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PRESENTATION

Operator

Good day. My name is Jodie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sierra Metals Inc. Third Quarter 2018 Financial Results Conference Call. (Operator Instructions)

Michael McAllister, Vice President of Corporate Development, you may begin your conference.

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

Thank you, operator, and good morning, everyone. Welcome to Sierra's Third Quarter 2018 Results Conference Call. On today's call, we are joined by Igor Gonzáles, our President and CEO; Ed Guimaraes, our CFO; and 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. Monday's press release, the financial statements and the 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 earnings 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 the material factors or assumptions that were applied in drawing a conclusion or making forecast or projection as reflected in the forward-looking information is contained in the company's Annual Information Form, which is publicly available on SEDAR or EDGAR via Form 40-F or on the company's website. Please note that all dollar amounts mentioned on today's call are in U.S. dollars unless otherwise noted.

With that, I would now like to 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. Q3 2018 was a solid quarter and built upon the strong results that the company reported in the first half of 2018. We continue to realize good returns on the capital we employed, improving and growing the mines while continuing to improve the operating performance with solid production results. This helped to further lower our costs.



Also, despite a weaker realized metal prices and harsh weather events at the Bolivar Mine during Q3, the company still generated positive cash flow and -- at its 3 operating mines of over \$18 million. Additionally, we continue with successful exploration programs and have discovered a copper-molybdenum porphyry at our Yauricocha Mine, with more progress in brownfield opportunities to further increase our mineral reserves and resources at each of our mines. We have also now filed Preliminary Economic Assessments for each mine, which boasts positive economic and demonstrate the path to a staged and responsible expansion plans.

The management team and I are very encouraged by the continued progress and strength in the achievements seen in the third quarter and in the 9 months of 2018. The company is at an inflection point, having improved the performance of all of our mines and now embarking on a growth program to grow the company. This includes segmented production increases at all 3 mines, which provide for responsible and economically prudent production growth, with increased revenue and cash flow opportunity. We're optimistic that 2018 and the years ahead will be growth years not only for Sierra Metals, but also for its shareholders.

Following my summary highlights, Gordon Babcock will take us through the operational highlights. And then Ed Guimaraes will take us through the 2018 third 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. The third quarter built on the momentum from the first half of 2018. And despite weaker realized metal prices and torrential rainfall events at Bolivar, we still reported solid revenue, adjusted EBITDA and operating cash flow and throughput. On a year-over-year basis, the company achieved a 4% increase in revenues to \$53 million, a 3% increase in adjusted EBITDA, an -- to \$18.2 million and a 17% decrease to the operating cash flows before movement in working capital of \$18.1 million. We continue to maintain liquidity, with \$29.1 million in cash and cash equivalents. Also of note are the significant reductions to the all-in sustaining costs at all 3 mines in Q3 2018. All-in sustaining costs were 19% lower at Yauricocha, 32% lower at Bolivar and 53% lower at Cusi compared to Q3 2017.

Moving to Slide #5. During the third quarter of 2018, Sierra processed 566,000 tonnes, which represented a 12% increase over Q3 2017. Sierra's consolidated production of copper increased 20% (sic) [24%], silver increased 44%, zinc increased 5%, lead was flat, and gold increased 26% compared to Q3 2017.

Turning now to Slide #6. The company continues to see positive gains and momentum from the progress of the operational turnaround program implemented in Mexico. At Bolivar, the company exceeded our year-over-year production levels with a 2% increase in throughput. But due to torrential rainfall events in the third quarter, which impacted operations, we experienced lower quarter-over-quarter production. We are hopefully through the worst of the rainy season and are back on track for the fourth quarter. However, Bolivar still realized a 13% increase in copper equivalent production year-over-year compared to Q3 2017.

Cusi production was much higher with the mill running at the 650 tonnes per day rate for the third quarter, with the mine realizing a 316% increase in throughput and a 186% increase in silver equivalent production in Q3 2018 compared to Q3 2017. We continue with the first stage of expansion plans at both mines, which are slated to be completed in Q1 2019 and is expected to improve production and further lower costs.

