is reasonably likely to lead to

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a superior proposal, a failure to participate in discussions with Timmins Gold would constitute a violation of the CGC board of director s fiduciary duties. The CGC board of directors also determined that the CGC advisors should finalize a confidentiality agreement with Timmins Gold and, upon the execution of a satisfactory confidentiality agreement, schedule a meeting with Timmins Gold.

On December 28, 2010, Ellenoff Grossman contacted Shearman & Sterling and advised that the CGC board of directors had determined that the Timmins December Proposal was reasonably likely to lead to a superior proposal and wished to meet with Timmins Gold and its advisors to discuss the Timmins December Proposal. Ellenoff Grossman further advised that in order to hold discussions with Timmins Gold, the parties would need to enter into a confidentiality agreement. On December 30, 2010, Ellenoff Grossman and Ballard Spahr sent a draft mutual non-disclosure and confidentiality agreement to Shearman & Sterling. Over the course of the next five days, the parties negotiated the agreement and, on January 4, 2011, CGC and Timmins Gold executed and delivered a mutual non-disclosure and confidentiality agreement.

On January 3, 2011, a representative of Shearman & Sterling spoke with a representative of Ellenoff Grossman regarding the proposed meeting. During the discussion, Shearman & Sterling advised that Timmins Gold expected the meeting to include a presentation to the M&A Committee and a discussion of the manner in which the parties may proceed with negotiations. Ellenoff Grossman informed Sherman & Sterling that, at this time, the M&A Committee wished to use this time to better understand all of the significant terms of the Timmins December Proposal.

On January 6, 2011, the M&A Committee met at the offices of Ballard Spahr in Philadelphia, Pennsylvania with representatives from Ballard Spahr, Ellenoff Grossman, Cormark, Bruce Bragagnolo, chief executive officer of Timmins Gold, and representatives of Shearman & Sterling and M Partners, financial advisors to Timmins Gold. Timmins Gold made a presentation to the M&A Committee in which, among other things, Timmins Gold advised that it had sufficient cash to pay the termination fee required by the Gammon Gold merger agreement and that it had written support agreements from stockholders representing approximately 20% of CGC s outstanding common stock and written indications of support from stockholders representing approximately 15% of CGC s outstanding common stock. CGC has not received copies of the written support agreements or written indications of support. Following this presentation, Timmins Gold and its advisors left the meeting. Cormark advised the M&A Committee that the implied per share value of the Timmins December Proposal continued to exceed the implied per share value of the merger consideration in the Gammon Gold transaction as of such date. During the meeting, representatives of CGC asked a variety of questions of Timmins Gold and its advisors. Ballard Spahr and Ellenoff Grossman advised the M&A Committee of their fiduciary duties pursuant to Delaware law and the M&A Committee unanimously agreed that comprehensive legal, operational, financial and technical due diligence with respect to Timmins Gold was critical to the determination of the relative intrinsic value with respect to the Timmins December Proposal compared to the merger consideration in the Gammon Gold transaction and whether the Timmins December Proposal would constitute a superior proposal for purposes of the Gammon Gold merger agreement. Timmins Gold and its advisors returned to the meeting and the M&A Committee advised Timmins Gold and its representatives that the M&A Committee would recommend to the CGC board of directors the undertaking of comprehensive due diligence. Timmins Gold emphasized the necessity for such due diligence to be conducted in an expeditious manner.

On January 9, 2011, the full CGC board of directors held a conference call with representatives from Cormark, Ballard Spahr and Ellenoff Grossman. At the meeting, Cormark presented an updated analysis of the Timmins December Proposal. Cormark advised the CGC board of directors that the implied per share value of the Timmins December Proposal was higher than the implied per share value of the merger consideration in the Gammon Gold transaction by \$0.77 (C\$0.76) per CGC share, based upon closing prices of Timmins Gold and Gammon Gold common stock as at January 7, 2011. Cormark advised the CGC board of directors that the observed premium represented by the Timmins December Proposal, combined with the representation by Timmins Gold that they have sufficient cash to pay the termination fee required by the Gammon Gold merger agreement, were both material changes to the Timmins December Proposal. The CGC board of directors then unanimously resolved that CGC commence the recommended due diligence.

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On January 10, 2011, CGC notified Timmins Gold that it intended to conduct due diligence and, on January 12, 2011, due diligence commenced.

On January 12, 2011, representatives of Ballard Spahr discussed the due diligence process with representatives of Shearman & Sterling. Ballard Spahr expressed the M&A Committee's desire to conduct due diligence expeditiously. Also on this date, CGC engaged SRK Consulting to perform site due diligence and review the operations of Timmins Gold.

On January 14, 2011, Mr. Hazlitt conducted a due diligence mine site visit with representatives of SRK Consulting of the Timmins Gold San Francisco mine site operations and met with certain members of management of Timmins Gold.

On January 17, 2011, the M&A Committee met via conference call with Mr. Chipman and representatives from Ballard Spahr and Ellenoff Grossman to discuss the status of the due diligence with respect to Timmins Gold. The M&A Committee expressed concerns that the due diligence process was not moving quickly.

On January 18, 2011, the M&A Committee met via conference call with Mr. Chipman and representatives from Cormark, Ballard Spahr and Ellenoff Grossman to discuss the scope and nature of the due diligence materials received to date from Timmins Gold. Following this meeting, the M&A Committee sent correspondence to Timmins Gold regarding the progress of the due diligence review, notifying Timmins Gold of particular open items that the M&A Committee considered essential to its review of the Timmins December Proposal that had not yet been provided, in particular financial due diligence materials, and reminding Timmins Gold of the need to provide such due diligence materials expeditiously.

On January 20, 2011, Timmins Gold sent correspondence to the M&A Committee regarding the provision of due diligence materials.

On January 27, 2011, the M&A Committee met via conference call with Mr. Chipman and representatives from Cormark, Ballard Spahr and Ellenoff Grossman to discuss the status of the due diligence process and the extent of the due diligence materials received from Timmins Gold to date. The M&A Committee again expressed its concerns that Timmins Gold was not providing the due diligence materials expeditiously.

Later on January 27, 2011, the full board met via conference call with Mr. Chipman and representatives of Cormark, Ballard Spahr and Ellenoff Grossman to discuss the status of the due diligence review of the Timmins December Proposal. The M&A Committee informed the full board that several items that it considered essential to its review of the Timmins December Proposal had not yet been provided. Following this board meeting, the M&A Committee sent correspondence to Timmins Gold regarding the due diligence review, again notifying Timmins Gold of particular open items that were essential to the M&A Committee's review of the Timmins December Proposal and reminding Timmins Gold of the need to provide such due diligence materials expeditiously. The M&A Committee requested that Timmins Gold provide all such materials by 5:00 P.M. on January 28, 2011.

On January 28, 2011, Timmins Gold provided certain of the requested due diligence materials, which were then reviewed by management of CGC and its advisors. Representatives of Shearman & Sterling informed representatives of Ballard Spahr that the due diligence materials provided by Timmins Gold to date were all of the materials that Timmins Gold intended to provide. Shearman & Sterling advised Ballard Spahr that Timmins Gold believed that the due diligence materials it had provided, in its view, constituted all of the material information.

Later on January 28, 2011, the M&A Committee met via conference call with Mr. Chipman and representatives from Cormark, Ballard Spahr and Ellenoff Grossman to discuss the due diligence materials received that day and to discuss the process for reviewing such due diligence materials. The M&A Committee expressed its belief that it was important to review the due diligence materials provided earlier that day carefully and undertook to do a thorough review. The review of the due diligence materials provided was completed on January 31, 2011.

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On January 30, 2011, the M&A Committee met informally to discuss the status of the review of the due diligence materials.

On January 31, 2011, the M&A Committee met via conference call with Mr. Chipman and representatives from Cormark, Ballard Spahr and Ellenoff Grossman to discuss the due diligence review of the Timmins December Proposal. During this meeting, the M&A Committee discussed numerous operational, financial and technical considerations based upon their review of the due diligence materials provided to date. The M&A Committee determined that the information submitted did not support the representation made by Timmins Gold that Timmins Gold had sufficient cash to pay the termination fee required by the Gammon Gold merger agreement, and to pay the other costs and fees associated with a potential transaction with CGC, without risk to the future day-to-day operations of the proposed combined entity. In addition, the M&A Committee discussed specific concerns related to the Timmins Gold going concern issue, concerns related to management of Timmins Gold, and concerns relating to the financing of operational costs of a combined entity and the achievement of the proposed combined entity's operational goals. Based on a combination of the aforementioned financial and operational concerns, the M&A Committee determined that continuing to pursue a combination of Timmins Gold and CGC would not be in the best interests of CGC stockholders. Cormark advised the M&A Committee that, having reviewed the due diligence materials provided by Timmins Gold, its conclusion as of such date with respect to the Gammon Gold proposal remained unchanged from its earlier conclusion, referring to that conclusion made on September 30, 2010, and reiterated on October 14, 2010, and December 3, 2010, that the Gammon Gold proposal represented the best transaction reasonably available to CGC's stockholders. Ballard Spahr and Ellenoff Grossman provided the M&A Committee with information regarding its fiduciary duties under Delaware law and related matters in connection with a potential transaction with either Timmins Gold or Gammon Gold. Based upon the M&A Committee's review and analysis of the Timmins December Proposal and the due diligence materials provided by Timmins Gold, the failure of Timmins Gold to substantiate its ability to pay the termination fee and other costs and expenses of a transaction with CGC without risk to the future day-to-day operations of a combined entity, and the failure of Timmins Gold to provide all of the due diligence requested by CGC, the M&A Committee concluded that it would recommend to the full board that the Timmins December Proposal did not constitute a superior proposal.

Later on January 31, 2011, the full board met via conference call with Mr. Chipman and representatives of Cormark, Ballard Spahr and Ellenoff Grossman to discuss the Timmins December Proposal and the due diligence materials provided by Timmins Gold. The M&A Committee reviewed with the full CGC board of directors the operational, financial and technical concerns it had with respect to Timmins Gold and its ability to achieve the proposed combined entity's operational goals and advised the CGC board of directors that it could not recommend the Timmins December Proposal. Cormark advised the CGC board of directors that, having reviewed the due diligence materials provided by Timmins Gold, its conclusion as of such date with respect to the Gammon Gold proposal remained unchanged from its earlier conclusion, referring to that conclusion made on September 30, 2010, and reiterated on October 14, 2010, and December 3, 2010, that the Gammon Gold proposal represented the best transaction reasonably available to CGC's stockholders. Ballard Spahr and Ellenoff Grossman advised the CGC board of directors of its fiduciary duty obligations. After discussing the various concerns raised by the M&A Committee, the full board determined, based on the representations of the M&A Committee, that the information submitted by Timmins Gold did not support the representation made that Timmins Gold had sufficient cash to pay the termination fee required by the Gammon Gold merger agreement and other costs and expenses of a transaction with CGC without risk to the future day-to-day operations of the proposed combined entity. Accordingly, the CGC board of directors concluded unanimously that the Timmins December Proposal did not constitute a superior proposal. One director concluded that the Timmins December Proposal did not constitute a superior proposal solely on account of the fact that, based on the information and analysis presented by the M&A Committee, Timmins Gold did not have sufficient cash to pay the termination fee. Four out of five directors based their conclusion that the Timmins December Proposal was not a superior proposal on a variety of different factors, including a review and analysis of the Timmins December Proposal, the due diligence materials provided by Timmins Gold, the failure of Timmins Gold to substantiate its ability to pay the termination fee and other costs and expenses of a transaction with CGC without risk to the future day-to-

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day operations of a combined entity, and the failure of Timmins Gold to provide all of the due diligence materials requested by CGC.

On February 1, 2011, the M&A Committee notified Timmins Gold that the CGC board of directors decided to terminate its consideration of the Timmins December Proposal and discontinue negotiations with Timmins Gold regarding the Timmins December Proposal because the CGC board of directors determined that the Timmins December Proposal is not a superior proposal. CGC issued a press release to this effect. In addition, the M&A Committee sent a letter to the CEO of Timmins Gold to this effect, the text of which follows:

Dear Mr. Bragagnolo:

On January 31, 2011, the Board of Directors of the Company (the Board), based upon the recommendation of the M&A Committee of the Board (the Committee) has made the determination that the proposal submitted by Timmins Gold Corporation (Timmins) does not constitute a Superior Proposal (as that term is defined in the Agreement and Plan of Merger between the Company, Gammon Gold Inc. and Capital Gold Acquireco, Inc. dated October 1, 2010, as amended), and as such, the Board has determined to terminate its consideration of the Timmins proposal. This determination incorporates a review of the due diligence materials provided by Timmins through January 28, 2011. Each of the members of the Board considered the factors he considered relevant in making this determination. Some of the factors considered by various members of the Board for terminating discussions with Timmins include the following:

**Financial Concerns**

We have significant concerns regarding Timmins' financial position if we were to consummate the proposed transaction. First, Timmins' consolidated financial statements for the quarter ended September 30, 2010 were prepared assuming that Timmins will continue on a going-concern basis. Timmins has incurred losses since inception and Timmins' ability to continue as a going-concern depends upon its ability to achieve profitable operations or to continue to raise adequate financing. As of September 30, 2010, current liabilities were in excess of current assets and cash and cash equivalents was approximately \$3.9 million. The working capital deficit was approximately \$8.0 million as of September 30, 2010. Cash and cash equivalents were approximately \$4.3 million as of December 31, 2010, as provided by you in due diligence materials. This represents an increase of cash and cash equivalents of only \$0.4 million during the quarter ended December 31, 2010. Second, although you indicated that Timmins had the ability to pay the termination fee by including certain gold sale receivable and IVA receivable balances within cash and cash equivalents, you stated that Timmins' net cash position as of December 31, 2010 was only \$8.6 million. This is insufficient to pay the termination fee and other fees and expenses associated with the proposed transaction. Further, we believe that gold sale receivables and IVA receivable balances are not forms of cash that can be used to pay the termination fee and other costs associated with consummating a transaction with the Company and therefore should not be included in cash and cash equivalents. Based on the information you provided, paying the termination fee would put Timmins in a position where it may have to delay vendor payments, which we believe would cause financial issues for Timmins. We believe, based on the information provided by you, that even if Timmins was able to pay the termination fee and other transaction costs, it may significantly hinder Timmins' ability to continue day-to-day operations. We cannot recommend a proposal to our stockholders where we have these concerns about the financial viability of the combined entity.



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It appears that you do not opine on the effectiveness of Timmins' internal controls over financial reporting on an annual basis. As you are aware, the Company and its auditors are required by the Sarbanes-Oxley Act of 2002 to opine on its internal controls. We also noted that the audit opinion provided by Timmins' external auditor did not opine on the effectiveness of Timmins' internal controls. A chief financial officer would play a key role in maintaining internal controls over financial reporting, however, this position, as you represented, is outsourced. If disclosure controls and procedures and/or internal controls over financial reporting were found to be ineffective or if a material weakness or significant deficiency in Timmins' financial reporting were disclosed, investors may lose confidence in the reliability of Timmins' financial statements, which may adversely affect Timmins' financial results or its stock price. The recent restatement of Timmins' financial statements further accentuates this concern.

**Management Concerns**

Based upon discussions with Timmins management and the due diligence materials received, we have concerns over the current management structure and experience level and its ability to successfully consummate and integrate a transaction with the Company.

**Operational Concerns**

We have concerns regarding Timmins' ability to execute on its growth plans. We note that in Timmins' most recent Annual Information Form filed on January 26, 2011, Timmins is planning to increase the crusher capacity to 18,000 tons per day at a cost of \$11.2 million. This capital expenditure is necessary to increase production to the life-of-mine levels set forth in Timmins' 43-101 report. This expenditure is planned for the fiscal quarter ending June 30, 2011 with commissioning anticipated in July 2011. Based on Timmins' current cash position and after paying the termination fee and transaction costs, and ordinary course payments such as anticipated property payments, exploration costs and loan repayments, we are skeptical that cash on hand and cash flow from operations will be sufficient to generate the funds necessary to implement the revised mine plan in accordance with the time frame set forth in the 43-101 report.

We noted that the press release dated January 20, 2011 disclosed that Timmins mined an average grade of 0.939 g/t during the quarter ended December 31, 2010. During our meeting on January 6, 2011, you had represented that the mine was mining at a level of 0.81 g/t. We have concerns over the large variance between the life-of-mine grade disclosed in the 43-101 report of 0.695 g/t and the actual grade that has been mined at the project to date and what impact this has on the mine life.

Based on the extraction being approximately 52% project-to-date, we have concerns as to whether 70% recovery is achievable in the near term, especially considering that you only have actual results from leaching the first lift on your leach pad.

The Timmins press release dated January 20, 2011 disclosed that life of mine cash costs were anticipated to be \$489, which is now consistent with Timmins' 43-101 report. Our due diligence showed that, for the six months ended September 30, 2010, actual cash costs have been at an average of approximately \$650 per ounce sold. Timmins will have to decrease its cash costs significantly to achieve the levels documented in its 43-101 report and we have concerns whether Timmins will be able to achieve this goal in the near term.

We thank you again for your interest in consummating a transaction with the Company. However, for the reasons set forth above, we have concluded that the Timmins proposal

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is not a Superior Proposal and will not be engaging in further discussions regarding the Timmins proposal.

Very truly yours,

Mergers & Acquisitions Committee

Board of Directors of Capital Gold Corporation

On February 9, 2011, Timmins Gold sent a letter to the CGC board of directors responding to CGC's rejection of the Timmins December Proposal.

On February 10, 2011, Timmins Gold issued a press release disclosing the February 9 letter it had sent to CGC's board of directors and announcing Timmins Gold's intention to make its offer directly to CGC's stockholders. Later on that day, Timmins Gold filed with the SEC a registration statement containing a preliminary prospectus/offer to exchange, a preliminary proxy statement soliciting proxies in opposition to the Gammon Gold transaction and a preliminary consent statement. The preliminary consent statement is soliciting written consents from CGC stockholders to (i) repeal certain provisions of CGC's by-laws, (ii) remove members of the CGC board of directors and (iii) elect certain individuals nominated by Timmins Gold to the CGC board of directors.

On February 11, 2011, the M&A Committee met to discuss Timmins Gold's registration statement, preliminary proxy statement and preliminary consent statement and determined to call a meeting of CGC's board of directors to review and discuss a response to Timmins Gold.

On February 14, 2011, the CGC board of directors met to discuss CGC's response to Timmins Gold's registration statement, preliminary proxy statement and preliminary consent statement. At this meeting, a representative from Cormark advised that no new financial information had come to light that would impact the CGC board of directors' prior determination that the Timmins Gold proposal was not a superior proposal. Later that day, CGC issued a press release affirming the CGC board of directors' support for the Gammon Gold transaction, the text of which follows:

**Capital Gold Responds to Timmins Gold Hostile Bid  
and Reaffirms Support for Gammon Transaction**

**NEW YORK, February 14, 2011** Capital Gold Corporation (TSX:CGC; NYSE AMEX: CGC) acknowledges that on February 10, 2011, Timmins Gold Corp. (Timmins) filed a Form F-4 Registration Statement (the F-4) to proceed with an unsolicited exchange offer to acquire control of Capital Gold Corporation (Capital Gold).

In the F-4, Timmins questions Capital Gold's rejection of its previously announced proposal, the due diligence process undertaken by the special committee of the Board of Capital Gold (the Special Committee) and the Capital Gold Board's unanimous determination to terminate consideration of the Timmins proposal.

In response to Timmins' assertions, Capital Gold wishes to provide additional information about the process undertaken, to summarize its concerns about the Timmins' proposal and to highlight a number of the reasons why the Capital Gold Board supports a transaction with Gammon Gold Inc. (Gammon).

**Table of Contents****Timmins Proposal and the Special Committee's Due Diligence Process**

On December 23, 2010, a representative of Timmins contacted Capital Gold's legal advisor to indicate that the proposal previously made by Timmins for a merger of equals remained open. The proposal was not materially different from that made on September 3, 2010, which proposed an all-stock transaction in which each share of Capital Gold's stock would be exchanged for 2.27 shares of Timmins' stock. Notwithstanding the fact that Capital Gold's Board had unanimously determined, on three separate prior occasions, that the Timmins proposal was not superior to the terms set forth in the agreement and plan of merger, dated as of October 1, 2010, by and among Gammon, Capital Gold Acquireco, Inc. and Capital Gold (the Merger Agreement), based on the price at which Timmins' stock traded during the month of December 2010 and advice of financial and legal counsel, it was determined that the Capital Gold Board had a fiduciary duty to further explore the Timmins proposal and to determine if it was a superior proposal, as defined in the Merger Agreement.

On January 6, 2011, members of the Special Committee and its financial and legal counsel met with representatives of Timmins and its advisors to discuss aspects of the Timmins proposal. During that meeting, Timmins represented that Timmins had sufficient cash available to pay the termination fee and other transaction expenses required by the Merger Agreement and to fund ongoing operations of both Timmins and Capital Gold going forward. During that meeting, Timmins was advised that, in order for the Capital Gold Board to determine if the Timmins proposal was a superior proposal, Capital Gold would need to conduct and be satisfied with the results of comprehensive legal, operational, financial and technical due diligence with respect to Timmins. The Special Committee informed Timmins that such due diligence was necessary because of, among other factors, the going concern issue set forth in Timmins' most recent financial statements and concerns that Timmins had insufficient cash to pay the termination fee, other transaction costs, and the ability to finance operations of the combined companies going forward. As such, Timmins was given a due diligence production request, together with a list of detailed financial and operational questions that were appropriate considering the nature of the transaction.

After initial resistance from Timmins, a site visit to Timmins' San Francisco Mine was arranged; however, Timmins refused to grant Capital Gold's Chief Financial Officer access to the site or critical financial documents at that time. Subsequent to the site visit, representatives of Capital Gold provided Timmins with a second due diligence request list focused particularly on Timmins' operations.

In the weeks that followed, Timmins was unresponsive to Capital Gold's due diligence requests and tried to dictate the depth and scope of Capital Gold's due diligence review by limiting access to certain financial and technical information. Capital Gold was never provided access to Timmins' financial books and records. Despite these challenges, Capital Gold invested a considerable amount of time and money reviewing the limited due diligence materials produced by Timmins and publicly-available information. While individual members of Capital Gold's Board based their determination on different reasons, they unanimously determined to terminate consideration of the Timmins proposal based on the due diligence conducted and determination made by the Special Committee that the Timmins proposal presented too high a level of financial risk. Specifically:

**1. Financial Concerns**

According to the information provided (and subsequently publicly disclosed by Timmins), Timmins had approximately \$4 million in available cash on hand as of December 31, 2010, with current liabilities exceeding current assets. Timmins has set forth its financial requirements for 2011 at the bottom of page 60 of the F-4 to include exploration

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expenditures of C\$21 million, capital expenditures of C\$5 million for plant and equipment at the San Francisco Mine and expenditures of C\$5 million for general and administrative expenses. A further \$2.55 million in property option payments are also due in 2011. Should Capital Gold choose to enter into an agreement with Timmins, additional one-time expenses of approximately \$20 million would be payable, including the Gammon termination fee, change of control payments and advisory fees. Additionally, with Timmins' gold loan owing to Sprott Asset Management LP of approximately \$13 million plus Capital Gold's 2011 capital requirements of approximately \$30 million, the combined entity would have 2011 capital requirements of in excess of \$95 million. It is estimated that a substantial portion of these expenditures would need to be funded from capital raised from third parties in the public markets.

Capital Gold believes that there is considerable risk associated with Timmins' ability to raise that amount of capital. Timmins clearly agrees with this assessment, as the F-4 highlights this risk on page 38: Timmins' inability to access additional capital could have a negative impact on its growth strategy. Moreover, even if Timmins were able to raise the necessary funds, given the volatility of Timmins stock price, it is reasonable to conclude that Timmins may be required to raise capital at a significant discount to prevailing market prices, which would cause immediate and perhaps substantial dilution to the proposed all stock consideration to be received by the Capital Gold stockholders under the Timmins proposal. **The Special Committee does not believe stockholders should be subjected to this amount of financial risk.**

In addition to the above financial concerns, the Special Committee unanimously based their determination on the fact that the information provided by Timmins with respect to its financial position was not consistent with prior statements thus raising concerns about its management, internal financial controls, the ability to fund transaction costs and the operations of the combined company going forward. The Special Committee had the following concerns that led to their determination to terminate negotiations with Timmins:

## 2. Operational Concerns

To the extent that Capital Gold was permitted to conduct timely due diligence on the operations of Timmins, the Special Committee noted that Timmins' principal asset, the San Francisco Mine in Mexico, is in its initial start-up phase and has yet to reach the operating goals set forth in the November 2010 Micon Technical Report. Capital Gold has concerns with respect to (i) the short mine life (ii) the variance in the life of mine grade disclosed and the actual grade that has been mined to date and what impact that has on the mine life, (iii) the variance in projected life of mine cash costs and the costs that have been published to date and what impact this will have on future cash flows and valuations, and (iii) ultimate leach recovery not reaching the life of mine expectation of 70%.

Capital Gold believes that the risk of operational issues is not insignificant. Timmins clearly agrees with this assessment, as the F-4 highlights this risk on page 39: Timmins has a limited operating history and therefore cannot ensure the long-term successful operation of its business or the execution of its business plan. **The Special Committee does not believe its stockholders should be subjected to this amount of operational risk.**

## 3. Management Depth

Timmins' inability to respond to Capital Gold's due diligence requests in a timely manner, its lack of a full time chief financial officer and apparent lack of appropriate internal financial controls raises significant concerns among members of the Special Committee. In the assessment of the Special Committee, the management of Timmins lacks sufficient depth to

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execute a transformational merger and to operate the combined companies going forward. **The Special Committee does not believe its stockholders should be subjected to this amount of management risk.**

#### **4. Other Transaction Risk**

Capital Gold has completed sufficient due diligence to determine, in the prudent exercise of its fiduciary duties and following a full and fair evaluation process, that the proposed exchange offer made to Capital Gold stockholders on February 10, 2011 by Timmins is not in the best interests of the Capital Gold stockholders. However, the proposed Timmins exchange offer remains subject to a number of conditions as set forth in the F-4. The most critical include the reinstatement of a due diligence condition, a shareholder approval condition on the part of Timmins' shareholders and a listing condition (Timmins' common stock is not listed on any United States securities exchange), all of which raise material transaction risk in the Timmins offer. **The Special Committee does not believe its stockholders should be subjected to this amount of transaction risk.**

By contrast, Gammon:

Has sufficient cash on hand to fund its own and Capital Gold's operational goals going forward;

Does not require approval of its stockholders for the transaction with Capital Gold;

Has an established and experienced board and management team;

Is a New York Stock Exchange-listed company with financial controls in place consistent with the requirements of the Securities Exchange Act of 1934, as amended, the Sarbanes-Oxley Act and all applicable legal and regulatory requirements;

Has experienced four quarters of consecutive growth; and

Has expanded their reserves in the last 6 months.

As such, the Capital Gold Board has determined that the Gammon transaction represents a significant growth opportunity for Capital Gold stockholders at much lower risk.

Accordingly, the Capital Gold Board continues to unanimously recommend to its stockholders that they vote in favor of the Gammon transaction. Additional disclosure with respect to the Board's deliberations will be set forth in an amendment to the Company's Preliminary Proxy contained within Gammon's Registration Statement on Form F-4.

