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PRESENTATION

Operator

Good morning. My name is Lisa, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Sierra Metals Q1 2019 Consolidated Financial Results Conference Call. (Operator Instructions) Thank you.

Mike McAllister, Vice President Investor Relations, you may begin your conference.

Michael McAllister - Sierra Metals Inc. - VP of IR

Thank you, operator, and good morning, everyone. Welcome to Sierra Metals Q1 2019 Results Conference Call. On today's call, we are joined by Igor Gonzáles, our President and CEO; Gordon Babcock, our COO; and Ed Guimaraes, our CFO.

Today's call will be followed by a question-and-answer period. Today's accompanying presentation is available for download through both the webcast and through the company's website at www.sierrametals.com. Yesterday's press release, the financial statements and the management discussion and analysis are 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 a 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 the Form 40-F on the company's website.

Please note that all dollar amounts mentioned on today's call are in U.S. dollars, unless otherwise noted.

I would now like to turn the call over to Igor Gonzáles, our President and CEO. Please go ahead, Igor.

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

Thanks, Mike, and good morning, everyone. I will begin the call on Slide #4 with some highlights from our consolidated results for the first quarter of 2019. After that, we will open up the call for questions, where myself, Gordon Babcock and Ed Guimaraes will be happy to answer questions.

Turning now to the highlights. Sierra Metals faced several challenges in the first quarter of 2019, including an illegal strike at our Yauricocha mine as well as slower-than-expected ramp up at Bolivar and Cusi, and also experienced lower head grades and recoveries. However, the company has continued to be successful in maintaining positive operating cash flow generation in order to reduce debt levels, fund capital expenditures and maintain liquidity.

Revenues from metals payable in Q1 2019 were \$49 million with \$12 million of operating cash flows before movements in working capital on consolidated throughput of 568,401 tonnes and metal production of 4.0 million silver equivalent ounces or 21.8 million copper equivalent pounds or 50.6 million zinc equivalent pounds. The company reported a net loss attributable to shareholders of \$0.01 per share.

Looking onto Slide 5. You can see that, on a consolidated basis, we still had a relative solid quarter of operating performance with a 2% increase in total tonnes processed as well as an increase to the production of silver, lead and gold, with minor decreases in copper and zinc pounds produced. Despite the challenges we faced during the quarter, we still saw an increase in zinc equivalent production at Yauricocha, record throughput at Cusi and a 1% increase in throughput at Bolivar over Q1 2018.

Turning to Slide 6, and taking a closer look at each mine now. Yauricocha, so throughput reduced by 14% in Q1 2019 versus Q1 2018 as a result of the illegal strike which took place at the mine. I'm happy to report, however, that the strike had -- was resolved on April 12, 2019 but resulted in 12 days of lost production during this first quarter. However, management expects that the company will still be within the annual production guidance provided. Also as noted previously, the higher head grades and recoveries of all metals except gold head grades resulted in a 3% increase in zinc equivalent pounds produced during Q1 2019 compared to Q1 2018.

Cash costs of \$0.54 per zinc equivalent payable (sic) [payable pound] were lower at Yauricocha this first quarter over the same period in 2018. But there was a slight increase in all -- in the all-in sustaining costs to \$0.85 per zinc equivalent payable pound during Q1 2019 compared to Q1 2018 primarily due to the increase in treatment and refining charges related to the zinc concentrate produced. Despite the illegal strike, 2019 still represents a critical year for project improvement and exploration at Yauricocha. We received our environmental impact assessment permit for the mine to complete the next level of the tailing deposition facility, and we have begun planning and are waiting for our construction permit for this facility. We're also continuing to sink the Yauricocha shaft towards that 1270 level, which will provide access to further reserves and resources at the mine with loading pockets to be added on the 1210 level and a spill pocket to be added on the 1230 level. Work will also commence on the ramp connecting the 920 level with the 720 level of the Yauricocha mine, providing for an additional 10,000 tonnes per month of increased capacity to move ore and waste from the mine.