Looking now at Slide #7. In 2018, aggressive brownfield exploration program and definition drilling programs are an important part of our strategy at all 3 mines. We have completed over 100,000 meters of brownfield exploration this year and subsequent to the cutoff dates for the previous resource estimates. Management expects that the company will continue to provide further extensions to existing zones, such as Esperanza and Cuye-Mascota zone, Central and the porphyry discovered at Yauricocha, also, the Bolivar West, Bolivar Northwest and Cieneguita zones at Bolivar and the Santa Rosa and San Nicolas zones at Cusi. Additionally, our technical teams have been reinforced to meet the upcoming challenges of putting our recent brownfield exploration successes into production scheduled in the near future.

With that,

(technical difficulty)

call over to Gordon Babcock, our Chief Operating Officer, for the operations and explorations update.



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

Thanks very much, Igor. Turning now to the operational highlights on Slide #8. In the third quarter of 2018, Sierra processed a grand total of 566,194 tonnes, which, as mentioned before, represents a 12% increase year-over-year compared to Q3 2017. The company achieved this increase despite significant rainfall events experienced at our Bolivar Mine, which caused interruptions to production during Q3 of 2018. In the third quarter of 2018, consolidated production of copper increased 24% to 8.3 million pounds. Silver increased 44% to approximately 700,000 ounces. Zinc was flat at 20.8 million pounds. Lead was also flat at 6.4 million pounds, and gold increased 26% to 1,906 ounces compared to Q3 2017.

The Yauricocha Mine maintained solid production rates during the third quarter of 2018 with a 6% throughput increase compared to Q3 2017. Zinc equivalent metal production increased 16% due to higher ore throughput, higher copper and gold head grades and higher recoveries for all metals, except for gold. Bolivar had a tougher quarter, as previously mentioned, with significant rainfall events, but still realized a 2% increase in production over Q3 2017. Again, higher ore throughput, higher head grades for all metals and higher copper and gold recoveries resulted in a 13% increase in copper equivalent production in Q3 2018 as compared to Q3 2017.

At the Cusi Mine, the operation was able to see the benefit of the existing mill operating at its capacity rate of 650 tonnes per day for the entire third quarter and saw total ore processed increase 316% in Q3 2018 compared to Q3 2017, an increase of 18% compared to Q2 2017. Silver equivalent production increased 186% compared to Q3 2017.

Please turn to Slide #9. At #9, we're looking at the output -- or the outlook, pardon me, for the remainder of 2018. Since we've now completed PEA studies for all 3 mines, we're working to complete the first segment of production increases at all 3 of the mines. Additionally, we're also working to complete life-of-mine plans, pre-feasibility and feasibility studies with the intent of production optimization at all sites and to finalize future operation and production increases at all of the 3 mines. In addition to these work programs, the company will also focus on including reviews of plant optimization strategies, mineshaft and infrastructure improvements and review processing plant efficiencies.

At the Yauricocha Mine, the Yauricocha tunnel has now been completed, and we're now working to complete the final tie-ins to the existing surface infrastructure. We expect all remaining work to be completed in the fourth quarter, with commissioning to take place late in Q4. The new tunnel will enable the mine to have a direct run to the mill, which will result in a faster turnaround in the cycle time of the trolley locomotives. In the long run, this will allow for more capacity to handle larger volumes of waste and ore. This tunnel also provides a ventilation inlet to the mine, which benefits current ventilation system. And as noted, it should be fully operational by the end of the year.