#### **CGC's Reasons for the Merger; Recommendation of the CGC Board of Directors**

In reaching its decision to approve the merger agreement and recommend the merger proposal to its stockholders, the board of directors of Capital Gold considered a number of factors, including those listed below:

*Significant Premium to Market* The merger consideration offers an implied premium of approximately 17% to the trading price of CGC's common stock on September 24, 2010, the last trading day preceding the announcement by Timmins Gold Corp. detailing its previous non-binding proposal to merge with CGC, and approximately 30% premium to the 20-day volume weighted average price

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on the NYSE Amex ending on that date;

*Balance Sheet Strength* Gammon Gold's strong cash position will enable the combined company to execute strategic growth plans without necessarily requiring access to the equity capital markets;

*Large Resource and Reserve base at Ocampo and El Cubo* The large land position at the Ocampo mine has significant exploration potential within a very productive district. The improving

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underground mine and mill performance should yield steady production and a long mine life. The El Cubo mine is expected to return to a profitable operation in the future;

*Exploration project at Guadalupe y Calvo* This project should develop into a producing mine with a district scale land position;

*Opportunity for Operating Synergies* Redeployment of excess surface mining equipment from Gammon Gold's operations to CGC's El Chanate mine would allow for substantial capital savings in transition to owner-mining while the transportation of idle mill equipment to the Orion project could reduce development capital costs and timeline;

*Visibility as a Mid-Tier Producer* The combined company will be well established as a mid-tier gold producer in Mexico, and well positioned to execute on further growth opportunities;

*Strong Management Team* Gammon Gold's management team is experienced in mine development, exploration and capital markets;

*Operating Track Record* Gammon Gold's high-lift heap leach processing and underground mining experience can be leveraged at El Chanate and Orion;

*Superior Trading Liquidity* The Gammon Gold common shares trade with significantly higher liquidity than CGC's common stock, which will allow CGC stockholders, should they choose, to more rapidly monetize value achieved through a transaction;

*Execution Risk* The proposed transaction will not require a vote by the shareholders of Gammon Gold, reducing overall transaction risk;

*Challenges of Remaining an Independent Company* CGC expects that continued production at the El Chanate mine would result in higher strip ratios, which will increase CGC's cash costs of production. The CGC board considered that a change from contract mining to owner/operator mining would offset the associated higher costs by improving the unitary mining costs, resulting in improvements to the financial performance of the El Chanate mine. However, the transition to owner/operator mining would require significant capital expenditures on the part of CGC to purchase a fleet of mine vehicles and other capital equipment and CGC would therefore be obliged to raise capital in the equity markets to fund these expenditures. The CGC board considered that there can be no assurance that CGC could raise such funds on favorable terms, in a timely manner or if at all, especially if gold prices were to fall below their current levels;

*Accelerated Advancement of Exploration and Development of the Orion Project* The CGC board considered that CGC's current level of financing and its focus on improvements at the El Chanate mine may have limited CGC's activities at the Orion Project with regard to exploration and development. The CGC board considered the need for additional funds to advance the exploration and potential development of a mine on the Orion Project, the fact that such funds would need to be raised by further equity financings and the ability of CGC to advance the project with its current management team. The CGC board determined that the breadth and depth of Gammon Gold's technical and operational experience and its strong balance sheet would permit Gammon Gold to advance the development of the Orion Project on a significantly faster timeline, and potentially with less risk, than CGC could achieve as an independent company;

*Analyst Target Ranges* The range of recent analyst targets, as noted below:

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Target price range as of:	CGC		Gammon Gold	
	Low	High	Low	High
	(U.S.\$)		(U.S.\$)	
September 24, 2010	\$ 2.33	\$ 9.06	\$ 5.79	\$ 9.20
September 30, 2010	\$ 2.33	\$ 9.64	\$ 5.79	\$ 9.20



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*Fairness Opinion* The opinion of Stifel Nicolaus, dated September 30, 2010, to CGC's board of directors as to the fairness to the holders of CGC common stock, from a financial point of view, as of the date of the opinion and based upon and subject to the factors and assumptions set forth in such respective opinion, of the total consideration pursuant to the merger agreement, as more fully described below under "Opinion of Stifel, Nicolaus & Company, Incorporated"; and

*Cormark Determination* The determination of Cormark that, of the proposals received by CGC, the Gammon Gold proposal was the best transaction reasonably available to CGC's stockholders.

The board of directors of CGC weighed these factors against a number of other factors identified in their respective deliberations as weighing negatively against the merger, including:

*Fixed Exchange Rate* The exchange rate is fixed, and as a result, the shares of Gammon Gold common shares to be issued upon consummation of the merger may have a market value different than at the time of the announcement of the merger;

*Conditions to Closing* The merger agreement is subject to several conditions and because there can be no certainty that these conditions may be satisfied or waived, the merger may not be successfully completed, which could negatively impact CGC;

*Termination Rights* The merger agreement may be terminated by either CGC or Gammon Gold in certain circumstances in which case the market price for CGC shares may be adversely affected;

*Limitations on Other Opportunities* The terms of the merger agreement, including the termination fee of up to \$10.3 million that CGC would be required to pay if the merger agreement were terminated under certain circumstances, and the right of Gammon Gold to match any superior proposal before it is accepted by CGC, and whether these might limit the willingness of a third party to propose a competing business combination transaction with CGC; and

*Interests of CGC Directors and Officers* The fact that CGC's directors and executive officers have interests in the merger that are in addition to their interests as CGC stockholders, see "Interests of CGC's Directors and Executive Officers in the Merger."

This discussion of the information and factors considered by the board of directors of CGC includes the principal positive and negative factors considered, but is not intended to be exhaustive and may not include all of the factors considered. The board of directors did not quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination that the merger agreement and merger proposals are advisable and in the best interests of their respective stockholders. Rather, the board of directors viewed its position and recommendations as being based on the totality of the information presented to them and the factors they considered. It should be noted that this explanation of the reasoning of the board of directors of Capital Gold and certain information presented in this section is forward-looking in nature and, therefore, that information should be read in light of the factors discussed in the section entitled "Cautionary Statement Regarding Forward-Looking Statements" in this proxy statement/prospectus.

**Opinion of Stifel, Nicolaus & Company, Incorporated**

The board of directors of CGC committee retained Stifel Nicolaus on September 14, 2010 to provide a fairness opinion in connection with the transaction contemplated by the merger agreement. The board of directors of CGC selected Stifel Nicolaus based on Stifel Nicolaus qualifications, expertise and reputation. On September 30, 2010, Stifel Nicolaus delivered its written opinion, dated September 30, 2010, to the CGC board of directors that, as of the date of the opinion and subject to and based on the assumptions made, procedures followed, matters considered and limitations of the review undertaken in such opinion, the per share merger consideration to be paid to the holders of shares by Gammon Gold in connection with the merger pursuant to the merger agreement was fair to such stockholders, from a financial point of view.

**The full text of the written opinion of Stifel Nicolaus is attached as Annex C to this proxy statement/prospectus and is incorporated into this document by reference. The summary of Stifel Nicolaus' fairness**



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**opinion set forth in this proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. Stockholders are urged to read the opinion carefully and in its entirety.**

The opinion of Stifel Nicolaus is directed to, and for the information and use of, the CGC Board of Directors in connection with its consideration of the financial terms of the merger. Stifel Nicolaus' opinion did not constitute a recommendation to the M&A Committee or the CGC board of directors as to how to vote on the merger or whether to enter into the merger agreement or effect the merger or any other transaction contemplated by the merger agreement. Stifel Nicolaus' opinion also does not and shall not constitute a recommendation to any CGC stockholder as to how such stockholder should vote at any stockholders' meeting at which the merger is considered, or whether or not any CGC stockholder should enter into a voting, support or stockholders' agreement with respect to the merger (including, without limitation, the voting and support agreements described in the merger agreement), or exercise any appraisal rights that may be available to such stockholder. Additionally, Stifel Nicolaus was not involved in structuring or negotiating the merger, the merger agreement or any other related agreements or transactions. Stifel Nicolaus' opinion does not compare the relative merits of the merger with any other alternative transaction or business strategy which may have been available to or considered by the M&A Committee, the CGC board of directors or CGC (including, without limitation, any offer to acquire CGC proposed by Timmins Gold Corp.) and does not address the underlying business decision of the M&A Committee, the CGC board of directors or CGC to proceed with or effect the merger. Stifel Nicolaus was not requested to, and did not, explore alternatives to the merger or solicit the interest of any other parties in pursuing transactions with CGC.

Stifel Nicolaus' opinion is limited to whether the per share merger consideration is fair to the holders of shares, from a financial point of view. Stifel Nicolaus' opinion does not consider, address or include: (i) the allocation of the per share merger consideration between cash and stock; (ii) any other strategic alternatives currently (or which have been or may be) contemplated by the M&A Committee, CGC's board of directors or CGC; (iii) the legal, tax or accounting consequences of the merger on CGC or the holders of CGC's equity securities; (iv) the fairness of the amount or nature of any compensation to any of CGC's officers, directors or employees, or class of such persons, relative to the compensation to the public holders of CGC's equity securities; (v) any advice or opinions provided by Cormark or any other advisor to CGC or Gammon Gold; (vi) the treatment of, or effect of the merger on, any CGC stock options, warrants or restricted stock; (vii) the closing conditions, termination fees or any other provision of the merger agreement or aspect of the merger; or (viii) the Caborca Sale Agreement described in the merger agreement or any other transaction contemplated thereby, or any transaction contemplated by Section 2.6 of the merger agreement. Furthermore, Stifel Nicolaus did not express any opinion as to the prices, trading range or volume at which CGC's or Gammon Gold's securities would trade following public announcement or consummation of the merger.

In connection with its opinion, Stifel Nicolaus, among other things:

reviewed and analyzed a draft copy of the merger agreement dated September 30, 2010;

reviewed and analyzed the draft consolidated financial statements of CGC for the year ended July 31, 2010, audited consolidated financial statements of CGC contained in its Annual Report on Form 10-K for the fiscal years ended July 31, 2008 and July 31, 2009, and the unaudited consolidated financial statements of CGC contained in its Quarterly Report on Form 10-Q for the quarter ended April 30, 2010;

reviewed and analyzed the audited consolidated financial statements of Gammon Gold contained in its Annual Report on Form 40-F for the fiscal year ending December 31, 2009, and the unaudited consolidated financial statements of CGC contained in its Form 6-K for the quarter ended June 30, 2010;

reviewed and analyzed certain other publicly available information concerning CGC and Gammon Gold;

reviewed and analyzed CGC's financial projections dated September 1, 2010;

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reviewed and analyzed Gammon Gold's financial projections as provided by CGC and dated September 1, 2010;

held discussions with management of CGC and Gammon Gold concerning CGC's and Gammon Gold's business, financial condition and future prospects;

reviewed the reported prices and trading activity of the publicly traded equity securities of CGC and Gammon Gold;

reviewed reserve and resource information based on public filings and other technical reports of CGC, Gammon Gold and certain publicly traded comparable companies;

analyzed the present value of the future cash flows expected to be generated by CGC and Gammon Gold, based on projections provided by CGC, under different commodity price scenarios;

reviewed and analyzed certain publicly available financial and stock market data and pricing metrics for selected stock transactions that were considered to have relevance to the opinion;

reviewed the financial terms and valuation metrics, to the extent publicly available, of certain gold mining acquisitions and divestiture transactions that were considered to have relevance to the opinion; and

conducted such other financial studies, analyses and investigations and considered such other information as necessary or appropriate for purposes of the opinion.

In connection with its review, Stifel Nicolaus relied upon and assumed, without independent verification, the accuracy and completeness of all financial, production, reserve, cash flow and other information that was made available, supplied, or otherwise communicated to Stifel Nicolaus by or on behalf of CGC, Gammon Gold or their respective advisors, or that was otherwise reviewed by Stifel Nicolaus, and Stifel Nicolaus did not assume any responsibility for independently verifying any of such information.

With respect to any financial forecasts supplied to Stifel Nicolaus by CGC and Gammon Gold (including, without limitation, potential cost savings and operating synergies realized by a potential acquirer), Stifel Nicolaus assumed that they were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of CGC and Gammon Gold as to the future operating and financial performance of CGC and Gammon Gold, respectively, and that they provided a reasonable basis upon which Stifel Nicolaus could form its opinion. Such forecasts and projections were not prepared with the expectation of public disclosure. All such projected financial information is based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic, market and competitive conditions. Accordingly, actual results could vary significantly from those set forth in such projected financial information. Stifel Nicolaus relied on this projected information without independent verification or analyses and does not in any respect assume any responsibility for the accuracy or completeness thereof. Stifel Nicolaus has further relied upon the assurances by CGC and Gammon Gold that they are unaware of any facts that would make their respective information incomplete or misleading. Stifel Nicolaus assumed, with the consent of CGC and Gammon Gold, that any material liabilities (contingent or otherwise, known or unknown), if any, relating to CGC and Gammon Gold, respectively, have been disclosed to Stifel Nicolaus.

Stifel Nicolaus assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, reserves, production levels, business or prospects of CGC since the date of the financial statements contained in CGC's Quarterly Report on Form 10-Q for the period ended April 30, 2010 and of Gammon Gold since the date of the financial statements contained in Gammon Gold's Annual Report on Form 6-K for the period ended June 30, 2010. Stifel Nicolaus has not been requested to make, and has not made, an independent evaluation or appraisal of the reserve, production and cash flow forecasts of CGC or Gammon Gold, or any other assets or liabilities of CGC or Gammon Gold. Estimates of reserves, production and cash flow forecasts do not purport to be appraisals or necessarily reflect the prices at which the reserves, production, leases



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or other assets may actually be sold. Because such estimates are inherently subject to uncertainty, Stifel Nicolaus assumes no responsibility for their accuracy. Stifel Nicolaus has relied on the reserve, production and cash flow forecasts without independent verification or analysis and does not, in any respect, assume any responsibility for the accuracy or completeness thereof.

Stifel Nicolaus' fairness opinion is necessarily based upon financial, economic, market and other conditions and circumstances existing and disclosed by CGC, Gammon Gold or their respective advisors as of the date of such opinion. It is understood that subsequent developments may affect the conclusions reached in its fairness opinion, and that Stifel Nicolaus does not have any obligation to update, revise or reaffirm its fairness opinion. Stifel Nicolaus has also assumed that the merger will be consummated on the terms and conditions described in the draft merger agreement, without any waiver of material terms or conditions by CGC, Gammon Gold, or any other party, and that obtaining any necessary regulatory approvals or satisfying any other conditions for consummation of the merger will not have an adverse effect on CGC, Gammon Gold or their respective equity securities. Stifel Nicolaus relied on advice of counsel to CGC as to certain legal and tax matters with respect to CGC, Gammon Gold, the merger and the merger agreement. In addition, Stifel Nicolaus has assumed that the definitive merger agreement will not differ materially from the draft that was reviewed, and that there will be no change to the contemplated structure of the merger by Gammon Gold or its merger subsidiary pursuant to Section 1.1(b) of the merger agreement. Stifel Nicolaus has further assumed, with the M&A Committee's consent, that there are no factors that would delay, or subject to any adverse conditions, any necessary regulatory or governmental approvals, and that all conditions to the merger will be satisfied and not waived.

The summary set forth below does not purport to be a complete description of the analyses performed by Stifel Nicolaus, but describes, in summary form, the material elements of the presentation that Stifel Nicolaus made to the M&A Committee on September 30, 2010, in connection with Stifel Nicolaus' fairness opinion.

In accordance with customary investment banking practice, Stifel Nicolaus employed generally accepted valuation methods and financial analyses in reaching its opinion. The following is a summary of the material financial analyses performed by Stifel Nicolaus in arriving at its opinion. These summaries of financial analyses alone do not constitute a complete description of the financial analyses Stifel Nicolaus employed in reaching its conclusions. None of the analyses performed by Stifel Nicolaus were assigned a greater significance by Stifel Nicolaus than any other, nor does the order of analyses described represent relative importance or weight given to those analyses by Stifel Nicolaus. Some of the summaries of the financial analyses include information presented in tabular format. In order to understand the financial analyses used by Stifel Nicolaus more fully, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of Stifel Nicolaus' financial analyses, including the methodologies and assumptions underlying the analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Stifel Nicolaus. The summary data set forth below do not represent and should not be viewed by anyone as constituting conclusions reached by Stifel Nicolaus with respect to any of the analyses performed by it in connection with its opinion. Rather, Stifel Nicolaus made its determination as to the fairness to the holders of shares of the per share merger consideration, from a financial point of view, on the basis of its experience and professional judgment after considering the results of all of the analyses performed. Accordingly, the data included in the summary tables and the corresponding imputed ranges of value for CGC and Gammon Gold should be considered as a whole and in the context of the full narrative description of all of the financial analyses set forth in the following pages, including the assumptions underlying these analyses. Considering the data included in the summary table without considering the full narrative description of all of the financial analyses, including the assumptions underlying these analyses, could create a misleading or incomplete view of the financial analyses performed by Stifel Nicolaus.

Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before September 30, 2010 and is not necessarily indicative of current market conditions. The analyses described below do not purport to be indicative of actual future results, or to reflect the prices at which any securities may trade in the public markets, which may vary depending upon

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various factors, including changes in interest rates, dividend rates, market conditions, economic conditions and other factors that influence the price of securities.

No company or transaction used in any analysis as a comparison is identical to CGC, Gammon Gold or the merger, and they all differ in material ways. Stifel Nicolaus selected comparable publicly traded companies and publicly announced transactions on the basis of various factors, including the size of the public companies and the similarity of the lines of business to CGC and Gammon Gold. Accordingly, an analysis of the results described below is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading value of the comparable companies or transactions to which they are being compared. In addition, because the market conditions, rationale and circumstances surrounding each of the transactions analyzed were specific to each transaction and because of the inherent differences between CGC's and Gammon Gold's respective businesses, operations and prospects and those of the comparable companies analyzed, Stifel Nicolaus believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the analyses. Accordingly, Stifel Nicolaus also made qualitative judgments concerning the differences between the characteristics of these transactions (including market conditions, rationale and circumstances surrounding each of the transactions, and the timing, type and size of each of the transactions) and the merger that could affect CGC's acquisition value.

In conducting its analysis, Stifel Nicolaus used five methodologies to determine the approximate valuations of CGC and Gammon Gold. The methodologies used to determine the value of CGC and Gammon Gold included: comparable companies analysis, precedent M&A transactions analysis, net asset value analysis, historical stock trading analysis and Wall Street equity research stock price target analysis. These analyses were developed and applied collectively. Consequently, each individual methodology was not given a specific weight, nor can any methodology be viewed individually. Stifel Nicolaus used these analyses to determine the impact of various operating metrics on the implied equity value of CGC and Gammon Gold. Each of these analyses yielded a range of implied equity values, and therefore, such implied equity value ranges developed from these analyses must be viewed collectively and not individually. Unless noted otherwise, all analyses are based on the Gammon Gold closing stock price as of September 30, 2010 of \$7.01 per share.

### ***Historical Stock Trading Analysis***

Stifel Nicolaus reviewed historical trading prices and volumes for both CGC and Gammon Gold common stock for the period from September 30, 2009 to September 30, 2010, the last trading day preceding the announcement of the execution of the merger agreement. In addition, Stifel Nicolaus reviewed historical trading prices and volumes for both CGC common stock and Gammon Gold common shares for the period from September 24, 2009 to September 24, 2010, the last trading day preceding the announcement by Timmins Gold Corp. detailing its previous non-binding proposal to merge with CGC. Stifel Nicolaus noted that the implied per share merger consideration was \$4.44 based on Gammon Gold's closing price of \$7.01 as of September 30, 2010. This analysis indicated that the offer price represented:

a discount of 8.0% based on the September 30, 2010 closing market price of \$4.83 per share of CGC common stock;

a premium of 16.8% based on the September 24, 2010 closing market price of \$3.80 per share of CGC common stock.

**Table of Contents****Wall Street Equity Research Analyst Stock Price Targets**

To provide background information and perspective with respect to stock price targets of CGC common stock and Gammon Gold common shares, Stifel Nicolaus reviewed publicly available published price target estimates for both CGC common stock and Gammon Gold common shares published by Wall Street equity research analysts as of September 30, 2010 and September 24, 2010 (for CGC only). The following table summarizes these estimates:

	CGC		Gammon Gold	
	Low	High	Low	High
Target Price Range as of:				
9/30/2010	\$ 5.57	\$ 9.64	\$ 5.79	\$ 8.47
9/24/2010	\$ 5.41	\$ 9.06	N/A	N/A

**Comparable Company Analysis CGC**

Stifel Nicolaus reviewed the trading multiples and market statistics of CGC and the following selected publicly traded companies with businesses like that of CGC that Stifel Nicolaus deemed to be similar to CGC in terms of relative size and geographic focus: Argonaut Gold Ltd., Great Basin Gold Ltd., Jaguar Mining Inc., Minefinders Corp. Ltd. and Timmins Gold Corp. Estimated financial data for the selected companies was based on publicly available research analyst estimates.

This analysis produced multiples of selected reserve and financial valuation data which Stifel Nicolaus compared to multiples and reserve data derived from the implied offer price of \$4.44. The following table sets forth the results of this analysis:

	Total Enterprise Value Per			
	Total Reserves	Total Resources	CY 2010E Production	P/NAV
CGC Implied Offer	\$ 189	\$ 139	\$ 4,581	0.97x
Selected Companies:				
Minimum	\$ 154	\$ 55	\$ 3,735	0.60x
Mean	\$ 274	\$ 94	\$ 5,135	0.87x
Median	\$ 234	\$ 76	\$ 5,072	0.83x
Maximum	\$ 473	\$ 192	\$ 6,884	1.21x

The implied multiples based on the offer price are within the range of the multiples of the selected comparable companies.

**Comparable Company Analysis Gammon Gold**

Stifel Nicolaus reviewed the trading multiples and market statistics of Gammon Gold and the following selected publicly traded companies with businesses like that of Gammon Gold that Stifel Nicolaus deemed to be similar to Gammon Gold in terms of relative size and geographic focus: Alamos Gold Inc., Aurizon Mines Ltd., IAMGOLD Corp., New Gold Inc. and Yamana Gold Inc. Estimated financial data for the selected companies was based on publicly available research analyst estimates.



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This analysis produced multiples of selected reserve and financial valuation data which Stifel Nicolaus compared to Gammon Gold's trading metrics. The following table sets forth the results of this analysis:

	Total Enterprise Value Per			
	Total Reserves	Total Resources	CY 2010E Production	P/NAV
Gammon Gold Implied Offer	\$ 352	\$ 319	\$ 3,477	0.79x
Selected Companies:				
Minimum	\$ 274	\$ 104	\$ 6,576	0.99x
Mean	\$ 592	\$ 237	\$ 8,168	1.32x
Median	\$ 448	\$ 242	\$ 7,729	1.44x
Maximum	\$ 1,012	\$ 339	\$ 10,994	1.60x

The implied multiples based on Gammon Gold's trading metrics are within the range of the multiples of the selected comparable companies except for a P/NAV basis where Gammon Gold is trading at a discount to the selected comparable companies.

**Selected Precedent Gold M&A Transactions Analysis**

Using publicly available information, Stifel Nicolaus reviewed eleven public company mergers and acquisitions in the North and Central American gold industry. These transactions were selected because they involved companies with operations in the gold mining industry with similar size and operating metrics to CGC. When comparing these transactions to the CGC and Gammon Gold merger, it is important to consider that neither individual transactions nor the group should be viewed in isolation. The transactions should be considered alongside historical commodity prices, as these prices have fluctuated substantially, as well as consider the unique growth estimates specific to each transaction. The precedent transactions considered by Stifel Nicolaus were:

Announcement Date	Target	Acquirer
3/11/2010	Underworld Resources, Inc.	Kinross Gold Corp.
12/29/2009	Canplats Resources Corp.	Goldcorp, Inc.
8/27/2009	West Timmins Mining, Inc.	Lake Shore Gold Corp.
3/31/2009	Cadiscor Resources Inc.	North American Palladium Ltd.
3/4/2009	Western Goldfields Inc.	New Gold, Inc.
1/11/2008	Golden Cycle Gold Corp.	AngloGold Ashanti Ltd.
6/28/2007	NewWest Gold Corp.	Fronteer Development Group Inc.
2/14/2007	Cumberland Resources Ltd.	Agnico-Eagle Mines Ltd.
2/5/2007	Queenstake Resources Ltd.	Yukon-Nevada Gold Corp.
3/6/2006	White Knight Resources Ltd.	US Gold Corporation
7/24/2006	Pioneer Metals Corp.	Barrick Gold Corporation

For each acquired entity, Stifel Nicolaus analyzed the total consideration paid to the target based on total enterprise value, or TEV/total reserves and TEV/total resource potential. The following table sets forth the results of this analysis:

	Total Enterprise Value per	
	Proved Reserves	Total Resource Potential
CGC Implied Offer	\$ 189	\$ 139
Selected Transactions:		
Minimum	\$ 27	\$ 27
Mean	\$ 150	\$ 94
Median	\$ 155	\$ 86
Maximum	\$ 251	\$ 169

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The implied offer based on these metrics is within the range of the consideration paid in the selected transactions.

For each acquired entity, Stifel Nicolaus analyzed the premium paid to the target's stock price for the 1 day, 5-day and 30-day periods prior to the announcement of the transaction. The following table sets forth the results of analysis:

	<b>1 Day</b>	<b>Premium 5-Day</b>	<b>30-Day</b>
CGC Implied Offer (premiums as of 9/30/2010)	(8.0)%	16.9%	31.8%
CGC Implied Offer (premiums as of 9/24/2010)	16.9%	14.8%	34.6%
<b>Selected Transactions:</b>			
Minimum	(3.1)%	(8.3)%	(4.1)%
Mean	27.9%	29.9%	38.5%
Median	32.9%	38.0%	33.3%
Maximum	54.0%	55.1%	107.2%

The implied premiums based on the offer price are within the range of the premiums paid in the selected transactions except in the case of the 1 day premium as of September 30, 2010, which had been affected by the Timmins Gold Corp. non-binding proposal announcement.

**Net Asset Value Analysis CGC**

In order to estimate the net asset value, or NAV, per share of CGC's common stock, Stifel Nicolaus performed a discounted cash flow analysis of CGC. A discounted cash flow analysis is a traditional valuation methodology used to derive the net asset value of mining companies by calculating the present value of estimated future cash flows based on the company's long-term mine plan for its reserves. Present value refers to the current value of future cash flows or amounts and is obtained by discounting those future cash flows or amounts by a range of discount rates that takes into account macroeconomic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors.

To calculate the estimated NAV per share of CGC using the discounted cash flow method, Stifel Nicolaus discounted projected after-tax free cash flows for fiscal years 2011 through 2023 based on internal projections of CGC management to their present value using a range of selected discount rates. The range of discount rates of 2.5% to 7.5% was selected based on the midpoint discount rate of 5.0% which is widely used by equity research analysts that cover the gold industry. The after-tax unlevered free cash flows were calculated by taking the net income and adding back depreciation, reclamation accruals, and amortization of debt issuance discounts and premiums then subtracting capital expenditures and adjusting for changes in working capital and other non-cash items.

Stifel Nicolaus then calculated a range of implied NAV per share amounts for CGC cash flows and subtracted the company's net debt and reclamation liabilities then added estimated working capital as reflected in its Form 10-Q filing for the period ended April 30, 2010, then divided by the fully diluted number of shares of CGC's common stock outstanding. The implied NAV per share resulting from such analysis for CGC's common stock is \$4.03 to \$5.31 per share based on consensus Wall Street equity research analysts commodity price estimates. Additionally, in order to capture the CGC management perspective on NAV per share of CGC, Stifel Nicolaus also calculated the implied NAV per share range based on management's commodity price projections. These commodity projections resulted in an NAV range from \$2.64 to \$3.55 per share.

The implied offer per share is within the range of implied NAVs per share based on the 2.5% to 7.5% discount rates based on Wall Street equity research analysts commodity price estimates, and above the range based on CGC management commodity price estimates.

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### ***Net Asset Value Analysis – Gammon Gold***

Stifel Nicolaus used the same NAV valuation methodology and discount rate range used with respect to CGC in order to estimate the NAV per share of Gammon Gold's common shares. Stifel Nicolaus calculated the implied NAV resulting from such analysis for Gammon Gold's common shares of \$8.03 to \$9.84 per share based on consensus Wall Street equity research analysts' commodity price estimates. Stifel Nicolaus also calculated the implied NAV per share range based on CGC's commodity price projections which range from \$6.12 to \$7.54 per share.

The implied NAV per share based on the 2.5% to 7.5% discount rates is within the historic trading range of Gammon Gold's common shares price.

### **Conclusion**

Based upon the foregoing analyses and the assumptions and limitations set forth in full in the text of Stifel Nicolaus' opinion letter, Stifel Nicolaus was of the opinion that, as of the date of Stifel Nicolaus' opinion, the per share merger consideration to be paid to the holders of shares by Gammon Gold in connection with the merger pursuant to the merger agreement was fair to such holders of shares, from a financial point of view.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Stifel Nicolaus considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Stifel Nicolaus believes that the summary provided and the analyses described above must be considered as a whole and that selecting portions of these analyses, without considering all of them, would create an incomplete view of the process underlying Stifel Nicolaus' analyses and opinion; therefore the range of valuations resulting from any particular analysis described above should not be taken to be Stifel Nicolaus' view of the actual value of CGC or Gammon Gold.

Stifel Nicolaus received a \$400,000 fee upon the delivery of its fairness opinion. Stifel Nicolaus will not receive any significant payment or compensation contingent upon the successful consummation of the merger. In addition, CGC has agreed to indemnify Stifel Nicolaus for certain liabilities relating to or arising out of its engagement. Stifel Nicolaus, as part of its investment banking services, is regularly engaged in the independent valuation of businesses and securities in connection with mergers and acquisitions. Both CGC and members of the M&A Committee have previously worked with Stifel Nicolaus. Stifel Nicolaus' engagement by the M&A Committee was based upon several factors, including the previously noted reasons, as well as its reputation in the industry and the recommendation by Ballard Spahr. CGC engaged Stifel Nicolaus to provide a fairness opinion with respect to a transaction with Gammon Gold in 2009, which did not proceed, and Stifel Nicolaus received \$75,000 for such services. In addition, CGC engaged Stifel Nicolaus to provide a fairness opinion with respect to a transaction with Company A, which did not proceed, and Stifel Nicolaus received \$400,000 for such services. Prior to the merger, Stifel Nicolaus had no prior relationship with Gammon Gold. There are no other material relationships that existed during the two years prior to the date of Stifel Nicolaus' opinion or that are mutually understood to be contemplated in which any compensation was received or is intended to be received as a result of the relationship between Stifel Nicolaus and any party to the merger. Stifel Nicolaus may seek to provide investment banking services to Gammon Gold or its affiliates in the future, for which Stifel Nicolaus would seek customary compensation. In the ordinary course of business, Stifel Nicolaus and its clients may transact in the securities of CGC and Gammon Gold and, accordingly, may at any time hold a long or short position in such securities. Stifel Nicolaus' internal Fairness Opinion Committee approved the issuance of its fairness opinion.

