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PRESENTATION

Operator

Good morning. My name is Christine, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Sierra Metals Q2 2019 Consolidated Financial Results Conference Call. (Operator Instructions) Thank you.

Mike McAllister, VP, 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 Q2 2019 Results Conference Call. On today's call, we are joined by Igor Gonzales, 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 accompanying presentation is available for download both through the webcast and from the company's website at sierrametals.com. Yesterday's press release, the financial statements and the management discussion and analysis document 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 results -- as reflected in the forward-looking information.

Additional information about the material factors that could cause actual results to differ materially from the conclusions, forecasts or projection in the forward-looking information and 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 Form 40-F on the company's -- or on the company's website.

Please note that all dollars 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 Gonzales, our President and CEO. Please go ahead, Igor.



Igor Alcides Gonzáles 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 second quarter of 2019. After that, we will open the call for questions, where myself, Gordon and Ed will be happy to answer questions.

Turning now to the highlights. The second quarter continued to build on the first and the company realized a solid quarter production. We continue to overcome the challenges we have encountered to this date, including lower metal prices and illegal strike at Yauricocha and a slower-than-expected ramp up of throughput at the Bolivar and Cusi Mine.

Despite these challenges, the company realized record consolidated quarter throughput during the second quarter, with record throughput at both the Bolivar and Cusi mines, which contributed to strong cash flows in order to reduce debt levels, fund capital expenditures and maintain liquidity. Furthermore, we continue to realize good returns on capital invested in our growth projects.

Revenues from metals payable in Q2 2019 were \$50.7 million, with \$12.8 million of operating cash flows before movement in working capital on consolidated throughput of 652,490 tonnes and metal production of 4.7 million silver equivalent ounces or 25.2 million copper equivalent pounds or 57.6 million zinc equivalent pounds.

Looking to Slide #5, you can see that on a consolidated basis, we still had a relatively solid quarter of operating performance with a 10% increase in the total tonnes processed as well as increases to the production of all metals except zinc. Despite the challenges we continued to face in the second quarter with steel, so increases in zinc, copper and silver equivalent pounds and ounces produced.

Turning now to Slide #6 and taking a closer look at each mine now. Yauricocha saw a throughput reduction. Throughput reduced by 10% in Q2 2019 versus Q2 2018 as a result of an illegal strike, which took place at the mine. I'm happy to report that the strike was resolved on April 12, but resulted in 12 days of lost production during the second quarter. However, we continue to make up production tonnage and management expects that the company will still be within the annual production guidance provided.

Higher head grades and recoveries for all metals except zinc resulted in a 4% decrease in zinc equivalent pounds produced during Q2 2019 compared to Q2 2018. However, the mine sustained its exceptional performance into July and the remainder of the year continue to look very promising despite the significant decline in base metal prices.

Cash costs of \$0.5 per zinc equivalent payable were lower at Yauricocha this quarter over the same period in 2018, but there was a slight increase in the all-in sustaining cost to \$0.86 per zinc equivalent payable pound during Q2 2019 as compared to Q2 2018. This increase was primarily due to the increase in treatment and refining charges related to the zinc concentrate produced as well as higher general and administrative cost due to higher labor costs.

Despite the strike, Yauricocha continues to be a solid performer for the company. Having now received a permit, we are currently working on completing the construction of the tailings dam expansion and continue with the Yauricocha sharp deepening with loading us spill buckets being added this year.

Work will also commence on the round 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 from -- waste from the mine.

These projects will enable us to reach the 3,600 tonnes per day level at Yauricocha in 2020. Additionally, recently received permits will allow us to drill new, high-value targets such as Doña Leona and Kilcaska from the surface and the drills are currently turning and we look forward for the first results in the coming months.

On July 30, we press released that the management team has revised the release date for the Yauricocha NI 43-101 Reserve and Resource Update to Q4 2019 in order to allow the company to include the results from additional drilling currently taking place at key high-priority targets as well as improve the quality of our resource and reserve at the Yauricocha property. We are confident that we have the right team in place to manage these projects and the planning needed to see this project and exploration programs move ahead of time.