Slide 10. Please have a look at Slide 10. We continue to detail progress at Yauricocha and the sinking of the Yauricocha shaft to the 1270 level, and we're going to cut a loading pocket below the 1170 working level. Mid-pocket will handle waste and ore in 2 streams in a multi-feed, raised configuration. Three loading points will be excavated on the 1170 level, each having a grizzly cover and independent discharge points for locomotive track haulage and trackless haulage equipment. The infrastructure on the 1170 level, as we noted, will feed each 3 raises, and the related apron feeders in the 1210 level, which will include a conveyor loading pocket drip -- feed drip on the level. The mine will be able to accommodate waste, high humidity ore, polymetallic ore and have the optionality in dealing with different ore qualities, such as copper ores and oxides. A mobile rock-breaker will handle any oversized muck encountered in the grizzly platforms. And this whole facility should be operational in 2021.

The company's emphasis at Yauricocha for Q4 will be to continue prioritizing mill feed from the massive sulphide ore zones, such as in Catas, Esperanza North, Esperanza and Mascota. And that amounts to approximately 73% total production, with the remaining production coming from regulator stopes, in other words, high-grade stopes in areas of Cachi Cachi and Central Mine. And those represent what we call our Cuerpos Chicos, which are the high-grade small stopes. This effort is expected to continue to improve the company's operating margins and cash flow generation within a softer metal price environment.

Please turn to Slide 11. Turning to Slide 11, we're highlighting Bolivar in this one. The installation of newly refurbished mill at Bolivar is currently underway, and this will provide the company with flexibility in terms of grind size, future recoveries and tonnage. The company reached a throughput of 3,100 tonnes per day at the Bolivar Mine at the end of the second quarter and expects to grow that to 3,600 tonnes per day in the first quarter 2019.

Please turn to Slide 12, and this slide highlights Cusi. And at Cusi, improvements are also planned in 2018 with the installation of another new refurbished mill, which is currently being installed. And this will allow us to increase production to climb from where it is at 650 tonnes per day to 1,200 tonnes per day starting in Q1 2019. The company continues to focus and develop the higher-grade, wider-width Santa Rosa de Lima zone as well as San Nicolas, and continues to ramp up production from this area while selectively mining structures in the older part of the mine.

Please turn to Slide 13. Slide 13 details exploration, the exploration programs. And it's important to note that exploration has been and continues to be a very important part of the company's growth strategy. We have committed significant resources and capital to grow the mineral reserves and resources for the company. Sierra Metals drilled over 114,000 meters in 2017 across 3 mines, and the investment was well-placed. Mineral reserves and mine lives were increased at Yauricocha and Bolivar. And mineral resources were also increased at the Cusi operation. The company highlighted several new discoveries in addition to extending the current mineralized zones, which speaks to the brownfield exploration potential at all 3 properties. In 2018 and subsequent to the cutoff dates of previous resource estimate, the company's drilled well over 100,000 meters across all 3 properties. And those, as mentioned before, have already led to discovery of several new zones, such as Contacto Oriental, Contacto Sur Medio zones; the extension of Cuye-Mascota depth; copper-molybdenum porphyry at Yauricocha; and in Bolivar's case, drilling has identified an extension of the Bolivar West zone and in Cieneguita; at Cusi, drilling has identified a 50-meter-wide, high-grade silver stock work zones within the Santa Rosa de Lima zone, which remains open at depth and along strike. Going forward, exploration will remain a key aspect of the growth plan at all 3 mines.

During Q3 2018, the company drilled 38 holes, totaling 9,074 meters at Yauricocha. Exploration drilling included 9 holes, 4,840 meters at various zones, including Escondida Norte and Cuye to explore the continuity and verify potential mineralization as well as from the 720 level of the Klepetko Tunnel, to define in potential sulphide mineralization zone at depth and ultimately define the existence of the copper-moly mineralized porphyry. Definition drilling comprised of 29 holes, 4,190 meters at Antacaca, Esperanza, Butz and Yoselin to define and determine the continuity of ore bodies and for information to help plan potential mining of these ore bodies.

Turning to Slide 15, please. At Bolivar, the company drilled 7,717 meters at El Gallo and within the Bolivar Northwest, Bolivar West and Cieneguita zones. There were also 615 meters drilled at La Campana, a new exploration target to explore potential copper and zinc skarn mineralization.

