

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

OMB APPROVAL

OMB Number: 3235-0381
Expires: September 30, 2018
Estimated average burden
hours per response.429.93

[Check one]

- REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2017 Commission File Number: 001-38141

Sierra Metals Inc.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English (if applicable))

Canada

(Province or other jurisdiction of incorporation or organization):

1021

(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable

(I.R.S. Employer Identification Number (if applicable))

79 Wellington Street, West, Ste. 2100, Toronto, Ontario M5K 1H1 (416) 366-7777

(Address and telephone number of Registrant's principal executive offices)

Cogency Global Inc.

10 East 40th Street, 10th Floor, New York, NY 10016 (800) 221-0102

(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Common Shares

Title of each class

NYSE American

Name of each exchange on which registered

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

For annual reports, indicate by check mark the information filed with this Form:

Annual information form

Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares: 163,029,548

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule.

Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

Not applicable

EXPLANATORY NOTE

Sierra Metals Inc. (the “Company” or “we” or “us”) is a Canadian issuer eligible to file its annual report pursuant to Section 13 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), on Form 40-F (“Form 40-F”) pursuant to the multi-jurisdictional disclosure system of the Exchange Act. We are a “foreign private issuer” as defined in Rule 3b-4 under the Exchange Act. Accordingly, our equity securities are exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Rule 3a12-3.

PRINCIPAL DOCUMENTS

The following documents have been filed as part of this Annual Report on Form 40-F and incorporated by reference herein:

A. Annual Information Form

For our Annual Information Form (the “AIF”) for the year ended December 31, 2017, see [Exhibit 99.1](#) of this Annual Report on Form 40-F.

B. Audited Annual Financial Statements

For our audited annual financial statements (“Audited Financial Statements”), for the year ended December 31, 2017, including the Independent Auditors’ Report of Registered Public Accounting Firm, see [Exhibit 99.2](#) of this Form 40-F. The Audited Financial Statements are stated in United States Dollars (US\$) and are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

C. Management’s Discussion and Analysis

For our management’s discussion and analysis (the “MD&A”) for the year ended December 31, 2017, see [Exhibit 99.3](#) of this Form 40-F.

FORWARD-LOOKING STATEMENTS

This Form 40-F, the exhibits attached hereto and the documents incorporated by reference herein, including our AIF, contain “forward looking information” within the meaning of Canadian and United securities laws related to our company and its operations, and in particular, the anticipated developments in the Company’s operations in future periods, the Company’s planned exploration activities, the adequacy of the Company’s financial resources and other events or conditions that may occur in the future. Statements concerning mineral reserve and resource estimates may also be considered to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if and when the properties are developed or further developed. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

These forward-looking statements include, but are not limited to: future production of silver, gold, lead, copper and zinc (collectively, the “metals”); future cash costs per ounce or pound of the metals; the price of the metals; the effects of domestic and foreign laws, regulations and government policies and actions affecting the Company’s operations or potential future operations; future successful development of the Yauricocha mine in Yauyos Province, Peru (the “Yauricocha Mine”), the Bolivar mine in Chihuahua, Mexico (the “Bolivar Mine”) and the Cusihiuriachic property in Chihuahua, Mexico (the “Cusi Mine”) and other exploration and development projects; the sufficiency of the Company’s current working capital, anticipated operating cash flow or the Company’s ability to raise necessary funds; estimated production rates for the metals produced by the Company; timing of production; the estimated cost of sustaining capital; ongoing or future development plans and capital replacement, improvement or remediation programs; the estimates of expected or anticipated economic returns from the Company’s mining projects; future sales of the metals, concentrates or other future products produced by the Company; and the Company’s plans and expectations for its properties and operations.

Forward-looking information is subject to a variety of risks and uncertainties, which could cause actual events or results to differ from those reflected in the forward-looking information, including, without limitation, risks inherent in the mining industry including environmental hazards, industrial accidents, unusual or unexpected geological formations, floods, labour disruptions, explosions, cave-ins, weather conditions and criminal activity; commodity price fluctuations; higher operating and/or capital costs; lack of available infrastructure; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; risks associated with the estimation of mineral resources and the geology, grade and continuity of mineral deposits and the inability to replace reserves; fluctuations in the price of commodities used in the Company's operations; risks related to foreign operations; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; risks relating to outstanding borrowings; issues regarding title to the Company's properties; risks related to environmental regulation; litigation risks; risks related to uninsured hazards; the impact of competition; volatility in the price of the Company's securities; global financial risks; inability to attract or retain qualified employees; potential conflicts of interest; risks related to a controlling group of shareholders; dependence on third parties; differences in U.S. and Canadian reporting of mineral reserves and resources; claims under U.S. securities laws; potential dilutive transactions; foreign currency risks; risks related to business cycles; liquidity risks; reliance on internal control systems; and credit risks.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential" or variations thereof, or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking information. Forward-looking information is subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking information, including, without limitation: uncertainty of production and cost estimates for the Yauricocha Mine, the Bolivar Mine and the Cusi Mine; uncertainty of production at the Company's exploration and development properties; risks and uncertainties associated with developing and exploring new mines including start-up delays; risks and hazards associated with the business of mineral exploration, development and mining (including operating in foreign jurisdictions, environmental hazards, industrial accidents, unusual or unexpected geological or structure formations, pressures, cave-ins and flooding); risks and uncertainties relating to the interpretation of drill results and the geology, grade and continuity of the Company's mineral deposits; risks related to the Company's ability to obtain adequate financing for the Company's planned development activities and to complete further exploration programs; fluctuations in spot and forward markets for the metals and certain other commodities; risks related to general economic conditions, including recent market and world events and conditions; inadequate insurance, or inability to obtain insurance, to cover these risks and hazards; relationships with and claims by local communities and indigenous populations; diminishing quantities or grades of mineral reserves as properties are mined; challenges to, or difficulty maintaining, the Company's title to properties and continued ownership thereof; risks related to the Company's covenants with respect to the BCP Facility (as defined in the AIF); changes in national and local legislation, taxation, controls or regulations and political or economic developments or changes in Canada, Mexico, Peru or other countries where they may carry on business; risks related to the delay in obtaining or failure to obtain required permits, or non-compliance with permits the Company has obtained; increased costs and restrictions on operations due to compliance with environmental laws and regulations; regulations and pending legislation governing issues involving climate change, as well as the physical impacts of climate change; risks related to reclamation activities on the Company's properties; uncertainties related to title to the Company's mineral properties and the surface rights thereon, including the Company's ability to acquire, or economically acquire, the surface rights to certain of the Company's exploration and development projects; the Company's ability to successfully acquire additional commercially mineable mineral rights; risks related to currency fluctuations (such as the Canadian dollar, the United States dollar, the Peruvian sol and the Mexican peso); increased costs affecting the mining industry, including occasional high rates of inflation; increased competition in the mining industry for properties, qualified personnel and management; risks related to some of the Company's directors' and officers' involvement with other natural resource companies; the Company's ability to attract and retain qualified personnel and management to grow the Company's business; risks related to estimates of deferred tax assets and liabilities; risks related to claims and legal proceedings, the Company's ability to maintain adequate internal control over financial reporting and our ability to maintain our status as a "foreign private issuer" ("FPI") under United States securities laws.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking information. Forward looking information includes statements about the future and are inherently uncertain, and the Company's actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking information due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in our AIF under the heading "Risk Factors". The Company's statements containing forward-looking information are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking information if circumstances or management's beliefs, expectations or opinions should change, other than as required by applicable law. For the reasons set forth above, one should not place undue reliance on forward-looking information.

CURRENCY

Unless otherwise indicated, all dollar amounts in this Form 40-F are in United States dollars. All references to "C\$" or to "Canadian dollars" are to the currency of Canada. The exchange rate of United States dollars into Canadian dollars, on December 29, 2017, based on the noon rate published by the Bank of Canada, was US\$1.00 = C\$1.2545.

NOTE TO UNITED STATES READERS — DIFFERENCES IN UNITED STATES AND CANADIAN REPORTING PRACTICES

We are permitted under the multi-jurisdictional disclosure system adopted by the United States Securities and Exchange Commission (the "SEC"), to prepare this Form 40-F in accordance with Canadian disclosure requirements, which differ from those of the SEC. We have prepared our financial statements, which are filed as Exhibit 99.2 to this Form 40-F, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and they are not comparable with financial statements of U.S. and other companies prepared in accordance with U. S. generally accepted accounting principles.

CLASSIFICATION OF MINERAL RESERVES AND RESOURCES

In our AIF, the definitions of proven and probable mineral reserves, and measured, indicated and inferred mineral resources are those used by the Canadian provincial securities regulatory authorities and conform to the definitions utilized by the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM"), as the CIM Definition Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council, as amended.

**CAUTIONARY NOTE TO UNITED STATES READERS
CONCERNING MINERAL RESERVES AND RESOURCE ESTIMATES**

Our AIF for the year ended December 31, 2017 attached to the Form 40-F as [Exhibit 99.1](#) and incorporated by reference herein has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms “mineral reserve”, “proven mineral reserve” and “probable mineral reserve” are Canadian mining terms as defined in accordance with the Canadian Securities Administrators’ National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”) and the Canadian Institute of Mining, Metallurgy and Petroleum as the CIM Definition Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council, as amended. These definitions differ from the definitions in SEC Industry Guide 7 under the United States Securities Act of 1933, as amended (the “Securities Act”). Under SEC Industry Guide 7 standards, a “final” or “bankable” feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. “Inferred mineral resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of “contained ounces” in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in our AIF contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

TAX MATTERS

Purchasing, holding or disposing of our securities may have tax consequences under the laws of the United States and Canada that are not described in this Form 40-F or our AIF. Shareholders are solely responsible for determining the tax consequences as applicable to their particular circumstances and should consult with their own tax advisors concerning an investment in our securities.

Based on the nature of our current business activities, we do not believe that we were a PFIC for our 2017 fiscal year, and we do not expect to be a PFIC in our current taxation year. However, the tests for determining PFIC status are based upon the composition of our income and assets and the income and assets of our subsidiaries and affiliates from time to time, and it is difficult to make accurate predictions of future income and assets. Accordingly, there can be no assurance that we will not become a PFIC in the future. A non-U.S. corporation generally will be considered a PFIC for any taxable year if either: (i) at least 75% of its gross income is passive income; or (ii) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income (which generally includes cash). It is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status. If we were to be treated as a PFIC for any taxation year, such characterization could result in adverse U.S. income tax consequences to certain U.S. holders of our common shares. If we were to be treated as a PFIC for any taxable year, a U.S. holder may be able to make certain elections with respect to our common shares to mitigate the tax consequences of PFIC status, such as a "Qualified Electing Fund" ("QEF") election or a "mark-to-market" election. If a U.S. holder timely makes a QEF election, such U.S. holder generally would be required to include in income on a current basis such U.S. holder's pro rata share of our ordinary income and net capital gains. In order for a U.S. holder to be able to make a QEF election, such U.S. holder will need certain information from us. There is no assurance, however, that we will have such information, or that we will be able to obtain this information.

Each U.S. holder should consult with such U.S. holder's own tax advisor regarding the availability and tax consequences of a QEF election with respect to our common shares, the applicability and potential advantages and disadvantages of making a "mark-to-market" election with respect to our common shares if we are or become a PFIC, including the tax issues raised by lower-tier PFICs that we may own and the procedures for making such an election.

The PFIC rules are very complex and are not described completely herein. U.S. holders are urged to consult their own tax advisors regarding the PFIC rules, the tax consequences of such rules to such U.S. holders, and the U.S. federal income tax consequences of the acquisition, ownership and disposition of our common shares in light of their particular circumstances.

DISCLOSURE CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

At the end of the period covered by this annual report on Form 40-F, an evaluation was carried out under the supervision of, and with the participation of our management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operations of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act). Based on that evaluation, the CEO and the CFO have concluded that as of the end of the period covered by this annual report, our disclosure controls and procedures were adequately designed and effective in ensuring that: (i) information required to be disclosed by us in reports that we file or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including the CEO and the CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

For management's report on internal control over financial reporting, see "Disclosure Controls and Internal Controls over Financial Reporting ("ICFR") in our MD&A attached as [Exhibit 99.3](#) to this Form 40-F and incorporated by reference herein. This annual report does not include an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the SEC for companies that are newly public in the U.S.

Changes in Internal Controls over Financial Reporting

During the fiscal year ended December 31, 2017, no changes occurred in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Certifications

See Exhibits 31.1, 31.2, 32.1 and 32.2 to this Form 40-F.

NOTICES PURSUANT TO REGULATION BTR

We did not send any notices required by Rule 104 of Regulation BTR during the fiscal year ended December 31, 2017 concerning any equity security subject to a blackout period under Rule 101 of Regulation BTR.

CORPORATE GOVERNANCE

We are subject to a variety of corporate governance guidelines and requirements of the Toronto Stock Exchange, the NYSE American Stock Exchange (the "NYSE American"), the Canadian Securities Administrators and the SEC. We believe that we meet or exceed the applicable corporate governance requirements. Although we are listed on the NYSE American, as "foreign private issuer," as defined in the rules of the SEC, we are not required to comply with all of that exchange's corporate governance rules which are applicable to U.S. companies. Our principal obligations under the governance rules of the NYSE American are the obligation to maintain an independent audit committee in accordance with Rule 10A-3 under the Exchange Act, the obligation to notify the NYSE American if any of our executive officers becomes aware of any material non-compliance with any of the applicable NYSE American governance rules, the obligation to file annual and interim written affirmations, on forms mandated by the NYSE American, relating to our compliance with applicable NYSE American governance rules, and the obligation to disclose the significant ways in which the governance standards that we follow differ from those applicable to U.S. companies under the NYSE governance rules. While we are exempt from the NYSE American Rule requiring its listed companies to maintain an independent compensation committee in accordance with SEC Rule 10C-1, our Board of Directors has a compensation in compliance with the requirements of the Toronto Stock Exchange and Canadian law. The members of the Compensation Committee of our Board are identified under the caption "Directors and Officers" in our AIF.

The significant ways in which the NYSE American governance rules differ for us, as a Canadian company, are the availability of a reduced quorum requirement for shareholder meetings, the absence of any requirement for shareholder approval for issuance of common shares that could result in a 20% increase in the number of outstanding common shares or shareholder approval for amendments to option plans. A company seeking relief under or from these NYSE American provisions must provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. In addition, the company must provide English language disclosure of any significant ways in which its corporate governance practices differ from those followed by domestic companies pursuant to NYSE American standards. This disclosure may be provided on the company's website but must be included in the company's annual report distributed to shareholders in the United States.

We review our governance practices and monitor developments in Canada and the United States on an on-going basis to ensure we remain in compliance with applicable rules and standards. The Board is committed to sound corporate governance practices which are both in the interest of our shareholders and contribute to effective and efficient decision making.

CODE OF BUSINESS ETHICS

The Board expects management to operate our business in a manner that enhances shareholder value and is consistent with the highest level of integrity. Accordingly, the Board has adopted a Code of Business Conduct & Ethics (the "Code") that covering all employees, officers, directors, agents and contractors of our company to assist them to maintain the highest standards of ethical conduct in corporate affairs. In addition, the Board must comply with conflict of interest provisions in Canadian corporate law, including relevant securities regulatory instruments, in order to ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest. A copy of the Code is available on our website at https://s2.q4cdn.com/485819848/files/doc_downloads/corporate_gov/Code-of-Business-Conduct-and-Ethics-current.pdf and from our office at the address listed on the.

All amendments and any waivers of the Code that apply to the officers covered by it will be posted on our website, furnished to the SEC as required, and provided to any shareholder who requests them. During the fiscal year ended December 31, 2017, we did not grant any waiver, including an implicit waiver, from a provision of the Code to any executive officer or director.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, PRINCIPAL ACCOUNTING FEES AND SERVICES AND AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

PricewaterhouseCoopers LLP acted as our independent registered public accounting firm for the fiscal years ended December 31, 2017 and 2016. For a description of the total amount PricewaterhouseCoopers LLP billed to us for services performed in the last two fiscal years by category of service (audit fees, audit-related fees, tax fees and all other fees), see the information under the caption "Audit Committee Information - External Auditor Fees" in our AIF, which is attached as Exhibit 99.1 to this Form 40-F and incorporated by reference herein.

The audit committee has adopted specific policies and procedures for the engagement of non-audit services, including the requirement that all non-audit services to be performed by the external auditor must be pre-approved and monitored by the audit committee. Subject to National Instrument 52-110 *Audit Committees* of the Canadian Securities Administrators, the engagement of non-audit services is considered by our Board, and where applicable the audit committee, on a case-by-case basis.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements as at December 31, 2017.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

	Within 1 year	1-2 years	2-5 years	After 5 years	Total	As at December 31, 2017
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	32,319	-	-	-	32,319	32,319
Loans payable	28,770	7,520	28,430	-	64,720	64,860
Interest on loans payable	207	197	250	-	654	777
Other liabilities	8,579	1,113	-	-	9,692	9,692
Total Commitments	69,875	8,830	28,680	-	107,385	107,648

AUDIT COMMITTEE

Audit Committee

Our Board of Directors has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of our Audit Committee are identified under the caption “Audit Committee Information” in the AIF which is attached as [Exhibit 99.1](#) to this annual report on Form 40-F and incorporated by reference herein. In the opinion of the Board, all members of the Audit Committee are financially literate and independent, as such terms are defined by the NYSE American's corporate governance listing standards applicable to us and as determined by Rule 10A-3 under the Exchange Act.

The listing of our common shares on the NYSE American and our registration statement on Form F-10 under the Securities Act each became effective on July 7, 2017. On that date, Mr. Igor Gonzalez, our President and Chief Executive Officer, was a member of our Audit Committee but, as our Chief Executive Officer, was not independent as defined in SEC Rule 10A-3 and the NYSE American listing standards for audit committees of FPIs. Mr. Gonzalez served as a member of our audit committee pursuant to the exemption from such independence requirements set forth in SEC Rule 10A-3(b)(1)(iv)(2) until November 9, 2017. On November 9, 2017, Mr. Jose Vizquerra Benavides was appointed to the Board of Directors and also joined the Company's Audit Committee, replacing Mr. Gonzales, who stepped down from the Audit Committee on that date. Mr. Vizquerra Benavides is independent under the NYSE American corporate governance listing standards applicable to us and Rule 10A-3 under the Exchange Act. We believe that our reliance on Rule 10A-3(b)(1)(iv)(2) between our initial listing on the NYSE American from July 7, 2017 through November 9, 2017 did not materially adversely affect the ability of the Audit Committee to act independently and to satisfy the other requirements of SEC Rule 10A-3.

Audit Committee Charter

Our Audit Committee Charter is provided in Schedule A to the AIF, which is attached as Exhibit 99.1 to this annual report on Form 40-F and incorporated by reference herein. The Charter also is available in print to any shareholder that provides us with a written request.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that each of Douglas Cater, Philip Renaud and Jose Vizquerra Benavides are “independent” and have the necessary qualifications to be designated as “audit committee financial experts,” within the meaning of applicable rules of the SEC and the NYSE American.

The SEC has indicated that the designation or identification of a person as an audit committee financial expert does not make such person an “expert” for any purpose, impose any duties, obligations or liability on such person that are greater than those imposed on members of the audit committee and the board of directors who do not carry this designation or identification, or affect the duties, obligations or liability of any other member of the audit committee or board of directors.

INTERACTIVE DATA FILE

In accordance with SEC policy set forth in Securities Exchange Commission Release No. 33-9002 for initial interactive data submissions, our financial statements as of and for the twelve-month period formatted in XBRL (eXtensible Business Reporting Language) will be submitted by amendment to this Form 40-F to be filed within 30 days after the filing date of this report.

MINE SAFETY DISCLOSURE

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities under the regulation of the Federal Mine Safety and Health Review Administration under the Federal Mine Safety and Health Act of 1977. During the fiscal year ended December 31, 2017, neither we nor any of our subsidiaries operated a coal or other mine in the United States, and we were not subject to any citations, orders or other legal actions under the Federal Mine Safety and Health Act of 1977.

ADDITIONAL INFORMATION

Additional information relating to our company, including our AIF, our Audited Financial Statements and our MD&A, can be found on SEDAR at www.sedar.com, on the SEC website at www.sec.gov, or on our website at <http://sierrametals.com>. Shareholders may also contact the head of Investor Relations of the Company by phone at 1-(866) 493-9646 or by e-mail at info@sierrametals.com to request copies of these documents and this annual report on Form 40-F.

CONTACTING THE BOARD

Shareholders, employees and other interested parties may communicate directly with the Board by:

- writing to: Jill Neff, Corporate Secretary
Sierra Metals Inc.
79 Wellington Street West, Suite 2100
Toronto, ON M5K 1H1
Canada
- calling: 1-416-366-7777
- emailing: jill.neff@sierrametals.com

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

We undertake to make available, in person or by telephone, representatives to respond to inquiries made by the SEC staff, and to furnish promptly, when requested to do so by the SEC staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

We have previously filed with the SEC a written consent to service of process and power of attorney on Form F-X. Any change to the name or address of our agent for service shall be communicated promptly to the SEC by amendment to the Form F-X referencing our file number.

INDEX TO EXHIBITS

Consents

[23.1](#) [Consent of PricewaterhouseCoopers LLP](#)

[23.2](#) [Consent of Matthew Hastings](#)

[23.3](#) [Consent of Shannon L. Rheaume](#)

[23.4](#) [Consent of Jeff Osborn](#)

[23.5](#) [Consent of Fernando Rodrigues](#)

[23.6](#) [Consent of Daniel H. Sepulveda](#)

[23.7](#) [Consent of John Tinucci](#)

[23.8](#) [Consent of Jon Larson](#)

[23.9](#) [Consent of Giovanni J. Ortiz](#)

[23.10](#) [Consent of Mark Willow](#)

[23.11](#) [Consent of Gordon Babcock](#)

[23.12](#) [Consent of Americo Zuzunaga](#)

Certifications

[31.1](#) [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\) or 15d-14\(a\) of the Securities Exchange Act of 1934](#)

[31.2](#) [Certification of Chief Financial Officer pursuant to Rule 13a-14\(a\) or 15d-14\(a\) of the Securities Exchange Act of 1934](#)

[32.1](#) [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 \(This Exhibit is furnished herewith, but not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we explicitly incorporate it by reference.\)](#)

[32.2](#) [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1850 \(This Exhibit is furnished herewith, but not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we explicitly incorporate it by reference.\)](#)

Annual
Information

- [99.1 Annual Information Form of Sierra Metals Inc. for the year ended December 31, 2017](#)
- [99.2 Audited Consolidated Financial Statements of Sierra Metals Inc. for the year ended December 31, 2017](#)
- [99.3 Management's Discussion and Analysis of Sierra Metals Inc. for the year ended December 31, 2017](#)

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing this Form 40-F and has duly caused this amendment to our annual report to be signed on its behalf by the undersigned, thereto duly authorized.

SIERRA METALS INC.

By: /s/ Igor Gonzales
Name: Igor Gonzalez
Title: President and Chief Executive Officer

Date: March 22, 2018

CONSENT OF INDEPENDENT AUDITOR

We hereby consent to the inclusion in this Annual Report on Form 40-F of Sierra Metals Inc. (the Company) and to the incorporation by reference in the Registration Statement on Form F-10 (No. 333-218076) of the Company, of our report dated March 20, 2018 relating to the consolidated financial statements of the Company, which appears in this annual report.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 22, 2018



VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

Re: Sierra Metals Inc. (the "Company")
Annual Information Form for the Company's fiscal year ended December 31, 2017, incorporated by reference into the Company's Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the "Prospectus Supplement") and the Annual Report incorporated by reference into the Company's registration statement on Form F-10 (Registration No. 333-218076) (the "Registration Statement")
Consent of Qualified Person

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the "**Form 40-F**"), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the "**AIF**"), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of each of the summary section of the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*" dated effective July 31, 2017 (the "**Yauricocha Technical Report**"), and the summary section of the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Bolivar Mine, Mexico*" dated effective February 28, 2017 (the "**Bolivar Technical Report**") in the AIF and any amendments thereto, and the incorporation of such reports in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Yauricocha Technical Report and the Bolivar Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Yauricocha Technical Report or the Bolivar Technical Report or within my knowledge as a result of the services I performed in connection with the Yauricocha Technical Report or the Bolivar Technical Report.

[Signature page follows]

Dated: March 22, 2018

/s/ Matthew Hastings

Matthew Hastings, MSc Geology,
MAusIMM



VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

Re: Sierra Metals Inc. (the “Company”)
Annual Information Form for the Company’s fiscal year ended December 31, 2017, incorporated by reference into the Company’s Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the “Prospectus Supplement”) and the Annual Report incorporated by reference into the Company’s registration statement on Form F-10 (Registration No. 333-218076) (the “Registration Statement”)
Consent of Qualified Person

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the “**Form 40-F**”), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the “**AIF**”), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of the summary section of the report entitled “*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*” dated effective July 31, 2017 (the “**Yauricocha Technical Report**”) in the AIF and any amendments thereto, and the incorporation of this report in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company’s Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Yauricocha Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein derived from the Yauricocha Technical Report or within my knowledge as a result of the services I performed in connection with the Yauricocha Technical Report.

[*Signature page follows*]

Dated: March 22, 2018

/s/ Shannon L. Rheume

Shannon L. Rheume, BAsC Mining and
Mineral Processing, PEng



VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

Re: Sierra Metals Inc. (the "Company")
Annual Information Form for the Company's fiscal year ended December 31, 2017, incorporated by reference into the Company's Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the "Prospectus Supplement") and the Annual Report incorporated by reference into the Company's registration statement on Form F-10 (Registration No. 333-218076) (the "Registration Statement")
Consent of Qualified Person

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the "**Form 40-F**"), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the "**AIF**"), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of each of the summary section of the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*" dated effective July 31, 2017 (the "**Yauricocha Technical Report**"), and the summary section of the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Bolivar Mine, Mexico*" dated effective February 28, 2017 (the "**Bolivar Technical Report**") in the AIF and any amendments thereto, and the incorporation of such reports in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Yauricocha Technical Report and the Bolivar Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Yauricocha Technical Report or the Bolivar Technical Report or within my knowledge as a result of the services I performed in connection with the Yauricocha Technical Report or the Bolivar Technical Report.

[*Signature page follows*]

Dated: March 22, 2018

/s/ Jeff Osborn

Jeff Osborn, BEng Mining, MMSAQP



VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

Re: Sierra Metals Inc. (the “Company”)
Annual Information Form for the Company’s fiscal year ended December 31, 2017, incorporated by reference into the Company’s Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the “Prospectus Supplement”) and the Annual Report incorporated by reference into the Company’s registration statement on Form F-10 (Registration No. 333-218076) (the “Registration Statement”)
Consent of Qualified Person

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the “**Form 40-F**”), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the “**AIF**”), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of the summary section of the report entitled “*Amended NI 43-101 Technical Report on Resources, Cusi Mine, Mexico*” dated effective August 31, 2017 (the “**Cusi Technical Report**”) in the AIF and any amendments thereto, and the incorporation of this report in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company’s Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Cusi Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein derived from the Cusi Technical Report or within my knowledge as a result of the services I performed in connection with the Cusi Technical Report.

[*Signature page follows*]

Dated: March 22, 2018

/s/ Fernando Rodrigues

Fernando Rodrigues, BS Mining,
MBA, MMSAQP

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

Re: Sierra Metals Inc. (the “Company”)
Annual Information Form for the Company’s fiscal year ended December 31, 2017, incorporated by reference into the Company’s Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the “Prospectus Supplement”) and the Annual Report incorporated by reference into the Company’s registration statement on Form F-10 (Registration No. 333-218076) (the “Registration Statement”)
Consent of Qualified Person

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the “**Form 40-F**”), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the “**AIF**”), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of each of the summary section of the report entitled “*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*” dated effective July 31, 2017 (the “**Yauricocha Technical Report**”), the summary section of the report entitled “*NI 43-101 Technical Report on Resources and Reserves, Bolivar Mine, Mexico*” dated effective February 28, 2017 (the “**Bolivar Technical Report**”), and the summary section of the report entitled “*Amended NI 43-101 Technical Report on Resources, Cusi Mine, Mexico*” dated effective August 31, 2017 (the “**Cusi Technical Report**”) in the AIF and any amendments thereto, and the incorporation of such reports in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Yauricocha Technical Report, the Bolivar Technical Report and the Cusi Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Yauricocha Technical Report, the Bolivar Technical Report or the Cusi Technical Report or within my knowledge as a result of the services I performed in connection with the Yauricocha Technical Report, the Bolivar Technical Report or the Cusi Technical Report.

[Signature page follows]

Dated: March 22, 2018

/s/ Daniel H. Sepulveda

Daniel H. Sepulveda, B.Sc. Metallurgist, SME-RM



VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

Re: Sierra Metals Inc. (the "Company")
Annual Information Form for the Company's fiscal year ended December 31, 2017, incorporated by reference into the Company's Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the "Prospectus Supplement") and the Annual Report incorporated by reference into the Company's registration statement on Form F-10 (Registration No. 333-218076) (the "Registration Statement")
Consent of Qualified Person

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the "**Form 40-F**"), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the "**AIF**"), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of each of the summary section of the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*" dated effective July 31, 2017 (the "**Yauricocha Technical Report**"), and the summary section of the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Bolivar Mine, Mexico*" dated effective February 28, 2017 (the "**Bolivar Technical Report**") in the AIF and any amendments thereto, and the incorporation of such reports in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named, in and the use of the Yauricocha Technical Report and the Bolivar Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Yauricocha Technical Report or the Bolivar Technical Report or within my knowledge as a result of the services I performed in connection with the Yauricocha Technical Report or the Bolivar Technical Report.

[Signature page follows]

Dated: March 22, 2018

/s/ John Tinucci

John Tinucci, PhD, PE

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

**Re: Sierra Metals Inc. (the “Company”)
Annual Information Form for the Company’s fiscal year ended December 31, 2017 , incorporated by reference into the Company’s Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the “Prospectus Supplement”) and the Annual Report incorporated by reference into the Company’s registration statement on Form F-10 (Registration No. 333-218076) (the “Registration Statement”)
Consent of Qualified Person**

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the “ **Form 40-F** ”), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the “ **AIF** ”), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of the summary section of the report entitled “ *NI 43-101 Technical Report on Resources and Reserves, Bolivar Mine, Mexico* ” dated effective February 28, 2017 (the “ **Bolivar Technical Report** ”) in the AIF and any amendments thereto, and the incorporation of this report in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Bolivar Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Bolivar Technical Report or within my knowledge as a result of the services I performed in connection with the Bolivar Technical Report.

[*Signature page follows*]

Dated: March 22, 2018

/s/ Jon Larson

Jon Larson, BS Mining Engineering,
MBA, MAusIMM, MMSAQP

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

**Re: Sierra Metals Inc. (the “Company”)
Annual Information Form for the Company’s fiscal year ended December 31, 2017, incorporated by reference into the Company’s Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the “Prospectus Supplement”) and the Annual Report incorporated by reference into the Company’s registration statement on Form F-10 (Registration No. 333-218076) (the “Registration Statement”)
Consent of Qualified Person**

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the “**Form 40-F**”), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the “**AIF**”), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of the summary section of the report entitled “*Amended NI 43-101 Technical Report on Resources, Cusi Mine, Mexico*” dated effective August 31, 2017 (the “**Cusi Technical Report**”) in the AIF and any amendments thereto, and the incorporation of this report in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Cusi Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein derived from the Cusi Technical Report or within my knowledge as a result of the services I performed in connection with the Cusi Technical Report.

[*Signature page follows*]

Dated: March 22, 2018

/s/ Giovanni J. Ortiz

Giovanni J. Ortiz, BSc Geology,
FAusIMM



VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

**Re: Sierra Metals Inc. (the "Company")
Annual Information Form for the Company's fiscal year ended December 31, 2017, incorporated by reference into the Company's Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the "Prospectus Supplement") and the Annual Report incorporated by reference into the Company's registration statement on Form F-10 (Registration No. 333-218076) (the "Registration Statement")
Consent of Qualified Person**

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the "**Form 40-F**"), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the Annual Information Form of the Company for the year ended December 31, 2017 (the "**AIF**"), and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to the: (i) inclusion of each of the summary section of the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Bolivar Mine, Mexico*" dated effective February 28, 2017 (the "**Bolivar Technical Report**"), and the summary section of the report entitled "*Amended NI 43-101 Technical Report on Resources, Cusi Mine, Mexico*" dated effective August 31, 2017 (the "**Cusi Technical Report**") in the AIF and any amendments thereto, and the incorporation of such reports in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Bolivar Technical Report and the Cusi Technical Report or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Bolivar Technical Report or the Cusi Technical Report or within my knowledge as a result of the services I performed in connection with the Bolivar Technical Report or the Cusi Technical Report.

[Signature page follows]

Dated: March 22, 2018

/s/ Mark Willow

Mark Willow, MSc, CEM, SME-RM

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
 British Columbia Securities Commission
 Alberta Securities Commission
 United States Securities and Exchange Commission

Dear Sirs/Mesdames:

**Re: Sierra Metals Inc. (the "Company")
 Annual Information Form for the Company's fiscal year ended December 31, 2017 (the "AIF") and the Management's Discussion and Analysis for the year ended December 31, 2017 (the "MD&A"), incorporated by reference into the Company's Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the "Prospectus Supplement") and the Annual Report incorporated by reference into the Company's registration statement on Form F-10 (Registration No. 333-218076) (the "Registration Statement")
 Consent of Qualified Person**

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the "**Form 40-F**"), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the AIF and the MD&A, and their incorporation by reference: (i) into the Prospectus Supplement, and (ii) as exhibits to and incorporated by reference into the Form 40-F.

I hereby consent to: (i) the inclusion of the information under the heading "Updated Mineral Resource and Mineral Reserve Information," consisting of the mineral resource and reserve estimates as of December 31, 2017 for the Yauricocha Mine (the "**Yauricocha Mineral Resource and Reserve Estimate**"), the mineral resource and reserve estimates as of December 31, 2017 for the Bolivar Mine (the "**Bolivar Mineral Resource and Reserve Estimate**"), and the mineral resource estimates as of December 31, 2017 for the Cusi Mine (the "**Cusi Mineral Resource Estimate**" and, together with the Yauricocha Mineral Resource and Reserve Estimate and the Bolivar Mineral Resource and Reserve Estimate, the "**Updated Mineral Estimates**"), in the AIF and any amendments thereto, and the incorporation of such estimates in the AIF, (ii) the use of, and inclusion of information derived from the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*" dated effective July 31, 2017 (the "**Yauricocha Technical Report**"), the report entitled "*NI 43-101 Technical Report on Resources and Reserves, Bolivar Mine, Mexico*" dated effective February 28, 2017 (the "**Bolivar Technical Report**") and the report entitled "*Amended NI 43-101 Technical Report on Resources, Cusi Mine, Mexico*" dated effective August 31, 2017 (the "**Cusi Technical Report**" and together with the Yauricocha Technical Report and Bolivar Technical Report, the "**Technical Reports**") as disclosed in the MD&A, (iii) incorporation of the AIF and MD&A in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iv) incorporation by reference of the AIF, MD&A and any amendments thereto, into the Prospectus Supplement and (iii) being named in, and the use of the Updated Mineral Estimates and Technical Reports or portions thereof prepared, reviewed and/or approved by me, in the AIF, MD&A and Form 40-F.