Turning now to Slide #7. At Bolivar, in Q2 2019 compared to Q2 2018, we saw a 20% reduction in copper head grades offset by higher gold and silver head grades. However, we have experienced improved copper and silver recoveries and have record quarterly throughput, which will add to a 19% increase in copper equivalent pounds produced. Cash cost and all-in sustaining cost decreased from Q1 2019 but were higher in Q2 2019 versus the same period in 2018 at a cash cost of \$1.51 per copper equivalent payable pound and all-in sustaining costs were also higher at \$2.55 per copper equivalent payable pound. This is attributable to higher labor and contractor costs related to stope and ramp development, additional equivalent purchases, mine development costs, exploration drilling and plant improvements.

Bolivar did reach an average throughput of 3,700 tonnes per day and it's expected to reach 4,000 tonnes per day in Q3 and increase to 4,250 per day in the fourth quarter this year, with continued development and infrastructure improvements. Additionally, copper head grades are expected to improve during the second half as more ore is sourced from the Bolivar West zone.

Finally, we continue working towards an expected -- to release an updated NI 43-101 report for the Bolivar Mine at the end of Q4 2019.

Turning now to Slide 8. During Q2, Cusi again had a record quarterly throughput and realized an increase of 76% as compared to Q2 2018, increasing to 938 tonnes per day level as the company continued to work towards the 1,200 per tonne -- 1,200 tonne per day level. The increase in throughput resulted in a 41% increase in silver equivalent ounces produced, despite the lower head grades and recoveries realized for all metals.

The increase to 1,200 tonne per day had been slower than expected due to poor contractor performance, equipment availability issues, delays in development and stope preparations and issues with subsidence. We're actively working on these issues and we are changing to mining contractors who can provide their own equipment and significantly increase development to a level of 90 meters per month.

We are also focusing on the 1704 and 1720 levels of the Santa Rosa de Lima zone to provide ore with silver head grades of 175 gram per tonne. Work also continues enlarging the ramp size to 4x4 meters, allowing for larger trucks to haul more ore from the mine to the plant. With these changes, Cusi can reach the 1,200 tonne per day level of throughput and become profitable.

Cusi cash cost for silver equivalent payable ounce was \$16.49 and the all-in sustaining cost was \$25.67 per silver equivalent payable ounce, which was higher in Q2 2019 compared to Q2 2018. The increase in all-in sustaining cost was due to higher sustaining capital expenditures and lower silver equivalent payable ounces due to concentrate buildup inventory at the quarter end with high moisture content that wasn't shipped until after the quarter end. If the buildup of concentrate inventory during H1 2019 had been sold, it would have resulted in a -- in this all-in sustaining cost per silver payable ounce decreasing by \$5.5 for Q2 2019 and by \$4 for H1 2019.

The company expects to have an updated NI 43-101 Technical Report for the Cusi Mine during Q2 2020, which has been pushed back 2 quarters from the original estimate of Q4 2019. The reason for the delay is to include the results from additional drilling currently being completed at the mine to improve the quality and classification of the resource reserve contained within the NI 43-101 Technical Report.

Management is also evaluating a delay in the expansion of Cusi from 1,200 tonnes per day to the 2,400 tonnes per day to allow the company to stabilize operating rates at the 1,200 tonne per day level first, while increasing silver metallurgical recovery as well as improving dilution control and these were critical issues during the recent ramp up to 1,200 tonne in H1 2019.

Additionally, the revised NI 43-101 Technical Report will allow too for improved strategic mine planning, development and stope preparation. As such, the \$10 million of capital expenditures planned for 2019 relating to the plant and tailing dam expansions will be deferred until expansion timetable is redefined. It's important to note that the capital investment already made at the mine and plant during 2018 and the first half of 2019 were necessary to achieve the throughput increases to 1,200 tonnes per day, which is required to make the mine profitable at current spot silver prices.

Sierra Metals remains at an inflection point. We continue working to improve per-share value and continue to work to be profitable at today's metal prices, by improving throughput, 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 investing in its operating mines to future cash flows. We are continuing with our aggressive exploration programs with a goal of improving the quality of our resources and adding additional resources.

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

With that, I will like to review our cash flows for Q2 2019 in more detail. Turning to Slide #9. During Q2 2019, our operating cash flows before movements in working capital were \$12.8 million. We had negative working capital adjustments of \$4.1 million. We paid \$3.5 million in taxes in Peru and we invested \$16.7 million in capital expenditures in Mexico and Peru. We paid \$1.5 million to repurchase one -- to repurchase 1.1 million shares of the company. And we paid \$49.4 million in principal repayments and interest in our credit facilities in Peru and Mexico.