Slide 15, please. The theme at Cusi, the company drilled 1,322 meters to support the development of the Santa Rosa de Lima vein system and to verify the size and continuity of the zone. The company also drilled 5,247 meters from surface to define a portion of the San Antonio Pit and Santa Eduwiges as well as to explore continuity of the mineralization at depth of the San Nicolas vein near Promontorio. We are currently waiting asset results from recent drilling and are modeling the various zones. And we expect to be in a position to press release further results in Q4 2018.

With that, I now turn the call over to Ed Guimaraes, our CFO, for a financial update.

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

Thanks, Gordon. Good morning, everyone. Turning now to Slide 16. Despite lower realized metal prices, the company had a solid quarter with relatively strong revenues and adjusted EBITDA compared to previous quarters, aided by lower costs, stable throughput at the Yauricocha Mine and improving production at Cusi. The company has continued to be successful in maintaining positive cash flow generation from its 3 operating mines in order to reduce debt levels, fund required capital expenditures and maintain liquidity. The company remains focused on capitalizing on successful drilling campaigns executed during 2017 and continuing into 2018, which have resulted in new discoveries and significant increases to the reserves and resources at the Yauricocha, Bolivar and Cusi mines.

Incremental production growth is expected to be realized at all mines from the strategic allocation of operating cash flows toward growth-efficient capital in order to provide the infrastructure and scoping studies necessary to monetize the reserve and resource increases as quickly as possible. During Q3 2018, the company earned revenues of \$53 million, \$2.1 million higher than Q3 2017, as well as adjusted EBITDA of \$18.2 million and operating cash flows before movements in working capital of \$18.1 million. During the third quarter, the company realized slightly lower but relatively strong revenues and adjusted EBITDA compared to the previous 2 quarters. The all-in sustaining costs during Q3 2018 trended significantly lower than the previous quarters as consolidated throughput and metal production increased.

In Q3 2018, the company earned net income of \$1.9 million compared to a net loss of \$6.5 million in Q3 2017 or \$0.01 per share on both a basic and fully diluted basis compared to negative \$0.04 in Q3 2017. A large component of the net income for every period is the noncash depletion charge in Peru, which was \$2.6 million for Q3 2018 compared to \$9.9 million in Q3 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 noncash depletion charge in Q3 2018 was due to the 134% increase in proven and probable reserves reported in the company's latest NI 43-101 Technical Report, which was issued in October of 2017.

Higher revenues are primarily attributable to the 6% increase in throughput, the increase in copper and gold head grades and higher recoveries for all metals, except gold at Yauricocha when compared to Q3 2017. The 2% increase in throughput, higher head grades and recoveries of all metals, except silver, resulted in Bolivar's revenues being 19% higher than Q3 2017. And the 316% increase in throughput and higher silver head grades resulted in Cusi's revenues being 135% higher than Q3 2017.

Adjusted EBITDA of \$18.2 million decreased 3% compared to \$18.8 million in Q3 2017. The decrease in adjusted EBITDA was due to the decreases in the price of silver of 12%, copper, 5%; lead, 13%; zinc, 16%; and gold, 6% in Q3 2018 compared to Q3 2017, which negatively impacted the company's revenues. Cash flow generated from operations before movements in working capital of \$18.1 million decreased 17% when compared to \$21.8 million in Q3 2017. The decrease in operating cash flow is mainly the result of lower gross margins realized due to the decline in metal prices in Q3 2018 compared to Q3 2017.

I would now like to review our cash flows in more detail. I have summarized some changes in cash during Q3 2018 on Slide 17. During Q3 2018, our operating cash flows before movements in working capital were \$18.1 million. We had positive working capital adjustments of \$10.5 million. We paid \$6.3 million taxes in Peru. We invested \$10.1 million on capital expenditures in Mexico and Peru. We paid \$9.2 million in principal repayments and interests on our credit facilities in Peru and Mexico and paid dividends to noncontrolling shareholders of \$0.7 million. We also had proceeds from the issuance of loans and credit facilities of \$5 million. These increased -- these items increased our cash balance from \$21.8 million as at June 30 to \$29.1 million as of September 30, 2018.