I also hereby confirm that I have read the AIF and MD&A and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Updated Mineral Estimates or Technical Reports or within my knowledge as a result of the services I performed in connection with the Updated Mineral Estimates or Technical Reports.

Dated: March 22, 2018

/s/ Gordon Babcock

 Gordon Babcock, P. Eng.



VIA SEDAR / EDGAR

**Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
United States Securities and Exchange Commission**

Dear Sirs/Mesdames:

**Re: Sierra Metals Inc. (the "Company")
Annual Information Form for the Company's fiscal year ended December 31, 2017 (the "AIF"), incorporated by reference into the Company's Prospectus Supplement dated October 10, 2017 to the Short Form Base Shelf Prospectus dated June 29, 2017 (the "Prospectus Supplement") and the Annual Report incorporated by reference into the Company's registration statement on Form F-10 (Registration No. 333-218076) (the "Registration Statement")
Consent of Qualified Person**

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2017 of the Company (the "Form 40-F"), filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Reference is also made to the AIF and its incorporation by reference: (i) into the Prospectus Supplement, and (ii) as an exhibit to and incorporated by reference into the Form 40-F.

I hereby consent to: (i) the inclusion of the information under the heading "Updated Mineral Resource and Mineral Reserve Information," consisting of the mineral resource and reserve estimates as of December 31, 2017 for the Yauricocha Mine (the "Yauricocha Mineral Resource and Reserve Estimate"), the mineral resource and reserve estimates as of December 31, 2017 for the Bolivar Mine (the "Bolivar Mineral Resource and Reserve Estimate"), and the mineral resource estimate as of December 31, 2017 for the Cusi Mine (the "Cusi Mineral Resource Estimate" and, together with the Yauricocha Mineral Resource and Reserve Estimate and the Bolivar Mineral Resource and Reserve Estimate, the "Updated Mineral Estimates"), in the AIF and any amendments thereto, and the incorporation of such estimates in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto, and in the Company's Registration Statement, including the prospectus contained therein, as amended or supplemented, (iii) incorporation by reference of the AIF and any amendments thereto, into the Prospectus Supplement and (iv) being named in, and the use of the Updated Mineral Estimates or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

I also hereby confirm that I have read the AIF and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Updated Mineral Estimates or within my knowledge as a result of the services I performed in connection with the Updated Mineral Estimates.

[Signature page follows]

SIERRA METALS INC. | TSX: SMT | NYSE MKT: SMTS | BVL: SMT
79 Wellington Street West, Suite 2100 | P.O. Box 157 | Toronto, ON M5K 1H1 Canada
Phone 416.366.7777
WWW.SIERRAMETALS.COM



Dated: March 22, 2018

/s/ Americo Zuzunaga

Americo Zuzunaga, MAusIMM CP

WWW.SIERRAMETALS.COM

**CERTIFICATION
PURSUANT TO SECTION 302
THE SARBANES-OXLEY ACT OF 2002**

I, Igor Gonzalez, certify that:

I have reviewed this annual report on Form 40-F of Sierra Metals Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 22, 2018

/s/ Igor Gonzalez

Name: Igor Gonzalez
Title: President and Chief Executive Officer

**CERTIFICATION
PURSUANT TO SECTION 302
THE SARBANES-OXLEY ACT OF 2002**

I, Ed Guimaraes, certify that:

I have reviewed this annual report on Form 40-F of Sierra Metals Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 22, 2018

/s/ Ed Guimaraes

Name: Ed Guimaraes
Title: Chief Financial Officer

**Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act 2002**

In connection with the Annual Report on Form 40-F of Sierra Metals Inc. (the "Company") for the yearly period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Igor Gonzalez, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Igor Gonzalez

Name: Igor Gonzalez
Title: President and Chief Executive Officer
Date: March 22, 2018

The foregoing certificate is solely for the purposes of compliance with the aforementioned Section 906 of the Sarbanes-Oxley Act 2002 and is not intended to be used or relied upon for any other purposes.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

**Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act 2002**

In connection with the Annual Report on Form 40-F of Sierra Metals Inc. (the "Company") for the yearly period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ed Guimaraes, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ed Guimaraes

Name: Ed Guimaraes
Title: Chief Financial Officer
Date: March 22, 2018

The foregoing certificate is solely for the purposes of compliance with the aforementioned Section 906 of the Sarbanes-Oxley Act 2002 and is not intended to be used or relied upon for any other purposes.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.



SIERRA METALS INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2017

DATED: MARCH 22, 2018

Corporate Office:

*79 Wellington Street West, Suite 2100
Toronto, Ontario
M5K 1H1*

TABLE OF CONTENTS

Corporate structure	4
General development of the business	5
Description of the business	10
Material Mineral Properties	17
Updated Mineral Resource and Mineral Reserve Information	51
Risk Factors	54
Dividends	64
Description of Capital Structure	65
Market for Securities	65
Escrowed Securities	66
Directors and Officers	66
Legal Proceedings and Regulatory Actions	71
Transfer Agents and Registrars	72
Material Contracts	72
Additional Information	73

ANNUAL INFORMATION FORM DATED MARCH 22, 2018
SIERRA METALS INC. (“Sierra”, “Sierra Metals” or the “Company”)

PRELIMINARY NOTES

Effective Date of Information

The date of this Annual Information Form (the “AIF”) is March 22, 2018. Except as otherwise indicated, the information contained herein is as at December 31, 2017.

Documents Incorporated by Reference

The information provided in this AIF is supplemented by disclosure contained in the documents listed below which are incorporated by reference into this AIF. These documents must be read together with the AIF in order to provide full, true and plain disclosure of all material facts relating to Sierra Metals. The documents listed below are not contained within or attached to this document. The documents may be accessed on SEDAR at www.sedar.com under the Company’s profile.

Document	Effective Date/ Period Ended	Date Filed on SEDAR website	Document Category on the SEDAR Website
NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru (the “ Yauricocha Technical Report ”)	July 31, 2017	November 10, 2017	Technical Report
NI 43-101 Technical Report on Resources and Reserves, Bolivar Mine, Mexico (the “ Bolivar Technical Report ”)	February 28, 2017	April 19, 2017	Technical Report
Amended NI 43-101 Technical Report on Resources, Cusi Mine, Mexico (the “ Cusi Technical Report ”)	August 31, 2017	February 12, 2018	Technical Report

Cautionary Statement – Forward Looking Information

This AIF contains “forward looking information” within the meaning of Canadian securities laws related to the Company and its operations, and in particular, the anticipated developments in the Company’s operations in future periods, the Company’s planned exploration activities, the adequacy of the Company’s financial resources and other events or conditions that may occur in the future. Statements concerning mineral reserve and resource estimates may also be considered to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if and when the properties are developed or further developed. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

These forward-looking statements include, but are not limited to: future production of silver, gold, lead, copper and zinc (collectively, the “metals”); future cash costs per ounce or pound of the metals; the price of the metals; the effects of domestic and foreign laws, regulations and government policies and actions affecting the Company’s operations or potential future operations; future successful development of the Yauricocha mine in Yauyos Province, Peru (the “**Yauricocha Mine**”), the Bolivar mine in Chihuahua, Mexico (the “**Bolivar Mine**”) and the Cusihiuriachic property in Chihuahua, Mexico (the “**Cusi Mine**”) and other exploration and development projects; the sufficiency of the Company’s current working capital, anticipated operating cash flow or the Company’s ability to raise necessary funds; estimated production rates for the metals produced by the Company; timing of production; the estimated cost of sustaining capital; ongoing or future development plans and capital replacement, improvement or remediation programs; the estimates of expected or anticipated economic returns from the Company’s mining projects; future sales of the metals, concentrates or other future products produced by the Company; and the Company’s plans and expectations for its properties and operations.

Forward-looking information is subject to a variety of risks and uncertainties, which could cause actual events or results to differ from those reflected in the forward-looking information, including, without limitation, risks inherent in the mining industry including environmental hazards, industrial accidents, unusual or unexpected geological formations, floods, labour disruptions, explosions, cave-ins, weather conditions and criminal activity; commodity price fluctuations; higher operating and/or capital costs; lack of available infrastructure; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; risks associated with the estimation of mineral resources and the geology, grade and continuity of mineral deposits and the inability to replace reserves; fluctuations in the price of commodities used in the Company's operations; risks related to foreign operations; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; risks relating to outstanding borrowings; issues regarding title to the Company's properties; risks related to environmental regulation; litigation risks; risks related to uninsured hazards; the impact of competition; volatility in the price of the Company's securities; global financial risks; inability to attract or retain qualified employees; potential conflicts of interest; risks related to a controlling group of shareholders; dependence on third parties; differences in U.S. and Canadian reporting of mineral reserves and resources; claims under U.S. securities laws; potential dilutive transactions; foreign currency risks; risks related to business cycles; liquidity risks; reliance on internal control systems; and credit risks.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential" or variations thereof, or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking information. Forward-looking information is subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking information, including, without limitation: uncertainty of production and cost estimates for the Yauricocha Mine, the Bolivar Mine and the Cusi Mine; uncertainty of production at the Company's exploration and development properties; risks and uncertainties associated with developing and exploring new mines including start-up delays; risks and hazards associated with the business of mineral exploration, development and mining (including operating in foreign jurisdictions, environmental hazards, industrial accidents, unusual or unexpected geological or structure formations, pressures, cave-ins and flooding); risks and uncertainties relating to the interpretation of drill results and the geology, grade and continuity of the Company's mineral deposits; risks related to the Company's ability to obtain adequate financing for the Company's planned development activities and to complete further exploration programs; fluctuations in spot and forward markets for the metals and certain other commodities; risks related to general economic conditions, including recent market and world events and conditions; inadequate insurance, or inability to obtain insurance, to cover these risks and hazards; relationships with and claims by local communities and indigenous populations; diminishing quantities or grades of mineral reserves as properties are mined; challenges to, or difficulty maintaining, the Company's title to properties and continued ownership thereof; risks related to the Company's covenants with respect to the BCP Facility (as hereinafter defined); changes in national and local legislation, taxation, controls or regulations and political or economic developments or changes in Canada, Mexico, Peru or other countries where they may carry on business; risks related to the delay in obtaining or failure to obtain required permits, or non-compliance with permits the Company has obtained; increased costs and restrictions on operations due to compliance with environmental laws and regulations; regulations and pending legislation governing issues involving climate change, as well as the physical impacts of climate change; risks related to reclamation activities on the Company's properties; uncertainties related to title to the Company's mineral properties and the surface rights thereon, including the Company's ability to acquire, or economically acquire, the surface rights to certain of the Company's exploration and development projects; the Company's ability to successfully acquire additional commercially mineable mineral rights; risks related to currency fluctuations (such as the Canadian dollar, the United States dollar, the Peruvian sol and the Mexican peso); increased costs affecting the mining industry, including occasional high rates of inflation; increased competition in the mining industry for properties, qualified personnel and management; risks related to some of the Company's directors' and officers' involvement with other natural resource companies; the Company's ability to attract and retain qualified personnel and management to grow the Company's business; risks related to estimates of deferred tax assets and liabilities; risks related to claims and legal proceedings and the Company's ability to maintain adequate internal control over financial reporting.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking information. Forward looking information includes statements about the future and are inherently uncertain, and the Company's actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking information due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this AIF under the heading "Risk Factors". The Company's statements containing forward-looking information are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking information if circumstances or management's beliefs, expectations or opinions should change, other than as required by applicable law. For the reasons set forth above, one should not place undue reliance on forward-looking information.

Classification of Mineral Reserves and Resources

In this AIF, the definitions of proven and probable mineral reserves, and measured, indicated and inferred mineral resources are those used by the Canadian provincial securities regulatory authorities and conform to the definitions utilized by the Canadian Institute of Mining, Metallurgy and Petroleum, as the CIM Definition Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council, as amended.

Cautionary Note to U.S. Investors concerning Estimates of Mineral Reserves and Measured, Indicated and Inferred Mineral Resources

This AIF has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" are Canadian mining terms as defined in accordance with the Canadian Securities Administrators' National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining, Metallurgy and Petroleum as the CIM Definition Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council, as amended. These definitions differ from the definitions in SEC Industry Guide 7 under the United States Securities Act of 1933, as amended. Under SEC Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the United States Securities and Exchange Commission (the “SEC”). Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. “Inferred mineral resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of “contained ounces” in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this AIF contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

Currency Information

All currency references in this AIF are in United States dollars unless otherwise indicated. References to “Canadian dollars” or the use of the symbol “C\$” refers to Canadian dollars.

CORPORATE STRUCTURE

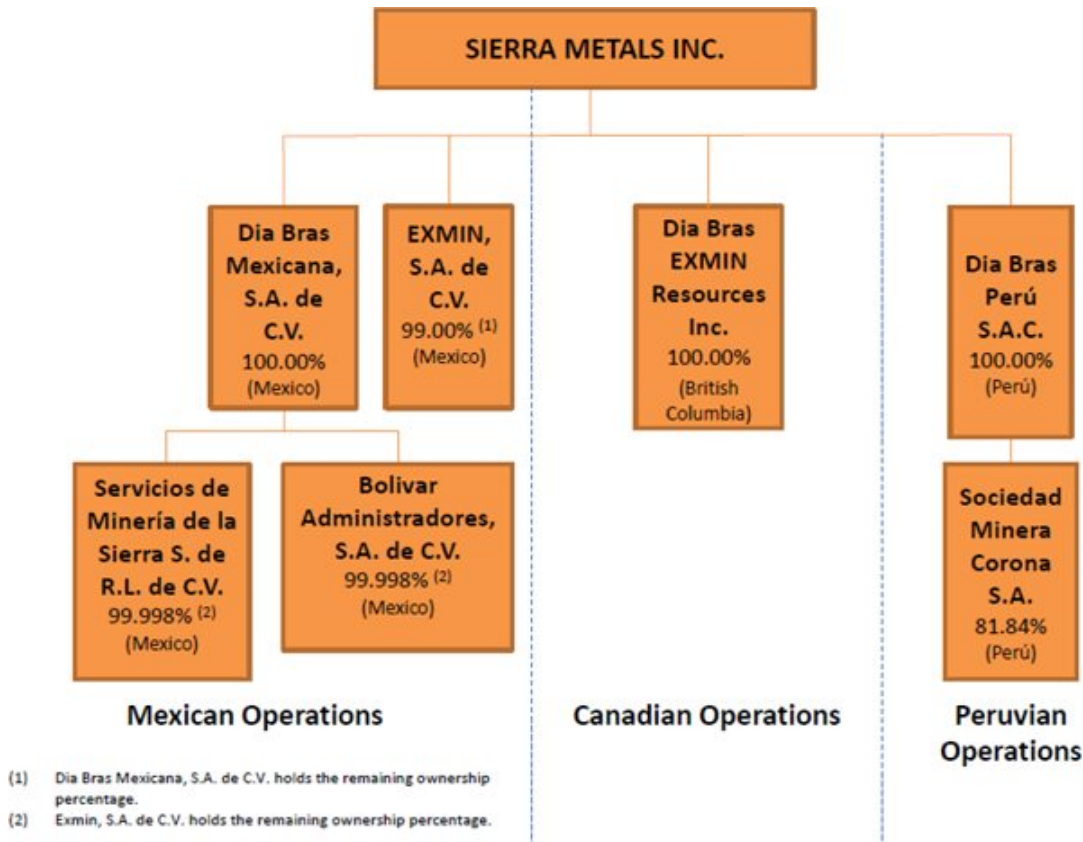
Name, Address and Incorporation

The Company was incorporated under the *Canada Business Corporations Act* (the “CBCA”) on April 11, 1996 under the corporate name “Line Islands Exploration Inc.” The articles were amended by a certificate of amendment dated December 9, 1999 changing the corporate name to “Dia Bras Exploration Inc.” The Company changed its name to “Sierra Metals Inc.” by a certificate of amendment dated December 5, 2012. On June 19, 2014, the Company’s articles were further amended to provide that meetings of shareholders may be held in (i) Canada, (ii) the United States of America or (iii) any city, municipality or other country in which the Company is doing business.

The registered principal office of Sierra Metals is located at 79 Wellington St W, Suite 2100, Toronto, Ontario, Canada M5K 1H1. The head office of the Company’s Mexican subsidiaries is located at Fernando de Borja No. 100, Col. San Felipe, Chihuahua, C.P. 31203, Mexico. The head office of the Company’s Peruvian subsidiaries is located at Av. Pedro de Osma, 450 Barranco, Lima, Peru.

Intercorporate Relationships

The Company carries on a significant portion of its business through a number of direct and indirect subsidiaries, as follows:



GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History and Recent Developments

2015

Peru

On May 12, 2015, Sierra announced an updated NI 43-101 compliant reserve and resource estimate on the Yauricocha Property indicating total proven and probable mineral reserves for Yauricocha of 5,377,000 tonnes averaging 75.5 g/t silver, 1.41% lead, 0.80% copper, 2.34% zinc and 0.92 g/t gold, down from 6,394,000 tonnes at October 1, 2013, and total measured and indicated mineral resources, inclusive of mineral reserves, of 11,411,000 tonnes averaging 55.4 g/t silver, 0.85% lead, 0.83% copper, 1.73% zinc and 0.76 g/t gold, up from 6,139,000 tonnes at October 1, 2013.

For the twelve months ended December 31, 2015, Yauricocha processed an aggregate of 832,225 tonnes of material producing 1,791,056 oz. of silver, 5.6 million lb of copper, 39.4 million lb of lead, 42.1 million lb of zinc and 5,018 oz. of gold. At Yauricocha during 2015, the Company completed a total of 30,176m of diamond drilling including 15,681m of exploration drilling, 12,019m of infill drilling and 4,476m for dewatering.

Mexico

Bolivar

During March 2015, a new 115kw line from the Agua Caliente power substation was connected to the Piedras Verdes plant and was operational as the plant was running off of the 33kw line from the substation. The new line was designed to provide the power infrastructure for efficiency improvements, lower costs and open the possibility for further expansions at the plant.

For the twelve months ended December 31, 2015, Bolivar processed an aggregate of 830,447 tonnes of material producing 17.6 million lb of copper, 440,401 oz. of silver and 3,216 oz. of gold.

Cusi

During 2015, mine development on the Promontorio and Santa Eduwiges Mines managed to cross the transition zone of oxides-sulphides and enter the zone of sulphides. As is the case in the veins of the El Gallo, El Gallo Back, and some veins from Promontorio, were extended from level 6 to level 9 (70 m.), and also level 10.5 (30 m below level 9), with average head grades of 190g/t Ag, and 0.50% Pb.

Mine development drilling at Cusi during 2015 totaled 6,619 meters, of which 3,297 related to the Promontorio Mine and the remaining 3,266 m at the Santa Eduwiges Mine. Exploration drilling totaled 28,055 meters of which 4,892 meters were from surface and 23,163 meters within the mine in various different veins. The drill results demonstrated the presence of a district scale epithermal system with potential for additional discoveries of high grade silver and poly-metallic mineralization.

For the twelve months ended December 31, 2015, Cusi processed an aggregate of 202,033 tonnes of material producing 873,496 oz. of silver, 2,747 million lb of lead and 831 oz. of gold.

Financing and Corporate Activities

On August 10, 2015, Sierra announced the successful refinancing of the remaining \$48.0 million due on the credit facility (the “**Facility**”) incurred in connection with the 2011 acquisition of its controlling interest in Sociedad Minera Corona S.A. (“**Corona**”) with Banco de Credito del Peru (“**BCP**”) effective August 7, 2015. The most significant amendments to the facility were as follows:

- the remaining \$48M due under the Facility was split into 2 tranches:
 - Tranche 1, in the amount of \$24 million, has quarterly principal repayments of \$1.25M beginning in November 2016 and ending in August 2020; and
 - Tranche 2, in the amount of \$24 million, has no quarterly principal repayments and is to be repaid in full in August 2020;
- one-year principal repayment grace period;

- reduced interest rate equal to 3.65% plus three-month LIBOR vs previous rate of 4.15% plus three-month LIBOR; and
- the term of the Facility was extended for 5 Years.

2016

Peru

On January 28, 2016, the Company announced the discovery of a new high-grade sulfide zone, referred to as the “Esperanza” zone, located 400 meters north of the Central Mine area, along strike from current mining activities. The Esperanza zone returned the thickest sulfide intercepts in the 60-year mining history at Yauricocha.

The Company announced the results of its continuing drill program at Esperanza which revealed that the zone is open on strike to the North, and at depth, and comes as part of an ongoing drill program at this high priority target at the Yauricocha Mine.

On August 4, 2016, the Company reported that exploration development and test stope programs from the Esperanza zone had provided material which began to be processed at the Chumpe plant.

Recent exploration development and test stope programs from the Esperanza zone provided 54,000 tonnes of material in 2016 which was processed at the Chumpe plant, located in the Lima District, Peru. The Company expects to process approximately 200,000 tonnes from the Esperanza zone during 2017.

On August 11, 2016, the Company announced the completion of an updated Mineral Reserve and Resource Estimate for the Yauricocha Mine which included a maiden Reserve and Resource Estimate for the recently discovered Esperanza Zone. See “*Material Mineral Properties - Yauricocha Mine, Peru*”.

On November 17, 2016, the Company announced the discovery of a new high grade sulfide zone referred to as the “Cuye – Mascota” zone, located 200 meters north of the central mine area along strike and adjacent to its current mining activities. The discovery resulted from ongoing diamond drill brownfield exploration programs testing priority targets at the Yauricocha Mine.

The Company successfully transitioned from the previously operating surface hoist to a new Hepburn double drum 1100 HP production hoist currently installed on the 720 level, where it will service the Mascota Shaft and increase skipping capacity by 30,000 MT per month.

Mexico

Mine development at Bolívar during Q4 2016 totaled 1,112 m. Most of these meters (746) were developed to prepare stopes for mine production. The remainder of the meters (366) were related to the deepening of ramps and developing service ramps to be used for ventilation and pumping.

During Q4 2016, at the Cusi property, mine development of the mineralized structures at Promontorio and Santa Eduwiges Mine totaled 1,304 meters, and 4,750 meters of infill drilling was carried out inside the Mine.

On February 12, 2016, the Company reported a positive outcome in the legal dispute between Polo & Ron Minerals and Dia Bras Exploration Inc. (the Company’s previous name) and Dia Bras Mexicana, a subsidiary of the Company that holds its Bolivar and Cusi properties in Mexico. The Second Federal Collegiate Court on Civil and Labor Matters of the Seventeenth circuit in the State of Chihuahua (the “**Federal Court**”) issued a new judgment that the Eighth Civil Court of the Judicial District of Morelos in Chihuahua and the Fifth Civil Hall of the Superior Court of Justice of the State of Chihuahua (the “**State Courts**”) lacked jurisdiction to rule on issues concerning mining title and that no previous rulings by the State Courts against the Company would stand.

Financing and Corporate Activities

On September 27, 2016, the Company's shareholders voted in favour of a special resolution to amend the Company's articles for the purpose of effecting a consolidation of the issued and outstanding common shares of the Company (" **Common Shares** ") on the basis of one post-consolidation Common Share for every two pre-consolidation Common Shares or such other consolidation ratio that the directors of the Company deem desirable. Such ratio is to be no greater than one post-consolidation Common Share for every five pre-consolidation Common Shares.

2017

Peru

On May 1, 2017, the Company announced the discovery of a new high-grade oxide zone, referred to as the Esperanza North zone, which is located between the Esperanza zone and Cachi-Cachi Mine at the Yauricocha Mine. The Company also announced drilling results demonstrating the extension of the high-grade sulfide zone, referred to as the Cuye-Mascota zone, discovered in November 2016;

On October 26, 2017, the Company provided an updated Mineral Reserve Estimate for the Yauricocha Mine showing estimated Mineral Reserves of 8,917,000 tonnes averaging 48.3 g/t silver, 1.2% copper, 0.8% lead, 2.4% zinc and 0.5 g/t gold representing a 134% increase over the previous reserve estimate.

On December 19, 2017, the Company announced drilling results demonstrating new limestone replacement mineralization at the Cuye Zone extension located within the Central Mine at Yauricocha.

Mexico

On February 27, 2017, the Company announced the discovery of new high-grade silver intercepts occurring in the Santa Rosa de Lima complex located within the current Cusi Mine operational area. The discovery came as part of a reinterpretation of the Hydrothermal model and a drilling campaign consisting of 15,000 meters which began in December 2016.

On March 6, 2017, the Company announced the results of the initial drill program on the Bolivar property in Chihuahua State, Mexico and continues to define high grade silver-gold and polymetallic mineralization within the La Sidra vein. The mineralized zone currently extends to over 500 meters in length and to 300 meters in depth and is still open along strike and down dip.

Drilling programs also continue at Bolivar West with future plans to drill Bolivar North West (skarn ore deposit area) to define high grade copper with coincident strong chargeability and within resistivity zones detected during a recently completed a 400 Hectare Titan 24 Induced Polarization ('IP') survey conducted by Quantec Geosciences of Toronto, Ontario.

On April 19, 2017, the Company filed an updated NI 43-101 compliant reserve and resource estimate on the Bolivar Mine in Mexico. The report provides support for total indicated mineral resources of 9,335,000 tonnes averaging 18.1 g/t silver, 0.90% copper and 0.30 g/t gold, 1.23% CuEq and total inferred mineral resources of 9,055,000 tonnes averaging 17.9 g/t silver, 0.86% copper and 0.33 g/t gold, 1.20% CuEq, and total probable mineral reserves of 4,327,000 tonnes averaging 17.5 g/t silver, 0.85% copper and 0.31g/t gold, 1.18% Cu Eq. The Company is currently finalizing another updated 43-101 Technical Report for the Bolivar Mine which is expected to be released during Q2 2018.

On September 5, 2017, the Company announced assay results from a definition drilling program at the Bolivar West zone, which is adjacent to the current operations at the Bolivar Mine. The exploration programs have identified skarn ore deposits in the form of mantos in the area extending for eight kilometers. The brownfield drilling program was designed with a target of increasing the grades being mined at the Bolivar Mine and defining further mineral resources.

On October 4, 2017, the Company announced the initial results of a drilling program designed to test the anomalies of the Titan 24 Geophysical Survey on the Bolivar Property. The Titan 24 survey was completed to follow up on geophysical, geological and geochemical anomalies identified. The Titan 24 Geophysical survey was carried out to assist in mapping the extent of the Mantos and structures containing copper and copper/zinc skarn mineralization for drill targeting in the immediate vicinity of the mine.

On December 29, 2017 the Company provided an updated Mineral Resource Estimate for the Cusi Mine. The updated Mineral Resource Estimate was the result of drilling programs completed between January 2014 and August 2017. The updated Mineral Resource Estimate disclosed the following:

- Total Measured and Indicated Resources increased 129% to 4,557,000 tonnes from 1,990,000 tonnes previously reported; and Total Inferred Resources increased 36% to 1,633,000 tonnes from 1,200,000 tonnes previously reported;
- Total Measured Mineral Resources of 362,000 tonnes averaging 225g/t silver, 0.55% lead, 0.68% zinc, 0.13 g/t gold for a total 268 g/t Ag Eq;
- Total Indicated Mineral Resources of 4,195,000 tonnes averaging 217 g/t silver, 0.64% lead, 0.66% zinc, 0.21 g/t gold and 267 g/t AgEq; and
- Total Inferred Mineral Resources of 1,633,000 tonnes averaging 158 g/t silver, 0.54% lead, 0.84% zinc, 0.16 g/t gold and 207 g/t AgEq.

Financing and Corporate Activities

Spin-Off of Cautivo Mining Inc.

On August 8, 2017, the Company completed the distribution of all of the common shares (“ **Cautivo Shares** ”) of its wholly-owned subsidiary, Cautivo Mining Inc. (“ **Cautivo** ”) and listing of the Cautivo Shares on the Canadian Securities Exchange. The Cautivo Shares were distributed to holders of the Company’s common shares of record as of 4:59 p.m. (Toronto time) on July 26, 2017 as a return of capital, reducing the Company’s shareholdings in Cautivo from 100% to nil.

Management Changes

On March 29, 2017, the Company announced that Mark Brennan tendered his resignation as President and Chief Executive Officer of the Company and on April 6, 2017, the Company announced the appointment of Mr. Gonzales as President and Chief Executive Officer, effective May 1, 2017.

U.S. Listing and ATM Offering

On May 18, 2017, the Company announced that it filed a preliminary short form base shelf prospectus with the securities regulatory authorities in each of the provinces of British Columbia, Alberta and Ontario, and a corresponding registration statement on Form F-10 (Registration No. 333-218076, the “**Registration Statement**”) with the U.S. Securities and Exchange Commission (“SEC”) in accordance with the Multijurisdictional Disclosure System established between Canada and the United States.

The Registration Statement was declared effective by the SEC on July 7, 2017. Also on that date, the Company’s common shares were approved for listing on the NYSE American Stock Exchange (the “**NYSE American**”). The final shelf prospectus (the “**Shelf Prospectus**”) provides for offerings of up to C\$75 million of common shares, warrants, units and subscription receipts or a combination thereof of the Company from time to time, separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of the offering and as set out in a prospectus supplement.

On October 10, 2017, the Company announced that it entered into an Open Market Sale Agreement SM (the “**Sales Agreement**”) with Jefferies LLC, H.C. Wainwright & Co., LLC, Scotia Capital (USA) Inc. and Noble Capital Markets, Inc. (collectively, the “**Agents**”), pursuant to which the Company may, at its discretion and from time to time during the term of the Sales Agreement, sell, through the Agents, acting as agent and/or principal, such number of Common Shares as would result in aggregate gross proceeds to the Company of up to US\$55 million. Sales of Common Shares through the Agents, acting as agent, will be made through “at the market” issuances on the NYSE American at the market price prevailing at the time of each sale, and, as a result, sale prices may vary. On October 10, 2017, the Company also filed a prospectus supplement to the Shelf Prospectus for its at the market offering pursuant to the Sales Agreement. No Common Shares will be offered or sold in Canada.

The Company intends to use the net proceeds of any offerings under the Sales Agreement for general corporate purposes, including debt repayment and/or capital requirements. In accordance with the Company’s Facility with BCP, at least 50% of the proceeds which may be received from any such offering must be allocated to the mandatory prepayment of the amounts owing to BCP under such Facility. At the date of this AIF, the Company has not issued and sold any Common Shares pursuant to the Sales Agreement.

DESCRIPTION OF THE BUSINESS

General

Summary

Sierra Metals is a Canadian and Peruvian listed mining company focused on the production, exploration and development of precious and base metals in Peru and Mexico. The Company’s strategic focus is to continue being a profitable, low-cost, mid-tier precious and base metals producer. The Company plans to continue growing its production base through exploration investments within its properties. The Company has high returns on invested capital and strong cash flow generation as key priorities.

The Company has mining properties at several stages of development and manages its business on the basis of the geographical location of its mining projects. The Peruvian operation (Peru) includes the Yauricocha Mine and its near-mine concessions. The Mexican Operation (Mexico) includes the Bolivar and Cusi mines both located in the Chihuahua State, Mexico, their near-mine concessions and the Mexican exploration and early stage properties.

Sierra Metals is fully committed to disciplined and responsible growth and has Safety and Health and Environmental Policies in place to support this commitment. The Company's corporate responsibility objectives are to prevent pollution, minimize the impact operations may cause to the environment and practice progressive rehabilitation of areas impacted by its activities. The Company aims to operate in a socially responsible and sustainable manner, and to follow international guidelines in Mexico and Peru. The Company plans to focus on social programs with the local communities in Mexico and Peru on an ongoing basis.

The Company produces lead, copper and zinc concentrates from its polymetallic circuit; copper and lead oxide concentrates from the lead oxide circuit at its Yauricocha Mine in Peru; copper concentrates at its Bolivar Mine in Mexico; and a silver-lead concentrate at its Cusi Mine in Mexico. These concentrates are sold to international metal traders who in turn sell and deliver these products to different clients around the world.

The breakdown of revenue from metals payable by product for 2015, 2016 and 2017 is as follows:

By Revenue (%)	2015	2016	2017
Silver	27%	27%	15%
Copper	34%	28%	31%
Lead	19%	18%	14%
Zinc	16%	22%	38%
Gold	4%	5%	2%

Peru – Yauricocha Mine

Mining at Yauricocha is completed by various extraction methods, principally sublevel caving and overhand cut and fill stoping. Ore is transported via underground rail to the on-site Chumpe mill for processing. The Chumpe mill processes ores produced by Yauricocha using crushing, grinding and flotation. Three types of ore are processed: polymetallic, copper and lead oxide. These ore types are processed in two separate milling circuits; the polymetallic circuit treats polymetallic and copper ores and the lead oxide circuit treats the lead oxide ores.

Mexico – Bolivar Mine

At the Bolivar Mine, mining is done by room-and-pillar and sublevel stoping methods. Extracted ore is trucked 5 kilometers to the Company's Piedras Verdes mill, which is a conventional flotation processing plant.

Mexico – Cusi Mine

Mining at the Company's Cusi Mine is completed by cut and fill method. Mined development rock is trucked 37 km via flat, paved roads to the Company's Malpaso mill, which is a conventional flotation processing plant. The plant has two circuits: 1) the Triunfo circuit rated at 500-600 tpd depending on the work index of the rock being processed; and 2) the Malpaso circuit rated at 250-350 tpd, again depending on the work index.

Exploration Properties

Of the several exploration properties in Mexico held by the Company, two have had work done by the Company and are considered properties of merit: Bacerac and Batopilas. The others, such as Arechuyvo and Maguarchic, have not had work performed on them because they are considered to be of lower priority for allocation of resources such as personnel and funds.

Specialized Skill and Knowledge

Most aspects of the Company's business require specialized skills and knowledge. Such skills and knowledge include the areas of geology, mining, metallurgy, engineering, environmental issues, permitting, social issues, and accounting. The Company has adequate employees with experience in these specialized areas to meet its current needs.

Competitive Conditions

The mining and exploration industry is competitive in all aspects. The Company competes with other mining companies, many of whom have greater financial resources, operational experience or technical capabilities than Sierra, in connection with the acquisition of properties producing, or capable of producing, precious metals. In addition, the Company also competes for the recruitment and retention of qualified employees and consultants.

Changes to Contracts

The Company does not anticipate that its business will be materially affected in the current financial year by the renegotiation or termination of any contracts or sub-contracts.

Metal Price Volatility

The profitability of the Company's operations may be significantly affected by changes in the market price of the precious and base metals that it produces. The economics of producing precious and base metals are affected by many factors, including the cost of operations, variations in the grade of ore mined and the price of the precious and base metals. Depending on the price of precious and base metals that it produces, the Company may determine that it is impractical to commence or continue commercial production. The price of precious and base metals fluctuates widely and is affected by numerous industry factors beyond the Company's control, such as the demand for precious and base metals, forward selling by producers and central bank sales and purchases of precious and base metals. The price of gold and silver is also affected by macro-economic factors, such as expectations for inflation, interest rates, the world supply of mineral commodities, the stability of currency exchange rates and global or regional political and economic situations. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political systems and developments. The price of precious and base metals has fluctuated widely in recent years, and future serious price declines could cause commercial production to be uneconomic.