### **Review of Cormark Process**

CGC's board of directors initially approached Cormark in early July 2010 to discuss the engagement of Cormark as financial advisor to CGC in light of discussions that were ongoing regarding a potential acquisition of CGC by Gammon Gold and the pending expiration of the engagement of the financial advisor that CGC had

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retained to provide financial advisory services in connection with the proposed business combination with Gammon Gold and the acquisition of Nayarit Gold in 2009. Cormark was formally engaged by the board of directors of CGC on August 19, 2010. Cormark advised the CGC board of directors to conduct a process to solicit competing proposals to the Gammon Gold proposal. At the request of the M&A Committee, Cormark created a short list of qualified buyers, including parties that had previously expressed interest in a business combination with CGC, parties that had similar regional interests as CGC, and parties that Cormark believed to be acquisitive in the mining sector and potentially interested in a business combination with CGC.

During the week of August 23, 2010, Cormark created marketing materials relating to CGC and contacted the previously identified parties for the purposes of conducting the solicitation process. Of the 11 parties contacted, three (in addition to Gammon Gold) participated in discussions with Cormark and were given access to CGC's due diligence data site.

Cormark and CGC set a deadline of September 1, 2010 for submission of non-binding proposals. At the time of the deadline, CGC had received two proposals for evaluation. On September 3, 2010, CGC received an additional proposal, as well as a revised proposal from a party that had previously submitted a proposal on September 1, 2010, for a total of four proposals including the proposal from Gammon Gold. Cormark reviewed and analysed certain financial and transactional aspects of each proposal received, and determined that, of the proposals received, the Gammon Gold proposal was the best transaction reasonably available to CGC's stockholders. Cormark presented its initial review of the proposals to the M&A Committee on September 3, 2010 and to the board of directors on September 9, 2010. On September 9, 2010, the board of directors unanimously approved CGC entering into a non-binding letter of intent with Gammon Gold.

The nature of Cormark's role as financial advisor to CGC was to provide advice in connection with a sale of CGC. The terms of Cormark's engagement agreement provide for payment of advisory fees of approximately \$1,750,000 upon successful completion of a sale of CGC. As such, the CGC board of directors determined that Cormark would be in conflict to deliver an opinion as to the fairness of the transaction, from a financial point of view, to CGC stockholders given Cormark's vested interest in its completion. For that reason, the M&A Committee determined to engage Stifel Nicolaus.

## **CGC Unaudited Prospective Financial Information**

CGC does not as a matter of course make public long-term projections as to future revenues, earnings or other results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. The mining industry is inherently dangerous and subject to conditions or events beyond CGC's control that could have a material adverse effect on CGC and its business. Mining involves various types of risks and hazards, including: environmental hazards; industrial accidents; metallurgical and other processing problems; unusual or unexpected rock formations; structural cave-ins or slides; seismic activity; flooding; fires; periodic interruptions due to inclement or hazardous weather conditions; variations in grade, deposit size, density and other geological problems; inability to delineate additional reserves as a result of exploration programs and inability to mine any such reserves; mechanical equipment performance problems; unavailability of materials and equipment, including fuel; labor force disruptions; unanticipated or significant changes in the costs of supplies, including petroleum; and unanticipated transportation costs. These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury or death, loss of key employees, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. Investors should review CGC's Form 10-K for the year ended July 31, 2010, as amended by Form 10-K/A, for a comprehensive overview of risks and uncertainties facing CGC including those specific to the mining industry. Nonetheless, CGC is including this unaudited prospective financial information in this proxy statement/prospectus to provide its stockholders access to certain non-public unaudited prospective financial information that was made available to CGC's board of directors, special committee and financial advisors and to Gammon Gold in connection with the merger in August 2010. The information provided to CGC's board of directors, special committee and financial advisors and to Gammon Gold included estimates of gold and silver sales, metal

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price assumptions, revenues, and net income. This prospective financial information was prepared by CGC's management in July/August 2010, based solely upon information available at that time. The financial projections included the most up-to-date financial analysis available at that time and reflected CGC's preliminary calculations of its anticipated fiscal year ended July 31, 2011 budget. While the financial projections were prepared in good faith, no assurance can be given regarding future events. In addition, the financial projections include a shift to self-mining from the current use of a contract miner at the El Chanate mine. **Therefore, the financial projections of CGC included in this proxy statement/prospectus should not be considered a reliable predictor of future operating results.** In addition, the financial projections do not reflect CGC's current view on the business of the combined company because there can be no assurance that a transaction with Gammon Gold will be consummated. The unaudited prospective financial information was not prepared with a view toward public disclosure, and the inclusion of this information should not be regarded as an indication that any of CGC, Gammon Gold, Cormark, Stifel Nicolaus or any of their respective representatives or any other recipient of this information considered, or now considers, it to be necessarily predictive of actual future results, nor should this information be relied on as such.

While presented with numeric specificity, the unaudited prospective financial information reflects numerous judgments, estimates and assumptions with respect to industry performance, general business, economic, regulatory, environmental, litigation, market and financial conditions, foreign currency rates, and matters specific to CGC's business, such as competitive conditions, successful integration of Nayarit Gold and the development of CGC's Orion Project into a producing mine, many of which are beyond CGC's control. The unaudited prospective financial information was prepared solely for internal use and is subjective in many respects. As a result, there can be no assurance that the prospective results will be realized or that actual results will not be significantly higher or lower than estimated. **Because the unaudited prospective financial information covers multiple years, such information by its nature, becomes less predictive with each successive year.** Accordingly, CGC's management believes that providing the estimated aggregate amount of each of the various operating and financial projection items below covering the life of mines, which may span up to ten years, is more meaningful to readers. CGC's stockholders are urged to review the risk factors discussed herein and the CGC Annual Report on Form 10-K for the fiscal year ended July 31, 2010, as amended by Form 10-K/A, and the CGC Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2010 for a description of risk factors with respect to CGC's business. See [Cautionary Note Regarding Forward-Looking Statements](#) and [Where You Can Find More Information](#). The unaudited prospective financial information was not prepared with a view toward complying with U.S. GAAP, the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither BDO USA LLP, CGC's independent registered public accounting firm, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the unaudited prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information. The unaudited prospective financial information set forth below was provided to Cormark and Stifel Nicolaus for use in connection with their financial analysis and fairness opinions relating to the proposed merger. In some cases where Stifel Nicolaus deemed necessary or advisable in its professional judgment based upon historical and projected pricing trends, as part of the analysis for its fairness opinion, Stifel Nicolaus used various pricing assumptions and performed pricing sensitivity analysis in connection with the projections of both CGC and Gammon Gold. Specifically, Stifel Nicolaus applied two metal pricing cases to the projections using pricing assumptions provided by CGC's management and the Bloomberg weighted average consensus estimates. The report of CGC's independent registered public accounting firm contained in CGC's most recent Annual Report on Form 10-K, as amended by Form 10-K/A, which are incorporated by reference into this proxy statement/prospectus, relates to CGC's historical financial information. It does not extend to the unaudited prospective financial information and should not be read to do so.

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Furthermore, the unaudited prospective financial information does not take into account any circumstances or events occurring after the date it was prepared.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							(in thousands)								
(1):															
es	72	70	84	93	94	91	86	70	70	70	70	70	20		
ces	98	99	1,574	2,228	1,997	1,832	1,795	100	99	99	99	99	34		
(1):															
icable	\$ 75,340	\$ 70,000	\$ 107,362	\$ 127,060	\$ 124,276	\$ 118,884	\$ 112,930	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 20,646		\$ 1
e	34,855	38,485	56,150	59,665	58,240	59,038	60,952	43,685	45,945	37,740	28,966	27,787	11,899	391	
s	14,285	9,483	19,215	15,682	14,933	11,925	11,831	8,316	7,463	13,673	20,249	21,177	(517)	(2,383)	(1,050)
ting															
(2)	10,813	18,896	35,754	51,943	48,259	45,225	40,883	11,606	15,829	30,310	27,964	35,693	3,478	(5,749)	(1,050)
es(3)	12,468	37,576	19,700	15,171	7,302	4,398	7,667	740	4,449	740					
sh	\$ (5,255)	\$ (19,480)	\$ 16,054	\$ 36,772	\$ 40,957	\$ 40,827	\$ 33,221	\$ 10,856	\$ 11,380	\$ 29,570	\$ 27,964	\$ 35,693	\$ 3,482	\$ (5,749)	\$ (1,050)

(1) Represents the estimate for the life of mine for both the El Chanate mine estimated at ten years and the Orion Project at five years. The Orion Project is anticipated to initiate production by the fiscal year ended July 31, 2013.

(2) Represents mainly the capital expenditures associated with the construction of the Orion Project, conversion to self-mining and the associated procurement of a mining fleet as well as leach pad expansion costs.

(3) Net free cash flow represents an indication of CGC's continuing capacity to generate discretionary cash flow from operations, comprising cash flows from operating activities net of total capital expenditures and debt repayments. It does not necessarily represent the cash flow in the period available for CGC's management to use at its discretion, which may be affected by other sources and non-discretionary uses of cash.

Because of the forward-looking nature of the unaudited prospective financial information, specific quantifications of the amounts that would be required to reconcile it to U.S. GAAP measures are not available. CGC believes that there is a degree of volatility with respect to certain of CGC's U.S. GAAP measures, and certain adjustments made to arrive at the relevant non-GAAP measures, which preclude CGC from providing accurate forecasted U.S. GAAP to non-GAAP reconciliations.

For the reasons identified above, CGC believes that providing estimates of the amounts that would be required to reconcile prospective net free cash flow to earnings before income taxes and cash flows from operating activities would imply a degree of precision that would be confusing or misleading to investors.

In preparing the above unaudited prospective financial information, CGC made the following material assumptions over the life-of mine period:

No legislative changes affecting the mining industry in Mexico;

No significant economic or regulatory changes to CGC's product market;

Exclusion of merger-related transaction costs;

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Life of mine plans initiate at the beginning of CGC's fiscal year ended July 31, 2011 (August 1, 2010);

Reflects CGC transition from contract mining to self-mining;

Foreign currency rate of 12.5 pesos to the USD for all years; accordingly, the impact of foreign currency volatility has not been considered; and

Orion project assumes mining the resource ounces detailed within its Preliminary Economic Assessment (PEA) which is summarized in this proxy statement/prospectus.

No assurances can be given that these assumptions will accurately reflect future conditions. In addition, although presented with numerical specificity, the above unaudited prospective financial information reflects numerous assumptions and estimates as to future events made by CGC's management that CGC's management believed were reasonable at the time the unaudited prospective financial information was prepared. The above unaudited prospective financial information does not give effect to the merger. CGC's stockholders are urged to review CGC's most recent SEC filings for a description of CGC's reported and anticipated results of operations, financial condition and capital resources during 2010, including the discussion under the caption "Looking

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Forward (which forms a part of Management's Discussion and Analysis of Financial Condition and Results of Operations) in CGC's most recent Annual Report on Form 10-K, as amended by Form 10-K/A, which are incorporated by reference into this proxy statement/prospectus.

Readers of this proxy statement/prospectus are cautioned not to place undue reliance on the unaudited prospective financial information set forth above. No representation is made by CGC, Gammon Gold or any other person to any stockholder of CGC regarding the ultimate performance of CGC compared to the information included in the above unaudited prospective financial information. The inclusion of unaudited prospective financial information in this proxy statement/prospectus should not be regarded as an indication that such prospective financial information will be an accurate prediction of future events, and they should not be relied on as such.

CGC DOES NOT INTEND TO UPDATE OR OTHERWISE REVISE THE ABOVE PROSPECTIVE FINANCIAL INFORMATION TO REFLECT CIRCUMSTANCES EXISTING AFTER THE DATE WHEN MADE OR TO REFLECT THE OCCURRENCE OF INTERVENING OR FUTURE EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING SUCH PROSPECTIVE FINANCIAL INFORMATION ARE NO LONGER APPROPRIATE.

**Gammon Gold Unaudited Prospective Financial Information**

Gammon Gold does not as a matter of course make public long-term projections as to future revenues, earnings or other results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. The mining industry is inherently dangerous and subject to conditions or events beyond Gammon Gold's control that could have a material adverse effect on Gammon Gold and its business. Mining involves various types of risks and hazards, including: environmental hazards; industrial accidents; metallurgical and other processing problems; unusual or unexpected rock formations; structural cave-ins or slides; seismic activity; flooding; fires; periodic interruptions due to inclement or hazardous weather conditions; variations in grade, deposit size, density and other geological problems; inability to delineate additional reserves as a result of exploration programs and inability to mine any such reserves; mechanical equipment performance problems; unavailability of materials and equipment, including fuel; labor force disruptions; unanticipated or significant changes in the costs of supplies, including petroleum; and unanticipated transportation costs. These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury or death, loss of key employees, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. Investors should review Gammon Gold's Annual Report on Form 40-F for the fiscal year ended December 31, 2009, as amended by Amendment No. 1 to Form 40-F/A for the fiscal year ended December 31, 2009, as well as its other SEC filings, which are incorporated by reference into this proxy statement/prospectus, for a comprehensive overview of risks and uncertainties facing Gammon Gold including those specific to the mining industry. Nonetheless, Gammon Gold is including this unaudited prospective financial information in this proxy statement/prospectus to provide CGC's stockholders access to certain non-public unaudited prospective financial information that was made available to CGC's board of directors and special committee, Cormark and Stifel Nicolaus in connection with the merger in August 2010. The information provided to CGC's board of directors and special committee, Cormark and Stifel Nicolaus included estimates of gold and silver sales, metal price assumptions, revenues, and net income. This prospective financial information was prepared by Gammon Gold's management during the first calendar quarter of 2010, based solely upon information available at that time. The financial projections included the most up-to-date financial analysis available at that time and reflected Gammon Gold's preliminary calculations of its fiscal year ending December 31, 2010. While the financial projections were prepared in good faith, no assurance can be given regarding future events. In addition, the financial projections reflect Gammon Gold on a stand-alone basis and do not reflect the impact of the closing of the transaction with CGC. **The financial projections of Gammon Gold included in this proxy statement/prospectus should not be considered a reliable predictor of future operating results.** The unaudited prospective financial information was not prepared with a view toward public disclosure, and the inclusion of this information should not be regarded as an indication that any of Gammon



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Gold, CGC, Cormark, Stifel Nicolaus or any of their respective representatives or any other recipient of this information considered, or now considers, it to be necessarily predictive of actual future results, nor should this information be relied on as such.

While presented with numeric specificity, the unaudited prospective financial information reflects numerous judgments, estimates and assumptions with respect to industry performance, general business, economic, regulatory, environmental, litigation, market and financial conditions, foreign currency rates, and matters specific to Gammon Gold's business, many of which are beyond Gammon Gold's control. The unaudited prospective financial information was prepared solely for internal use and is subjective in many respects. As a result, there can be no assurance that the prospective results will be realized or that actual results will not be significantly higher or lower than estimated. **Because the unaudited prospective financial information covers multiple years, such information by its nature, becomes less predictive with each successive year.** Accordingly, Gammon Gold's management believes that providing the estimated aggregate amount of each of the various operating and financial projection items below covering the life of mines, which may span up to ten years, is more meaningful to readers. CGC's stockholders are urged to review the risk factors discussed in this proxy statement/prospectus and Gammon Gold's Annual Report on Form 40-F for the fiscal year ended December 31, 2009, as amended by Amendment No. 1 to Form 40-F/A for the fiscal year ended December 31, 2009, and Gammon Gold's other SEC filings, for a description of risk factors with respect to Gammon Gold's business. See Cautionary Note to U.S. Investors and Cautionary Note Regarding Forward-Looking Statements. The unaudited prospective financial information was not prepared with a view toward complying with U.S. GAAP, the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither KPMG LLP, Gammon Gold's independent registered public accounting firm, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the unaudited prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information. The unaudited prospective financial information set forth below was provided to CGC's board of directors, Cormark and Stifel Nicolaus for use in connection with their financial analysis and fairness opinions relating to the proposed merger. In some cases where Stifel Nicolaus deemed necessary or advisable in its professional judgment based upon historical and projected pricing trends, as part of the analysis for its fairness opinion, Stifel Nicolaus used various pricing assumptions and performed pricing sensitivity analysis in connection with the projections of both Gammon Gold and CGC. Specifically, Stifel Nicolaus applied two metal pricing cases to the projections using pricing assumptions provided by Gammon Gold's management and the Bloomberg weighted average consensus estimates. The report of Gammon Gold's independent registered public accounting firm contained in Gammon Gold's Annual Report on Form 40-F/A, as amended by Amendment No.1 to Form 40-F/A for the fiscal year ended December 31, 2009, which are incorporated by reference into this proxy statement/prospectus, relates to Gammon Gold's historical financial information. It does not extend to the unaudited prospective financial information and should not be read to do so.

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Furthermore, the unaudited prospective financial information does not take into account any circumstances or events occurring after the date it was prepared.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	(in thousands)											
<b>Operating statistics(1):</b>												
Gold ounces sold	166	174	189	205	206	224	208	169	165	105	43	1,854
Silver ounces sold	6,799	8,234	7,493	7,992	7,988	8,527	8,361	6,659	6,540	4,138	1,129	73,860
Gold equivalent ounces sold(2)	270	298	302	333	331	356	338	273	267	169	60	2,996
<b>Financial statistics(1):</b>												
Revenue	\$ 303,473	\$ 343,306	\$ 316,595	\$ 325,084	\$ 305,464	\$ 317,321	\$ 301,055	\$ 243,102	\$ 237,747	\$ 150,606	\$ 53,695	\$ 2,897,446
Costs applicable to sales	128,558	132,807	128,650	127,285	126,586	128,159	107,158	98,361	97,381	66,748	27,648	1,169,339
Net income	58,105	67,868	49,993	51,051	38,107	38,380	43,080	18,247	13,861	16,867	10,904	384,655
<b>Cash flows from operating activities</b>												
Capital expenditures(3)	82,000	34,294	41,944	28,344	28,344	21,344	21,344	7,682	5,182	1,682	682	272,839
Net free cash flow(4)	\$ 48,771	\$ 125,408	\$ 103,680	\$ 128,079	\$ 115,550	\$ 132,728	\$ 135,635	\$ 109,798	\$ 109,630	\$ 51,876	\$ 9,441	\$ 1,070,596
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
<b>Gammon Gold Management Estimates:</b>												
Assumed Gold price per ounce	\$ 1,100	\$ 1,100	\$ 1,000	\$ 1,000	\$ 900	\$ 885	\$ 885	\$ 885	\$ 885	\$ 885	\$ 885	\$ 885
Assumed Silver price per ounce	\$ 17.75	\$ 18.50	\$ 17.00	\$ 15.00	\$ 15.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00
<b>Bloomberg Weighted Average Consensus Estimates:</b>												
Assumed Gold price realized per ounce	\$ 1,239.50	\$ 1,294	\$ 1,357	\$ 1,289	\$ 1,122	\$ 1,122	\$ 1,122	\$ 1,122	\$ 1,122	\$ 1,122	\$ 1,122	\$ 1,122
Assumed Silver price realized per ounce	\$ 19.27	\$ 20.26	\$ 20.05	\$ 18.91	\$ 18.24	\$ 18.24	\$ 18.24	\$ 18.24	\$ 18.24	\$ 18.24	\$ 18.24	\$ 18.24

(1) Represents the estimate for the life of mine for both the Ocampo mine and the El Cubo mine. Operations at El Cubo were suspended in June 2010 and the timing of recommencement of El Cubo operations is uncertain. Some of the production shown for 2010 and 2011 will be deferred as a result of this operational suspension. Gammon Gold's Guadalupe y Calvo was excluded because at the primary economic assessment stage this project was not yet included in Gammon Gold's life of mine model.

(2) Gold equivalent calculated using effective (realized) gold/silver price ratio of 64.73.

(3) Includes investments in fixed assets, mine development, drilling (exploration), and capitalized pre-stripping.

(4) Net free cash flow represents an indication of Gammon Gold's continuing capacity to generate discretionary cash flow from operations, comprising cash flows from operating activities net of total capital expenditures. It does not necessarily represent the cash flow in the period available for Gammon Gold's management to use at its discretion, which may be affected by other sources and non-discretionary uses of cash.

Because of the forward-looking nature of the unaudited prospective financial information, specific quantifications of the amounts that would be required to reconcile it to U.S. GAAP measures are not available. Gammon Gold believes that there is a degree of volatility with respect to

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certain of Gammon Gold's U.S. GAAP measures, and certain adjustments made to arrive at the relevant non-GAAP measures, which preclude Gammon Gold from providing accurate forecasted U.S. GAAP to non-GAAP reconciliations.

For the reasons identified above, Gammon Gold believes that providing estimates of the amounts that would be required to reconcile prospective net free cash flow to earnings before income taxes and cash flows from operating activities would imply a degree of precision that would be confusing or misleading to investors.

In preparing the above unaudited prospective financial information, Gammon Gold made the following material assumptions over the life-of mine period:

No legislative changes affecting the mining industry in Mexico;

No significant economic or regulatory changes to Gammon Gold's product market;

Exclusion of merger-related transaction costs;

Life of mine plans initiate at the beginning of Gammon Gold's fiscal year ending December 31, 2009 (January 1, 2010);

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Foreign currency rate of 12.5 pesos to the U.S. Dollar for all years; accordingly, the impact of foreign currency volatility has not been considered; and

Sold ounces reflect production from both reserves as well as a portion of resources which are assumed will be converted to reserves. Readers should review Gammon Gold's reserves and resources table contained in Gammon Gold's Annual Report on Form 40-F/A, as amended by Amendment No.1 to Form 40-F/A for the fiscal year ended December 31, 2009, in conjunction with the unaudited prospective financial information.

No assurances can be given that these assumptions will accurately reflect future conditions. In addition, although presented with numerical specificity, the above unaudited prospective financial information reflects numerous assumptions and estimates as to future events made by Gammon Gold's management that Gammon Gold's management believed were reasonable at the time the unaudited prospective financial information was prepared. The above unaudited prospective financial information does not give effect to the merger. CGC's stockholders are urged to review Gammon Gold's most recent SEC filings for a description of Gammon Gold's reported and anticipated results of operations, financial condition and capital resources during 2010, including the discussion under the captions "Cautionary Note to U.S. Investors" and the "Cautionary Note Regarding Forward Looking Statements" (both of which form a part of the annual "Management's Discussion and Analysis") in Gammon Gold's Annual Report on Form 40-F/A, as amended by Amendment No.1 to Form 40-F/A for the fiscal year ended December 31, 2009, which are incorporated by reference into this proxy statement/prospectus.

Readers of this proxy statement/prospectus are cautioned not to place undue reliance on the unaudited prospective financial information set forth above. No representation is made by CGC, Gammon Gold, Cormark, Stifel Nicolaus or any other person to any stockholder of CGC regarding the ultimate performance of Gammon Gold compared to the information included in the above unaudited prospective financial information. The inclusion of unaudited prospective financial information in this proxy statement/prospectus should not be regarded as an indication that such prospective financial information will be an accurate prediction of future events, and they should not be relied on as such.

GAMMON GOLD DOES NOT INTEND TO UPDATE OR OTHERWISE REVISE THE ABOVE PROSPECTIVE FINANCIAL INFORMATION TO REFLECT CIRCUMSTANCES EXISTING AFTER THE DATE WHEN MADE OR TO REFLECT THE OCCURRENCE OF INTERVENING OR FUTURE EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING SUCH PROSPECTIVE FINANCIAL INFORMATION ARE NO LONGER APPROPRIATE.

**Gammon Gold's Reasons for the Merger**

One of Gammon Gold's strategic priorities is the expansion of its operations in Mexico. Gammon Gold management believes the merger offers Gammon Gold the opportunity to increase its mineral resource base by adding a third mine and a second development project, which management believes will bring growth in gold and silver production with low cash costs. Gammon Gold anticipates that the knowledge and operating expertise of CGC's management team in Mexico will complement Gammon Gold's technical and financial resources to help optimize the operation of the El Chanate Mine and the development of the Orion project. Gammon Gold also anticipates that the merger will enable CGC's operations to benefit from synergies from the consolidation of Mexican operations such as the employment of excess equipment from the Ocampo Mine to the El Chanate Mine.

The board of directors of Gammon Gold approved the merger agreement after Gammon Gold's senior management discussed with the board of directors a number of factors, including those described above and the business, assets, liabilities, results of operations, financial performance and prospects of CGC. The Gammon Gold board of directors did not consider it practicable to, and did not attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its determination. The Gammon Gold board of

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directors viewed its position as being based on all the information and the factors presented to and considered by it. In addition, individual directors may have given different weights to different information and factors.

**Interests of CGC's Directors and Executive Officers in the Merger**

When you consider the recommendation of the board of directors of Capital Gold in favor of approval of the merger, you should keep in mind that CGC directors and officers have interests in the merger that are different from, or in addition to, your interests as a stockholder.

These interests include that CGC equity compensation plans and award agreements generally provide for the vesting of equity awards upon completion of the merger. As of the effective time of the merger, each outstanding option to acquire CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and converted into an option to purchase a number of Gammon Gold common shares equal to the number of shares of CGC common stock subject to such CGC stock option immediately prior to the closing of the merger multiplied by the conversion number. The exercise price for each outstanding option will be adjusted to equal the exercise price per share of CGC common stock at which such option was exercisable immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each option will be assumed by Gammon Gold in accordance with its existing terms, except that it will be amended to provide that, following termination of employment, the option can be exercised until the earlier of 180 days from the date of such termination and the date of the expiration of the original option term and the exercise price and the number of Gammon Gold common shares exercisable pursuant to the assumed stock options shall be subject to such adjustments as may be necessary for the foregoing conversion to satisfy the requirements of Sections 409A, 422 and 424 of the Code and Treasury Regulations thereunder.

The directors and officers of CGC currently hold the number of options to acquire common stock of CGC set forth opposite such individuals name below, each of which will vest and convert into stock options of Gammon Gold upon completion of the merger as described above:

	<b>Stock Options</b>
Christopher M. Chipman	212,500
Stephen M. Cooper	225,000
John W. Cutler	225,000
J. Scott Hazlitt	175,000
Gary C. Huber	75,000
Colin Sutherland	226,072

The merger agreement also provides that all restricted stock will vest at the effective time of the merger. Therefore, the outstanding options and restricted stock held by directors, including CGC's president and CGC's chief operating officer, will vest upon completion of the merger.

Gammon Gold has agreed in the merger agreement to indemnify all present and former directors, officers and employees of CGC and its subsidiaries against costs and expenses in connection with certain claims arising from matters existing or occurring prior to completion of the merger. In addition, Gammon Gold has agreed to maintain a directors' and officers' insurance and indemnification policy (or an equivalent tail insurance policy) for present and former officers and directors of CGC and its subsidiaries with respect to facts or events occurring prior to merger completion, subject to certain limitations.

Gammon Gold and CGC have also agreed that, upon the closing of the merger, one current member of the board of directors of CGC will be appointed to Gammon Gold's board of directors. Gammon Gold has agreed to use commercially reasonable efforts to elect such person to serve as a member of Gammon Gold's board of directors.

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Three of CGC's executive officers are party to change in control agreements with CGC that provide severance and other benefits in the case of qualifying terminations of employment in connection with or following a change in control, including completion of the merger. Such executive officers are entitled to change of control benefits including:

three times the executive's base salary in effect on the date of the change in control, or, if greater, as in effect immediately prior to the change in control;

up to three times the executive's bonus award for the year immediately preceding the change in control;

all unvested options immediately become vested;

CGC will pay for outplacement services and tax and financial counseling services through the end of the second tax year following termination; and

the executive is entitled to a payment to make him whole for any federal excise tax imposed on change in control or severance payments received by him.

In addition, the parties anticipate that each change of control agreement will be amended to provide that any change of control payment paid shall be payable in Gammon Gold common shares, or in cash at the sole election of Gammon Gold. None of the non-executive directors of CGC will receive any payouts as a result of the merger.

**Potential Payments on Termination**

Compensation	Colin Sutherland(1)	Christopher M. Chipman	J. Scott Hazlitt
Base benefit	\$	\$	\$
Bonus			
Change in control payment	776,500	975,000	825,000
Accelerated vesting of restricted stock		10,042	3,013
Accelerated vesting of stock options	25,667	105,979	64,985
Disability coverage (one month severance)			
Outplacement services (estimated)	10,000	10,000	10,000
280G Tax gross-up		415,833	375,068
<b>Total</b>	<b>\$ 812,167</b>	<b>\$ 1,516,854</b>	<b>\$ 1,278,066</b>

(1) On August 2, 2010, in connection with the business combination with Nayarit Gold, Mr. Sutherland and CGC entered into an employment agreement whereby Mr. Sutherland became CGC's president. Mr. Sutherland is a resident of Canada and is compensated as such; accordingly, the 280G Tax gross-up provision of the Internal Revenue Code is not deemed to be applicable.

