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## PRESENTATION

### Operator

Good morning. My name is Jesse, and I'll be your conference operator today. At this time, I'd like to welcome everyone to Sierra Metals First Quarter 2018 Financial Results Conference Call. (Operator Instructions)

Mike McAllister, VP of Corporate Development for Sierra Metals, you may begin your conference.

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### Michael McAllister - Sierra Metals Inc. - VP of Corporate Development

Thank you, operator, and good morning, everyone. Welcome to Sierra Metals First Quarter 2018 Results Conference Call. On today's call, we are joined by Igor Gonzáles, our President and CEO; Ed Guimaraes, our CFO; Gordon Babcock, our COO.

Today's call will be followed by a question-and-answer period. Today's presentation is available for download both through the webcast and from the company's website at [www.sierrametals.com](http://www.sierrametals.com). Wednesday's press release, the financial statements and management's discussion and analysis are also posted on the company's website.

Before I turn the call over to Igor, I would like to indicate that this earning's call contains forward-looking information that is based on the company's current expectations, estimates and beliefs. This forward-looking information is subject to a number of risks, uncertainties and other factors. Actual results could differ materially from our conclusions, forecasts or projections as reflected in the forward-looking information. Additional information about the material factors that could cause actual results to differ materially from the conclusion, forecast or projection in the forward-looking information and material factors or assumptions that were applied in drawing a conclusion or making a forecast or a projection as reflected in the forward-looking information is available on the company's Annual Information Form, which is publicly available on SEDAR or EDGAR on the company's website.

Please note that the dollar amounts mentioned in today's call are in US dollars unless otherwise noted.

With that, I would like to now turn the call over to Igor Gonzáles, our President and CEO.



**Igor Alcides Gonzáles Galindo** - Sierra Metals Inc. - President, CEO & Director

Thank you, Mike, and good morning, everyone. Q1 2018 represents an inflection point for the company as we begin to realize returns on our capital employed and operational improvement efforts, especially in our Mexican operations through our improved operating performance, production of higher value ore, improving financial performance with record adjusted EBITDA growth, strengthening our asset base and continued increase in our mineral reserves and resources at each of our mines.

As management, we're very encouraged by the continued progress and achievements seen in the first quarter of 2018. We continue to be optimistic that 2018 will be a strong year of operational and financial performance at Yauricocha, Peru, and for our Mexican operations.

Following my summary, Gordon Babcock will take us through the operational highlights, and then Ed Guimaraes will take us through the 2018 first quarter financial highlights, and then we'll open the call to questions.

Turning to Slide #4. The company remains focused on improving operating and financial performance in 2018. During the first quarter, the company continued the momentum from previous quarters, with improvements in revenue, adjusted EBITDA and throughput. The company achieved notable improvements year-over-year with a 13% increase in revenue to \$60.17 million and an 8% increase in adjusted EBITDA to \$27.4 million, which is a record for the company, and at the same time, maintaining strong liquidity with \$25.5 million in cash and cash equivalents and \$15 million of available credit facilities.

Moving to Slide #5. During the first quarter of 2018, the company processed 558,000 tonnes, which represents a 5% increase over Q1 2017. Sierra Metals achieved record quarterly throughput both from the Yauricocha and Bolivar mines continuing the successful production increases realized during 2017.

Sierra's consolidated production of copper increased 11%, silver decreased 15%, zinc was flat, lead decreased 31% and gold increased 10% as compared to Q1 2017.

Turning to Slide #6. The company continues to see positive gains and momentum from the progress of the operational turnaround program implemented in our operations in Mexico. Quarter-over-quarter, Bolivar realized a 14% increase in throughput, with a 16% increase in copper equivalent production. And Cusi realized a 66% increase in throughput and a 12% increase in silver equivalent production in Q1 compared to Q4 2017. We will continue to modernize our operations in both production and lower costs, with further benefits expected to continue in Q2 and beyond. These improvements include new equipment purchases, which allow more mineable areas to be incorporated in the mine plan at Bolivar, a change in focus from existing narrow vein structures currently being mined at Cusi to the Santa Rosa de Lima zone, which has larger widths and higher grades, as well as continued successful improvements made to the metallurgical recoveries at both mines.

