

# Morro Bay Capital Announces Receipt of Conditional Exchange Acceptance of Transaction and Entering Into of Formal Agreements

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Calgary, Alberta CANADA, December 23, 2013 /FSC/ - [Morro Bay Capital Ltd.](#) (MRW.P - TSX Venture), a capital pool company ("Morro Bay") is pleased to announce that it has received conditional acceptance from the TSX Venture Exchange (the "Exchange") for its Qualifying Transaction (as that term is defined in Policy 2.4 - Capital Pool Companies of the Exchange) with Sierra Madre Developments Inc. ("Sierra Madre"), previously announced on October 22, 2013 (the "Transaction"). The conditional approval of the Transaction by the Exchange is subject to a number of conditions, including the completion of a private placement financing resulting in gross proceeds of not less than \$500,000, receipt of a satisfactory title opinion in relation to the Penoles Project (as defined below), confirmation from Richardson GMP, agent for the private placement Morro Bay must complete, that it has completed appropriate due diligence in relation to the Transaction and the Morro Bay Information Circular (as defined below), satisfactory completion of background searches of the proposed directors of Morro Bay, and disinterested shareholder approval. Additional conditions common for transactions of this nature must also be satisfied.

A more detailed description of the Transaction is contained in the Morro Bay Management Information Circular dated December 18, 2013 (the "Information Circular") which has been filed on SEDAR. At the date of the Information Circular Morro Bay had not obtained conditional acceptance from the Exchange, which conditional acceptance, as described above, has now been obtained.

## The Transaction

On October 22, 2013, Morro Bay, [Riverside Resources Inc.](#) ("Riverside") and Sierra Madre announced that they had entered into a letter of intent which constituted an agreement in principle whereby Morro Bay would acquire: (a) the rights of Sierra Madre to earn up to a 65% interest in mining concessions owned by Riverside Resources Inc. (TSXV: "RRI") ("Riverside") in the State of Durango, Mexico under an option agreement (the "Option Agreement") with Riverside; and (b) a drill rig located in Mexico owned by Sierra Madre's Mexican subsidiary (the "Asset") that has been used on the mining concessions, all as more particularly described below (the foregoing mining concessions are referred to herein as the "Penoles Project").

## Formal Agreements

On November 28, 2013, Morro Bay, Sierra Madre and Minera Sierra Madre S.A. de C.V. (the Mexican subsidiary of Sierra Madre) entered into an asset purchase agreement (the "Asset Purchase Agreement") in respect of the purchase by Morro Bay of (a) Sierra Madre's rights under the Option Agreement and (b) the Asset. In addition, Morro Bay also entered into a reorganization agreement (the "Reorganization Agreement") with Riverside and Sierra Madre dated November 28, 2013 in respect of which, among other things, Riverside agreed to the assignment of Sierra Madre's rights and obligations under the Option Agreement and agreed to the amendment of certain terms under the Option Agreement. Copies of the Asset Purchase Agreement and the Reorganization Agreement have been filed by Morro Bay on SEDAR.

Pursuant to the terms of the Asset Purchase Agreement and the Reorganization Agreement, Morro Bay will issue to Sierra Madre 16,000,000 common shares ("Shares") and 8,000,000 share purchase warrants, each exercisable into one Share at a price of \$0.15 until June 15, 2014 and thereafter at a price of \$0.25 until their expiry on the first anniversary of the date of their issuance (the "Warrants"), at closing of the Asset Purchase Agreement (the "Closing") in satisfaction of the purchase price for the acquisition of the Asset from Sierra Madre and the assignment of the Option Agreement from Sierra Madre to Morro Bay and Morro Bay's Mexican subsidiary ("Morro Bay Mexico"). The 16,000,000 Shares will have a deemed value of \$0.10 per Share for an aggregate deemed value of \$1,600,000.

Sierra Madre has agreed pursuant to the Asset Purchase Agreement and Reorganization Agreement that at

Closing or as soon as possible thereafter it will distribute all of the 16 million Shares and 8 million Warrants issued to it to its shareholders as a dividend in kind distribution (the "Dividend in Kind"). All of the Shares and Warrants distributed under the Dividend in Kind will be subject to a four month and one day hold period by Sierra Madre shareholders commencing from the date of Closing, all as more particularly described in the Information Circular. Riverside has agreed that 70% of the Morro Bay shares it receives from the Dividend in Kind will be held in escrow until December 31, 2014 and the directors and certain officers of Sierra Madre have agreed that 100% of the Morro Bay shares they receive from the Dividend in Kind will be held in escrow until December 31, 2014, all pursuant to a voluntary escrow agreement to be entered into at Closing (the "Voluntary Escrow Agreement"). Subject to any change in the share ownership of the parties, prior to the record date for the Dividend in Kind, approximately 3.97 million (25%) of the 16 million Morro Bay shares to be delivered to Sierra Madre will be held in escrow until December 31, 2014 under the Voluntary Escrow Agreement.

All of the directors and officers of the resulting issuer (i.e. Morro Bay upon completion of the Transaction) who receive Shares under the Dividend in Kind distribution will also have their Shares held in escrow under Exchange Form 5D Escrow Agreements which will result in some of their Shares remaining in escrow notwithstanding their release under the Voluntary Escrow Agreement. There will be approximately 1.3 million Shares held in escrow under such Exchange Form 5D Escrow Agreements following Closing.

