

Arias Resource Capital and Compañía Minera Kolpa Reiterate and Highlight Proposal for Transformative Transactions at Sierra Metals

11.11.2022 | [CNW](#)

Arias expresses concern for the Board of Sierra's apparent lack of urgency in solving Sierra's financial challenges

TORONTO, Nov. 11, 2022 - Compañía Minera Kolpa ("Kolpa"), in conjunction with Arias Resource Capital and its affiliates and together with Kolpa, "we" or "us", which are the largest shareholder of [Sierra Metals Inc.](#) ("Sierra") (TSX: SMT) (NYSE American: SMTS) (BVL or Bolsa de Valores de Lima: SMT), today announced the delivery of a new letter to the Board of Sierra (the "Board") highlighting certain key terms of the proposed business combination between Sierra and Kolpa, concurrent financing aimed at solving the financial and liquidity concerns at Sierra, following their submission of a letter to the Board on October 27, 2022.

"We believe that our letter of intent presents substantially advantageous terms to Sierra and a compelling opportunity to and generate value for all shareholders during this manifestly difficult period for both the Company's business and its stock," said Alberto Arias, founder and portfolio manager of Arias Resource Capital Management LP and previous Chairman of the Board of Directors of Sierra. "We are concerned that Sierra has not permitted any relevant progress on the proposed transaction presented 14 days ago, especially given the October 18, 2022 press release of Sierra which stated that the Company was facing liquidity challenges such that its ability to continue operating may be impacted. The Board has not given us the necessary support to start our due diligence, highlighting a lack of urgency. We are eager to work with the Company to resolve the issues that the Board has publicly disclosed that it is facing in Peru and Mexico, and more broadly."

On November 11, 2022, Kolpa, in conjunction with Arias, sent a letter to the Board, reiterating certain of the key terms of the proposal, with the goal of moving rapidly to the negotiation and closing of a transaction in order to efficiently solve the financial and liquidity crises at Sierra. The full text of such letter is set forth below, made public for the benefit of all Sierra's stakeholders.

November 11, 2022

Board of Directors
[Sierra Metals Inc.](#)
161 Bay Street
Suite 4260
Toronto, Ontario M5J 2S1
Canada
Attention: Oscar Cabrera, Chair of the Board

Re: Letter of Intent, Dated October 27, 2022

Dear Mr. Cabrera:

As you know, Compañía Minera Kolpa S.A. ("Kolpa"), with the support of its shareholders and its financing partner, presented a letter of intent, dated October 27, 2022 (the "LOI"), to the Board of Directors (the "Board") of [Sierra Metals Inc.](#) ("Sierra" or "Company"). As you are also aware, Arias Resource Capital and its affiliates (together, "Arias," and together with Kolpa, "us") beneficially own 43,742,624 common shares, no par value (the "Common Shares"), of Sierra, representing an approximate 27% ownership interest and making Arias the largest shareholder of the Company.

We appreciated the opportunity to speak with you, as well as with Ed Guimaraes, the Company's CFO, and a representative of the Board.

your Company's financial advisor recently regarding a potential business combination between Sierra and Kolpa and a fully funded US\$30 million financing, as set forth in the LOI. However, we are extremely disappointed and concerned by Company's refusal to immediately engage with us and by the rejection of our request to begin performing due diligence of the transactions proposed in the LOI.

We believe that the LOI presents substantially advantageous terms to Sierra and that the contemplated transactions represent a compelling opportunity to preserve and generate value for all shareholders during this manifestly difficult period for both Company's business and its stakeholders. From our vantage point, the terms presented in the LOI are far superior to what we can reasonably expect to obtain in the market. As we outlined in the LOI and reiterate here, we offer:

- An operational merger of the Kolpa assets, in which common shares of Kolpa would be exchanged for common shares of Sierra. Given the proximity and similarity to Sierra's Yauricocha Mine in Peru, we estimate there to be significant operational and administrative synergies between the two operations that will reduce overall costs at each mine. In addition, we value the experience and knowledge of key executives and operators at Kolpa, many of whom previously worked at Sierra, who will contribute significantly to the turnaround of the Yauricocha and Bolivar mines.
- Indicative consideration for Sierra shares of C\$0.33 per share, which represents a 27% premium to the closing market price as of Nov. 10, 2022.
- Concurrent US\$30 million financing by an unaffiliated strategic investment firm in the form of the purchase of unsecured convertible debentures (the "Convertible Debentures"), with a 5-year term and 5% interest rate, a rate lower than the current senior secured credit facility.
- Additional financing may be provided, subject to a full understanding of Sierra's liquidity needs.
- Expedited due diligence process, given our historical knowledge of the Company and familiarity with its business, operations, and stakeholders.

With a financing package in place together with a transformational corporate reorganization that will add a new cash-flow generating synergistic asset, we expect that Sierra's current financial hardship could be resolved and an operational turnaround achieved.

In light of the attractiveness of our proposal to Sierra and its stakeholders and the Company's October 18, 2022 press release underscoring the uncertainty of Sierra's financial wellbeing, we are deeply troubled by the demonstrable lack of urgency of the Board, the Special Committee of the Board (the "Special Committee"), and their advisors. As of this letter, we have not been permitted to advance in any relevant way on the proposed transactions. We are, frankly, alarmed by the message received from Sierra's representatives and advisors that we may not be able to commence due diligence for a "few weeks", which would represent one month from the date of our LOI and six weeks from your October 18, 2022 press release. This is concerning because the Sierra press release advised that "the Company faces liquidity challenges" and that "absent additional support or increased funding, the Company's ability to continue operations in the ordinary course may be impacted." Engaging with us so that we can perform our due diligence as quickly as possible has the benefit of creating alternatives for Sierra's shareholders. We are in view of the Special Committee's publicly-announced process to evaluate and consider the Company's current financial position, operational challenges, and possible financing paths.

We are available to meet at any time to answer questions of the Special Committee or the Board, management, and their advisors so that you are in a position to validate the attractiveness of the proposal that we, along with our partners, have put before you.

It continues to be our strong preference to work together with the Special Committee to reach a mutually agreeable transaction in an expeditious manner.

We look forward to working with the Board, the Special Committee, and their advisors as soon as possible to complete the transactions detailed in the LOI and avoid further, and potentially irreparable, destruction of shareholder value.

Sincerely,

COMPAÑIA MINERA KOLPA S.A. ARIAS RESOURCE CAPITAL MANAGEMENT

LP., as investment manager to its funds, ARIAS

RESOURCE CAPITAL FUND II L.P. and ARIAS

(signed) "Alberto Pescetto" RESOURCE CAPITAL FUND II (MEXICO) L.P

By: Alberto Pescetto

Director

(signed) "Ernesto Raffo"

(signed) "J. Alberto Arias"

By: Ernesto Raffo

By: J. Alberto Arias

Director

Director

About Arias Resource Capital

Arias Resource Capital ("ARC"), founded in 2007, is a Miami-based private equity firm that invests in the metals and mining sector.

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 proposed business combination between Sierra and Kolpa, with a concurrent financing at Sierra (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 Sierra'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 and 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

Contact

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