

Argonaut Gold and Prodigy Agree to Friendly Business Combination

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TORONTO, ONTARIO and VANCOUVER, BRITISH COLUMBIA -- (Marketwire) -- 10/15/12 -- [Argonaut Gold Inc.](#) (TSX: AR) ("Argonaut Gold") and [Prodigy Gold Incorporated](#) (TSX VENTURE: PDG) ("Prodigy") are pleased to announce that they have entered into an agreement (the "Arrangement Agreement") pursuant to which Argonaut Gold has agreed to acquire all of the issued and outstanding common shares of Prodigy by way of a Plan of Arrangement (the "Arrangement"). The combined entity will benefit from the strong operating experience and cash flow of Argonaut Gold and its ability to successfully advance Prodigy's Magino gold project, which has an indicated resource of more than 6 million ounces (223 million tonnes at 0.87 g/t using a cut-off grade of 0.35 g/t).

Pursuant to the terms of the Arrangement announced today, Prodigy shareholders will receive 0.1042 of an Argonaut Gold share and C\$0.00001 in cash per Prodigy share, representing C\$1.08 per share based on Argonaut Gold's 20-day volume-weighted average price ("VWAP") and a premium of 54% based on both companies' 20-day VWAPs as at October 12, 2012, the last trading day prior to this announcement. The transaction values Prodigy's equity at approximately C\$341 million on a fully diluted in-the-money basis and implies an enterprise value of approximately C\$277 million.

Pro forma the transaction, Argonaut Gold will be owned approximately 78% by current Argonaut Gold shareholders and 22% by current Prodigy shareholders (based on fully diluted in-the-money shares outstanding). The terms of the transaction have been unanimously approved by both companies' Boards of Directors, with the commitment of votes from all directors and officers of Prodigy, representing approximately 3.9% of Prodigy's shares, having been secured.

Highlights of the Combined Entity:

- Current production from two mines in Mexico and a strong pipeline of two developments projects in Canada and Mexico, representing a diversified asset portfolio in two premier jurisdictions for mine development and operation
- If both development projects are advanced to production, Argonaut Gold is expected to enter the ranks of the intermediate producers and fulfill its stated goal of 300,000 - 500,000 ounces of gold production per year
- In excess of 12 million ounces of measured and indicated gold resource including 1.2 million ounces of proven and probable gold reserve (fully broken out by category and property as described below)
- Strong balance sheet with no debt
- Current and projected future cash flow generation expected to self-fund future development, mitigating future financing risk
- Strong management team and experienced Board of Directors with proven development and operating track record

Pete Dougherty, President and CEO of Argonaut Gold said, "We are very pleased to announce this transaction with Prodigy today. Magino is a highly attractive asset which has shown continued resource growth, and which we believe will provide a longer term production opportunity for Argonaut Gold shareholders. The Magino resource provides substantial flexibility for maximizing value creation using a higher grade cut-off. We believe the project can be "right-sized" for a company like Argonaut Gold to deliver the best returns to our shareholders, while providing further upside should the gold price maintain its strong performance. This transaction is both highly attractive to Prodigy shareholders as well as significantly accretive to Argonaut Gold shareholders on all key financial and operational metrics."

Brian J. Maher, President and CEO of Prodigy said, "The transaction announcement today is the culmination of the success we have had growing and advancing the Magino project. We believe the price offered by Argonaut Gold is highly attractive for our shareholders, and that in addition to the premium our shareholders receive today, our shareholders now have the opportunity to participate in a company that has current

production exposure and can both finance and develop Magino."

Transaction Benefits for Argonaut Gold Shareholders

- Magino represents a significant scale asset in the Argonaut Gold portfolio, and has the potential to allow Argonaut Gold to achieve or exceed its stated goal of 300,000 - 500,000 ounces of gold production
- Magino is a multi-million ounce deposit which provides tremendous grade flexibility when considering development alternatives while pursuing the highest returns for Argonaut Gold shareholders
- Timeline for Magino development provides for continued growth beyond Argonaut Gold's existing organic growth projects with anticipated start-up well timed after San Antonio is targeted to start production
- Provides geopolitical and asset diversification, and entry into another of the world's most supportive mining jurisdictions
- Fairness opinion received from the financial advisor to Argonaut Gold indicating that the transaction is fair from a financial point of view to Argonaut Gold
- Transaction significantly accretive to all of Argonaut Gold's per share metrics, including net asset value per share, resources per share, longer term cash flow per share, and longer term production per share
- In addition to Magino, Argonaut Gold will gain exposure to Prodigy's portfolio of other exploration stage assets