Looking now at Slide #7. In 2018, the company continued with its aggressive brownfield exploration programs and definition drill programs at all 3 mines. We have targeted approximately 71,000 meters of brownfield exploration this year, with the ability to ramp up drilling further with success at any one of the zones. Management expects that the company will continue to provide further extensions to existing zones such as Esperanza, Cuye-Mascota at the Yauricocha Mine; Bolivar West and Bolivar Northwest at the Bolivar Mine; and Santa Rosa de Lima at the Cusi Mine.

Additionally, our technical teams have been reinforced to meet the upcoming challenges of putting our recent brownfield exploration successes into production schedule in the near future.

I would also like to mention that the company will provide an updated mineral reserve and resource estimate for the company's Bolivar Mine on May 22, 2018, with a NI 43-101 Technical Report to be filed on SEDAR and EDGAR within 45 days of mineral reserves and resource estimate press release. SRK Consulting from the U.S. will prepare the technical report.

With that, I will now turn the call over to Gordon Babcock, our Chief Operating Officer, for the operations and exploration update.



**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Thank you very much, Igor. Turning now to the operational highlights on Slide 8. In the first quarter of 2018, Sierra processed a total of 557,710 tonnes, which represented a 5% increase year-over-year compared to Q1 2017. The company achieved record quarterly throughput from both Yauricocha and Bolivar mines, continued successful production increases realized during 2017. We should mention, also, we had a decent safety record during that time, so we're heading positively in that direction.

The first quarter of 2018 consolidated production of copper increased 11% to \$8.1 million pounds. Silver decreased 15% to 0.6 million ounces. Zinc was flat at 18.2 million pounds. Lead decreased 31% to 6.3 million pounds, and gold increased 10% to 1,952 ounces when compared to Q1 2017.

The company had another consecutive strong quarter at Yauricocha where record in throughput led to increase in production. However, lower head grades and recoveries of raw metals, except for copper, resulted in a slight decline in equivalent metal production compared to Q1 2017.

Bolivar also saw record throughput in the first quarter and realized 6% increase in production as the company gained momentum from the progress of our operational turnaround program in Mexico. Higher throughput, silver head grades and silver and gold recoveries resulted in a 1% decrease in copper equivalent production in Q1 2018 as compared to Q1 2017.

At Cusi, total ore processed increased 66% in Q1 to 26,945 tonnes when compared to Q4 2017, but decreased 22% when compared to Q1 2017.

Silver production of 108,000 ounces increased 3% in Q1 2017 as the metallurgical work performed during 2017 increased silver recoveries by 35%. So we've been fairly consistent in maintaining that depth with recovery plan.

Despite the lower throughput, metal production decreased raw metal to Cusi. The company continues to focus and develop the higher-grade wider-width Santa Rosa de Lima zone and continues to ramp up production from this area while selectively mining structures in the older part of the mine. We expect to see existing mill reach -- throughput exceeding 650 tonnes per day in the second quarter of 2018. For example, in Cusi, recent drilling in Santa Rosa de Lima zone intercept that mineralized zone well over 30 meters of width. So this was approximately 50 meters below the last level, depending -- 160 level. So these are all positive events that are occurring at Cusi.

Please turn to Slide #9. Looking at the output for the remainder of 2018, the company's continued focus this year is to complete the preliminary scoping and preliminary economic assessment studies for all 3 mines with the intent to production optimization at all sites. These PEAs will be followed by prefeas and feasibility studies to finalize future operational production increases and/or maintain operations at a status quo.

In addition to these works programs, the company will also focus on including reviews of plant optimization strategies, mineshaft and infrastructure improvements and review of processing plant efficiencies. So in essence, these are production increase movements.

At the Yauricocha Mine, the final infrastructure for the Yauricocha tunnel will be completed at the tail end of the second quarter and commissioning will take place in Q3. This will enable the mine to have a direct run to the mill, which will result in a faster turnaround and cycle time of the trolley locomotives. In the long run, this will allow us to handle more capacity and handle larger volumes of waste and ore. The tunnel also provides another ventilation inlet to the mine, and it also provides a better access point for bringing material into the mine. The dimension of the current tunnel is tight, and this new one is much larger. So this will also benefit our ventilation system. The tunnel will be fully operational nearly in the earlier part of Q3 2018.

