

Cerro Resources and Primero Mining C\$119M Merger Progressing Cerro Del Gallo and Forming New Explorer

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[Cerro Resources NL](#) ("Cerro") (ASX: CJO) (TSX VENTURE: CJO) today announces that it has entered into a definitive agreement (the "Agreement") with [Primero Mining Corp.](#) ("Primero") (TSX: P) (NYSE: PPP) aimed at progressing the planned Cerro del Gallo gold/silver heap leach mine in Mexico, under which:

- Primero will acquire all issued and outstanding ordinary shares of Cerro by way of a scheme of arrangement (the "Share Arrangement") under the Australian Corporations Act 2001 ("Act"), at the ratio of 0.023 of a Primero share for each 1 Cerro share ("Share Ratio");
- the terms of all issued and outstanding options of Cerro will be amended by way of a scheme of arrangement (the "Option Arrangement") under the Act, so that on exercise of the Cerro options, the optionholders will receive Primero shares based on the Share Ratio; and
- a new company ("[Spinco](#)") will be created to retain Cerro's non-Cerro del Gallo projects and interests. Existing Cerro shareholders will receive 80.01% of the ordinary shares in [Spinco](#). Primero will fund Spinco in the amount of \$A4M and will receive a 19.99% stake in Spinco with antidilution rights for 2 years and be entitled to appoint one director to Spinco's board.

The Share Arrangement represents a 77% premium to the spot closing price of Cerro shares on the ASX on December 13, 2012, excluding additional value through the creation of Spinco.

Cerro currently owns 69%(1) of the Cerro Del Gallo feasibility stage project in Guanajuato, Mexico, a gold-silver deposit with 1.15 million ounces of in-pit gold equivalent proven and probable reserves and 1.58 million ounces of in-pit gold equivalent measured and indicated resources (excluding P&P reserves).(2) Cerro also owns 100% interests in the Namiquipa silver and Espiritu Santo gold/silver exploration projects in Mexico, as well as Australian project/investment assets.

Primero operates the 100,000oz Gold eq pa San Dimas gold/silver mine in Durango State Mexico, currently under expansion to 160,000oz Gold eq pa. Primero currently has a \$133M pro-forma cash position and last traded at \$C6.63 per share for a market capitalisation of \$C650M.

Post transaction, the business combination would see:

- the merged 'Primero' entity positioned as a leading mid-tier gold growth stock, with a forecast 24% annualised production growth rate to at least 260,000 ounces of gold production by 2016, while
- "[Spinco](#)" will be focused on unlocking the high value potential Namiquipa silver and Espiritu Santo gold/silver Mexican exploration projects, with approximately \$A4 million in cash funding.

For current Cerro shareholders, the merger offer represents an implied 62% premium to Cerro's 20-day volume weighted average price ("VWAP") and a 77% premium to the spot closing price on the ASX at December 13, 2012 - not including a 'Spinco' valuation.

Upon completion, Cerro securityholders will own approximately 15% of the issued common shares of pro-forma Primero. The total transaction value is approximately C\$119 million.

Cerro Resources Managing Director, Mr. Tony McDonald commented: "Cerro management has recognised the investment market's prevailing preference to see new precious metals operations funded out of existing cash flows."

"By undertaking this transaction, Cerro shareholders benefit immediately from Primero's balance sheet and cash flow, enabling the Cerro del Gallo project to be constructed without external financing. Importantly, this

should ensure returns from an operationalised Cerro del Gallo are maximised, while appreciably lowering the combined average operating cost per ounce of the merged group - benefitting all shareholders."

"Cerro shareholders should also benefit from improved market liquidity of their Primero shareholding and the combination with Primero's proven management team who have a demonstrated track record of successfully growing precious metals mining companies."

"At the same time, this deal will free "Spinco" to focus its time and resources on fast tracking the high potential Namiquipa and Espiritu Santo projects in Mexico - and enable those projects to be more readily valued without being overshadowed by market focus on Cerro del Gallo's operation."