Transaction Benefits for Prodigy Shareholders

- Significant premium of 54% to Prodigy shareholders based on both companies' 20-day VWAPs as at October 12, 2012
- All-share transaction provides Prodigy shareholders with exposure to current production and cash flow in a strong gold price environment and continuing exposure to the advancement of Magino as well as Argonaut Gold's existing organic growth profile
- Substantially decreases the financing risk for the project
- Leverages Argonaut Gold's highly experienced and successful management team
- Argonaut Gold's shares provide improved trading liquidity for Prodigy shareholders
- Fairness opinion received from Prodigy's financial advisor indicating that the transaction is fair, from a financial point of view, to Prodigy shareholders

Arrangement Agreement Summary

The Arrangement includes, among other things, certain standard conditions including receipt of approval of the shareholders of Prodigy and Argonaut Gold by the affirmative vote of no less than 66 2/3% and 50.1% of the shares voted, respectively, and receipt of court and stock exchange approvals. Special shareholder meetings for each company to vote on the transaction are expected to be held in December, 2012 with closing expected shortly thereafter.

The Arrangement Agreement is subject to customary non-solicitation provisions, subject to Prodigy's right to consider and accept superior proposals. In the event of a superior proposal, Argonaut Gold will have a five business day right to match the superior proposal. If the Arrangement is not completed as a result of a superior proposal or in other certain specified circumstances, a termination fee equal to C\$10.25 million will be paid to Argonaut Gold. The Arrangement Agreement also provides for reciprocal expense reimbursement under certain specific circumstances. After closing of the transaction, Prodigy will have the right to appoint one Director to the Argonaut Gold Board of Directors.

The terms and conditions of the Arrangement will be disclosed in more detail in the management information circulars which will be filed and mailed to Argonaut Gold and Prodigy shareholders in November 2012.

Advisors and Legal Counsel

BMO Capital Markets is acting as financial advisor and Fraser Milner Casgrain LLP is acting as legal counsel to Argonaut Gold and its Board of Directors. BMO Capital Markets has provided an opinion that, based upon and subject to the assumptions, limitations, and qualifications in such opinion, the consideration to be received by Prodigy's shareholders is fair, from a financial point of view, to Argonaut Gold.

National Bank Financial Inc. is acting as financial advisor and DuMoulin Black LLP is acting as legal counsel to Prodigy. National Bank Financial Inc. has provided an opinion that, based upon and subject to the assumptions, limitations, and qualifications in such opinion, the consideration to be received by Prodigy's shareholders is fair, from a financial point of view, to Prodigy shareholders.

Conference Call Details

Argonaut Gold and Prodigy will host a conference call to investors and analysts to discuss the transaction on October 15, 2012 at 9:00 a.m. EDT (6:00 a.m. PDT).

You will be able to participate in this call using the following details:

Conference Call Information:

Toll Free (North America) 1-877-440-9795

Toronto Local and International 1-416-340-8527

Webcast www.gowebcasting.com/3937

Conference Call Replay:

Toll Free Replay Call (North America) 1-800-408-3053

Replay Call 1-905-694-9451

Passcode 3150074

The conference call replay will be available from 12:00 p.m. ET on October 15, 2012 until October 29, 2012. The webcast archive will be available from 11:00 a.m. ET on October 15, 2012 for one year.

About Argonaut Gold

Argonaut Gold is a Canadian gold company engaged in exploration, mine development and production activities. Its primary assets are the production-stage El Castillo Mine in the State of Durango, Mexico, the La Colorada Mine in the State of Sonora, Mexico, the advanced exploration stage San Antonio project in the State of Baja California Sur, Mexico, and several exploration stage projects, all of which are located in Mexico.

