

# Morro Bay Capital and Sierra Madre Announce Agreement in Principle for Penoles, Mexico Mining Project

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Calgary, October 22, 2013 - [Morro Bay Capital Ltd.](#) (MRW.P - TSX Venture), a capital pool company ("Morro Bay") and [Sierra Madre Developments Inc.](#) (TSXV: SMG) ("Sierra Madre") announce that they have entered into an arm's-length non-binding letter of intent (the "Letter of Intent") pursuant to which Morro Bay will acquire all of the interests of Sierra Madre in the Penoles project in Mexico (the "Transaction"). The Transaction will see Morro Bay acquire all of Sierra Madre's Mexican mining interests in exchange for 16 million Morro Bay common shares (the "Morro Bay Shares") and share purchase warrants entitling the holders thereof to acquire up to 8 million Morro Bay common shares (the "Morro Bay Warrants") (see below for additional terms on the Morro Bay Warrants). The deemed purchase price is \$1.6 million all of which will be paid by way of the aforesaid shares and warrants of Morro Bay.

The Transaction is subject to a number of conditions, including the approval of the shareholders of Morro Bay and Sierra Madre as well as TSXV approval. The Transaction is intended to constitute the Qualifying Transaction of Morro Bay as such term is defined in Policy 2.4 of the TSXV. In the event the Transaction is completed Morro Bay will cease to be a capital pool company and will be a Mining Issuer as defined by TSXV Rules.

## The Transaction

As indicated above, pursuant to the Letter of Intent dated October 11, 2013, subject to the conditions thereof and receipt of all required approvals, in consideration of 16 million Morro Bay Shares and the Morro Bay Warrants, Morro Bay will acquire the Mexican interests of Sierra Madre including the rights and obligations of Sierra Madre under the Option Agreement between Sierra Madre and [Riverside Resources Inc.](#) (TSXV: RRI) ("Riverside") dated February 14, 2012 as amended February 28, 2013 (the "Penoles Option Agreement"). Riverside currently owns 100% of the Penoles Project but pursuant to the Penoles Option Agreement, Riverside has granted an option to Sierra Madre by which Sierra Madre can earn an initial 51% (and up to 65%) interest in the Penoles Project by completing exploration work expenditures and making certain cash and share payments.

Morro Bay and Riverside have reached an agreement in principle which, subject to completion of the Transaction, will result in amendments to the Penoles Option Agreement as it currently stands. As a result of these amendments on closing of the Transaction, in order to earn a 51% interest in the Penoles Project, Morro Bay will be required to expend \$750,000 of exploration expenditures by March 31, 2014, and pay to Riverside \$1.35 million cash (\$100,000 and USD\$1,250,000) and \$1.5 million worth of Morro Bay Shares (or cash at Morro Bay's option, provided that if the market value of the Morro Bay Shares is less than \$0.05 based on a 30 day VWAP, such payment must be made in cash) by June 30, 2014 (See "Penoles Option Agreement", below for additional details).

Except for provisions relating to matters of due diligence, confidentiality and other matters, the Letter of Intent is non-binding on the parties. However, the Letter of Intent does represent an Agreement in Principle as that term is defined by the TSXV.

In connection with the Transaction, it is proposed that Morro Bay will:

- \* acquire all of the shares of Sierra Madre's wholly owned Mexican subsidiary, Minera Sierra Madre Exploracion SA de CV ("Sierra Madre Mexico");
- \* be assigned all of Sierra Madre's rights and obligations under the Penoles Option Agreement; and
- \* acquire all other assets owned by Sierra Madre pertaining to the interests of Sierra Madre in Mexico.

(All herein referred to as the "Penoles Assets")

Sierra Madre will continue to own its mining interests in Canada.

The Letter of Intent contains a number of conditions including the following:

- \* Morro Bay and Sierra Madre entering into a formal definitive agreement;
- \* Morro Bay completing its due diligence on the Penoles Assets;
- \* Morro Bay and Riverside entering into a binding agreement for the amendment of the Penoles Option Agreement and allowing for the assignment of the Penoles Option Agreement to Morro Bay;
- \* Sierra Madre Mexico shall have not more than \$36,000 of payables, shall owe no more than \$180,000 for mining taxes, and shall have an IVA (value added tax in Mexico) tax receivable of not less than \$195,000;
- \* Individuals acceptable to Morro Bay having agreed to sit on the board of directors of Morro Bay;
- \* Receipt of all necessary shareholder and regulatory approvals, including approval of the TSXV that the Transaction constitutes the Qualifying Transaction of Morro Bay; and
- \* Riverside and the directors and officers of Sierra Madre agreeing to vote the shares of Sierra Madre controlled by them in favour of the Transaction.