Any significant drop in the price of precious and base metals adversely impacts the Company's revenues, profitability and cash flows. In addition, sustained low gold price may:

- reduce production revenues as a result of cutbacks caused by the cessation of mining operations involving deposits or portions of deposits that have become uneconomic at prevailing prices;
- cause the cessation or deferral of new mining projects;
- decrease the amount of capital available for exploration activities;
- reduce existing reserves by removing ore from reserves that cannot be economically mined at prevailing prices; or

- cause the write-off of an asset whose value is impaired by low metal prices.

There can be no assurance that the price of precious and base metals will remain stable or that such prices will be at a level that will prove feasible to begin development of its properties, or commence or continue commercial production, as applicable.

Environmental Protection

The Company is currently in material compliance with all applicable environmental regulations applicable to its exploration, development, construction and operating activities. The financial and operational effects of environmental protection requirements on capital expenditures, earnings and expenditures during the fiscal year ended December 31, 2017 were not material.

Employees

As at December 31, 2017, the Company and its subsidiaries had 690 employees in Peru, 665 employees in Mexico, and 7 employees in Canada.

Social or Environmental Policies

The Company has built strong relationships with the communities in which it operates and is committed to complying in all material respects with all environmental laws and regulations applicable to its activities.

Foreign Operations

Doing Business in Peru

Peru is a democratic republic governed by an elected government which is headed by a president who serves for a five-year term. Pedro Pablo Kuczynski is the current president of Peru.

In Peru, the General Mining Law allows mining companies to obtain clear and secure title to mining concessions. The surface land rights are distinct from the mining concessions. The government retains ownership of mineral resources, but the titleholder of the concessions retains ownership of extracted mineral resources. Peruvian law requires that all operators of mines in Peru have an agreement with the owners of the land surface above the mining rights or to establish an easement upon such surface for mining purposes. Mining concessions allow for both exploration and for exploitation.

Mining rights in Peru can be transferred by their private holders with no restrictions or requirements other than to register the transaction with the Public Mining Register and the Ministry of Energy and Mines. The only exception to this rule is that foreigners cannot acquire or possess mining concessions within 50 kilometers of the border, unless an exception based on public necessity or national interest is granted by the President of Peru by means of a Supreme Decree.

The sale of mineral products is also unrestricted, so there is no obligation to satisfy the internal market before exporting products. Pursuant to environmental laws applicable to the mining sector, holders of mining activities are required to file and obtain approval for an Environmental Impact Assessment, which incorporates technical, environmental and social matters, before being authorized to commence operations.

The Environmental Evaluation and Oversight Agency (“**OEFA**”) monitors environmental compliance. OEFA has the authority to carry out audits and levy fines on companies if they fail to comply with prescribed environmental standards. The following main permits are generally needed for a project: Start-Up Authorization; Certificate for the Inexistence of Archaeological Remains (CIRA); Environmental Impact Assessment (EIA); Mine Closure Plan; Beneficiation Concession; ; Water Usage Permits and Rights over surface lands .

Companies incorporated in Peru are subject to income tax on their worldwide taxable income, while foreign companies that are located in Peru and non-resident entities are taxed on income from Peruvian sources only. The current corporate income tax rate is 29.5%.

In general terms, mining companies in Peru are subject to the general corporate income tax regime. If the taxpayer has elected to sign a Stability Agreement, an additional 2% premium is applied on the regular corporate income tax rate. The Company has not signed a Stability Agreement. Also, 50% of income tax paid by a mine to the Central Government is remitted as “Canon” by the Central Government back to the regional and local authorities of the area where the mine is located.

In Peru, the current dividend tax rate of 5% is imposed on distributions of profits to non-residents and domiciled individuals by resident companies and by branches, permanent establishments and agencies of foreign companies.

As of 2004, holders of mining concessions are required to pay the government a Mining Royalty as consideration for the exploitation of metallic and non-metallic minerals. Payment of mining royalties shall be completed on a quarterly basis and is calculated based on the greater of either: (a) an amount determined in accordance with a statutory scale of tax rates based on a company’s operating profit margin and applied to the company’s operating profit; and (b) 1% of the company’s net sales, in each case during the applicable quarter. The royalty rate applicable to the company’s profit is based on its operating profit margin according to a statutory scale of rates that range between 1% and 12%. Mining royalty payments are deductible as expenses for income tax purposes in the fiscal year in which such payments are made.

The Special Mining Tax (“**SMT**”) is a tax imposed in parallel with the Modified Mining Royalty described above. The SMT is applied on operating margin profit based on a sliding scale, with progressive marginal rates ranging from 2.0% to 8.4%. The tax liability arises and becomes payable on a quarterly basis. The SMT applies on the operating margin profit derived from sales of metallic mineral resources, regardless of whether the mineral producer owns or leases the mining concession. SMT payments are deductible as expenses for income tax purposes in the fiscal year in which such payments are made.

Doing Business in Mexico

Mexico is a federal presidential representative democratic republic, where the President is both head of state and head of government. The current government of Mexico is guided by the 1917 constitution. The President is the head of the executive branch, the commander-in-chief of the armed forces and also the head of state. The President of Mexico is elected by an absolute majority of the federal entities. Mexico’s President is elected for six years and cannot be re-elected. The President is mandated to appoint and dismiss cabinet ministers and nearly all other officials of the executive.

The mining industry in Mexico is controlled by the Secretaría de Economía – Dirección General de Minas which is located and administered from Mexico City. In Mexico, mining activities include extraction activities independent from petroleum, natural gas and radioactive minerals, and certain non-metallic minerals such as construction and ornament materials, some of which are not subject to the mining legislation. In addition to the extraction activities, mining, smelting and refining activities are also considered as part of the mining industry, which are jointly known as mining-metallurgic activities. Mining concessions in Mexico may only be obtained by Mexican nationals or Mexican companies incorporated under Mexican law (which could be wholly owned by foreign investors). The construction of processing plants requires further governmental approvals (e.g. local and municipal permits).

In Mexico, surface land rights are distinct from the mining concessions. The holder of a mining concession is granted the exclusive right to explore and develop a designated area. Mining concessions are granted for 50 years from the date of their registration with the Public Registry of Mining to the concession holder as a matter of law, if all regulations have been complied with. During the final five years of this period, the concession holder may apply for one additional 50-year period, which shall be granted provided all other concession terms have been complied with. Mining rights in Mexico can be transferred by their private holders with no restrictions or requirements other than to register the transaction with the Public Registry of Mining and that the assignee is qualified to hold a concession (i.e. a Mexican national or a Mexican company incorporated under Mexican law having mining activities as its main corporate purpose). Securities can be imposed to mining concessions. The instrument formalizing the corresponding security shall be also registered before the Mining Public Registry.

Concessionaires must perform work each year that begins within ninety days of the concession being granted. Concessionaires must file proof of the work performed each May. Non-compliance with these requirements is cause for cancellation only after the authority communicates in writing to the concessionaire any such default, granting the concessionaire a specified time frame in which to remedy the default.

In Mexico, there are no limitations on the total amount of mining concessions or on the amount of land that may be held by an individual or a company. Excessive accumulation of concessions is regulated indirectly through the duties levied on the property and the production and exploration requirements as outlined below.

Three different fees or royalties applicable to the mining activity in Mexico exist as per the Federal Fees Law (LFD). Such fees are as follows:

- Special mining fee:

This fee shall be calculated at a 7.5% rate over the positive difference resulting from subtracting the deductions allowed in the Mexican Income Tax Law (MITL) from the income resulting from the revenue of the mining activity.

However, for the purposes of calculating the basis of this fee, the LFD does not allow to take into account several expenses that may be incurred by the mining taxpayers. Such expenses involve investments not related to mining prospecting and exploration, as well as tax losses not yet amortized and incurred in previous fiscal years.

Mining concessionaires and assignees shall be exempted from the payment of this fee exclusively for the use, enjoyment, or exploitation of coal gas deposits.

- Additional mining fee

This fee shall be incurred based on the maximum rate of the mining fee set forth in Article 263 of the LFD per concession's hectare. Usually, this fee is nominal.

- Extraordinary mining fee

This fee shall be calculated at a 0.5% rate over the income resulting from the sale of gold, silver, and platinum, without any deduction.

Control over Subsidiaries

Corporate Governance

The Company has implemented a system of corporate governance, internal controls over financial reporting, and disclosure controls and procedures that apply at all levels of the Company and its subsidiaries. These systems are overseen by the Board of Directors of the Company (the “ **Board** ”), and implemented by the Company's senior management. The relevant features of these systems are set forth below.

The Company's corporate structure has been designed to ensure that the Company controls, or has a measure of direct oversight over, the operations of its subsidiaries. The Company, as the ultimate shareholder, has internal policies and systems in place which provide it with visibility into the operations of its subsidiaries, including its subsidiaries operating in emerging markets, and the Company's management team is responsible for monitoring the activities of the subsidiaries.

The Company, directly or indirectly, controls the appointments of all of the directors and senior officers of its subsidiaries. The directors of the Company's subsidiaries are ultimately accountable to the Company as the shareholder appointing him or her, and the Board and senior management of the Company. As well, the annual budget, capital investment and exploration program in respect of the Company's mineral properties are established by the Company.

Further, signing officers for subsidiary foreign bank accounts are either employees of the Company or employees of the subsidiaries. In accordance with the Company's internal policies, all subsidiaries must notify the Company's corporate treasury department of any changes in their local bank accounts including requests for changes to authority over the subsidiaries' foreign bank accounts. Monetary limits are established internally by the Company as well as with the respective banking institution. Annually, authorizations over bank accounts are reviewed and revised as necessary. Changes are communicated to the banking institution by the Company and the applicable subsidiary to ensure appropriate individuals are identified as having authority over the bank accounts.

Strategic Direction

While the mining operations of each of the Company's subsidiaries are managed locally, the Board is responsible for the overall stewardship of the Company and, as such, supervises the management of the business and affairs of the Company. More specifically, the Board is responsible for reviewing the strategic business plans and corporate objectives, and approving acquisitions, dispositions, investments, capital expenditures and other transactions and matters that are material to the Company including those of its material subsidiaries.

Internal Control Over Financial Reporting

The Company prepares its consolidated financial statements on an annual basis in accordance with IFRS as issued by the International Accounting Standards Board and on a quarterly basis in accordance with IFRS as applicable to interim financial reports including International Accounting Standard 34, *Interim Financial Reporting*. This requires financial information and disclosures from its subsidiaries. The Company implements internal controls over the preparation of its financial statements and other financial disclosures to provide reasonable assurance that its financial reporting is reliable and that the quarterly and annual financial statements are being prepared in accordance with the relevant reporting framework and securities laws.

The responsibilities of the of the Board include oversight of the Company's internal control systems including those systems to identify, monitor and mitigate business risks as well as compliance with legal, ethical and regulatory requirements.

Regional Experience

The directors and executive officers of the Company have significant experience conducting business in Peru and/or Mexico, including (i) international corporate finance and mergers and acquisitions experience in Peru and/or Mexico, (ii) planning, supervising and managing experience with mining operations in Peru and/or Mexico, (iii) executive officers and/or directors with experience with other publicly-listed mining companies with operations in Peru and/or Mexico, and (iv) visiting the Company's projects in Peru and Mexico on a regular basis. Further, Alberto Arias (Director), Dionisio Romero (Director), Jose Vizquerra Benavides (Director), Igor Gonzales (Chief Executive Officer), Gordon Babcock (Chief Operating Officer), Ed Guimaraes (Chief Financial Officer), Alonso Lujan (Vice President, Exploration) and Andrew Dunlop (Corporate Controller) are all either fluent or proficient in Spanish.

MATERIAL MINERAL PROPERTIES

The Company has three material projects described below. To satisfy the reporting requirements of National Instrument 51-102F2 with respect to the Company's material mineral projects, the Company has opted, as permitted by the Instrument, to reproduce the summaries from the technical reports on the respective material properties and to incorporate by reference each such technical report into this AIF.

Yauricocha Mine, Peru

The Company owns 81.84% of Corona, which in turn owns 100% of the Yauricocha Mine.

The following is the summary section of the report (the "**Yauricocha Technical Report**") entitled "*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*" dated July 31, 2017 prepared by Qualified Persons, Matthew Hastings (MSc Geology, MAusIMM), Shannon L. Rheume (BASc Mining and Mineral Processing, PEng), Jeff Osborn (BEng Mining, MMSAQP), Daniel H. Sepulveda (B.Sc. Metallurgist, SME-RM) and John Tinucci (PhD, PE) of SRK Consulting (U.S.), Inc. ("**SRK**"). The full text of the Yauricocha Technical Report is available for viewing on SEDAR at www.sedar.com and is incorporated by reference in this AIF. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the Yauricocha Technical Report.

"1 Summary

This report was prepared as a Canadian National Instrument 43-101 (NI 43-101) Technical Report on Resources and Reserves (Technical Report) for Sierra Metals Inc. (Sierra Metals), previously known as Dia Bras Exploration, Inc., on the Yauricocha Mine (Yauricocha or Project), which is located in the eastern part of the Department of Lima, Peru. The purpose of this report is to present the Mineral Resource and Reserve estimates, and economic evaluation for the Project.

1.1 Property Description and Ownership

The Yauricocha Mine is located in the Alis district, Yauyos province, department of Lima approximately 12 km west of the Continental Divide and 60 km south of the Pachacayo railway station. The active mining area within the mineral concessions is located at coordinates 421,500 m east by 8,638,300 m north on UTM Zone 18L on the South American 1969 Datum, or latitude and longitude of 12.3105 ° S and 75.7219 ° W. It is geographically in the high zone of the eastern Andean Cordillera, and within one of the major sources of the River Cañete, which discharges into the Pacific Ocean. The mine is at an average altitude of 4,600 masl (Gustavson, 2015).

The current operation is an underground polymetallic sulfide and oxide operation, providing material for the nearby Chumpe process facility. The mine has been operating continuously under Sociedad Minera Corona S.A. (SMCSA or Minera Corona) ownership since 2002, and has operated historically since 1948. Sierra Metals, Inc. purchased 82% of SMCSA in 2011.

1.2 Geology and Mineralization

The Yauricocha Mine features a number of mineralized bodies, which have been emplaced along structural trends, with the mineralization itself related to replacement of limestones by hydrothermal fluids related to nearby intrusions. The mineralization varies widely in morphology, from large, relatively wide, tabular manto-style deposits to narrow, sub-vertical chimneys. The mineralization features economic grades of Ag, Cu, Pb and Zn, with local Au to a lesser degree. The majority of the deposits are related to the regional high-angle NW-trending Yauricocha fault or the NE trending and less well-defined Cachi-Cachi structural trend. The mineralization generally presents as polymetallic sulfides, but is locally oxidized to significant depths or relate to more Cu-rich bodies.

1.3 Status of Exploration, Development and Operations

The Yauricocha Mine is concurrently undertaking exploration, development and operations. Exploration is ongoing near the mine, and is supported predominantly by drilling and exploration drifting. Development of new or current mining areas is underway, and will continue for the foreseeable future. The mine is also currently producing multiple types of concentrate from several underground mine areas.

1.4 Mineral Processing and Metallurgical Testing

Yauricocha is consistently producing commercial quality copper concentrate, zinc concentrate, and lead concentrate. The lead concentrate produced in the oxide plant, because of its small tonnage and/or lower grades is blended in the plant with the one produced from the polymetallic circuit to generate a lead concentrate of commercial quality. **Table 0-1** shows results for the 2017 January to September period.

Table 0-1: Yauricocha Metallurgical Performance, January to September 2017

Processing Circuit	Stream	Tonnes	Concentrate Grade					Recovery (%)				
			Au (g/t)	Ag (Oz/ton)	Pb (%)	Cu (%)	Zn (%)	Au	Ag	Pb	Cu	Zn
Polymetallic	Fresh Ore	726,254	0.55	2.1	1.6	0.6	3.9	100.0	100.0	100.0	100.0	100.0
	Cu Concentrate	11,198	2.97	31.0	2.6	27.2	7.3	8.4	23.0	2.5	66.2	2.9
	Pb Concentrate	17,525	1.77	37.6	57.4	2.3	5.4	7.8	43.7	87.4	8.8	3.3
	Zn Concentrate	49,222	0.43	3.4	0.9	1.3	51.4	5.3	11.0	3.8	14.3	89.5
Oxide	Fresh Ore	6,669	0.20	6.1	4.5	0.2	5.8	100.0	100.0	100.0	100.0	100.0
	Pb Concentrate	109	2.16	67.9	33.9	5.5	16.3	17.9	18.1	12.3	53.5	4.6
	Pb Oxide Concentrate	233	0.65	37.6	53.1	0.9	3.3	14.1	26.1	46.7	38.4	2.1
	Fresh Ore	21,715	0.30	1.4	1.3	5.3	3.8	100.0	100.0	100.0	100.0	100.0
	Cu Oxide Concentrate	2,872	0.83	3.4	3.0	21.8	4.8	36.9	32.4	30.0	53.8	17.0
	Fresh Ore	2,632	0.34	2.2	0.9	1.4	2.2	100.0	100.0	100.0	100.0	100.0
Cu Concentrate	148	0.89	17.8	9.2	19.9	20.6	14.9	45.7	56.2	79.2	53.5	

Source: SRK, 2017

Silver is preferably recovered with the lead concentrates, that when combined, account for approximately 43% of the total silver recovered at Yauricocha. Copper concentrate recovers approximately 23% of the silver, and zinc concentrate recovers 10%. The overall silver recovery at Yauricocha totaled 76% during the first nine months of 2017.

Yauricocha's metallurgical laboratory has been testing samples from multiple sources, including polymetallic material from Esperanza, Cuerpo Contacto Occidental, from Mina Mario among others. In most of the cases the metallurgical test's results show good amenability to conventional processing and potential to achieve commercial quality concentrates. Some samples show arsenic presence, while others achieve lower concentrate grades because their high oxides content. In all the cases the laboratory personnel are continuously investigating improved process conditions for the new sources.

1.5 Mineral Resource Estimate

The understanding of the geology and mineralization at Yauricocha is based on a combination of geologic mapping, drilling and development sampling that guides the ongoing mine design. SRK has reviewed the methods and procedures for these data collection methods and notes that they are generally reasonable and consistent with industry best practice. The validation and verification of data and information supporting the Mineral Resource estimation has historically been deficient, but strong efforts are being made to modernize and validate the historic information using current, aggressive quality assurance/quality control (QA/QC) methods and more modern practices for drilling and sampling. SRK notes that the majority of the remaining resources in areas such as Mina Central and Cachi-Cachi are supported by modern data validation and QA/QC, and that new areas like Esperanza feature extensive QA/QC and third-party analysis.

SRK notes that the geological modeling procedures currently implemented by the Yauricocha geologists are significantly different than that used in previous years, and are now based on implicit modeling through Aranz's Leapfrog® Geo 3D geology modeling software. This is consistent with industry best practice, and SRK notes that there are significant advances in the detail and extent of geological modeling for the majority of the orebodies. Of particular note for 2017 is the improvement in the ability to model various ore types, some of which were previously excluded from reporting. The distinction between oxide/sulfide, polymetallic/copper/Pb/Ag is complex, and can be more readily modeled with the application of new implicit modeling tools.

The procedures and methods supporting the Mineral Resource estimation have been developed in conjunction with Minera Corona geological personnel. The resource estimations presented herein have been conducted by SRK as independent consultants using supporting data generated by the site. In general, the geologic models are defined by the site geologists using manual and implicit 3D modeling techniques, and are based on information from drilling and development. These models are used to constrain block models, which are flagged with bulk density, mine area, depletion, etc. Grade is estimated into these block models using both drilling and channel samples, applying industry-standard estimation methodology. Mineral Resources estimated by the independent consultants are categorized in a manner consistent with industry best practice, and are reported above reasonable unit value cut-offs.

SRK is of the opinion that the resource estimations are suitable for public reporting and are a fair representation of the in situ contained metal for the Yauricocha deposit.

The July 31, 2017 consolidated audited Mineral Resource statement for the Yauricocha Mine is presented in **Table 0-1**. The detailed and individual tables for the Yauricocha areas are presented in Section 14 of the Yauricocha Technical Report.

Table 0-1: Consolidated Yauricocha Mine Mineral Resource Statement as of July 31, 2017 – SRK Consulting (U.S.), Inc. (1) (2) (3)

Class	Tonnes (kt)	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)	Density
Measured	3,094	69.97	0.79	1.72	1.23	3.20	3.74
Indicated	10,112	59.91	0.60	1.46	0.83	2.67	3.80
Measured + Indicated	13,206	62.26	0.65	1.52	0.92	2.79	3.79
Inferred	6,632	43.05	0.55	1.19	0.47	2.16	3.71

- (1) Mineral Resources are reported inclusive of ore reserves. Mineral Resources are not ore reserves and do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimates. Gold, silver, copper lead and zinc assays were capped where appropriate.
- (2) Mineral Resources are reported at unit value cut-off grades (CoG) based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries** as a function of grade and relative metal distribution in individual concentrates), generalized mining/processing costs).
 - * Metal price assumptions considered for the calculation of unit values are: Gold (US\$1,255/oz), Silver (US\$17.80/oz), Copper (US\$2.60/lb), Lead (US\$1.01/lb), and Zinc (US\$1.25/lb).
 - ** Metallurgical recovery assumptions for the Yauricocha Mine are variable and dependent on mineralization style and orebody type.
- (3) The unit value CoG's for the Yauricocha Mine are variable and dependent on mining method and process/recovery costs, which vary between US\$41 and US\$48.

1.6 Mineral Reserve Estimate

The Mineral Reserve Statement presented herein has been prepared for public disclosure.

The Mineral Reserves are estimated in conformity with CIM Mineral Resource and Mineral Reserves Estimation Best Practices Guidelines (November 2003) and are classified according to CIM Standard Definition for Mineral Resources and Mineral Reserves (May 2014) guidelines. The Mineral Reserve Statement is reported in accordance with NI 43-101.

The reference point at which the Mineral Reserve is identified is where the ore is delivered to the processing plant referred to as mill feed.

SRK notes that the reserve estimation procedures currently implemented by the Yauricocha mine planning personnel are different than that used in previous years and are consistent with industry best practice. The reserve estimation is now based on stope designs using the geology block models and stope optimization software, Mineable Shape Optimizer (MSO). The development design and schedule are based on the mine design tools in the Studio 5DP™ and scheduling software EPS™.

The Yauricocha Mineral Reserve Estimate is comprised of the Proven and Probable material in the Mina Central, Esperanza, Cach-Cachi, Mascota, Cuye, and Cuerpos Pequeños mining areas. The July 31, 2017 consolidated Mineral Reserve Statement for the Yauricocha Mine is presented in **Table 0-2**. The detailed and individual tables for the Yauricocha mining areas are presented in Section 15 of the Yauricocha Technical Report.

Table 0-2: Yauricocha Mine Consolidated Mineral Reserve Statement as of July 31, 2017– SRK Consulting (U.S.), Inc. ^{(1) (2) (3) (4) (5) (6)}

Area	Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)	Ag (koz)	Au (koz)	Cu (t)	Pb (t)	Zn (t)
	Proven	1,836	46.62	0.64	1.08	0.84	2.59	2752.2	37.7	19,805.7	15,347.9	47,630.5
Total	Probable	7,081	48.75	0.49	1.23	0.75	2.38	11100.0	111.9	86,955.1	53,222.4	168,869.1
	P+P	8,917	48.32	0.52	1.20	0.77	2.43	13852.1	149.6	106,760.8	68,570.3	216,499.6

- (1) All figures are rounded to reflect the relative accuracy of the estimates. Totals may not sum due to rounding.
- (2) The consolidated Yauricocha Reserve Estimate is comprised of Proven and Probable material in the Mina Central, Esperanza, Cach-Cachi, Mascota, Cuye, and Cuerpos Pequeños mining areas.
- (3) Mineral Reserves are reported at unit value CoG's based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries** as a function of grade and relative metal distribution in individual concentrates), and variable grade adjustments*** made to the resource model.

* Metal price assumptions considered for the calculation of unit values are: Gold (US\$1,255/oz), Silver (US\$17.80/oz), Copper (US\$2.60/lb), Lead (US\$1.01/lb), and Zinc (US\$1.25/lb).

** Metallurgical recovery assumptions for the Yauricocha Mine are variable by mineralization style and degree of oxidation. Recovery is a function of grade and relative metal distribution in individual concentrates. The assumptions are built in to the unit values for each area, as a function of the metallurgical recovery multiplied by the metal price.

*** Grade adjustment factors are based on historical mine to mill reconciliation, and are variable by mining area.

- (4) The mining costs are based on historical actual costs and are variable by mining method.
- (5) Mining recovery and dilution have been applied and are variable by mining area and proposed mining method.
- (6) The unit value CoG's are variable by mining area and proposed mining method. The economic CoG ranges from US\$56 to US\$63.

1.7 Mining Methods

1.7.1 Mining

The primary mining method at Yauricocha is sub-level caving supplemented by a minor amount of overhand cut and fill. The mine production areas are grouped into six mining areas: Mina Central, Esperanza, Mascota, Cuye, Cachi-Cachi, and Cuerpos Pequeños.

Polymetallic sulfide ore accounts for more than 99% of the material mined at Yauricocha. Material classified as lead oxide can also be encountered, but is a minor component of the overall tonnages in the reserves estimate.

The mine is accessed by two shafts, Central Shaft and Mascota Shaft, or the Túnel Klepetko (Klepetko Tunnel). Ore and waste is transported via Klepetko Tunnel at 720 level (elevation 4,165 masl) which runs east-northeast from the mine towards the mill and concentrator.

Mine production at Yauricocha is currently an average of 3,100 t/d with planned annual production of 1.08 million tonnes per year (Mt/y).

The Yauricocha Shaft is under construction which will provide access down to 1370 level and is expected to be in production mid-year 2020. Additionally, the Yauricocha Tunnel project, expected to be completed for use July 2018, will provide additional flexibility for hauling material to the Chumpe Mill.

1.7.2 Geotechnical

Geotechnical investigations have been conducted at the Yauricocha Mine to prepare a geotechnical model of ground conditions. The investigations involved preparing a major fault model, rock mass model, rock mass strength model, rock mass characterization, granular material (ore) classifications; underground traverse mapping, core logging, laboratory tests, shafts inspections, subsidence studies, preparation of a geotechnical database, and the implementation of a data collection process. SRK has confirmed that these activities comply with international standards and industry best practices.

The Yauricocha geotechnical model prepared by SRK in conjunction with Yauricocha (SRK, 2015) has been updated and no significant changes on the rock mass conditions have been reported by the mine staff.

The geotechnical model includes a major fault model, rock mass model, rock mass strength model, rock mass characterization, and granular material (ore) classifications. The geotechnical data was obtained from underground traverse mapping, core logging, laboratory tests, shafts inspections, and outcrop mapping. SRK's geotechnical QP has reviewed and confirmed that the activities and data collected comply with international standards and industry best practices.

Mudflows are encountered at Yauricocha. At present, lower mined levels where mudflows are occurring are at the 820 level or an elevation of 4,040 to 4,057 masl (Antacaca and Catas ore bodies) and the 870 level or an elevation of 4,010 to 4,093 masl (Rosaura and Antacaca Sur ore bodies). All of the recorded mudflows have been located within ore bodies near the contact with the Jumasha limestone and the adjacent granodiorite and Celendín formation.

In SRK's opinion the amount and quality of data is adequate for supporting the current mine design.

Subsidence analyses has demonstrated a reasonable understanding of mechanisms leading to the observed underground and surface subsidence and cracking disturbance.

The current understanding of mudflow conditions is sufficient to support the drawpoint design adjustments implemented by Yauricocha, mucking operations, and dewatering programs.

SRK did not have access to the 2017 updated geotechnical database and relies on the information described by the mine personnel, who indicate that no significant geotechnical changes have been observed since July 2016.

Even though SRK endorses the current mine designs, Sierra Metals needs to conduct further investigations to determine the effect of the current as-built excavations on the stability of the future mine excavations. SRK recommends that Sierra Metals conduct numerical simulations to determine the optimal mining sequence to reduce the mine induced stresses effect on the new mine stability areas to guarantee successful mining plan.

1.7.3 Hydrogeology

Hydrogeological work has been conducted at the mine by GeoLogic (2014), Hydro-Geo Consultores (2010) and Geoservice Ingenieria (2008). This work has focused on characterizing the regional surface and groundwater regimes as influenced by the mining operations. Data has been collected on levels, from pump tests, tracer tests and surface water weirs. The drainage program is on-going in Mina Central with local programs in Cachi-Cachi.

The interpretation of groundwater data provides an understanding of primarily regional groundwater response to mining. SRK has not had the opportunity to review this data because the information is still being gathered and a groundwater model is being evaluated. Integration of both the geotechnical and hydrogeology models will be conducted once the hydrogeology model is completed.

Dewatering of the immediate hangingwall has improved inflow conditions at drawpoints. Continued dewatering will help to improve stability of the rock mass near the drawpoints. The drainage galleries appear to be effective, but additional drain holes will be required to remove water from the immediate hangingwall intrusives as mining progresses to depth.

1.8 Recovery Methods

Yauricocha's conventional processing plant consists of two parallel processing lines, one for polymetallic sulfide ore, and one for oxide ore. Each circuit's unit processes include a crushing stage, grinding, multi-stage differential flotation, and thickening and filtration.

The polymetallic circuit has a nominal capacity of 2,500 t/d, and during the 2017 January to September period the polymetallic circuit operated on average at 2,653 t/d. The oxide circuit has a nominal capacity of 600 t/d, and is currently underutilized due to supply shortage of oxide minerals. The oxide circuit's average throughput during 2017 is approximately 113 t/d.

Approximately 11% of the fresh feed is recovered into concentrates. During the 2017 January to September period the concentrate production totaled 81,306 t of which 49,222 t was zinc concentrate, 14,217 t was copper concentrate, and the combined lead concentrate totaled 17,867 t (**Table 0-3**). All concentrates are trucked off site.

Table 0-3: Yauricocha Ore Processing and Concentrate Production for 2017 January to September

Processing Circuit	Stream	Tonnes	Throughput t/d (@365d/y)
Polymetallic	Fresh Ore	726,254	2,653
	Cu Concentrate	11,198	41
	Pb Concentrate	17,525	64
	Zn Concentrate	49,222	180
Oxide	Fresh Ore	6,669	24.36
	Pb Concentrate	109	0.40
	Pb Oxide Concentrate	233	0.85
	Fresh Ore	21,715	79.33
	Cu Oxide Concentrate	2,872	10.49
	Fresh Ore	2,632	9.61
	Cu Concentrate	148	0.54

Source: SRK 2017

1.9 Project Infrastructure

The Project is a mature producing mine and mill, with all required infrastructure in place and functional. The Project has highway access with two routes to support Project needs with the regional capital Huancayo (population 340,000) within 100 km. Personnel travel by bus to the site and live in one of the four camps (capacity approximately 2,000 people). There are currently approximately 1,700 personnel on-site with approximately 500 being employees and 1,200 being contractors.

The on-site facilities include the processing plant, mine surface facilities, underground mine facilities, tailings storage facility (TSF), and support facilities. The processing facility includes crushing, grinding, flotation; dewatering and concentrate separation, concentrate storage, and thickening and tailings discharge lines to the TSF. The underground mine and surface facilities include headframes, hoist houses, shafts and winzes, ventilation structures, mine access tunnels, waste storage facilities, powder and primer magazines, underground shops, and diesel and lubrications storage. The support facilities include four camps where personnel live while on-site, a laboratory, change houses and showers, cafeterias, school, medical facility, engineering and administrative buildings, and miscellaneous equipment and electrical shops to support the operations.

The site has existing water systems to manage water needs on-site. Water is sourced from Ococha Lagoon, Cachi-Cachi underground mine, and recycle/overflow water from the TSF, depending on end use. Water treatment systems treat the raw water for use as potable water or for service water in the plant. Additional systems treat the wastewater for further consumption or discharge.

Energy for the site is available through electric power, compressed air, and diesel. The electric power is supplied by contract over an existing 69 kV line to the site substation. The power is distributed for use in the underground or at the processing facility. 12.75 MVA is the current load with approximately 70% of this being used at the mine and the remainder at the mill and other facilities. The power system is being expanded to approximately 20 MVA in 2018. A compressed air system is used underground with an additional 149 KW compressor system being added in 2018 and diesel is used in the diesel equipment on-site and in the 895 kW backup generator.

The site has permitted systems for handling of waste including a TSF, waste rock storage facility, and systems to handle other miscellaneous wastes. The TSF has capacity for 11 months at the current production levels. The TSF will be expanded with another lift in 2018 to provide another three years of capacity. The three additional stages, including the 2018 lift, will provide the Project with approximately nine years of additional capacity. An on-site industrial landfill is used to dispose of the Project solid and domestic waste. The Project collects waste oil, scrap metal, plastic, and paper, and it is recycled at off-site licensed facilities.

The site has an existing communications system that includes a fiber optic backbone with internet, telephone, and paging systems. The security on-site is managed through checkpoints at the main access road, processing plant, and at the camp entrances.

Logistics to the site are primarily by truck with the five primary concentrate products being shipped by 30 to 40 t trucks to other customer locations in Peru. Materials and supplies needed for Project operation are procured in Lima and delivered by truck.

1.10 Environmental Studies and Permitting

SMCSA has all relevant permits required for the current mining and metallurgical operations to support a current capacity of 3,000 t/d. These permits include operating licenses, mining and process concessions, capacity extension permits, exploration permits and their extensions, water use license, discharge permits, sanitary treatment plants permit, and environmental management instruments among others, as well as a Community Relations Plan including annual assessment, records, minutes, contracts and agreements.

SMCSA's only principal environmental management tool is the Environmental Adjustment and Management Plan (PAMA) of the Yauricocha Production Unit (Centromin, 1997), which has the category of an environmental certification similar as an environmental impact assessment.

SMCSA has updated its environmental baseline and adjusted its monitoring program by its Supporting Technical Report to the PAMA "Expanding the capacity of the Processing Plant Chumpe of the Accumulated Yauricocha Unit from 2500 to 3000 TMD" (Geoservice Ambiental S.A.C., ITS approved by Directorial Resolution N° 242-2015-MINEM-DGAAM).

If seeking any expansion, it is likely that a detailed environmental and social impact assessment for the Accumulación Yauricocha Unit will have to be prepared in coordination with SENACE (Peruvian national service for environmental certification). Closure Plan costs are presented in

Table 0-4 .