Looking now at Slide 18. Along with the strong operational results during the quarter, the company's solid cash flow generation allows the company to be self-sufficient and fund its brownfield exploration and capital projects as well as reduce debt levels. During Q3 2018, the company invested \$1.7 million on sustaining capital expenditures, mostly consisting of purchases of equipment and concentrator plant improvements, and \$8.3 million on growth capital expenditures, consisting mainly of \$1.2 million of brownfield exploration drilling, \$2.4 million of mine developments, \$2.3 million of plant enhancements to increase throughput and \$2.2 million on the Yauricocha shaft and tunnel projects.

The company's focus for 2018 remains on allocating operating cash flows towards sufficient growth capital to provide funding for the significant capital expenditures planned in 2018 as well as mine development, plant improvements, infrastructure work on mine shafts and tunnels as well as the recently completed PEAs and feasibility studies underway, which are 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 has principal payment obligations on its loans and credit facilities of approximately \$9.9 million to be paid in 2018, \$22.5 million to be paid in 2019 and \$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.

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

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



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jake Sekelsky of Roth Capital Partners.

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

It looks like there's been some good progress on moving your culture towards the 3,600 tonne a day run rate in 2019. Could you maybe just speak to the remaining permits required there and time lines for them?

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

Well, thanks, Jake, for the question. Right now, we're in the process of submitting all of our details to the local government agencies. We've got the first review that has been handed back to the government agencies. We're waiting on their response back. Time line in Peru varies. It depends on who you're dealing with. We're expecting a response back within 15 working days from the government group on the EIA and the Environmental Impact Assessment. And that will follow through perhaps with another round of questions from their end and will carry on. So I'm expecting that timing-wise, I would say it's somewhere around the end of the first quarter, we should see something from the government agencies on the EIA.

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

Got it. And at Bolivar, you mentioned that production was obviously impacted by the rainy season. Can you just provide some more color on this? And maybe just quantify the impact of the weather during the quarter?

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

Basically, the rain events caused a great deal of turmoil in the whole area. It was a cyclone that went through the western coast of Mexico. We were impacted, as other operations were also impacted. But one of the important things to realize is that with all of this rain event that occurred, we only lost 1.5 days of production in the operation. We -- a lot of the roads had to be cleaned up and refurbished. We had a failure of a dam that we used for freshwater for the mill, so we're in the process of rebuilding that.

The most important thing that occurred is the work that preceded the tailings facility that we have, we had a whole series of diversion canals, and everything worked like a charm. We didn't lose any issues with regards to tailings, which was a real concern with weather like that in Mexico. And we're in the process right now of feeding the mill with water coming from one of the fault zones in the mine as well as to reclaim water ponds in the main tailings facilities. But we're on catch-up mode right now.

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

Yes. I would like to complement what Gordon said. We also have managed to install 3 new freshwater pumping stations in the nearby stream, so we have additional freshwater for -- to sustain our operation while we fix the water storage facility.

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

Okay. And I just want to clarify. Did you say that you only lost 1.5 days of production?



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

Yes. That's why we were down. The mill was shut down for 1.5 days.

Operator

Your next question comes from the line of Lee Cooperman of Omega Advisors.

Leon G. Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

I actually have 4 questions, if I can just get them out. One, what is your CapEx plans for this year and next year? Two, do you have any EBITDA guidance for this year and next year? Three, there's a lot of talk over the last year about Yauricocha being -- the drilling there possibly leading to a so-called elephant. Is it too early to tell whether we have an elephant there? And how much more drilling do you have to do to determine whether it's just an ordinary find or something that you guys will qualify as an elephant? And fourth, I'm a little confused. The Arias fund 1, was the largest shareholder. I thought they had an obligation to distribute at the end of October, and I'm just wondering if you have any insight into what they've done with their stock and what their plans might or might not be. So those 4 questions. Any help you could be, would be appreciated.