We also have proceeds from the issuance of our senior secured credit facility of \$78.6 million, leaving us with a cash balance of \$40.2 million as of June 30, 2019.

Sierra 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 1.2 million shares at an average VWAP of CAD 1.97.

The company is in good financial health and we maintain a strong balance sheet with \$40 million in cash. Our total debt was \$99.5 million at the end of Q2 2019, with net debt of \$59 million. During Q1 2019, the company announced the closing of a \$100 million senior security 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 requirement. The company will also use the proceeds of the corporate facility to repay existing debt in the near term.

During the second 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 now turn the call to Mike.

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

Thank you, Igor. That ends the presentation portion of this call. Operator, we would now like to open the call to questions from participants. Please open the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Mark Reichman from NOBLE Capital Markets.



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

I wanted to focus on the Cusi Mine first. And given the fact that the expansion to 2,400 tonnes per day has been delayed and the Technical Report will be available the second quarter of 2020, has there been any change with respect to how you're thinking about effecting that expansion? Because there was originally -- you installed the refurbished ball mill at Mal Paso, but then there were plans for a proposed processing plant at Cusi that was closer to the mine than Mal Paso, which would result in some savings and then I think that was originally going to be constructed at 1,500 tonnes per day but would be expandable. And then there was also the plans for the tailings facility that the plant and permitted increases would provide, I think, about 1.5-year of additional storage capacity based on that 1,200 tonnes per day. And then you were looking at -- for the proposed plant, there was kind of a new site that would accommodate, I think over a little over 5.4 million tonnes of waste ore.

Do you expect that any of those plans will be affected by the updated Technical Report or I was just kind of thinking about how you're now thinking about that expansion, and maybe the timing?

Igor Alcides Gonzales Galindo - *Sierra Metals Inc. - President, CEO & Director*

I will respond part of it and Gordon will complement. The refurbished mill has been installed. It's operating and that's precisely the equipment that is we are trying to ramp up to reach the 1,200 tonne per day level. We are also working on improving the recovery of the plant and this expansion took place at the Mal Paso site, where we have an existing tailings facility and we also have purchased a -- some land for an additional tailings facility very close to the Mal Paso site. Do you want to?

Gordon Babcock;Chief Operating Officer

Yes. Another thing to mention there as well is we have the -- another ball mill present on the property. We've got 12.5 x 16.8 ball mill. So the main -- the elements to get to the bump up in production are essentially there. I mean we're added -- we've added in another crushing -- another cone crusher to the circuit. We're making improvements to the infrastructure with screens and so on. So the idea is to stabilize the operation at 1,200 tonnes per day and then lay ourselves out for more development in the mine and bump up deep grade going into the mill, solidify those recoveries and then carry on and organically move up to 2,400 in the future.

And to answer the question about the Cusi site, after these improvements are done to the Mal Paso site, then the company would have to do an evaluation of the merit of another plant close to the mine. First of all, the priority is to get the 43-101 complete.

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

Okay. Well, that's really helpful. Just one other. Given the fact that the capital expenditures will be deferred, I think that \$10 million, what does that do? I mean I know that it's hard to put a firm date because it's all going to depend on how you're operating at that 1,200 tonnes per day, but at a minimum, I guess with the shift in the capital expenditures, what would be kind of the thought on the time frame to 2,400 tonnes per day? Or do you think it's just too early to tell?

Gordon Babcock;Chief Operating Officer

In my opinion, right now, it's a little early to tell. I mean, the mine -- the whole thing hinges on mine development and mine production. So I think the portion on the plant side, it's all workable, it's the time lines to do that. But the key is to get the muck out of the mine and get the consistency coming into the plant. That's -- that'll help immensely.

Operator

Your next question comes from the line of Jake Sekelsky from Roth Capital Partners.



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

You've been focused on increasing throughput across the portfolio during the first half. A lot of that has already been completed. Can you just maybe walk us through the remainder of the CapEx spend on this front for Q3 and Q4?

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

Yes. The -- as you know, we initially had a \$83 million CapEx for the full year. We have revisited the entire number of projects for each one of the mines. And given the strike in Yauricocha, we will see some capital deferral in Yauricocha for 2020, and also this deferral of the capital in Cusi and some savings in the Bolivar capital. So that's -- we are committed to the projects that were initially announced in February. There's been some timing issue in the deployment of the capital.

