

Avala Resources Ltd. and Dunav Resources Ltd. Announce Agreement to Combine the Companies

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Avala signs LOI to issue US\$1M Convertible Debentures

[Avala Resources Ltd.](#) (TSX VENTURE:AVZ) ("Avala") and [Dunav Resources Ltd.](#) (TSX VENTURE:DNV) ("Dunav") are pleased to announce that they have reached an agreement to combine the two companies. Under the terms of a binding letter agreement (the "Agreement"), Avala will issue to Dunav shareholders 1.0457 common shares for every one (1) outstanding common share of Dunav (the "Exchange Ratio") held. All outstanding stock options and warrants of Dunav will be exchanged for options and warrants of Avala in an amount and at exercise prices adjusted in accordance with the Exchange Ratio. This will result in Avala issuing 183,331,540 new common shares, 63,768,411 warrants and 8,292,401 stock options, for a total of 437,823,763 common shares outstanding and 129,165,812 shares reserved for issuance following completion of the business combination. Completion of the business combination will be subject to, among other things, regulatory approval and all required shareholder and court approvals. The Exchange Ratio was established in order to reflect a 22% premium for Dunav's shares based on a 20 day volume weighted average share prices of Avala and Dunav's shares on the TSX Venture Exchange ("TSXV"), as at July 24, 2014.

It is anticipated that the business combination will be completed by way of plan of arrangement under the *Business Corporations Act* (British Columbia). Completion of the business combination is subject to certain conditions including but not limited to the following: (a) completion of satisfactory due diligence and definitive agreement by August 15, 2014; (b) receipt of all necessary consents, waivers, permits, exemptions, orders and approvals, including court approval of the plan of arrangement and the approval of the TSXV, as applicable; (c) receipt of disinterested shareholder approval of the business combination by the Avala and Dunav shareholders; and (d) receipt by Avala of sufficient funds to continue and maintain its current operations in good standing until completion of the business combination.

In the event a superior offer is made for either Dunav or Avala that is accepted and completed, Dunav or Avala (as the case may be), will be required to pay a break fee equal to 3% of the value of the consideration that was to have been paid to that company's shareholders pursuant to the Agreement.

Under the policies of the TSXV, Avala and Dunav are non arm's length parties to one another by virtue of the fact that they have four common directors and overlapping management. Each company has the same controlling shareholder, [Dundee Precious Metals Inc.](#) ("DPM"), which owns 53.1% of Avala's outstanding common shares and 45.5% of Dunav's outstanding common shares, resulting in the transaction being a business combination with a related party under Multilateral Instrument 61-101 ("MI 61-101") and Policy 5.9 of the TSXV Corporate Finance Manual. According to MI 61-101, such a business combination requires a formal valuation and minority shareholder approval, unless exempted. An exemption from the formal valuation requirement is available as Avala and Dunav's shares are not listed on any specified market (as that term is used in MI 61-101). Chantal Gosselin, chair of the special committee of independent directors established by Avala, and Elaine Bennett, chair of the special committee of independent directors established by Dunav, explained that each special committee has undertaken a comprehensive review of the business combination, with advice from independent financial advisors and legal counsel. The special committees were actively involved in the negotiation of the terms of the proposed business combination. Each special committee has received a presentation from its respective financial advisor with respect to the fairness of the transaction to their respective shareholders. After careful consideration, each special committee has unanimously approved the business combination and recommended the approval of the business combination to their respective board of directors, who in turn approved the Agreement.

Avala's special committee retained Primary Capital Inc. as financial advisor and Koffman Kalf LLP as legal advisor. Dunav's special committee retained Paradigm Capital Inc. as financial advisor and Lawson Lundell LLP as legal advisor.

The shareholder meetings of both companies are scheduled to be held on September 30, 2014. Subject to obtaining all required approvals and the satisfaction or waiver of other closing conditions, it is anticipated that the business combination will be completed early in October 2014. On completion of the business

combination, the board of directors of Avala will consist of six directors from Avala and two directors from Dunav. It is expected that the combination of Avala and Dunav will bring a number of benefits, including the merger of both companies' exploration activities in Serbia, and will allow the combined company to realize savings in management and administrative costs.