**Anticipated Accounting Treatment**

Gammon Gold intends to account for the merger under the acquisition method for both Canadian and United States financial accounting purposes. Accordingly, the aggregate fair value of the consideration paid by Gammon Gold in connection with the merger will be allocated to CGC's net assets based on their fair values as of the completion of the merger. The excess of the total purchase consideration over the fair value of the identifiable net assets acquired will be allocated to goodwill. The purchase price allocation is subject to refinement as Gammon Gold completes the valuation of the assets acquired and liabilities assumed. The results of operations of CGC will be included in Gammon Gold's

consolidated results of operations only for periods subsequent to the completion of the merger.

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### **Regulatory Matters Related to the Merger and Stock Exchange Listings**

To complete the merger, we need to obtain approvals or consents from, or make filings with, a number of U.S. federal regulatory authorities as well as regulatory authorities in Canada and Mexico. These approvals and filings are described below.

#### ***HSR Act***

Under the HSR Act and the rules promulgated thereunder, Gammon Gold and CGC cannot complete the merger until they notify and furnish information to the Federal Trade Commission and the Antitrust Division and satisfy a specified waiting period requirement. Gammon Gold and CGC filed the notification and report forms under the HSR Act with the Federal Trade Commission and the Antitrust Division on October 25, 2010 and received early termination of the waiting period on November 5, 2010.

Under the merger agreement, both Gammon Gold and CGC each agreed to use commercially reasonable efforts to promptly prepare and file all necessary documentation, including notification and report forms required under the HSR Act, necessary or advisable to consummate the merger. Notwithstanding that agreement, the merger agreement does not require Gammon Gold or CGC to enter into any settlement or other agreement with any governmental authority in connection with the merger or to divest or take any other action with respect to any subsidiaries of Gammon Gold or CGC or with respect to the businesses, assets or properties of affiliates of Gammon Gold or CGC.

#### ***Foreign Filings***

Under applicable Mexican antitrust laws, Gammon Gold and CGC cannot complete the merger until they receive the approval of the *Comisión Federal de Competencia Económica*, or the Mexican Antitrust Commission. On December 3, 2010, Gammon Gold and CGC submitted an application to the Mexican Antitrust Commission. In early January 2011, Gammon Gold and CGC filed a response to the questions that have been posed by the Mexican Antitrust Commission.

While Gammon Gold and CGC have no reason to believe it will not be possible to obtain these regulatory approvals in a timely manner and without the imposition of burdensome conditions, there is no certainty that these approvals will be obtained within the period of time contemplated by the merger agreement or on conditions that would not be detrimental.

Under the merger agreement, both Gammon Gold and CGC have each agreed to use commercially reasonable efforts to promptly prepare and file all necessary documentation, including notification and report forms required under the Mexican antitrust laws, necessary or advisable to consummate the merger. However, the merger agreement does not require Gammon Gold or CGC to enter into any settlement or other agreement with any governmental authority in connection with the merger or to divest or take any other action with respect to any subsidiaries of Gammon Gold or CGC or with respect to the businesses, assets or properties of affiliates of Gammon Gold or CGC.

#### ***Canadian Securities Law Matters***

CGC is a reporting issuer in Ontario, Canada and is, among other things, subject to Multilateral Instrument 61-101 Protection of Minority Security Holders in Special Transactions, or MI 61-101, adopted by the Ontario Securities Commission and *Autorité des marchés financiers* in Quebec. MI 61-101 is intended to regulate certain transactions to ensure equality of treatment among stockholders. The merger is subject to the minority approval requirements of MI 61-101, and as a result, in addition to any other required stockholder approval, the merger must be approved by not less than a majority of the votes cast by minority stockholders of each class of affected stock present in person or represented by proxy at the special meeting and entitled to vote on the matter. In relation to the merger, the minority stockholders are all CGC stockholders other than certain directors and



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executive officers of CGC who are entitled to receive change of control payments in connection with the merger. Colin Sutherland, Chris Chipman and Scott Hazlitt are executive officers of CGC entitled to receive change of control payments in connection with the merger. As of the record date, these directors and executive officers of CGC collectively held 428,746 shares of the then-outstanding CGC common stock, or less than 1% of the shares entitled to vote at the special meeting. See Proposal 1: The Merger Interests of CGC's Directors and Executive Officers in the Merger.

### ***Stock Exchange Listings***

Gammon Gold is obligated under the merger agreement to cause the Gammon Gold common shares issuable in the merger to be approved for listing on the TSX and the NYSE, subject to official notice of issuance, prior to the completion of the merger. In addition, it is a condition to the completion of the merger that these shares be approved for listing on the TSX and the NYSE. CGC common stock will be delisted from the NYSE Amex and the TSX promptly following consummation of the merger.

### **Merger Fees, Costs and Expenses**

All expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those expenses, except that CGC and Gammon Gold will share equally the costs and expenses incurred in connection with the filing, printing and mailing of this proxy statement/prospectus and the registration statement of which this proxy statement/prospectus forms a part and costs and expenses incurred in connection with applications, notices and other filings with regulatory authorities. In addition, Gammon Gold will pay the cost of engaging the proxy solicitor, Laurel Hill Advisory Group, to solicit proxies from CGC stockholders.

### **Procedures for Exchange of CGC Stock Certificates**

At or prior to the completion of the merger, Gammon Gold will cause to be deposited with an exchange agent appointed by Gammon Gold, subject to the approval of CGC, which shall not be unreasonably withheld, an estimated amount of cash sufficient to pay the cash portion of the merger consideration and cash in lieu of any fractional shares that would otherwise be issued in the merger, and certificates, or evidence of shares in book-entry form, representing the Gammon Gold common shares to be issued as part of the merger consideration.

As soon as reasonably practicable after the completion of the merger, and in no event more than five business days thereafter, the exchange agent will mail to each record holder of CGC common stock a form of letter of transmittal and instructions for use in effecting the surrender of the CGC stock certificates in exchange for the stock consideration. Upon proper surrender of a CGC stock certificate for exchange and cancellation to the exchange agent, together with a letter of transmittal and such other documents as may be specified in the instructions, the holder of the CGC stock certificate will be entitled to receive the stock consideration. With respect to the stock consideration consisting of Gammon Gold common shares, holders of CGC stock certificates will receive evidence of such shares in book-entry form.

CGC stock certificates may be exchanged for the merger consideration with the exchange agent for up to twelve months after the completion of the merger. At the end of that period, any evidence of shares in book-entry form and cash may at Gammon Gold's option be returned to Gammon Gold, and in such case, any holders of CGC stock certificates that have not exchanged their stock certificates would then be entitled to look only to Gammon Gold for the portion of the merger consideration to be paid by Gammon Gold.

Until you exchange your CGC stock certificates for merger consideration, you will not receive any dividends or other distributions in respect of any Gammon Gold common shares which you may be entitled to receive in connection with that exchange.

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Once you exchange your CGC stock certificates for the merger consideration, you will receive, without interest, any dividends or distributions with a record date after the completion of the merger and payable with respect to the Gammon Gold common shares, if any, that you are entitled to receive.

If your CGC stock certificate has been lost, stolen or destroyed, you may receive the merger consideration upon the making of an affidavit of that fact. You may be required to post a bond in a reasonable amount as an indemnity against any claim that may be made with respect to the lost, stolen or destroyed CGC stock certificate.

## **Treatment of CGC Warrants, CGC Options and Other Equity-Based Awards**

### ***CGC Warrants***

As of the effective time of the merger, each outstanding warrant to purchase CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and will thereafter be exercisable to purchase a number of Gammon Gold common shares equal to the product of the number of shares of CGC common stock underlying such warrant immediately prior to the completion of the merger multiplied by a fraction, the numerator of which is equal to the per share merger consideration (valuing the stock consideration portion based on the average of the closing sales prices of Gammon Gold common shares (in U.S. dollars) on the NYSE for each of the five trading days immediately prior to the effective time of the merger) and the denominator of which is the average of the closing sales prices of Gammon Gold common shares (in U.S. dollars) on the NYSE for each of the five trading days immediately prior to the effective time of the merger (rounded down to the nearest whole share). This fraction is referred to in this proxy statement/prospectus as the conversion number. The exercise price for each outstanding warrant will be adjusted to equal the exercise price per share of CGC common stock issuable upon exercise of the warrant immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each warrant option will be assumed by Gammon Gold in accordance with its existing terms.

### ***CGC Stock Options***

As of the effective time of the merger, each outstanding option to acquire CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and converted into an option to purchase a number of shares of Gammon Gold common shares equal to the number of shares of CGC common stock subject to such CGC stock option immediately prior to the closing of the merger multiplied by the conversion number. The exercise price for each outstanding option will be adjusted to equal the exercise price per share of CGC common stock at which such option was exercisable immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each option will be assumed by Gammon Gold in accordance with its existing terms, except that it will be amended to provide that, following termination of employment, the option can be exercised until the earlier of 180 days from the date of such termination and the date of the expiration of the original option term and the exercise price and the number of Gammon Gold common shares exercisable pursuant to the assumed stock options shall be subject to such adjustments as may be necessary for the foregoing conversion to satisfy the requirements of Sections 409A, 422 and 424 of the Code and Treasury Regulations thereunder.

### ***CGC Restricted Stock***

Immediately prior to the effective time of the merger, each outstanding restricted share of CGC common stock issued under CGC's equity-based compensation plan will become fully vested, subject to applicable income and employment withholding taxes.

### **Appraisal Rights**

Pursuant to Section 262 of the DGCL, referred to as Section 262, holders of shares of CGC common stock who do not wish to accept the merger consideration may dissent from the merger and elect to have the fair value

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of their shares of CGC common stock (exclusive of any element of value arising from the accomplishment or expectation of the merger) judicially determined and paid in cash, together with a fair rate of interest, if any. A CGC stockholder may exercise these appraisal rights only by complying strictly with Section 262.

The following is a brief summary of the statutory procedures to be followed by holders of CGC common stock in order to dissent from the merger and perfect appraisal rights under the DGCL. This summary is not intended to be complete, and is qualified in its entirety by reference to the full text of Section 262, the text of which is included as Annex D to this proxy statement/prospectus.

Any holder of CGC common stock seeking to exercise its right to dissent from the merger and demand appraisal of its shares of CGC common stock, or wishing to preserve its right to do so, should review carefully Section 262 and is urged to consult a legal advisor.

All references in Section 262 and in this summary to a stockholder are to the record holder of shares of CGC common stock as to which appraisal rights are asserted. **A person having a beneficial interest in shares of CGC common stock held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow properly the steps summarized below and in a timely manner to perfect appraisal rights.**

Under Section 262, if a proposed merger is to be submitted for adoption at a meeting of stockholders, as in the case of CGC's special meeting, CGC must, not less than 20 days prior to the special meeting, notify each of its stockholders entitled to appraisal rights that these appraisal rights are available and include in the notice a copy of Section 262. **This proxy statement/prospectus constitutes such notice to the CGC stockholders and Section 262 is included as Annex D to this proxy statement/prospectus.**

A CGC stockholder wishing to exercise the right to demand appraisal under Section 262 must satisfy each of the following conditions. The stockholder must:

deliver a written demand for appraisal of its shares to CGC before the taking of the vote with respect to the merger agreement at the special meeting. This demand will be sufficient if it reasonably informs CGC of the stockholder's identity and that the stockholder intends thereby to demand the appraisal of its shares. A proxy or vote against the merger will not constitute such a demand. The written demand for appraisal must be in addition to and separate from any proxy the stockholder delivers or vote the stockholder casts in person;

not vote in favor of the proposal to approve and adopt the plan of merger contained in the merger agreement (voting against, abstaining from voting or not voting at all will satisfy this requirement). A vote in favor of the proposal to approve and adopt the plan of merger contained in the merger agreement, in person or by proxy, or the return of a signed proxy that does not contain voting instructions will, unless revoked, constitute a waiver of the stockholder's appraisal rights and will nullify any previously filed written demand for appraisal; and

continue to hold its shares of CGC common stock from the date of making the demand through merger completion.

All written demands for appraisal should be mailed or delivered to:

Capital Gold Corporation

76 Beaver Street, 14th Floor

New York, New York 10005

Attn.: Secretary

To be effective, a demand for appraisal rights must be executed by or for the stockholder of record who held such shares of CGC common stock on the date of making the demand and who continuously holds such shares



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through the merger completion date, fully and correctly, as such stockholder's name appears on the stock certificates.

If the shares of CGC common stock are owned of record by a person in a fiduciary capacity, such as a trustee, guardian or custodian, the demand should be executed in that capacity. If the shares are owned of record by more than one person as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all of the owners. An authorized agent, including an agent for two or more joint owners, may execute a demand for appraisal on behalf of a stockholder; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is acting as agent for such owner or owners. A record holder, such as a broker, who holds shares as nominee for several beneficial owners may exercise appraisal rights with respect to the shares held for one or more beneficial owners while not exercising these rights with respect to the shares held for one or more other beneficial owners. In that case, the written demand should set forth the number of shares as to which appraisal is sought, and where no number of shares is expressly mentioned the demand will be presumed to cover all shares held in the name of the record owner.

Stockholders who hold their shares of CGC common stock in brokerage accounts or other nominee forms and who wish to exercise appraisal rights are urged to consult with their brokers to determine appropriate procedures for making a demand for appraisal.

Within 10 days after the date the merger is completed, CGC will give written notice that the merger has become effective to each stockholder who satisfied the requirements of Section 262 and has not voted in favor of adopting the merger agreement.

Within 120 days after the date the merger is completed, CGC or any stockholder who has complied with Section 262 and who is otherwise entitled to appraisal rights, may file a petition in the Delaware Court of Chancery, referred to as the Court of Chancery, demanding a determination of the value of CGC common stock held by all the dissenting stockholders entitled to appraisal rights. Any dissenting stockholder desiring to file a petition is advised to file on a timely basis unless the dissenting stockholder receives notice that another stockholder of CGC has already filed a petition. The failure to file a petition timely could nullify any previous written demand for appraisal. Notwithstanding the foregoing, at any time within 60 days after the date the merger is completed, any stockholder shall have the right to withdraw its demand for appraisal and to accept the merger consideration. Any attempt to withdraw made more than 60 days after the effectiveness of the merger will require the written approval of CGC and no appraisal proceeding before the Court of Chancery as to any stockholder will be dismissed without the approval of the Court of Chancery, which approval may be conditioned upon any terms the Court of Chancery deems just. If CGC does not approve a stockholder's request to withdraw a demand for appraisal when the approval is required or if the Court of Chancery does not approve the dismissal of an appraisal proceeding, the stockholder would be entitled to receive only the appraised value determined in any such appraisal proceeding. This value could be higher or lower than, or the same as, the value of the merger consideration.

Within 120 days after the date the merger is completed, any stockholder who has complied with Section 262 to that point in time shall be entitled to receive from CGC, upon written request, a statement setting forth the aggregate number of shares of CGC common stock not voted in favor of adopting the merger agreement and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Each written statement shall be mailed within 10 days after the stockholder's written request for such statement is received by CGC or within 10 days after expiration of the period for delivery of demands for appraisal under Section 262, whichever is later.

If a petition for appraisal is duly filed by a stockholder and a copy thereof is delivered to CGC, it shall, within 20 days, file with the office of the Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreement as to the value of their shares has not been reached by CGC. After notice to stockholders, the Court of Chancery is

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empowered to conduct a hearing on the petition to determine those stockholders who have complied with Section 262 and who have become entitled to appraisal rights. The Court of Chancery may require the stockholders who demanded appraisal for their shares and who hold stock represented by certificates to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings, and if any stockholder fails to comply with such direction, the Court of Chancery may dismiss the proceedings as to such stockholder.

After determining which stockholders are entitled to an appraisal, the Court of Chancery will appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining fair value and, if applicable, a fair rate of interest, the Court of Chancery is to take into account all relevant factors, including the rate of interest which CGC would have had to pay to borrow money during the pendency of the proceeding.

The Court of Chancery will direct the payment of the fair value of the shares, together with interest, if any, by CGC to the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct.

The costs of the proceedings may be determined by the Court of Chancery and taxed upon the parties as the Court of Chancery deems equitable in the circumstances. However, costs do not include attorneys' or expert witness fees. Upon application of a stockholder, the Court of Chancery may order that all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding be charged pro rata against the value of all of the shares entitled to appraisal. These expenses may include, without limitation, reasonable attorneys' fees and the fees and expenses of experts.

Failure to strictly follow the steps required by Section 262 for perfecting appraisal rights may result in the loss of appraisal rights, in which event dissenting CGC stockholders will be entitled to receive the merger consideration with respect to their dissenting shares. In view of the complexity of the provisions of Section 262, any stockholder considering exercising its appraisal rights under Section 262 is urged to consult its own legal advisor.

## **Resale of Gammon Gold Common Shares**

### ***U.S. Resale Requirements***

The Gammon Gold common shares issued under the terms of the merger agreement will not be subject to any restrictions on transfer arising under the Securities Act, unless you are an affiliate (as defined in the Securities Act) of Gammon Gold upon completion of the merger. Persons who may be deemed to be affiliates of Gammon Gold upon completion of the merger generally include individuals or entities that control, are controlled by, or are under common control with, Gammon Gold. Affiliates of CGC may no longer be subject to trade restrictions, provided they are not deemed affiliates of Gammon Gold following the merger. If you are deemed an affiliate of Gammon Gold you will be required to comply with the applicable restrictions of Rule 144 under the Securities Act in order to trade the common shares of Gammon Gold you receive in connection with the merger.

Gammon Gold's Registration Statement on Form F-4, of which this proxy statement/prospectus forms a part, does not cover the resale of common shares of Gammon Gold to be received in connection with the merger by persons who may be deemed to be affiliates of Gammon Gold upon completion of the merger.

### ***Canadian Resale Restrictions***

The Gammon Gold common shares issued under the terms of the merger agreement will not be subject to any restrictions on transfer under applicable Canadian securities law. To the extent Canadian securities laws apply, however, the first trade in the Gammon Gold common shares comprising the merger consideration must

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be made in accordance with conditions contained in applicable securities laws, including that such trade is not a control distribution, that no unusual effort is made to prepare the market or to create a demand for such shares and that no extraordinary commission or consideration is paid in respect of the trade. In addition, when selling the Gammon Gold common shares, holders who engage in the business of trading in securities, or hold themselves out as engaging in the business of trading in securities may also be subject to Canadian dealer registration requirements. If a holder requires advice on the application of Canadian securities laws to the trade of Gammon Gold common shares, the holder should consult its own legal advisor.

### **Interests of Gammon Gold's Directors and Executive Officers in the Merger**

CGC will propose one or more nominees to become a director of Gammon Gold upon completion of the merger. In accordance with Gammon Gold's policies for selecting and nominating persons to serve as a member of its board of directors, the directors of Gammon Gold will select one of CGC's nominees for appointment or election as a director of Gammon Gold. At each of Gammon Gold's annual shareholder meetings in 2011 and 2012, the CGC nominee will, if deemed advisable by the nominating and corporate governance committee comprised of Gammon Gold directors, be nominated for election as a director of Gammon Gold.

### **Board of Directors and Executive Officers of Gammon Gold After the Merger; Operations Following the Merger**

Following the merger, all of the existing directors of Gammon Gold will remain in place. Gammon Gold will add to its board of directors one director from a list of nominees provided by CGC. Gammon Gold does not expect that CGC will maintain its offices in New York, New York, Halifax, Nova Scotia or Philadelphia, Pennsylvania after it completes the integration of CGC.

Gammon Gold does not expect to materially alter its operations, corporate governance practices, management and director compensation practices, business practices or strategies as a result of the merger. Other than changes that may be made as a result of the optimization of operations at the El Chanate mine, including the potential switch from contract mining to owner mining, or the development of the Orion project, Gammon Gold does not anticipate that it will make material and adverse alterations to the operations, business practices or strategies of CGC's Mexican business following the merger.

### **Litigation Related to the Merger**

Subsequent to the announcement of the merger, thirteen putative shareholder class action complaints were filed challenging the transaction. Six complaints were filed in the Supreme Court of the State of New York, New York County, the New York Actions, six were filed in the Delaware Court of Chancery, the Delaware Actions, and one was filed in the United States District Court for the Southern District of New York.

The New York complaints captioned *Jenkins v. Capital Gold Corp., et al.*, Index No. 651651/2010; *Schroeder v. Capital Gold Corp., et al.*, Index No. 651652/2010; *Leone v. Capital Gold Corp., et al.*, Index No. 651690/2010; and *Bromberg v. Capital Gold Corp., et al.*, Index No. 651904/2010 name as defendants the directors of CGC, as well as CGC and Gammon Gold. The New York complaint captioned *Kramer v. Capital Gold Corp., et al.*, Index No. 651678/2010, names as defendants the directors of CGC, CGC's Chief Financial Officer and Secretary as well as CGC and Gammon Gold. The New York complaint captioned *Stanford v. Cooper, et al.*, Index No. 651827/2010, names as defendants the directors of CGC, as well as CGC, Gammon Gold and Capital Gold AcquireCo, Inc., Gammon Gold's wholly-owned subsidiary. The New York plaintiffs allege generally that the CGC officers and directors breached their fiduciary duties to CGC stockholders by agreeing to an unfair price and an inappropriate sale process, and that the individual defendants agreed to the merger to benefit themselves personally at the expense of stockholder interests. The *Kramer* and *Stanford* complaints allege in addition that the proposed transaction involves unreasonable deal protection devices, including a non-solicitation agreement, matching rights, and an unreasonable termination fee. The New York

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Actions further claim that CGC and Gammon Gold aided and abetted the purported breaches of fiduciary duties. The New York Actions seek injunctive relief, including enjoining the transaction and rescinding all agreements made in anticipation of the transaction or awarding the plaintiffs and the purported class rescissory damages. The New York Actions additionally seek attorneys' and other fees and costs, in addition to seeking other relief. Plaintiffs in the New York Actions filed a motion to consolidate and the New York Supreme Court, New York County, has scheduled a hearing for February 15, 2011.

The Delaware complaints captioned *Boehm v. Capital Gold Corp., et al.* Case No. 5887-VCL; and *Wood v. Capital Gold Corp., et al.*, Case No. 5920-VCN, name as defendants the directors of CGC, as well as CGC, Gammon Gold, and Capital Gold AcquireCo, Inc. The Delaware complaint captioned *Pait v. Sutherland, et al.*, Case No. 5899-VCN, names as defendants the directors of CGC and Gammon Gold. The Delaware complaints captioned *Reggio v. Capital Gold Corp., et al.*, Case No. 5939-VCS, *Blumenthal v. Capital Gold Corp.*, Case No. 5940-VCS, and *McClure v. Capital Gold Corp., et al.*, Case No. 5945-VCS, name as defendants CGC and its directors, as well as Gammon Gold. The Delaware Actions allege generally that the CGC directors breached their fiduciary duties to CGC's stockholders by agreeing to an unfair price, an inappropriate sale process, and unreasonable deal protection devices, including a non-solicitation agreement, matching rights, an unreasonable termination fee, and an impermissible director voting agreement. The *Boehm*, *Wood*, *Reggio*, *Blumenthal* and *McClure* complaints further claim that CGC, Gammon Gold, and/or Capital Gold AcquireCo, Inc. aided and abetted the purported breaches of fiduciary duties. The Delaware Actions seek injunctive relief, including enjoining the transaction, rescinding all agreements made in anticipation of the transaction or awarding the plaintiff and the purported class rescissory damages, and directing the individual defendants to account to the plaintiff and the purported class upon any damages suffered as a result of individual defendant wrongdoing. The Delaware Actions also seek attorneys' and other fees and costs, in addition to seeking other relief.

On November 12, 2010, the Delaware Court of Chancery entered an Order of Consolidation and a Stipulation and Scheduling Order, in which the court, among other items, consolidated the Delaware Actions, except for *Boehm*, which had been withdrawn, and set a schedule for expedited discovery. On November 16, 2010, plaintiffs in the Delaware Actions filed an amended and consolidated class action complaint in the Delaware Court of Chancery. The defendants' answer to the amended and consolidated class action complaint was filed with the Delaware Court of Chancery on December 6, 2010. Plaintiffs in the Delaware Actions filed a motion for preliminary injunction and the Delaware Court of Chancery has scheduled a hearing for March 14, 2011.

The complaint filed in the United States District Court for the Southern District of New York, captioned *Boehm v. Capital Gold, et al.*, 10-CIV-8818 (RMB), names as defendants CGC and its directors, as well as Gammon Gold and Capital Gold AcquireCo. The complaint alleges that CGC and its directors violated the proxy rules by issuing a registration statement containing material misleading statements and omissions. The complaint also asks the court to exercise its jurisdiction over putative class action claims under Delaware law against CGC and its directors for breach of fiduciary duty and against CGC, Gammon Gold and Capital Gold AcquireCo for aiding and abetting the breach of fiduciary duty. The basis for all claims and request for relief are substantially identical to those in the amended and consolidated class action complaint filed in Delaware.

The defendants believe the Delaware Actions and the New York Actions lack merit and will contest them vigorously.

**Delisting and Deregistration of CGC Common Stock**

If the merger is completed, CGC common stock will be delisted from the NYSE Amex and the TSX and deregistered under the Exchange Act and CGC will no longer file periodic reports with the SEC with respect to CGC common stock. An application will be filed with the securities regulatory authorities in the relevant Canadian jurisdictions so that CGC will cease to be a reporting issuer in those Canadian jurisdictions and CGC will no longer file periodic reports or other documents required under applicable securities laws in Canada.



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**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a summary of the anticipated material U.S. federal income tax considerations to holders of CGC common stock. This discussion is based on the Code, Treasury Regulations, judicial authorities, published positions of the IRS, and other applicable authorities, all as currently in effect and all of which are subject to change or differing interpretations, possibly with retroactive effect. This discussion is limited to U.S. Holders (as defined below) and Non-U.S. Holders (as defined below) that hold their shares of CGC common stock (or Gammon Gold common shares, where applicable) as capital assets for U.S. federal income tax purposes (generally, assets held for investment). This discussion does not purport to address all of the tax consequences that may be relevant to a particular CGC stockholder or to CGC stockholders that are subject to special treatment under U.S. federal income tax laws, such as:

financial institutions;

insurance companies;

tax-exempt organizations;

S-corporations or other pass-through entities;

dealers in securities or currencies;

persons whose functional currency is not the U.S. dollar;

traders in securities that elect to use a mark to market method of accounting;

persons that hold CGC common stock as part of a straddle, hedge, constructive sale or conversion transaction;

U.S. Holders who acquired their shares of CGC common stock through the exercise of an employee stock option or otherwise as compensation; and

U.S. Holders who actually or constructively own five percent or more of the total combined voting power of Gammon Gold voting securities.

This discussion does not address the tax consequences of the merger under state, local or foreign tax laws. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

Holders of CGC common stock should consult with their own tax advisors as to the tax consequences of the merger in their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local or foreign and other tax laws and of changes in those laws.

For purposes of this section, the term "U.S. Holder" means a beneficial owner of CGC common stock (or Gammon Gold common shares, where applicable) that for U.S. federal income tax purposes is:

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a citizen or resident of the U.S.;

a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S. or any state or the District of Columbia;

an estate that is subject to U.S. federal income tax on its income regardless of its source; or

a trust, the substantial decisions of which are controlled by one or more U.S. persons and which is subject to the primary supervision of a U.S. court, or a trust that validly has elected under applicable Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

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For purposes of this section, the term **Non-U.S. Holder** means a person who is a beneficial owner of CGC common stock (or Gammon Gold common shares, where applicable) that is not a U.S. Holder.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds CGC common stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisers about the tax consequences of the merger to them.

### **Tax Consequences of the Merger Generally**

Gammon Gold and CGC intend the merger to qualify as a reorganization within the meaning of Section 368(a) of the Code and the merger has been structured consistent with such intent. However, neither Gammon Gold nor CGC has requested an opinion of counsel to this effect, and neither Gammon Gold nor CGC intends to request any ruling from the IRS as to the U.S. federal income tax consequences of the merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of those set forth below.

If the merger qualifies as a reorganization, no gain or loss will be recognized by Gammon Gold or CGC. Assuming the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code, the following material U.S. federal income tax consequences will result from the merger. If the merger does not qualify as a reorganization please see the consequences described under the heading **Failure to Qualify as a Reorganization**, below.