Finally, we continue to work towards the completion of a life-of-mine and also an updated NI 43-101 Technical Report for reserves and resources at Yauricocha expected by mid-year 2019.

We are confident that we have the right team in place to manage these projects and the planning needed to see projects and exploration programs move ahead as planned.

Turning now to Slide #7. At Bolivar in Q1 2019 compared to Q1 2018, we saw a 14% reduction in copper head grade with a slightly higher gold and silver head grade.

We did however experience improved copper recoveries and increase in throughput. But overall, we saw a 7% decrease in copper equivalent pounds produced. Cash costs were higher at \$2.04 per copper equivalent payable pound. And all-in sustaining costs were also higher at \$3.59 per copper equivalent payable pound in Q1 2019 versus the same quarter in 2018. This is attributable to higher labor and contractor costs incurred related to stope and ramp development in the mine, which are required to increase the throughput at the mine to the 3,600 tonnes per day and subsequently the 4,000 tonnes per daily level.



Additionally, we saw an increase in sustaining capital expenditure of \$3.6 million related to the purchase of mine equipment, development costs, exploration drilling within the mine and plant improvements needed to reach production rates of 3,600 tonnes per day and subsequently 4,000 tonnes per day level, which is expected to occur in the second half of this year.

Exploration continues to be successful at Bolivar. And on April 3 of 2019, the company reported high-grade mineralized extensions to the Bolivar West Zone, called Extension West.

Four drill holes were executed in an area highlighted by a Titan 24 Geophysical Survey previously completed. The result was the identification of new, wide, higher-grade copper structure, which extends the continuity of the Bolivar West Zone approximately 500 meters apart.

Average grade of the intercepts were 1.15% copper with 2.09% copper equivalent, with an average true width of 8.2 meters was noted. Development and infrastructure improvements will continue at Bolivar in an effort to push the mine to the 4,000 tonne per day level in the second half of 2019. Additionally, a life of mine plan is nearing completion and we expect to have an updated NI 43-101 report for the Bolivar mine during Q4 2019.

Turning now to Slide #8. During Q1 2019, Cusi's record throughput increased 165% to the 815 tonne per day level as the company continues working towards the 1,200-per-day (sic) [1,200 tonne per day] level during Q2 2019. The increase in throughput resulted in a 64% increase in silver equivalent ounces produced despite the lower head grades and recoveries realized for all metals.

We continue development into the deeper levels at the Santa Rosa de Lima, which has higher grade -- head grades.

Cusi cash costs per silver equivalent payable ounce was \$16.53 in Q1 2019, which was lower when compared to Q1 2018. However, the all-in sustaining cost of \$30.57 per silver equivalent payable ounce in Q1 2019 was slightly higher when compared to Q1 2018.

The increase in all-in sustaining costs was primarily due to higher sustaining capital expenditures as a result of investments made in the concentrator plant in order to reach the 1,200 tonne per day level expected to take place in Q2 2019.

Development and infrastructure improvements will continue at Cusi in an effort to push the mine to run at the 1,200 tonne per day level in the second half of 2019. Additionally, a life-of-mine plan is near completion, and we expect to have an updated 43-101 Report for the Cusi mine during Q4 2019. Furthermore, additional plant improvements during Q3 2019 will include the installation of an additional ball mill as well as the installation of new tank cells to improve flotation, both of these are needed to push throughput at Cusi to the 2,400 tonne per day level expected to occur in early 2020.

Sierra Metals remains at an inflection point. We continue working to improve our per share value and continue to work to be profitable at today's metal price by improving head grades and recovery rates, which in turn will help lower costs. The company's financial position and liquidity remain healthy and the board and the management team are committed to invest in its operating mine to improve future cash flows. We are continuing with our aggressive exploration programs with a goal of adding additional reserves and resources and extending our mine life.