Table 0-4: Closure Plan - Results of the Updated Cost Analysis (US\$)

Description	Progressive Closure	Final Closure	Post Closure	Total
Direct costs	3,850,845.10	6,899,444.29	728,720.69	11,479,010.08
General costs	385,084.50	689,944.43	72,872.07	1,147,901.00
Utility	308,067.60	551,955.54	58,297.66	918,320.80
Engineering	154,033.80	275,977.77	29,148.83	459,160.40
Supervision, auditing & administration	308,067.60	551,955.54	58,297.66	918,320.80
Contingency	154,033.80	275,977.77	29,148.83	459,160.40
Subtotal	5,160,132.43	9,245,255.35	976,485.72	15,381,873.50
VAT	928,823.84	1,664,145.96	175,767.43	2,768,737.23
Total Budget	6,088,956.27	10,909,401.31	1,152,253.15	18,150,610.73

Source: Report N° 2668384 with reference to Response of the Observation N° 2. Report N°004-2017-MEM-DGM-DTM-PCM

1.11 Capital and Operating Costs

Based on average mining/processing rate of 2,587 t/d and a maximum rate of 3,288 t/d, the Yauricocha reserves should support the project until the end of the first quarter of 2026. The yearly capital expenditure for each of the main areas is summarized in **Table 0-5** .

Table 0-5: Capital Summary (US\$000's)

Description	Total	2018	2019	2020	2021	2022	2023
Mine Development	13,203	1,683	3,840	3,840	3,840	0	0
Equipment Sustaining	20,324	4,794	3,806	3,806	3,806	1,806	2,306
Concentrator Plant	3,046	546	500	500	500	500	500
Tailings Dam	7,498	2,046	0	2,958	0	2,494	0
Pumping System	4,500	500	800	800	800	800	800
Mine Camp	2,840	2,540	60	60	60	60	60
Cross cuts (Esperanza 1070 lv)	2,350	2,350	0	0	0	0	0
Ventilation	2,200	1,800	80	80	80	80	80
Environmental	1,188	188	200	200	200	200	200
Other	1,134	1,134	0	0	0	0	0
Yauricocha Tunnel	2,913	2,913	0	0	0	0	0
Yauricocha Shaft	28,491	11,517	12,961	4,013	0	0	0
Total Capital	\$ 89,688	\$ 32,012	\$ 22,247	\$ 16,257	\$ 9,286	\$ 5,940	\$ 3,946

Source: Sierra Metals, 2017

The Project's operating costs were estimated using a first principles approach and are based on current site-specific data.

Table 0-6 and Table 0-7 present the summary of total operating costs and the summary of unit operating costs.

Table 0-6: Operating Cost Summary (US\$000's)

<u>Area</u>	<u>Total</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Mine	356,159	53,898	50,691	45,482	45,982	48,707	46,664	32,363	18,994	13,377
Plant	87,403	10,411	10,411	10,411	11,568	11,568	11,568	8,023	6,110	7,332
G&A	31,269	4,235	4,235	4,235	4,235	4,235	4,235	2,956	1,656	1,244
Total	31,269	68,544	65,338	60,128	61,785	64,511	62,468	43,342	26,761	21,953

Source: Sierra Metals, 2017

Table 0-7: Unit Operating Cost Summary (US\$/t)

<u>Area</u>	<u>Average</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Mine	41.91	49.91	46.94	42.11	38.32	40.59	38.89	38.64	40.48	37.95
Plant	10.28	9.64	9.64	9.64	9.64	9.64	9.64	9.58	13.02	20.80
G&A	3.68	3.92	3.92	3.92	3.53	3.53	3.53	3.53	3.53	3.53
Total	55.87	63.47	60.50	55.67	51.49	53.76	52.06	51.75	57.04	62.28

Source: Sierra Metals, 2017

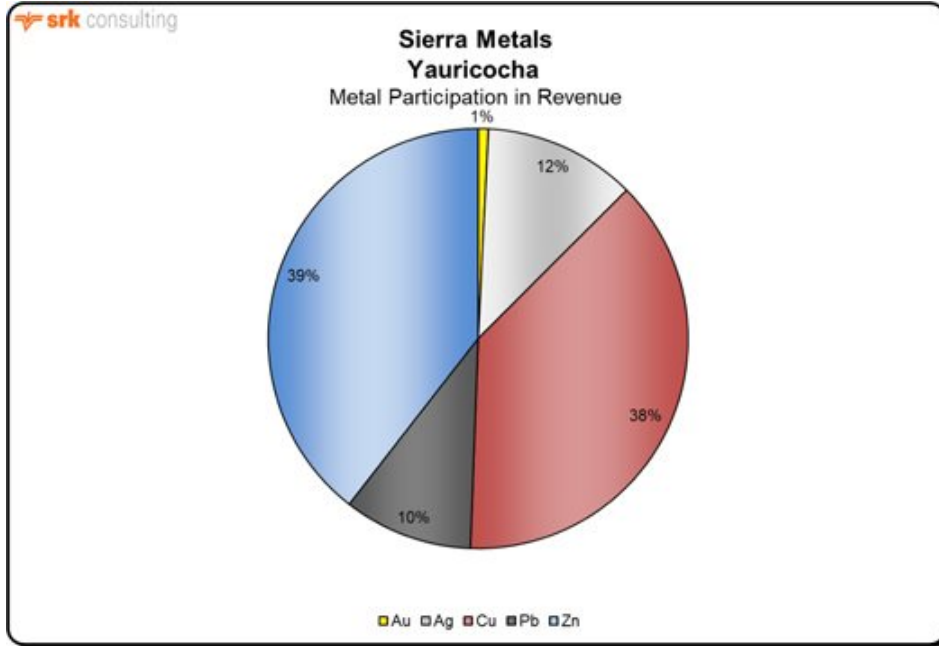
1.12 Economic Analysis

Yauricocha is a polymetallic mine that produces and sells lead, zinc and copper concentrates. Zinc is the biggest contributor to the project revenue and corresponds to approximately 39% of value. Copper is considered a secondary co-product to zinc, corresponding to 38% of the revenue. Lead, silver and gold are considered by-products of the operation and each contribute 10%, 12% and 1%, respectively, to the mine's revenue.

Figure 0-1 presents a graphical representation of each metals contribution to the Project's revenue.

The reserves stated in this report support a profitable operation under the cost and market assumptions discussed in this report.

Figure 0-1: Metal Contribution to Revenue



1.13 Conclusions and Recommendations

1.13.1 Geology and Mineral Resources

SRK is of the opinion that the exploration at Yauricocha is being conducted in a reasonable manner and is supported by an extensive history of discovery and development. Recent exploration success at Esperanza, Cuye, and other areas will continue to develop in the near term and SRK notes that other areas near the current mining operation remain prospective for additional exploration, and that these will be prioritized based on the needs and objectives of the Yauricocha Mine.

The current QA/QC program is aggressive and should be providing increased confidence in the quality of the analytical data. Unfortunately, the results of the standards submitted to both ALS and the Chumpe laboratories continue to show significant failures which could be related to a number of factors that may be out of the control of the laboratory.

SRK is of the opinion that the current procedures and methods for the data collection and validation are reasonable and consistent with industry best practices, but that there are opportunities to improve this going forward. For example, the current management of the “database” is effectively maintained through a series of individual Excel files, which is not consistent with industry best practice. Modern best practices generally feature a unified database software with all of the information compiled and stored in one place, with methods and procedures in place to verify the data and prevent tampering.

SRK is of the opinion that the current procedures and methods for the data collection and validation are reasonable and consistent with industry best practices, and that material changes have been made in the practices of sampling and downhole deviation measurement which improve confidence in the new drilling.

The procedures used for estimating the Mineral Resources at the mine (i.e. Minera Corona) are in development and are far more advanced than previous years. SRK noted some unusual approaches with the sample selection criteria and search distances that yielded reasonable results but that could be refined. For example, the sample selection criteria were locally very restrictive and search distances very limited, and could be improved through more detailed geostatistical analysis. Regardless, SRK’s review and validation of the Minera Corona models found them to be reasonable approximations of the input data and supported by the mine’s excellent understanding of the geology.

SRK is of the opinion that the resource estimations are suitable for public reporting and are a fair representation of the in situ contained metal for the Yauricocha deposit.

1.13.2 Mineral Processing and Metallurgical Testing

SRK is the opinion that Yauricocha's operations is reasonably well operated, and shows flexibility to treat multiples ore sources. The metallurgical performance, i.e., metal recovery and concentrate grade have been consistent throughout the period evaluated allowing them to produce commercial quality copper concentrate, copper concentrate, and zinc concentrate.

The spare capacity in their oxide circuit is an opportunity to source material from third-party mines located in the vicinity. The presence of arsenic is being well managed by blending ores in order to control the arsenic's concentration in final concentrates. Gold department seems an opportunity that Yauricocha may want to investigate, particularly by evaluating gravity concentration in the grinding stage, or alternatively in the final tails, or both.

1.13.3 Mineral Reserve Estimation and Mining Methods

The Yauricocha Mine is a producing operation with a long production history. SRK is of the opinion that the reserve estimations are suitable for public reporting and are a fair representation of the expected mill feed for the Yauricocha deposit. Mine planning personnel are working to improve planning processes and execution of mine plans.

SRK recommends the following:

- Mine to mill reconciliation efforts should continue in order to verify the modifying factors used to convert resources to reserves.
- The Yauricocha Shaft project should be monitored closely in order to ensure timely access to reserves below 1070 level.
- A consolidated 3D life-of-mine (LoM) design be completed to improve communication of the LoM plan, infill drilling requirements, and general mine planning and execution.
- The reserves LoM plan that was generated for this update should be maintained and used by Yauricocha to provide the medium and short-term mine production forecasts.
- The mine planning group should work to generate a Yauricocha LoM plan that includes Inferred resource material.
- Documentation be developed in the form of a mine planning guideline to formally document the mine planning procedures that are undertaken by the Yauricocha mine planning personnel. The documentation should identify the steps involved in reserve estimation and could be in the form of a guideline booklet, presentation slide summary, or simple flowchart.
- A study be conducted to determine if modifying the orientation of the sub-level cave drawpoints to parallel to the strike of the orebody could result in reduced development.

1.13.4 Geotechnical

SRK's geotechnical recommendations are:

- Yauricocha should continue collecting geotechnical data from the mine excavation and the exploration drill holes;
- Initiate a stress measurement campaign;
- Continue implementing short-term and long-term dewatering plan;
- Examine the effect of the current mine layout on the future-planned excavations and mining units;
- Update the subsidence model (SRK, 2015); and
- Examine the current mine sequence and simulate the optimal mine sequence to reduce the risk of losing ore reserves due to unexpected instabilities, subsidence effects on the ore extraction shafts and/or unexpected mudflows.

1.13.5 Recovery Methods

Yauricocha operates a conventional processing plant that has been subject to continuous improvements during the last 18 months, including a crushing stage for the oxide circuit and installation of multiple flotation cells in the polymetallic circuit to improve recovery and deportment of metals.

SRK would recommend that Yauricocha improve the process control by installing instrumentation, particularly in the grinding-classification circuit, more specifically install density control to the ball mill and hydrocyclone classification systems, as well as continuous particle size monitoring of the grinding product. These improvements will allow the plant to reduce electrical energy consumption and ultimately initiate a continuous improvement of the flotation performance.

1.13.6 Project Infrastructure

SRK recommends continued diligence on construction of the Stage 5 facility due to only having 11 months of storage remaining in the Stage 4 facility currently being utilized.

1.13.7 Environmental Studies and Permitting

SMCSA has all relevant permits required for the current mining and metallurgical operations to support a capacity of 3,000 t/d.

SMCSA also has a Community Relations Plan including annual assessment, records, minutes, contracts and agreements.

SMCSA only principal environmental management tool is the Environmental Adjustment and Management Program (PAMA), which has the category of an environmental certification similar as an environmental impact assessment. Its modifications have been awarded by three Supporting Technical Report (ITS, *Informe Técnico Sustentatorio*). Recently, SMCSA applied to the environmental certification agency SENACE to start the evaluation process of the “Environmental Impact Study of the Metallurgical Mining Components Update Project” (Geoservice Ambiental S.A.C., 2017). Hence that this study will have to fulfill the SENACE procedures of admissibility to be admitted, evaluated and approved.

Note that an important gap prevails with reference to the environmental and social impact assessments with regards to the actual environmental protection and management regulation for operating, profit, general labor and mining storage activities (Supreme Decree N° 040-2014-EM, 11/12/2014).

SMCSA also has a closure plan, which has been updated by three amendments.

Table 0-8 through Table 0-10 summarize the results of the updated cost analysis, the annual investment plan and annual calendar for guarantee payment.

Table 0-8: Closure Plan - Results of the Updated Cost Analysis (US\$)

Description	Progressive Closure	Final Closure	Post Closure	Total
Direct costs	3,850,845.10	6,899,444.29	728,720.69	11,479,010.08
General costs	385,084.50	689,944.43	72,872.07	1,147,901.00
Utility	308,067.60	551,955.54	58,297.66	918,320.80
Engineering	154,033.80	275,977.77	29,148.83	459,160.40
Supervision, auditing & administration	308,067.60	551,955.54	58,297.66	918,320.80
Contingency	154,033.80	275,977.77	29,148.83	459,160.40
Subtotal	5,160,132.43	9,245,255.35	976,485.72	15,381,873.50
VAT	928,823.84	1,664,145.96	175,767.43	2,768,737.23
Total Budget	\$ 6,088,956.27	\$ 10,909,401.31	\$ 1,152,253.15	\$ 18,150,610.73

Source: Report N° 2668384 with reference to Response of the Observation N° 2. Report N°004-2017-MEM-DGM-DTM-PCM

Table 0-9: Closure Plan – Summary of Investment per Year (US\$)

Year	Annual Investment	Totals	Closure Stage
2016	25,647.60		
2017	976,708.10		
2018	941,514.60		
2019	997,143.24	5,160,132.43	Progressive
2020	1,184,381.80		
2021	567,310.54		
2022	467,425.51		
2023	3,724,908.73		
2024	5,520,346.51	9,245,255.35	Final
2025	278,995.92		
2026	278,995.92		
2027	139,497.96	976,485.72	Post
2028	139,497.96		
2029	139,497.96		
Total	15,381,873.50	15,381,873.50	

Source: Report N° 2668384 with reference to Response of the Observation N° 2. Report N°004-2017-MEM-DGM-DTM-PCM

Table 0-10: Closure Plan - Annual Calendar for Guarantee Payment

Year	Annual	Accumulated	Situation
2017		14,458,801	constituted
2018	-411,510	14,047,291	to constitute
2019	-353,534	13,693,757	to constitute
2020	-274,787	13,418,970	to constitute
2021	-154,459	13,264,511	to constitute
2022	90,700	13,355,211	to constitute

Note: The amount includes tax (VAT, 18%)

Source: Report N° 112-2017-MEM-DGAAM/DNAM/DGAM/PC.

SRK has the following recommendations for the environmental and social studies and permitting at Yauricocha:

- It is likely that the *Acumulación Yauricocha* Unit will have to present a detailed environmental and social impact assessment in coordination with SENACE in accordance with the actual environmental protection and management regulation for operating, profit, general labor and mining storage activities (Supreme Decree N° 040-2014-EM, 11/12/2014) if seeking any expansion or modification. This includes preparing a number of studies, according to the terms of reference published by SENACE, such as social impact assessment including a social, economic, cultural and anthropological population baseline, hydrogeological pollutant transport model for short-, medium- and long-term scenarios, air quality and contaminant distribution assessment, archaeological survey report as for the certificate of nonexistence of archaeological remains (CIRA, *certificado de inexistencia de restos arqueológicos*), mitigation or compensation measures as applicable, among others. These studies, if well performed, will help to give a better understanding of the environmental and social implications of the mine site.

1.13.8 Economic Analysis and Costs

Yauricocha is a polymetallic mine that produces and sells lead, zinc and copper concentrates. Zinc is the biggest contributor to the project revenue and corresponds to approximately 39% of value. Copper is considered a secondary co-product to zinc, corresponding to 38% of the revenue. Lead, silver and gold are considered by-products of the operation and each contribute 10%, 12% and 1%, respectively, to the mine's revenue. The reserves stated in this report support a profitable operation under the cost and market assumptions discussed in this report.

Mine development quantities and costs used in the valuation were built up from site-specific averages from recent production. The development costs associated with the reserves are only those required to produce the reserves, it is expected that the project will continue to develop new resources and more development will be required in later years, this would result in an increase in mining costs, instead of the decrease projected in the assessment. It is recommended that these higher costs are also considered when evaluating this asset.

Development cost estimates were included in the mining operating costs. SRK recommends that development costs are prepared on a per meter basis combined with a schedule for operational meters of development. This method will ensure that all the development costs are accounted for and transparent.

The valuation contained herein did not consider the impact of an eventual closure of the operation. It is SRK's understanding that there is the potential to extend the mine life further than what is currently supported by reserves. SRK recommends that Sierra Metals include closure liability and asset retirement obligations associated with the project in the future evaluations."

Update to the Yauricocha Capex included in the recently published NI 43-101 Technical Report

The technical report filed on SEDAR on November 10, 2017 noted the inclusion in reserves of 9M tonnes. As indicated in the report, during the years 2018, 2019 and 2020, capital expenditures would have amounted to approximately \$70 million, and this estimate had the shaft sinking down to the 1400 level.

Management has revised some of the estimated capex, and the related activity program for the expenditures was reduced to 2 years from the 3-year timeline set out in the November 2017 technical report.

The capital expenditures included in the technical report has been reduced by \$18M, to \$52M (capex expected to be spent in 2018 is \$28M). This reduction resulted in the elimination of 130 meters of shaft sinking, the elimination of the proposed 1370 level station, and the elimination of the 1400 level loading and spill pocket. This program does not compromise the ability to access the 9M tonnes of reserves delineated in the technical report. This revised capex estimate reflects the necessary capital required to mine the existing 9M tonnes of reserves included in the technical report.

Bolivar Mine, Mexico

The Company owns 100% of the Bolivar Mine.

The following is a Summary of the Bolivar Technical Report dated April 6, 2017 prepared by Qualified Persons, Matthew Hastings (MSc Geology, MAusIMM), Jon Larson (BS Mining Engineering, MBA, MAusIMM, MMSAQP), Jeff Osborn (BEng Mining, MMSAQP), Daniel H. Sepulveda (B.Sc. Metallurgist, SME-RM), John Tinucci (PhD, PE) and Mark Willow, MSc, CEM, SME-RM, of SRK. All tables, figures and sections referred to in this section entitled “Bolivar Mine, Mexico” are set forth in the Bolivar Report. The full text of the Bolivar Report is available for viewing on SEDAR at www.sedar.com and is incorporated by reference in this AIF. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the Bolivar Report.

“1 Summary

The purpose of the Bolivar Technical Report was to present an update on Resources and Reserves for the Company by SRK on the Bolivar Mine, Mexico. The Bolivar Mine is an operating mine that has been in commercial production since late 2011. The Bolivar Technical Report was prepared in accordance with NI 43-101.

1.1 Property Description and Ownership

The Bolivar property is owned by Sierra Metals, formerly known as Dia Bras Exploration, Inc., through subsidiary companies Dia Bras Mexicana S.A. de C.V. and EXMIN S.A. de C.V. (collectively “**Dia Bras**”). The property consists of 14 mineral concessions (approximately 6,800 ha) in the northern Mexican state of Chihuahua. The property is located in the Piedras Verdes mining district, 400 km south by road from the city of Chihuahua (population 4.8 million as of 2010) and roughly 10 km southwest of the town of Urique (population 1,102 as of 2010). The property includes the Bolivar Mine, a historic Cu-Zn skarn deposit that has been actively mined by Dia Bras since November 2011, as well as a processing plant, which is situated approximately 5.1 km by road from the mine.

1.2 Geology and Mineralization

The Bolivar deposit is a Cu-Zn skarn and is one of many precious and base metal deposits of the Sierra Madre belt, which trends north-northwest across the states of Chihuahua, Durango and Sonora in northwestern Mexico (Meinert, 2007). The deposit is located within the Guerrero composite terrane, which makes up the bulk of western Mexico and is one of the largest accreted terranes in the North American Cordillera. The Guerrero terrane, proposed to have accreted to the margin of nuclear Mexico in the Late Cretaceous, consists of submarine and lesser subaerial volcanic and sedimentary sequences ranging from Upper Jurassic to middle Upper Cretaceous in age. These sequences rest unconformably on deformed and partially metamorphosed early Mesozoic oceanic sequences.

The Piedras Verdes district is made up of Cretaceous andesitic to basaltic flows and tuffs intercalated with greywacke, limestone, and shale beds. Cu-Zn skarn mineralization is located in carbonate rocks adjacent to the Piedras Verde granodiorite. Mineralization exhibits strong stratigraphic control and two stratigraphic horizons host the bulk of the mineralization: an upper calcic horizon, which predominantly hosts Zn-rich mineralization, and a lower dolomitic horizon, which predominantly hosts Cu-rich mineralization. In both cases, the highest grades are developed where structures and associated breccia zones cross these favorable horizons near skarn-marble contacts.

1.3 Status of Exploration, Development and Operations

The Bolivar Mine is currently an operational project. In 2016, Bolivar processed 950,000 tonnes of ore producing 17.1 million lb Cu, 398,00 oz Ag, and 2,900 oz Au grading 1.00% Cu, 16.7 g/t Ag, and 0.19 g/t Au. Recovery rates were at 82% Cu, 78% Ag, and 51% Au. The mined material is transported 5 km to 3,000 t/d Piedras Verdes Mill.

1.4 Mineral Processing and Metallurgical Testing

Various development and test mining has occurred at the Bolivar mine under Dia Bras ownership since 2005. Prior to late 2011, no processing facilities were available on site, and the ore was trucked to Cusi's Malpaso mill located 270 km by road. Bolivar's Piedras Verdes processing facilities started operating in October 2011 at 1,000 tonnes per day of nominal throughput. The ore processing capacity was expanded to 2,000 tonnes per day in mid-2013. The current nominal throughput capacity is 3,000 tonnes per day. Bolivar facilities include a metallurgical laboratory at site. Sampling and testing of samples are executed on an as-needed basis.

1.5 Mineral Resource Estimate

Mineral Resource Estimations have been conducted by Matthew Hastings of SRK, a Qualified Person under NI 43-101, using Maptek Vulcan™ and Leapfrog Geo™ software.

SRK has worked with Dia Bras personnel to develop the geology models, grade estimations, and reporting criteria for mineral resources at Bolivar. Geology models were developed by Dia Bras and were modified and reviewed by SRK. In all, there are seventeen individual mineralized bodies identified through drilling and mine development. These were used as hard boundaries for the purposes of the estimation. Although the majority of the estimated resource is supported by drilling, limited channel samples support the estimation near the mined portions of the deposit. The block models were created by SRK, and have been estimated using a combination of inverse distance and ordinary kriging methods. The mineral resources have been estimated and classified in conformity with generally accepted CIM "Estimation of Mineral Resource and Mineral Reserves Best Practices" guidelines.

SRK is of the opinion that the Mineral Resource estimations are suitable for public reporting and are a fair representation of the in-situ contained metal for the Bolivar Mine.

The September 30, 2016, consolidated Mineral Resource statement for the Bolivar Mine area is presented in Table 0-11. These resources are stated in undeveloped areas of the deposits as well as within remaining surveyed pillars in the existing mined out areas. The pillar resources are reported using a lower COG to reflect the fact that they have been exposed through previous mining.

Table 0-11: Consolidated Bolivar Mineral Resource Estimate as of September 30, 2016– SRK Consulting (U.S.), Inc.

Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (koz)	Au (koz)	Cu (t)
Indicated	9,335	18.1	0.30	0.90	5,440	91	83,885
Inferred	9,055	17.9	0.33	0.86	5,200	97	77,830

- (1) Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Copper, gold and silver assays were capped where appropriate.
- (2) Mineral resources are reported at variable metal value cut-off grades based on metal price assumptions*, metallurgical recovery assumptions**, mining/transport costs (US\$13.59/t), processing costs (US\$10.00/t), and general and administrative costs (US\$3.40/t).
- (3) The metal value cut-off grade for the unmined portions of the Bolivar Mine is US\$27 and is US\$20 for the remaining vertical pillars in the mined areas. The mineral resources within the remaining vertical pillars comprise less than 1% of the Indicated Mineral Resources. No mineral resources are reported for the remaining crown or sill pillars.

* Metal price assumptions considered for the calculation of metal value are: Copper (Cu): US\$/lb 2.43, Silver (Ag): US\$/oz 18.30, and Gold (Au): US\$/oz 1,283.00.

** Metallurgical recovery assumptions are 81% Cu, 77% Ag, and 49% Au.

The resources were estimated by SRK. Matthew Hastings, M.Sc, P.Geo, MAusIMM #314693 of SRK, a Qualified Person, performed the resource calculations for Bolivar.

1.6 Mineral Reserve Estimate

Bolivar is a currently operating underground mine with production history under Dia Bras ownership of more than five years. A copper concentrate is produced containing payable copper, silver and minor amounts of payable gold. Various underground development activities, test mining, and smaller scale milling has taken place under Dia Bras ownership since the early to 2000s.

The procedures and methods supporting the mineral reserve estimation have been developed by SRK in conjunction with Dia Bras mine planning personnel. The reserve estimations presented herein have been conducted by independent consultants using supporting data generated by the site. In general each mining area is evaluated using reasonable mining block shapes based on the mining method applicable to the zone. Mineral Reserves estimated by the independent consultants are categorized in a manner consistent with industry best practice. Data and information supporting the mining recovery, mining dilution, metallurgical recoveries, consensus commodity pricing, and treatment and refining charges have been provided by Dia Bras and reviewed by SRK. These factors are used to calculate an NSR for the blocks in the models. Historic and expected direct and indirect mining, processing and general and administrative costs were provided by Dia Bras. To be considered economic, the NSR value of the mining block must be greater than the economic cutoff. Blocks below the economic cutoff but above the marginal cutoff are, in some cases, included in the reserve where they are in between or immediately adjacent to an economic block and it is reasonable to expect that no significant additional development would be required to extract the marginal block. Isolated blocks, defined as blocks with no defined access or blocks that do not pay for the required development, have been excluded. Only material classified as Measured and Indicated Resources contribute to the grade values in a mining block. Material inside the mine design and not classified as Measured or Indicated is assumed to have 0 grade. Mined out areas were provided by Dia Bras personnel, and represent development and production up to September 30, 2016.

Mineral Reserve Estimations have been conducted by Jon Larson of SRK, a Qualified Person under NI 43-101, using Maptek Vulcan™ and Minemax iGantt software. The consolidated mineral reserve statement for the Bolivar Mine is presented in Table 0-12.

Table 0-12: Consolidated Bolivar Mineral Reserve Estimate as of September 30, 2016 – SRK Consulting (U.S.), Inc.

Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (koz)	Au (koz)	Cu (t)
Proven	-	-	-	-	-	-	-
Probable	4,327	17.5	0.31	0.85	2,441	44	36,586
P+P	4,327	17.5	0.31	0.85	2,441	44	36,586

(1) All figures rounded to reflect the relative accuracy of the estimates. Totals may not sum due to rounding.

(2) Ore reserves are reported at NSR cut-offs (CoG) based on metal price assumptions*, metallurgical recovery assumptions**, mining costs, processing costs, general and administrative (G&A) costs, and treatment and refining charges.

* Metal price assumptions considered for the calculation of NSR are: Copper (Cu): US\$/lb 2.43, Silver (Ag): US\$/oz 18.30, and Gold (Au): US\$/oz 1,283.00.

** Metallurgical recovery assumptions are 81% Cu, 77% Ag, and 49% Au.

(3) The NSR CoG is variable by mining method:

- US\$30.50 = Room and Pillar; and
- US\$32.50 = Longhole Stoping.

(4) Ore reserves have been stated on the basis of a mine design, mine plan, and cash-flow model:

- Mining recovery applied is 85%.
- Mining dilution (internal and external), applied with a zero grade, ranges from 12% to 36% and averages 16%

Source: SRK, 2017

The reserves estimated herein are contained in El Gallo Inferior, and zones called Chimenea 1, Chimenea 2, Bolivar West, and Bolivar Northwest. The El Gallo Superior and Bolivar areas are considered mined out, though mineralized material remains in pillars. Any remaining pillar tonnes have not been included in the reserves at this time. The production schedule associated with this reserves estimate results in mining until July 2021 at an average production of approximately 2,500 ore t/day.

1.7 Mining Methods

Ore production at Bolivar is primarily by means of underground room and pillar mining. Ore is processed at the Piedras Verdes mill located south of the mine. Mining has occurred in several mostly shallow dipping zones in the immediate Bolivar area including Bolivar, El Gallo Superior, El Gallo Superior Magnetita, and El Gallo Inferior.

Areas where room and pillar mining occurs are divided into levels measuring approximately 16 m high. Each 16m level is further divided into sublevels of approximately 4 m. A ramp is driven and access to the middle sublevel is established in the footwall, and the initial cut in ore is developed at this middle sublevel. The roof is then drilled, blasted and mucked. The third cut is mined down to the lower sublevel floor. Ramps in ore are established whenever possible to minimize the mining of waste. The remaining 4 m of material is left as a sill pillar.

Chimenea 1, Chimenea 2 and the steeply dipping areas of Bolivar West are suitable for mining using longhole stoping techniques. Longhole stoping can provide for higher production and better recovery of the ore than the room and pillar method. However, there are currently limited zones in the Bolivar area where this mining method is applicable, and mining using this method accounts for approximately 8% of the reserves stated herein. The site has some past experience using longhole techniques in the Chimenea areas.

Current production is from the El Gallo Inferior body. January through September 2016 ore production reported by the mine averaged 2,440 t/day, and ore delivered to Piedras Verdes was 2,460 t/day. Ore is hauled to the surface using one of several adits or declines accessing the orebodies and dumped onto small pads outside the portals. The ore is then loaded into rigid frame over-the-road trucks, typically 18 tonne capacity, and hauled on a gravel and dirt road approximately 5.1 km south to the Piedras Verdes mill.

1.8 Recovery Methods

Dia Bras operates a conventional concentration plant consisting of crushing, grinding, flotation, thickening and filtration of the final concentrate. Flotation tails are disposed of in a conventional tailings facility. Ore feed during year 2016 reached a total of 950,398 tonnes, equivalent to an average of 79,200 tonnes per month, or 2,600 tonnes per day. During 2016, production of copper concentrate has consistently ranged between approximately 2,000 and 2,700 tonnes per month, equivalent to roughly a 2.9% mass pull. The monthly average has consistently reached commercial quality with copper at 27% and credit metals averaging 369 g/t silver and 2.19 g/t gold in 2016. Metal recovery for copper, silver, and gold averaged 81.8%, 78.1% and 52.1%, respectively.

1.9 Project Infrastructure

The Project has fully developed infrastructure including access roads, a man-camp capable of supporting 385 persons that includes a cafeteria, laundry facilities, maintenance facilities for the underground and surface mobile equipment, electrical shop, guard house, fuel storage, laboratories, warehousing, storage yards, administrative offices, plant offices, truck scales, explosives storage, processing plant and associated facilities, tailings storage facility, and water storage reservoir and water tanks.

The site has fully developed and functioning electric power from the Mexican power grid, backup diesel generators and heating from site propane tanks.

The Project has developed waste handling and storage facilities. The site has minimal waste rock requirements but does have a small permitted area to dispose of waste rock. The tailings management plan at the Bolivar mine includes placement of tails in a number of locations in and around the Tailings Storage Facility (TSF) that has been in operation since late 2011. The current TSF has five locations to store tailings (TSF1-5). The site will develop an expansion TSF to the west of the existing facilities for future tailings.

Tailings consisting of approximately 40% solids will be placed in conventional tailings storage facilities until June 2017. The site is installing an additional thickener and filter presses to allow additional water recovery. Thickened tails (60% solids) will be placed from June 2017 to February 2018. After the filter presses are constructed dry-stack tails will be placed after February 2018.

The main TSF will be utilized until mid-2019. A new dry-stack TSF (New TSF) to be located just to the west of the existing facility will be utilized after mid-2019 and has an expected life through 2023.

SRK notes that Dia Bras has allocated US\$6.1 million in 2017 for the thickener, filter presses, and TSF expansion civil works.

The overall Project infrastructure is built out and functioning and adequate for the purpose of the planned mine and mill. SRK notes that the current tailings facility will need to be expanded to support the continued operation of the processing plant.

1.10 Environmental Studies and Permitting

SRK's environmental QP did not conduct a site visit of the Bolivar Mine. As such, the following information is predicated on a review of limited data and documentation provided by the site and direct communications with legal representatives for the operator.

The current tailings disposal facility has capacity until mid-2019. Dia Bras intends to build additional tailings capacity concurrent with mine operations. The expansion will require additional permitting effort. Dia Bras intends to build additional tailings capacity concurrent with mine operations. The expansion of the existing tailings facility will require additional permitting effort.

Geochemical characterization results for 2014 and 2015, provided to SRK, indicate low metals leaching potential and either uncertain or non-acid generating potential. The 2016 ABA results (NP = 52.5 kg CaCO₃/ton; AP = 141 kg CaCO₃/ton), however, suggest that some of the more recent material may be potentially acid generating: NP/AP = 0.372. Additional investigation of the current materials being deposited into the tailings impoundment may be warranted; however, given the dryness of the Chihuahuan Desert, this may not necessarily be a material issue for the project.

The required permits for continued operation at the Bolivar Mine, including exploration of the site, have been obtained. SRK has not conducted an investigation as to the current status of all the required permits. At this time, SRK is not aware of any outstanding permits or any non-compliance at the project or nearby exploration sites.

In 2009, SEMARNAT agreed that an environmental impact assessment for the Bolivar Mine was not necessary since the area has been under exploration and exploitation since 1979, but that Dia Bras was still subject to the applicable environmental regulations. However, in the event that modifications to the existing operation were proposed, SEMARNAT would need to be consulted to determine the appropriate procedures for authorization.

In 2015, an authorization for the Unique Environmental License (Licencia Ambiental Unica [LAU]) was granted by SEMARNAT to EXMIN in order to carry out mineral processing and other metallurgical activities (beneficiation) at the Bolivar mill site. The document establishes the environmental obligations to be met by the company.

In 2014, the enforcement branch of SEMARNAT, PROFEPA, conducted an inspection of several streams and arroyos near the EXMIN property (Bolivar Mine). SRK understands from the documentation provided that tailings from the beneficiation plant had spilled into these drainages during heavy rains in 2013. According to EXMIN, the cleanup was performed over a period of several months, and any residual testing showed that the materials in the streams met with Mexican norms. No further action appears to have been ordered.

In February 2017, Treviño Asociados Consultores presented to Dia Bras, S.A. de C.V. a work breakdown of the anticipated tasks for closure and reclamation of the Bolivar Mine. The closure costs were estimated to be MX\$9,259,318 (~US\$453,888). SRK's scope of work did not include an assessment of the veracity of this closure cost estimate, but, based on projects of similar nature and size within Mexico, the estimate appears low in comparison.

1.11 Capital and Operating Costs

Using an average mining rate of 2,985 t/d and a processing rate of 2,450 t/d, the Bolivar reserves should support the project until July 2021.

The yearly capital expenditure by area is summarized in Table 0-13.