Additional conditions are contained in the Letter of Intent. In addition, the definitive agreement to be entered into is expected to include additional conditions usual for transactions of this nature. Morro Bay or Sierra Madre may waive conditions in their favour as they may determine.

The Transaction is anticipated to close by January 15, 2014.

The Transaction will not be a Non Arm's Length Qualifying Transaction, as defined in the policies of the TSXV.

As indicated above, the consideration payable for the Penoles Assets consists entirely of common shares and share purchase warrants of Morro Bay. At closing, Morro Bay will be obligated to deliver 16 million common shares and share purchase warrants entitling the holders thereof to acquire up to 8 million Morro Bay common shares at an exercise price of \$0.15 in the event the Morro Bay Warrants are exercised prior to June 15, 2014 and at an exercise price of \$0.25 in the event the Morro Bay Warrants are exercised on or after June 15, 2014 but prior to the expiry date. The Morro Bay Warrants will expire on the first anniversary of their issuance after which time the holders of the Morro Bay Warrants will no longer be entitled to exercise such warrants.

Upon closing of the Transaction Sierra Madre intends to dividend all of the Morro Bay Shares and the Morro Bay Warrants pro-rata to Sierra Madre shareholders of record on the closing date of the Transaction.

### **The Penoles Assets**

The Penoles Assets include 350 square km of concessions staked by Riverside in 2008 and several smaller concessions covering historic mine workings purchased by Riverside from the underlying owners, all such concessions being located in the Penoles Mining District, Durango, Mexico (the "Penoles Project"). Penoles is a historic silver mining district in the Durango Silver Belt that has had relatively little modern exploration. Published historical accounts indicate that Compania Minera Industrias Penoles operated several vein-type, underground silver mines at Penoles from 1887 to 1908, however production records are limited and potential extensions of the mines have never been systematically explored.

As the Penoles Project consist of mining exploration properties and as there is currently no operating mine on the lands, the Penoles Project does not currently generate any revenue.

The Penoles Project includes two historic silver mines (Jesus Maria and San Rafael), an oxide gold prospect (referred to as El Capitan) and numerous exploration targets.

In the spring 2013 Sierra Madre completed trenching and approximately 1,000 metres of drill testing (8 holes) at the Jesus Maria silver vein system. Results indicated silver mineralization in drill intercepts. More information on the 2013 drill program can be found in the Riverside and Sierra Madre News Releases dated June 10, 2013, however, Morro Bay has not verified this information and therefore should not be relied upon.

The El Capitan target is considered to be an oxide gold prospect. Previous widely spaced drilling at El Capitan (3 holes completed in 2004 and 5 holes completed by Riverside in 2008) intersected zones of oxide gold mineralization. During 2011 and 2012 Sierra Madre completed approximately 5,000 metres of additional

drill testing (35 holes). More information on the 2011 and 2012 drill programs at El Capitan can be found in the Riverside and Sierra Madre News Releases dated July 12, 2012 and July 19, 2012, however, Morro Bay has not verified this information and therefore should not be relied upon.

### **Penoles Project Expenditures to Date**

Since March 2011, Sierra Madre has incurred exploration expenditures of over \$3 million and has made cash and equity payments to Riverside of over \$2.14 million. As a result the total investment of Sierra Madre in the Penoles Project to date is approximately \$5.14 million.

Prior to entering into the option agreement with Sierra Madre, Riverside expended approximately \$1.5 million for property payments and exploration expenditures and in January of 2013 Riverside paid USD\$150,000 and issued 1.5 million shares valued at \$945,000 to purchase a 100% interest in the concessions that cover the historic mine workings.

In order to earn a 51% interest in the Penoles Project Sierra Madre must incur an additional \$750,000 in exploration expenditures, pay \$1.35 million in cash (\$100,000 and USD\$1,250,000) and issue \$1.5 million in equity or cash at the election of Sierra Madre, provided that if the market value of the Morro Bay Shares, calculated based on a 30 day VWAP, is less than \$0.05, such payment must be made in cash to Riverside.

