

Gammon Stock Takes Hit After Mine Closes

By Amanda Fraser

Gammon Gold Inc. has shut down its El Cubo mine in Mexico indefinitely. The Halifax company says it has laid off 397 unionized workers and is in the process of filing criminal charges against seven union executives who were blocking entry into the mine, which produced 21% of Gammon's revenues last year. Investors reacted to the news by dropping the stock 72 cents, or 9.28%, so that it closed at \$7.04. Some 3,357,834 shares traded during the day. "What it means long term is a little hard for us to say at the moment, because this is too early days for us to give you any sense of the longevity of it," explained director of investor relations Anne Day, who was reached in Mexico yesterday. The company is hopeful the mine will re-open, she said. "We're very confident in the area and the mine itself; we just need to deal with some of the higher costs at this mine that are caused by the union," she said. "Union or not, it certainly has to be a more productive workforce." Gammon operates two mines in Mexico: El Cubo and Ocampo. In 2009, El Cubo produced \$44 million in mining revenues, and Ocampo \$162 million. Costs have always been much higher at El Cubo, in part due to a unionized workforce which the company inherited when it acquired the property in 2004. Workers at Ocampo, launched by Gammon, are not unionized. They are contracted by Strata HR and Outsourcing, a Hammonds Plains-based firm owned by Toni Gerges. Gerges is the brother of Gammon founder and former chair Fred George. In a release, Gammon president and CEO Rene Marion said management and the board were frustrated with the ongoing labour issues at the El Cubo mine. "The ongoing challenges caused by the relentless distractions of union labour disruptions and sub-optimal performance have rendered the El Cubo mine uneconomic and any further investments, including management's time and effort, are not justified," he said. This latest labour disruption started at the beginning of June when unionized workers barred contract workers and union members from entering the mine site (see [allnovascotia 2010-06-04](#)). George said shortly after the disruption began that he thought it would be resolved in a couple of weeks. He said the contract is usually renegotiated annually and the labour strife wasn't a major concern (see [allnovascotia 2010-06-07](#)). Gammon has indicated it would like to get more contract workers into El Cubo so the company can avoid paying miners a share of profits, something that is mandated by the Mexican government. In 2009, the mine was shut down for seven weeks when workers went on strike to reject a seven-day work week. The disruption ended when Gammon negotiated for full production with a new production bonus incentive. There are about 1,100 workers at the El Cubo mine. Gammon (TSX: GAM) 52-week high/low: \$7.84/\$6.80.