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

Thanks, Lee. I'll address the first 2 questions you had, and then I'll pass it over to Gord, and then Igor can touch on the fourth question that you raised. In terms of our CapEx plans, we're on track as far as our 2018. We should be coming in around \$50 million. We haven't finalized our 2019 plans yet -- or budgets, that's why we're -- I'm in Lima this week, and we're working towards that.

In terms of EBITDA guidance, we don't necessarily comment on EBITDA. It hasn't been established for 2019 yet. And 2018, with 3 quarters of the year complete, I think it wouldn't take much based on production and just assumptions for metal prices to get you to a year-end figure. With that, I'll turn it over to Gord as far as the porphyry.

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

Thanks, Ed. Thanks, Lee, for the question. So in the case of the porphyry or the potential porphyry site, this mineralized zone is a zone that was known to the company prior to us showing up here. This was basically discovered in the earlier part of 2000. Some other companies came in and looked at it on the 720 level. And since we started the drill program in the Cuye zone, we noted that we had the presence of molybdenum in our assays. That highlighted the interest to go back and have another look at the main porphyry zone. So that one drill hole that we drilled, we drilled 1,300 meters, and we drilled right through what we believe was a part of the porphyry zone. I'm not sure now exactly if we're in the site and the height and the halo or we're in the center. So there's a drill program that's forthcoming that's going to define -- we're going across the structure. Three holes are planned in the future. Does that clarify things a little?

Leon G. Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

I thought you guys referred to what you have as an elephant. Or you still don't know the answer?

Igor Alcides Gonz  les Galindo - *Sierra Metals Inc. - President, CEO & Director*

Yes, I'd like to add a little bit on what Gordon said. When we found this drill hole, it's a system that's completely different to what we have seen in Yauricocha to date. In other words, in Yauricocha, we had all sites. We have some sulfides, polymetallic ores. Now this is a pure copper-molybdenum sulphide ore. That's what we have seen in that drill hole. So it's a complete different animal. In order to verify whether it's an elephant or not, I think we need to complete this hole, but it is definitely a porphyry. There's 900 meters of continued mineralization that's -- it's not definitely a structure.

It's a disseminated deposit. And now what we need to do is we need to add value by drilling and defining the sites and the quality of the resource. And we're doing that precisely as we speak. We continue our drilling programs, and we'll have more news for you in, I don't know, in the next quarter or so.

Regarding your fourth question, just like you mentioned, we have the same information regarding fund #1 from Arias Resource fund. And to date, we don't have any official information from the fund what was the outcome of their -- the fund #1. So unfortunately, we cannot comment on the outcome of what the fund decided to at the end.

Operator

Your next question comes from the line of Mark Reichman of NOBLE Capital Markets.

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

First, I guess, I'd like to acknowledge the strong operating results and solid execution, which was a real differentiator during what's been a challenging quarter for mining. But first, I thought I'd ask about the first stage expansions, those seem like those are pretty much running on plan. Visible growth from that. But how are you thinking about the second stage plans for growth? For example, getting Yauricocha to 5,500 tonnes per day in 2021. Could you talk a little bit about kind of now that you're pretty close to the first stage expansions, and you're starting to kind of turn your attention looking further out, what are your thoughts around the second stage expansions and how those tie into your exploration efforts and the preparation of the PFS and feasibility studies?

Gordon J. Babcock - Sierra Metals Inc. - COO

Thanks for the question, Mark. As we're focused right now on the details of the pre-feas and the feas and the life of mine, we're in the process we have to work through the Peruvian government, in the case of Yauricocha, in our permits and so on. So there's always the interesting factor with the Peruvian government in how they move and how fast they are or slow, in our case. But basically speaking, our next focus is to get the operation up to 3,600 tonnes per day. Once the permits are in hand, and then we focus on improvements to the plants, improvements in our operating development plan to move forward.