The company continues to have a solid financial position and the liquidity to support our growth programs, which always represent a very prudent use of capital and provide for an excellent return on investment for the company and its shareholders.

With that and looking at -- now at Slide #9, I would like to review our cash flows in more detail. During Q1 2019, our operating cash flows before movements in working capital were \$11.8 million. We had negative working capital adjustments of \$1.3 million, we paid \$8.9 million in taxes in Peru, we invested \$11.3 million in capital expenditures in Mexico and Peru and we paid \$8.7 million in principal repayments and interest of our credit facilities in Peru and Mexico.

We also had proceeds from the issuance of loans and credit facilities and notes issued of \$20.7 million, leaving us with a cash balance of \$23.9 million as of March 31, 2019.

On Slide 10. Sierra's board and management team do not believe that the current stock price reflects the value of the company and initiated a normal course issuer bid in December 2018 with a 1.5 million share target. To date, the company has repurchased and canceled a total of approximately 907,266 shares at an average VWAP CAD 2.04. During April 2019, the company was able to take advantage of the block exception rule and was able to purchase a block of 800,000 shares at a price of CAD 2.02 per share. The company has been in blackout period since April 15, 2019, but subsequent to the normal course issuer bid announced in December 2018, the company has entered into an automatic share repurchase plan with its designated broker, CIDC, allowing them to purchase shares of the company at times when Sierra would not be active in the market due to insider trading rules or in a blackout -- in blackout periods.

The company is in good financial health and we maintain a strong balance sheet with \$24 million in cash.

Our total debt was \$69 million at the end of Q1 2019, with a net debt of \$45 million. During Q1 2019, the company announced the closing of a \$100 million senior security (sic) [secured] corporate credit facility in March. The facility has a 6-year term with a 2-year grace period and has a rate of LIBOR plus 3.15%.

This facility will provide the company with additional liquidity and will offer financial flexibility to fund future capital projects in Mexico as well as working capital requirements.

Company will also use proceeds of the corporate facility to repay existing debt in the near term. Subsequent to the end of the first quarter, on May 9, the company repaid the remaining \$33.2 million existing on the Corona acquisition facility with BCP and the \$15 million existing on the revolving credit facility with BCP after drawing funds from the senior secured corporate credit facility.

For 2019, the company remains focused on allocating operating cash flows towards efficient growth capital to provide funding for the significant capital expenditures planned this year. Management will continue to review metal prices and retain the option to adjust the capital expenditures should metal prices experience any dramatic changes within the year.

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

Michael McAllister - *Sierra Metals Inc. - VP of IR*

Thank you, Igor. That ends the presentation portion of this call. We would now like to open up the call to questions from our participants. Operator, if you could please open the lines.

QUESTIONS AND ANSWERS

Operator

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

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

It looks like cash costs were somewhat elevated at Cusi during the quarter and all-in sustaining costs for that matter, as well. Should we expect these to moderate as you develop deeper into the higher-grade Santa Rosa zone and throughput increases in the second half of this year?

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

Yes, we do.



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

Go ahead, Gordon.

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

. Yes. Yes, we do. Just to elaborate, the development program has been in place now. We have a new contractor. So the access to the lower portion of the Santa Rosa, the Lima area, is going to happen a lot sooner than originally expected. So as soon as we get through these zones and then prepare the stopes for mining, we'll be able to see some increases in our head grades going into the mill at Mal Paso. So the objective right now, we've already started to see changes in our head grades.

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

Got it. So that's something we could see towards the middle or end of both Q2, early Q3.

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

Yes. The objective is to produce more silver ounces, and that's the target.

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

Okay. That's fair. And then just at Yauricocha, you received the permit for the new tailings facility. Is there a time line for that last permit to come in to reach 3,600 tonnes a day?