Table 0-13: Capital Cost Summary

Description	Total (\$000s)	2016 (\$000s)	2017 (\$000s)	2018 (\$000s)	2019 (\$000s)	2020 (\$000s)	2021 (\$000s)	2022 (\$000s)
Mine Development	10,221	193	1,989	4,440	2,602	983	14	0
Vent Raises	2,659	0	308	1,278	1,073	0	0	0
Equipment Sustaining	14,699	0	5,515	5,732	3,254	173	25	0
Geological Exploration	11,442	0	3,223	2,444	1,680	2,005	2,090	0
Plant Sustaining	866	0	866	0	0	0	0	0
TSF Sustaining	6,376	0	5,276	514	586	0	0	0
Closure	453	0	0	0	0	0	0	453
Total Capital	\$ 45,162	\$ 193	\$ 17,177	\$ 14,407	\$ 9,195	\$ 3,161	\$ 2,129	\$ 453

Source: SRK, 2017

The basis of the operating cost estimate is a first principles approach based on site specific data. Dia Bras' technical team provided SRK with historic costs on a monthly basis, which was used to derive future costs.

Table 0-14 and Table 0-15 show a summary of total operating costs and unit operating costs.

Table 0-14: Operating Cost Summary

Area	Total (\$000s)	2016 (\$000s)	2017 (\$000s)	2018 (\$000s)	2019 (\$000s)	2020 (\$000s)	2021 (\$000s)
Mine	58,812	3,101	12,435	12,684	13,246	13,146	4,200
Plant	43,277	2,282	9,151	9,334	9,747	9,674	3,090
G&A	14,729	777	3,114	3,177	3,317	3,292	1,052
Total	\$ 116,817	\$ 6,159	\$ 24,700	\$ 25,194	\$ 26,311	\$ 26,112	\$ 8,342

Source: SRK, 2017

Table 0-15: Unit Operating Cost Summary

Area	LoM (\$000s)	Average (\$/t)
Mine	58,812	13.59
Plant	43,277	10.00
G&A	14,729	3.40
Total	\$ 116,817	\$ 26.99

Source: SRK, 2017

1.12 Economic Analysis

The reserves stated in this report support a profitable operation under the cost and market assumptions discussed in this report and indicate a free cash flow of US\$10.4 million and a present value of US\$7.1 million based on a discount rate of 8%.

Economic projections of the base case metal prices scenario indicate that the project's present value and cumulative free cash flow will be negative in 2017 and 2018 and recover in 2019. The project's present value will be negative between 2017 and 2019 and recover in 2020. This is related to two factors. The first is the high intensity of capital expenditure projected for these two years, and the second is a small dip in the copper production for 2018. The breakeven copper price for Bolivar is US\$2.2425/lb; SRK notes the current spot price is around approximately US\$2.65/lb and a price of US\$2.43 was used in this economic analysis.

The current scenario presents Dia Bras with two years of relatively significant capital financing requirements considering the estimated reserves. SRK recommends that the company should conduct the studies described herein to:

- Evaluate a pillar recovery program;
- Revise the mining method; and
- Utilize tailings as backfill.

The potential improvements may allow the operation to revise its production schedule, revise the capital expenditure schedule, and allow prioritization of further geological study and exploration to identify resources and reserves that will support a more favorable LoM plan.

1.13 Conclusions and Recommendations

1.13.1 Geology and Mineral Resources

SRK has the following conclusions regarding the exploration efforts and potential for the Bolivar and La Sidra areas.

- Several areas within the Bolivar Mine would benefit from additional drilling, as the current spacing is insufficient to adequately define the continuity of mineralization for prospective mining. Areas that would benefit from additional drilling to improve confidence in the estimation include Bolivar NW, Bolivar W, and Incredible/Step Out.
- Other areas such as extensions of El Gallo Inferior and the Chimeneas orebodies are close to existing mining operations and would benefit from additional drilling to expand known resources.
- SRK notes that areas such as Bolivar W, Step-Out, and Incredible would all benefit from better positioning of drill stations, as some of the drilling orientations in the current database are getting very near to the same strike and dip as the mineralized bodies themselves.

SRK is of the opinion that the Mineral Resource Estimate has been conducted in a manner consistent with industry best practices and that the data and information supporting the stated Mineral Resources is sufficient for declaration of Indicated and Inferred classifications of resources. SRK has not classified any of the resources in the Measured category due to certain deficiencies regarding the data supporting the Mineral Resource Estimate.

These deficiencies include:

- The lack of a historic QA/QC program, which has only been supported by a recent resampling and modern QA/QC program for a limited number of holes. Measured resources generally are supported by high resolution drilling or sampling data that feature consistently implemented and monitored QA/QC.
- The lack of consistently-implemented down-hole surveys in the historic drilling. Observations from the survey data which has been done to date show potential for significant deviations from planned orientations as well as local down-hole deviations that may influence the exact position of mineralized intervals.
- The lack of industry-standard asbuilt data delineating mined out areas. SRK utilized multiple data types to define the mined areas, and notes that none of them include well-defined 3D solids with measurable volumes. SRK has constructed 3-D solids by combining AutoCAD level plan survey lines, points, and as built triangulations and generated distance buffers (3 m) to obtain volumes in areas that have been mined. There is still uncertainty associated with this practice, but SRK notes that this is likely balanced by the conservative nature of distance buffer approach, which may actually flag some material that is to be mined in the near term as having been previously mined.

1.13.2 Mining and Reserves

Recent production data was used as a primary source of information to validate or derive, as necessary, the relevant modifying factors used to convert Mineral Resources into Mineral Reserves. SRK is of the opinion that the Mineral Reserve Estimate has been conducted in a manner consistent with industry best practices and that the data and information supporting the stated mineral reserves is sufficient for declaration of Probable classifications of reserves.

The production schedule associated with this reserve estimate results in mining until July 2021 at an average production of approximately 2,500 ore t/day. The tailings storage facility will need to be expanded. Dia Bras is planning to install an additional thickener and filter presses and move to a dry stack method of tailings handling and storage. As a result, the overall tailings handling system will evolve over the next twelve months. Dia Bras has budgeted capital for these activities and is working with a number of external contractors to complete the various phases of the overall management plan. Delays in these projects could impact the overall mine plan by delaying the processing of ore at Piedras Verdes beyond 2017.

SRK has the following recommendations regarding mining and reserves at Bolivar:

- The planning of infill drilling and mine planning should emphasize the conversion of resources into reserves inventory especially for the mid- and long-range planning horizons;
- Use updated 3D mine survey data and improved processes to:
- Regularly perform stope-by-stope planned to actual reconciliations, for both grade and tonnage mined, to continually validate the mining recovery and dilution assumptions; and
- Develop an estimate of the tonnes and grade remaining in pillars;
- Initiate a mining methods trade-off study to plan for the safe extraction of pillars and identify possible improvements to the mining methods used. This study should also include the analysis of utilizing tailings as backfill in the mine;

- Develop and annually update a 3D life-of-mine (LoM) design and schedule; and
- Develop and implement a whole-of-mine ventilation plan in order to implement and maintain a forced ventilation system over the life of the mine.

1.13.3 Recovery Methods

SRK notes a high level of month-to-month variability for both tonnes and head grade input to processing. Better integration between geology, mine planning and processing can significantly reduce this variability. Additional work is also needed in the processing facilities to stabilize the operation. Improvements include the implementation of a preventive maintenance program and training programs to improve operators' skill, with the ultimate objective of improving metal recovery and lower operating cost, while maintaining or improving concentrate quality.

1.13.4 Tailings Management

As part of the overall tailings management plan, Bolivar is moving to filtered tailings. Expansion in the immediate area of the currently operating facility will occur as the site moves first to thickened tailings in mid-2017 and to filtered tailings in early 2018. SRK recommends that the site continue its project efforts to complete the installation of the thickener, filter presses, and conveyor. The site must ensure that all required detailed designs are completed and permits are in place for successful operation of the New TSF located to the west of the existing facility. An analysis of utilizing tailings as backfill in the mine should be carried out, and a trade-off study should be completed to determine if the size of the New TSF can be reduced.

1.13.5 Environmental and Permitting

SRK has the following recommendations regarding environment, permitting, and social or community impact at Bolivar:

- SRK recommends that Dia Bras contract an independent review of the closure cost estimate, with an emphasis on benchmarking against other projects in northern Mexico. This will require a site investigation and the preparation of a more comprehensive and detailed closure and reclamation plan before a closure specialist evaluates the overall closure approach and costs.
- Based on the 2016 geochemical characterization data, a more robust and comprehensive testing program for the tailings should be undertaken with an emphasis on closure of the existing facilities in such a manner as to not pose a risk to local groundwater resources.”

Cusi Mine, Mexico

The Company owns 100% of the Cusi Mine.

The following is a summary of the Cusi Technical Report dated August 31, 2017 prepared by Qualified Persons Giovanni J. Ortiz (BSc Geology, FAusIMM), Fernando Rodrigues (BS Mining, MBA, MMSAQP), Daniel H. Sepulveda (B.Sc. Metallurgist, SME-RM), and Mark Willow (MSc, CEM, SME-RM) of SRK. All tables, figures and sections referred to in this section entitled “Cusi Mine, Mexico” are set forth in the Cusi Technical Report. The full text of the Cusi Technical Report is available for viewing on SEDAR at www.sedar.com and is incorporated by reference in this AIF. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the Cusi Technical Report.

“1 Summary

This report was prepared as a National Instrument 43-101 (NI 43-101) Technical Report (Technical Report) on Resources for Sierra Metals, Inc. (Sierra Metals) by SRK Consulting (U.S.), Inc. (SRK) on the Cusi Mine, Mexico (Cusi or The Mine). The purpose of this report is to present the methods and results of the current mineral resource estimate for the Cusi.

1.1 Property Description and Ownership

The Cusi property is held by Sierra Metals, formerly known as Dia Bras Exploration, Inc., through subsidiary companies Dia Bras Mexicana S.A. de C.V. and EXMIN S.A. de C.V. (collectively Dia Bras). It is located within the Abasolo Mineral District in the municipality of Cusihuirachi, state of Chihuahua, Mexico. The property is 135 kilometers (km) from Chihuahua city by car and consists of 75 mineral concessions (11,815.3 hectares [ha]) wholly owned by Sierra Metals. Included in these concessions are six historic silver-lead (Ag-Pb) producers developed on several vein structures: The San Miguel Mine, La Bamba open pit, La India Mine, Santa Eduwiges Mine, San Marina Mine, and Promontorio Mine, as well as exploration concessions around the historic mine areas.

Sierra Metals holds surface rights to an area of 1,020 ha located generally within the area where Sierra Metals holds mineral concessions. Sierra Metals' area of surface rights includes the access points to the Promontorio and Santa Eduwiges underground mines that are in operation, as well as surface rights over all resource areas delineated in this report, with the exception of La India.

1.2 Geology and Mineralization

The property lies within a possible caldera that contains a prominent rhyolite body interpreted as a resurgent dome. The rhyolite dome trends northwest-southeast with an exposure of roughly 7 km by 3 km and hosts mineralization. It is bounded (cut) on the east side by strands of the NW-trending Cusi fault and on the west by the Border fault. The Cusi fault is a regional fault that may have controlled the location of the caldera and resurgent dome. Continued movement on the Cusi and related faults cut and brecciated the caldera and dome rocks and provided conduits for mineralizing fluids.

Numerous mineralized veins on the property, typically moderately to steeply dipping to the southeast, southwest, and north, range from less than 0.5 to 2 meters (m) thick, extend 100 to 200 m along strike and up to 400 m down-dip. There are at least seven major mineralized structures within the Cusi area, described below. Historically, small open pits were typically developed at vein intersections. Mineralization mainly occurs in faults, epithermal veins, breccias, and fractures ranging from 1 to 10 m thick.

Low-grade mineralized areas exist adjacent to major structures, showing intense fracturing and are commonly laced with quartz veinlets forming a stockwork mineralized halo around more discrete structures. The country rock in these zones is variably silicified. Pyrite and other sulfide minerals are disseminated in the silicified country rock and are also clustered in the quartz veinlets. A well-developed mineralized stockwork zone is in the Promontorio area, especially proximal to the Cusi fault.

1.3 Status of Exploration, Development and Operations

Cusi is an operating mine, with extensive supporting infrastructure and underground development. In addition to this, there are numerous satellite exploration targets which are the subject of drilling and exploration drifts.

1.4 Mineral Processing and Metallurgical Testing

Cusi's Malpaso mill is a conventional processing facility that has been long in operation. The performance statistics for the 2015 January to 2016 August period show that Cusi operates at a throughput ranging from 500 tonnes per day (t/d) to 600 t/d, or approximately 17,000 tonnes per month of fresh ore. In 2017, 87,690 tonnes (t) were processed with an average of 7,300 tonnes per month. Lead and zinc head grades are comparable and cover a wide range, with monthly average values for the 2017 period between 0.77% and 1.59% for Lead (Pb) and between 0.57% and 1.72% for Zinc (Zn). Silver (Ag) head grade range between 129 grams per tonne (g/t) to 223 g/t, and gold (Au) head grade range between 0.21 g/t to 0.28 g/t in the same period.

Historically, Cusi produced lead concentrate only, and since 2015 December it is also producing zinc concentrate. Lead concentrate production for the first eight months in 2016 ranged approximately between 300 tonnes per month to 800 tonnes per month with lead grade ranging between 30% and 40%.

Zinc concentrate production for the January to August 2016 period ranged approximately between 100 tonnes per month and 300 tonnes per month with zinc grade ranging from 50% to 55% approximately.

Silver metals is preferably deported to lead concentrate reaching recovery ranging from 70% to 80%. For the period in question, silver grade in lead concentrate is ranging from approximately 3,000 g/t to 7,000 g/t. Average silver recovery for 2016 was approximately 74%. Some improvements in the process plant implemented during the second semester of 2017 increased recoveries of silver of up to 87% and a yearly average of 70.34%.

Silver deportment to zinc concentrate is in the range of 1% to 3% and its grade reaches 300 g/t to 560 g/t, which is within a commercially payable range.

In 2017, the average grades of the Lead concentrate were 4.88 g/t Au, 3,949 g/t Ag, 29.41% Pb and 8.74% Zn.

1.5 Mineral Resource Estimate

Giovanny J. Ortiz, Associate Geologist, SRK Consulting (U.S.), Inc. conducted the update of resource estimation using a combination of software including Leapfrog Geo™, Maptek Vulcan™, and statistical analysis software including Snowden Supervisor™ and X10 Geo™.

The basis for the mineral resource estimate is a digital database featuring details about geology, structure, and mineralization. The updated drillhole and channel assay database was provided to SRK by Dia Bras on November 16, 2017. It features both drilling and channel samples, which are current to August of 2017. The final database contains over 65,000 assays from drilling and over 36,000 from channel sampling. The two data sets have been merged for the purposes of geological modeling, statistical analysis, and estimation.

Three-dimensional wireframe models for the Cusi veins were created by Dia Bras using Leapfrog Geo™ software. SRK reviewed the Leapfrog project files and the solids generated. The geology models are developed on a combination of geology codes and Ag grades, and effectively are built using hangingwall and footwall surfaces derived through selection of these points in the drilling and channel sample database, with subsequent interpolation of the points into 3 dimensional (3D) surfaces and volumes.

SRK considered each vein its own domain for the purposes of statistical analysis and estimation. SRK limited high grade outlier samples by capping the maximum grades for each area, and limiting samples above the cap to the grade of the cap. In order to minimize the variance in the estimation due to inherent variability in grade distributions within domains and provide a more homogenous data set for estimation, SRK used capping of high grades as well as compositing of sample lengths. Capping analysis was done on the raw sample data, evaluating each data set by relevant area. SRK evaluated the sample lengths within the mineralized domains defined by the geological model. The mean sample length within the mineralized domains is 0.68 m, with a maximum sample length of 8.2 m. SRK notes that there are very few samples that would be affected by a compositing length of 1.5 m that would in turn affect the estimation. SRK selected a nominal composite length of 1.5 m, retaining short samples for use in the estimation.

Bulk density of vein material is assigned on the basis of the results of specific gravity samples analyzed by the Servicio Geologico Mexicano (SGM) on behalf of Dia Bras. The average density of the samples is 2.73 grams per cubic centimeter (g/cm^3), and this density was flagged into the block model for use in the resource calculations.

Seven block models were built in Maptek Vulcan™ software and are designed to approximate the orientation of the strike for the major structures contained in each model. SRK interpolated grades for Ag, Au, Pb, and Zn using an inverse distance squared and cubed estimation methods. In general, a nested three-pass estimation was used with higher restrictions on sample selection criteria in the initial smaller passes, to less restrictive criteria in the subsequent, larger ellipsoids. The variations in the distribution of samples and the issue of clustering of high grade channel samples is dealt with using an octant restriction on the estimation.

SRK has validated the estimation for each model using a variety of methods considered to be industry standard. These include a visual comparison of the blocks versus the composites, an assessment of the quality of the estimate, and comparative statistics of block vs. composites.

SRK is satisfied that the geological modeling honors the current geological information and knowledge. The location of the samples and the assay data are sufficiently reliable to support resource estimation. The sampling information was acquired primarily by core drilling and channel sampling from mine development. SRK classified the mineral resources in a manner consistent with CIM Guidelines as Measured, Indicated and Inferred Mineral Resources.

Significant factors affecting the classification include:

- Lack of historic and consistent Quality Assurance/Quality Control (QA/QC) program;
- Lack of downhole surveys for most drillholes and measured deviations from planned and actual azimuths;
- Spacing of drilling compared to observed geologic continuity; and
- Cusi is a producing mine with a successful operating history dating more than 10 years.

SRK has based this classification both on the continuity observed in well-drilled areas of the Mine, as well as geologic continuity observed from underground exposures of the mineralization, and according to the CIM Definition Standards on Mineral Resources and Mineral Reserves, December 2005.

SRK updated the depleted the block models for previous mining prior to August 31, 2017.

The “reasonable prospects for economic extraction” requirement generally implies that the quantity and grade estimates meet certain economic thresholds and that the Mineral Resources are reported at an appropriate cut-off grade taking into account extraction scenarios and processing recoveries. Costs for mining and processing are taken from data provided by Dia Bras for their current underground mining operation. Costs were broken down as follows; Mining US\$29.41/t, Processing US\$18.3/t, and General and Administrative (G&A) US\$3.74/t. These costs aggregate to US\$51.45/t. Assuming a price for Ag of US\$18.30/oz, Lead US\$0.93/lb, Zinc US\$1.15/lb and Gold US\$1,283.00/oz, and recoveries of 84% Ag, 57% Au, 86% Pb, 51% Zn, this cost equates to a grade of about 105 g/t silver equivalent (AgEq). SRK has reported the mineral resource for Cusi at this cut-off.

The August 31, 2017, consolidated mineral resource statement for the Cusi area is presented in Table 0-16.

Table 0-16: Cusi Mine Mineral Resource Estimate as of August 31, 2017 – SRK Consulting (U.S.), Inc.

Source	Class	Ag_Eq (g/t)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Tonnes (000's)
Santa Rosa de Lima (SRL)	Measured	268	225	0.13	0.55	0.68	362
Total Measured		268	225	0.13	0.55	0.68	362
Promontorio		241	213	0.08	0.37	0.44	1097
Eduwiges		293	198	0.26	1.35	1.32	928
SRL		296	242	0.32	0.62	0.64	1435
San Nicolas		195	176	0.13	0.21	0.22	414
San Juan	Indicated	208	189	0.13	0.2	0.21	121
Minerva		222	198	0.4	0.09	0.05	57
Candelaria		386	366	0.14	0.17	0.28	46
Durana		224	219	0.06	0.05	0.02	97
Total Indicated		267	217	0.21	0.64	0.66	4,195
Measured+Indicated		267	217	0.21	0.63	0.66	4,557
Promontorio		218	185	0.1	0.35	0.62	308
Eduwiges		229	115	0.09	1.78	1.79	147
SRL		216	158	0.22	0.55	1.04	658
San Nicolas		181	161	0.14	0.21	0.23	340
San Juan	Inferred	200	186	0.04	0.15	0.27	44
Minerva		149	143	0.05	0.08	0.06	5
Candelaria		185	125	0.16	0.62	1.17	128
Durana		124	115	0.01	0.17	0.09	3
Total Inferred		207	158	0.16	0.54	0.84	1,633

- (1) Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, lead and zinc assays were capped where appropriate.
- (2) Mineral resources are reported at a single cut-off grade of 105 g/t AgEq based on metal price assumptions*, metallurgical recovery assumptions, mining costs (US\$29.41/t), processing costs (US\$18.3/t), and general and administrative costs (US\$3.74/t).
 - * Metal price assumptions considered for the calculation of the cut-off grade and equivalency are: Silver (Ag): US\$/oz 18.30, Lead (US\$/lb 0.93), Zinc (US\$/lb 1.15) and Gold (US\$/oz 1,283.00).
 - ** Based on the historical production information of Cusi, the metallurgical recovery assumptions are: 84% Ag, 57% Au, 86% Pb, 51% Zn.
- (3) The resources were estimated by SRK. Giovanni Ortiz, B.Sc., PGeo, FAusIMM #304612 of SRK, a Qualified Person, performed the resource calculations for Cusi.

1.6 Mineral Reserve Estimate

SRK did not produce a reserve estimate or review reserves stated by Sierra Metals. Sierra Metals does not consider a release of reserves to be appropriate or of value at this time until sufficient work has been done to better delineate these resource areas and apply all relevant modifying factors.

1.7 Mining Methods

The primary underground mining method employed at Cusi in 2017 is overhand cut and fill with 93% of the production and the remaining 7% by shrinkage stope.

Despite lacking a prefeasibility or feasibility study in the public market, which discloses mineral reserves, Cusi is, in fact, in operation and producing mineralized material from the underground mine. SRK notes that prefeasibility and feasibility studies are required for statement of reserves, but are not required for a company to initiate production for a property.

In December 2017, the mining operation produced approximately 270 tonnes of ore per day, and 214 tonnes of waste per day. The source of mined material is split evenly between the Promontorio (83%) and Santa Eduwiges (17%) mine areas at this time.

1.8 Recovery Methods

The Cusi concentrator is located in the outskirts of Cuauhtémoc City, approximately 50 km by road from Cusi operations. Dump trucks each hauling approximately 20 t of ore delivered 186,898 t and 87,690 t during the 2016 and 2017 periods respectively.

The Cusi processing facilities include two interconnected process plants, which are the Malpaso Mill purchased from Rio Tinto, and the El Triunfo Mill. Both Mills are conventional ball mill and flotation plants fed from a single crushing circuit. The flotation circuit has the ability to produce lead concentrate and zinc concentrate.

1.9 Infrastructure

The Project has fully developed infrastructure, including access roads, an exploration camp, administrative offices, a processing plant and associated facilities, tailings storage facility, a core logging shed, water storage reservoir and water tanks.

The site has electric power from the Mexican power grid, backup diesel generators and heating from site propane tanks. The overall Project infrastructure is built out and functioning and adequate for the purpose of the planned mine and mill.

1.10 Environmental and Permitting

Based on communications with representatives from Sierra Metals, it does not appear that there are currently any known environmental issues that could materially impact the extraction and beneficiation of mineral resources. However, given the pre-regulation vintage of the original tailings storage facilities (piles), the likelihood is high that these facilities are not underlain by low-permeability liners, increasing the risk of a long-term liability of metals leaching and groundwater contamination. Sierra Metals intends to cover these facilities during decommissioning in order to minimize this risk. Dia Bras personnel have commented that drill data near the newer tailings impoundment suggests that the underlying material will have no material permeability issues.

1.11 Capital and Operating Costs

SRK did not conduct a detailed review of costs as a part of this study. Only a high-level review was achieved during this scope of work. Capital is allocated based on a yearly budget, which is approved by the board. Additionally, operating costs are similar to other Mexican mines with the same mining method and mill feed.

1.12 Economic Analysis

SRK did not conduct a detailed review of costs or project economics as a part of this study.

1.13 Conclusions and Recommendations

1.13.1 Geology and Mineral Resources

SRK is of the opinion that the exploration efforts at Cusi are sufficient for the definition of mineral resources. The primary exploration method at Cusi has been diamond core drilling followed by limited underground development, which has been successful in delineating a system of discrete epithermal veins and related stockwork mineralization associated to areas of interception of veins. The drilling appears to be able to target and identify mineralized structures with reasonable efficacy, and the majority of drilling is oriented in a fashion designed to approximate true thicknesses of the veins. The exploration should be designed to maximize conversion of higher grade Inferred areas with less dense drilling to Measured and Indicated, or extending mineralization away from known areas accessed through channel sampling. Efforts during the last year have been focused on the area of SRL - San Nicolas with infill drilling.

Mine development is also used for exploration, as direct access of the veins along underground drifts is an excellent and efficient way for Cusi to understand the mineralization on a more local basis. More effort should be made to improve underground survey data, channel sampling consistency, and 3D as-built data.

SRK notes that Sierra Metals continues improving the quality of the drilling and information through more complete and thorough survey data (for drilling and underground development), as well as modern QA/QC programs which are delivering reasonable results. This lends additional confidence to recently-defined resources or newly drilled portions of historic areas.

SRK also notes that problems for the internal Malpaso Mill laboratory, identified in this document as well as previous technical reports, appear to continue although some improvements have been implemented in 2017. These are related to significant differences in precision recognized between the values reported for identical samples between Malpaso and third-party laboratories. These issues, combined with historic deficiencies in downhole surveying and QA/QC detract from the confidence in quality of the historic data.

The geologic model has been constructed by Dia Bras geologists, and reviewed by SRK using Leapfrog Geo™ software. Drilling and channel sample data, as well as sectional interpretation was used in development of the 3D geology shapes, defining veins and stockwork zones. These are used as resource domains to constrain and control the interpolation of grade during the estimation.

SRK built individual block models for the main resource areas, which have been rotated and sub-blocked to better fit the geologic contacts in each area. Grades were interpolated from capped and composited sample data using an inverse distance squared and cubed algorithm, with sample selection criteria designed to decluster the channel sample data compared to the drilling. A nested three-pass estimation was used, with decreasing data selection criteria.

SRK is of the opinion that the Mineral Resource Estimate has been conducted in a manner consistent with industry best practices and that the data and information supporting the stated mineral resources is sufficient for declaration of Measured, Indicated and Inferred classifications of resources. SRK has classified Measured resources category in the area of SRL, where the recent drilling campaign was carried out implementing an improved QA/QC program, downhole surveys, and channel sampling. In the rest of the areas, none of the resources were classified in the Measured category due to aforementioned uncertainties regarding the data supporting the Mineral Resource Estimate.

These deficiencies (for areas other than the SRL vein) include:

- The lack of a historic QA/QC program, which has only been supported by a recent resampling and modern QA/QC program for a limited number of holes. This type of program will be required in order to achieve Measured resources which generally are supported by high resolution drilling or mine sampling data that feature consistently implemented and monitored QA/QC.
- The lack of consistently-implemented down-hole surveys in the historic drilling. Observations from the survey data which has been done to date show significant down-hole deviations that influence the exact position of mineralized intervals. These discrepancies are confirmed by nearby workings that project the mineralized structures in a different position than that defined by the un-surveyed holes.
- The lack of industry-standard 3D survey as-built data delineating all the mined areas. This has currently been defined using a combination of the existing survey data, as well as simple polygons defining other areas thought to be mined. SRK believes these polygons to be conservative, as it is likely that pillar areas or other partially mined areas exist within the limits of the polygons, but are being excluded by this rudimentary methodology.

SRK has the following recommendations for additional work to be performed at Cusi:

- Identify areas that are dominantly supported by channel sample data and complete step out drilling. This should be done at a regular spacing of approximately 25 m as was implemented during infill drilling for the SRL structure in 2017.
- Further to this, SRK notes opportunities where significant areas of veins have very few drillholes, but exhibit very high grades, resulting in local high grade Inferred blocks that could theoretically be converted to Indicated or measured with additional drilling. These should be prioritized.
- Areas of cross cutting vein intersections could host high grade mineralization shoots that should be studied in detail.
- Continue the implementation and improvement of the current QA/QC program and include additional controls like coarse blanks, fine and coarse duplicates and second lab checks.
- Continue the use of commercial standards for QA/QC monitoring taking into the consideration the Ag, Au, Pb and Zn cutoff and average grades of the deposit.
- Increase the density of drilling in the areas of intercepting veins where mineralization in “stockwork” has been identified. This should be done at a regular spacing of approximately 15 m, due to the irregularity and discontinuity of the mineralization in those areas.

- The complete core sample preparation process for samples supporting the mineral resource estimation should be done in an ISO-certified laboratory such as ALS Minerals and avoid using Malpaso lab for the crushing process, based on the historic and current performance of certain QA/QC.
- All analyses supporting a mineral resource estimation should continue to be analyzed by an ISO-certified independent laboratory such as ALS Minerals. The intra-lab performance of check samples shows significant and unexpected deviations between ALS and the internal Dia Bras lab.
- Continue the downhole surveys via Reflex or other appropriate survey tool. This is currently being implemented at the mine, but has not historically consistently been the case.
- SRK strongly recommends continuing the practice of consistent use of a total station GPS for surveying of drillhole collars and channel sample locations, as well as mine workings. Discrepancies between the precise locations of these three types of data occur regularly where they are closely spaced and reduces confidence in the data.
- A 3D mine survey could be accomplished relatively easily and for minimal cost, and could be conducted on a quarterly basis to develop a better measurement of mined material to be used in reconciliation processes.
- Develop a simple method of reconciling the resource models to production, using stope shapes and grades derived from channel sampling.

1.13.2 Mineral Reserves

Mineral reserves have not been stated in this report although the operation has been in production for many years. The company plans to perform further work to eventually produce an industry best practice reserve statement. The timeline for this work is yet to be defined, but the company has started on many aspects of this work.

SRK recommends the following work program to achieve mineral reserves:

- Field work to gather geotechnical information;
- Geotechnical analysis to confirm mining method parameters and safety analysis;
- Hydrogeological field work and generation of hydrogeological model;
- Additional drilling to increase resource confidence to Indicated category;
- Detailed mine design followed by mine schedule and ventilation analysis;
- Ensure that tailings and future metallurgical assumptions are appropriate for the next level of study; and
- Economic evaluation with detailed operating and capital costs.”

UPDATED MINERAL RESOURCE AND MINERAL RESERVE INFORMATION

Yauricocha Mine

The Company prepared an updated mineral resource estimate for the Yauricocha Mine (on a consolidated basis) as at December 31, 2017 which is set out in the chart below:

Yauricocha Mine Consolidated Mineral Resource Estimate as of December 31, 2017

	TMS	Ag/g-t	Au/g-t	% Cu	%Pb	%Zn	Ag (Koz)	Au (Koz)	Cu (t)	Pb (t)	Zn (t)
Measured	2,807,472	64.35	0.62	1.58	1.08	3.02	5,808.38	55.96	44,358.06	30,320.70	84,785.65
Indicated	10,034,171	59.91	1.52	4.16	1.36	5.36	19,327.33	491.39	417,089.22	136,714.62	537,553.54
Measured + Indicated	10,034,171	59.91	0.62	1.43	0.82	2.69	19,327.33	199.19	143,642.46	82,611.55	270,132.57
	TMS	Ag/g-t	Au/g-t	% Cu	%Pb	%Zn	Ag (Koz)	Au (Koz)	Cu (t)	Pb (t)	Zn (t)
Inferred	6,632,000	43.03	0.58	1.19	0.47	2.16	9,174.81	122.91	79,175.30	31,165.20	143,121.90

- (1) Mineral Resources are reported inclusive of ore reserves. Mineral Resources are not ore reserves and do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimates. Gold, silver, copper lead and zinc assays were capped where appropriate.
- (2) Mineral Resources are reported at unit value cut-off grades (CoG) based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries** as a function of grade and relative metal distribution in individual concentrates), generalized mining/processing costs).
 - * Metal price assumptions considered for the calculation of unit values are: Gold (US\$1,255/oz), Silver (US\$17.80/oz), Copper (US\$2.60/lb), Lead (US\$1.01/lb), and Zinc (US\$1.25/lb).
 - ** Metallurgical recovery assumptions for the Yauricocha Mine are variable and dependent on mineralization style and orebody type.
- (3) The unit value CoG's for the Yauricocha Mine are variable and dependent on mining method and process/recovery costs, which vary between US\$41 and US\$48.

The Company prepared an updated mineral reserve estimate for the Yauricocha Mine (on a consolidated basis) as at December 31, 2017 which is set out in the chart below:

Yauricocha Mine Consolidated Mineral Reserve Estimate as of December 31, 2017

Area	Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)	Ag (koz)	Au (koz)	Cu (t)	Pb (t)	Zn (t)
	Proven	1,593	48.04	0.65	1.12	0.88	2.49	2,462	33	17,896	14,003	39,604
Total	Probable	6,964	48.58	0.49	1.25	0.74	2.37	10,875	111	87,060	51,732	165,326
	P+P	8,557	48.48	0.52	1.23	0.77	2.39	13,336	144	104,955	65,734	204,929

- (1) All figures rounded to reflect the relative accuracy of the estimates. Totals may not sum due to rounding.
- (2) Ore reserves are reported at NSR cutoffs (CoG) that range from \$56/t to \$63/t based on metal price assumptions*, grade adjustments made to the resource model**, metallurgical recovery assumptions***, mining costs, processing costs, general and administrative (G&A) costs, and treatment and refining charges.
 - * Metal price assumptions considered for the calculation of NSR are: Gold (US\$/oz 1,255.00), Silver (US\$/oz 17.80), Copper (US\$/lb 2.60), Lead (US\$/lb 1.01), and Zinc (US\$/lb 1.25).
 - ** Grade adjustments (reductions) are based on historical mine to mill reconciliation and vary by mineralization style.
 - *** Metallurgical recovery assumptions for the Yauricocha Mine are variable by mineralization style and degree of oxidation.

The above mineral reserve and resource estimate has been prepared by Americo Zuzunaga MAusIMM CP (Mining Engineer), Vice-President Planning of the Company, a Qualified Person and chartered professional qualifying as a Competent Person under the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources, and Ore Reserves. The resource and reserve estimate has been reviewed by Gordon Babcock P.Eng., Chief Operating Officer of the Company, a qualified person for purposes of NI 43-101.

The resource and reserve estimate is based on the Yauricocha Mine consolidated mineral resource and reserve estimate with an effective date of July 31, 2017, as contained in the Yauricocha Technical Report (as defined herein). In preparing the above estimate, Mr. Zuzunaga has taken account of changes to the mineral reserves and resources due to mining depletion as of the effective date of the report to December 31, 2017. The changes to the resource and reserve report reflect mine depletion due to mining activities; no other adjustments to the estimate have been made to the mineral resource and reserve estimate as set out in the Yauricocha Technical report.

All economic parameters are based on the Yauricocha Technical Report. All risks associated with the Yauricocha mine are defined in the risks section of the report. Disclosure follows assumptions and parameters used in the Yauricocha Technical Report.

Bolivar Mine

The Company prepared an updated mineral resource estimate for the Bolivar Mine (on a consolidated basis) as at December 31, 2017 which is set out in the chart below:

Bolivar Mine Consolidated Mineral Resource Estimate as of December 31, 2017

Resources	Tonnes (000s)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (Koz)	Au (Koz)	Cu (t)
Measured	0	0	0	0	0	0	0
Indicated	9,335	18.1	0.3	0.9	5,440	91	83,885
Inferred	9,055	17.9	0.33	0.86	5,200	97	77,830

- (1) Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Copper, gold, and silver, assays were capped where appropriate.
- (2) Mineral resources are reported at variable metal value cut-off grades based on metal price assumptions*, metallurgical recovery assumptions**, mining/transport costs (US\$13.59/t), processing costs (US\$10.00/t), and general and administrative costs (US\$3.40/t).
- (3) The metal value cut-off grade for the unmined portions of the Bolivar Mine is US\$27 and is US\$20 for the remaining vertical pillars in the mined areas. The mineral resources within the remaining vertical pillars comprise less than 1% of the Indicated Mineral Resources. No mineral resources are reported for the remaining crown or sill pillars.