So one of the key issues for us is to terminate the shaft project to get the mine in a position that we have placed in capacity to move the operation from where it is today to a higher production rate. So those -- that's the main driver here, and we're in the process for next year, we're going to do some improvements in the infrastructure in the mine. We made the improvements to the Mascota shaft, so that's going to be finished. We're going to be operating on Monday. So that was a positive move. And with regards to our plans moving forward, we have to move waste out of the mine. We have a complete overview on both handling facilities, for our tailings dams. So all of these things are coming into place, and we're going to see an organic growth in the next few years. But the key thing for us is to get the hoisting capacity up. We've got the tunnel complete. And in the future, we're going to be adding 3 new locomotives to our haulage fleet on the 720 level. And we'll be in a position to move well over 9,000 tonnes per day of ore and waste out of the operation. But without a shaft, that's going to be a problem. So that's basically where we're at.

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

I'd like to complement Gordon's response. In our current expansions in -- especially Mexico, we're doing the expansions with our own resources, meaning local engineering, refurbished equipment and local contractors and our own people to help out with the project. And of course, for us it's the most efficient way to deploy capital. When we look to the next level, which is the 5,000 tonnes in Bolivar, 2,700 in Cusi and 5,000 in Yauricocha, now we have to do -- it's a different level of expertise that we need. We'll have to do feasibility studies. If the feasibility study will include power -- new power requirements, new water requirements, tailings disposals long term and the plans -- the design itself on all the tie-ins. So that requires a lot of engineering, and we'll go slowly. We're going to hire an external engineer house to do the feasibility for us. And of course, that's going to



be first stage. And then we have to go to basic engineering and then detailed engineering in order to determine the size of what is the best size of the expansion and the capital cost and schedule so -- and then to present it to our board for approval. So those are the next steps.

For the larger expansions, I think we cannot do them we've been doing the smaller expansions. It requires a different level of expertise and involvement. So that's, in essence, what we'll be doing for the large expansions.

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

Okay. Appreciate that. And then, I guess, nearer term, on Page 10, where you talk about defining the higher-grade ore resources at Bolivar West and Bolivar Northwest, which are expected to come into the mine plan by the second half of 2019. And then you've got kind of a short-term strategy with El Gallo. Can you talk a little bit about how you see that transitioning? I think that's a question for Gordon.

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

What we plan for next year, Mark, is to -- sure. The plan for next year is we're going to incorporate that into the mine plan, the Bolivar West, Northwest. And we're going to terminate the ramp and access it. And there'll be some other developments as well that we're going to highlight and share with everyone. We've got a tunnel that's planned from the milling complex into the mine. So there's a series of different development plans that we're structuring to move forward. But we're going to -- our target's to try and get there next year.

Operator

(Operator Instructions) Your next question comes from the line of Jim Young of West Family Investments.

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

A couple of issues to explore here. First off, can you just help us understand, when you think about the capacity additions or the growth initiatives at all 3 mines, what do future cost trends look like going forward? Will you -- I guess, what I'm just trying to understand, are you going to -- how much of a benefit of scale will you realize as you expand Cusi from 650 to 1,200 or you get Bolivar at higher levels as with Yauricocha?

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

That's precisely why we're oriented to do the feasibility study. At the feasibility study level, we're going to analyze several options for the expansions, what's the best option for our capital deployment. And for example, as you mentioned in the case of Cusi, our initial invention, based on the PEA work, is to do the -- a modular plant expansion right at the mine site. Well, the feasibility study is going to review that and see what's best for us in terms of capital deployment, where that this molybdenum should be there or should we move everything closer to the current mill site, et cetera. So those are the types of things that the feasibility study will study for us.

The other element, which is very important is water availability and power. So that's the sort of thing that we need to come to terms at the feasibility study level about the level of costing and the effort that were required to get to these new levels.

