

# Sierra Metals' Largest Shareholder and Compañía Minera Kolpa announce Letter of Intent for Sierra Metals Transaction and Financing

28.10.2022 | [CNW](#)

TORONTO, Oct. 27, 2022 - Compañía Minera Kolpa ("Kolpa"), a polymetallic mining company in Peru, today announced that it delivered of a letter of intent ("LOI") to the board of directors of [Sierra Metals Inc.](#) ("Sierra") (TSX: SMT) (NYSE American: SMTS) (BVL or Bolsa de Valores de Lima: SMT) outlining indicative terms for a strategic transaction with Sierra, and a concurrent financing aimed at solving Sierra's current financial and operational challenges.

The financing will be provided by a strategic investment firm that is not an affiliate of Kolpa or its shareholders. The transactions have the full support of Sierra's largest shareholder, affiliates of Arias Resource Capital that together own approximately 27% of the issued and outstanding Sierra common shares. The proposed transactions also have the support of the Kolpa shareholders, Arias Resource Capital Fund II L.P. and Arias Resource Capital Fund II (Mexico) L.P. (together, "ARC Fund II") and GR Holding S.A.

The proposed strategic transaction would entail the operational merger of Kolpa and Sierra assets in Peru, following a business combination transaction that will result in Sierra owning all of the shares or assets of Kolpa (the "Kolpa Transaction").

Kolpa is a cash-flowing, private mining company which operates the Huachocolpa Uno mine, a 1,800 tpd+ capacity, high quality underground polymetallic asset in the prolific Huachocolpa region in Peru with a history of continuous operations since 1948. Given the proximity and similarity of the Huachocolpa Uno mine to Sierra's Yauricocha Mine in Peru, Kolpa anticipates significant operating and administrative synergies between the two operations that will reduce overall costs at each mine. These potential synergies are particularly valuable, given the current operating problems at the Yauricocha Mine. In addition, Kolpa expects the experience and knowledge of key executives and operators at Kolpa, many of whom previously worked at Sierra, to contribute significantly to the turnaround of the Yauricocha and Bolivar mines. As part of the Kolpa Transaction, the Sierra shares would be valued at a premium to their current 5-day volume weighted average price on the Toronto Stock Exchange. The Kolpa Transaction would create a high quality precious and base metals producer with significant growth potential located in top-tier mining jurisdictions of Peru and Mexico.

Concurrent with the Kolpa Transaction, Kolpa's financing partner proposes to purchase unsecured convertible debentures that would be convertible into common shares of Sierra (the "Financing Transaction" and, together with the Kolpa Transaction, the "Transactions"). The terms of such debentures are subject to negotiation. With a financing package in place, Kolpa expects that Sierra's current financial hardship could be resolved, subject to due diligence and full understanding of Sierra's situation.

Kolpa and its financing partner are prepared to expeditiously complete their due diligence review of Sierra, its subsidiaries and projects, allow Sierra to complete its due diligence review of Kolpa and the Huachocolpa Uno mine, and complete negotiations of definitive documentation in respect of the Transactions. The closing of the Transactions will be subject to customary conditions. An expeditious transaction would quickly relieve Sierra and its shareholders of the company's current financial hardship and unlock tremendous value for all of Sierra's shareholders.

J. Alberto Arias, Founder of Arias Resource Capital, former Chairman of Sierra and a director of Kolpa stated, "The proposed transformational transaction is instrumental to quickly resolve Sierra's liquidity and operating challenges, and has our full support, as the largest Sierra shareholder. Our deep understanding of Sierra's operations, as an early founder of the company and former controlling shareholder makes our team,

in our view, best-qualified to bring Sierra back to the track record of excellence it previously had and beyond, with profitable growth and value creation for all its shareholders."

This press release concerning the business and affairs of Sierra is being issued in response to the Sierra press release dated October 18, 2022 announcing its liquidity challenges and retention of financial and legal advisers and its press release dated October 25, 2022 disclosing its intent to delist from the NYSE American and BVL exchanges. As Sierra's largest shareholder, ARC Fund II supports greater transparency in this process and more frequent updates from Sierra.

#### About ARC Fund II and ARC

Arias Resource Capital ("ARC"), founded in 2007, is a Miami-based private equity firm that invests in the metals and mining sector. ARC Fund II is the largest shareholder of Sierra and the largest shareholder of Kolpa.

#### About Kolpa

Kolpa is a cash-flowing, mining company which operates the Huachocolpa Uno mine, a 1,800 tpd+ capacity, high quality underground polymetallic asset in the prolific Huachocolpa region in Peru with a history of continuous operations since 1948 and that is currently going under a fully funded expansion to 2,500 tpd. Kolpa generates approximately a third of its revenue from copper and silver and two thirds from lead and zinc.

#### Important Information

This communication does not constitute a proxy statement or solicitation of a proxy, an offer to buy or solicitation of an offer to sell any securities. This communication relates to a proposal that ARC and Kolpa have made to Sierra in respect of the Transactions. In furtherance thereof and subject to future developments, Sierra may file documents with the Securities and Exchange Commission (the "SEC"). This communication is not a substitute for any document that Sierra may file with the SEC in connection with the Transactions. Investors and security holders of Sierra are urged to read any documents filed with the SEC carefully in their entirety if and when they become available, as they will contain important information about the Transactions.

#### Forward-Looking Statements

This press release contains forward-looking information within the meaning of Canadian and United States securities legislation. Forward-looking statements are statements that are not historical facts and may include projections and estimates and their underlying assumptions, statements regarding plans, objectives, intentions and expectations with respect to future financial results, events, operations, services, product development and potential, and statements regarding future performance. Forward-looking statements are generally identified by the words "expects", "anticipates", "believes", "intends", "estimates", "plans", "will be" and similar expressions. These forward-looking statements include, without limitation, statements regarding the Transactions. Although ARC and Kolpa believe that the expectations reflected in such forward-looking statements are reasonable, investors are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of Sierra, ARC, and Kolpa, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements, including, without limitation, the risks described under the heading "Risk Factors" in the Company's annual information form dated March 16, 2022 for its fiscal year ended December 31, 2021 and other risks identified in Sierra's filings with Canadian securities regulators and the SEC, which filings are available at [www.sedar.com](http://www.sedar.com) and [www.sec.gov](http://www.sec.gov), respectively. The forward-looking statements speak only as of the date hereof and, other than as required by applicable law, ARC and Kolpa do not undertake any obligation to update or revise any forward-looking information or statements.

SOURCE Compañía Minera Kolpa

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Die URL für diesen Artikel lautet:

<https://www.rohstoff-welt.de/news/426696--Sierra-Metalsund039-Largest-Shareholder-and-Compaia-Minera-Kolpa-announce-Letter-of-Intent-for-Sierra-Metals>

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