Please turn to Slide 10. At Slide 10, we could see that work continues to progress at Yauricocha and the sinking Yauricocha shaft to the 1,270 level. We're planning to cut a loading pocket at the 1,200 level, which is below the 1,170 working level. This pocket will handle waste and ore from two different streams in a multi-feed raise configuration. Three loading points will be excavated on the 1,170 level. Each will have a grizzly structure over the top and independent discharge points for locomotive track haulage and trackless equipment. So we are going to be able to handle both track and trackless. A mobile rock baker will be handling both sides because of the encounter on the grizzly platforms, and this facility should be operational in 2020.



Company's emphasis at Yauricocha will continue to be on the production of higher-value ore, including an estimated 450,000 tonnes of ore feed from the Esperanza zone during 2018. This effort is expected to continue the company's operating margins and cash flow generation within a recently improved, thus, historically softer, metals price environment.

Now if we turn to Bolivar, the installation of a new refurbished mill at Bolivar will provide the company with flexibility in the term of grind size and tonnage. Company has reached a throughput rate of 3,000 tonnes per day at Bolivar during the first quarter, and we're expected to move that up to 3,500 tonnes per day in the second half of 2018.

At Cusi, improvements are also planned in 2018 with the installation of another new refurbished mill, which will be installed, and allow production to climb to 1,200 tonnes per day starting in January 2019.

Components of the new refurbished mills are currently arriving at Bolivar and the Cusi mine sites. We are in the process this week of moving both mills into Mexico, and we expect to begin a sampling installation of the additional mills in second half of 2018, with a target completion by year-end.

Please turn to Slide 11. Slide 11 deals with exploration. Exploration has been a very important part of the company's growth strategy, and we've committed significant resources and capital to growing the mineral reserves and resources.

Sierra drilled 83,000 meters last year across all 3 mines, and the investment was well spent. Mineral reserves for Yauricocha increased 134% and the mine life more than doubled. We also saw significant increases in contained metals as a result of that exploration program.

At Cusi, the company increased mineral resources by 129% from the previous report. The company highlighted several new discoveries in addition to extending the current mineralized zones, which speaks to the brownfield potential at all 3 mine properties. Going forward, exploration remains a key aspect in -- of our growth plan at all 3 mines.

We have to mention as well, Bolivar, where there are drilled targets in our geophysical anomalies with good results, those also contributed positively to our movement forward.

During Q1 2018, the company drilled 66 holes totaling 6,919 meters at Yauricocha. Exploration drilling accounted for 14 holes or 3,083 meters at various zones, including Contacto Sur Medio, Contacto Sur Medio Oeste, Gallito and Esperanza-Cuye to explore the continuity and verify potential mineralization.

Definition drilling consisted of 52 holes or 1,410 meters on the Central Mine zone, Antacaca, Esperanza Brecca, Catas, Contacto Occidental and Mascota. These were necessary to deploy and determine continuity of the orebodies.

At Bolivar, the company drilled 6,281 meters within the mine at the El Gallo zone and at Bolivar West and Northwest zones.

At Cusi, the company drilled 8,846 meters to verify the continuity of the orebodies and support development work. We are currently awaiting assay results from recent drills and our modeling the zones. We expect to be in good position to press release these results in Q2 2018, which were expected to further define the current orebodies and highlight further mineralization potential.

With that, now I'll turn the call over to Ed Guimaraes, our CFO, for the financial update. Ed, go ahead.

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**Edmundo Gontardo Guimaraes** - *Sierra Metals Inc. - CFO*

Thank you, Gordon, and good morning, everyone. Turning now to Slide 12. The company had its third consecutive quarter of higher revenues and adjusted EBITDA compared to previous quarters, aided by stable metal prices, record throughput at the Yauricocha and Bolivar mines and improving production at Cusi. The company has continued to be successful in maintaining positive cash flow generation from its existing operations in order to reduce debt levels, fund required capital expenditures and maintain liquidity. The company remains focused on capitalizing on the successful drilling campaigns executed during 2017 and 2018, which resulted in significant increases to the reserves and resources at the Yauricocha and Cusi

mines. Continued production growth is expected to be realized from the strategic allocation of operating cash flows towards capital-efficient growth in order to provide the infrastructure and scoping studies necessary to monetize the reserve and resource increases as quickly as possible.

During the first quarter of 2018, the company earned revenues of \$61.7 million, which was \$7.1 million higher than Q1 2017 as well as adjusted EBITDA of \$27.4 million and operating cash flows before movements in working capital of \$27.3 million.