### **Fractional Shares**

If a U.S. Holder receives cash in lieu of a fractional Gammon Gold common share, subject to the discussion below regarding possible dividend treatment, the holder generally will recognize capital gain or loss equal to the difference between the cash received in lieu of such fractional Gammon Gold common share and the portion of its adjusted tax basis in CGC common stock surrendered that is allocable to such fractional Gammon Gold common share. The capital gain or loss will be long-term capital gain or loss if the holding period for the CGC common stock exchanged for cash in lieu of the fractional Gammon Gold common share is more than one year as of the date of the merger.

### **Exchange of CGC Common Stock for Combination of Gammon Gold Common Shares and Cash**

Subject to the application of Section 367 of the Code and the rules applicable to 5% U.S. Holders (as defined below), for a U.S. Holder who exchanges shares of CGC common stock for a combination of Gammon Gold common shares and cash, gain (but not loss) may be recognized. The amount of such recognized gain, if any, will be equal to the lesser of (i) the excess, if any, of the amount of cash plus the fair market value of any Gammon Gold common shares received in the merger, over such U.S. Holder's tax basis in the shares of CGC common stock surrendered by the U.S. Holder in the merger, or (ii) the amount of cash received in the merger. For a U.S. Holder who acquired different blocks of CGC common stock at different times and at different prices, realized gain or loss generally must be calculated separately for each identifiable block of shares exchanged in the merger, and a loss realized on the exchange of one block of shares cannot be used to offset a gain realized on the exchange of another block of shares. If a U.S. Holder has differing bases or holding periods in respect of CGC common stock, the U.S. Holder should consult its tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular Gammon Gold common shares received in the merger.

In some cases, such as if the U.S. Holder actually or constructively owns Gammon Gold common shares immediately before the merger, such gain could be treated as having the effect of the distribution of a dividend, under the tests set forth in Section 302 of the Code, in which case such gain would be treated as dividend income.

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These rules are complex and dependent upon the specific factual circumstances particular to each U.S. Holder. Consequently, each U.S. Holder that may be subject to those rules should consult its tax advisor as to the application of these rules to the particular facts relevant to such U.S. Holder.

### **Treatment of 5% U.S. Holders**

Special rules apply with respect to U.S. Holders that are 5% U.S. Holders, including additional requirements in order for such 5% U.S. Holders to qualify for the tax treatment described in Exchange of CGC Common Stock for Combination of Gammon Gold Common Shares and Cash, above. A 5% U.S. Holder for this purpose is any U.S. Holder that directly or indirectly owns at least five percent of either the total voting power or the total value of Gammon Gold common shares immediately after the merger. Any U.S. Holder that may be a 5% U.S. Holder should consult its tax advisor as to the application of these rules in its particular circumstances.

### **Application of Section 367 of the Code**

Section 367(a) of the Code and the applicable Treasury Regulations thereunder provide that where a U.S. shareholder exchanges stock in a U.S. corporation for stock in a non-U.S. corporation in a transaction that would otherwise constitute a nonrecognition transaction, the U.S. shareholder is required to recognize gain, but not loss, realized on such exchange unless certain requirements are met. While Gammon Gold and CGC generally expect such requirements to be met, one such requirement is that the value of Gammon Gold equal or exceed the value of CGC as of the closing date of the merger. Whether this requirement is met cannot be known until the closing date of the merger.

If the value of Gammon Gold equals or exceeds that of CGC as of the closing date of the merger, the U.S. federal income tax treatment of the merger to U.S. Holders will be as described in the preceding paragraphs of this discussion. Alternatively, if as of the closing date the value of CGC exceeds that of Gammon Gold or if the remaining requirements of Code Section 367(a) are not met, a U.S. Holder of CGC common stock would recognize gain (but not loss) in an amount equal to the excess, if any, of the amount of cash plus the fair market value as of the closing date of the merger of any Gammon Gold common shares received in the merger, over such U.S. Holder's tax basis in the shares of CGC common stock surrendered by the U.S. Holder in the merger. Any gain so recognized would generally be long-term capital gain if the U.S. Holder has held the CGC common stock for more than one year at the time the merger is completed.

For a U.S. Holder who acquired different blocks of CGC common stock at different times and at different prices, realized gain or loss generally must be calculated separately for each identifiable block of shares exchanged in the merger, and a loss realized (but not recognized) on the exchange of one block of shares cannot be used to offset a gain realized on the exchange of another block of shares. If a U.S. Holder has differing bases or holding periods in respect of CGC common stock, the U.S. Holder should consult its tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular Gammon Gold common shares received in the merger.

### **Treatment of Non-U.S. Holders who Exchange CGC Common Stock in the Merger**

For a Non-U.S. Holder who exchanges its CGC common stock in the merger, its tax consequences, including the computation of capital gain or loss, will generally be determined in the same manner as that of a U.S. Holder, except as otherwise described below.

A Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain recognized with respect to the merger unless (i) such gain is effectively connected with a trade or business of the Non-U.S. Holder in the U.S. (and, if certain income tax treaties apply, is attributable to a permanent establishment), (ii) CGC is a U.S. real property holding corporation (as defined below) at any time within the shorter of the five-year period

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ending on the date on which the merger is consummated or such Non-U.S. Holder's holding period in its CGC common stock or (iii) the Non-U.S. Holder is an individual who is present in the U.S. for a period or periods aggregating 183 or more days in the taxable year of the exchange and certain other conditions are met. In such cases, a Non-U.S. Holder will generally be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder. In addition, a Non-U.S. Holder that is a corporation may be subject to a branch profits tax equal to 30% (or a lesser rate under an applicable income tax treaty) on such effectively connected income (other than income that is effectively connected income solely by virtue of clause (ii), above).

Generally, a corporation is a U.S. real property holding corporation if the fair market value of its U.S. real property interests, as defined in the Code and applicable Treasury Regulations, equals or exceeds 50% of the aggregate fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. CGC does not believe that it is or has been a U.S. real property holding corporation within the last five years and does not expect to become a U.S. real property holding corporation prior to the date of closing the merger.

In addition, if a Non-U.S. Holder receives a cash payment in the merger in exchange for some or all of its CGC common stock that, as discussed above, has the effect of a distribution of a dividend for U.S. federal income tax purposes, then such cash payment may be subject to 30% withholding unless (i) such Non-U.S. Holder is eligible for a reduced rate of withholding with respect to dividend income under an applicable income tax treaty or (ii) amounts paid to the Non-U.S. Holder in the merger are effectively connected with the conduct of a U.S. trade or business. If amounts paid to the Non-U.S. Holder in the merger have the effect of a distribution of a dividend for U.S. federal income tax purposes and are effectively connected with the conduct of a U.S. trade or business, no such withholding will be required and such amounts will be taxed at the same graduated rates applicable to U.S. Holders, net of certain deductions and credits. In general, a Non-U.S. Holder must furnish an IRS Form W-8BEN or IRS Form W-8ECI in order to establish its eligibility for any of the foregoing exemptions or rate reductions.

The rules relating to Non-U.S. Holders are complex and dependent on the specific factual circumstances particular to each Non-U.S. Holder. Consequently, each Non-U.S. Holder should consult its tax advisor as to the U.S. federal income tax consequences relevant to such Non-U.S. Holder.

**Treatment of Dissenters**

The tax consequences to a CGC stockholder who exercises dissenters' rights with respect to such shares and receives payment for its CGC common stock in cash generally will not depend on the qualification of the merger as a reorganization for federal income tax purposes. A U.S. Holder that receives cash pursuant to the exercise of dissenters' rights generally will recognize a capital gain or loss for federal income tax purposes, measured by the difference between the holder's basis in such shares and the amount of cash received (other than the amount of cash received, if any, that is or is deemed to be interest for federal income tax purposes, which will be taxed as ordinary income). The deductibility of capital losses is subject to limitations.

If a Non-U.S. Holder receives cash pursuant to the exercise of dissenters' rights, then, subject to the exceptions described above in the second paragraph under the heading Treatment of Non-U.S. Holders Who Exchange CGC Common Stock in the Merger, that Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain recognized.

**Tax Basis and Holding Period**

A U.S. Holder's aggregate tax basis in the Gammon Gold common shares received in the merger will equal its aggregate tax basis in the CGC common stock surrendered in the merger, increased by the amount of taxable gain or dividend income, if any, recognized in the merger, and decreased by the amount of cash, if any, received in the merger. The holding period for the shares of Gammon Gold common shares received in the merger

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generally will include the holding period for the CGC common stock exchanged therefor. However, if a U.S. Holder recognizes gain under Section 367 of the Code with respect to the merger, the U.S. Holder's holding period for the Gammon Gold common shares that such holder receives will begin on the closing date of the merger.

### **Information Reporting and Backup Withholding**

Cash payments received in the merger by a CGC stockholder may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption or furnishes its taxpayer identification number (in the case of individuals, their social security number) or provides a certification of foreign status on IRS Form W-8BEN or other appropriate form, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the CGC stockholder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

### **Other Reporting Requirements**

A CGC stockholder who receives Gammon Gold common shares as a result of the merger will be required to retain records pertaining to the merger. Each holder of CGC common stock who is required to file a U.S. tax return and who is a significant holder that receives Gammon Gold common shares in the merger will be required to file a statement with the stockholder's U.S. federal income tax return setting forth such holder's basis in the CGC common stock surrendered and the fair market value of the Gammon Gold common shares and cash, if any, received in the merger. A significant holder is a CGC stockholder who, immediately before the merger, owned at least 5% of the outstanding stock of CGC.

### **Failure to Qualify as a Reorganization**

If the merger is not treated as a reorganization within the meaning of Section 368(a) of the Code, then (i) each holder of CGC common stock will recognize gain or loss equal to the difference between the sum of the fair market value of the Gammon Gold common shares and the amount of cash received in the merger (including cash received in lieu of fractional Gammon Gold common shares) and its tax basis in the CGC shares surrendered in exchange therefor, (ii) each U.S. Holder generally will be subject to U.S. federal income tax on such recognized gain, and (iii) subject to the exceptions described above in the second paragraph under the heading Treatment of Non-U.S. Holders who Exchange CGC Common Stock in the Merger, Non-U.S. Holders generally will not be subject to U.S. federal income tax on any gain recognized.

### **Material Consequences to U.S. Holders of Owning Gammon Gold Shares Received in the Merger**

#### ***Distributions***

In general, for U.S. federal income tax purposes, the gross amount of any distribution (other than certain distributions, if any, of shares distributed to all shareholders of Gammon Gold) made to you with respect to shares of Gammon Gold, including the amount of any Canadian taxes withheld from the distribution, will constitute dividends to the extent of Gammon Gold's current and accumulated earnings and profits (as determined under U.S. federal income tax principles).

Non-corporate U.S. Holders generally will be taxed on such distributions at the lower rates applicable to long-term capital gains (e.g., gains from the sale of capital assets held for more than one year) with respect to distributions received on or before January 1, 2011, provided that the U.S. Holder meets certain holding period and other requirements and provided that such distributions constitute qualified dividends for U.S. federal income tax purposes. Distributions treated as dividends will not be treated as qualified dividends if Gammon

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Gold were to be treated as a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes in the year that the dividend is paid or in the year prior to the year that the dividend is paid. Based on certain estimates of its gross income and gross assets and the nature of its business, Gammon Gold believes that it will not be classified as a PFIC for the taxable year ending December 31, 2010. Gammon Gold's status in future years will depend on its assets and activities in those years. Gammon Gold has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC. However, as PFIC status is a factual matter that must be determined annually at the close of each taxable year, there can be no certainty regarding Gammon Gold's PFIC status in any particular year until the end of that year. U.S. Holders are urged to consult their own tax advisors regarding the availability to them of the reduced dividend rate in light of their own particular circumstances and the consequences to them if Gammon Gold were to be treated as a PFIC with respect to any taxable year.

Dividends paid to corporate U.S. Holders will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders.

If you are a U.S. Holder and distributions with respect to shares exceed Gammon Gold's current and accumulated earnings and profits as determined under U.S. federal income tax principles, then the excess generally would be treated first as a tax-free return of capital to the extent of your adjusted tax basis in the shares. Any amount in excess of the amount of the dividend and the return of capital generally would be treated as capital gain. Gammon Gold does not maintain calculations of its earnings and profits under U.S. federal income tax principles.

If you are a U.S. Holder, then dividends paid in Canadian dollars, including the amount of any Canadian taxes withheld from the dividends, will be included in your gross income in an amount equal to the U.S. dollar value of the Canadian dollars calculated by reference to the spot exchange rate in effect on the day the dividends are includible in income. If dividends paid in Canadian dollars are converted into U.S. dollars on the day they are includible in income, then you generally should not be required to recognize foreign currency gain or loss with respect to the conversion. However, any gains or losses resulting from the conversion of Canadian dollars between the time of the receipt of dividends paid in Canadian dollars and the time the Canadian dollars are converted into U.S. dollars will be treated as ordinary income or loss to you, as the case may be. The amount of any distribution of property other than cash will be the fair market value of the property on the date of distribution.

If you are a U.S. Holder, then you will have a basis in any Canadian dollars received as a refund of Canadian withholding taxes equal to a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt of the dividend on which the tax was withheld.

If you are a U.S. Holder, then dividends received by you with respect to shares will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. Subject to certain conditions and limitations, Canadian tax withheld on dividends may be deducted from your taxable income or credited against your U.S. federal income tax liability. However, to the extent that you would be entitled to a refund of Canadian withholding taxes pursuant to the U.S.-Canada tax treaty, you may not be eligible for a U.S. foreign tax credit with respect to the amount of such withholding taxes which may be refunded, even if you fail to claim the refund. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by Gammon Gold generally will constitute passive income, or, in the case of certain U.S. Holders, financial services income. The rules relating to the determination of the U.S. foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you would be entitled to this credit.

### ***Sale or Exchange of Shares***

If you are a U.S. Holder that holds shares as capital assets, then you generally will recognize capital gain or loss for U.S. federal income tax purposes upon a sale or exchange of your shares in an amount equal to the

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difference between your adjusted tax basis in the shares and the amount realized on their disposition. If you are a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain is generally lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if your holding period for the shares exceeds one year (e.g., long-term capital gains). If you are a U.S. Holder, then the gain or loss, if any, recognized by you generally will be treated as U.S. source income or loss, as the case may be, for U.S. foreign tax credit purposes.

If you are a U.S. Holder and you receive any foreign currency on the sale of shares, then you may recognize U.S. source ordinary income or loss as a result of currency fluctuations between the date of the sale of the shares and the date the sales proceeds are converted into U.S. dollars.

***Backup Withholding and Information Reporting***

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, shares made within the U.S. to a holder of shares (other than an exempt recipient, including a corporation, a payee that is not a U.S. Holder that provides an appropriate certification, and certain other persons).

A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, shares within the U.S. to you, unless you are an exempt recipient, if you fail to furnish your correct taxpayer identification number or otherwise fail to establish an exception from backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the U.S. Internal Revenue Service. The current backup withholding tax rate is 28 percent.



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**MATERIAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The Canadian federal income tax considerations under the Income Tax Act (Canada), or the Tax Act, apply to the disposition of CGC common stock by a CGC stockholder pursuant to the merger agreement. This summary is applicable to a CGC stockholder who, at all relevant times, for the purposes of the Tax Act, deals at arm's length with, and is not affiliated with, either CGC or Gammon Gold, and holds CGC common stock and will hold Gammon Gold common shares received under the merger agreement as capital property. Generally, CGC common stock and Gammon Gold common shares will be considered to be capital property to a holder provided that the holder does not hold such common shares in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. This summary is not applicable to any holder which is a specified financial institution (as defined in the Tax Act), to any holder that is a financial institution (as defined in the Tax Act) for the purposes of the mark-to-market property rules of the Tax Act, to any holder an interest in which would be a tax shelter investment (as defined in the Tax Act), to any holder in respect of which CGC is a foreign affiliate (as defined in the Tax Act) or to any holder who has elected to report its Canadian tax results in a currency other than the Canadian currency.

This summary is based on the current provisions of the Tax Act and the regulations thereunder and an understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency, or the CRA. It also takes into account all specific proposals to amend the Tax Act and regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof ( Proposed Amendments ). There is no assurance that any of the Proposed Amendments will be enacted in the form proposed or at all. This summary does not otherwise take into account or anticipate any changes in law or in the administrative policies or assessing practices of the CRA, whether by legislative, governmental or judicial action or decision, nor does it take into account other federal or any provincial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations described in this summary.

**This summary is of a general nature only and is not intended to be legal or tax advice to any particular CGC stockholder. CGC stockholders should consult their own tax advisors for advice with respect to the tax consequences of disposing of their CGC common stock pursuant to the merger agreement and of an investment in Gammon Gold common shares, based on their particular circumstances.**

For purposes of the Tax Act, all amounts in respect of the acquisition, holding or disposition of CGC common stock and Gammon Gold common shares denominated in a currency other than the Canadian currency must be converted into Canadian dollars using the rate of exchange quoted by the Bank of Canada at noon on the relevant date or such other rate of exchange that is acceptable to CRA.

**Shareholders Resident in Canada**

The following discussion applies to a shareholder who, at all relevant times, for the purposes of the Tax Act, is resident or is deemed to be resident in Canada, or a Canadian Resident Shareholder. Certain Canadian Resident Shareholders who might not otherwise be considered to hold their Gammon Gold common shares received under the merger agreement as capital property may, in certain circumstances, be entitled to make an irrevocable election permitted by subsection 39(4) of the Tax Act to have the Gammon Gold common shares and every other Canadian security (as defined in the Tax Act), owned by such Canadian Resident Shareholder in the taxation year of the election and in all subsequent taxation years deemed to be capital property. Shareholders should consult their own tax advisors as to whether such election is available in their circumstances in respect of Gammon Gold common shares. This election is not available in respect of CGC common stock .

**Disposition of CGC Common Stock**

A Canadian Resident Shareholder who disposes of CGC common stock pursuant to the merger agreement will receive consideration in the form of 0.5209 Gammon Gold common shares per share of CGC common stock

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and cash totalling \$0.79 per share of CGC common stock and an amount in respect of any fraction of a Gammon Gold common share otherwise receivable. The Canadian Resident Shareholder's proceeds of disposition of its CGC common stock for Canadian tax purposes will equal the total of the fair market value of the Gammon Gold common shares received and the Canadian dollar equivalent of the cash consideration received. Such Canadian Resident Shareholder will realize a capital gain (or sustain a capital loss) to the extent that the Canadian Resident Shareholder's total proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such CGC common stock to the Canadian Resident Shareholder.

Generally, one-half of any capital gain realized by a Canadian Resident Shareholder in a taxation year will be included in computing the Canadian Resident Shareholder's income for such year (a taxable capital gain), and one-half of any capital loss realized by a Canadian Resident Shareholder in a taxation year (an allowable capital loss) may be deducted from the Canadian Resident Shareholder's taxable capital gains realized in that year in accordance with the rules in the Tax Act. Allowable capital losses in excess of taxable capital gains may be carried back three taxation years or carried forward and deducted in a subsequent taxation year against net taxable capital gains realized in such years in accordance with the rules in the Tax Act. Capital gains realized by an individual (and certain trusts) will be relevant in computing possible liability for the alternative minimum tax.

Corporations that are Canadian-controlled private corporations as defined in the Tax Act may be subject to an additional refundable 6 2/3% tax on their aggregate investment income (which is defined in the Tax Act to include an amount in respect of taxable capital gains).

The cost to a Canadian Resident Shareholder of each Gammon Gold common share acquired under the merger agreement will be equal to the fair market value of such Gammon Gold common share at the time of its acquisition. The adjusted cost base to a Canadian Resident Shareholder of Gammon Gold common shares acquired pursuant to the merger agreement will be determined by averaging the cost of the Gammon Gold common shares so acquired with the adjusted cost base to the Canadian Resident Shareholder of any other Gammon Gold common shares that are held by the Canadian Resident Shareholder at the time of acquisition and held as capital property.

### **Taxation of Dividends on Gammon Gold Common Shares**

Dividends (including deemed dividends) received on Gammon Gold common shares by a Canadian Resident Shareholder who is an individual will be included in the individual's income and will generally be (except in the case of certain trusts) subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced dividend tax credit rules applicable to any dividend designated by Gammon Gold as an eligible dividend. There may be limitations on the ability of Gammon Gold to designate dividends as eligible dividends. Taxable dividends received by an individual (and certain trusts) may give rise to alternative minimum tax under the Tax Act, depending on the individual's circumstances.

Dividends (including deemed dividends) received on Gammon Gold common shares by a Canadian Resident Shareholder that is a corporation will be included in computing the corporation's income and will generally be deductible in computing the corporation's taxable income.

A Canadian Resident Shareholder that is a private corporation, as defined in the Tax Act, or any other corporation controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay a 33 1/3% refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on Gammon Gold common shares to the extent such dividends are deductible in computing its taxable income.

### **Disposition of Gammon Gold Common Shares**

A Canadian Resident Shareholder who disposes of or is deemed to dispose of Gammon Gold common shares will generally realize a capital gain (or sustain a capital loss) to the extent that the Canadian Resident

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Shareholder's proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the Canadian Resident Shareholder. If the Canadian Resident Shareholder is a corporation, any capital loss arising on a disposition of a share may in certain circumstances be reduced by the amount of any dividends which have been received, or deemed to have been received, on the share. Analogous rules may apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary.

Generally, one-half of any capital gain realized by a Canadian Resident Shareholder in a taxation year will be included in computing the Canadian Resident Shareholder's income for such year (a taxable capital gain), and one-half of any capital loss realized by a Canadian Resident Shareholder in a taxation year (an allowable capital loss) may be deducted from the Canadian Resident Shareholder's taxable capital gains realized in that year in accordance with the rules in the Tax Act. Allowable capital losses in excess of taxable capital gains may be carried back three taxation years or carried forward and deducted in a subsequent taxation year against net taxable capital gains realized in such years in accordance with the rules in the Tax Act. Capital gains realized by an individual (and certain trusts) will be relevant in computing possible liability for the alternative minimum tax.

Corporations that are Canadian-controlled private corporations as defined in the Tax Act may be subject to an additional refundable 6 2/3% tax on their aggregate investment income (which is defined in the Tax Act to include an amount in respect of taxable capital gains).

### **Eligibility for Investment**

Gammon Gold common shares would be qualified investments for trusts governed by registered retirement savings plans, registered education savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans and tax-free savings accounts, or TFSA, provided the Gammon Gold common shares are listed on a designated stock exchange as defined in the Tax Act (which currently includes the TSX and NYSE).

Notwithstanding that Gammon Gold common shares may, at a particular time, be qualified investments for a trust governed by a TFSA, the holder of a TFSA will be subject to a penalty tax with respect to Gammon Gold common shares held in a TFSA if such shares are prohibited investments for the TFSA within the meaning of the Tax Act. Provided the holder of the TFSA does not hold a significant interest (as defined in the Tax Act) in Gammon Gold or in any corporation, partnership or trust that does not deal at arm's length with Gammon Gold for the purposes of the Tax Act, and provided that such holder deals at arm's length with Gammon Gold for the purposes of the Tax Act, Gammon Gold common shares would not be prohibited investments for a trust governed by a TFSA. **CGC stockholders who plan to hold Gammon Gold common shares in a TFSA are urged to consult their own tax advisers.**

### **Treatment of Dissenters**

A Canadian Resident Shareholder who exercises dissenters' rights with respect to the CGC common stock owned by the Canadian Resident Shareholder and receives payment for its CGC common stock will realize a capital gain (or sustain a capital loss) to the extent that the total payment received, net of any amount thereof that is interest and net of any reasonable costs of disposition, exceeds (or is less than) the adjusted cost base of such CGC common stock to the Canadian Resident Shareholder. The tax consequences of such a capital gain or capital loss to a Canadian Resident Shareholder who exercises dissenters' rights are as described above under Disposition of CGC Common Stock. Any amount of interest that is received or receivable in a taxation year by a Canadian Resident Shareholder (depending on the method regularly used by it) is required to be included in computing the Canadian Resident Shareholder's income for such taxation year for the purposes of the Tax Act. **CGC stockholders considering exercising their dissenters' rights should consult their own tax advisers having regard to their particular circumstances.**

### **Shareholders Not Resident in Canada**

The following discussion applies to a shareholder who at all relevant times for purposes of the Tax Act and any applicable income tax treaty or convention, is neither resident nor deemed to be resident in Canada, does not

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and is not deemed to use or hold CGC common stock and will not use or hold Gammon Gold common shares in carrying on a business in Canada, and does not hold CGC common stock and will not hold Gammon Gold common shares as part of the business property of a permanent establishment in Canada or in connection with a fixed base in Canada, or a Non-Resident Shareholder. In addition, this discussion does not apply to an insurer who carries on business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act).

### **Disposition of CGC Common Stock**

A Non-Resident Shareholder generally will not be subject to tax under the Tax Act in respect of any capital gain realized by such shareholder on a disposition of CGC common stock pursuant to the merger agreement unless the CGC common stock constitutes taxable Canadian property of the Non-Resident Shareholder for the purposes of the Tax Act.

Since CGC common stock is listed on a designated stock exchange, CGC common stock generally will not constitute taxable Canadian property of a Non-Resident Holder, unless at any time during the 60 month period immediately preceding the disposition: (i) the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm's length, or the Non-Resident Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of CGC; and (ii) more than 50% of the fair market value of the CGC shares was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, Canadian resource properties (as defined in the Tax Act), timber resource properties (as defined in the Tax Act) or an option, an interest or right in such property.

Non-Resident Shareholders whose CGC common stock may constitute taxable Canadian property should consult their own tax advisors.

### **Dividends on Gammon Gold Common Shares**

Dividends paid or credited or deemed to be paid or credited on Gammon Gold common shares to a Non-Resident Shareholder will be subject to a Canadian non-resident withholding tax at a rate of 25% of the gross amount of the dividend. Such non-resident withholding tax may be reduced under the terms of an applicable income tax treaty or convention between Canada and the country of which the Non-Resident Shareholder is a resident. For instance, under the Canada-United States Income Tax Convention (1980), or the Treaty, as amended, the rate of withholding tax on dividends paid or credited to a Non-Resident Shareholder who is resident in the U.S. for the purposes of the Treaty and entitled to benefits under the Treaty, or a U.S. Holder, is generally limited to 15% of the gross amount of the dividend (or 5% in the case of a U.S. Holder that is a company beneficially owning at least 10% of Gammon Gold's voting shares). Non-Resident Shareholders should consult their own tax advisors.

### **Disposition of Gammon Gold Common Shares**

A Non-Resident Shareholder will not be subject to tax under the Tax Act in respect of any capital gain realized by such shareholder on a disposition (or deemed disposition) of Gammon Gold common shares unless such common shares constitute taxable Canadian property for the purposes of the Tax Act of the Non-Resident Shareholder at the time of disposition and the Non-Resident Shareholder is not entitled to relief under an applicable income tax treaty or convention. Gammon Gold common shares are currently listed for trading on a designated stock exchange. For a description of the circumstances in which shares listed on a designated stock exchange may constitute taxable Canadian property, see the discussion above under "Disposition of CGC Common Stock". Non-Resident Shareholders whose Gammon Gold common shares may constitute taxable Canadian property should consult their own tax advisors.

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**THE MERGER AGREEMENT**

*The following is a summary of the material terms of the merger agreement. While Gammon Gold and CGC believe this description covers the material terms of the merger agreement, it does not purport to contain all of the information that may be important to you and is qualified in its entirety by reference to the merger agreement, which is included as Annex A and A-1 to this document and is incorporated by reference in this document. We urge you to read the entire merger agreement carefully.*

*The merger agreement contains representations and warranties that each of CGC, Gammon Gold and Capital Gold AcquireCo, Inc. have made to each other as of specific dates. The assertions made in those representations and warranties were made solely for purposes of the contract between CGC, Gammon Gold and Capital Gold AcquireCo, Inc. and may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating the terms of the merger agreement. In addition, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a contractual standard of materiality different from what might be viewed as material to stockholders, may be qualified by information contained in confidential disclosure schedules delivered by the parties concurrently with the execution of the merger agreement or may have been used for purposes of allocating risk between the respective parties rather than establishing matters as facts. Stockholders and other investors are not third-party beneficiaries under the merger agreement and should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or conditions of CGC, Gammon Gold or Capital Gold AcquireCo, Inc. or any of their respective subsidiaries or affiliates.*

**The Merger**

The merger agreement provides for the merger of Capital Gold AcquireCo, Inc., or AcquireCo, a Delaware corporation and a wholly-owned subsidiary of Gammon Gold, with and into CGC, with CGC as the surviving corporation. As a result of the merger, CGC will become a wholly-owned subsidiary of Gammon Gold. The merger agreement was amended by CGC and Gammon Gold on October 29, 2010 to note that appraisal rights are available in connection with the proposed merger and include a closing condition that provides that Gammon Gold is not obligated to complete the merger if holders of more than 10% of the outstanding shares of CGC common stock have exercised appraisal rights under Section 262 of the DGCL with respect to the merger.

**Closing; Effective Time**

*Closing*

The closing of the merger will take place on a date to be agreed upon by Gammon Gold and CGC, which date will be no later than the fifth business day after the satisfaction or waiver of all of the closing conditions (other than conditions that, by their nature, cannot be satisfied until the closing). See *The Merger Agreement Conditions to the Closing of the Merger* beginning on page 128 for a description of the conditions that must be satisfied or waived prior to the closing.