#### **CEO Comments**

John Zang, CEO of Morro Bay, stated "the opportunity to step in and proceed with the exploration program already commenced by Riverside and Sierra Madre, enables Morro Bay to access a mining exploration play which is a long ways down the road toward proving resource potential." Mr. Zang further noted that "Morro Bay, having cash assets of \$2.5 million, has sufficient capital to complete the earn-in requirements of the Penoles Option Agreement."

Carl Von Einsiedel, CEO of Sierra Madre, stated "Canadian junior mining companies like Mag Silver, Endeavor Silver, Orko Silver and many others have acquired land positions in historic mining districts in this mineral belt and created asset value for shareholders by systematically exploring known deposits. This transaction allows the shareholders of Sierra Madre to participate in the continued exploration on the Penoles project and gives Sierra Madre the ability to pursue its Canadian exploration properties as well."

### **The Penoles Option Agreement**

Sierra Madre has incurred approximately \$5.14 million of expenditures to date towards earning a 51% interest in the Penoles Property.

The Option Agreement between Riverside and Sierra Madre currently requires the following further expenditures in order for Sierra Madre to earn a 51% interest (the "Initial Option"):

- \* pay an aggregate \$1,350,000 (\$100,000 and USD\$1,250,000) to Riverside by December 31, 2013;
- \* incur an additional \$750,000 in exploration expenditures by December 31, 2013; and
- \* make a final payment of \$1,500,000 to Riverside by December 31, 2013 (payable in cash or Sierra Madre shares at Sierra Madre's election provided that if the value of Sierra Madre shares is less than \$0.05 such payment must be made in cash - the value of such Sierra Madre share payment to be based on the 20 day VWAP).

The Penoles Option Agreement further provides that in order for Sierra Madre to earn an additional 14% interest in the Penoles Project (bringing the Sierra Madre interest in the Penoles Project to 65%) (the "Additional Option"), Sierra Madre must:

- \* make a cash payment of \$30,000 on or before the first anniversary date of the exercise of the initial option;
- \* incur additional expenditures at the Penoles Project of not less than \$5 million, half of which are to be incurred within 12 months from the date of the exercise of the Initial Option (i.e. 51%) and half of which shall be incurred within 24 months from the date of the exercise of the Initial Option; and
- \* in the event the Sierra Madre shares are trading over \$0.05 deliver to Riverside \$750,000 in cash or shares at Sierra Madre's election, or if the Sierra Madre shares have a market value of less than \$0.05 pay to Riverside the sum of \$750,000 in cash.

Morro Bay and Riverside have agreed upon amendments to the Penoles Option Agreement (the "Option

Amending Terms"). The Option Amending Terms include the following:

- \* the requirement to make payment of \$1,350,000 (\$100,000 and USD\$1,250,000) has been agreed to be extended to June 30, 2014;
- \* the requirement to incur \$750,000 of exploration expenditures by December 31, 2013 has been agreed to be extended to March 31, 2014; and
- \* the requirement to deliver \$1.5 million (by way of cash or Sierra Madre shares) has been agreed to be extended to June 30, 2014, and has been agreed to be amended to be Morro Bay common shares based on its 30 day VWAP.

The Option Amending Terms are not effective unless the Transaction is completed. A formal Option amending agreement is anticipated to be entered into within the next 60 days.

### **Capitalization**

As of the date hereof, Morro Bay has 30,979,950 common shares issued and outstanding, 2,667,995 Agent's options exercisable at \$0.10, and 1,000,000 incentive stock options outstanding exercisable at \$0.10.

The Transaction will see Morro Bay issue 16 million shares. As a result, upon completion of the Transaction Morro Bay will have 46,979,950 common shares outstanding. As indicated above the Transaction will also see Morro Bay issue the Morro Bay Warrants. On closing of the Transaction, Sierra Madre will own 16,000,000 common shares of Morro Bay (34% undiluted) and accordingly will be an insider of Morro Bay.

### **Concurrent Financing**

In conjunction with the Transaction, Morro Bay intends to complete a brokered private placement of up to 5,000,000 common shares at an issue price of \$0.10 per share for total anticipated gross proceeds of up to \$500,000. Further information respecting this private placement will be included in a subsequent press release.

### **Sponsorship**

Sponsorship of a qualifying transaction of a capital pool company is required by the TSXV unless an exemption from the sponsorship requirement is available. Morro Bay intends to apply for an exemption from the sponsorship requirement. There is no assurance that Morro Bay will be able to obtain such an exemption.