Primero's President and Chief Executive Officer, Joseph Conway said, "Cerro del Gallo is a very promising, undeveloped, large resource base opportunity in Mexico. Primero has the operational and financial strength to advance the project on a timely basis which will be beneficial for all stakeholders involved. This also represents a significant opportunity for Cerro shareholders in terms of continuing participation in Primero shares and their potential upside."

Benefits to Cerro securityholders:

- Offer represents an implied premium of 62% to the 20 trading day VWAP of Cerro shares on the ASX as at December 13, 2012.
- Immediate exposure to strong balance sheet and cash flow sufficient to fund the development of Cerro del Gallo, as well as finance further growth opportunities including a potential further expansion of Primero's existing San Dimas mine.
- Addresses key project funding requirement through effectively funding at a premium to alternative funding sources, while maximising long term operational earnings.
- Enables Cerro's shareholders to maintain exposure to the Cerro del Gallo project.
- Primero has an existing in-house management team with proven mine construction and operational expertise - potentially fast-tracking development.
- Provides opportunity to participate in valuation re-rating as the combination has a greater market capitalisation, liquidity and immediate cash flows.
- Increases analyst following and exposure of the Cerro del Gallo opportunity.
- Creates a new purpose-specific vehicle to progress Cerro's existing world class suite of exploration assets through 80.01% ownership of "Spinco".

Benefits to Primero Shareholders:

- Attractive long-life, precious metals project.
- Diversifies near-term production with an additional 95,000 gold equivalent ounces per year, a 55% increase in currently estimated near-term production.
- Doubles reserves and triples measured and indicated resources.
- Leverages Primero's regional expertise and solidifies Primero's presence in Mexico, one of the world's most supportive mining districts, with further consolidation opportunities.
- Accretive to Primero on key metrics and an attractive total acquisition cost.
- Asset diversification reduces risk and volatility in cash flow and earnings.
- Allows participation in upside potential of non-Cerro del Gallo assets through 19.99% ownership of "Spinco".
- Enhanced capital markets profile and re-rating potential as a junior gold producer with a proven operating team, a superior growth profile and significant exploration upside.
- Delivers on Primero's strategy of creating value for shareholders through low risk exposure to precious

metals in the Americas.

Transaction Summary

Under the terms of the Share Arrangement, each Cerro shareholder will receive 0.023 of a Primero common share for each Cerro ordinary share held (the "Share Consideration"). Cerro shareholders will also receive 80.01% of the ordinary shares of a newly incorporated company ("Spinco"). Spinco will own Cerro's interests in the Namiquipa, Espiritu Santo, Mt Philp, the Kalman joint venture interest, shares in Syndicated Metals and approximately \$4 million in cash. Primero will receive a 19.99% stake in Spinco with anti-dilution rights for two years. Primero will also be entitled to appoint a board member to sit on the board of directors of Spinco. Cerro's outstanding options and its option plan will be substantially assumed by Primero, subject to adjustment to reflect the Share Ratio and adjusted exercise price.

The transaction includes a loan for USD 5 million from Primero to Cerro ("Loan") to fund the ongoing development of the Cerro del Gallo project pending completion of the merger. Subject to termination or repayment after the maturity date, the interest rate under the Loan will be 6%. The maturity date for the loan will be 24 months from the date of the Agreement unless terminated early in accordance with its terms.

The transaction will be carried out by way of two court-approved schemes of arrangement (the Share Arrangement and the Option Arrangement). Each of the Share Arrangement and the Option Arrangement will require the approval of Cerro's shareholders and optionholders respectively. The transaction is subject to these approvals being obtained and also the Cerro shareholders approving at general meeting aspects of the deal with Spinco.

The transaction is also subject to applicable regulatory approvals and the satisfaction of certain other closing conditions customary in transactions of this nature. It is anticipated that the Cerro securityholder meetings will be held in April 2013. Primero does not require a shareholder vote to complete the transaction.

The Share Arrangement also includes customary provisions, including no solicitation of alternative transactions, right to match superior proposals, a reimbursement fee payable by Cerro in certain events and fiduciary-out provisions.