*Effective Time*

At the closing, Gammon Gold and CGC will file a certificate of merger with the Secretary of State of the State of Delaware. The merger will become effective upon the filing of the certificate of merger, or at such later time as Gammon Gold and CGC may agree upon and specify in the certificate of merger.

**Merger Consideration**

Each share of the CGC common stock issued and outstanding immediately prior to the effective time of the merger, including all outstanding restricted shares of CGC common stock issued under CGC's equity-based

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compensation plan, except for shares of CGC common stock owned by Gammon Gold, Capital Gold AcquireCo, Inc. or CGC or shares held by CGC's stockholders who properly demand and perfect, and do not withdraw or lose, appraisal rights under Section 262 of the DGCL, will be converted into the right to receive (i) 0.5209 validly issued, fully paid and non-assessable common shares of Gammon Gold and (ii) \$0.79 in cash plus cash in lieu of fractional shares.

### **Treatment of CGC Warrants, CGC Stock Options and Other Equity-Based Awards**

#### ***CGC Warrants***

As of the effective time of the merger, each outstanding warrant to purchase CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and will thereafter be exercisable to purchase a number of Gammon Gold common shares equal to the product of the number of shares of CGC common stock underlying such warrant immediately prior to the completion of the merger multiplied by the conversion number (rounded down to the nearest whole share). The exercise price for each outstanding warrant will be adjusted to equal the exercise price per share of CGC common stock issuable upon exercise of the warrant immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each warrant option will be assumed by Gammon Gold in accordance with its existing terms.

#### ***CGC Stock Options***

CGC's equity-based compensation plan provides that, at the effective time of the merger, each outstanding unvested option to purchase shares of CGC common stock will vest and become exercisable. As of the effective time of the merger, each outstanding option to acquire CGC common stock will be assumed (subject to approval by the TSX and the NYSE) by Gammon Gold and converted into an option to purchase a number of shares of Gammon Gold common shares equal to the number of shares of CGC common stock subject to such CGC stock option immediately prior to the closing of the merger multiplied by the conversion number. The exercise price for each outstanding option will be adjusted to equal the exercise price per share of CGC common stock at which such option was exercisable immediately prior to the completion of the merger divided by the conversion number (rounded up to the nearest whole cent). Each option will be assumed by Gammon Gold in accordance with its existing terms, except that it will be amended to provide that, following termination of employment, the option can be exercised until the earlier of 180 days from the date of such termination and the date of the expiration of the original option term and the exercise price and the number of Gammon Gold common shares exercisable pursuant to the assumed stock options shall be subject to such adjustments as may be necessary for the foregoing conversion to satisfy the requirements of Sections 409A, 422 and 424 of the Code and Treasury Regulations thereunder.

#### ***CGC Restricted Stock***

Immediately prior to the effective time of the merger, each outstanding restricted share of CGC common stock issued under CGC's equity-based compensation plan will become fully vested, subject to applicable income and employment withholding taxes.

### **Exchange and Payment Procedures**

As promptly as practicable following the effective time of the merger, Gammon Gold will deposit in trust with an exchange agent reasonably acceptable to CGC the number of shares of Gammon Gold common stock as are sufficient to deliver the stock portion of the merger consideration and an amount of cash sufficient to pay the cash portion of the merger consideration and cash in lieu of any fractional shares to each holder of shares of CGC common stock. As soon as practicable after the effective time of the merger, the exchange agent will mail a letter of transmittal and instructions to you and the other stockholders. The letter of transmittal and instructions will tell you how to surrender your common stock certificates in exchange for the merger consideration.

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**You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the exchange agent without a letter of transmittal.**

You will not be entitled to receive the merger consideration until you surrender your stock certificate or certificates or book-entry shares to the exchange agent, together with a duly completed and executed letter of transmittal and any other documents as the exchange agent may require. The merger consideration may be paid to a person other than the person in whose name the corresponding certificate is registered if the certificate is properly endorsed or is otherwise in the proper form for transfer. In addition, the person who surrenders such certificate or book-entry share must either pay any transfer or other applicable taxes or establish to the satisfaction of the surviving corporation that such taxes have been paid or are not applicable.

No interest will be paid or will accrue on the cash payable upon surrender of the certificates or book-entry shares. The exchange agent will be entitled to deduct and withhold, and pay to the appropriate taxing authorities, any applicable taxes from the merger consideration. Any sum which is withheld and paid to a taxing authority by the exchange agent will be deemed to have been paid to the person with regard to whom it is withheld.

At the effective time of the merger, CGC's stock transfer books will be closed, and there will be no further registration of transfers of outstanding shares of CGC common stock. If, after the effective time of the merger, certificates or book-entry shares are presented to the surviving corporation for transfer, they will be cancelled and exchanged for the merger consideration.

The exchange agent, Gammon Gold and CGC will not be liable to any person for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Any portion of the merger consideration deposited with the exchange agent that remains undistributed to the holders of shares of CGC common stock as of the first anniversary of the effective time of the merger will be delivered to Gammon Gold. Holders of certificates who have not surrendered their certificates prior to the delivery of such funds to Gammon Gold may only look to Gammon Gold for the payment of the merger consideration. Any portion of the merger consideration that remains unclaimed as of a date that is immediately prior to such time as such amounts would otherwise escheat to or become property of any governmental authority will, to the extent permitted by applicable law, become the property of Gammon Gold free and clear of any claims or interest of any person previously entitled to the merger consideration.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the merger consideration, you will have to comply with the replacement requirements established by the exchange agent, including, if necessary, the posting of a bond in a customary amount sufficient to protect the surviving corporation against any claim that may be made against it with respect to that certificate.

The exchange agent will be entitled to deduct from the merger consideration payable to any CGC stockholder, optionholder or warrant holder such amounts as the exchange agent may determine in good faith is required to be deducted and withheld under applicable tax laws.

## **Representations and Warranties**

CGC made customary representations and warranties, generally qualified by, among other things, prior filings by CGC with the SEC, that were made to Gammon Gold and Capital Gold AcquireCo, Inc. as of specified dates. CGC's representations and warranties in the merger agreement relate to:

corporate organization and authority to carry on its business, enter into, and carry out the obligations under, the merger agreement and enforceability of the merger agreement;

capitalization;

absence of a breach of the organizational documents, law or material agreements as a result of the merger;

collateral benefits for related parties;

required approvals and consents as a result of the merger;



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reporting status and matters relating to securities laws;

filings with the SEC, Canadian securities regulatory authorities and other governmental entities;

financial statements;

broker's fees and other anticipated fees and expenses as a result of the merger;

absence of certain changes or events since January 1, 2008;

legal proceedings;

books and records;

taxes and tax returns;

labor and employment and employee benefits;

change of control payments;

compliance with the law and permits;

material contracts;

absence of undisclosed liabilities;

environmental liability;

revocation of powers of attorney;

property, title and mining rights;

mineral reserves and resources;

operations at the El Chanate mine;

state takeover laws;

the opinion of Stifel Nicolaus;

internal controls and procedures;

insurance;

accuracy of the information relating to CGC that is included or incorporated by reference into this document;

intellectual property;

restrictions on business activities;

related party transactions;

expropriation;

absence of registration rights and rights of first refusal or options on CGC's property or assets;

no ownership of Gammon Gold securities; and

accuracy of the due diligence information provided to Gammon Gold.

Gammon Gold and Capital Gold AcquireCo, Inc. also made customary representations and warranties, generally qualified by, among other things, prior filings by Gammon Gold with the SEC, that were made to CGC as of specified dates. Gammon Gold's and Capital Gold Acquire Co, Inc.'s representations and warranties in the merger agreement relate to:

corporate organization and authority to carry on its business, enter into, and carry out the obligations under, the merger agreement and enforceability of the merger agreement;

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capitalization;

absence of a breach of the organizational documents, law or material agreements as a result of the merger;

required approvals and consents as a result of the merger;

filings with the SEC, Canadian securities regulatory authorities and other governmental entities;

reporting status and matters relating to securities laws;

financial statements;

absence of certain changes or events since December 31, 2009;

legal proceedings;

books and records;

taxes and tax returns;

labor and employment;

compliance with the law and permits;

material contracts;

absence of undisclosed liabilities;

environmental liability;

property, title and mining rights;

mineral reserves and resources;

intellectual property;

restrictions on business activities;

expropriation;

insurance;

related party transactions;

accuracy of the information relating to Gammon Gold that is included or incorporated by reference into this document;

no ownership of CGC securities; and

accuracy of the due diligence information provided to CGC.

Many of the representations and warranties of each party to the merger agreement are qualified by a material adverse effect standard. As used in the merger agreement, a material adverse effect on any person means any fact, change, effect, event, occurrence or development or state of circumstances that, individually or in the aggregate, has a material adverse effect on the business, operations, affairs, assets, properties, liabilities (including contingent liabilities), capitalization, results of operations (financial or otherwise) or financial condition of such person and its subsidiaries taken as a whole, other than any fact, change, effect, event, occurrence or development or state of circumstances to the extent resulting from any of the following:

changes, after the date of the merger agreement, in generally accepted accounting principles generally applicable to such person;

changes, after the date of the merger agreement, in laws, rules or regulations of general applicability or interpretations thereof by courts or other governmental entities;

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actions or omissions of the other parties to the merger agreement taken with the prior written consent of such person or actions or omissions expressly required or permitted to be taken under the merger agreement;

changes, after the date of the merger agreement, in general economic or market conditions generally affecting companies engaged in the mining industry except to the extent that such changes have a disproportionate adverse effect on such person;

facts, changes, effects, events, occurrences, developments or states of circumstances disclosed in the party's respective disclosure schedules or data room materials;

any failure by a person to meet any internal or published industry analyst projections or forecasts or estimates of revenues or earnings for any period; or

public disclosure of the transactions contemplated by the merger agreement.

In addition, as used in the merger agreement, a material adverse effect on any person means any fact, change, effect, event, occurrence or development or state of circumstances that has a material adverse effect on the ability of such party to timely consummate the transactions contemplated by the merger agreement or perform its obligations under the merger agreement. There are no exceptions to this aspect of the definition of material adverse effect.

The representations and warranties of each of the parties to the merger agreement will expire at the effective time of the merger.

**Conduct of CGC's Business Pending the Merger**

Under the merger agreement, CGC has agreed to, during the period from the date of the merger agreement until the effective time of the merger, except as expressly contemplated or permitted by the merger agreement:

use commercially reasonable efforts to maintain and preserve intact its business organization, employees and business relationships and retain the services of its key officers and key employees, except where the failure to do so would not reasonably be expected to have a material adverse effect on CGC;

use commercially reasonable efforts to cause CGC or its subsidiaries and their respective officers and consultants to take such steps as may be necessary to amend each change of control agreement with any person that provide for a change of control payment so as to provide that any change of control payment paid to any person shall be payable in Gammon Gold common shares;

cause the beneficial owners of Caborca and Caborca Industrial S.A de C.V. to enter into a sale agreement with Gammon Gold; and

conduct its business in the usual and ordinary course, consistent with past practice and keep Gammon Gold fully informed as to material decisions.

In addition, under the merger agreement, CGC has agreed, during the period from the date of the merger agreement until the effective time of the merger, except with the prior written consent of Gammon Gold or as expressly contemplated or permitted by the merger agreement, that CGC will not, and will not permit any of its subsidiaries to:

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subject to certain specified exceptions, (i) declare, set aside or pay any dividends on, make any other distributions in respect of, or enter into any agreement with respect to the voting of, any of its capital stock, (ii) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities, or (iii) purchase, redeem or otherwise acquire any shares of capital stock or other securities of CGC or any of its subsidiaries, or any rights, warrants or options to acquire any such shares or other securities;

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issue, deliver, sell, pledge or otherwise encumber or subject to any lien any shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities;

amend its certificate of incorporation, bylaws or other comparable organizational documents;

conduct its business other than in the usual and ordinary course, consistent with past practice;

directly or indirectly acquire, agree to acquire, or initiate or participate in discussions to acquire any business, or other entity or interests in any assets, properties or subsidiaries not owned directly or indirectly by CGC or any of its subsidiaries on the date of the merger agreement, or otherwise acquire or agree to acquire any assets (except inventory or other similar assets in the usual and ordinary course of business consistent with past practice);

sell, lease, license, mortgage or otherwise encumber or subject to any lien, or otherwise dispose of any of its properties or assets, other than the sale of gold, minerals or other assets in the ordinary course of business;

except for borrowings having a maturity of not more than 30 days under existing credit facilities in amounts not to exceed \$15 million in the aggregate, and only to the extent required in order to operate its business in the ordinary course as operated on the date of the merger agreement, incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise become responsible for the obligations of any person (other than CGC or any of its wholly-owned subsidiaries), or make any loans, advances or capital contributions to, or investments in, any person (other than CGC's wholly-owned subsidiaries and as a result of ordinary advances and reimbursements to employees);

change its accounting methods (or underlying assumptions), principles or practices, except as required by U.S. GAAP or applicable regulatory accounting principles;

enter into any new line of business or change in any material respect its operating, asset liability, investment or risk management or other similar policies of CGC or any of its subsidiaries;

make any investment, whether by purchase of stock or securities, contributions to capital, property transfers, or entering into binding agreements with respect to any such investment or acquisition, except those required to operate its business as operated on the date of the merger agreement;

make, change or revoke any tax election, adopt or change any accounting method for tax purposes, change any accounting period for tax purposes, amend any tax return, amend or enter any closing agreement with respect to an amount of taxes, settle or compromise any income tax liability, surrender any right to claim a refund of taxes, consent to any extension or waiver of the limitation period applicable to any tax claim or assessment, or take any similar action with respect to the filing of any tax return or payment of any tax;

terminate, waive, amend or otherwise modify any provision of any material contract (other than normal renewals of contracts without material changes, additions or deletions of terms), or enter into or renew any agreement or contract or other binding obligation of CGC or its subsidiaries containing any restriction on the ability of the CGC and its subsidiaries, or, after the merger, Gammon Gold and its subsidiaries, (i) to conduct its business as it is presently being conducted or currently contemplated to be conducted after the merger or (ii) in engaging in any type or activity or business;

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(i) incur any expenditures in excess of \$250,000 in the aggregate or (ii) enter into any agreement obligating CGC to spend, together with expenditures under the foregoing clause, more than \$250,000 in the aggregate, except for the expenditures specified in the budget that CGC disclosed to Gammon Gold before the execution of the merger agreement;

except as required by agreements or instruments in effect on the date of the merger agreement, alter in any material respect, or enter into any commitment to alter in any material respect, any interest in any corporation, association, joint venture, partnership or business entity in which CGC directly or indirectly holds any equity or ownership interest;



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acquire, directly or indirectly and whether by purchase or otherwise, any voting securities or securities convertible into or exchangeable for voting securities of Gammon Gold, any of its subsidiaries or any other person or direct or indirect rights or options to acquire any such voting securities, other than securities which may be issuable on the exercise or conversion of securities currently held by CGC or its subsidiaries;

except to the extent required by applicable law, by written agreements existing on the date of the merger agreement or with the consent of Gammon Gold (not be unreasonably withheld), (i) grant or announce any stock option, equity or incentive awards or increase in the salaries, bonuses or other compensation and benefits payable by CGC or any of its subsidiaries, (ii) hire any new employees (other than employees located in Mexico who have responsibilities below the level of department head) in the ordinary course of business, (iii) pay or agree to pay any pension, retirement allowance, termination or severance pay, bonus or other employee benefit not required by any existing benefit plan or other agreement or arrangement in effect on the date of the merger agreement, (iv) enter into or amend any contracts of employment or any consulting, bonus, severance, retention, retirement or similar agreement, or (v) except as required to ensure that any benefit plan is not then out of compliance with applicable law, enter into or adopt any new, or increase benefits under or renew, amend or terminate any existing, benefit plan or benefit arrangement or any collective bargaining agreement;

communicate with employees regarding the compensation, benefits or other treatment that they will receive in connection with the merger;

agree, enter into or consent to any agreement or modifications of any existing agreements with any governmental entity in respect of the operations of its business, except as required by law;

pay, discharge, settle or compromise any claim, action, litigation, arbitration, suit, investigation or proceeding;

issue any broadly distributed communication of a general nature to employees (including general communications relating to benefits and compensation), customers, suppliers, consultants or others without the prior written approval of Gammon Gold (which will not be unreasonably delayed or withheld), except for communications in the ordinary course of business that do not relate to the merger;

let lapse, abandon or cancel any registered intellectual property owned by CGC or its subsidiaries;

take any action, or omit to take any action, that would impede or materially delay the ability of the parties to obtain any of the approvals or consents required for the transactions contemplated by the merger agreement or to perform its covenants and agreements under, and consummate the transactions contemplated by, the merger agreement;

take any action that is intended or is reasonably likely to result in any of its representations or warranties set forth in the merger agreement being or becoming untrue at any time prior to the effective time of the merger, or in any of the conditions to the merger set forth in the merger agreement not being satisfied or in a violation of any provision of the merger agreement, except, in every case, as may be required by applicable law; or

agree to take, make any commitment to take, or adopt any resolutions of its board of directors in support of, any of the foregoing actions.

**Conduct of Gammon Gold's Business Pending the Merger**

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Under the merger agreement, Gammon Gold has agreed to, during the period from the date of the merger agreement until the effective time of the merger, use commercially reasonable efforts to maintain and preserve intact its business organization, employees and advantageous business relationships and retain the services of its key officers and key employees, except in relation to the El Cubo mine or where the failure to do so would not

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reasonably be expected to have a material adverse effect on Gammon Gold. In addition, Gammon Gold has agreed, during the period from the date of the merger agreement until the effective time of the merger, except with the prior written consent of CGC, that Gammon Gold will not, and will not permit any of its subsidiaries to:

amend Gammon Gold's articles of incorporation or bylaws in a manner that would be materially adverse to CGC or its stockholders or that would materially impede Gammon Gold's or Capital Gold AcquireCo, Inc.'s ability to consummate the merger;

amend Capital Gold AcquireCo, Inc.'s certificate of incorporation or bylaws in a manner that would be materially adverse to CGC or its stockholders or that would materially impede Gammon Gold's or Capital Gold AcquireCo, Inc.'s ability to consummate the merger;

except for actions permitted by the merger agreement, take any action that is intended or is reasonably likely to result in any of its representations or warranties being or becoming untrue in any material respect at any time prior to the effective time of the merger, or in any specified conditions to the merger set forth in the merger agreement not being satisfied or in a violation of any provision of the merger agreement, except, in every case, as may be required by applicable law;

take any action that would reasonably be expected to prevent or materially impede or delay the obtaining of, or materially adversely affect the ability of the parties to obtain, any necessary approvals of any governmental entity required for the transactions contemplated by the merger agreement or to perform its covenants and agreements under, and consummate the transactions contemplated by, the merger agreement;

change its primary business activities away from the exploration, development and production of gold and silver; or

agree to take, make any commitment to take, or adopt any resolutions of its board of directors in support of, any of the foregoing actions.

Gammon Gold is permitted to engage in transactions, including acquisitions, joint ventures, equity and debt offerings, at its discretion; provided, that transactions in excess of \$300 million require the prior written consent of CGC.

**CGC Stockholder Approval; Board Recommendation**

Pursuant to the merger agreement, CGC agreed that, as soon as reasonably practicable after the date of the merger agreement, and in any event within three months of the date of the merger agreement, it will call a stockholders meeting for purposes of obtaining its stockholders' approval of the merger, and it will use its commercially reasonable efforts to cause such meeting to be held on or before the date that is four months from the date of the merger agreement. In addition, CGC's board of directors has agreed to recommend the approval of the merger to CGC's stockholders and, in certain circumstances and within two business days of the written request of Gammon Gold that it do so, to publicly reaffirm its recommendation. Subject to the exception discussed in *The Merger Agreement - No Solicitation* below, CGC further agreed that neither its board of directors nor any committee thereof will:

withhold, withdraw (or not continue to make), amend, modify or qualify (or resolve or propose publicly to do any of the foregoing) the recommendation of CGC's board of directors, or cause or permit the recommendation to be less than unanimous;

if a takeover proposal of the type described below shall have been made to the holders of CGC common stock or any person shall have publicly announced an intention to make a takeover proposal, fail to publicly recommend against such takeover proposal (provided it is not a superior proposal of the type described below) and to publicly reaffirm the recommendation of CGC's board of directors by press release within two business days of the takeover proposal having been made or publicly announced;



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approve, adopt or recommend, or propose publicly to approve, adopt or recommend to the stockholders of CGC, any takeover proposal; or

take any other action or make any public statement in connection with the recommendation of the CGC board of directors, the CGC stockholder approval of the merger or the stockholder meeting called in connection therewith that is in any manner adverse to the CGC board's recommendation.

### **No Solicitation**

CGC agreed that from the date of the merger agreement until the earlier of the effective time of the merger or the termination of the merger agreement in accordance with its terms, subject to the exceptions described below, it will not, and will cause its subsidiaries and its and their officers, directors, agents or representatives not to:

solicit, initiate, approve, endorse, recommend or encourage, or take any other action designed to, or which could reasonably be expected to, result in or facilitate any inquiry or the making or announcement of any proposal or offer that constitutes, or that would reasonably be expected to lead to, a takeover proposal of the type described below or the making or consummation thereof (including by way of furnishing information or entering into any form of agreement, arrangement or understanding);

enter into, continue or otherwise participate in any discussions or negotiations regarding, or provide to any person any information, or otherwise cooperate in any way with, any takeover proposal;

approve, adopt or recommend, or publicly propose to approve, adopt or recommend, or allow CGC or any of its subsidiaries to execute or enter into, any contract, commitment, arrangement, understanding, in each case whether written or oral (with the sole exception of a confidentiality agreements contemplated by the merger agreement) or any tender offer constituting or related to, or that is intended to or could reasonably be expected to lead to, any takeover proposal;

approve or recommend, or propose to approve or recommend, or consummate, execute or enter into any letter of intent, memorandum of understanding or agreement in principle (whether or not binding), or any merger agreement, acquisition agreement, exchange agreement, option agreement, joint venture agreement, partnership agreement or other contract, constituting or related to, or that is intended to or could reasonably be expected to lead to a takeover proposal (other than certain confidentiality agreements contemplated by the merger agreement);

waive, terminate, modify or fail to enforce any provision of any confidentiality or standstill obligation of any person other than Gammon Gold; or

propose publicly or resolve to agree to do any of the foregoing.

Pursuant to the merger agreement, CGC agreed to cease all existing discussions and negotiations with any person with respect to any actual or potential takeover proposal, terminate all physical and electronic dataroom access previously granted to any such person, and to request from any such person with whom a confidentiality agreement was executed to return or destroy all confidential information related to CGC.

CGC further agreed to provide prompt notice to Gammon Gold of the receipt of any takeover proposal or request or inquiry that CGC reasonably believes could be expected to relate or lead to a takeover proposal, and any request by any person for access to or non-public information relating to CGC in connection with any takeover proposal.

Notwithstanding these restrictions, prior to CGC's stockholders approving the merger, in response to an unsolicited, bona fide written takeover proposal, CGC may provide information with respect to itself and its subsidiaries and may participate in discussions or negotiations with a person making a takeover proposal if:

CGC's board of directors reasonably determines in good faith (after consultation with outside counsel and Cormark or another financial advisor of nationally recognized reputation in Canada or the

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United States) (i) that such takeover proposal would, if consummated in accordance with its terms, constitute, or is reasonably likely to lead to, a superior proposal of the type described below and (ii) that the failure to take such action would cause it to violate its fiduciary duties;

CGC enters into a confidentiality agreement with such person with terms as provided in the merger agreement; and

CGC provides concurrent or prior disclosure to Gammon Gold of the non-public information provided to such person if such information has not previously been disclosed to Gammon Gold.

In addition, CGC agreed that it will not accept, approve or recommend, or enter into any contract (other than a confidentiality agreement), commitment, arrangement or understanding in respect of, a takeover proposal, terminate the merger agreement or make a change in the recommendation of CGC's board of directors unless:

a takeover proposal that constitutes a superior proposal has been made;

CGC has strictly complied with its obligations under the No Solicitation covenant and has provided Gammon Gold with, among other materials, a copy of the superior proposal;

a period of five business days shall have elapsed following the date on which Gammon Gold received the last to be delivered of (i) written notice from CGC's board of directors that the CGC board determined, subject only to compliance with the terms of the merger agreement, to accept, approve, recommend or enter into a binding agreement to proceed with the superior proposal and (ii) the documentation required to be delivered under the merger agreement; and

CGC has paid the termination fee in accordance with the terms of the merger agreement.

Gammon Gold has five business days to make a counter proposal to any superior proposal or amendment thereof and CGC will negotiate in good faith with Gammon Gold to permit Gammon Gold to draft an acceptable counter proposal such that the competing proposal is no longer a superior proposal.

A takeover proposal means any inquiry, proposal or offer from any person (other than Gammon Gold), written or oral, relating to, or that could reasonably be expected to lead to:

any direct or indirect acquisition or purchase, in one transaction or a series of related transactions, of any assets (including equity securities of any subsidiary of CGC), properties or businesses (including any lease, long-term supply agreement or other agreement or arrangement having the same or similar economic effect as a sale of assets, properties or business, any sale or grant of a royalty or similar type transaction), any liquidation or winding up, in each case that constitute 20% or more of the revenues, net income or assets of CGC and its subsidiaries, taken as a whole, or 20% or more of any class of securities of CGC or any of its subsidiaries;

any tender offer or exchange offer that if consummated would result in any person beneficially owning 20% or more of any class of securities of CGC;

any merger, amalgamation, statutory arrangement, consolidation, business combination, recapitalization, liquidation, dissolution, joint venture, share exchange or similar transaction involving CGC or any of its subsidiaries; or

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any other similar transactions or series of transactions involving CGC or any of its subsidiaries.

A superior proposal means any bona fide unsolicited written takeover proposal made by a third party that:

if consummated in accordance with its terms would result in such person (or its stockholders) owning, directly or indirectly all but not less than all of the shares of CGC common stock then outstanding (or of the shares of the surviving entity in a merger or the direct or indirect parent of the surviving entity in a merger) or all or substantially all of the assets of CGC and its subsidiaries on a consolidated basis;



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is not subject to a financing condition or a due diligence condition;

did not result from or involve a breach of the No Solicitation covenant contained in the merger agreement; and

the CGC board of directors reasonably determines in good faith (after consultation with its legal advisors and a financial advisor of nationally recognized reputation in Canada or the United States) taking into account all financial, legal, regulatory and other aspects of such proposal (including any break-up fee, expense reimbursement provisions and conditions to consummation) and the person making the proposal, but without assuming away the risk of non-completion, to be (i) more favorable to CGC's stockholders from a financial point of view than the merger (taking into account any changes to the financial terms of the merger agreement offered by Gammon Gold in response to such offer or otherwise, including the certainty of the terms offered by Gammon Gold or lack thereof) and (ii) reasonably capable of being completed without undue delay on the terms set forth in the proposal.

### **Regulatory Matters**

The parties agreed to use commercially reasonable efforts to promptly prepare and file all necessary filings, to obtain as promptly as practicable all approvals as are necessary or advisable to consummate the merger and to comply with the terms and conditions of all approvals provided by governmental entities. The parties also agreed to take certain other actions with respect to obtaining the necessary approvals. Notwithstanding the foregoing, Gammon Gold and CGC are not required to take any action or agree to any condition or restriction in connection with obtaining the required approvals that would reasonably be expected to have a material adverse effect (measured on a scale relative to CGC and its subsidiaries, taken as a whole) on Gammon Gold, CGC or the surviving corporation.

### **Other Covenants**

The merger agreement contains certain other covenants, including covenants relating to access to information, advice of changes, public announcements, transactions by Gammon Gold prior to the effective time of the merger, exchange listings, employee matters, indemnification and directors' and officers' insurance and tax matters.

### **Conditions to the Closing of the Merger**

Each party's obligation to complete the merger is subject to the satisfaction or waiver of various conditions, including the following:

the merger agreement and the merger shall have been approved by a majority of the outstanding Capital Gold common stock entitled to vote thereon (excluding, if required under Ontario Securities Commission and *Autorité des marchés financiers* joint rule MI 61-101, Protection of Minority Security Holders in Special Transactions, votes cast by persons entitled to receive change of control payments in connection with the merger);

Gammon Gold's common shares to be issued to the holders of CGC common stock and options shall have been authorized for listing on the NYSE and the TSX, subject to customary conditions and official notice of issuance;

the applicable waiting period under the HSR Act shall have expired or been earlier terminated and any other approvals set forth in merger agreement shall have been obtained;

the merger agreement has not otherwise been duly terminated;

the registration statement with respect to the Gammon Gold common shares to be issued in the merger having become effective under the Securities Act of 1933 and no stop order or proceeding for that purpose shall have been initiated or threatened by the SEC;



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the registration statement with respect to the Gammon Gold common shares to be issued under stock options assumed by Gammon Gold in the merger having become effective under the Securities Act of 1933 and no stop order or proceeding for that purpose shall have been initiated or threatened by the SEC;

the distribution in Canada of Gammon Gold common shares to holders of CGC common stock, options, company restricted stock and to the persons specified in the disclosure schedules to the merger agreement who receive Gammon Gold common shares in respect of a change of control payment shall be exempt from the prospectus and registration requirements of applicable Canadian securities laws; and

no order, judgement, injunction, decree or writ issued by any court or agency of competent jurisdiction or other legal restraint preventing the consummation of the merger shall be in effect, and no statute, rule or regulation that prohibits or makes illegal consummation of the merger shall have been enacted, promulgated or enforced by any governmental entity.

