



RBC Capital Markets

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Sierra Metals Inc.

Cusi Site Visit: Long Term Upside Tangible

For now Cusi is a small mine but we believe it has the potential to eventually produce 5-6Moz over the longer-term.

First Impression

On November 20-21 we attended a site visit to Sierra Metals' 100%-owned Cusi mine in Chihuahua state, Mexico. The company is in the process of ramping up production from the underground silver-zinc-lead mine from 300tpd to 600tpd by Q2/14 with the aim of producing nearly 1Moz of silver next year. Through significant expansion of underground development of several different silver rich veins at Cusi, and potentially the construction of a new mill, Sierra Metals believes the mine could ultimately support throughput of 3-4,000tpd, implying over 6Moz of silver production per year.

Prolific Historic Silver Mine, With Continued Potential. The Cusi mine has a long history, dating back to the mid 1600's under the Spanish Conquistadores. It is estimated the mine area produced in excess of 200Moz of silver between the mid 1600s and 1987. The company believes the project area, which comprises a total of 12 active and former mines, could contain an additional ± 500 Moz in the long-term over the 11,670 hectare project area. We toured several of the active producing and prospective veins on the project where average grades run 175g/t silver, but with ongoing exploration and development demonstrating for high-grade pockets in the 400-1,000g/t range.

Small Scale For Now, But With Incremental Low Cost Growth. The ramp-up of production should grow silver production by 50% to nearly 1Moz silver in 2014, with a significant reduction in cash costs from \$15/oz to a targeted \$10/oz. Over the near-term, we expect Cusi to remain a small but profitable mine which should contribute free cash flow to the company as of 2014. We think a key attribute of the mine is its low cost expandability – sustaining and growth capex plus exploration is expected to be only \$10M in 2014 and \$6M in 2015. The Cusi mine resource totals 1.38Mt grading 166g/t in the indicated category, and 1.65Mt at 273g/t in the inferred category based on exploration to date of the Promontorio, Santa Eduwiges, La India and San Juan veins. It is highly likely in our view that exploration will not only expand resources on these veins, add new resources from known veins such as Minerva and La Gloria, and ultimately result in the discovery of additional veins within the project area. A resource update is scheduled for Q1/14.

Sector Perform

TSX: SMT

Price: CAD 2.05

All values in CAD unless otherwise noted.

Favourable Infrastructure.

Cusi is 135km from Chihuahua City, the state capital, and only 22km from Cuauhtemoc, a regional centre with industrial and manufacturing services. It is accessible by paved road, with power supplied by the national grid at a cost of ±\$0.06/kwh, and water from the aquifer. Ore from the mine is trucked 37km also by paved road to the Malpaso mill, a workable relatively low cost mill that was purchased in 2006 for a nominal amount.

Exhibit 1: Cusi Mine & Bolivar Mine Location in Chihuahua State, Mexico



Source: Company Disclosure

Cusi Brief History

2006 – Sierra Metals acquired the Cusi property.

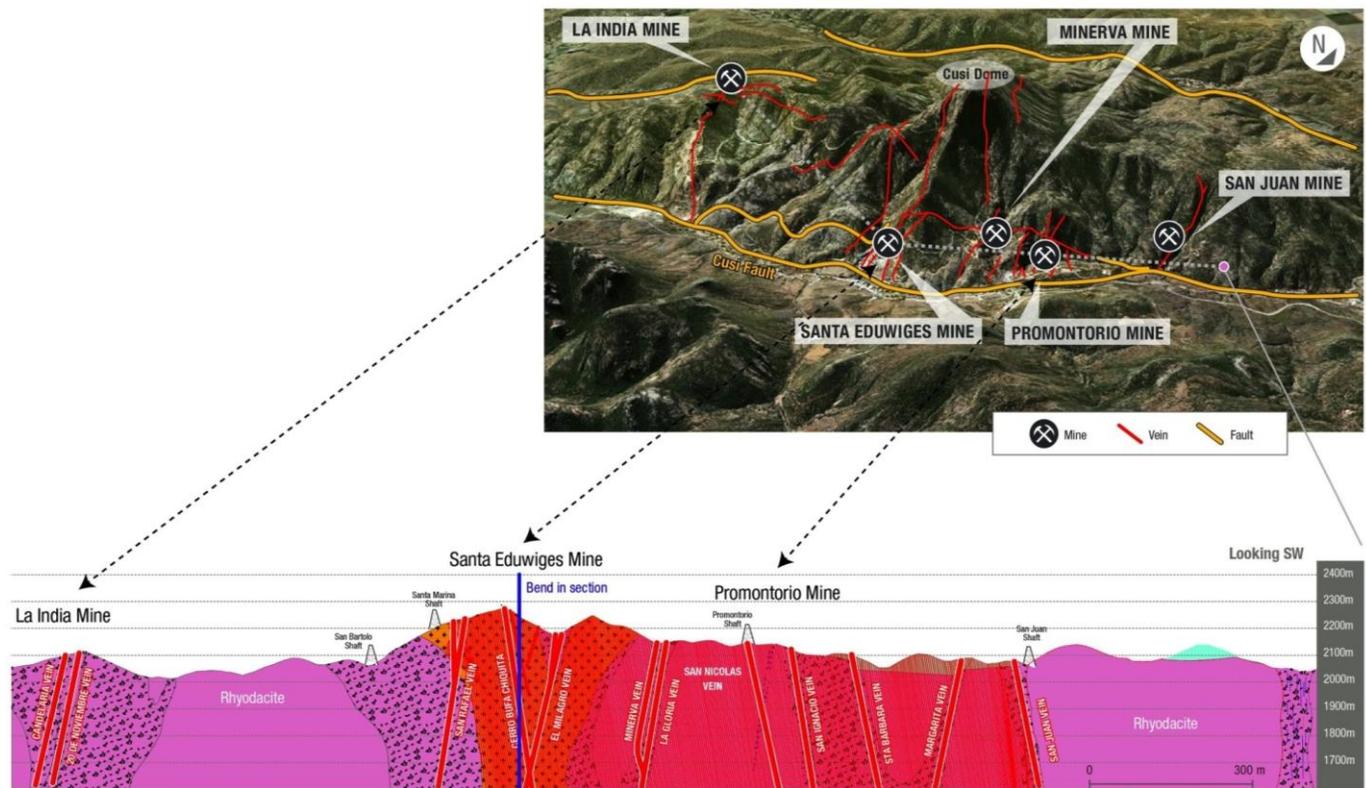
2006-2012 – exploration and development of the project, including pilot mining commenced in 2012 with 54,124t produced grading 185g/t in 2012. The mine averaged 170tpd in 2012.