### **About Morro Bay**

Morro Bay was incorporated under the Business Corporations Act (Alberta) on August 21, 2012. The common shares of Morro Bay trade on the TSX Venture Exchange (MRW.P). Morro Bay is classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "CPC Policy"). The principal business of Morro Bay is to identify and evaluate assets or businesses with a view to potentially acquiring them or an interest therein. The purpose of such an acquisition is to satisfy the conditions of a qualifying transaction under the CPC Policy. The address of the registered office of Morro Bay is 2248 - 9th Avenue SE, Calgary, Alberta, T2G 5P7.

On the closing of the Transaction, Morro Bay anticipates being a mining issuer that will meet the TSX-V's initial listing requirements regarding property by owning the Penoles Assets.

Morro Bay is currently speaking to various individuals in regard to their being added to the Morro Bay board of directors as part of the Transaction. Morro Bay anticipates that Carl Von Einsiedel (the current CEO and a director of Sierra Madre) and Garth Kirkham (currently a director of Sierra Madre) will be added to the Morro Bay board of directors. One other director will likely also be added to the Morro Bay board of directors. Such appointments are subject to the approval of the TSX-V. The names and backgrounds of each of these persons will be published in a later press release upon final determination of the proposed nominees.

### **About Sierra Madre**

Sierra Madre was incorporated under the Business Corporations Act (British Columbia) and is a gold and

silver focused exploration company with mineral property interests in Mexico and Canada. Sierra Madre's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol SMG. Its head office and principal address is 8888 Shook Road, Mission, BC, V2V 7N1.

Sierra Madre Mexico, is the wholly owned subsidiary of Sierra Madre and was incorporated pursuant to the laws of Mexico.

### **Qualified Person and Technical Information**

Carl Von Einsiedel, the CEO and a director of Sierra Madre is a Qualified Person as such term is defined in National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101") and has read and approved the disclosure in this press release.

A technical report prepared in accordance with NI 43-101 will be prepared for Morro Bay, and once completed, further details on the Penoles Project properties will be provided.

### **Trading Halt**

Morro Bay's common shares are currently halted and Morro Bay anticipates they will remain halted until the proposed Transaction is completed.

### **For further information:**

[Morro Bay Capital Ltd.](#)

John Zang, President and Chief Executive Officer  
403 680 9264 Or:

[Sierra Madre Developments Inc.](#)

Carl Von Einsiedel, Chief Executive Officer  
604 685 3357

*This press release contains forward-looking information within the meaning of Canadian securities laws. Such information includes, without limitation, information regarding the completion of the proposed acquisition by Morro Bay and the private placement; and the anticipated business plan of Morro Bay subsequent to completion of the Transaction. Although Morro Bay believes that such information is reasonable, it can give no assurance that such expectations will prove to be correct.*

*Forward looking information is typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or are those, which, by their nature, refer to future events. Morro Bay cautions investors that any forward-looking information provided by Morro Bay are not guarantees of future results or performance, and that actual results may differ materially from those in forward looking information as a result of various factors, including, but not limited to: Morro Bay's ability to complete the proposed Transaction; the state of the financial markets for Morro Bay's equity securities; the state of the market for gold or other minerals that may be produced generally by the resulting issuer in the event the Transaction is completed; recent market volatility; Morro Bay's ability to raise the necessary capital or to be fully able to implement its business strategies; and other risks and factors that Morro Bay is unaware of at this time. The reader is referred to Morro Bay's most recent annual and interim Management's Discussion and Analysis for a more complete discussion of such risk factors and their potential effects, copies of which may be accessed through Morro Bay's page on SEDAR at [www.sedar.com](http://www.sedar.com).*

*This press release also contains forward-looking information regarding Sierra Madre, including the proposed disposition by Sierra Madre of its Penoles Assets. Sierra Madre offers no assurances that the Transaction as described herein will complete on the terms as described, or at all.*

*Completion of the Transaction is subject to a number of conditions, including but not limited to, TSXV acceptance and, if applicable pursuant to TSXV requirements, approval of the shareholders of Morro Bay and Sierra Madre. Where applicable, the Transaction cannot close until the required shareholder 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 in the management information circular or filing statement*

*to be prepared by Morro Bay in connection with the Transaction, 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 a capital pool company should be considered highly speculative.*

*The TSXV 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 the TSXV nor its Regulation Services Provider (as that term is defined in the policies of the TSXV) accepts responsibility for the adequacy or accuracy of this release.*

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