During the first quarter of 2018, the company maintained the significant improvements in revenue and adjusted EBITDA realized during the previous quarters in 2017. The all-in sustaining costs during the quarter remained consistent with the previous quarters during 2017.

In Q1 2018, the company earned net income of \$8.7 million compared to \$2.6 million in Q1 2017 or \$0.05 per share on both a basic and diluted basis versus \$0.02 per share in Q1 2017. A large component of the net income for every period is the noncash depletion charge in Peru, which was \$2.6 million during Q1 2018 versus \$9.2 million in Q1 2017. The noncash depletion charge is based on the aggregate fair value of the Yauricocha mineral property at the date of acquisition of Corona of \$371 million amortized over the total proven and probable reserves of the mine. The decrease in the noncash depletion charge in Q1 2018 was due to the 134% increase in proven and probable reserves reported in the company's NI 43-101 Technical Report issued on October 26, 2017.

Higher revenues are primarily attributable to the 5% increase in throughput, the increase in copper and gold head grades and higher recoveries for copper at Yauricocha as well as the increase in the prices of copper of 19%, lead of 11%, zinc of 23% and gold of 8% in the first quarter of 2018 compared to the first quarter of 2017. This was partially offset by a 22% decrease in throughput and lower head grades and recoveries for all metals except lead recoveries at Cusi, while the 6% increase in throughput, higher silver head grades, silver and gold recoveries and the higher copper price resulted in Bolivar's revenues being consistent with Q1 2017.

Record quarterly adjusted EBITDA of \$27.4 million increased 8% compared to \$25.4 million in Q1 2017. The increase in adjusted EBITDA was primarily due to the \$8.1 million increase in revenues at Yauricocha.

Cash flow generated from operations before movements in working capital increased 15% compared to \$23.7 million in Q1 2017. The increase in operating cash flow was mainly the result of higher revenues generated and higher gross margins realized.

I would now like to review our cash flows in more detail. I have summarized the changes in cash during Q1 2018 on Slide 13. During Q1, our operating cash flows were \$11.5 million. We spent \$9.7 million on capital expenditures in Mexico and Peru and paid \$4.2 million in principal repayments and interest on our credit facilities in Peru and Mexico as well as paid dividends to noncontrolling shareholders of \$1.1 million. We also had proceeds from the drawdown of a credit facility of \$5 million. These items increased our cash balance from \$23.9 million as at December 31, 2017, to \$25.5 million as at March 31, 2018.

Along with the strong operational results realized during the quarter, the company's strong cash flow generation allows the company to be self-sufficient and fund its brownfield exploration and capital projects as well as reduce debt levels. The company has access to various lines of credit of \$15 million, and when combined with the company's \$25.5 million of cash and cash equivalents as at March 31, 2018, provide available liquidity of \$40.5 million.

During Q1 2018, the company invested \$3.1 million on sustaining capital expenditures, mostly on equipment and concentrator plant improvements, and \$6.6 million on growth capital expenditures consisting mainly of \$1.3 million of brownfield exploration drilling, \$1.9 million of mine development, \$1.7 million of plant enhancements to increase throughput and \$1.4 million on the Yauricocha shaft and tunnel projects.

The company's focus for 2018 remains on allocating operating cash flows towards efficient growth capital to provide funding for the significant capital expenditures planned in 2018 as well as mine development, plant improvements, infrastructure work on mineshafts and the tunnel as well as completing scoping studies necessary to monetize the recent reserve and resource increases as quickly as possible.

Management will continue to review metal prices and retains the option to adjust the capital expenditures, should metal prices experience any dramatic changes within the year.

The company expects to reduce its debt obligations by approximately \$21 million in 2018, \$7.5 million to be paid in 2019 and a further reduction of \$27 million to be paid in 2020. The company expects to be able to continue to fund its short-term capital and debt commitments through the generation of operating cash flow.

With that, I will now turn the call back to Mike.

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**Michael McAllister** - *Sierra Metals Inc. - VP of Corporate Development*

Thanks, Ed. That ends the presentation portion of the call. We would now like to open the call to questions from participants. Operator, would you please open up the lines?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from Jake Sekelsky with Roth Capital Partners.

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**Jacob G. Sekelsky** - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

It looks like cash costs were slightly elevated at Cusi during the quarter. Could you just touch on that and speak to expectations there going forward? I mean, was this just a function of lower production during the quarter as Santa Rosa de Lima ramps up or what?