* Metal price assumptions considered for the calculation of metal value are: Copper (Cu): US\$/lb 2.43, Silver (Ag): US\$/oz 18.30, and Gold (Au): US\$/oz 1,283.00.

** Metallurgical recovery assumptions are 81% Cu, 77% Ag, and 49% Au.

The Company prepared an updated mineral reserve estimate for the Bolivar Mine (on a consolidated basis) as at December 31, 2017 which is set out in the chart below:

Bolivar Mine Consolidated Mineral Reserve Estimate as of December 31, 2017

Area	Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)	Ag (koz)	Au (koz)	Cu (t)	Pb (t)	Zn (t)
	Proven	0	0	0	0	0	0	0	0	0	0	0
Total	Probable	4,327	17.5	0.31	0.85	0	0	2,441	44	36,586	0	0
	P+P	4,327	17.5	0.31	0.85	0	0	2,441	44	36,586	0	0

- (1) Ore reserves are reported at NSR cut-offs (CoG) based on metal price assumptions*, metallurgical recovery assumptions**, mining costs, processing costs, general and administrative (G&A) costs, and treatment and refining charges.
 * Metal price assumptions considered for the calculation of NSR are: Copper (Cu): US\$/lb 2.43, Silver (Ag): US\$/oz 18.30, and Gold (Au): US\$/oz 1,283.00.
 ** Metallurgical recovery assumptions are 81% Cu, 77% Ag, and 49% Au.
- (2) The NSR CoG is variable by mining method:
 - US\$30.50 = Room and Pillar; and
 - US\$32.50 = Longhole Stopping.
- (3) Ore reserves have been stated on the basis of a mine design, mine plan, and cash-flow model:
 - Mining recovery applied is 85%.
 - Mining dilution (internal and external), applied with a zero grade, ranges from 12% to 36% and averages 16%. Source: SRK, 2017

The above mineral reserve and resource estimate has been prepared by Americo Zuzunaga MAusIMM CP (Mining Engineer), Vice-President Planning of the Company, a Qualified Person and chartered professional qualifying as a Competent Person under the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources, and Ore Reserves. The resource and reserve estimate has been reviewed by Gordon Babcock P.Eng., Chief Operating Officer of the Company, a qualified person for purposes of NI 43-101.

The resource and reserve estimate is based on the Bolivar Mine consolidated mineral resource and reserve estimate with an effective date of February 28, 2017, as contained in the Bolivar Technical Report (as defined herein). In preparing the above estimate, Mr. Zuzunaga has taken account of changes to the mineral reserves and resources due to mining depletion as of the effective date of the report to December 31, 2017. The changes to the resource and reserve report reflect mine depletion due to mining activities; no other adjustments to the estimate have been made to the mineral resource and reserve estimate as set out in the Bolivar Technical report.

All economic parameters are based on the Bolivar Technical Report. All risks associated with the Bolivar Mine are defined in the risks section of the report. Disclosure follows assumptions and parameters used in the Bolivar Technical Report.

Cusi Mine

The Company prepared an updated mineral resource estimate for the Cusi Mine (on a consolidated basis) as at December 31, 2017 which is set out in the chart below:

Cusi Mine Consolidated Mineral Resource Estimate as of December 31, 2017

CLASS	TMS	Ag/g-t	Au/g-t	%Pb	%Zn	Ag (Koz)	Au (Koz)	Pb (t)	Zn (t)
Measured	362,000	225	0.13	0.55	0.68	2,615.07	1.51	6.40	7.91
Indicated	4,154,000	216	0.21	0.64	0.66	29,132.35	28.88	86.09	88.69
Measured + Indicated	4,516,000	158	0.22	0.55	1.04	23,160.45	32.23	80.58	152.37
Inferred	1,633,000	158	0.16	0.54	0.84	8,285.02	8.33	28.61	44.34

- (1) Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have zinc assays were capped where appropriate.
- (2) Mineral resources are reported at a single cut-off grade of 105 g/t AgEq based on metal price assumptions*, metallurgical recovery assumptions, mining costs (US\$29.41/t), processing costs (US\$18.3/t), and general and administrative costs (US\$3.74/t).
 - * Metal price assumptions considered for the calculation of the cut-off grade and equivalency are: Silver (Ag): US\$/oz 18.30, Lead (US\$/lb 0.93), Zinc (US\$/lb 1.15) and Gold (US\$/oz 1,283.00).
 - **Based on the historical production information of Cusi, the metallurgical recovery assumptions are: 84% Ag, 57% Au, 86% Pb, 51% Zn.

The above mineral resource estimate has been prepared by Americo Zuzunaga MAusIMM CP (Mining Engineer), Vice-President Planning of the Company, a Qualified Person and chartered professional qualifying as a Competent Person under the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources, and Ore Reserves. The resource estimate has been reviewed by Gordon Babcock P.Eng., Chief Operating Officer of the Company, a qualified person for purposes of NI 43-101.

The resource estimate is based on the Cusi Mine consolidated mineral resource estimate with an effective date of August 31, 2017, as contained in the Cusi Technical Report (as defined herein). In preparing the above estimate, Mr. Zuzunaga has taken account of changes to the mineral resources due to mining depletion as of the effective date of the report to December 31, 2017. The changes to the resource report reflect mine depletion due to mining activities; no other adjustments to the estimate have been made to the mineral resource estimate as set out in the Cusi Technical report.

All economic parameters are based on the Cusi Technical Report. All risks associated with the Cusi Mine are defined in the risks section of the report. Disclosure follows assumptions and parameters used in the Cusi Technical Report.

RISK FACTORS

The Company's ability to generate revenues and profits from its mineral properties, or any other mineral property it may acquire, is dependent upon a number of factors. The risks and uncertainties described below as well as the other information contained in this AIF should be carefully considered. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair its business operations. If any of these events actually occur, Sierra's business, prospects, financial condition, cash flows and operating results could be materially harmed.

Operating hazards and risks

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, but are not limited to, the following: environmental hazards, industrial accidents, third party accidents, unusual or unexpected geological structures or formations, fires, power outages, labour disruptions, floods, explosions, cave-ins, land-slides, acts of God, periodic interruptions due to inclement or hazardous weather conditions, earthquakes, war, rebellion, revolution, criminal activity, delays in transportation, inaccessibility to property, restrictions of courts and/or government authorities, other restrictive matters beyond the reasonable control of the Company, and the inability to obtain suitable or adequate machinery, equipment or labour and other risks involved in the operation of mines.

Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, delayed production and resultant losses, increased production costs, asset write downs, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damages. The Company may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. Any compensation for such liabilities may have a material, adverse effect on the Company's financial position.

The Company's property, business interruption and liability insurance may not provide sufficient coverage for losses related to these or other hazards. Insurance against certain risks, including certain liabilities for environmental pollution, may not be available to the Company or to other companies within the industry at reasonable terms or at all. In addition, the Company's insurance coverage may not continue to be available at economically feasible premiums, or at all. Any such event could have a material adverse effect on Sierra's business.

Precious and base metal price fluctuations

The value and price of the Company's securities, its financial results, and its exploration, development and mining activities may be significantly adversely affected by declines in the price of precious and base metals. Such prices may fluctuate widely and are affected by numerous factors beyond the Company's control such as interest rates, exchange rates, inflation or deflation, fluctuation in the value of the U.S. dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of precious and base metal producing countries throughout the world. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving adequate returns on invested capital or the investments retaining their respective values. Declining market prices for these metals could materially adversely affect the Company's operations and profitability.

Mineralized material calculations and life-of-mine plans using significantly lower precious and base metal prices could result in material write-downs of the Company's investments in mining properties and increased amortization, reclamation and closure charges.

Mining operations

The capital costs required by the Company's projects may be significantly higher than anticipated. Capital and operating costs, production and economic returns, and other estimates contained in the Company's current technical reports, may differ significantly from those provided for in future studies and estimates and from management guidance, and there can be no assurance that the Company's actual capital and operating costs will not be higher than currently anticipated. In addition, delays to construction and exploration schedules may negatively impact the net present value and internal rates of return of the Company's mineral properties as set forth in the applicable technical report. Similarly, there can be no assurance that historical rates of production, grades of ore processed, rates of recoveries or mining cash costs will not experience fluctuations or differ significantly from current levels over the course of the mining operations conducted by the Company.

In addition, there can be no assurance that the Company will be able to continue to extend the production from its current operations through exploration and drilling programs.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. The lack of availability on acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploitation or development of the Company's projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that the exploitation or development of the Company's projects will be commenced or completed on a timely basis, if at all; the resulting operations will achieve the anticipated production volume, or the construction costs and ongoing operating costs associated with the exploitation and/or development of the Company's advanced projects will not be higher than anticipated. In addition, unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations and profitability.

Exploration and development

There is no assurance given by the Company that its exploration and development programs and properties will result in the discovery, development or production of a commercially viable ore body or yield new reserves to replace or expand current reserves.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At this time, other than the mineral reserves on the Company's Yauricocha Mine and Bolivar Mine, none of the Company's properties have any ore-bodies with proven or probable reserves.

The economics of developing precious and base metal properties are affected by many factors including capital and operating costs, variations of the tonnage and grade of ore mined, fluctuating mineral markets, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the prices of silver, gold or other minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

Substantial expenditures are required to discover an ore-body, to establish reserves, to identify the appropriate metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations, conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for an exploitation concession. There can be no guarantee that such a concession will be granted. Unsuccessful exploration or development programs could have a material adverse impact on the Company's operations and profitability.

Calculation of reserves and resources and metal recoveries

Although the Company's reported mineral reserves and resources have been prepared by qualified persons, these amounts are estimates only by independent geologists, and the Company cannot be certain that any specified level of recovery of mineral will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body that can be economically exploited. Mineralized materials, which are not mineral reserves, do not have demonstrated economic viability. Any material change in the quantity of mineralization, grade or stripping ratio, or the metal price may affect the economic viability of the Company's properties. In addition, the Company cannot be certain that metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

The mineral resource and reserve figures included in the AIF and the documents incorporated by reference are estimates, which are, in part, based on forward-looking information, and no assurance can be given that the indicated level of precious or base metals will be produced. Although resource estimates require a high degree of assurance in the underlying data when the estimates are made, unforeseen events and uncontrollable factors can have significant adverse or positive impacts on the estimates. Factors such as inherent sample variability, metal price fluctuations, variations in mining and processing parameters, increased production costs, reduced recovery rates and adverse changes in environmental or mining laws and regulations may render the present proven and probable reserves unprofitable to develop at a particular site or sites for periods of time and/or may require a reassessment of the commercial feasibility of a particular project. Such a reassessment may be the result of a management decision related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays in development or may interrupt operations, if any, until the reassessment can be completed.

Until reserves or resources are actually mined and processed, the quantities of mineralization and metal grades must be considered as estimates only. Any material change in the quantity of mineral reserves, mineral resources, grades and recoveries may affect the economic viability of the Company's properties.

Replacement of reserves and resources

The Yauricocha Mine, Bolivar Mine and Cusi Mine are the Company's only current sources of mineral production. Current life-of-mine plans provide for a defined production life for mining at the Company's mines. If the Company's mineral reserves and resources are not replaced either by the development or discovery of additional reserves and/or extension of the life-of-mine at its current operating mines or through the acquisition or development of an additional producing mine, this could have an adverse impact on the Company's future cash flows, earnings, financial performance and financial condition, including as a result of requirements to expend funds for reclamation and decommissioning.

Fluctuations in the price of consumed commodities

Prices and availability of commodities consumed or used in connection with exploration, development and mining, such as natural gas, diesel, oil, electricity, cyanide and other re-agents fluctuate and affect the costs of production at the Company's operations. These fluctuations can be unpredictable, can occur over short periods of time and may have a materially adverse impact on our operating costs or the timing and costs of various projects. The Company's general policy is not to hedge its exposure to changes in prices of the commodities used in its business.

No defined mineral reserves at the Cusi Mine

Although commercial production at the Cusi Mine was declared in January 2013, the decision to put the Cusi Mine into production was not made based on a feasibility study or defined mineral reserves. In addition, the Cusi Mine is still considered to be in the development stage as the majority of its production comes from development rock. The development of a mining operation typically involves large capital expenditures and a high degree of risk and uncertainty. To reduce this risk and uncertainty, issuers typically make a production decision based on a comprehensive feasibility study of established mineral reserves. Historically, projects put into production without a comprehensive feasibility study of established mineral reserves have a much higher risk of economic or technical failure. As the decision to put the Cusi Mine into production was not based on a feasibility study of mineral reserves demonstrating economic and technical viability, the project involves an increased level of uncertainty and an increased risk of economic and/or technical failure. No assurance can be given that the operation of the Cusi Mine will continue to be economic or profitable.

Foreign operations

The Company's operations are currently conducted through subsidiaries principally in Peru and Mexico and, as such, its operations are exposed to various levels of political, economic and other risks and uncertainties which could result in work stoppages, blockades of the Company's mining operations and appropriation of assets. In addition, some of the Company's operations are located in areas where Mexican drug cartels operate. These risks and uncertainties vary from region to region and include, but are not limited to, terrorism; hostage taking; local drug gang activities; military repression; expropriation; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation of earnings or capital, changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Local opposition to mine development projects could arise in Peru and/or Mexico, and such opposition could be violent. There can be no assurance that such local opposition will not arise with respect to the Company's foreign operations. If the Company were to experience resistance or unrest in connection with its foreign operations, it could have a material adverse effect on its operations and profitability. To the extent the Company acquires mineral properties in jurisdictions other than Peru and Mexico, it may be subject to similar and additional risks with respect to its operations in those jurisdictions.

Government regulation and permitting

The Company's operations, exploration and development activities are subject to extensive foreign federal, state and local laws and regulations governing such matters as environmental protection, management and use of toxic substances and explosives, management of natural resources, health, exploration and development of mines, production and post-closure reclamation, safety and labour, mining law reform, price controls import and export laws, taxation, maintenance of claims, tenure, government royalties and expropriation of property. There is no assurance that future changes in such regulations, if any, will not adversely affect the Company's operations.

The costs associated with compliance with these laws and regulations are substantial and possible future laws and regulations, changes to existing laws and regulations and more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expenses, capital expenditures, restrictions on or suspensions of the Company's operations and delays in the development of its properties. Moreover, these laws and regulations may allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety practices of the Company's past and current operations, or possibly even those actions of parties from whom the Company acquired its mines or properties, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanctions. The Company retains competent and well-trained individuals and consultants in jurisdictions in which it does business, however, even with the application of considerable skill the Company may inadvertently fail to comply with certain laws. Such events can lead to financial restatements, fines, penalties, and other material negative impacts on the Company.

In the ordinary course of business, the Company will be required to obtain and renew governmental permits and licenses for the operation and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process. The duration and success of the Company's efforts to obtain and renew permits and licenses are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licensing authority. The Company may not be able to obtain or renew permits and licenses that are necessary to continue its operations or the cost to obtain or renew permits and licenses may exceed what the Company expects. Any unexpected delays or costs associated with the permitting and licensing process could delay the development or impede operations, which may adversely affect the Company's revenues and future growth.

Risks relating to outstanding borrowings

The Company's ability to repay its outstanding borrowings depends on its future cash flows, profitability, results of operations and financial condition. The Company has prepared budgets based on estimates of commodity prices, future production, operating costs and capital costs, however the Company cannot assure that such revenues, production plans, costs or other estimates will be achieved. Actual revenues and production costs may vary from the estimates depending on a variety of factors including those discussed herein, many of which are not within the Company's control. Failure to achieve revenue, production or cost estimates or material increases in costs or material decreases in commodity prices could have a material adverse impact on the Company's future cash flows, profitability, results of operations and financial condition.

If there is any event of default under any of the Company's loan facilities, the principal amount of such loans, plus accrued and unpaid interest, if any, may be declared immediately due and payable. If such an event occurs, this would place additional strain on the Company's cash resources, which could inhibit its ability to further its operating and/or exploration activities.

Title to assets

Although the Company believes that it has exercised commercially reasonable diligence with respect to determining title to properties that it owns, controls or has rights in, there is no guarantee that title to such properties will not be challenged or impugned. The Company's properties may be subject to prior unrecorded agreements or transfers or native land claims and title may be affected by undetected defects. There may be valid challenges to the title of the Company's properties which could impair development and/or operations of the Company. If title to the Company's properties is disputed it may result in the Company paying substantial costs to settle the dispute or clear title and could result in the loss of the property, which events may affect the economic viability of the Company.

Environmental factors

All phases of the Company's operations are subject to federal, state and local environmental regulation. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company cannot be certain that future changes in environmental regulations, if any, will not adversely affect its operations. Environmental hazards may exist on properties held by the Company that are unknown to it and that have been caused by previous or existing owners or operators of the Company's properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Litigation risks

All industries, including the mining industry, are subject to legal claims, with and without merit. Although the Company is not currently aware of any threatened or pending legal proceedings other than as disclosed in the Company's financial statements, there is no guarantee that the Company will not become subject to additional proceedings in the future. There can be no guarantee of the outcome of any such claim. In addition, defense and settlement costs for any legal proceeding can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material effect on the Company's financial position or results of operations.

Insurance risks

The Company's insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, the Company expects that insurance against risks such as environmental pollution or other hazards as a result of exploration and production may be prohibitively expensive to obtain for a company of Sierra's size and financial means. The Company may also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon the Company's financial condition and results of operations.

Competitive risks

The mining industry is competitive in all of its phases. The Company faces strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, base and precious metals. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company does. As a result of this competition, the Company may be unable to maintain or acquire attractive mining properties on terms acceptable to the Company or at all. Consequently, the Company's revenues, operations and financial condition could be materially adversely affected.

Volatility in the price of the common shares

Securities of mineral resource and mining companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. In addition, because of the nature of the Company's business, certain factors such as public announcements and the public's reaction, the Company's operating performance and the performance of competitors and other similar companies, fluctuations in the market prices of precious and base metals, government regulations, changes in earnings estimates or recommendations by research analysts who track Sierra's securities or securities of other companies in the resource sector, general market conditions, announcements relating to litigation, the arrival or departure of key personnel and the risk factors described in this AIF can have an adverse impact on the market price of the Common Shares.

Any negative change in the public's perception of the Company's prospects could cause the price of its securities, including the price of the Common Shares, to decrease dramatically. Furthermore, any negative change in the public's perception of the prospects of mining companies in general could depress the price of Sierra's securities, including the price of the Common Shares, regardless of the Company's results. Securities class-action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Global financial risks

Financial markets globally have been subject to increased volatility. Access to financing has been negatively impacted by liquidity crises throughout the world. These factors may impact the Company's ability to obtain loans and other credit facilities in the future and, if obtained, on terms favorable to Sierra. The levels of volatility and market turmoil are on the rise, and the Company may not be able to secure appropriate debt or equity financing, any of which could affect the trading price of the Company's securities in an adverse manner.

Employee Recruitment and Retention

Recruiting and retaining qualified personnel is critical to the Company's success. The Company is dependent on the services of key executives including the Company's President and Chief Executive Officer and other highly skilled and experienced executives and personnel focused on managing the Company's interests. The number of persons skilled in acquisition, exploration, development and operation of mining properties are limited and competition for such persons is intense. As the Company's business activity grows, the Company will require additional key financial, administrative and mining personnel as well as additional operations staff. The Company could experience increases in its recruiting and training costs and decreases in its operating efficiency, productivity and profit margins. If the Company is not able to attract, hire and retain qualified personnel, the efficiency of its operations could be impaired, which could have an adverse impact on the Company's future cash flows, earnings, financial performance and financial condition.

Potential conflicts of interest

Certain of the Company's directors and officers serve, or may serve in the future, as officers and directors for other companies engaged in natural resource exploration, development and/or production. Consequently, there is a possibility that the Company's directors and/or officers may be in a position of conflict in the future.

To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers of the Company may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The CBCA requires the directors and officers to act honestly, in good faith, and in the best interests of the Company and its shareholders. However, in conflict of interest situations, directors and officers of the Company may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions.

Controlling group of shareholders

Arias Resource Capital Fund L.P., Arias Resource Capital Fund II L.P., Arias Resource Capital Fund II (Mexico) L.P. and Arias Resource Capital Management LP collectively own a significant number of Common Shares. This significant concentration of ownership may adversely affect the trading price for the Common Shares because investors often perceive disadvantages in owning shares in companies with controlling shareholders. In addition, these shareholders will be able to exercise influence over all matters requiring shareholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of the Company or its assets. This concentration of ownership could limit investors' ability to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation, or other business combination involving the Company, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit the Company's other shareholders.

Third Party Reliance

The Company's rights to acquire interests in certain mineral properties have been granted by third parties who themselves may hold only an option to acquire such properties. As a result, the Company may have no direct contractual relationship with the underlying property holder.

Differences in U.S. and Canadian reporting of mineral reserves and resources

The Company's mineral reserve and resource estimates are not directly comparable to those made in filings subject to SEC reporting and disclosure requirements as the Company generally reports mineral reserves and resources in accordance with Canadian practices. These practices are different from those used to report mineral reserve and resource estimates in reports and other materials filed with the SEC. It is Canadian practice to report measured, indicated and inferred resources, which are not permitted in disclosure filed with the SEC by United States issuers. Under SEC rules, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves.

Further, "inferred mineral resources" have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of "contained ounces" is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report mineralization that does not constitute "reserves" by SEC Industry Guide 7 standards "as in-place tonnage and grade" without reference to unit of metal measures.

Accordingly, information concerning descriptions of mineralization, reserves and resources contained in this AIF, or in the documents incorporated herein by reference, may not be comparable to information made public by United States companies subject to the reporting and disclosure requirements of the SEC.

Claims Under U.S. Securities Laws

The enforcement by investors of civil liabilities under the federal securities laws of the United States may be affected adversely by the fact that the Company is incorporated under the federal laws of Canada, that the independent registered chartered accountants who have audited the Company's financial statements and some or all of the Company's directors and officers may be residents of Canada or elsewhere, and that all or a substantial portion of the Company's assets and said persons are located outside the United States. As a result, it may be difficult for holders of the Company's Common Shares to effect service of process within the United States upon people who are not residents of the United States or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities under the federal securities laws of the United States.

Potential dilution of present and prospective shareholdings

The exercise of stock options and restricted share units issued by the Company and the issuance of other additional equity securities in the future could result in dilution in the value of the Company's Common Shares and the voting power represented by such shares. Furthermore, to the extent holders of the Company's stock options or other securities exercise their securities and then sell the Common Shares they receive, the trading price of the Common Shares may decrease due to the additional number of Common Shares available in the market.

Currency Risks

The Company's operations in Mexico and Peru are subject to foreign currency exchange fluctuations. The Company may suffer losses due to adverse foreign currency fluctuations.

The Company and its subsidiaries' financial instruments are exposed to currency risk where those instruments are denominated in currencies that are not the same as their functional currency; exchange gains and losses in these situations impact net income or loss. The Company raises its funds through equity issuances which are priced in Canadian dollars, and the majority of the exploration and operating costs of the Company are denominated in United States dollars, Peruvian Nuevo Soles, and Mexican pesos. In addition, the Company's sales of silver, copper, lead and zinc are denominated in United States dollars. The United States dollar is the functional currency of the Peruvian entities and the Mexican entities. The Canadian dollar is the functional currency of all other entities. The Company also holds cash and cash equivalents, trade and other receivables, accounts payable that are subject to currency risk. As a result, the Company's financial performance may be significantly impacted by changes in foreign exchange rates.

Risks relating to cyclical business

The Company's financial performance is dependent on many external factors. The Company expects that any revenues it may earn from its operations in the future will be from the sale of metals and minerals. Both prices and markets for metals and minerals are cyclical, difficult to predict, volatile, subject to government price fixing and controls and respond to changes in domestic and international political, social and economic environments. In addition, the availability and cost of funds for exploration, development and production costs are difficult to predict. These changes and events could materially affect the financial performance of the Company.

Liquidity risks

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion and development plans. The Company's budgets and forecasts are based on estimates of commodity prices, future production, operating costs and capital costs. The Company cannot assure that such revenues, production plans, costs or other estimates will be achieved. Actual revenues and production costs may vary from the estimates depending on a variety of factors, many of which are not within the Company's control. Failure to achieve revenue, production or cost estimates or material increases in costs or material decreases in commodity prices could have a material adverse impact on the Company's ability to meet its financial obligations as they come due.

The Company ensures that it has sufficient committed credit facilities to meet its short-term operating needs. There can be no guarantee that the Company will be successful in obtaining these credit facilities on acceptable terms, or at all. If additional financing is not available, the Company may have to postpone its capital expenditures and exploration programs, which could materially impact the long term financial performance of the Company.

Financial Reporting Standards

The Company prepares its financial reports in accordance with IFRS applicable to publicly accountable enterprises. In preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. Significant accounting policies are described in more detail in the Company's audited financial statements. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use, transactions are properly recorded and reported, the Company has implemented and continues to analyze its internal control systems for financial reporting. Although the Company believes its financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability, the Company cannot provide absolute assurance.

Credit risks

Credit risk is the risk that the counterparty to a financial instrument might fail to discharge its obligations under the terms of a financial contract. Credit risk is primarily associated with trade receivables; however, it also arises on cash and cash equivalents, other receivables and financial assets.

The Company is subject to credit risk through its significant Mexican value-added-tax (" VAT ") receivable that is collectible from the government of Mexico. The VAT receivable balance as at December 31, 2017 was \$5.7 million (December 31, 2016 - \$3.8 million).

DIVIDENDS

The Company did not pay dividends in 2011 or 2012. On February 12, 2013, the Company announced the adoption of a policy to declare and pay cash dividends on a quarterly basis. For the year 2013, the Company's intention was to pay cash dividends in the amount of approximately C\$10 million. In-line with this intention the Company distributed a total of approximately C\$10 million (or C\$0.064 per Common Share) in cash or Common Shares to shareholders in respect of the 2013 fiscal year.

On March 26, 2014 the Company announced its quarterly cash dividend for the period ending March 31, 2014 of approximately CAD\$750,000, or CAD\$0.005 per Common Share, payable on April 30, 2014 to the holders of the issued and outstanding Common Shares as of the close of business on April 10, 2014.

The Company did not pay any dividends during 2015, 2016 or 2017.

The amount of future dividends to be declared, if any, shall be considered by the Board on a quarterly basis and will depend on the Company's overall cash and operating position at the relevant time.

DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of Common Shares without par value. As of the date hereof, the Company has 163,029,548 issued and outstanding Common Shares.

Each Common Share carries one vote at all meetings of shareholders, is entitled to receive dividends as and when declared by the Board, and is entitled to participation in the remaining property and assets of the Company upon dissolution or winding-up. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights.

MARKET FOR SECURITIES

The Company's Common Shares are currently listed for trading on the TSX and the Lima Stock Exchange under the symbol SMT. The Common Shares have been listed for trading on the NYSE American since July 7, 2017, under the symbol SMTS.

Trading Prices and Volumes

The following table provides a summary of the high and low prices and volumes for the Common Shares as traded on the TSX for the twelve-month period ending December 31, 2017.

Period	High (C\$)	Low (C\$)	Volume
January 2017	2.51	1.95	547,839
February 2017	3.10	2.56	869,455
March 2017	3.67	3.40	923,014
April 2017	3.68	2.90	775,320
May 2017	3.50	3.11	265,972
June 2017	3.63	3.11	1,227,962
July 2017	3.53	3.00	140,964
August 2017	3.36	3.02	489,167
September 2017	3.65	2.90	596,582
October 2017	3.28	3.05	227,752
November 2017	3.47	3.04	100,297
December 2017	3.05	2.75	922,215

ESCROWED SECURITIES

To the Company's knowledge, as at December 31, 2017, no securities of the Company were held in escrow or were subject to contractual restriction on transfer.

DIRECTORS AND OFFICERS

As of the date of this AIF, Sierra Metals has a board consisting of seven directors. Each director will hold office until the next annual general meeting of the Company or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the consenting documents of the Company or the provisions of the *Canada Business Corporations Act*.

The following table sets forth the names, residency and office of each director and executive officers of the Company as at the date hereof:

Name, Position with the Company, Province or State and Country of Residence	Principal Occupation for the past five years	Director/Officer of the Company since
IGOR GONZALES ⁽⁴⁾⁽⁶⁾ President, Chief Executive Officer and Director Lima, Peru	-May 2017 to present: President and CEO of the Company -November 2014 to May 2017: COO at CIA Minas Buenaventura -April 2011 to June 2013: COO at Barrick Gold Corp.	-President & CEO since May 1, 2017 -Director since September 19, 2013
J. ALBERTO ARIAS ⁽²⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ Chairman of the Board and Director New York, USA	President and CEO, Arias Resource Capital Management LP	November 26, 2008
PHILIP RENAUD ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾ Director London, United Kingdom	Managing Director, LB Advisors	October 1, 2003
DOUGLAS F. CATER ⁽¹⁾⁽³⁾⁽⁴⁾ Director Ontario, Canada	-January 2016 to present: VP Exploration (Canada), Kirkland Lake Gold Inc. -June 2012 to January 2016: VP Exploration, St. Andrew Goldfields Inc.	June 10, 2009
STEVEN G. DEAN ⁽²⁾⁽³⁾⁽⁵⁾ Director British Columbia, Canada	Independent Businessman	October 4, 2011
DIONISIO ROMERO PAOLETTI Director Lima, Peru	Corporate Director and Chairman of various public companies	November 16, 2015
JOSE VIZQUERRA BENAVIDES ⁽¹⁾ Director Ontario, Canada	-June 2016 to present: Executive VP of Strategic Development at Osisko Mining Inc. -July 2015 to June 2016: COO and Senior VP Corporate Development at Osisko Mining Inc. -April 2014 to July 2015: President and CEO of Oban Mining Corporation -July 2011 to April 2014: President and CEO of Braeval Mining and Oban Exploration	November 9, 2017

Name, Position with the Company, Province or State and Country of Residence	Principal Occupation for the past five years	Director/Officer of the Company since
ED GUIMARAES Chief Financial Officer Ontario, Canada	-November 2014 to present: CFO of the Company -2012 to November 2014: Independent Advisor/Business Consultant in the Mining Industry, and Corporate Director of various public companies	November 17, 2014
GORDON BABCOCK Chief Operating Officer Lima, Peru	-July 2015 to present: COO of the Company -January 2013 to June 2014: COO of Jaguar Mining Inc.	July 13, 2015
ALONSO LUJAN Vice President, Exploration Chihuahua, Mexico	-September 2016 to present: VP Exploration of the Company -January 2016 to September 2016: Independent Consultant -September 2011 to December 2015: General Manager, Trafigura Mining Group (MATSA)	September 14, 2016
MICHAEL MCALLISTER Vice President, Corporate Development Ontario, Canada	-July 2016 to present: VP Corporate Development of the Company -April 2015 to July 2016: Director Corporate Development of the Company -Jan 2015 to April 2015: Senior Account Executive, TMX Equicom -June 2010 to Jan 2015: Manager, Investor Relations for various companies within Forbes and Manhattan Merchant Bank	July 15, 2016
ANDREW DUNLOP Corporate Controller Ontario, Canada	-January 2015 to present: Corporate Controller of the Company -May 2011 to January 2015: Corporate Controller, Scorpio Mining	January 19, 2015
JILL NEFF Corporate Secretary British Columbia, Canada	April 2013 to present: Corporate Secretary of the Company February 2013 to April 2013: Assistant Corporate Secretary of the Company September 2009 to February 2013: Corporate Secretary of TTM Resources Inc. and WPC Resources Inc.	April 25, 2013

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Corporate Governance Committee
- (4) Member of the Nomination Committee
- (5) Member of the Corporate Strategy Committee
- (6) Member of the Health, Safety, Environmental & Technical Committee

As at December 31, 2017, the directors and executive officers of the Company as a group beneficially owned, directly and indirectly, or exercised control over, an aggregate of 89,598,703 Common Shares of the Company representing approximately 55.0% of the outstanding shares of the Company as at December 31, 2017. This includes an aggregate of 84,421,613 Common Shares owned by Arias Resource Capital Fund L.P., Arias Resource Capital Fund II L.P., Arias Resource Capital Fund II (Mexico) L.P. (collectively, the “**ARC Funds**”) and Arias Resource Capital Management LP (the “**Manager**”). The ARC Funds are managed by Arias Resource Capital Management LP. The respective general partner of each of the ARC Funds retains the power to make investment and voting decisions in respect of the Common Shares beneficially owned by the ARC Funds. Alberto Arias is the sole director of each of the general partners of the ARC Funds and indirectly controls the Manager. As such, Mr. Arias may be deemed to share voting and dispositive power with respect to the Common Shares beneficially owned by the ARC Funds and the Manager, but he disclaims any beneficial ownership of any such securities, except to the extent of his pecuniary interest therein.

Board Advisers and Observers

On December 21, 2017, the Company announced the appointment of Mr. Alberto Beeck as an adviser to the Board and the appointment of Mr. Alejandro Perellón as an observer to the Board.

Mr. Beeck is an investor and entrepreneur who combines his time between different businesses and social impact activities in the education sector. He is Managing Partner of Cranley Investments Holdings, Managing Partner of VH Properties, and Chairman of Lumni (a company that invests in human capital) and of Sin Limites (a company that promotes the work of social leaders through media).

Pursuant to a adviser agreement dated December 20, 2017 (the “ **Adviser Agreement** ”), Mr. Beeck was appointed as an adviser to the Board to provide such advice and direction requested by the Board in the performance of its duties and as may be within the expertise of Mr. Beeck. Under the Adviser Agreement, Mr. Beeck has the right to attend all meetings the Board strictly in a non-voting, advisory capacity but is not to take an active role in any Board meeting such as by moving any motion, voting on any matter or actively seeking to influence the actions of the Board.

Mr. Perellón is a Vice President of the Manager.

Pursuant to an observer agreement dated December 20, 2017 (the “ **Observer Agreement** ”), Mr. Perellón was appointed as a Board observer entitled to attend all meetings of the Board of directors strictly in a non-voting, observer capacity. Under the Observer Agreement, Mr. Perellón is not to take an active role in any Board meeting such as by moving any motion, voting on any matter or actively seeking to influence the actions of the Board.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as disclosed hereunder, to the knowledge of the Company, none of its directors or executive officers is, or within the last ten years has been a director, chief executive officer or chief financial officer of (a) any issuer that, while that person was acting in that capacity, or (b) any issuer that, after that person ceased to be a director, chief executive officer or chief financial officer of such issuer, but in respect of an event that occurred while that person was acting in that capacity:

- (i) was the subject of a cease trade or similar order, or an order that denied such issuer access to any exemption under applicable securities legislation for a period of more than 30 consecutive days; or
- (ii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

From March 28, 2013 until January 21, 2014, J. Alberto Arias served as a director on the board of Colossus Minerals Inc. (“ **Colossus** ”). On January 14, 2014, Colossus filed a notice of intention to make a proposal under the Canadian Bankruptcy and Insolvency Act.