Cerro will engage an independent expert to provide a report to securityholders on the transaction to assist them in determining their vote at the relevant meeting(s) to approve the transaction. Each of the directors of Cerro have agreed to enter into voting support agreements and have agreed to vote in favour of the transaction, subject to receipt of a 'Superior Proposal'.

Primero is listed on TSX and NYSE and will provide for listing of the Primero shares issued on the merger on ASX as CHESS Depository Interests.

Next steps

Securityholders will receive a booklet on the transaction and the Share Arrangement and the Option Arrangement (Scheme Booklet). The Scheme Booklet will contain full details of the proposed Share Arrangement and the Option Arrangement, including the basis for the recommendation of the Directors.

It is anticipated that Cerro will send the Scheme Booklet to Securityholders in late February or early March 2013. The relevant meetings to approve the transaction and the Share Arrangement and the Option Arrangement are expected to be held in March or early April 2013, with the transaction expected to close in early May 2013 subject to all approvals being obtained and conditions precedent being satisfied.

Advisors and Counsel

Cerro's Canadian financial advisor in relation to the Canadian aspects of the transaction is National Bank Financial Inc. Its Canadian legal advisor is Wildeboer Dellelce LLP and its Australian legal advisor is GRT Lawyers.

Primero's financial advisors in relation to the transaction are TD Securities Inc. Its Canadian legal advisor is Stikeman Elliot LLP and its Australian legal advisor is ClarkeKann Lawyers LLP.

(1) Cerro del Gallo is owned 69% by Cerro and 31% by [Goldcorp Inc.](#)

(2) The gold equivalent ounces reflected herein were calculated using gold, silver and copper prices of

US\$1,341/oz, US\$25.58/oz and US\$7,582/t (or \$3.44/lb).

Competent Person/Qualified Person

Information from July 2012 NI43-101 Technical Report Feasibility Study (FS) on Heap Leach of the Cerro del Gallo Gold/Silver Project was prepared by Peter Hayward, Dip. of Metallurgy, Fellow AusIMM; Timothy Carew, B.Sc (Hons) Geology, M.Sc. Mineral Production Management, P.Geo; and Thomas Dyer, B.Sc Mine Engineering, P.E., independent consultants to Cerro and John Skeet, BAppSc, Fellow AusIMM, the Company's Chief Operating Officer. The report is available on SEDAR & Company's website.

About Cerro Resources

[Cerro Resources](#) is a precious and base metals exploration and development company. The Company is currently focused on Mexico where it is advancing the Cerro del Gallo gold/silver project in the central state of Guanajuato, Mexico, actively exploring the Namiquipa silver project in northern Mexico, and commencing exploration on the Espiritu Santo gold/silver project in Jalisco. It also maintains an active working focus on the Mt Isa, Queensland, region where it is exploring the Mt Philp haematite project and it holds an interest in the Kalman molybdenum, rhenium, and copper project.

Additional information about the Company and its projects is available on the Company's website at www.cerroresources.com and on SEDAR.

About Primero

[Primero Mining Corp.](#) is a Canadian-based precious metals producer that owns 100% of the San Dimas gold-silver mine in Mexico. Primero is focused on delivering superior, sustainable value for all stakeholders with low-risk exposure to precious metals. The Company has intentions to become an intermediate producer by building a portfolio of high quality, low cost precious metals assets in the Americas.

Additional information about Primero and its projects is available on the Company's website at www.primeromining.com and on SEDAR.

Completion of the transaction is subject to a number of conditions, including TSX Venture Exchange acceptance and disinterested Shareholder approval. The transaction cannot close until the required shareholder and Court approval is obtained. There can be no assurance that the transaction will be completed as proposed or at all.

Investors are cautioned that, except as disclosed by the Company, any information released or received with respect to the transaction may not be accurate or complete and should not be relied upon. Trading in the securities of Cerro Resources should be considered highly speculative.

The TSX Venture Exchange has in no way passed upon the merits of the proposed transaction and has neither approved nor disapproved the contents of this press release.

Neither 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.

(All dollar amounts in this news release are expressed in Australian dollars unless otherwise indicated.)

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