The obligation of Gammon Gold to complete the merger is also subject to the satisfaction or waiver of the following conditions:

the representations and warranties of Capital Gold set forth in the merger agreement regarding organization and existence, capitalization, authority to enter into the agreement and broker's fees being true and correct in all material respects, and the other representations and warranties of Capital Gold set forth in the merger agreement (disregarding materiality qualifications set forth in such representations and warranties) being true and correct except as, individually or in the aggregate, has not had and would not reasonably be expected to result in a material adverse effect on CGC, and the receipt of an officers certificate to that effect;

the performance by CGC in all material respects of its obligations required to be performed by it under the merger agreement at or prior to the closing date of the merger, and the receipt of an officers certificate to that effect;

the voting and support agreements will each be in full force and effect and all obligations thereunder shall have been performed by each director and officer party thereto;

the receipt of the specified governmental approvals necessary to complete the merger will not have resulted in the imposition of any condition or restriction that would reasonably be expected to have a material adverse effect (measured on a scale relative to CGC and its subsidiaries, taken as a whole) on Gammon Gold, CGC or the surviving corporation;

since the date of the merger agreement, there shall not have been any fact, change, effect, event, occurrence, development or state of circumstances that, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on Capital Gold or the surviving corporation of the merger;

certain change in control agreements specified in the merger agreement will have been amended as required by the terms of the merger agreement, and each such agreement, as amended, shall be in full force and effect;

certain directors, officers, employees and consultants of CGC specified in the merger agreement will have delivered to Gammon Gold a release and waiver in accordance with the terms of the merger agreement, and CGC, the surviving corporation of the merger and their respective subsidiaries shall have delivered to Gammon Gold releases and waivers in accordance with the terms of the merger agreement of certain directors, officers, employees and consultants of CGC specified in the merger agreement;

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all ownership interests or assets of Caborca Industrial de C.V. shall have been transferred to Gammon Gold concurrently with the completion of the merger, or at such other time as Gammon Gold shall have requested in its discretion;

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Gammon Gold shall have obtained title opinions, in form and substance satisfactory to it, relating to the CGC's material properties; and

holders of no more than 10% of the outstanding shares of CGC common stock have exercised appraisal rights under Section 262 of the DGCL with respect to the merger.

The obligation of CGC to complete the merger is also subject to the satisfaction or waiver of the following conditions:

the representations and warranties of Gammon Gold and Capital Gold AcquireCo, Inc. set forth in the merger agreement regarding organization and existence, capitalization and authority to enter into the agreement being true and correct in all material respects, and the other representations and warranties of Gammon Gold set forth in the merger agreement (disregarding materiality qualifications set forth in such representations and warranties) being true and correct except as, individually or in the aggregate, has not had and would not reasonably be expected to result in a material adverse effect on Gammon Gold, and the receipt of an officers certificate to that effect;

the performance by Gammon Gold and Capital Gold AcquireCo, Inc. in all material respects of their obligations required to be performed by them under the merger agreement at or prior to the closing date of the merger, and the receipt of an officer's certificate to that effect certifying as to the satisfaction of the closing conditions;

the receipt of the specified governmental approvals necessary to complete the merger will not have resulted in the imposition of any condition or restriction that would reasonably be expected to have a material adverse effect (measured on a scale relative to CGC and its subsidiaries, taken as a whole) on Gammon Gold, CGC or the surviving corporation; and

since the date of the merger agreement, there shall not have been any fact, change, effect, event, occurrence, development or state of circumstances that, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on Gammon Gold.

We cannot provide assurance as to when or if all conditions to the merger can or will be satisfied or waived by the appropriate party. As of the date of this document, we have no reason to believe that any of these conditions will not be satisfied.

## **Termination**

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval of the matters presented in connection with the merger to the stockholders of CGC, as follows:

by mutual written agreement;

by CGC or Gammon Gold if any governmental entity that must grant an approval in connection with the merger has denied such approval and such denial has become final and nonappealable, or any governmental entity of competent jurisdiction shall have issued a final and nonappealable order, judgment, injunction decree or writ permanently enjoining or otherwise prohibiting the consummation of the merger (provided that the party seeking to so terminate the merger agreement must have complied with its obligations pursuant to the merger agreement with respect to such denial or order);

by either CGC or Gammon Gold if (i) the merger has not been consummated on or before the date which is nine months from the date of the merger agreement, or (ii) CGC's stockholders fail to approve the merger at the CGC stockholder meeting, unless the failure of the closing to occur by such date or the failure to obtain such stockholder approval is due to the failure of the party seeking

to terminate the merger agreement to perform its obligations under the merger agreement;

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by either CGC or Gammon Gold if the other party has breached any of its covenants, agreements or representations or warranties set forth in the merger agreement, which breach, either individually or in the aggregate, would result in, if occurring or continuing on the closing date of the merger, the failure of the closing conditions set forth in the merger agreement and which breach either is not cured within 30 days following written notice of such breach or, by its nature or timing, cannot be cured within such time period;

by Gammon Gold if:

CGC has failed to recommend the approval of the merger to its stockholders;

CGC has failed to publicly reaffirm its recommendation within two business days after a takeover proposal has been made to the holders of CGC common stock or any person has publicly announced an intention to make a takeover proposal;

CGC has failed to comply with any provision of no solicitation covenant contained in the merger agreement;

CGC has, among other things, (i) withheld, withdrawn, amended, modified or qualified (or resolved or publicly proposed to do so) its recommendation, (ii) caused or permitted its recommendation to be less than unanimous, (iii) approved or recommended, or publicly propose to approve or recommend, a takeover proposal, or (iv) taken any other action or made any public statement in connection with its recommendation or its stockholder approval that is in any manner adverse to Gammon Gold; or

CGC's stockholders do not approve the merger at the CGC stockholder meeting;

by CGC if Gammon Gold or any of its subsidiaries enters into any agreement concerning any acquisition, joint venture, or equity or debt financing and the merger is not completed on or prior to the date which is 12 months from the date of the merger agreement as a result of such acquisition, joint venture, or equity or debt financing;

by Gammon Gold if, since the date of the merger agreement, there shall have been any event, occurrence, development or state of circumstances that, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on CGC or the surviving corporation of the merger;

by CGC if, since the date of the merger agreement, there shall have been any event, occurrence, development or state of circumstances that, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on Gammon Gold;

by Gammon Gold if any of the governmental approvals necessary to complete the merger shall have resulted in the imposition of any condition or restriction that would reasonably be expected to have a material adverse effect (measured on a scale relative to CGC and its subsidiaries, taken as a whole) on Gammon Gold, CGC or the surviving corporation;

by Gammon Gold for any reason not otherwise set out in the termination provisions in the merger agreement; or

by CGC if:

a takeover proposal that constitutes a superior proposal has been made and Gammon Gold fails to make a counter-proposal which causes the takeover proposal to no longer be a superior proposal;

CGC has complied fully with the terms of the no solicitation covenant set out in the merger agreement and CGC enters into a binding, definitive agreement to consummate the takeover proposal; and

the appropriate termination fee has been paid.



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### **Effect of Termination**

If the merger agreement is terminated, it will become void and neither party will have any liability to the other party, except that certain provisions of the merger agreement (including the provision providing for a termination fee) will remain in full force and effect and no party will be released from any liabilities arising from its wilful breach of any provision of the merger agreement.

### **Termination Fees and Expenses**

The merger agreement contains provisions requiring CGC to pay Gammon Gold or Gammon Gold to pay to CGC, as applicable, a termination fee of varying sizes in the event that the merger agreement is terminated under specified circumstances.

The merger agreement provides that CGC will pay Gammon Gold a fee of \$10.3 million within three business days of the termination of the agreement in the event that Gammon Gold terminates the agreement because either CGC has failed to recommend the approval of the merger to its stockholders, CGC has failed to publicly reaffirm its recommendation within two business days after a takeover proposal has been made to the holders of CGC common stock or any person has publicly announced an intention to make a takeover proposal, CGC has failed to comply with any provision of the No Solicitation covenant contained in the merger agreement, or CGC has, among other things, (i) withheld, withdrawn, amended, modified or qualified (or resolved or publicly proposed to do so) its recommendation, (ii) caused or permitted its recommendation to be less than unanimous, (iii) approved or recommended, or publicly proposed to approve or recommend, a takeover proposal or (iv) taken any other action or made any public statement in connection with its recommendation or its stockholder approval that is in any manner adverse to Gammon Gold.

The merger agreement provides that CGC will pay Gammon Gold a fee of \$10.3 million within three days of termination or concurrently with the termination of the agreement in the event that CGC terminates the agreement in order to enter into an agreement relating to a superior proposal.

The merger agreement also provides that CGC will pay Gammon Gold a fee of \$10.3 million in the event that CGC's stockholders do not approve the merger, but only if all of the following conditions are satisfied:

prior to the CGC stockholders meeting, a takeover proposal shall have been made publicly to the holders of CGC common stock, otherwise publicly announced or a person shall have publicly announced an intention to make a takeover proposal, and such proposal is not withdrawn prior to the date of the CGC stockholders meeting; and

within six months of the date of such termination either (i) a takeover proposal is consummated or (ii) the CGC board of directors approves or recommends an agreement (within four months of the date of such termination), or CGC enters into a definitive agreement (within six months of the date of such termination) with respect to, a takeover proposal, and in either case such takeover proposal is consummated (whether before or after the end of such four or six-month period).

In this case, CGC will pay the fee on or prior to the date on which the takeover proposal is completed.

The merger agreement further provides that Gammon Gold will pay CGC a fee of \$2 million within three business days of the termination of the agreement if either:

CGC terminates the merger agreement because Gammon Gold or any of its subsidiaries enters into any agreement concerning any acquisition, joint venture, or equity or debt financing and the merger is not completed on or prior to the date which is 12 months from the date of the merger agreement as a result of such acquisition, joint venture, or equity or debt financing; or

Gammon Gold terminates for any reason not otherwise set out in the termination provisions in the merger agreement.

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### **Indemnification**

The merger agreement provides that, as of the effective time of the merger and for a period of six years thereafter, the indemnification and exculpation provisions contained in the certificate of incorporation and bylaws of the corporation surviving the merger shall be at least as favorable, to individuals who, immediately prior to the effective time of the merger, were directors, officers, agents or employees of CGC or its subsidiaries or otherwise entitled to indemnification under the organizational documents of CGC and its subsidiaries, as those contained in the organizational documents of CGC and its subsidiaries as of the date of the merger agreement.

The merger agreement further provides that CGC will, prior to the effective time of the merger, purchase a six-year pre-paid tail policy covering its directors and officers. However, in purchasing such tail policy, CGC cannot under the terms of the merger agreement expend more than 200% per year of coverage of the amount currently (as of the date of the merger agreement) expended by CGC per year of coverage for directors and officers insurance.

### **Amendment and Waiver of the Merger Agreement**

Subject to applicable law, the parties may amend the merger agreement by written agreement. However, after the approval of the merger by the stockholders of CGC, there may not be, without further approval of those stockholders, any amendment of the merger agreement that requires such further stockholder approval under applicable law. Any party to the merger agreement may, subject to applicable law, extend the time for performance of any of the obligations of the other party, waive any inaccuracies in the representations or warranties contained in the merger agreement or waive compliance with any of the agreements or conditions set forth in the merger agreement. However, after the approval of the merger by the stockholders of CGC, there may not be, without further approval of those stockholders, any extension or waiver of the merger agreement that changes the amount or form of the consideration to be paid to the CGC stockholders under the merger agreement. The parties do not believe that any extension of the time for performance of any of the obligations of the other party, waiving any inaccuracies in the representations or warranties contained in the merger agreement or waiving compliance with any of the agreements or conditions set forth in the merger agreement, other than a change the amount or form of the consideration to be paid to the CGC stockholders under the merger agreement, would require a resolicitation of proxies or additional approval of CGC stockholders.

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**THE VOTING AND SUPPORT AGREEMENTS**

*The following is a summary of the material provisions of the voting and support agreements. This summary is qualified in its entirety by reference to the voting and support agreement, a copy of a form of which is attached as Annex B to this proxy statement/prospectus, and is incorporated into this document by reference. You should read the voting and support agreement in its entirety because it is a legal document governing the matters discussed below.*

Concurrently with the execution and delivery of the merger agreement, and as a condition and inducement to the willingness of Gammon Gold to enter into the merger agreement, each of CGC's executive officers and directors, who collectively held, as of the record date, 449,196 shares of the then-outstanding CGC common stock, or less than 1% of the shares entitled to vote at the special meeting, on the adoption of the merger agreement, entered into voting and support agreements with Gammon Gold. Under and subject to the terms of the voting and support agreements, each of CGC's executive officers and directors agreed, among other things, that he will vote all shares of CGC common stock beneficially owned or controlled by such person in:

in favor of the merger and any other action which could reasonably be expected to facilitate the merger; and

against any takeover proposal (as defined in the merger agreement) or any other matter that could reasonably be expected to delay, prevent, impede or frustrate the successful completion of the merger.

The voting and support agreements also limit the ability of CGC's executive officers and directors to sell or otherwise transfer the shares of CGC common stock that they beneficially own. Each of CGC's executive officers and directors also agreed not to solicit any takeover proposals that compete with the merger, subject to certain limited exceptions.

Each voting and support agreement may be terminated by Gammon Gold if:

the counterparty has not complied in all material respects with its obligations under the voting and support agreement;

CGC has not complied in all material respects with its obligations under the merger agreement;

any of the counterparty's representations or warranties set forth in the voting and support agreement are untrue or inaccurate in any material respect; or

the merger agreement is terminated in accordance with its terms.

Each voting and support agreement may be terminated by the individual that is party thereto if:

the consideration to be paid pursuant to the merger agreement is reduced;

the merger is amended in any manner that would result in adverse tax implications for the individual; or

the merger agreement is terminated in accordance with its terms.



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**INFORMATION ABOUT THE COMPANIES**

*Gammon Gold Inc.*

1701 Hollis Street, Suite 400

Founders Square

P.O. Box 2067

Halifax, Nova Scotia, B3J 2Z1

Canada

(902) 468-0614

Gammon Gold is a Quebec, Canada corporation that, through its subsidiaries, engages in the acquisition, exploration, development, and mining of gold and silver deposits in Mexico. Gammon Gold owns and operates the Ocampo mine in Chihuahua State, and the temporarily suspended El Cubo mine in Guanajuato State, as well as the Guadalupe y Calvo advanced exploration property in Chihuahua State, Mexico. Gammon Gold recently completed option purchase agreements to acquire the Mezquite Project in Zacatecas State, Mexico and the Venus project located north of the Ocampo mine. Gammon Gold also recently signed a definitive agreement to acquire the Los Jarros Project in Chihuahua State and has made strategic investments in Golden Queen Mining Co. Ltd. and Corex Gold Corporation. Gammon Gold was founded in 1986 and began mining at the Ocampo and El Cubo sites in 2006. Gammon Gold's common shares are listed on the Toronto Stock Exchange (TSX: GAM), the New York Stock Exchange (NYSE: GRS) and the Berlin Stock Exchange (BSX: GL7).

The disclosure in this proxy statement/prospectus and the documents incorporated by reference use terms that comply with reporting standards in Canada and certain estimates are made in accordance with NI 43-101. In addition, the terms *mineral resource*, *measured mineral resource*, *indicated mineral resource* and *inferred mineral resource* are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and normally are not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. *Inferred mineral resources* have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of the measured mineral resources, indicated mineral resources, or inferred mineral resources will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility, pre-feasibility studies or other economic studies, except in rare cases.

Accordingly, information contained in this proxy statement/prospectus and the documents incorporated by reference herein containing descriptions of Gammon Gold's mineral deposits may not be comparable to similar information made public by United States companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

Additional information about Gammon Gold can be found on its website at <http://www.gammongold.com>. The information provided on Gammon Gold's website is not part of this proxy statement/prospectus and is not incorporated herein by reference.

Additional information about Gammon Gold and its subsidiaries is included in documents incorporated by reference into this proxy statement/prospectus. For more information, see the section entitled *Where You Can Find More Information* on page 156.

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*Capital Gold AcquireCo, Inc.*

2711 Centerville Road, Suite 400

Wilmington, Delaware 19808

(902) 468-0614

Capital Gold AcquireCo, Inc. is a Delaware corporation and a wholly-owned subsidiary of Gammon Gold. Capital Gold AcquireCo, Inc. was organized solely for the purpose of effecting the merger with CGC described in this proxy statement/prospectus. It has not carried on any activities other than in connection with the merger agreement.

*Capital Gold Corporation*

76 Beaver Street, 14th Floor

New York, New York 10005

(212) 344-2785

Capital Gold is a Delaware corporation engaged in the mining, exploration and development of gold properties in Mexico. Its primary focus is on the operation and development of the El Chanate project, an open-pit, heap-leach mine in Sonora State, which began commercial operations in August 2007. CGC also owns and leases mineral concessions in other locations in Sonora, Mexico that are undergoing preliminary exploration for gold and silver mineralization. On August 2, 2010, CGC acquired Nayarit Gold Inc. CGC's common stock is listed on the TSX and the NYSE Amex under the symbol CGC.

**Recent Events**

The workforce at the El Chanate mine is currently non-unionized; however, a national labor union is seeking to permit workers to vote on whether or not they would like to organize under such labor union. CGC is reviewing its options with respect to the union's activities. If the workforce were permitted to unionize, such activity could result in higher production costs at the El Chanate mine. The Labor Board of Mexico City has granted the aforementioned national labor union the right to vote to determine if such union should be permitted to represent the workforce. Prior to the date of the vote, CGC may enter into a voluntary agreement with the union. If CGC does not arrive at a voluntary agreement with the union, and the workforce votes to permit the union to represent it, CGC will be required to negotiate an agreement with the union. If the national labor union does not represent CGC's workforce, CGC could continue as a non-unionized mine or elect to negotiate with a different union. The national labor union seeking to unionize CGC's workforce may illegally interrupt operations at the El Chanate mine, which could have a material adverse effect on CGC's business, financial condition or results of operations. On January 14, 2011, a vote was scheduled to be held at the mine site regarding a national labor union. The Labor Board of Mexico City had granted the national labor union the right to vote to determine if such union should be permitted to represent the workforce at El Chanate. The national labor union elected not to travel to site and conduct the vote to unionize on such date. As of the date of this proxy statement/prospectus, the mine site has the ability to continue as a non-unionized workforce or negotiate with a different union.

Additional information about CGC can be found on its website at <http://www.capitalgoldcorp.com>. The information provided on CGC's website is not part of this proxy statement/prospectus and is not incorporated herein by reference.

Additional information about CGC and its subsidiaries is included in documents incorporated by reference into this proxy statement/prospectus. For more information, see the section entitled "Where You Can Find More Information" on page 156.

**Table of Contents****BENEFICIAL OWNERSHIP OF CAPITAL GOLD COMMON STOCK**

The following table sets forth as of February 1, 2011, the number and percentage of outstanding shares of CGC common stock beneficially owned by:

each person, individually or as a group, known to us to be deemed the beneficial owners of five percent or more of CGC issued and outstanding common stock;

each director and Named Executive Officer (as defined in the CGC Form 10-K/A filed with the SEC on November 23, 2010); and

all of directors and executive officers of CGC as a group.

This table is based upon information supplied by Schedules 13D and 13G, if any, filed with the SEC, and information obtained from our directors and named executive officers. For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares of CGC common stock which such person has the right to acquire within 60 days of February 1, 2011. For purposes of computing the percentage of outstanding shares of CGC common stock held by each person or group of persons named in the table, any security which such person or persons has or have the right to acquire within such date is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, CGC believes, based on information supplied by such persons, that the persons named in this table have sole voting and investment power with respect to all shares of CGC common stock which they beneficially own. The address of each executive officer and director of CGC is c/o Capital Gold Corporation, 76 Beaver Street, 14th Floor, New York, New York 10005.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Sprott Asset Management, Inc.  Suite 2700, South Tower  Royal Bank Plaza  Toronto, ON M5J 2J1  Canada	7,636,825	12.5%
Van Eck Associates Corporation  335 Madison Ave., 19th Floor  New York, NY 10017	4,193,000(2)	6.8%
Colin Sutherland	242,318(3)	*
Christopher M. Chipman	337,500(3)	*
Scott Hazlitt	462,500(3)	*
Gary C. Huber	75,000(3)	*
John W. Cutler	243,950(3)	*
Stephen M. Cooper	226,500(3)	*
<b>All Officers and Directors as a Group (6 persons)</b>	<b>1,587,768(3)</b>	<b>2.6%</b>

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\* Less than 1%

- (1) Based upon 61,338,136 shares issued and outstanding as of February 1, 2011.
- (2) Represents shares held within mutual funds and other client accounts managed by Van Eck Associates Corporation, none of which owns more than 5% of Capital Gold's outstanding shares of common stock.
- (3) For Messrs. Sutherland, Chipman and Hazlitt includes, respectively, 226,072 shares, 212,500 shares and 175,000 shares issuable upon exercise of options. For Messrs. Cutler and Cooper includes 225,000 shares each issuable upon exercise of options. For Mr. Huber includes 75,000 shares each issuable upon exercise of options.



**Table of Contents****GAMMON GOLD S BOARD OF DIRECTORS AND EXECUTIVE OFFICERS**

Biographical information concerning members of Gammon Gold s board of directors and executive management is set forth below and other information with respect to such persons is included in Gammon Gold s Form 40-F for the year ended December 31, 2009, as amended by Amendment No. 1 to Form 40-F/A, and proxy circular for its 2010 annual meeting of shareholders. See Where You Can Find More Information beginning on page 156. Upon completion of the merger, one current member of CGC s board of directors will be elected to serve as a member of Gammon Gold s board of directors.

**Biographical Information Regarding Directors of Gammon Gold*****Colin Benner***

Colin Benner, 66, is an experienced mining executive with more than 40 years in the mining industry in senior management and executive roles in Canada and internationally. He was most recently Chairman of PBS Coals Limited, Vice Chairman and CEO of Skye Resources and previously Vice Chairman and Chief Executive Officer of Lundin Mining Corporation as well as EuroZinc Mining Corporation. Mr. Benner also serves on a number of public company boards in the mining industry in Canada. He is a member of the Association of Professional Engineers of Ontario, the Canadian Society of Professional Engineers as well as a member of the Association of Professional Engineers and Geoscientists of British Columbia, the Association of Professional Engineers and Geoscientists of Nunavut, the Society of Mining Engineers of the AIME and the Canadian Institute of Mining. Mr. Benner is also a Registered ICD-DP. Mr. Benner has served as a director since April 2010 and is chairman of the board of directors.

***Ronald E. Smith***

Ronald E. Smith, 60, FCA, a native of Yarmouth, Nova Scotia, has an extensive background in the financial, telecommunications and energy sectors. A former Chief Financial Officer with Aliant Telecom Incorporated and its predecessor, Maritime Telephone & Telegraph Limited, he later served as Senior Vice President and Chief Financial Officer of Emera Incorporated and its major subsidiary, Nova Scotia Power Incorporated. Mr. Smith has recently completed terms as Chair of the Acadia University Board of Governors and the Nova Scotia Voluntary Planning Board and continues to serve on both boards. Mr. Smith also serves on the Canada Pension Plan Investment Board and serves as a trustee of the Nova Scotia Association of Health Organizations pension fund. Mr. Smith also serves as a member of the Canadian Accounting Standards Oversight Council. He is a former National President of the Canadian Association for Community Living and former Chair of the Atlantic Provinces Economic Council. Mr. Smith has served as a director since May 2009 and is the chair of the audit committee and member of the compensation committee.

***René Marion***

René Marion, 48, is the President and Chief Executive Officer and a corporate director. His background combines twenty five years of experience in mining operations, operational management and mine engineering in North America with acquisition evaluations, feasibility studies, development and mergers throughout the world. At the time of his resignation to join Gammon Gold, he was seconded as Chief Operating Officer of Highland Gold Mining Limited, or Highland Gold, in Russia, a publicly traded strategic partner of Barrick Gold Corporation, or Barrick Gold. He joined Highland Gold in December 2006. Prior to his appointment with Highland Gold he held various senior posts in the corporate headquarters of Barrick Gold in Toronto, Canada including Vice President, Technical Services. Mr. Marion holds a Bachelor of Science Degree in Mining Engineering from Queens University. Mr. Marion has served as a director since March 2008. He is a member of the environmental, health and safety committee.

***Dr. Luis Chavez***

Dr. Luis Chavez, 56, is Corporate Director for Mexican operations. Dr. Chavez has considerable experience in many mining related areas; he holds a Master of Science degree in Mineral Economics (1978) from Penn State

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University, and a PhD degree in Energy and Mineral Economics (1982) from the University of Arizona. He has a Business Administration Degree (1989) from the Pan-American Business Institute in Monterrey, Mexico. Dr. Chavez has attended and lectured several short courses and seminars, in topics related to the mining industry. Dr. Chavez, when serving as General Director of the Mexican Geological Survey (1994-2000), initiated the National Mapping Program and subsequently created the largest geology and mining data bank currently in use by mining companies doing business in Mexico. After serving in Federal Government, Dr. Chavez was invited by the Governor of Coahuila State to become Energy and Mines Director in 2001, with the objective of developing rational and sustainable development policies and strategies to maximize energy and mineral resources value. From 2002 to 2006, he was Secretary General for the Mexican Mining Directors and was also President of the Mexican Institute for Environmental Management. Mr. Chavez joined Gammon Gold as a director in 2007.

***George D. Elliott***

George D. Elliot, 68, BA (Hons), LLB served as Chief Executive Officer of Augen Capital Corporation from May 2007 to April 25, 2008. Mr. Elliott has served as an Executive Vice President of MCAP Financial. He served as President of Titanium Corporation Inc. from November 2003 to February 2005 and its Chief Executive Officer until February 2005. Prior to that, he served as President of Titanium Corp. Inc. until July 2003. While a solicitor at the law firm of McCarthy Tétrault from 1987 to January 1998, he created a non-bank lending division. From January 1998 to October 1998, he served as a Business Consultant of King Haven 8 Capital. From October 1998 to December 2003, he served as a Senior Counsel of Gowling Lafleur Henderson LLP and Senior Partner at McCarthy Tétrault LLP, based in Toronto. He had a 35 year career with Canada's largest law firms focusing on business development and relationship management. He served as an Executive Chairman of Titanium Corp. Inc. until August 31, 2007. He has been a director of Medworxx Solutions Inc. since September 2010. He serves as director of McCarthy Tétrault LLP. He has been director of GA Capital Corporation since August 2008 and Esperanza Resources Corporation since August 29, 2008. He served as a director of Integrated Asset Management corp., since March 2, 2006. He served as an Executive Director of Augen Capital Corporation, since November 20, 2006 until April 25, 2008. He served as External Director of PLM Group Ltd. from 1997 to October 17, 2007. He served as a director of Titanium Corp. Inc., from March 29, 2000 to August 31, 2007. Mr. Elliott holds a B.A. (Hon) from McGill University Montreal, QC in 1964 and LL.B from Osgoode Hall, York University Toronto, ON in 1967. He is the chair of the compensation committee and a member of the nominating and corporate governance committee, the audit committee, and the environmental, health and safety committee.

***Terrence Cooper***

Terrence Cooper, 67, Q.C., co-founder of the law firm of Cooper & McDonald, in Halifax Nova Scotia, practiced as a partner with the firm for thirty years. Prior to his time with Cooper & McDonald, he served as Solicitor with the Department of Attorney General in Nova Scotia, where in addition to his many other roles during his tenure he acted as Crown Prosecutor in the Nova Scotia Court of Appeals. Mr. Cooper currently carries on the practice of law with Boyne Clarke in Dartmouth, Nova Scotia and in addition acts as Per Diem Crown Attorney with the Public Prosecution Service of Nova Scotia. Mr. Cooper has been practicing law in Nova Scotia for thirty seven years, including employment with Legal Aid, the Government of Nova Scotia as well as private practice. Mr. Cooper is a graduate of Saint Mary's University and Dalhousie University, having received a Bachelor of Arts from Saint Mary's University and obtaining his Bachelor of Education in 1966 and LLB in 1972 from Dalhousie University. He was appointed Queen's Counsel in 1997 and is presently a member of the Nova Scotia Barristers' Society and former member of the Canadian Bar Association and American Trial Lawyers' Association. Mr. Cooper has served as a director since April 2009. He is the chair of the nominating and corporate governance committee, and a member of the compensation committee.