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

The 3,600 tonne per day timeline is based on a series of different events. Number one, we have -- the EIA has been completed in that -- and that enables us to construct the tailings dam extension. Prior to the 3,600 tonne per day, there are more requirements. We're going need to work on the expansion of our waste handling facilities, we're going to need to add to the footprint of the tailings facility. So basically speaking, all these other items have to come into play first, and then we can jump up to the [AI] -- the increase to 3,600 tonnes per day.

I don't know if I'm clear, but that's where we're at.

Operator

Our next question comes from the line of Heiko Ihle from H.C. Wainwright.

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

Your sustaining capital at Bolivar during the quarter was pretty high at \$4.2 million. Can you just sort of provide us more of a breakdown than what the MD&A provides? Because all it really says is related to the purchase of mining equipment, mine development costs, exploration drilling within the mine and plant improvements. Can you just sort of break that out with a little bit more detail, please?



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

Yes. Sure. I will start the response, Heiko. And then Gordon will -- Gordon and Ed will go into further details. Yes, it has to do with the additional mine equipment. Gordon will mention, for example, the scraper and so forth.

And also we are installing, for example, a new filter at the mill and a new fine ore bin and some flash location cells. So go ahead, Gordon.

Gordon J. Babcock - Sierra Metals Inc. - COO

Yes. Okay, As Igor was mentioning, we purchased the scalar. As you know, the Bolivar Mine is -- from your trip, Heiko, it's pretty high in the stoping complex. So we've got a scalar [now] that came from Cannon equipment that was approximately -- a little bit over \$600,000 for that. We've installed a new filter press for filtering our concentrates. We're in the process right now of commissioning that. We're working on the fine ore bin, which is an extension to the 2 ore bins that we have in place now. We're adding another larger one. So that, that fine ore bin, the future plan is to that -- that ore bin is going to be feeding the 12.5 x 16 mill. We've installed the whole flotation backup system with these flotation flash cells. We've got 3 flash cells, we've got 2 installed already and we're in the process of adding the automation for it and we're going to be adding the third flash cell.

So the idea is all of the mill circuit, all of the flotation will receive product after the flash cells. So we're going to be able to create some concentrates straight off the top of those flash cells and then the rest of the circuit will have much more residence time, we'll be able to pick up recoveries in that sense. We've also installed a series of cyclone towers, plus we've added more pumps to the circuit. And the big part is we pushed the development in the Bolivar West portion of the ramp, so we've accessed the upper part of the Bolivar West zone. And we're continuing with the development plans to push the bottom section of Bolivar West.

As well, development was hit hard in the [Gallo and Fierro] areas. So we are at the -- we were working on level #10; we developed level #11, which is downstream; and then level 12. So right now, we're doing development on level 12. So the development program is moving forward pretty quickly now. That's where the dollars are spent.

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

Very, very helpful and very colorful answer, I appreciate that. In the revised mine plans for Bolivar that you're expecting them soon. I'm not sure how many drafts and other items you hold or you're seeing. But I mean even that we'll see NI 43-101 by 4Q and by your own admittance in the release and the presentation you say, the mine plan is going to be done soon. I expect at least some of the things have already been seen. Is there anything in there that should surprise us, especially as it relates to mine life and costs?

Gordon J. Babcock - Sierra Metals Inc. - COO

No, Heiko. In fact, on the new 43-101 resource statement, we're going to see an increase in resources. I can comfortably say that. And I believe that our reserve is going to remain similar after we've deleted the production. So in essence, Bolivar is looking very promising as far as a long-term perspective. As we go to the west of the zone, we're picking up more silver and more gold values. So Bolivar is really starting to prove on to all of us that there's more opportunity here. So if you want to call it a surprise, it's a good one.

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

The reserves answer is actually more than I thought I'd get out of you, so thank you for that. And just this last quick question. I mean, this question hit me while Igor was talking about Slide 5 in your presentation earlier. And this is just conceptually, but I mean, given that multiples for precious metals firms tend to be quite a bit higher and where we're sort of in the buyers' market for those types of assets right now. (inaudible) currently derives 82% of its revenue from base metals and only 15% from silver and 3% from gold. Should we be shocked as you guys do some sort of M&A transaction that increases your precious metals ratio?