Philip Renaud was a director of Diagem Inc. (“**Diagem**”) which is subject to a cease trading order resulting from Diagem’s failure to meet regulatory requirements as a result of insolvency.

In May 2009 and in May 2011, a Management Cease Trade Order applicable to the directors and officers of the Company and related companies was issued for late filing of the financial statements.

To the knowledge of the Company, none of its directors or executive officers has, within the last ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his assets.

To the knowledge of the Company, none of its directors or executive officers has been subject to:

- (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The Company confirms that there are currently no existing material conflicts of interest between Sierra or a subsidiary of Sierra and any director or officer of Sierra or of a subsidiary of Sierra. Other than with respect to (i) the involvement of certain directors of the Company in other mining companies, and (ii) the significant holding of the ARC Funds and Arias Resource Capital Management LP in the Company for which Alberto Arias may be deemed to share voting and dispositive power with respect to the Company securities beneficially owned by the ARC Funds and Arias Resource Capital Management LP, there are no potential material conflicts of interest between Sierra or a subsidiary of Sierra and any director or officer of Sierra or of a subsidiary of Sierra.

AUDIT COMMITTEE INFORMATION

The Board has established an audit committee (the “**Audit Committee**”) comprised of Douglas F. Cater, Philip Renaud and Jose Vizquerra Benavides. All of the members of the Audit Committee are independent, non-executive directors of the Company. All members of the Audit Committee meet the independence and financial literacy requirements of National Instrument 52-110 - Audit Committees.

The Board has adopted a written charter for the Audit Committee, which sets out the Audit Committee’s responsibility in overseeing the accounting and financial reporting processes of the Company, audits of the financial statements of the Company, and the appointment, compensation, and oversight of the work of any registered external auditor employed by the Company for the purpose of preparing or issuing an audit report or related work. This charter is reviewed and assessed at least annually or otherwise, deemed appropriate, by the Board with the assistance of the Corporate Governance, Nominating and Audit Committees. A copy of this charter is attached hereto as Appendix “A”.

Douglas F. Cater

Douglas Cater is a graduate of the University of Waterloo and is a Professional Geologist with 30 years of experience in the exploration and mining of precious metals including the analysis of budgets and project management of mining projects. Mr. Cater was recently appointed Vice-President, Exploration of Kirkland Lake Gold Inc., and was formerly Vice President Exploration of St. Andrews Goldfields Ltd. (2012 – 2015). Since June of 2009, he has also been the Project Manager for Sabina Gold & Silver Corporation, a mineral exploration and development corporation. He was the Exploration Manager for Dundee Precious Metals Inc., a Toronto-based mining and exploration Company, from August 2005 to June 2009. Mr. Cater’s experience in the mining industry has provided him with the knowledge required to understand accounting principles and financial statements.

Philip Renaud

Mr. Renaud is the Managing Director of LB Advisors, a European investment advisory firm involved in private financings. Mr. Renaud graduated from Franklin College of Switzerland with a Bachelor of Arts in international financial management. Prior to his involvement with Church Advisors, Mr. Renaud was a founding partner of Change Capital Partners, a European private equity fund. He is also Chairman of Diagnos Inc. and Kane Biotech Inc., both Canadian, publicly-traded companies.

Jose Vizquerra Benavides

Mr. Vizquerra Benavides is the Executive Vice President of Strategic Development and a Director at Osisko Mining Inc. Previously, Mr. Vizquerra Benavides served as the President & CEO of Oban Mining Corp. ("Oban"), where he led the successful change of business strategy that resulted in Oban's acquisition of Corona Gold, Eagle Hill Exploration Corp. and Ryan Gold to form what is now Osisko Mining. Mr. Vizquerra Benavides previously worked as Head of Business Development for Compania de Minas Buenaventura, prior to which he worked as a production and exploration geologist at the Red Lake gold mine. He is currently a board member of Alio Gold Inc. Mr. Vizquerra Benavides holds a M.Sc. from Queens University in MINEX, and is a Qualified Person (AIGP).

External Auditor Fees

PricewaterhouseCoopers LLP ("PwC") was appointed as auditors of the Company on July 11, 2012. For the fiscal years ended December 31, 2017 and December 31, 2016, the fees billed by PwC are summarized below for each category:

Service	Fees Incurred 2017	Fees Incurred 2016
Audit Fees	\$ 395,668	\$ 310,000
Audit-Related Fees ⁽¹⁾	\$ 208,712	\$ 80,000
Tax Fees	\$ nil	\$ nil
All Other Fees	\$ nil	\$ nil
Total Fees Paid	\$ 604,390	\$ 390,000

(1) For the year ended December 31, 2017, "Audit-Related Fees" noted above included \$127,320, \$57,589 and \$23,803 for services related to: (i) the Company's prospectus, audit and review of Cautivo Mining Inc., (ii) the ATM Financing, and (iii) the US listing prospectus, respectively. For the year ended December 31, 2016, "Audit-Related Fees" noted above included \$80,000 for services related to the Company's prospectus, audit and review of Cautivo Mining Inc.

The fees set forth in the table above cover the following services provided to us by PwC:

"Audit Fees" include fees necessary to perform the audit of the Company's consolidated financial statements. Audit Fees include quarterly reviews, fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.

“Audit-Related Fees” include services that are traditionally performed by the auditor. These audit-related services include due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.

“Tax Fees” include fees for all tax services other than those included in “Audit Fees” and “Audit-Related Fees”. This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.

“All Other Fees” include fees relating to the aggregate fees billed in each of the last two fiscal years for products and services provided by the Company’s external auditor, other than the services reported in the preceding paragraphs.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the normal course of business. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably to the Company. The Company carries liability insurance coverage and will establish accruals and provisions for matters that are probable and can be reasonably estimated. In addition, the Company may be involved in disputes with other parties in the future. These may result in a significant impact on the Company’s financial condition, cash flow and results of operations.

The claims associated with the Company’s Mexican operations are discussed in detail below:

In October 2009, Polo y Ron Minerals, S.A. de C.V. (“**P&R**”) sued the Company and one of its subsidiaries, Dia Bras Mexicana S.A. de C.V. (“**DBM**”). P&R claimed damages for the cancellation of an option agreement (the “**Option Agreement**”) regarding the San Jose properties in Chihuahua, Mexico (the “**San Jose Properties**”). The San Jose Properties are not located in any areas where DBM currently operates, nor are these properties included in any resource estimates of the Company. The Company believes that it has complied with all of its obligations pertaining to the Option Agreement. In October 2011, the 8th Civil Court of the Judicial District of Morelos in Chihuahua issued a resolution that absolved the Company from the claims brought against it by P&R on the basis that P&R did not provide evidence to support any of its claims. P&R appealed this resolution to the State Court, which overruled the previous resolution and ordered the Company to: (i) transfer to P&R 17 mining concessions from the Company’s Bolivar project, including the mining concessions where both mine operations and mineral reserves are located; and (ii) pay \$423 to P&R; the Company was not appropriately notified of this resolution. In February 2013, a Federal Court in the State of Chihuahua granted the Company a temporary suspension of the adverse resolution issued by the State Court of Chihuahua, Mexico. In July 2014, a Federal Court in the State of Chihuahua ordered that the Company was entitled to receive proper notice of the adverse resolution previously issued by the State Court of Chihuahua. This allows the Company to proceed with its appeal (writ of “**amparo**”) of the State Court’s previous resolution. The adverse resolution has been temporarily suspended since March 2013, which suspension will remain in place pending the writ of amparo. The amparo is being heard in Federal Court and will challenge the State Court’s ruling. The Federal Court’s verdict in the amparo will be final and non-appealable. On February 12, 2016, The Second Federal Collegiate Court of Civil and Labor Matters, of the Seventeenth circuit in the State of Chihuahua, (the “**Federal Court**”) issued a new judgment ruling that the State Court lacked jurisdiction to rule on issues concerning mining titles, and that no previous rulings by the State Court against the Company shall stand. They ordered the cancellation of the previous adverse resolution by the state Court. The Company continues to believe that the original claim is without merit and will continue to vigorously defend this claim.

In 2009, a personal action was filed in Mexico against DBM by an individual, Ambrosio Bencomo Muñoz as administrator of the intestate succession of Ambrosio Bencomo Casavantes y Jesus Jose Bencomo Muñoz, claiming the annulment and revocation of the purchase agreement of two mining concessions, Bolívar III and IV between Minera Senda de Plata S.A. de C.V. and Ambrosio Bencomo Casavantes, and with this, the nullity of purchase agreement between DBM and Minera Senda de Plata S.A. de C.V. In June 2011, the Sixth Civil Court of Chihuahua, Mexico, ruled that the claim was unfounded and dismissed the case, the plaintiff appealed to the State Court. The process is in the appealing court. The Company will continue to vigorously defend this action and is confident that the claim is of no merit.

TRANSFER AGENTS AND REGISTRARS

The Company's registrar and transfer agent is Computershare Investor Service Inc. located at 1500 University Street, Suite 700, Montreal, Quebec H3A 3S8.

MATERIAL CONTRACTS

There are no contracts, other than those disclosed in this AIF and other than those entered into in the ordinary course of the Company's business, that are material to the Company and that were entered into during the most recently completed year ended December 31, 2017 or before the most recently completed financial year, that are still in effect as of the date of this AIF.

INTEREST OF EXPERTS

The Qualified Persons responsible for the Yauricocha Technical Report are Matthew Hastings (MSc Geology, MAusIMM), Shannon L. Rheaume (BASC Mining and Mineral Processing, PEng), Jeff Osborn (BEng Mining, MMSAQP), Daniel H. Sepulveda (B.Sc. Metallurgist, SME-RM) and John Tinucci (PhD, PE) of SRK.

The Qualified Persons responsible for the Bolivar Technical Report are Matthew Hastings (MSc Geology, MAusIMM), Jon Larson (BS Mining Engineering, MBA, MAusIMM, MMSAQP), Jeff Osborn (BEng Mining, MMSAQP), Daniel H. Sepulveda (B.Sc. Metallurgist, SME-RM), John Tinucci (PhD, PE) and Mark Willow (MSc, CEM, SME-RM) of SRK.

The Qualified Persons responsible for the Cusi Technical Report are Giovanni J. Ortiz (BSc Geology, FAusIMM), Fernando Rodrigues (BS Mining, MBA, MMSAQP), Daniel H. Sepulveda (B.Sc. Metallurgist, SME-RM), and Mark Willow (MSc, CEM, SME-RM) of SRK.

To the knowledge of the Company, each of the Qualified Persons listed above hold less than 1% of the outstanding Common Shares of the Company, at the time of the preparation of the reports and/or at the time of the preparation of the technical information contained in this AIF and either did not receive any or received less than a 1% direct or indirect interest in any securities of the Company or of any associate or affiliate of the Company in connection with the preparation of such reports or data.

Americo Zuzunaga MAusIMM CP (Mining Engineer), the Vice-President Planning of the Company, is named in this AIF as having prepared the Yauricocha Mine consolidated mineral reserve and resource estimate as at December 31, 2017, the Bolivar Mine consolidated mineral reserve and resource estimate as at December 31, 2017, and the Cusi Mine consolidated mineral resource estimate as at December 31, 2017, under the heading "Updated Mineral Resource and Mineral Reserve Information". As of the date hereof, Americo Zuzunaga does not hold any securities of the Company.

Gordon Babcock (P. Eng.), the Chief Operating Officer of the Company, is named in this AIF as having reviewed the Yauricocha Mine consolidated mineral reserve and resource estimate as at December 31, 2017, the Bolivar Mine consolidated mineral reserve and resource estimate as at December 31, 2017, and the Cusi Mine mineral resource estimate as at December 31, 2017, under the heading “Updated Mineral Resource and Mineral Reserve Information”. As of the date hereof, Gordon Babcock holds 62,294 Common Shares and 234,074 restricted share units of the Company.

PwC are the auditors of the Company who have prepared the auditor’s report in respect of the annual financial statement for the fiscal year ended December 31, 2017. PwC has confirmed that it is independent with respect to the Company within the meaning of the Chartered Professional Accountants of Ontario CPA Code of Professional Conduct. To the Company’s knowledge, PwC has no registered or beneficial interest, direct or indirect, in any securities or other property of the Company.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com and on the Company’s website at www.sierrametals.com. Information regarding directors’ remuneration and indebtedness, principal holders of the Company’s securities, options to purchase securities and interests of insiders in material transactions, if any, is contained in the Company’s Management Information Circular for its most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in the Company’s comparative Financial Statements and Management Discussion & Analysis for its most recently completed year.

APPENDIX "A"

SIERRA METALS INC.

AUDIT COMMITTEE CHARTER

I **PURPOSE**

The Audit Committee (the "Committee") is a committee of the board of directors (the "Board") of Sierra Metals Inc. (the "Corporation"). The primary function of the Committee is to assist the Board in fulfilling its financial reporting and controls responsibilities to the shareholders of the Corporation and the investment community. The external auditors will report directly to the Committee. The Committee's primary duties and responsibilities are:

- overseeing the integrity of the Corporation's financial statements and reviewing the financial reports and other financial information provided by the Corporation to any governmental body or to the public;
- recommending the appointment and reviewing and appraising the audit efforts of the Corporation's external auditors, overseeing the external auditors' qualifications and independence and providing an open avenue of communication among the external auditors, the Corporation's financial and senior management and the Board; and
- monitoring the Corporation's financial reporting process and internal controls, its management of business and financial risk, and its compliance with legal, ethical and regulatory requirements.

II **COMPOSITION**

The Committee will be comprised of members of the Board, the number of which will be determined from time to time by resolution of the Board. The composition of the Committee will be determined by the Board such that the membership and independence requirements set out in the rules and regulations, in effect from time to time, of any securities commissions (including, but not limited to, the British Columbia Securities Commission) and any exchanges upon which the Corporation's securities are listed (including, but not limited to, the Toronto Stock Exchange) are satisfied.

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board and shall remain on the Committee until the next annual organizational meeting of the Board or until their successors have been duly elected or appointed. The Board may remove a member of the Committee at any time in its sole discretion by resolution of the Board.

III **DUTIES AND RESPONSIBILITIES**

1. The Committee shall:

- (a) review and recommend to the Board for approval the annual audited consolidated financial statements of the Corporation;
-

- (b) review with financial management and external auditors the Corporation's financial statements, MD&A and earnings releases prior to filing the same with regulatory bodies such as securities commissions and/or prior to their release;
- (c) review document referencing, containing or incorporating by reference the annual audited consolidated financial statements or non-audited interim financial statements (e.g. prospectuses and/or press releases containing financial results) prior to their release; and
- (d) make changes or additions to security policies of the Corporation and report, from time to time, to the Board on the appropriateness of the policy guidelines in place to administer the Corporation's security programs.

2. The Committee, in fulfilling its mandate, shall:

- (a) ensure to its satisfaction that adequate internal controls and procedures are in place to allow the Chief Executive Officer and the Chief Financial Officer of the Corporation to certify financial statements and other disclosure documents as required under securities laws;
- (b) ensure to its satisfaction that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, MD&A and annual and interim earnings press releases, and periodically assess the adequacy of those procedures;
- (c) recommend to the Board the selection of the external auditors, consider their independence and effectiveness, and approve the fees and other compensation to be paid to the external auditors;
- (d) monitor the relationship between management and the external auditors, including reviewing any management letters or other reports of the external auditors, and discussing and resolving any material differences of opinion or disagreements between management and the external auditors;
- (e) review the performance of the external auditors and approve any proposed discharge and replacement of the external auditors when circumstances warrant. Consider, with management, the rationale for employing accounting/auditing firms other than the principal external auditors;
- (f) periodically consult with the external auditors out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the Corporation's financial statements. Particular emphasis should be given to the adequacy of internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper;
- (g) arrange for the external auditors to be available to the Committee and the Board as needed. Ensure that the external auditors report directly to the Committee and are made accountable to the Board and the Committee, as representatives of the shareholders to whom the auditors are ultimately responsible;

- (h) review and approve the Corporation's hiring policies regarding employees or former employees of the current and former external auditors;
- (i) review the scope of the external audit, including the fees involved;
- (j) review the external auditors' report on the annual audited consolidated financial statements;
- (k) review problems found in performing the audit, such as limitations or restrictions imposed by management or situations where management seeks a second opinion on a significant accounting issue;
- (l) review major positive and negative observations of the external auditors during the course of the audit;
- (m) review with management and the external auditors the Corporation's major accounting policies, including the impact of alternative accounting policies and key management estimates and judgments that can materially affect the financial results;
- (n) review emerging accounting issues and their potential impact on the Corporation's financial reporting;
- (o) review and approve requests for any management consulting engagement to be performed by the external auditors and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter and related fees;
- (p) review with management, the external auditors and legal counsel, any litigation, claims or other contingency, including tax assessments, which could have a material impact upon the financial position or operating results of the Corporation, and whether these matters have been appropriately disclosed in the financial statements;
- (q) review the conclusions reached in the evaluation of management's internal control systems by the external auditors, and management's responses to any identified weaknesses;
- (r) review with management their approach to controlling and securing corporate assets (including intellectual property) and information systems, the adequacy of staffing of key functions and their plans for improvements;
- (s) review with management their approach with respect to business ethics and corporate conduct;
- (t) review annually the legal and regulatory requirements that, if breached, could have a significant impact on the Corporation's published financial reports or reputation;
- (u) receive periodic reports on the nature and extent of compliance with security policies. The nature and extent of non-compliance together with the reasons therefore, with the plan and timetable to correct such non-compliance will be reported to the Board, if material;

- (v) review with management the accuracy and timeliness of filing with regulatory authorities;
 - (w) review periodically the business continuity plans for the Corporation;
 - (x) review annually general insurance coverage of the Corporation to ensure adequate protection of major corporate assets including, but not limited to, D&O (Directors and Officers) and “Key Person” coverage;
 - (y) perform such other duties as required by the Corporation’s incorporating statute and applicable securities legislation and policies; and
 - (z) establish procedures for:
 - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls, or auditing matters; and
 - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or audit matters.
3. The Committee may engage and communicate directly and independently with outside legal and other advisors for the Committee as required and set and pay the compensation of such advisors.
4. On an annual basis, the Committee will review the Audit Committee Charter and, where appropriate, recommend changes to the Board.

IV SECRETARY

The Secretary of the Committee will be appointed by the Chair of the Committee.

V MEETINGS

1. The Committee shall meet at such times and places as the Committee may determine, but no less than four times per year. At least annually, the Committee shall meet separately with management and with the external auditors.
2. Meetings may be conducted with members present in person, by telephone or by video conference.
3. A resolution in writing signed by all the members of the Committee is valid as if it had been passed at a meeting of the Committee.
4. Notice must be given to each Committee member not less than 48 hours before the time when a meeting is to be held. The notice period may be waived by a quorum of the Committee.
5. The external auditors or any member of the Committee may also call a meeting of the Committee. The external auditors of the Corporation will receive notice of every meeting of the Committee.
6. The Board shall be kept informed of the Committee’s activities by a report, including copies of minutes, at the next Board meeting following each Committee meeting.

VI **QUORUM**

Quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee.

SIERRA METALS INC.

Consolidated Financial Statements

Years ended December 31, 2017 and 2016

March 20, 2018

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the consolidated financial statements. The consolidated financial statements were prepared in accordance with International Financing Reporting Standards ("IFRS") and reflect management's best estimates and judgments based on information currently available.

Management maintains accounting systems and internal controls to produce reliable consolidated financial statements and provide reasonable assurance that assets are properly safeguarded.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

The Board of Directors of the Company is responsible for ensuring that Management fulfills its responsibilities for financial reporting. The Board of Directors carries out this responsibility through its Audit Committee, which is composed of three members. The committee meets various times during the year and at least once per year with the external auditors, with and without Management being present, to review the consolidated financial statements and to discuss audit and internal control related matters.

The Board of Directors approved the Company's audited consolidated financial statements.

"Igor Gonzales"

Igor Gonzales
President and Chief Executive Officer

"Ed Guimaraes"

Ed Guimaraes
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Sierra Metals Inc.

We have audited the accompanying consolidated financial statements of Sierra Metals Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss, comprehensive loss, changes in equity, and cash flows for each of the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sierra Metals Inc. and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for each of the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

Sierra Metals Inc.

Consolidated Statements of Financial Position

December 31, 2017 and 2016

(In thousands of United States dollars)

	Note	December 31, 2017 \$	December 31, 2016 \$
ASSETS			
Current assets:			
Cash and cash equivalents		23,878	42,145
Trade and other receivables	5	27,876	17,854
Income tax receivable		220	281
Prepaid expenses		1,130	873
Inventories	6	20,799	21,309
		<u>73,903</u>	<u>82,462</u>
Non-current assets:			
Property, plant and equipment	7	266,240	281,828
Other assets		-	234
Deferred income tax	9	458	288
Total assets		<u>340,601</u>	<u>364,812</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	8	32,319	29,828
Income taxes payable		9,440	2,357
Deferred revenue	11	-	4,904
Loans payable	10	28,977	29,378
Decommissioning liability	12	1,372	1,910
Other liabilities		8,579	4,509
		<u>80,687</u>	<u>72,886</u>
Non-current liabilities:			
Loans payable	10	35,883	49,304
Deferred income tax	9	30,341	43,569
Decommissioning liability	12	11,899	11,942
Other liabilities	13	1,113	1,149
Total liabilities		<u>159,923</u>	<u>178,850</u>
EQUITY			
Share capital	14	230,283	228,326
Accumulated deficit		(88,121)	(80,775)
Other reserves		12,409	12,717
Equity attributable to owners of the Company		<u>154,571</u>	<u>160,268</u>
Non-controlling interest	15	26,107	25,694
Total equity		<u>180,678</u>	<u>185,962</u>
Total liabilities and equity		<u>340,601</u>	<u>364,812</u>

Contingencies (note 24)

Approved on behalf of the Board and authorized for issue on March 20, 2018:

*"Alberto Arias"*Alberto Arias
Chairman of the Board*"Doug Cater"*Doug Cater
Chairman Audit Committee

The accompanying notes are an integral part of the consolidated financial statements.

Sierra Metals Inc.**Consolidated Statements of Income (Loss)**

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, except per share amounts)

	Note	2017 \$	2016 \$
Revenue		205,118	143,180
Cost of sales			
Mining costs	16	(100,979)	(81,832)
Depletion, depreciation and amortization	16	(58,175)	(44,568)
		<u>(159,154)</u>	<u>(126,400)</u>
Gross profit from mining operations		45,964	16,780
General and administrative expenses	16	(20,339)	(14,869)
Selling expenses		(7,543)	(6,965)
Exploration and evaluation expenditures		-	(1,103)
Income (loss) from operations		<u>18,082</u>	<u>(6,157)</u>
Other income	17	818	1,574
Foreign currency exchange gain (loss)		(1,737)	1,295
Interest expense and other finance costs	18	(3,263)	(3,676)
Loss on spin out of Plexmar net assets	25	(4,412)	-
Income (loss) before income taxes		<u>9,488</u>	<u>(6,964)</u>
Income tax (expense) recovery:			
Current tax expense	9	(23,416)	(9,629)
Deferred tax recovery	9	13,068	3,872
		<u>(10,348)</u>	<u>(5,757)</u>
Net income (loss)		<u>(860)</u>	<u>(12,721)</u>
Net income (loss) attributable to:			
Shareholders of the Company		(4,645)	(12,265)
Non-controlling interests		3,785	(456)
		<u>(860)</u>	<u>(12,721)</u>
Weighted average shares outstanding (000s)			
Basic		162,554	161,908
Diluted		162,554	161,908
Basic earnings (loss) per share		<u>(0.03)</u>	<u>(0.08)</u>
Diluted earnings (loss) per share		<u>(0.03)</u>	<u>(0.08)</u>

The accompanying notes are an integral part of the consolidated financial statements.

Sierra Metals Inc.**Consolidated Statements of Comprehensive Income (Loss)**

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars)

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Net income (loss)	(860)	(12,721)
Other comprehensive income (loss)		
Items that may be subsequently classified to net income (loss):		
Currency translation adjustments on foreign operations	<u>450</u>	<u>785</u>
Total comprehensive income (loss)	<u>(410)</u>	<u>(11,936)</u>
Total comprehensive income (loss) attributable to shareholders	(4,195)	(11,480)
Non-controlling interests	3,785	(456)
Total comprehensive income (loss) attributable to shareholders	<u>(410)</u>	<u>(11,936)</u>

The accompanying notes are an integral part of the consolidated financial statements.

Sierra Metals Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars)

	Common Shares		Other reserves	Retained earnings (accumulated deficit)	Total attributable to shareholders	Non-controlling Interest	Total shareholders' equity
	Shares	Amounts					
		\$	\$	\$	\$	\$	\$
Balance at January 1, 2017	162,073,293	228,326	12,718	(80,776)	160,268	25,694	185,962
Exercise of RSUs	739,471	1,957	(1,957)	-	-	-	-
Share-based compensation expense	-	-	1,198	-	1,198	-	1,198
Dividends paid to non-controlling interest	-	-	-	-	-	(3,372)	(3,372)
Distribution of capital of Plexmar net assets	-	-	-	(2,700)	(2,700)	-	(2,700)
Total comprehensive income (loss)	-	-	450	(4,645)	(4,195)	3,785	(410)
Balance at December 31, 2017	162,812,764	230,283	12,409	(88,121)	154,571	26,107	180,678
	Common Shares	Other reserves	Retained earnings (accumulated deficit)	Total attributable to shareholders	Non-controlling Interest	Total shareholders' equity	
	Shares	Amounts	\$	\$	\$	\$	
		\$	\$	\$	\$	\$	
Balance at January 1, 2016	161,746,240	227,969	11,471	(68,511)	170,929	26,645	197,574
Exercise of RSUs	327,053	357	(357)	-	-	-	-
Share-based compensation expense	-	-	819	-	819	-	819
Dividends paid to non-controlling interest	-	-	-	-	-	(495)	(495)
Total comprehensive income (loss)	-	-	785	(12,265)	(11,480)	(456)	(11,936)
Balance at December 31, 2016	162,073,293	228,326	12,718	(80,776)	160,268	25,694	185,962

The accompanying notes are an integral part of the consolidated financial statements.

Sierra Metals Inc.**Consolidated Statements of Cash Flows**

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars)

	Note	2017 \$	2016 \$
Cash flows from operating activities			
Net income (loss) from operations		(860)	(12,721)
Adjustments for:			
Items not affecting cash:			
Depletion, depreciation and amortization		58,236	45,711
Share-based compensation		1,198	819
Interest expense and other finance costs		3,726	3,676
Loss on spin out of Plexmar net assets		4,412	-
NRV adjustment to inventory		2,106	-
Current income tax expense		23,416	9,629
Deferred income tax recovery		(13,068)	(3,872)
Unrealized foreign currency exchange gain (loss)		619	1,061
Operating cash flows before movements in working capital		79,785	44,303
Net changes in non-cash working capital items	23	(7,899)	(1,523)
Cash received from deferred revenue	11	-	4,904
Decommissioning liabilities settled	12	(1,423)	(468)
Income taxes paid		(15,994)	(3,576)
Cash generated from operating activities		54,469	43,640
Cash flows from investing activities			
Capital expenditures		(51,607)	(25,352)
Cash used in investing activities		(51,607)	(25,352)
Cash flows from (used in) financing activities			
Proceeds from issuance of notes payable	10	14,750	3,750
Proceeds from issuance of loans and credit facilities	10	15,000	20,000
Repayment of loans and credit facilities	10	(44,516)	(20,545)
Loans interest paid	10	(2,953)	(3,674)
Dividends paid to non-controlling interest		(3,372)	(495)
Cash from (used in) financing activities		(21,091)	(964)
Effect of foreign exchange rate changes on cash and cash equivalents		(38)	(281)
Increase (decrease) in cash and cash equivalents		(18,267)	17,043
Cash and cash equivalents, beginning of year		42,145	25,102
Cash and cash equivalents, end of year		23,878	42,145
Supplemental cash flow information	23		

The accompanying notes are an integral part of these consolidated financial statements.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

1 Description of business and nature of operations

Sierra Metals Inc. (“Sierra Metals” or the “Company”) was incorporated under the Canada Business Corporations Act on April 11, 1996, and is a Canadian and Peruvian listed mining company focused on the production, exploration and development of precious and base metals in Peru and Mexico. The Company’s key priorities are to generate strong cash flows and to maximize shareholder value.

The Company’s shares are listed on the TSX, NYSE American Exchange, and the Bolsa de Valores de Lima (“BVL”) and its registered office is 79 Wellington St W, Suite 2100, Toronto, Ontario, M5K 1H1, Canada.

The Company owns an 81.84% interest in the polymetallic Yauricocha Mine in Peru and a 100% interest in the Bolivar and Cusi Mines in Mexico. In addition to its producing mines, the Company also owns various exploration projects in Mexico and Peru.

2 Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The financial statements were approved by the Board of Directors on March 20, 2018.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, which are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date that control commences until the date that control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. Changes in the parent company’s ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***2 Significant accounting policies (continued)**

The principal subsidiaries of the Company and their geographical locations as at December 31, 2017 are as follows:

Name of the subsidiary	Ownership interest	Location
Dia Bras EXMIN Resources Inc.	100%	Canada
Sociedad Minera Corona, S. A. ("Corona") ¹	81.84%	Perú
Dia Bras Peru, S. A. C. ("Dia Bras Peru") ¹	100%	Perú
Dia Bras Mexicana, S. A. de C. V. ("Dia Bras Mexicana")	100%	México
Servicios de Minería de la Sierra, S. A. de C. V.	100%	México
Bolívar Administradores, S. A. de C. V.	100%	México
Exploraciones Mineras Dia Bras, S. A. de C. V.	100%	México
EXMIN, S. A. de C. V.	100%	México

¹ The Company, through its wholly owned subsidiary Dia Bras Peru, holds an 81.84% interest in Corona, which represents 92.33% of the voting shares. The Company consolidates Corona's financial results and records a non-controlling interest for the 18.16% that it does not own.

(c) Foreign currency translation**(i) Functional currency**

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The functional currency of Sierra Metals Inc., the parent entity, is the Canadian dollar ("C\$"). The functional currency of the Mexican and Peruvian subsidiaries is the United States dollar.

(ii) Presentation currency

The financial statements of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting differences are recognized in other comprehensive income as cumulative translation adjustments.

(iii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of loss.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

2 Significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(e) Financial Instruments

(i) Initial measurement

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

(ii) Classification and subsequent measurement

Subsequent measurement of financial assets and liabilities depends on the classification of such as assets and liabilities:

- *Classified at Fair Value Through Profit or Loss ("FVTPL")*: A financial asset or liability is measured at fair value with changes in fair values recognized in the consolidated statement of income (loss) in the period in which they arise. A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Transaction costs directly attributable to financial assets and liabilities classified as at FVTPL are expensed in the period in which they are incurred. Generally, the Company does not acquire financial assets for the purpose of selling in the short term. Derivatives are also included in this category unless they are designated as hedges. When the Company enters into derivative contracts these are designed to reduce the Company's risk exposure related to assets, liabilities or anticipated transactions.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host contracts. Commodity-based embedded derivatives resulting from provisional sales prices of metals in concentrate are recognised in revenue as described in note 2(1).

- *Loans and receivables*: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less any provision for impairment.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the term of the financial asset or financial liability, respectively. The interest rate used in the calculation, is the rate that exactly discounts estimated future cash receipts or payments throughout the term of the financial instrument to the net carrying amount of the financial asset or liability.

- *Other financial liabilities*: other financial liabilities are initially measured at fair value net of transaction costs incurred and are subsequently stated at amortised cost using the effective interest rate method.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

2 Significant accounting policies (continued)

(iii) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as FVTPL) is impaired. A financial asset is impaired and impairment losses are recognized when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and these have a negative impact on the estimated future cash flows of the financial asset, which can be reliably estimated. An impairment loss is recognized in net income (loss) for the period measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate at initial recognition.

Impairment losses on financial assets carried at amortized cost can be reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the President and Chief Executive Officer of the Company.

(g) Inventories

Inventories consist of concentrates, ore stockpiles, supplies and spare parts. Concentrates include stockpiled concentrates at milling operations or at warehouses. Stockpiled ore is comprised of in-process mineralized material awaiting processing at milling facilities and materials for use in milling operations. Concentrates and stockpiled ore are valued at the lower of average production cost and net realizable value ("NRV"). Concentrates and stockpiled ore inventory costs include all direct costs incurred in production including direct labor and materials, freight and amortization, and directly attributable overhead costs. NRV is calculated as the estimated price at the time of sale based on prevailing metal market prices less estimated future costs to convert the inventories into saleable form and estimated costs to sell. If the carrying value of inventory exceeds NRV, a write-down is recognized as production costs of sales in the consolidated statement of income (loss). If there is a subsequent increase in the value of the inventory, the previous write-downs to NRV are reversed up to cost to the extent that the related inventory has not been sold.

The supplies and spare parts inventories will be used for exploration and production and are valued at the lower of average cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs.

2 Significant accounting policies (continued)

(h) Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs that are directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and /or
- Compiling pre-feasibility and feasibility studies

Exploration expenditures are costs incurred in the search for resources suitable for commercial exploitation and these costs are expensed in the period incurred. Evaluation expenditures are costs incurred in determining the technical feasibility and commercial viability of a mineral resource. Evaluation expenditures are capitalized when there is a high degree of confidence in the project's viability and thus it is probable that future economic benefits will flow to the Company. Any items of property, plant and equipment used for exploration and evaluation are capitalised within property, plant and equipment. Capitalized evaluation expenditures are considered to be tangible assets as they form part of the underlying mineral property and are recorded within property, plant and equipment - exploration and evaluation expenditures.

(i) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price, any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with the asset, and for qualifying assets, the associated borrowing costs. Once a mining project has been established as commercially viable, expenditure other than on land, buildings, plant and equipment is capitalized under 'Mining properties' together with any amount capitalized relating to that mining project from 'Exploration and evaluation'.

Where an item of property, plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment and depreciated over their estimated useful lives.

Costs associated with commissioning new assets, in the period before they are capable of operating in the manner intended by management, are capitalized. Revenue generated during the development stage from the sale of concentrate and related costs can be deducted from capitalized costs only if the production of the saleable material is directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to future economic benefits and these costs can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of income (loss) during the period in which they are incurred.

Property, plant and equipment is depreciated over its useful life, or over the remaining life of the mine if shorter. Depreciation commences when the asset is available for use. Land is not depreciated. The major categories of property, plant and equipment are depreciated on a straight line basis using the following average estimated useful lives below:

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

2 Significant accounting policies (continued)

Useful lives	Years
Vehicles, furniture and other assets	3 to 10
Machinery and equipment	5 to 20
Bulidings and other constructions	5 to 50

Mineral properties are depleted over the life of the mine using the units of production method. In applying the units of production method, depletion is normally calculated using the quantity of material to be extracted in current and future periods based on proven and probable reserves or measured and indicated resources. Such non-reserve material may be included in depletion calculations in limited circumstances and where there is a high degree of confidence in its economic extraction.