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**Igor Alcides Gonzáles Galindo** - *Sierra Metals Inc. - President, CEO & Director*

Yes, it's a result of lower production. And just to compliment, remember that in Cusi, we're following a ramp, and we're gradually increasing the throughput to the plant but also increasing the mine production as we're developing new levels. So we will continue to increase the throughput until we reach to 650 tonnes per month, that's our target.

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**Jacob G. Sekelsky** - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

Got it. That's what I figured. And I guess, staying in that game, can you just quantify the amount of ore that's now coming from Santa Rosa de Lima? And when you guys might expect to be processing ore solely from there?

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**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Well, right now, Santa Rosa de Lima is contributing in approximately 85% of the ore, and the rest is coming from areas like Promontorio, Santa Edwiges and San Nicolas. Because the zones are so close together, we have the opportunity of going after these other zones as well.

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**Jacob G. Sekelsky** - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

Do you expect it to stay at that ratio? Or do you expect to transition solely to Santa Rosa de Lima at a certain point once development work is done?



**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

We're going to target our opportunities as they come along. But basically speaking, because these zones are so close together, I'd like to say that we're going to stay within the target. Other zones have other contributing factors, like they have more lead or they have more zinc, but the Rosa de Lima is more silver. Everything helps in the long run here.

**Jacob G. Sekelsky** - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

Okay. And then lastly just on the potential expansions beyond the levels that you guys have targeted currently, should we still expect scoping studies or economic studies coming out at each of the mines and give an update on timing of these?

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Yes, that's going to happen. The one that truly is a preliminary economic assessment -- really, our target is Cusi as we're still in the development stage of the operation. In the case of Bolivar and Yauricocha, we have studies that have been done on our plants. We know our plants' capacities, and we know what our targets are, and we're doing the same thing for 2 mines. So yes, the target is -- our objective is to issue 3 PEAs, 1 (inaudible).

**Jacob G. Sekelsky** - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

Got it. And do you just have a timing on when we should start to see those roll in? Or are you guys still working on that?

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

We're working on that right now. Our target is to get this done before year-end.

**Operator**

Your next question comes from Mark Reichman with NOBLE Capital Markets.

**Mark La France Reichman** - *NOBLE Capital Markets, Inc., Research Division - Senior Natural Resource Analyst*

Just a few questions here. If we use the first quarter as a baseline, could you just walk us through the pluses and minuses to consider through the balance of the year? I mean, while you have the work on the Mascota shaft in Q2, it seems the Mexican operations will only strengthen throughout the year as mill capacity and throughput increases and then the better grades of ore are mined in the Santa Rosa De Lima zone for example?

**Igor Alcides González Galindo** - *Sierra Metals Inc. - President, CEO & Director*

Yes, we -- Ed, go ahead.

**Edmundo Gontardo Guimaraes** - *Sierra Metals Inc. - CFO*

Yes -- go ahead, Igor. Go ahead.

**Mark La France Reichman** - *NOBLE Capital Markets, Inc., Research Division - Senior Natural Resource Analyst*

Did I answer my own question?





**Igor Alcides González Galindo** - *Sierra Metals Inc. - President, CEO & Director*

No, go ahead. I was going to comment that, yes, we have a maintenance program on the Mascota shaft. And right now, we are preparing all the work. We have the contractor on site, renewing the work, and that will be executed in the third quarter of this year. And for that, we are also -- as you mentioned, we're trying to upgrade our -- and tidy up our operations in Mexico. We're doing upgrades in the crushing and the screening and also in the milling. So yes, that's part of our brand, and we -- that's all in the budget. If you review the Q1 results, we're pretty much on budget, and we expect to remain in the other 3 quarters as well.

**Mark La France Reichman** - *NOBLE Capital Markets, Inc., Research Division - Senior Natural Resource Analyst*

Yes, well, that's what I was getting at. I mean, you had a very -- a pretty strong quarter in the first of the year and so you just kind of expect to see strengthening through the year. So I was just kind of wondering if there was any other -- any negatives out there that maybe I hadn't thought of. I know that the work on the Mascota shaft has a little bit of an impact on average production throughout the year. But on balance, you should expect to see kind of a step up in performance each quarter because you're looking at -- especially in the latter half of the year when you see the expanded mill capacity at both Bolivar and Cusi.