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

Heiko, I will answer a part of your question. Our precious metal production is steadily increase in -- by the ramp-up of Cusi. In other words, we're adding more silver ounces to our mix. And we are also getting into an area in Bolivar, which is Bolivar West, which has shown to have more silver and gold in its composition, more so than the [Gallo and Fierro]. So that's -- I guess, to answer the general question. And then I will let Ed and Gordon to respond in the detail.

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

Heiko, I think just to elaborate a little bit on what Igor is saying, I think our increases in precious metals are going to come from -- organically, going to come from both Bolivar and Cusi. And we're not anticipating any M&A activity to increase that -- our precious metal tonnes (inaudible). And at least in the near term, we're now -- we're focusing on building out our aspect that we currently have and meeting our expansion from it.

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

Heiko, I'll also concur with Ed.

Operator

Our next question comes from the line of Mark Reichman from Noble Capital Market.

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

Just as a polymetallic producer, I'd be interested in kind of hearing your thoughts on the state of the markets for each of the metals that you've produced. Your outlook on pricing, any nuances in the market between suppliers and producers. For example, you had the refining and treatment charges with zinc, with respect to zinc go up. But just kind of your overall outlook on those metals? And any issues that you see arising in the markets?

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

Mark, thank you for your question. I'll take this one on. In terms of -- I think you're seeing a little bit of a hit across all metals and -- given the U.S.-China tariff situation. But I think long term, copper and zinc -- in particular copper, the fundamentals really haven't changed that much. You are going to see some supply shortages. There are some mines coming on stream. But I expect copper to maintain above \$3 long term and zinc as well should see -- should maintain prices for the -- at least the next 2 to 3 years, at least that's what the market seems to be saying.

With gold, gold is really -- it looks like \$1,300 seems to be the -- that threshold mark. Long term, I think you'll see -- you'll maintain that. And silver should start to catch-up to -- I think silver is really out of whack still in terms of the gold-silver ratio. And silver should be probably up around the \$18 mark. But outside of that, I am confident, or at least the market -- what the market seems to be portraying, that fundamentally these -- the metals should remain solid.

Operator

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



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

I was wondering if you have any guides [that] you're prepared to give on EBITDA for 2019. Because we had been running in excess of \$100 million rate. And based upon the first quarter, we were below \$50. I realize it was some unusual circumstances. But do you have an expectation for your EBITDA for 2019? And I have some other questions as well.

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

Lee, thank you for your question. We don't give guidance on EBITDA, we haven't in the past. That's just been a corporate policy. There's just too many variables that can take place that it's not something we want to do.

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

Fine. Okay. Now -- and okay. I'm not surprised by the answer, fine.

Let me ask you a philosophical question. First of all, I understand you published an NPV of 428 U.S., stock is roughly a little bit more than 1/3 of that price. It's below the price you paid for the 1 million shares you bought back. Why do you assume in there 100% ownership of Yauricocha when you only own 82%? Why don't you give an NPV with your assumption of an 82% ownership is what you exactly have? Hello? Not a trick question.

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

Yes. No, it's -- we clearly state that everything's on 100% basis and that's just the way we account for Yauricocha. And then the minority interest shows up on that line. But I haven't...

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

What would the 428 be if you only used 82% of your ownership? Do you know? Because it leads to my next question.

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

The 428 should be the 82% interest. It should be -- that should be...