Concurrently with completion of the transactions contemplated under the Asset Purchase Agreement, the terms of the Option Agreement will be amended and Morro Bay, Morro Bay Mexico and Riverside will enter into an amended and restated option agreement ("Amended and Restated Option Agreement"). The Amended and Restated Option Agreement will allow Morro Bay Mexico to exercise an initial option (the "Initial Option") to acquire a 51% interest in the Penoles Project in the event that Morro Bay or Morro Bay Mexico: (a) incur \$750,000 in exploration expenditures by March 31, 2014 on the Penoles Project; (b) make cash payments to Riverside in the amount of \$100,000 and USD\$1,250,000 on or before June 30, 2014; and (c) make a payment of \$1,500,000 to Riverside on or before June 30, 2014 (payable in cash, Shares or a combination of cash and Shares at Morro Bay's election, provided that the 30 day VWAP of the Shares is equal to or greater than \$0.05). In order to ensure that such \$1,500,000 payment may be made through the issuance of Shares, Morro Bay is seeking shareholder approval of a share consolidation (in a range in between two to one to five to one) which will only be effected if the 30 day VWAP at the time the \$1,500,000 payment is due is less than \$0.05.

Morro Bay Mexico can acquire a further 14% interest (the "Additional Option") in the Penoles Project in the event that Morro Bay or Morro Bay Mexico: (a) make a cash payment of \$30,000 on or before the first anniversary date of the exercise of the Initial Option; (b) incur additional expenditures on the Penoles Project of not less than \$5,000,000, 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 (c) make a payment of \$750,000 to Riverside on or before the date that is 24 months from the exercise by Morro Bay Mexico of the Initial Option (payable in cash, Shares or a combination of cash and Shares at Morro Bay's election, provided that the 30 day VWAP of the Shares is equal to or greater than \$0.05).

Closing and Conditions Precedent

Closing of the Transaction is expected to occur in mid-January, 2014. The completion of the transactions contemplated by the Asset Purchase Agreement is subject to a number of conditions being satisfied or waived by any or all of Morro Bay, Riverside, Sierra Madre Mexico and Sierra Madre at or prior to the Closing Date, including approval of the proposed Qualifying Transaction by Morro Bay's shareholders and the TSX-V.

### **Additional Information Concerning the Transaction**

Additional information concerning the Transaction is provided in the news release dated October 22, 2013 and in the following documents which have been filed on SEDAR:

1. The Information Circular;
2. Review of Technical Information and Proposed Exploration Program for the Penoles Project dated November 15, 2013;
3. The Asset Purchase Agreement; and
4. The Reorganization Agreement.

### **Meeting of Shareholders and Annual Financial Statements**

The Annual and Special Meeting of Shareholders of Morro Bay will be held at the offices of Osler, Hoskin, &

Harcourt LLP, 2500 TransCanada Tower, 450 -1st Street SW, Calgary, Alberta on Tuesday, January 14, 2014 commencing at 10:00 a.m. (Calgary time). The business of the meeting is as set out in the Notice of Meeting included with the Information Circular and includes:

1. The election of directors;
2. The appointment of auditors;
3. The amendment and approval of Morro Bay's stock option plan;
4. The change of Morro Bay's name to "Morro Bay Resources Ltd.";
5. The approval of the Transaction;
6. The authorization of the creation of Riverside as a control person, if applicable, upon the issuance of Morro Bay Shares to Riverside as part of the exercise of the option under the Amended and Restated Option Agreement; and
7. The consolidation of the Morro Bay Shares if required in order to allow for Morro Bay to make the \$1.5 million payment to Riverside to exercise the Initial Option.

Full particulars of the matters to be considered at the meeting are contained in the Information Circular.

The audited Morro Bay Financial Statements for the year ended September 30, 2013 and the Management Discussion and Analysis thereof have been mailed to shareholders and have been filed on SEDAR.

### **Trading Halt**

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

### **Cautionary Note**

Completion of the Transaction is subject to a number of conditions, including but not limited to, final Exchange acceptance. 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 Information Circular (with the exception of disclosure regarding receipt of Exchange conditional acceptance of the Transaction, which is provided in this new release), 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 Exchange has in no way passed on the merits of the proposed Transaction and has neither approved nor disapproved the contents of this press release.

### **For further information please contact:**

#### [Morro Bay Capital Ltd.](#)

John Zang, President and Chief Executive Officer  
403 680 9264

*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 Transaction and the private placement. 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; recent market volatility; and other risks and factors that Morro Bay is unaware of at this time. The reader is referred to in the Information Circular and 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).*

*Completion of the Transaction is subject to a number of conditions, including but not limited to, Exchange*

*acceptance and approval of the shareholders of Morro Bay. Where applicable, the Transaction cannot close until the required shareholder approval is obtained. . There is no certainty that Morro Bay will satisfy the conditions for approval of the Transaction as required by the Exchange or as required as part of the agreements relating to the Transaction. Completion of the Transaction is conditional upon completion of a private placement financing raising gross proceeds of not less than \$500,000. There is no certainty that this private placement will be completed. There can be no assurance that the Transaction will be completed as proposed or at all.*

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

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