In the case of Yauricocha, we continue to build the tailings facility, which was one of our primary responsibilities that we also continue with the shaft and the mess hall and some ventilation projects. In the case of Bolivar, we are essentially done with the expansion of the mill. And in Cusi, as I said, we're deferring the capital. I don't know, Gordon, do you have any comments?

Gordon Babcock;Chief Operating Officer

No, I think that sums it up pretty much. The thing is, is that the capital targets has been -- if anything, they may be delayed and deferred out to 2020. But the projects themselves haven't stopped. They're all on track, they're all moving forward. Basically, that's the delta and the difference in the capital expenditure, the grand total. Projects are ongoing in all cases, in all 3 operations.

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

Okay. That's helpful. And then lastly, just more of a high-level question. Obviously, base metal prices have come off a bit here over the last few months, and with you guys being a polymetallic producer, you've got exposure there. Should we be surprised to see you put any hedges in place to lock in some type of margin? Or is that something you're planning on staying fully exposed to going forward?

Gordon Babcock;Chief Operating Officer

Thanks, Jake. Yes, that's something that we plan on staying fully exposed to. The fact that we are polymetallic and exposed to 5 metals and different metal prices, we've got a built-in natural hedge there. You could see silver popping up a little bit, kind of offsetting a little bit of the copper decline. But right now, we're comfortable being fully exposed to metal prices.

Operator

Your 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

As for Cusi, I'm trying to read between the lines here. I know that's been coming up in every single other question that you've gotten on this call so far. I mean, as I understand, we've had somewhat similar conversations about Yauricocha in the past. But I mean, you still reported record quarterly throughput, but now you're also delaying the expansion. You're pushing back the 43-101 for the extra drilling that you want to do and your talk about improving the dilution control. All this is coming up in a single paragraph of the release. I mean, you're also delaying the investments and you sort of talked about that in your answer to Jake. But I mean, what are we missing here? Has your medium- and longer-term outlook for the mine changed in a market way, compared to where we maybe stood at the beginning of the year? Can you maybe give some color on what



exactly is different from your expectations, and maybe some of the not-so-obvious factors, I mean, despite commodity prices and all of that stuff? Those things that really have changed there?

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

Okay. First of all, the revision in capital spend of Cusi was prompted by a regular review of capital in all fronts, given the base metal prices that we were experiencing. And so we analyzed a number of scenarios and we think that at this point in time, the best scenario is to stay in the 1,200 tonne per day range, optimize the plant and the mine, and then once we're ready, we'll do the next move, also watching the metal prices very carefully. Do you want to comment?

Gordon Babcock;Chief Operating Officer

Yes. With regards to Cusi, one of the key factors is getting the operations on track, development on track. Third and most important is to get the plant stabilized. Our recoveries have gone considerably up in the last 3 months now. So a lot of the changes that happened to the ore zones and so on are now -- they're implemented in the plant. And we have a better grind. We've got good recoveries and we've got good gradation in our milling. So that was the target. Once that phase is stabilized, then we can move forward from that point on.

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

Got it. Thanks for the color, that's appreciated. And can you just give us some more additional color on the future plans for your balance sheet, please? I mean you're sitting on \$40 million of cash, another \$33 million of trade receivables. You've also got \$100 million of debt. I mean if you think -- if you look at it year-to-date, I mean the cash has doubled since the beginning of the year, obviously, due to that loan. I mean philosophically, what do you consider to be a good amount of cash to keep on your books going forward? I mean the BCP loan, you're paying LIBOR plus, I think, 3.15% or something like that. Now you've done 1.6 million of repurchases as per this release. But I mean, a lot of the cash is sitting there idle and essentially collecting no interest, right? Maybe just some medium- or longer-term plans that you have, please?

Edmundo Gontardo Guimaraes - Sierra Metals Inc. - CFO

Yes. Thanks for the question, Heiko. I think just to answer in terms of optimal cash balance, I think for Yauricocha and where it is with its operations, I think a balance, a cash balance of \$25 million to \$30 million is optimal. The \$100 million, the \$40 million that we have, we will deploy. Given our recent share price and compared to our net asset value, it's extremely undervalued. Any excess cash would obviously go to continue with a share buyback program, take advantage of these -- of the lower share price, be opportunistic. And then the rest would be -- just be to fund further growth at these 3 mines, and we're just scratching the surface here. There's a lot of growth CapEx that could still go forward to continue to expand, definitely at Yauricocha and Bolivar.