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

No. The footnote said -- the footnote says 100%, but maybe the footnote is misleading. Let me get to the real question. Your stock is a little bit more than 1/3 of asset value. It looks like you're planning a huge increase in CapEx this year, about \$83 million, including growth CapEx basically. Are you better off doing an abnormal course issuer bid and buying back some serious amount of stock and cutting back on CapEx? Because I don't think what you're drilling for has the same economics of buying what you already know at a material discount to what it's worth. Have you guys thought about that? In other words, the 1.5 million share authorization is nothing, it's 1% of outstanding shares. It's immaterial, probably not terribly different than your stock options or whatever for a year. But if you're able to buy back a material amount of stock with less than half of NAV or 1/3 of NAV, is that better than stepping up your CapEx dramatically? Have you thought about that?

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

Yes. We are limited to the number of shares we can buy, Lee. And that's just Canadian guideline...

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

That's only -- no, that's normal course issuer bid, there's another way of doing it through a tender offer and tender in a price range you're comfortable with for 5% or more of the company.

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

That applies in the U.S., not in Canada. That -- we can't do that under the...

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

You can do in it Canada, excuse -- you can. There is a -- it's not called normal, it's not called normal course issuer bid. It's something that gives you more flexibility, but it's in the form of a tender offer.

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

So that -- yes. And that's something that would have to be discussed at the Board level.

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

Yes. I understand. I'm suggesting that you might want to think about the economics of spending \$82 million, \$83 million when your stock -- every dollar you're spending is being priced at a significant discount in the market. Do you follow? In other words, you have a 428 NPV and the stock is trading, in the U.S. terms, I don't know, \$1.30, \$1.40, \$1.50, whatever it is. So you're 1/3 of NPV and every dollar you spend is being priced at a discount. So why not capture that discount by reducing the amount of CapEx and buying a lot more stock back through a tender offer? Just something to think about. You don't need to give me an answer now.

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

Yes. We'll do that, Lee.

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

Thanks, Lee.

Operator

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

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

Couple of items. First of all, at Yauricocha, have you received a permit yet to enable you to start drilling on the Chonta Fault area?

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

No. We have not received a permit yet.



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

What I would like to add, Jim, is that we have completed all the responses to all the agencies that are involved in that permitting process. And so now the ball is with the Ministry of Energy and Mines.

James Young - West Family Investments, Inc. - VP & Investment Analyst

Okay. Have they communicated at all what the issue -- are there any issues other than just a bureaucratic procedures or there's other issues that they feel that need to be addressed and followed-up with? And then lastly, when you do receive the permit, how long will it take you to start your drilling program at the -- on Chonta Fault?

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

Gordon?

Gordon J. Babcock - Sierra Metals Inc. - COO

I can take that call. I can take that piece. Listen, Lee -- pardon me, Jim. On the basis of all of our permits, all of the prerequisites that the Ministry of Mines have requested as well as the other entities like [Suriname], (inaudible), the environmental side, we've answered all of those questions. And right now, we're waiting for their responses to come back. And we're dealing with the Peruvian bureaucracy in this whole system. So it -- when we get the permits, we're actually ready to go. We've got 2 drills on standby ready to drill, 2 deep rigs. So as soon as that permit comes in play, we're on (inaudible) in the Killasca area, we're moving on that front. The road's access -- the accesses are ready, it's just a matter of getting the permit and we're ready to go.

James Young - West Family Investments, Inc. - VP & Investment Analyst

Okay. Great. And then moving over to the production side. Can you help us understand where are -- what are your current production levels at the Yauricocha mine today, Bolivar and Cusi? And where would you expect it to be by the end of this -- by the end of the year?