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Right, so our targets are to maintain that same flow from Mexico. In the case of Yauricocha, what we're trying to do is achieve the work programs that were delineated, do these repairs for these areas, complete tunnel and so on, and then we're trying to stick to our original budget. So that's the plan.

**Mark La France Reichman** - *NOBLE Capital Markets, Inc., Research Division - Senior Natural Resource Analyst*

Okay. And then second question is just with the potential for tonnes milled per day to reach 3,600 in '19 at Yauricocha. 3,500 tonnes per day at Bolivar, with the possibility of ramping up to 5,000 tonnes per day in 2021, then Cusi rising from 1,200 tonnes per day in '19 to potentially doubling to 2,400 tonnes per day, how are you thinking about the current resource and reserve base? I mean, what kind of average mine life are you targeting and that would give you confidence to move forward with these plans? And how does -- how do your thoughts kind of dovetail with the current EE&D plan?

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Well, currently, right now, in the case of Yauricocha, once our environmental impact assessments complete, the governmental and all the permit process is in play. That 3,600 is an achievable number. The current mill capacity in Yauricocha is in excess of 4,000 tonnes per day, so the mill is not an issue. So on Yauricocha side, it's the permit side and then the development program to get up to that level of steady-state production. In the case of Mexico -- in the case of Bolivar, we have been delivering consistently over 3,000 tonnes per day on a mineable basis to the mill, so that part is coming through. We've got the equipment purchases that have come through. We have another long-hole drill. We've got a fleet of 8-yard equipment in place, 30-tonne trucks, so that portion of it is moving forward. We've got manpower increases in our staffing. So Bolivar is moving forward in the right direction. I think the 3,500 is very achievable and in the future to get to 5,000. It's going to be incremental, it's going to be an organic growth program, and that's definitely a plus. Bolivar of course is a mine that warrants a good production rate, close to the 5,000 tonnes per day mark. And in the case of Cusi, we're in the process right now, driving our ramps, accessing the Santa Rosa de Lima as well as when we access Santa Rosa de Lima's vein structures, we just encountered one section that's over 30 meters of stripe lent on there. So it's an interesting intercept. It's not necessarily indicative of the whole ore zone, but it's a very positive find. So we move from 650 tonnes per day and bump it up to 1,200. We have an 8-by-14 mill that's going to be installed. All these things are happening as we speak. So in the end of Q4 2018, we're targeting a mill installation in the case of Cusi. And in the case of Bolivar, the 12.5 by 16, the bigger ball mill from Canada that'll be installed and in place. And then we've got the ramp up and the whole program to get things commissioned and so on to get it up to production. So in the future, our scoping

studies are going to delineate where we're really at. So in the case of Cusi, it's very feasible that we'll be in excess of 2,000 to, say, 2,500 tonnes per day. So it's looking good.

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**Mark La France Reichman** - *NOBLE Capital Markets, Inc., Research Division - Senior Natural Resource Analyst*

Well, that's very helpful, Gord. And then just the last question is for Ed. As a result of all these efforts, one would expect the company's cash flow generation to accelerate over the ensuing years, and at some point, your EE&D expenditures probably would go down, trend down a little bit. So would you just expect most of that cash flow to get reinvested back in the business? Or would you ever consider returning capital to shareholders in the form of, say, like special dividends?

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**Edmundo Gontardo Guimaraes** - *Sierra Metals Inc. - CFO*

Thanks, Mark, for your question. I think when you...

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**Mark La France Reichman** - *NOBLE Capital Markets, Inc., Research Division - Senior Natural Resource Analyst*

Too early to think about?

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**Edmundo Gontardo Guimaraes** - *Sierra Metals Inc. - CFO*

Yes, I think in the near term -- near to midterm, it's on growth, internal growth expansion. But again, should those opportunities not exist or be utilized, dividends -- returning dividends to shareholders would definitely be a consideration at that point. But right now, we're focused on growth at all 3 of our mines.

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**Operator**

Your next question comes from Heiko Ihle with HCW.

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**Heiko Felix Ihle** - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research and Senior Metals & Mining Analyst*

The additional ball mill that you guys are sort of putting in at Piedras Verde during the second half of 2018, I mean, obviously, it's going to provide you with more flexibility. And just to check my head, the mill was purchased in Q4, obviously, but you already paid for this mill, correct?