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

Got It. Given that you just brought up the share repurchase in your answer, is there a limit on the share price that you're willing to pay to repurchase shares at the present moment?

Edmundo Gontardo Guimaraes - Sierra Metals Inc. - CFO

Well, definitely at \$2, I think \$2.50, anything below \$2.50, we would certainly want to take advantage of. And yes, that's -- I'll leave it at that.

Operator

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

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

It was not intended question. The \$2.50 you threw out, is that U.S. or Canadian? That's not my primary question?

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

That would be in Canadian.

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

Canadian, okay, fine. My questions are if I said to you the present metals prices would persist for the rest of the year -- I'll give you all my questions in advance. What kind of EBITDA would you anticipate for the year, assuming present metal prices persisted for the rest of the year?

Second, the buyback is relatively insignificant. But I think what you said, you bought 1.2 million. Your authorization was 1.5 million, so 300,000 shares left, which is negligible. Do you intend to reauthorize when this is complete? And do you think you'll complete the remainder of the program this year?

Third, I'm a little confused. On Page 4 of your handout, you show a cash position of \$40.2 million. The debt position is 68.9, and net debt of 59.2. If you take the cash off the debt, that number is like \$20-odd million. So there must be a different number that I'm missing. So if you could address that?

And then finally, do you intend -- do you expect to generate free cash flow this year? Or you'll burn cash? And if you're burning cash, why are you buying back stock?

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

Thanks, Lee. There's lots of questions there. That's fine. So in terms of EBITDA, we -- as I said on previous conference calls, we don't typically provide guidance. But if you were to see where metal prices, if they were to stay where they are now, again, it's basically we're in H1, I don't think you'd be that far off to take it and double it with the increased expansion being offset by possibly reduced metal prices, so.

In terms of the buyback, we do plan to complete the full amount. And given metal prices, where we are, we will look at whether it makes sense to expand or to initiate a new share buyback program. But again, that depends on, and as you were alluding to, where our free cash is going to be. At these metal prices and what we have planned, our free cash flow should come in pretty much -- it should be coming in as a watch -- awash. Might be anywhere, could be \$5 million, but let's just say it's going to be pretty much not significant.

And in terms of the \$100 million debt, it's -- I -- it's \$100 million in debt that we have outstanding, \$99.5 million. We've got \$40.2 million in cash, so the net debt's \$59 million. It's -- I don't know where you're getting your...

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

Page 4 of your presentation says debt position 68.9. Okay, but it's really \$100 million. Okay. No problem. It's a little bit deceptive, but okay, I understand it. Got it.

Operator

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

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

Yes, just a quick follow up on the commentary about the valuation of the stock. And I just wanted to get management's thoughts on why they might think the stock is persistently undervalued? And whether liquidity and float might have something to do with that, in which case, repurchasing the stock isn't going to probably help that as much. So has there been any thought in terms of actions that might be taken to improve liquidity or float? Just interested in your thoughts.

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

Well, there have been some actions in the past. As you know, we got an ATM last year as a vehicle to improve that. And we have the repurchase program. And maybe, Ed, will you want to complement that?

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

Yes, I think -- Mark, thanks for your question. I think Sierra's still at that inflection point. We're growing, so a lot of these growth projects, it's taking a lot of capital. Cusi, to be blunt, really hasn't delivered over the past 3 or 4 years. We're hoping to get Cusi on track. I think there's some performance issues, reputational issues related to Cusi and just really never being able to get there. But we still believe very much that it can, depending on metal prices. And there's always been -- if you look at it from a free cash flow basis, there really hasn't been a lot of excess cash generated. A lot of the cash has gone back into the assets. That's really the extent of it from my side.

Operator

And your next question comes from the line of Jim Young from West Family Investments.

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

First of all, I'd like to thank Gord for your work at Sierra and building a strong team to provide the future leadership and a theme of transition. And I just want to wish you well in the future and for also putting up with all my questions in the past.

My question -- a couple of questions. Number one is regarding Yauricocha, can you address what future permits are needed going forward in order to enable the growth that you've outlined? You're looking at 3,150 today, up to 3,600 in the following year and then beyond.