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

Yes. I guess, with a little more specificity, though, Igor, or maybe Ed could chime in here, is that your cash cost per tonne processed for the third -- kind of 3 months ended September was \$48.43. And what I was trying to get a sense of is, are you looking at that number to stabilize, to go to the mid-40s, low 40s or high 30s as you get to a more normalized run rate as you have all of these 3 mines expand their production?



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

Thanks, Jim. I'll just chime in a little bit on that one. As we get volume increases, we should see a trend towards lower cost, given our fixed -- the fixed components of the operating costs. But I'm not prepared to say how much, but just to say that depending on the production increases, you should be able to extrapolate those expansions and tie that into your costs. But we're not anywhere near to determining what those costs are. As I've mentioned, we're still -- until completion of the feasibility study.

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

Okay. So I'm hearing that after the feasibility studies are completed, then you'll have a better sense, and you can share with us the future cost executions going forward.

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

That's correct.

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

That's right.

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

Okay, great. And then moving over to Gord. Gord, could you talk a little bit more about some of the exploration activity that you're -- have ongoing like, for example, at Yauricocha, there's a lot of discussion about the Cuye area. We had a very deep drill that was completed. Have you been continuing to conduct further delineation drilling in that area? And if so, can you share with us what your initial findings are about the Cuye zone?

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

Thanks, Jim. With regards to exploration at Yauricocha, one of the highlights is we've been targeting the area of Cachi Cachi. We have a zone where there's a Brecha. And we have also that the discovery of some other smaller zones, which were basically fingers in the upper part of the mine now that blossoming out to the larger zones. So those drilling programs are still ongoing. So Cachi Cachi, carrying on with the same program.

We drilled under the Central Mine zone. We drilled one hole under the Catas zone, and we've got 2 more to drill in that area. So we're highlighting the Central Mine zone. We're looking to confirm our inferred resources in that area.

In the case of Cuye, we've terminated the drill program at Cuye, and we're carrying on with the drill program in talking about the area around Cuye. Remember that the highlight for this porphyry, the identifier was the moly that showed up in the Cuye holes. So then that prompted us to go after the drilling in that porphyry zone. So we're going to carry on drilling in the porphyry, as we mentioned to Lee before in his question. So that's going to carry on. So we're basically at November 13 right now, and we're terminating these programs. Definition drilling is working well. We're defining the zones and highlighting some other areas that always come in, in these small, high-grade ore bodies, these just Cuerpos Chicos. Is that clear?

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

Okay. Then lastly, at Cusi, can you just share with us, as you have been defining the Santa Rosa de Lima ore body, how the quality of the ore at Santa Rosa de Lima has changed as you go from different levels and you're getting deeper into the structure?



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

Okay, Jim. In the Santa Rosa de Lima complex, it's a classic epithermal deposit. And in the upper part of the deposit, we have variable ore zones. And as we go deeper, the grade quality is improving. We have that stockwork area that was identified some -- a few months ago. So that's bringing us some constant mill feed. And the whole operation team now, they're running -- as they're going through these processes, they're determined where the zones are, and they've got an incorporated drill definition program on its way. And that will help them move forward as we go our operational increases at the site.

Also, in our drilling program at Santa Rosa de Lima, we drilled half Santa Rosa de Lima, and we're going through the structure called San Nicolas. So that's another plus. So that's been very encouraging, the drilling in that area as well.

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

To complement what Gordon has said on Cusi. As you know, we have these stockwork, but we're also developing the sublevels for the long-haul mining that -- which is probably the structure. We have 2 sublevels already developed, and we're working on the third one. And of course, the method itself of the loan growth is selective in terms of just mining the structure in lieu the good orientation in the drill hole. So that's what we're doing now. We're trying to drill and blast and secure ore for the plant from the long-haul operation. And we will have also the ore available from the stockwork.

Operator

There are no further questions in the queue. I will turn the call back over to Michael McAllister.

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

Thank you, operator. That concludes today's call. On behalf of the management team, I would like to thank all the participants for joining us today. A replay of the webcast and all materials can be found on our website at 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 the presentation as well as on the company's website. Thank you.

Operator

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

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