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**Edmundo Gontardo Guimaraes** - *Sierra Metals Inc. - CFO*

That's correct.

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**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

No, Heiko. We just picked it up here just now in Q1. We're in the process of the last deliveries of our portion of the payment for both mills as well as other components.

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**Heiko Felix Ihle** - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research and Senior Metals & Mining Analyst*

Okay. So I'll phrase the question differently. How much in expenditures should we see in Q2 and in Q3 for that capacity improvement?



**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

We're in excess of \$2 million in the case of Bolivar and approximately \$1 million -- it's in our CapEx run for the year for Cusi. We're covered for the installation as well as the purchase, both sites.

**Igor Alcides Gonzáles Galindo** - *Sierra Metals Inc. - President, CEO & Director*

Yes, What -- the work that we're doing in Bolivar, Heiko, is right now we're doing upgrades on the crushing and the screening so it can accommodate the increased capacity, and we're refurbishing our existing crushers, plus we also have in the capital an additional crusher that we can purchase, and we will probably most likely purchase that. We also are trying to fix because we have existing flotation capacity, and so this mill will go in and will have the additional floatation capacity we're not using at this time and make it useful. We're also working on the filters and on the cadence. So it's all work in progress in Bolivar to accommodate the new capacity of the mill.

**Heiko Felix Ihle** - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research and Senior Metals & Mining Analyst*

Fair enough. And then you expect to complete the tunnel at Yauricocha in Q3. I mean, when I was down there a couple of months ago, I was quite impressed with all the work they had already done at site. And then between now and then, how much more in CapEx -- I assume it's included in the run rate as well, how much more in CapEx do you need to spend there?

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Well, we're in budget. We're in the run for our completion of the CapEx invested in budget. So it's not going to be any additional charges, if that's where you're going.

**Heiko Felix Ihle** - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research and Senior Metals & Mining Analyst*

No, that's not where I was going at all. It really was to model out when we can start seeing the pricing -- the cost improvements. I mean, Q3 is starting in, what is that? 50 days. I mean, I guess, do you have any more granular visibility on when the tunnel can -- I assumed it turns on, right? I mean, it doesn't go -- there is not a whole lot of ramp up, either it functions or doesn't.

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Once our trolley line is installed...

**Heiko Felix Ihle** - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research and Senior Metals & Mining Analyst*

So I guess -- sorry?

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Once our trolley line is installed and the track is laid, we have the outside infrastructure to complete, and then the trains will be running on that site. No I think we'll start to see things happening in the -- in 2019. I think it's not fair to say 2018, you're going to have a marked drop in numbers right away, we have to get the whole thing in place and get everybody trained on it. This is definitely going to increase our cycle time, so that's going to be a positive. That means we have to move -- we'll be in the -- in format to move more waste as well as ore.

**Operator**

(Operator Instructions) Your next question comes from James Young with West Family Investments.

**James Young** - *West Family Investments, Inc. - Investment Analyst*

A couple of questions. First, regarding Cusi, I'm just trying to reconcile the larger widths you're kind of citing and higher grades with the fact that you're seeing the silver grade decline from the fourth quarter of 178.6 down to 173.47 in the first quarter of '18. So can you help us understand in the mine plan, when we'll start to see this higher grade ore from Santa Rosa de Lima is getting processed at Cusi, please?

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Yes. Okay, Jim. Thanks for the question. On the basis of Santa Rosa de Lima, the upper portion of Santa Rosa de Lima's grades are not as high as the lower portion. As you go down structure, the grades improve. So we have to start our mining as we access these points on the upper part of the mine. And as we go deeper, the grades are going to improve. The one thing that we have to remember is that this is a development program that's underway. So we access ore zones. We get into the ore zones. We drift on the ore zones, and then we basically lay out our stopes. And we are in -- it's similar situation to where we started off with Esperanza. We're basically exploring, developing and mining all at the same time, and we're fast-tracking things as we go. Then you have your operational issues that occur, and you have water, you have things like that. So on that basis, as we go deeper and as we intercept into Promontorios and Edwiges and these other zones that are contiguous and crosscut, the Santa Rosa de Lima structures we have improvements in grades and we get more lead and more zinc. So that's where we're going on that basis, that's why the grades dropped off at the very beginning.

**James Young** - *West Family Investments, Inc. - Investment Analyst*

Okay. And then secondly, I think I heard you say that the width that you saw at Cusi were 30 meters, 3-0 meters wide.