Gordon Babcock; Chief Operating Officer

Sure. Thanks. Thanks a lot, Jim. Thanks for your good words. Appreciate that.

On the subject of permits at Yauricocha, the next step is, of course, to get to the 3,600 tonne per day mark. There's a series of permits that have to go through. Number one, we have to elaborate on our EIA to include this new tonnage rate. We have to have some more work done on the -- on an internal document called an ITS. So basically, we're on track for doing that.



And then as things go on in the future, for instance, the possibility of discovering a new ore zone in the area of the drilling that's going on right now in Doña Leona is very promising. That would be another process, another EIA and another complete process in developing a mine plan and so on at a detailed level of prefeas or feas level.

So all these things are forthcoming.

And the process in Peru is somewhat tedious. It's taken us better than 1.5 years, almost 1.75 years to get our permits to drill. But we think we have them now. And we've got a group of people here that can execute that. So I think the permit process in Peru, Jim, is going to be an ongoing question and it's going to be highly dependent on how the government reacts to a lot of these processes. I think that's about the best I can put on paper here right now.

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

Okay. Great. So the 3,600 tonnes per day that you're expecting in 2020, how likely is -- are you -- how likely is it that you'll be able to achieve those levels?

Gordon Babcock;Chief Operating Officer

I think that's very achievable. I mean, the plant can handle it, the mine can handle it. We'd need to do some improvements in extraction in the mine. But basically, breaking muck in the mine, we can break the muck. The challenge for us is, of course, just the old challenge of waste and waste removal. And the big one is getting the paperwork done with our Peruvian government. Basically, all of the elements are there, it's just a matter of working through all the details now though.

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

Yes, the critical path is going to be the permit line, not so much the execution and the operation of the mine itself. We've tested the -- both the plant and the mine at higher rates already. But it is in the -- the critical path is on the permit.

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

Okay. Then likewise at Bolivar, can you address -- you had mentioned that you expect to see higher grades coming from Bolivar West in the second half of the year. Can you just elaborate a little bit and quantify the impact of Bolivar West? What percentage of your ore is being processed at the mill today? What do you expect in the second half of the year and the expected grade that you think that you'll be processing at the -- in Bolivar?

Gordon Babcock;Chief Operating Officer

Great. Thanks again, Jim. On the basis of Bolivar West contribution, Bolivar West contribution averages around 1.2%. That's just Bolivar West. By the time you average that into the whole mined feed, we're talking a little bit over 1%. The percentage of feed, mill feed coming from Bolivar West, I would estimate probably close to about 30%.

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

Maybe 40%.



Gordon Babcock;Chief Operating Officer

Maybe coming up to highs of 40%. As development progresses and as the plan works forward in getting the long hole stopes developed in Bolivar West, I believe that number is going to increase. But right now, it's -- there's some challenges that we have to look at in that area of Bolivar West as well as the Gallo area in main mine at ventilation. But they're driving a ventilation raise right now. The pilot should be pretty much complete. They'll be starting reaming. Once that's in place, the ventilation issues in that sector of the mine will be handled. And then they can move forward on getting the development done and getting the long hole drilling started. But it's very promising. It looks very good in that area.

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

Okay. So the -- in the expansion from 3,000 tonnes a day to 4,000 tonnes a day that you have on Page 7 in the presentation, are there any other permits or any other issues that you need in order to be able to deliver on those numbers, and similarly...

Gordon Babcock;Chief Operating Officer

No.

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

To drive it from 4,000 to 5,000 tonnes a day in 2020?

Gordon Babcock;Chief Operating Officer

Jim, no. In the case of Mexico, Mexico is -- let's say, it's a paradise compared to Peru as far as permits are concerned. Once you have an operating license in Mexico, the Mexican government could care less if you're running 5,000 tonnes a day or 1,000 tonnes a day. All they want is to have your license, to have your environmental permit and your mining permit in place. And those are all in place. The infrastructure at the mine as is in Yauricocha, this has to be improved. Ventilation's one. The ramps are there. Everything is driven large. We're driving things 5x5. We have a lot of capacity with the equipment. So it's an organic growth curve and it's a very, very doable item.

Operator

There are no further questions at this time. Mr. Mike McAllister, I turn the call back over to you.

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 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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