2013 – commercial production declared in January, with throughput averaging 302tpd through October. In July the company released an updated resource estimate.

Cusi Brief Geology

The Cusi project geology comprises a low sulphidation epithermal vein system bordered by the Cusi and Border faults, part of a regional NNW trend. There are at least 12 former operating mines of the project, with 6 primary veins (the Promontorio, Santa Eduwiges, La Minerva, San Juan, Candelaria and La India veins) and a number of smaller vein systems. The average grade of the existing indicated resource is approximately 165g/t silver, though the company continues to encounter higher grade sections during its underground development work with significant 1-2 meter intersections grading between 400g/t and 1,000g/t.

Exhibit 2: Cusi Mine Primary Vein Systems



Source: Company Disclosure

Ore from the Cusi mine is processed at the Malpaso mill, 37km from the mine by paved road. The mill was purchased in 2004 with an original capacity of 100tpd, and has subsequently been expanded to 650tpd. The mill comprises two separate circuits and has the capacity to produce lead concentrate containing silver, the main product from the Cusi mine, and a zinc concentrate when grades are high enough. The company has also built 6 vat leaching cells and installed a Merrill-Crowe plant which can be used to produce silver dore from oxide ore

when required at minimal additional cost. The mill provides a relatively convenient, low cost option to process Cusi ore, though it is small scale. Over the long-term we expect Sierra Metals to investigate the construction of a new onsite process plant.

Exhibit 3: Malpaso Mill – Small But Workable Mill For Cusi Mine

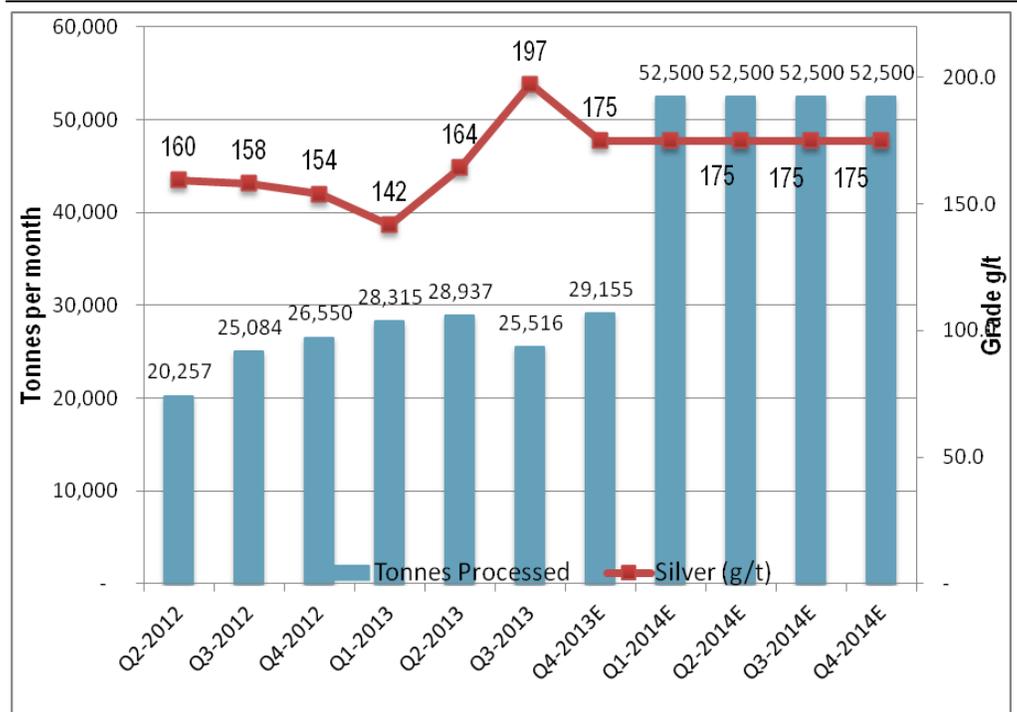


Source: RBC Capital Markets, Company Disclosure

Production Rising in 2014, With Longer Term Significant Upside

With the increase in underground development at Cusi this year and the expected second processing line at the Malpaso mill, Sierra Metals expects throughput to rise significantly in 2014, and production to rise from about 600koz in 2013 to over 900koz in 2014. In the longer term, the company will investigate the construction of an onsite mill with throughput capacity up to 3-4ktpa, implying silver production as high as 6Moz per year.

Exhibit 4: Significant Step-Up in Throughput at Cusi in 2014



Source: RBC Capital Markets, Company Disclosure



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			Count	Percent
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