Gordon J. Babcock - Sierra Metals Inc. - COO

Well, in the case of Yauricocha, right now we're averaging between 3,200 tonnes per day to 3,300 tonnes per day. We do get peaks up to 3,500 tonnes per day. We have a forecast to year-end that was made public in the last discussion that we had when we were talking about the strike. In the case of Bolivar, as we speak now, we're averaging 3,600 tonnes per day and we do see bumps going up to 4,000 tonnes per day and the focus is to get to 4,000 tonnes per day in the next 2 quarters for Bolivar. In the case of Cusi, we've gone from where we were last year to approximately 1,000 tonnes per day and we do hit 1,100 tonnes per day. There's growing pains in both Bolivar and Cusi. We're in a ramp-up situation in the mine as well as the plant. So as we move forward and we make improvements, for instance, in Bolivar, the flash cells. In the case of Cusi, we added a new crusher to the circuit and we've got some series of improvements to -- that handling facility in the crushing plant with belts and speed reducers, things like that. So that's the focus. At year-end, in the case of Cusi, we're -- our target is to get to 1,200 tonnes per day. As soon as the new mill is on its way from Canada, that will be installed and that will be moving forward to make improvements to the crushing circuit for Cusi, for the Cusi plant, as well as more screening capacity, so we'll be in good position to take us to the 2,400 tonne per day mark for next year. That's the focus. And the improvement in grade in the mine as we get into new areas of the mine and we get a -- grade improvements, our target is to improve those silver ounces we produce.

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

Okay. Great. And Gord, is -- others have asked about the cost structure at the different mines. Can you give us -- can you help us understand as you move forward at like Yauricocha and continue to deliver at the 3,200, 3,300 tonnes a day before you're able to expand up to 3,600 tonnes. Can you give us a sense as to what the all-in sustaining costs will be by the end of the year? And likewise at Bolivar, if you're operating at 3,600 tonnes a day today, but you expect to get to 4,000 tonnes a day by -- over the next couple of quarters. Where would all-in sustaining costs be for Bolivar? And then lastly, similar question at Cusi.

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

Well, I think the answer to that question is the more -- in the case of Cusi, the more silver ounces produced, you'll see a reduction in the cost per ounce. There -- I -- what I don't follow with many of the comments is that when you're in a ramp-up situation and you're making a capital investment to improve the situation in an asset, a mining asset, the initial capital that goes into the ground, you can't look at that on the basis of a quarter. You have to look at that on the basis of 1 year or 2 year input. We're going into a process where we've taken a mine from 400 tonnes per day and we're moving up to 850 tonnes per day and we went to 1,000 tonnes per day and we're going to bump it up and we're going to double that to 2,400 tonnes per day. In order to do that, there's an influx of capital that has to go into preparing the operation for that steady state process.

It's the same thing that goes for Bolivar. Now in the case of Bolivar, we have a lot more tonnage, a lot larger area. So your bank for the buck is really well spent in Bolivar. When you do a ramp and you take it down another 10 meters or 20 meters, you're getting more pounds of copper available. I mean you have to mine that out. So that's going to cost you money. It's going to cost money in the sense of ventilation, preparation and so on.

In the case of Yauricocha, our focus right now for the next part of year with the forecast, with our losses of time with the strike, we've changed the forecast to encompass more material coming out of our Cuerpos Chicos, enhance our metal production. Our -- in our metal production, we're going to have more metal produced -- more than what we had budgeted. So that's how we're covering our course of action in Yauricocha. And the big focus for Yauricocha in the future here is a new pilot plan to improve the steel preparation, that's the installation of all the steel sets. We're going to add some new equipment, so we have to do a trial, do a pilot, a project and put it into a production plan and see how that fits, that's one area. We plan to run another pilot plan in utilization of a roadheader to do the development next to the ore zones and take us into the area of the Central Mine zone and Esperanza. As well we're on a focus to change the methodology of waste removal in the mine. As was discussed before, we have to remove 0.6 tonnes of waste to every tonne of ore to access our production. Now what we're planning to do is to run another pilot to keep a percentage of that waste in the mine. If we can do -- if that comes to fruition and it's successful, that means that we can add more tonnes of material going out of the mine to surface. Now that means we'll have a stockpile on surface in the future. Now once that -- that will give them -- the plant a lot more flexibility, so we'll be able to tackle things like high-grade copper and things like that we have in Esperanza.