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

No, no, no. I was talking about one drill intercept. There was one drill hole that -- in the areas about 50 meters below the 1,060 level. Below that level, we have a crosscut. And we drilled from that crosscut when we were drilling the lower part to lay out the scoping plants, part of the definition drilling program, and in that drilling program, we delineated a zone, the vein system had blossomed out into a large pocket, and that pocket's total width was 30 meters. We can't say that it's going to be -- this is the new width for Santa Rosa de Lima. This is just one drill hole on one really nice intercept. So the possibilities of that level of having those kinds of widths is very encouraging. So this is for the future. So that's positive. So we hadn't anticipated that from the drawing from (inaudible). So as we go along, Jim, when we drilled these zones, we're doing a definition drilling program that's going to be similar to what we're finding in places like Yauricocha. So we're going to find other things that are interesting to the production plan for the mine.

**James Young** - *West Family Investments, Inc. - Investment Analyst*

Okay. And then -- but -- and with the grades that you saw in that area that was 30 meters wide, were they consistent with the average Santa Rosa de Lima grade of 372 grams per tonnes? Or...

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

No. I cannot make a comment on the grades because we just drilled this just recently, and I don't have those assays in front of me. They haven't reported to AOX.

**James Young** - *West Family Investments, Inc. - Investment Analyst*

Okay, great. If we can transition to Yauricocha then. Gord, could you give us a little update as to what you're seeing and the progress you're making with the Cuye-Mascota area because during the recent New York City Analyst Day, you kind of highlighted the progress and the positive results you've just seen there. And we're just wondering, can you give us an update as to what happening with the Cuye-Mascota area?

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Sure. So in the Cuye zone, we had like -- we were talking about in that period of time, we had the 15 holes. We started drilling programs from the 1,070 level and we drilled one hole and we hit a highly sulphide zone, and we have copper as well in that sulphide zone. All of these things are going to be published in our next round of press releases. So the zone still continues, it continues at depth. We just started to drill directly under the Cuye zone, so we haven't hit anything just recently. In the case of the drilling that was done at -- between Cuye and Mascota and Esperanza, so it's kind of just off of Esperanza, that was where we hit that large mineralized area. It ties into the geophysical anomaly. So these holes are long. They're about 700 to 800 meters long. So it takes a good month to drill them, and it takes some time to get assay results and so on afterwards. So this program has just been ongoing. We had some excellent intercepts in the case of Cuye. So that's a work in progress, Jim.

**James Young** - *West Family Investments, Inc. - Investment Analyst*

Okay. Great. And one last question, if I could, regarding Yauricocha. In the past, you've talked about, Gord, the Chonta Fault, and in the MD&A, I believe, you referred to it as Yauricocha II. Could you just discuss what you're currently doing at the Chonta Fault? And what are your future plans for this area?

**Gordon J. Babcock** - *Sierra Metals Inc. - COO*

Okay. The Chonta Fault, as we described, Jim, is about 2.5 kilometers west of the Yauricocha fault. And in that specific area, we've got 3 drill platforms for surface drilling on our property, and we're going to be drilling from our property into the 3 target zones. So in this Chonta Fault, we're drilling a plan of 6 holes and we're -- we just finished the installation of the platforms, and we're in process. It's going to take about 3 weeks to get a drill rig in there because now the drilling in Peru has gotten, I wouldn't say it's gotten ballistic, but there's certainly been a resurgence in drilling programs undertaken by all the mining companies. So we've got a 3-week period finishing up our platforms, and then we'll be drilling on the Chonta Fault. There are going to be long holes as well. Yes, so we're going to be drilling on those geophysical anomalies in line 13, line 16 on our previous publications that we had.

**Operator**

There are no further questions. I'll turn the call back to presenters.

**Michael McAllister** - *Sierra Metals Inc. - VP of Corporate Development*

Thank you, operator. That concludes today's call. On behalf of the management team, I'd like to thank everybody for participating today. A replay of the webcast and the materials can be found on our website at [www.sierrametals.com](http://www.sierrametals.com). If there are any further questions or concerns, you may reach out to us at any time after today's call. Our contact information can be found in today's presentation as well as on the company's website. Thank you, operator. Please conclude the call.

**Operator**

This concludes today's conference call. You may now disconnect.



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