Creating Value Beyond Gold

Argonaut Gold Technical Information

	Resource Category	Tonnes	Au Grade (g/t)	Ounces	Ag Grade (g/t)	Ounces
Mineral Reserves						
Castillo - Oxide	Proven	84,470,000	0.36	994,000		
Castillo - Transition	Proven	19,180,000	0.37	228,000		
Sub Total Proven - Oxide & Transition		104,650,000	0.36	1,222,000		
Castillo - Oxide	Probable	772,000	0.33	8,000		
Castillo - Transition	Probable	73,000	0.35	1,000		
Sub Total Probable - Oxide & Transition		844,000	0.33	9,000		
Total Proven and Probable Reserves		105,495,000	0.36	1,231,000		
Measured and Indicated Mineral Resources (Including P&P Reserves)						
Castillo - Oxide in Pit	Measured	114,300,000	0.293	1,220,100		
Castillo - Oxide in Pit	Indicated	4,900,000	0.293	45,700		
Castillo - Oxide in Pit	M&I	119,200,000	0.331	1,268,000		
Castillo - Transition in Pit	Measured	44,600,000	0.295	423,200		
Castillo - Transition in Pit	Indicated	1,900,000	0.278	17,100		
Castillo - Transition in Pit	M&I	46,500,000	0.294	439,900		

Total Castillo Oxide and Transition in Pit	Measured	158,900,000	0.322	1,645,300
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Total Castillo Oxide and Transition in Pit	Indicated	6,800,000	0.289	62,900
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Total Castillo Oxide and Transition in Pit	M&I	165,700,000	0.32	1,704,700
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Castillo Sulphide (Global)	Measured	70,600	0.328	744,800
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Castillo Sulphide (Global)	Indicated	91,200	0.272	797,500
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Total Castillo Sulphide (Global)	M&I	161,800,000	0.296	1,540,000
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San Antonio, Las Colinas - Oxide & Transition	Indicated	1,910,000	0.62	38,000
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San Antonio, Las Colinas - Sulphide	Indicated	8,103	0.69	179,000
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San Antonio, Los Planes - Oxide & Transition	Measured	12,351,000	0.76	303,000
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San Antonio, Los Planes - Oxide & Transition	Indicated	8,408,000	0.67	181,000
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San Antonio, Los Planes - Sulphide	Measured	6,649,000	1.17	250
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San Antonio, Los Planes - Sulphide	Indicated	22,065,000	0.92	653,000
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San Antonio, Intermediate - Oxide & Transition	Indicated	643,000	0.39	8,000
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San Antonio, Intermediate - Sulphide	Indicated	4,961,000	0.77	123,000
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All San Antonio Deposits - Oxide & Transition	M&I	23,312,000	0.71	530,000		
All San Antonio Deposits - Sulphide	M&I	41,778,000	0.90	1,205,000		
Total San Antonio Deposits - Oxide / Transition / Sulphide	M&I	65,089,000	0.83	1,735,000		
La Colorada, Gran Central - La Colorada	Indicated	29,915,053	0.724	696,336	5.1	4,905,135
La Colorada, Gran Central - La Colorada	Inferred	2,500,000	1.204	95,149	8.4	661,000
La Colorada, El Creston Deposit	Indicated	14,438,662	0.618	286,658	12.1	5,635,385
La Colorada, El Creston Deposit	Inferred	2,199,713	0.88	62,703	13.3	943,734
La Colorada, Veta Madre	Indicated	2,900,000	0.491	46,261	3.3	307,155
La Colorada, Veta Madre	Inferred	8,799	0.665	200	2.4	700
La Colorada, ROM Pad	Indicated	2,700,000	0.429	38,000	36.5	3,200,000
Total La Colorada Deposits	M&I	50,000,000	0.664	1,067,255	8.7	14,047,675
La Fortuna	Measured	1,538,000	2.956			
La Fortuna	Indicated	3,287,000	1.533			
Total La Fortuna	M&I	4,800,000	1.98	308,000		
Inferred Mineral Resources						
San Antonio	Inferred	6,215,000	0.34	67,000		
La Colorada	Inferred	4,700,000	1.04	158,000	10.6	1,605,000
Total Inferred Resources		10,915,000		225,000		1,605,000

Total			
Measured and			
Indicated			
Resources	447,389,000	6,354,955	14,047,675

The technical information contained in this document regarding Argonaut Gold has been prepared under supervision of, and reviewed and approved by Mr. Thomas H. Burkhart, Argonaut Gold's Vice President of Exploration, and a qualified person as defined by National Instrument 43-101 ("NI 43-101"). For further information on Argonaut Gold's properties please see the reports as listed below on Argonaut Gold's website or on www.sedar.com:

 El Castillo Mine NI 43-101 Technical Report on Resources and Reserves, Argonaut Gold Inc., El Castillo Mine, Durango State, Mexico dated November 6, 2010

La Colorada Property NI 43-101 Preliminary Economic Assessment La Colorada Project, Sonora, Mexico dated December 30, 2011

San Antonio Gold Project Technical Report and Mineral Resource Estimate on the San Antonio Gold Project, Baja California Sur, Mexico dated June 30, 2011

La Fortuna Property La Fortuna, Durango, Mexico, Technical Report dated October 21, 2008

(Argonaut Gold will shortly be filing its previously announced updated preliminary economic assessment in relation to its San Antonio Gold Project.)

The preliminary economic assessment is preliminary in nature, includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and that there is no certainty that the preliminary economic assessment will be realized.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resource will be converted into mineral reserves.

About Prodigy

Prodigy is currently evaluating the development of the Magino mine gold project in Ontario as an open-pit mining opportunity with the potential for deeper, higher grade gold production. The Magino project contains Indicated gold resources of 6,250,990 ounces grading 0.87 g/t gold (223.5 million tonnes), and 355,190 ounces of Inferred gold resources grading 0.80 g/t gold (13.8 million tonnes) at a cut-off grade of 0.35 g/t gold. For more information please refer to the "Technical Report on the Magino Property, Wawa, Ontario dated October 4, 2012 available on SEDAR or Prodigy's website.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resource will be converted into mineral reserves.

The technical information contained in this document regarding Prodigy has been prepared under supervision of, and reviewed and approved by Tom Pollock, P.Geo., Prodigy Gold's Vice President - Exploration, who is a qualified person under the definitions established by NI 43-101.

Forward-Looking Statements

This press release contains certain "forward-looking statements" and "forward-looking information" under applicable Canadian securities laws concerning the proposed transaction and the business, operations and financial performance and condition of each of [Argonaut Gold Inc.](#) ("Argonaut Gold") and Prodigy Gold Incorporated ("Prodigy"). Forward-looking statements and forward-looking information include, but are not limited to, statements with respect to the Arrangement, development and estimated production and mine life of the various mineral projects of Argonaut Gold and Prodigy; synergies and financial impact of the Arrangement; the benefits of the development potential of the properties of Argonaut Gold and Prodigy; the future price of gold, copper, and silver; the estimation of mineral reserves and resources; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; success of exploration activities; and currency exchange rate fluctuations. Except for statements of historical fact relating to Argonaut Gold and Prodigy, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are based on a number of assumptions and subject to a variety of risks and uncertainties and other factors that could cause actual events or results

to differ materially from those projected in the forward-looking statements. Assumptions upon which such forward-looking statements are based include that all required third party, court, regulatory and governmental approvals to the Arrangement will be obtained and all other conditions to completion of the transaction will be satisfied or waived, that actual results of exploration activities will be as expected, that proposed mine plans and recoveries will be achieved, that capital costs and sustaining costs will be as estimated, that the assumptions underlying mineral resource estimates are valid, that Argonaut Gold and Prodigy will not experience unforeseen accident, fire, ground instability, flooding, labor disruption, equipment failure, or adverse metallurgical or environmental events, and that supplies, equipment, personnel, permits and other approvals required to conduct planned activities will be available on reasonable terms. Many of these assumptions are based on factors and events that are not within the control of Argonaut Gold or Prodigy and there is no assurance they will prove to be correct.

Factors that could cause actual results to vary materially from results anticipated by such forward-looking statements include non-completion of the Arrangement, changes in market conditions, variations in ore grade or recovery rates, risks relating to international operations, fluctuating metal prices and currency exchange rates, changes in project parameters, the possibility of project cost overruns or unanticipated costs and expenses, labour disputes and other risks of the mining industry, failure of plant, equipment or processes to operate as anticipated. Although Argonaut Gold and Prodigy have each attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Argonaut Gold and Prodigy undertake no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on forward-looking statements. Statements concerning mineral reserve and resource estimates may also be deemed to constitute forward-looking statements to the extent they involve estimates of the mineralization that will be encountered if the property is developed. Comparative market information is as of a date prior to the date of this document.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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