Further details regarding the business combination will be provided in a special management information circular of each company to be filed with regulatory authorities and mailed to shareholders.

Avala to issue US\$1M Convertible Debentures

Avala and DPM have entered into a letter of intent setting out the terms under which DPM intends to purchase up to US\$1 Million of senior secured convertible debentures of Avala that can be drawn in tranches of US\$250,000 (the "Debentures"), for the purpose of providing working capital to Avala. The Debentures will mature the earlier of (i) 120 days from issuance and (ii) 5 days from the completion of the business combination with Dunav. The Debentures will bear interest at the rate of 12% per annum on the first US\$500,000, 15% per annum on the next US\$250,000, and 18% per annum on the last US\$250,000 tranche, with the last drawdown requiring DPM's pre-approval. DPM will have the option to convert all or part of the principal amount of the Debentures into common shares of Avala at any time up to 180 days after maturity of the Debentures at a pre-consolidation (see below) conversion price of \$0.04 per common share. The Debentures will be issued in reliance upon prospectus and private placement exemptions.

The issuance of the Debentures to DPM is a related party transaction pursuant to MI 61-101. Avala is relying on the exemption from the formal valuation and minority shareholder approval requirements contained in sections 5.5 (g) and 5.7(1)(e) of MI 61-101. The independent directors of Avala, Chantal Gosselin and John Wakeford, have recommended that the board of directors approve the issuance of the Debentures. The issuance of the Debentures is subject to a number of conditions, including but not limited to TSXV approval and execution of debenture agreements.

Avala proposed share consolidation

Whether the business combination is completed or not, Avala intends to consolidate, by the end of October 2014, its common shares on the basis of one (1) post-consolidation common share for up to every ten (10) pre-consolidation common shares to provide Avala with greater flexibility in pursuing its plans to advance its mineral exploration projects, including its ability to obtain additional financing and potentially acquire new mineral projects.

About Avala Resources Ltd.:

[Avala Resources](#) is a mineral exploration company focused on the exploration and development of the Timok Gold Project in Eastern Serbia. The Timok Gold Project comprises several targets, including the Korkan, Bigar Hill, Kraku Pester, and Korkan East deposits. The common shares of Avala trade on the TSXV under the symbol AVZ. Additional information about the Avala is available on SEDAR at www.sedar.com and at www.avalaresources.com.

About Dunav Resources Ltd.:

[Dunav Resources](#) is a mineral exploration company focused on the acquisition, exploration and development of mineral properties in Serbia. Dunav's main projects are the Tulare Copper-Gold Porphyry Project which includes the Kiseljak and Yellow Creek deposits, and the Dergmen Gold-Copper Porphyry Project. The common shares of Dunav trade on the TSXV under the symbol DNV. Additional information about the Dunav is available on SEDAR at www.sedar.com and at www.dunavresources.com.

Cautionary Statement Regarding Forward-Looking Information

This press release contains 'forward-looking information' within the meaning of Canadian securities legislation. Forward looking information in this press release includes information about the completion and timing of the proposed business combination between Avala and Dunav, the proposed \$1 million convertible debentures and the proposed share consolidation. These forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ materially from those anticipated, including, the contemplated business combination not being completed as a result of a number of factors including, without limitation, the shareholders of Avala or Dunav not approving the transaction, or

required regulatory or court approvals not being obtained, the possible failure to realize anticipated synergies, expense reductions or other benefits of the transaction; the financing not being completed as a result of required regulatory approvals not being obtained; the share consolidation not being completed or the benefits of the consolidation not being obtained; and other risks and uncertainties. Readers should not place undue reliance on the forward-looking information contained in this news release. Neither Avala nor Dunav undertakes to update any forward-looking information, except as required by applicable securities laws.

Investors are cautioned that, except as disclosed in the management information circular to be prepared in connection with the business combination, any information released or received with respect to the business combination may not be accurate or complete and should not be relied upon. Trading in the securities of Avala and Dunav should be considered highly speculative.

The TSXV has in no way passed upon the merits of the proposed transactions 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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