Right now, everything depends on development. So all these 3 mines are based on that focus. So in this year and the next year, our push is to reduce our all-in sustaining costs. But when you look at the overview, you spend the money now and the years in the future, you've already spent that dollars. Your (inaudible) dollars have been spent and you're at a more steady state production of operation. It'd be more like our operations in Mexico. That's the target.

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

Right. And Gord, I truly appreciate the work that the management team has done and how well you've executed you -- as you are in this ramp-up phase, but that's why -- the question though is -- I'm just trying to get an understanding as you get to that scale, as production levels increase to the targeted range and you've already spent the capital, what would be all-in sustaining cost? So, for example, Yauricocha, in the March quarter, you reported \$0.85 in all-in sustaining cash cost for zinc equivalent pound. Where do you think that \$0.85 goes when you hit -- when you get up to that 3,600 tonne per day level that you're expecting to get to by the -- once you get your permits and everything is all squared away?



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

Well, I am optimistic that it's going to reduce. That would be the focus. To give you an exact number, there are other elements in here that are moving targets. So #1, one of our biggest problems we have in the Yauricocha operation as well as the Mexican operations is all the steel preparation and development. That's a big focus in every operation. So once that is in play, we have to -- we're in the process now of reviewing all of our human resource requirements for these assets. We want to run the Yauricocha mine with less people, more productivity and more mechanization. And that's going to -- there's a time line there that we have to consider when that happens. And I'm optimistic that when that happens, our cost of labor will slowly come down. Now we do have a union, so we do have the prerequisites of a union and I was looking at salary increases and things like that to consider. But the long-term focus is to change the methodology in the operation, get more tonnage out of the areas that we're mining now with the same or less people, that's the focus. On the steel preparation plan that allow us to do that.

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

We cannot predict what the cost is going to be, Jim. We can say it's going to be lower and there's too many variables right now that -- as we expand the operations that can impact the cost and it will be irresponsible for us to say it's going to be this much and then miss the boat.

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

Well, I understand that we can't -- you're not going to be able to give us an exact number. But can you just give us some order of magnitude? Because again, at Bolivar for example, you're at \$3.59 per copper equivalent pound in the March quarter. So again, as you're -- as Gordon said, that if you're now operating at 3,600 tonnes a day, [you're] -- and you're going to get to 4,000 tonnes a day by the end of the -- over the next couple of quarters. There's got to be some sense of magnitude as to where that number goes, where [it can be able to be] helpful for us?

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

We -- Jim, we run forecasts every 3 months or so. Our next forecast is coming in June and then we'll have some updated numbers for internal use. And maybe at that point, I can give you a -- something very, very general. But it's very difficult and that's the reason why we run forecasts because we budget and then as many things move, like the strike or costs or labor, then costs start moving in different direction. So that's something we got to bear in mind. And -- but we do forecasts on a regular basis and -- in order to precisely -- to ascertain the impact of the different variables in our costs.

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

Okay. And then I guess the last question would be, Gord, you were kind enough to give us a sense as to the (inaudible) 43-101 results that you'd expect to see, reserves staying flat but resources increasing. Can you give us a sense as to how you feel the -- I believe [that was for] -- at the Bolivar. How things are proceeding at Yauricocha, where you have that 43-101 coming up by the end of June?

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

Yes. In the sense of Yauricocha, Yauricocha will maintain its position in the resource bases. Our resource we're expecting will increase. As the resource increases, we have replaced the ore that we mined. So I'm expecting a similar situation to Bolivar. The work that was done to -- since 2017 to date, we've got a lot of expansion of zones. So in the case of Yauricocha, it's comfortable to say that Yauricocha is going to have a similar situation as Bolivar.

Operator

We have no further questions in queue. I'll turn the call back to the presenters for closing remarks.

Michael McAllister - *Sierra Metals Inc. - VP of IR*

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 today's presentation as well as on the company's website.

Thank you, operator. Please conclude the call.

Operator

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

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