***Richard M. Colterjohn***

Richard M. Colterjohn, 52, B. Comm., MBA, has been Managing Partner of Glencoban Capital Management Incorporated since 2002. Mr. Colterjohn is a Principal of Glencoban and has over 20 years of involvement in the mining sector, as an investment banker, Director and operator. He founded Centenario Copper

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Corporation in 2004 and served as Chief Executive Officer and President from March 2004 until the sale of the company in April 2009. Mr. Colterjohn was an Investment Banker for 17 years, where responsibilities included leading Mining Sector Investment Banking activities in Canada. Mr. Colterjohn worked at Bankers Trust from 1988 to 1991 and Merrill Lynch from 1986 to 1988. He served as Managing Director of Corporate Finance department of UBS Bunting Warburg Inc. from 1992 to 2002 and was Head of its Mining Sector practice. Mr. Colterjohn is currently serving as a Director of MAG Silver Corp (TSX, AMEX) and Explorator Resources Inc. (TSX-V) Mr. Colterjohn holds Bachelor Commerce and Masters of Business Administration degrees. Mr. Colterjohn has served as a director since April 2010 and is a member of the audit committee and nominating and corporate governance committee.

***Alan R. Edwards***

Alan R. Edwards, 52, is a mining professional with 27 years of diverse mining industry experience. Mr. Edwards has a Bachelor of Science Degree in Mining Engineering and an MBA (Finance), both from the University of Arizona. He initially worked for Phelps Dodge Corporation for 15 years where he held positions of increasing responsibility, including General Manager of Operations, Chino Mines Company. From 2007 to 2009, Mr. Edwards held the position of President, Chief Executive Officer and director of Frontera Copper Corporation. From 2004 to 2007, Mr. Edwards held the position of Executive Vice President and Chief Operating Officer at Apex Silver Mines Corporation where he was responsible for the engineering, construction and commissioning of the San Cristobal project in Bolivia. From 1996 to 2000, Mr. Edwards worked for Cyprus Amax Minerals Company where he rose to the position of President/General Manager of Sociedad Minera Cerro Verde S.A. in Peru. Prior to joining Apex Silver Mines, he held senior operating positions with P.T. Freeport Indonesia and Kinross Gold Corporation. Mr. Edwards has served as a director since May 2010, is chair of the environmental, health and safety committee and a member of the compensation committee.

***Joseph Spiteri***

Joseph Spiteri, 56, is principal of a private mining consultancy firm. His commissions have included the evaluation of world-class deposits and operations in Canada and abroad. Mr. Spiteri has over 33 years of experience in advanced-stage exploration, feasibility, construction, operations and acquisitions. Prior to becoming a consultant, he held management or executive positions with Dome Mines Group, Placer Dome Incorporated, Northgate Explorations Limited, Lac Minerals Limited and Campbell Resources Incorporated. Mr. Spiteri obtained his Bachelor of Science Degree from the University of Toronto in 1976. Between 1982 and 1984, Mr. Spiteri completed graduate level business courses, on a part-time and correspondence basis, from Laurentian University and Dalhousie University. He is a director of Marathon PGM, a member of The Canadian Institute of Mining and a member of The Association of Professional Geoscientists of Ontario. Mr. Spiteri has been a director since May 2010 and is a member of the environmental, health and safety committee.

***Scott Perry***

Scott Perry, 34, is Executive Vice President and Chief Financial Officer and has held increasingly senior financial positions in the mining industry over the past 14 years. Prior to joining Gammon Gold, he was the Chief Financial Officer (seconded from Barrick Gold) for Highland Gold, where he managed the company's financial reporting and compliance commitments as well as the execution of its short-term and long-term financial and operational strategy. Mr. Perry also led Highland Gold's business and corporate development initiatives. Prior to being seconded to Highland Gold, Mr. Perry held increasingly senior financial roles with Barrick Gold in Australia, the U.S. and in Russia, where he was involved in establishing Barrick Gold's presence in Russia and assembling a very strong financial team. Mr. Perry holds a Bachelor of Commerce degree from Curtin University, a post-graduate diploma in Applied Finance and Investment as well as a CPA designation. Mr. Perry joined Gammon Gold in February 2008.

***Russell Tremayne***

Russell Tremayne, 63, is Executive Vice President and Chief Operating Officer and has over 35 years of mining experience throughout the world, with the majority of that time in senior leadership roles. Most recently

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he held the position of Director of Operations with Highland Gold. While at Highland Gold, Russell was responsible for all operational activities including production, development/stripping, milling operations, engineering and production planning, logistics and purchasing, quality control, utilities and communications. Mr. Tremayne also had overall responsibility for budgets and management reporting and has experience dealing with safety and environmental issues. Mr. Tremayne holds an Accredited Bachelor of Science in Mining. Mr. Tremayne joined Gammon Gold in January 2008

### ***Chris Bostwick***

Chris Bostwick, 48, is Senior Vice President of Technical Services and brings with him over 25 years of experience in the global mining industry, 19 of which have been spent with Barrick Gold Corporation in various roles. Mr. Bostwick also brings extensive experience in operations, engineering, maintenance, strategic planning and project evaluation and development gained in North and South America, Africa and Russia. Mr. Bostwick's most recent role prior to joining Gammon Gold was as a secondee from Barrick Gold to Highland Gold, where he led the Capital Projects and Technical Services groups for Highland Gold's three development projects and one operating mine within Russia. Prior to that he was at Barrick Gold's Toronto corporate office where he was Director of Evaluations and Capital Projects, working within the corporate development and technical services groups on mergers, acquisitions and feasibility studies. Mr. Bostwick also spent nine years at Barrick Gold's Goldstrike operation in Nevada. Mr. Bostwick has a Bachelor of Science Degree in Mining Engineering from Queens University. Mr. Bostwick joined Gammon Gold in January 2009.

### ***Dana Hatfield***

Dana Hatfield, 35, is Senior Vice President, Finance and is responsible for corporate planning and reporting, financial reporting and systems, treasury, and taxation. Mr. Hatfield has over 14 years of financial leadership in increasingly senior roles. Prior to joining Gammon Gold, Mr. Hatfield held senior finance roles with the Eastern Canada division of Sysco Corporation, where he oversaw financial reporting, Sarbanes-Oxley compliance, budgeting and planning, and all operational finance functions. Prior to this he was a Senior Manager with a major accounting firm advising various public companies on Canadian and U.S. stock exchange regulations, equity financings, and general financial management. Mr. Hatfield is a Chartered Accountant and has a Bachelor of Commerce degree from Dalhousie University in Halifax, Nova Scotia. Mr. Hatfield joined Gammon Gold in October 2007.

### ***Chris Richter***

Chris Richter, 31, is Vice President of Corporate Development. Prior to joining Gammon Gold, Mr. Richter spent 7 years working for Barrick Gold. As part of the Corporate Development team at Barrick Gold, Mr. Richter advanced numerous acquisitions, including the \$10.4 billion acquisition of Placer Dome. Most recently, Mr. Richter contributed to the design of the Capital Allocation, Strategy and Risk Group at Barrick Gold. Mr. Richter holds a Master of Arts degree in Economics from the University of Toronto and a Bachelor of Arts degree in Economics and Political Science from the University of Waterloo. Mr. Richter is also a CFA charter holder. Mr. Richter joined Gammon Gold in May 2010.

### ***Peter Drobeck***

Peter Drobeck, 56, is Senior Vice President of Exploration and Business Development. He holds an Master of Science degree in geological engineering from the Colorado School of Mines, and has worked continuously in the mining industry since 1980. His 30 years of exploration has involved all the relevant phases of exploration from regional exploration programs through exploration project management, to mine geology. His management experience has included working for both major companies (Newcrest, Homestake, Goldfields) as well as junior mining companies on four continents. Mr. Drobeck worked in Mexico in the past with Goldfields Mining and Fresnillo PLC, before joining Gammon Gold, providing him with a background to the geology, people, and business environment of the country. He has led Gammon Gold's exploration efforts since 2008.

**Table of Contents****DESCRIPTION OF GAMMON GOLD SHARE CAPITAL**

Set forth below is a description of Gammon Gold's share capital. The following statements are brief summaries of, and are subject to the provisions of, the articles of amalgamation and bylaws of Gammon Gold and the relevant provisions of the *Companies Act* (Quebec).

**General**

Gammon Gold's authorized capital consists of an unlimited number of common shares without nominal or par value, an unlimited number of Class A preferred shares and an unlimited number of Class B preferred shares. A total of 138,906,157 common shares are issued and outstanding (143,401,017 common shares on a fully diluted basis) as at January 31, 2011. There are no Class A or Class B preferred shares currently outstanding.

**Common Shares**

Each common share ranks equally with all other common shares with respect to dissolution, liquidation or winding-up of Gammon Gold and payment of dividends. The holders of common shares are entitled to one vote for each share of record on all matters to be voted on by such holders and are entitled to receive pro rata such dividends as may be declared by the board of directors of Gammon Gold out of funds legally available therefore and to receive pro rata the remaining property of Gammon Gold on dissolution. The holders of common shares have no pre-emptive or conversion rights. The rights attaching to the common shares can only be modified by the affirmative vote of at least two-thirds of the votes cast at a meeting of shareholders called for that purpose.

**Class A and Class B Preferred Shares**

The Class A and Class B preferred shares are non-cumulative, non-participating, voting and redeemable at their paid-in value. Dividends on the Class A and Class B preferred shares are determined by the board of directors and are not to exceed 12% in the case of the Class A preferred shares and 13% in the case of the Class B preferred shares. The Class A and Class B preferred shares are entitled to preference over the common shares and any other shares of Gammon Gold ranking junior to the Class A and Class B preferred shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of Gammon Gold, provided however that the Class A preferred shares have priority over the Class B preferred shares. Any amendment to the articles of Gammon Gold to vary any rights, privileges, restrictions or conditions attaching to the Class A or Class B preferred shares must, in addition to authorization by special resolution, be authorized by at least two-thirds of the votes cast at a meeting of holders of Class A or Class B preferred shares duly called for such purpose, each holder being entitled to one vote for each preferred share held.

**Trading Price and Volume**

The common shares of Gammon Gold have been listed and posted for trading on the TSX since February 18, 2000, under the trading symbol **GAM**. The common shares of Gammon Gold have been listed and posted for trading on the NYSE since October 13, 2008, under the trading symbol **GRS**. The following table sets forth the high and low closing prices and trading volume of the common shares of Gammon Gold as reported by the TSX and NYSE for the periods indicated:

Period	TSX			NYSE		
	High	Low	Volume	High	Low	Volume
February 2011 (through February 14, 2011)	\$ 8.66	\$ 7.71	5,724,032	\$ 8.73	\$ 7.83	13,085,102
January 2011	8.22	7.15	9,198,402	8.31	7.20	27,045,904
December 2010	8.20	6.92	13,954,578	8.19	6.82	41,547,333
November 2010	7.12	6.35	13,479,359	7.11	6.23	32,319,689
October 2010	7.40	6.88	16,278,739	7.35	6.67	26,133,176
September 2010	7.70	6.98	9,918,823	7.50	6.75	25,555,062
August 2010	7.64	6.00	10,499,302	7.26	5.80	19,443,464
July 2010	6.11	5.47	12,211,818	5.95	5.27	19,234,770
June 2010	8.16	5.82	18,915,740	7.84	5.46	47,893,465
May 2010	8.30	7.16	13,526,076	8.04	6.91	38,635,829
April 2010	7.70	6.86	20,950,118	7.69	6.90	43,492,112
March 2010	10.54	7.27	18,162,804	10.22	7.19	30,958,275

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February 2010	10.70	9.40	7,920,631	10.26	8.83	18,659,744
January 2010	12.44	9.22	8,462,462	12.02	8.63	23,678,556
December 2009	12.80	11.08	11,131,421	12.20	10.37	29,391,244

**Table of Contents****Prior Sales**

The following table summarizes the sales of common shares of Gammon Gold during the 12 month period preceding the date of this proxy statement/prospectus statement.

<b>Date of Issue</b>	<b>Issue Price per Common Share</b>	<b>Number of Common Shares Issued</b>
October 6, 2010(1)	C\$7.34	13,698
October 6, 2010(1)	U.S.\$7.16	8,828
August 23, 2010(2)	C\$5.43	329,000
August 20, 2010(2)	C\$6.55	4,700
August 19, 2010(2)	C\$6.55	47,000
August 18, 2010(2)	C\$5.43	3,290
July 9, 2010(1)	C\$6.00	13,971
July 9, 2010(1)	C\$5.69	9,362
May 21, 2010(2)	C\$6.24	10,000
April 7, 2010(1)	C\$7.72	10,300
April 7, 2010(1)	U.S.\$7.44	8,568
February 24, 2010(2)	C\$6.69	10,000
February 24, 2010(2)	C\$6.57	12,500
February 23, 2010(2)	C\$6.24	10,000
February 22, 2010(2)	C\$6.24	15,000
February 19, 2010(2)	C\$6.56	3,000
February 19, 2010(2)	C\$6.16	7,500
February 16, 2010(2)	C\$6.48	150,000
<b>Total</b>		<b>666,717</b>

- (1) Issuance of common shares under Gammon Gold's employee share purchase plan.  
(2) Issuance of common shares upon the exercise of stock options.

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The following table summarizes the issuance of securities convertible or exchangeable into common shares of Gammon Gold during the 12 month period preceding the date of this proxy statement/prospectus.

<b>Date of Issue</b>	<b>Type of Security</b>	<b>Exercise Price per Share</b>	<b>Number of Securities Issued</b>
November 9, 2010	Stock Options	C\$6.96	250,000
October 12, 2010	Stock Options	C\$7.08	20,000
August 31, 2010	Stock Options	C\$7.39	30,000
August 17, 2010	Stock Options	C\$6.27	30,000
June 18, 2010	Stock Options	C\$7.27	10,000
May 19, 2010	Stock Options	C\$7.99	210,000
May 18, 2010	Stock Options	C\$7.92	230,000
April 13, 2010	Stock Options	C\$7.44	150,000
April 8, 2010	Stock Options	C\$7.57	30,000
<b>Total</b>			<b>960,000</b>



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**COMPARISON OF SHAREHOLDER RIGHTS**

The rights of holders of CGC stock are governed principally by the laws of the State of Delaware, particularly the DGCL, CGC's articles of incorporation and CGC's bylaws. As a result of the merger, holders of CGC common stock will receive Gammon Gold common shares with respect to their shares of CGC common stock. The rights and privileges of those shares will be governed principally by the laws of Quebec, Canada, particularly the Quebec Companies Act and Gammon Gold's articles and bylaws.

Although the rights and privileges of stockholders of a Delaware corporation and the rights and privileges of shareholders of a Quebec corporation are, in many instances, comparable, there are differences. The following is a summary of the key differences among the rights of holders of CGC common stock as of the date of this proxy statement/prospectus and the rights of holders of Gammon Gold common shares as of the date of this proxy statement/prospectus. These differences arise principally from differences between the DGCL and Quebec law, and between CGC's articles of incorporation and bylaws, on the one hand, and Gammon Gold's articles and bylaws, on the other hand.

While Gammon Gold and CGC believe that this summary describes the key differences among the rights of holders of CGC common stock as of the date of this proxy statement/prospectus and the rights of holders of Gammon Gold common shares as of the date of this proxy statement/prospectus, it may not contain all of the information that is important to you. We urge you to read the governing instruments of each company and the provisions of the DGCL and the Quebec Companies Act, which are relevant to a full understanding of the governing instruments, fully and in their entirety.

**CGC Common Stock**

**Gammon Gold Common Shares**

**Authorized Capital**

The total number of authorized shares of Capital Gold is 75,000,000 shares of common stock, par value \$0.0001 per share. There are no shares of preferred stock authorized or outstanding.

Gammon Gold's authorized capital consists of an unlimited number of common shares without nominal or par value, an unlimited number of Class A preferred shares and an unlimited number of Class B preferred shares. There are no Class A or Class B preferred shares currently outstanding.

**Number and Election of Directors**

CGC's board of directors currently consists of five members who are each elected annually. The CGC bylaws provide the number of the directors of the corporation shall be not less than three nor more than ten, unless and until otherwise determined by vote of a majority of the entire board of directors.

Gammon Gold's board of directors currently consists of nine members who are each elected annually. The Gammon Gold bylaws provide the number of the directors of the corporation shall be not less than three nor more than eleven, unless and until otherwise determined by vote of a majority of the entire board of directors. There are currently nine directors.

**Removal of Directors**

Under Delaware law, unless the board is separated into classes, any director or the entire board of directors of a Delaware corporation may be removed with or without cause by the holders of a majority of the shares then entitled to vote at an election of directors.

Gammon Gold's shareholders may from time to time, by ordinary resolution at a special meeting of shareholders of which notice specifying the intention to pass such resolution has been given, remove any director before the expiry of his term of office and appoint any qualified person to fill the vacancy thereby created, failing which such vacancy may be filled by a resolution of the directors then in office.

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**CGC Common Stock**

**Gammon Gold Common Shares**

**Filling Vacancies on the Board of Directors**

The CGC bylaws provide that any vacancy in the board of directors occurring by reason of an increase in the number of directors, or by reason of the death, resignation, disqualification, removal (unless a vacancy created by the removal of a director by the stockholders shall be filled by the stockholders at the meeting at which the removal was effected) or inability to act of any director, or otherwise, shall be filled for the unexpired portion of the term by a majority vote of the remaining directors, though less than a quorum, at any regular meeting or special meeting of the board of directors called for that purpose.

Any vacancy in Gammon Gold's board of directors occurring by reason of an increase in the number of directors, or by reason of the death, resignation, disqualification, removal (unless a vacancy created by the removal of a director by the stockholders shall be filled by the stockholders at the meeting at which the removal was effected) or inability to act of any director, or otherwise, shall be filled for the unexpired portion of the term by a majority vote of the remaining directors at any regular meeting or special meeting of the board of directors called for that purpose.

**Stockholder Meetings and Provisions for Notices; Proxies**

CGC's bylaws provide that all meetings of the stockholders shall be held at the principal office of the corporation, or at other places as shall be designated in the notices or waivers of notice of such meetings. Special meetings of the stockholders may be called at any time by the board of directors or by the president or chief executive officer, or as otherwise required under provisions of the DGCL.

Annual meetings and special meetings of Gammon Gold's shareholders shall be held at the head office of the company or elsewhere in the Province of Quebec at such time and upon such day as Gammon's directors may by resolution determine.

Under CGC's bylaws, written notice stating the time when and place where the meeting is to be held must be served either personally or by mail no less than 10 days and no more than 50 days before the date of such annual or special meeting to each stockholder entitled to vote at the meeting unless otherwise required by law. For special meetings, the purpose or purposes for such meeting must also be stated in the notice.

Notice of the time and place of each annual meeting of shareholders and of each special meeting of shareholders shall be given not less than 21 days nor more than 50 days before the date of the meeting entitled to vote. Notice of a meeting of shareholders called for any purpose other than the consideration of the financial statements and auditor's report, the election of directors or the reappointment of the incumbent auditor or auditors shall state the nature of the business in sufficient detail to permit the shareholder to form a reasoned judgment thereon and shall state the text of any special resolution to be submitted to the meeting.

Under Delaware law, no proxy shall be valid after three years from the date of its execution, unless the proxy provides for a longer period.

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**CGC Common Stock**

**Gammon Gold Common Shares**

**Stockholder Nominations and Proposals**

Stockholder nominations of persons for election to the board of directors of CGC and other stockholder proposals may be properly brought before a meeting of CGC stockholders by any stockholder of the CGC who is a stockholder of record on the date of the giving of the notice provided for under CGC's bylaws and on the record date for the determination of stockholders entitled to vote at such meeting. Such nominations or proposals must also be timely, meaning that they must be delivered to or mailed and received at the principal executive offices of CGC not less than ninety days nor more than one hundred twenty days prior to the date of the meeting; provided, however, that in the event that public disclosure of the date of the meeting is first made less than one hundred days prior to the date of the meeting, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which such public disclosure of the date of the meeting was made. The content of such stockholder's notice to CGC must be in the form called for by CGC's bylaws, which form varies depending on if such notice is in respect of a nomination or a proposal for a matter other than a nomination.

Upon receipt by the Secretary of Gammon Gold of a requisition in writing, signed by holders of not less than one-tenth of the outstanding shares of the company, setting out the objects of the proposed meeting, the directors, or, if there is not a quorum in office, the remaining directors or director, shall forthwith convene a special general meeting of the shareholders for the transaction of the business mentioned in the requisition. If such meeting is not called and held within twenty-one days from the date upon which the requisition was left at the head office of Gammon Gold, any shareholders holding not less than one-tenth of the outstanding shares of the company, whether they signed the requisition or not, may themselves convene such special general meeting.

**Quorum and Voting by Stockholders**

CGC's bylaws provide that the presence at the commencement of the meeting in person or by proxy of stockholders holding of record a majority of the total number of shares then issued and outstanding shall constitute a quorum at any such meeting of stockholders.

At any meeting of Gammon Gold shareholders, two shareholders entitled to vote or duly appointed proxies for absent shareholders so entitled, constitute a quorum. Each share of CGC common stock is entitled to one vote per share on all matters submitted to stockholders.

Each share of CGC common stock is entitled to one vote per share on all matters submitted to stockholders. CGC's bylaws also provide that directors are elected by a plurality of the votes cast at a meeting by holders of shares, present in person or by proxy, at the meeting and entitled to vote on the election of directors, and except as otherwise required by law, CGC's certificate of incorporation as amended, or CGC's bylaws, all other matters shall be determined by a majority of the votes cast, at any meeting at which a quorum is present.

The bylaws of Gammon Gold provide that, unless otherwise prescribed by law, every question submitted to any meeting of shareholders shall be determined by a majority of votes cast on the question. In the case of equality of votes, the chairman shall, both on a show of hands and in the case of a ballot, have a second or casting vote in addition to the vote or votes to which he may be entitled as a shareholder.

An arrangement or amalgamation must be approved by special resolution passed by a vote of not less than

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**CGC Common Stock**

**Gammon Gold Common Shares**

**Quorum and Voting by Stockholders**

two-thirds of the votes cast by shareholders who voted in respect of the resolution. The holders of each class or series of shares which is affected differently by the transaction from the shares of any other class or series are entitled to vote separately as a class or series.

**Stockholder Action Without a Meeting**

CGC's bylaws provide that any resolution in writing, signed by all stockholders entitled to vote thereon, shall be and constitute action by the stockholders with the same effect as if it had been duly passed by unanimous vote at a duly called meeting of stockholders.

The Quebec Companies Act and Gammon Gold's bylaws provide that any resolution in writing, signed by all stockholders entitled to vote thereon, shall be and constitute action by the stockholders with the same effect as if it had been duly passed by unanimous vote at a duly called meeting of stockholders.

**Amendment of Certificate or Articles of Incorporation**

CGC's certificate of incorporation does not contain any special provisions regarding approval of amendments to the certificate of incorporation. Under the DGCL, an amendment to the certificate of incorporation requires that the board of directors approve the amendment, declare it advisable and submit it to stockholders for adoption. Such amendment must be adopted by a majority in voting power of all issued and outstanding shares and any greater vote required by the certificate of incorporation. Except in limited circumstances, any proposed amendment to the certificate of incorporation that would increase or decrease the authorized shares of a class of stock, increase or decrease the par value of the shares of a class of stock, or alter or change the powers, preferences or special rights of the shares of a class of stock (so as to affect them adversely) requires approval of the holders of a majority of the outstanding shares of the affected class, voting as a separate class, in addition to the approval of a majority of the shares entitled to vote on that proposed amendment. If any proposed amendment would alter or change the powers, preferences or special rights of any series of a class of stock so as to affect them adversely, but does not affect the entire class, then only the shares of the series affected by the proposed amendment is considered a separate class for purposes of the immediately preceding sentence.

Gammon Gold's articles of incorporation do not contain any special provisions regarding approval of amendments to the articles of incorporation. Under the Quebec Companies Act, to amend the articles of a company, its directors must pass a by-law. The by-law amending the articles of a company must be confirmed by two-thirds of the votes cast by the shareholders of the company at a special general meeting of shareholders called for that purpose. The by-law must authorize one of the directors to sign the articles of amendment. The directors may, before the appropriate certificate is prepared, annul the by-law if they are authorized to do so by the by-law.

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**CGC Common Stock**

CGC's bylaws provide that the board of directors is expressly authorized to adopt, amend or repeal the bylaws; provided, however, that the stockholders entitled to vote with respect thereto may alter, amend or repeal bylaws made by the board of directors (except that the board of directors shall have no power to change the quorum for meetings of stockholders or of the board of directors or to change any provisions of the bylaws with respect to the removal of directors or the filling of vacancies in the board of directors resulting from the removal by the stockholders). CGC's bylaws also provide that all bylaws may be altered or repealed and new bylaws may be made by the affirmative vote of stockholders holding of record at least a majority of the outstanding shares entitled to vote in the election of directors at any annual or special meeting of stockholders, provided that the notice or waiver of notice of such meeting shall have summarized or set forth in full therein, the proposed amendment.

**Gammon Gold Common Shares**

**Amendment of Bylaws**

Gammon Gold's board of directors is authorized to adopt, amend or repeal the bylaws; provided, however, that the stockholders entitled to vote with respect thereto must sanction and confirm the repeal, amendment and re-enactment of any by-law requiring sanction or confirmation at the next general meeting following the adoption, amendment or repeal of the bylaws by the directors.

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**CGC Common Stock**

The provisions of Delaware law relating to Business Combinations do not apply to a corporation if, among other things, the certificate of incorporation or bylaws of the corporation contain a provision expressly electing not to be governed by the provisions of the statute or the corporation does not have voting stock listed on a national securities exchange or held of record by more than 2,000 stockholders.

CGC has not opted out of the Delaware laws relating to Business Combinations.

Under certain provisions of Delaware law, a corporation may not engage in certain transactions with an interested stockholder. For purposes of this provision, an interested stockholder generally means any person who, together with its affiliates or associates, directly or indirectly owns 15% or more of the outstanding voting stock of the corporation. These provisions prohibit certain Business Combinations between an interested stockholder and a corporation for a period of three years following the date that the stockholder acquired its stock unless:

(1) prior to the stockholder becoming an interested stockholder, the board of directors of the corporation approved the Business Combination or the transaction which resulted in the stockholder becoming an interested stockholder;

(2) the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding shares held by directors who are also officers and shares held by certain employee stock plans) in which such stockholder became an interested stockholder; or

(3) the Business Combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

**Gammon Gold Common Shares**

**Anti-Takeover Statutes**

Rules and policies of certain Canadian securities regulatory authorities, including Multilateral Instrument 61-101, contain requirements in connection with related party transactions. A related party transaction means, among other things, any transaction by which an issuer directly or indirectly engages in the following with a related party: acquires, sells, leases or transfers an asset, acquires the related party, acquires or issues treasury securities, amends the terms of a security if the security is owned by the related party or assumes or becomes subject to a liability or takes certain other actions with respect to debt.

Related party includes directors, senior officers and holders of more than 10% of the voting rights attached to all outstanding voting securities of the issuer or holders of a sufficient number of any securities of the issuer to materially affect control of the issuer.

Multilateral Instrument 61-101 requires, subject to certain exceptions, the preparation of a formal valuation relating to certain aspects of the transaction and more detailed disclosure in the proxy material sent to security holders in connection with a related party transaction including related to the valuation.

Multilateral Instrument 61-101 also requires, subject to certain exceptions, that an issuer not engage in a related party transaction unless the shareholders of the issuer, other than the related parties, approve the transaction by a simple majority of the votes cast.

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**CGC Common Stock**

**Gammon Gold Common Shares**

**Limitation of Liability and Indemnification of Directors and Officers**

CGC's certificate of incorporation, as amended, provides that no director of the corporation shall be personally liable to Capital Gold or its stockholders for monetary damages for breach of fiduciary duty as a director, except for a breach of fiduciary duties unless the breach involves: (1) a director's duty of loyalty to the corporation or its stockholders; (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (3) liability for unlawful payments of dividends or unlawful stock purchases or redemption by the corporation; or (4) a transaction from which the director derived an improper personal benefit. CGC's certificate of incorporation, as amended, also provides that the corporation shall indemnify all persons whom it may indemnify pursuant to Section 145 of the General Corporation Law of Delaware or otherwise.

Under the bylaws of Gammon Gold, no director, senior executive or officer of the company may be liable for the acts, receipts, neglects or defaults of any other director, senior executive, officer or employee or for joining in any receipts or other act for conformity or for any loss or expense happening to the company through the insufficiency or deficiency of title to any property acquired by order of the board for, or on behalf of, the company or for the insufficiency or deficiency of any security in or upon which any of the moneys of the company shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with, whom any of the moneys, securities or effects of the company shall be deposited or from any loss occasioned by any error of judgment or oversight on his part, or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of