The Company conducts an annual review of residual values, useful lives, depletion and depreciation methods used for property, plant and equipment. Changes to estimated residual values or useful lives are accounted for prospectively.

(j) Impairment of non-financial assets

Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is assessed at the level of cash generating units ('CGUs'). The recoverable amount is the higher of an asset's fair value less costs to sell or value in use.

Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction. The best evidence of fair value is the value obtained from an active market or binding sales agreement. Where this information is not available, fair value can be estimated as the present value of future cash flows expected to be realized from the continued use of the asset including expansion projects. Value in use is determined as the present value of expected future cash flows to be realized from the continued use of the asset in its present condition and from its ultimate disposal.

Capitalized exploration expenditures are reviewed for indicators of impairment, which included a decision to discontinue activities in a specific area and the existence of sufficient data indicating that the carrying amount of an exploration and evaluation asset is unlikely to be recovered from the development or sale of the asset.

Non-financial assets that have suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized and included in the carrying amounts of those assets until they are ready for their intended use. All other borrowing costs are recognized as an expense in the period incurred.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

2 Significant accounting policies (continued)

(l) Revenue recognition

Revenue from the sale of concentrates is recognized when the significant risks and rewards of ownership have been transferred to the customer; the sales price and costs can be measured reliably,

the Company has no significant continuing involvement and it is probable that the economic benefits will flow to the Company. The risks and rewards of ownership are transferred when title and insurance risk have passed to the customer and the concentrate has been delivered to a contractually agreed location.

Revenue from the sale of concentrate is recorded net of charges for shipping, refining and smelting. Revenue from the sale of material by-products is included within revenue.

Revenues from metal concentrates are provisionally priced based upon provisional assays and quoted metal prices. Revenues are recorded at the time title passes to the buyer. The Company records adjustments to revenues at each reporting period based on the quoted forward prices for the expected settlement period. Accordingly, the value of the concentrate receivable changes as the underlying commodity prices change. This pricing mechanism gives rise to an embedded derivative in accounts receivable that is recognized at fair value with changes in value recorded in revenue. Adjustments for weights and assays are recorded when results are determinable or on final settlement.

(m) Deferred revenue

The Company recognizes deferred revenue on the statement of financial position when it has received cash in return for an obligation to deliver concentrate in a future reporting period. As product is delivered under such an agreement, the deferred revenue balance is reduced as revenue is recognized on the statement of income.

(n) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of the shares are recognized as a deduction from equity.

(o) Share-based payments

The fair value of the estimated number of stock options and restricted share units ("RSUs") awarded to employees, officers and directors that will eventually vest, determined as of the date of grant, is recognized as share-based compensation expense over the vesting period of the stock options and RSUs, with a corresponding increase to equity. The fair value of each tranche is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant. The fair value of RSUs is the market value of the underlying shares as of the date of grant. The number of awards expected to vest is reviewed at least annually, with any change in the estimate recognized immediately in share-based payments expense with a corresponding adjustment to equity.

(p) Share repurchases

The Company deducts from contributed surplus any excess of consideration paid over book value where the Company has repurchased any of its own common shares. Book value is calculated as the weighted average price of the shares issued and outstanding prior to the cancellation date.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

2 Significant accounting policies (continued)

(q) Earnings (loss) per share

Basic earnings (loss) per share (“EPS”) is calculated by dividing the net income (loss) for the period attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company’s potentially dilutive common shares comprise stock options granted to employees. In periods of loss, basic and diluted EPS are the same, as the effect of dilutive instruments is anti-dilutive.

(r) Income taxes

Tax expense comprises current and deferred income and resource taxes. Current income, deferred income and resources taxes are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that the parent is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Decommissioning and restoration liabilities

Decommissioning and restoration costs include the dismantling and demolition of infrastructure, the removal of residual materials and the remediation of disturbed areas. These costs are a normal consequence of mining activity and the majority of these expenditures are expected to be incurred at the end of the life of mine. Estimated decommissioning and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, based on the net present value of the estimated future costs discounted using the credit adjusted risk free rate. This provision is adjusted in each reporting period to reflect known developments, e.g. revisions to costs estimates and the timing of cash out flows.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

2 Significant accounting policies (continued)

The initial decommissioning and restoration provision together with other movements resulting from changes in estimated cash flows or the credit adjusted risk free rates is capitalized within property, plant and equipment and amortized over the life of the asset to which it relates except where it relates to a closed mine where the expenses are recognized in the statement of loss. Provision is made for the estimated present value of costs of environmental clean-up obligations outstanding as at the date of the statement of financial position, and these costs are charged to the income statement as an operating cost.

The amortization or unwinding of the discount applied in establishing the net present value of provision is accreted to the income statement in each accounting period with each interest charge included as a financing cost rather than as an operating cost.

3 Significant accounting estimates and judgments

In the application of the Company's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the effects of uncertain future events on the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on management's best knowledge of the relevant facts and circumstances and historical experience. Actual results may differ from these estimates, potentially having a material future effect on the Company's consolidated financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the significant judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Impairment review of asset carrying values

In accordance with the Company's accounting policy (note 2(j)), at every reporting period, the Company assesses whether there are any indicators that the carrying value of its assets or Cash Generating Units ("CGUs") may be impaired, which is a significant management judgment. Where there is an indication that the carrying amount of an asset may not be recoverable, the Company prepares a formal estimate of the recoverable amount by analyzing discounted cash flows. The resulting valuations are particularly sensitive to changes in estimates such as long term commodity prices, exchange rates, sales volume, operating costs, and discount rates. In the event of impairment, if there is a subsequent adverse change in any of the assumptions or estimates used in the discounted cash flow model, this could result in a further impairment of the asset. Also, in accordance with the Company's accounting policy (note 2(h)), the Company capitalizes evaluation expenditures when there is a high degree of confidence that these costs are recoverable and have a probable future benefit. As at December 31, 2017 the Company assessed the carrying value of its long-lived assets and exploration and evaluation expenditures and determined that no impairment was required.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

3 Significant accounting estimates and judgments (continued)

(b) Mineral reserves and resources

The Company estimates mineral reserves and resources based on information prepared by qualified persons as defined in accordance with the Canadian Securities Administrators' National Instrument ("NI") 43-101. These estimates form the basis of the Company's life of mine ("LOM") plans, which are used for a number of important and significant accounting purposes, including: the calculation of depletion expense and impairment charges, forecasting the timing of the payment of decommissioning costs and future taxes. There are significant uncertainties inherent in the estimation of mineral reserves and the assumptions used, including commodity prices, production costs, recovery rates and exchange rates. These assumptions may change significantly when new information becomes available and could result in mineral reserves being revised, which in turn would impact depletion expense, asset carrying values and the provision for decommissioning costs.

(c) Deferred tax assets and liabilities

The Company's management makes significant estimates and judgments in determining the Company's tax expense for the period and the deferred tax assets and liabilities. Management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. In addition, management makes estimates related to expectations of future taxable income based on cash flows from operations and the application of existing tax laws in each jurisdiction. Assumptions used in the cash flow forecast are based on management's estimates of future production and sales volume, commodity prices, operating costs, capital expenditures, dividends, and decommissioning and reclamation expenditures. These estimates are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to the statement of loss. The Company is subject to assessments by various tax authorities who may interpret the tax laws differently. These differences may impact the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on management's best estimates of the probable outcome of these matters.

(d) Decommissioning and restoration liabilities costs

The Company's provision for decommissioning and restoration costs is based on management's best estimate of the present value of the future cash outflows required to settle the liability. In determining the liability, management makes estimates about the future costs, inflation, foreign exchange rates, risks associated with the cash flows, and the applicable risk-free interest rates for discounting future cash flows. Changes in any of these estimates could result in a change in the provision recognized by the Company. Also, the ultimate costs of environmental disturbance are uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites.

Changes in decommissioning and restoration liabilities are recorded with a corresponding change to the carrying amounts of the assets to which they relate. Adjustments made to the carrying amounts of the asset can result in a change to the depreciation charged in the consolidated statement of loss.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

(e) Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that the functional currency of each entity is the U.S. dollar. Determination of functional currency may involve certain judgements to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

4 Adoption of new accounting standards and future accounting changes

Future accounting changes

The following standards and amendments to existing standards have been published and are mandatory for annual periods beginning January 1, 2018, or later periods:

IFRS 9, Financial Instruments: Recognition and measurement ("IFRS 9")

The IASB issued its completed version of IFRS 9, Financial Instruments ("IFRS 9") in July 2014. The completed standard provides revised guidance on the recognition and measurement of financial assets and liabilities. It also introduces a new expected credit loss model for calculating impairment for financial assets and liabilities. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard.

This final version of IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the extent of the impact of the adoption of this standard and does not foresee a material impact upon adopting this standard.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15, was issued in May 2014, which covers principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the extent of the impact of the adoption of this standard and does not foresee a material impact upon adopting this standard.

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued this standard which is effective for periods beginning on or after January 1, 2019, which replaces the current guidance in IAS 17, *Leases*, and is to be applied either retrospectively or a modified retrospective approach. Early adoption is permitted, but only in conjunction with IFRS 15, *Revenue from Contracts with Customers*. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflective of future lease payments and a "right-of-use asset" for virtually all lease contracts. The Company has not yet determined the effect of adoption of IFRS 16 on its consolidated financial statements.

Adoption of new accounting standards

Amendments to IAS 7, Statements of Cash Flows ("IAS 7")

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company has determined that there is no impact from adopting the amendments to IAS 7 on its consolidated financial statements.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***5 Trade and other receivables**

	December 31, 2017	December 31, 2016
	\$	\$
Trade receivables	20,613	12,840
Sales tax receivables	7,210	4,617
Other receivables	53	397
	<u>27,876</u>	<u>17,854</u>

6 Inventories

	December 31, 2017	December 31, 2016
	\$	\$
Stockpiles	1,554	1,585
Concentrates	3,839	6,647
Supplies and spare parts	15,406	13,077
	<u>20,799</u>	<u>21,309</u>

Cost of sales are comprised of production costs of sales and depletion, depreciation and amortization, and represent the cost of inventories recognized as an expense for the years ended December 31, 2017 and 2016 of \$159,154 and \$126,400, respectively. Supplies and spare parts inventory as at December 31, 2017 is stated net of a provision of \$1,663 (2016 - \$1,384) to write inventories down due to obsolescence. Supplies and spare parts inventory held at NRV at December 31, 2017 was \$9,045 (2016 - \$6,561). During the year ended December 31, 2017, the Company wrote down stockpile and concentrate inventory to its NRV, recording a charge of \$2,106 (2016 - \$1,365). Stockpile and concentrate inventory held at NRV as at December 31, 2017 was \$794 (2016 - \$375).

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

7 Property, plant and equipment

<u>Cost</u>	<u>Plant and equipment</u>	<u>Mining properties</u>	<u>Assets under construction</u>	<u>Exploration and evaluation expenditure</u>	<u>Total \$</u>
Balance as of January 1, 2016	192,566	418,334	23,873	38,911	673,684
Additions	4,130	6,490	8,649	6,600	25,869
Disposals	(325)	-	-	-	(325)
Foreign exchange revaluation	-	-	-	(158)	(158)
Transfers	6,316	379	(6,316)	(379)	-
Balance as of December 31, 2016	202,687	425,203	26,206	44,974	699,070
Additions	8,632	6,959	20,595	15,758	51,944
Disposals	(1,038)	-	-	(9,417)	(10,455)
Transfers	12,948	-	(12,948)	-	-
Balance as of December 31, 2017	223,229	432,162	33,853	51,315	740,559
Balance as of January 1, 2016	106,436	252,381	-	13,041	371,858
Depletion, depreciation and amortization	15,818	29,616	-	-	45,434
Disposals	(50)	-	-	-	(50)
Balance as of December 31, 2016	122,204	281,997	-	13,041	417,242
Depletion, depreciation and amortization	20,799	37,176	-	-	57,975
Disposals	(898)	-	-	-	(898)
Balance as of December 31, 2017	142,105	319,173	-	13,041	474,319
Net Book Value - December 31, 2017	81,124	112,989	33,853	38,274	266,240
Net Book Value - December 31, 2016	80,483	143,206	26,206	31,933	281,828
Net Book Value - December 31, 2015	86,130	165,953	23,873	25,870	301,826

For the year ended December 31, 2017, depletion and depreciation expense of \$57,975 (2016: \$45,434) has been charged to depletion, depreciation and amortization in property, plant, and equipment. Additionally, depletion and depreciation expense of \$1,133 (2016: \$1,159) has been capitalized to inventory.

During the year ended December 31, 2017, the Company has capitalized borrowing costs amounting to \$349 (2016 – \$491) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of 5.25%.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***8 Accounts payable and accrued liabilities**

	December 31, 2017 \$	December 31, 2016 \$
Trade payables	19,004	18,428
Other payables and accrued liabilities	13,315	11,400
	<u>32,319</u>	<u>29,828</u>

All accounts payable and accrued liabilities are expected to be settled within 12 months.

9 Current and deferred income tax liability**(a) Income and resource taxes**

	2017 \$	2016 \$
Current Tax Expense		
Current income tax	23,416	9,629
	<u>23,416</u>	<u>9,629</u>
Deferred Tax Recovery		
Deferred Tax Recovery	(13,068)	(3,872)
	<u>(13,068)</u>	<u>(3,872)</u>
Total tax expense	<u>10,348</u>	<u>5,757</u>

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

9 Current and deferred income tax liability (Continued)

(b) Tax rate reconciliation

A reconciliation between income tax expense and the product of loss before income taxes multiplied by the combined Canadian federal and provincial income tax rate for the period ended December 31 is as follows:

	2017 \$	2016 \$
Income (loss) before income taxes	9,488	(6,964)
Expected Tax Rate @ 26.50% (2016 - 26.00%)	2,555	(1,780)
Effect of tax rate differences	(512)	2,365
Stock based compensation costs	258	195
Other Non-deductible expenses	449	(8,531)
Unrealized foreign exchange income	148	42
Inflation Adjustment for Mexico tax purposes	(420)	(214)
Change in benefit of other temporary differences not recognized	2,280	8,273
Foreign exchange and other	(807)	2,506
Mining royalties and other	6,397	2,901
	10,348	5,757

(c) Deferred tax asset and liability

Deferred tax assets have not been recognized in respect of the following temporary differences:

	2017 \$	2016 \$
Non-capital and capital losses	35,512	25,777
Property, plant and equipment	60	38
Mineral properties	2,445	9,889
Other	(385)	(87)
	37,632	35,617

The significant components and movements of the Company's net deferred tax assets and liabilities are as follows:

	Balance January 1, 2016 \$	Change in 2016 \$	Balance December 31, 2016 \$	Change in 2017 \$	Balance December 31, 2017 \$
Inventory	390	66	456	98	554
Other items	(364)	243	(121)	26	(95)
Provisions	672	257	929	293	1,222
Decommissioning liabilities	3,714	380	4,094	(166)	3,928
Non-capital losses	9,910	(3,235)	6,675	1,373	8,048
Property, Plant, and equipment	(4,583)	648	(3,935)	2,138	(1,797)
Mining assets	(53,926)	3,624	(50,302)	8,261	(42,041)
Inventory	(3,287)	348	(2,939)	922	(2,017)
Other items	1,832	(791)	1,041	589	1,630
Deferred revenue	-	1,471	1,471	(1,471)	-
Provisions	(1,498)	(32)	(1,530)	974	(556)
Mining royalties	1,003	(125)	878	363	1,241
	(46,137)	2,854	(43,283)	13,400	(29,883)

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***9 Current and deferred income tax liability (continued)****(d) Tax losses**

In Canada, the Company has aggregate tax losses not recognized of \$27,153 (December 31, 2016 – \$26,051) expiring in periods from 2025 to 2036. Deferred tax assets have not been recognized in respect of these losses because it is not probable that future taxable profit will be available against which the company can utilise the benefits there from.

Also, the Company has \$8,578 of capital losses that are without expiry as at December 31, 2017 (December 31, 2016 - \$8,578).

(e) Unrecognized deferred tax liabilities

As at December 31, 2017, the Company has taxable temporary difference of \$16,315 (2016 - \$13,477) relating to investments in subsidiaries that has not been recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

10 Loans payable

	December 31, 2017 \$	December 31, 2016 \$
Current		
Acquisition loan with Banco de Credito del Peru (a)	6,141	5,784
Operating loan with Banco de Credito del Peru (b)	6,309	6,211
Revolving credit facility with Banco de Credito del Peru (c)	15,000	-
Notes payable to Scotiabank and Interbank in Peru (d)	-	14,750
Other credit facilities (e)	-	1,179
Loan with FIFOMI (f)	1,527	1,454
	<u>28,977</u>	<u>29,378</u>
Non-current		
Acquisition loan with Banco de Credito del Peru (a)	34,236	40,036
Operating loan with Banco de Credito del Peru (b)	-	6,238
Loan with FIFOMI (f)	1,647	3,030
	<u>35,883</u>	<u>49,304</u>
Total loans payable	<u>64,860</u>	<u>78,682</u>

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

10 Loans payable (continued)

(a) Corona Acquisition Loan with Banco de Credito del Peru S.A. (“BCP”)

On May 24, 2011, the Company’s wholly owned subsidiary Dia Bras Peru entered into a loan agreement with BCP amounting to \$150,000. After deducting financing costs of \$3,750, the net proceeds were \$146,250. The proceeds from this loan were used to fund a portion of the purchase consideration for the acquisition of the Company’s 81.84% interest in Corona in Peru. The loan was repayable over 5 years ending on May 24, 2016 and carried interest at a rate of LIBOR plus 4.5% per annum, payable quarterly in arrears.

On August 7, 2015, Dia Bras Peru signed an amended agreement with BCP for the then outstanding debt balance of \$48,000. The most significant amendments to the agreement were:

- The remaining \$48M due on the facility was split into 2 tranches
- Tranche 1, in the amount of \$24M has quarterly principal repayments of \$1.5M beginning in November 2016 and ending in August 2020
- Tranche 2, in the amount of \$24M has no quarterly principal repayments and to be repaid in full in August 2020
- One year principal repayment grace period
- Reduced Interest rate equal to 3.65% plus 3M LIBOR vs previous rate of 4.15% plus 3M LIBOR
- Term of the Facility extended for 5 Years

These amendments did not trigger the de-recognition rules under IAS 39 - Financial Instruments.

Principal repayments totalling \$6,000 have been made for the year ended December 31, 2017 (2016 - \$1,500).

The loan is recorded at amortized cost and is being accreted to face value over 5 years using an effective interest rate of 4.71%. An amortization expense related to the transaction costs for \$217 has been recorded for the year ended December 31, 2017 (2016 - \$300). Interest payments totalling \$2,141 have been made for the year ended December 31, 2017 (2016 - \$2,084).

The loan with BCP is secured by a pledge over Dia Bras Peru’s interest in Corona voting shares and is guaranteed by the Company. The Company is in compliance with all financial covenants as at December 31, 2017.

(b) Corona Operating Loan with BCP

On October 17, 2013, the Company’s subsidiary Corona, in which the Company has an interest of 81.84%, entered into a credit facility with BCP for up to \$60,000. The credit facility is for a 5 year term and the funds can be drawn within the first 3 years in tranches of up to \$40,000 during the first year, up to \$30,000 during the second year and up to \$20,000 during the third year. The loan bears interest of LIBOR plus 4.5% and the loan principal and interest are payable in quarterly installments over the term of the loan with the first payment due 15 months after the closing of the credit facility. The loan is guaranteed by the collection rights and future cash flows generated from the sale of ore concentrates and other products. The loan contains certain financial covenants, events of default and other provisions which are customary for a transaction of this nature. These covenants include maintaining an equity balance at the Corona level higher than \$30 million, maintaining a Debt Service Coverage ratio higher than 1.1x, and maintaining a Net Financial Debt/EBITDA ratio lower than 2.0x.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

10 Loans payable (continued)

The Company is in compliance with all financial covenants as at December 31, 2017.

On June 29, 2016, \$5,000 was drawn from this facility bearing an interest rate of three months LIBOR plus 4.5%.

Principal repayments totalling \$6,250 have been made for the year ended December 31, 2017 (2016 – \$3,750). Interest payments totalling \$827 have been made for the year ended December 31, 2017 (2016 – \$716).

(c) DBP Credit Facility with BCP

On August 9, 2017, the Company's subsidiary DBP, entered into a credit facility with BCP for up to \$15,000. The credit facility is for a 1 year term and is being used to fund short term working capital requirements. On August 9, 2017, the Company drew \$8,000 from this facility at an interest rate of LIBOR plus 0.95%. On August 31, 2017, the Company drew the remaining \$7,000 from this facility at an interest rate of LIBOR plus 1.05%. The credit facility will be repaid in full on the anniversary date of August 9th, while interest payments must be made quarterly. The credit facility is guaranteed by the common shares of DBP's subsidiary Sociedad Minera Corona.

(d) Corona Notes payable with Scotiabank and Interbank Peru

In order to fund its short term working capital needs, Corona repaid and drew down the following notes payable:

- On May 6, 2016 a \$15,000 revolving credit facility with Scotiabank was obtained. The credit facility bears an interest rate of three month LIBOR plus 1.90%. During the year ended December 31, 2017, \$11,000 was drawn and subsequently repaid from this facility.
- On February 8, 2017, \$3,750 was drawn from a revolving credit facility from Interbank Peru, bearing interest of three month LIBOR plus 1.90%, which matured on August 7, 2017.

During the year ended December 31, 2017 the Company repaid all of the notes payable amounts previously outstanding from the Scotiabank and Interbank facilities.

(e) Other credit facilities

- **Pre-Export Finance Facility (“the Pre-Export Finance Facility”):** On March 2, 2016, Dia Bras Mexicana (“DBM”) entered into a \$4,000 Pre-Export Finance Facility with METAGRI S.A de C.V (“METAGRI”), to whom DBM sells all of its lead concentrate. The \$4,000 facility was drawn down on March 2, 2016 and bore interest of 5.0% plus 1 year LIBOR.

Repayment took place against deliveries of lead concentrate for the period of April 2016 up to and including June 2017. METAGRI deducted seven hundred dollars per dry metric ton of material from the purchase price payable to DBM in the provisional payment for each dry metric ton of the material delivered to METAGRI under the sales contract, subject to a minimum monthly deduction of two hundred and seventy thousand dollars (“the minimum monthly deduction”) plus the accrued interest. If DBM failed to deliver the material during any month from April 2016 until and including June 2017, and/or the value of the material during any month is lower than the minimum monthly deduction plus the accrued interest, DBM would have repaid METAGRI the short-fall within two business days after METAGRI's written notice.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

10 Loans payable (continued)

The deductions were made until such time as the Pre-Export Finance Facility had been fully amortized and the interest had been fully serviced. DBM had agreed that METAGRI could set-off any final payment deferred under the sales contract against any outstanding Pre-Export Finance Facility or interest to ensure full amortization of the principal and service the interest.

During the year ended December 31, 2017, DBM made repayments totaling \$1,178 (2016 - \$2,822).

(f) FIFOMI loan

- During January 2015, the Company's Mexican Subsidiary, Dia Bras Mexicana S.A. de C.V, received a loan of MXP\$120 million from Nacional Financiera, Sociedad Fiduciaria del Fideicomiso de Fomento Minero ("FIFOMI") to be used for working capital purposes and capital expenditures, specifically the expansion of the Piedras Verdes Plant.

On February 2, 2015, DBM drew MXP\$120 million (US\$7,995). After deducting transaction costs of US\$124, net proceeds were US\$7,871.

Monthly principal repayments have taken place over four years beginning in January 2016 at an interest rate of TIE + 3%. Interest payments began in February 2015 and during the year ended December 31, 2017, DBM has made interest payments of \$366 (MXP\$6,918) (2016 - \$357 (MXP\$6,659)). Principal payments of \$1,588 (MXP\$30,000) (2016 - \$1,473 (MXP\$27,500)) have been made during the year ended December 31, 2017.

11 Deferred revenue

During December 2016 the Company received a payment of \$4,904 for copper concentrate stockpiled at the Piedras Verdes Plant which was awaiting a new filter in order to further process and dry the concentrate. The Company entered into an agreement with their customer, Trafigura Mexico S.A. de C.V. ("Trafigura") who agreed to pay for the concentrate in advance with certain stipulations. The Company had to pay interest to Trafigura on the advance payment at the LIBOR 3-month rate plus 3% from the date the advance payment was made to the date when the first provisional payment for the product was otherwise due. The 4,100 DMT of copper concentrate stockpiled had to be delivered according to the following schedule: 705 DMT during January 2017, 1,200 DMT during February 2017, 1,200 DMT during March 2017 and 950 DMT during April 2017. Since the copper concentrate inventory was not shipped to Trafigura during 2016, and the advance payment was received during 2016, as per the terms of the agreement and holding certificate granted, the payment was recorded as deferred revenue. The amount has been subsequently drawn down as the concentrate was shipped to Trafigura, which resulted in revenues being recognized in the first four months of 2017. Interest was accrued according with the terms of the agreement and was paid in full during the first four months of 2017.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***12 Decommissioning liability**

	December 31, 2017 \$	December 31, 2016 \$
Balance, beginning of period	13,852	13,977
Liabilities settled during the period	(1,424)	(468)
Interest cost	843	343
Revisions and new estimated cash flows	-	-
Balance, end of period	13,271	13,852
Less: current portion	(1,372)	(1,910)
Long-term decommissioning liability	11,899	11,942

The Company's decommissioning liability represents the present value of estimated costs for required future decommissioning and other site restoration activities. The majority of the decommissioning and site restoration expenditures occur at the end of each operation's life. During 2017 and 2016, the decommissioning liability was calculated based on the following key assumptions:

	2017		2016	
	Mexico	Peru	Mexico	Peru
Estimated undiscounted cash flows (\$)	1,021	15,203	1,021	16,206
Discount rate (%)	6.0	4.5	6.0	4.5
Settlement period (years)	6	5-10	6	5-10

13 Other liabilities

	December 31, 2017 \$	December 31, 2016 \$
Current		
Profit-sharing and other employee related obligations (a)	8,579	4,509
Non-current		
Other employee related obligations	1,113	1,149

(a) Profit sharing and other employee related obligations

As at December 31, 2017, there is a provision amounting to \$5,487 for employee profit sharing in Peru and \$3,092 for wages, salaries and other employee benefits outstanding (December 31, 2016 - \$2,356 and \$2,153, respectively).

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***14 Share capital and share-based payments****(a) Authorized capital**

The Company has an unlimited amount of authorized common shares with no par value.

(b) Stock options

The changes in stock options outstanding during the years ended December 31, 2017 and December 31, 2016 was as follows:

	December 31, 2017		December 31, 2016	
	Number of options	Weighted average exercise price C\$	Number of options	Weighted average exercise price C\$
Outstanding, beginning of period	-	-	7,116	3.40
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	(7,116)	3.40
Outstanding, end of period	-	-	-	-
Exercisable, end of period	-	-	-	-

There were no stock options outstanding or exercisable as at December 31, 2017.

(c) Restricted share units ("RSUs")

The changes in RSU's issued during the years ended December 31, 2017 and 2016 was as follows:

	December 31, 2017	December 31, 2016
Outstanding, beginning of period	1,771,877	874,788
Granted	1,126,254	1,278,753
Exercised	(739,471)	(327,053)
Forfeited	(842,346)	(54,611)
Outstanding, end of period	1,316,314	1,771,877

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

14 Share capital and share-based payments (continued)

On June 29, 2012, the Company's shareholders approved the RSU plan, whereby RSUs may be granted to directors, officers, consultants or employees at the discretion of the Board of Directors. The RSU plan provides for the issuance of common shares from treasury upon the exercise of vested RSUs at no additional consideration. There is no cash settlement related to the vesting of RSUs as they are all settled with equity. The current maximum number of common shares authorized for issue under the RSU plan is 8,000,000. The RSUs have vesting conditions determined by the Board of Directors.

During the year ended December 31, 2017, the Company granted one tranche of RSUs totalling 1,126,254 which had a fair value of C\$3.67 based on the closing share price at grant date. RSUs exercised during the year ended December 31, 2017 had a weighted average fair value of C\$3.49 and the RSUs expired had a weighted average fair value of C\$2.43 (2016 – C\$1.51 and C\$1.52, respectively). As at December 31, 2017, the weighted average fair value of the RSUs outstanding is C\$2.45 (2016 – C\$1.16).

The total RSU expense recognized during the year ended December 31, 2017 was \$1,198 with a corresponding credit to other reserves (2016 - \$819).

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***15 Non-controlling interest**

Set out below is the summarized financial information of our subsidiary Corona which has a material non-controlling interest (note 2(b)). The information below is before intercompany eliminations and after fair value adjustments on acquisition of the entity.

Summarized balance sheet

	December 31, 2017 \$	December 31, 2016 \$
Current		
Assets	67,867	62,731
Liabilities	(39,466)	(42,147)
Total current net assets	28,401	20,584
Non-current		
Assets	155,259	180,196
Liabilities	(39,404)	(58,801)
Total non-current net assets	115,855	121,395
Net assets	144,256	141,979

Summarized income statement

	For the year ended December 31,	
	2017 \$	2016 \$
Revenue	154,153	97,290
Income before income tax	30,855	1,400
Income tax expense	(10,014)	(3,913)
Total income (loss)	20,841	(2,513)
Total income (loss) attributable to non-controlling interests	3,785	(456)
Dividends paid to non-controlling interests	3,372	495

Summarized cash flows

	For the year ended December 31,	
	2017 \$	2016 \$
Cash flows from operating activities		
Cash generated from operating activities	76,269	34,902
Net changes in non cash working capital items	(3,968)	(5,885)
Decommissioning liabilities settled	(1,423)	(331)
Income taxes paid	(15,994)	(3,562)
Net cash generated from operating activities	54,884	25,124
Net cash used in investing activities	(18,740)	(11,587)
Net cash from (used in) financing activities	(53,126)	1,516
Effect of foreign exchange rate changes on cash and cash equivalents	13	4
Increase (decrease) in cash and cash equivalents	(16,969)	15,057
Cash and cash equivalents, beginning of year	36,877	21,820
Cash and cash equivalents, end of period	19,908	36,877

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***16 Expenses by nature**

Mining costs include mine production costs, milling and transport costs, royalty expenses, site administration costs but not the primary mine development costs which are capitalized and depreciated over the specific useful life or reserves related to that development and ore included in depreciation and amortization. The mining costs for the year ended December 31, 2017 and 2016 relate to the Yauricocha, Bolivar and Cusi Mines.

(a) Mining costs

	2017	2016
	\$	\$
Employee compensation and benefits	23,046	17,857
Third party and contractors costs	43,041	36,473
Depreciation	58,175	44,568
Consumables	27,659	25,999
Changes in inventory and other	7,233	1,503
	<u>159,154</u>	<u>126,400</u>

(b) General and administrative expenses

	2017	2016
	\$	\$
Salaries and benefits	6,405	6,851
Consulting and professional fees	6,583	3,043
Other	1,581	368
Office expenses	1,604	1,384
Marketing and communication expenses	925	478
Share-based compensation expense	1,162	807
Listing and filing fees	390	199
Director expenses	1,168	1,446
Travelling expense	521	293
	<u>20,339</u>	<u>14,869</u>

17 Other income (expenses)

	2017	2016
	\$	\$
Gain on sale of supplies and fixed assets	58	59
Interest income	36	89
Reversal of legal accrual	-	704
Miscellaneous income (expenses)	724	722
	<u>818</u>	<u>1,574</u>

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***18 Interest expense and other finance costs**

	2017	2016
	\$	\$
Interest expense on BCP loan	2,370	2,084
Interest expense on other liabilities	4	920
Amortization of loan transaction costs	46	329
Interest cost on decommissioning liability	843	343
	<u>3,263</u>	<u>3,676</u>

19 Segment reporting

The Company primarily manages its business on the basis of the geographical location of its operating mines. The Company's operating segments are based on the reports reviewed by the senior management group that are used to make strategic decisions. The Chief Executive Officer considers the business from a geographic perspective considering the performance of the Company's business units. The corporate division only earns income that is considered to be incidental to the activities of the Company and thus it does not meet the definition of an operating segment; as such it has been included within "other reconciling items."

The reporting segments identified are the following:

- Peru – Yauricocha Mine
- Mexico – Bolivar and Cusi Mines

Sierra Metals Inc.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

19 Segment reporting (continued)

The following is a summary of the reported amounts of net income (loss) and the carrying amounts of assets and liabilities by operating segment:

Year ended December 31, 2017	Peru Yauricocha Mine \$	Mexico Bolivar Mine \$	Mexico Cusi Mine	Canada Corporate \$	Total \$
Revenue	154,153	44,949	6,016	-	205,118
Production cost of sales	(67,542)	(27,418)	(6,019)	-	(100,979)
Depletion of mineral property	(31,448)	(3,163)	(690)	-	(35,301)
Depreciation and amortization of property, plant and equipment	(12,783)	(8,275)	(1,816)	-	(22,874)
Cost of sales	(111,773)	(38,856)	(8,525)	-	(159,154)
Gross profit (loss) from mining operations	42,380	6,093	(2,509)	-	45,964
Income (loss) from operations	29,428	(1,328)	(3,818)	(6,200)	18,082
Loss on spin out of Plexmar net assets	-	-	-	(4,412)	(4,412)
Interest expense and other finance costs	(2,801)	-	(462)	-	(3,263)
Other income (expense)	1,156	(910)	(153)	725	818
Foreign currency exchange loss	222	(723)	(128)	(1,108)	(1,737)
Income (loss) before income tax	28,005	(2,961)	(4,561)	(10,995)	9,488
Income tax expense	(10,047)	(269)	(32)	-	(10,348)
Net income (loss) from operations	17,958	(3,230)	(4,593)	(10,995)	(860)
December 31, 2017		Peru	Mexico	Canada	
Total assets		205,233	132,826	2,542	340,601
Non-current assets		155,401	111,212	85	266,698
Total liabilities		134,323	24,086	1,514	159,923
Year ended December 31, 2016	Peru Yauricocha Mine \$	Mexico Bolivar Mine \$	Mexico Cusi Mine	Canada Corporate \$	Total \$
Revenue	97,290	33,267	12,623	-	143,180
Production cost of sales	(53,705)	(23,064)	(5,063)	-	(81,832)
Depletion of mineral property	(24,384)	(3,426)	(752)	-	(28,562)
Depreciation and amortization of property, plant and equipment	(7,812)	(6,719)	(1,475)	-	(16,006)
Cost of sales	(85,901)	(33,209)	(7,290)	-	(126,400)
Gross profit from mining operations	11,389	58	5,333	-	16,780
Income (loss) from operations	1,149	(7,125)	3,757	(3,938)	(6,157)
Interest expense and other finance costs	(3,093)	(335)	(583)	335	(3,676)
Other income	919	540	119	(4)	1,574
Foreign currency exchange gain (loss)	(312)	1,578	346	(317)	1,295
Income (loss) before income tax	(1,337)	(5,342)	3,639	(3,924)	(6,964)
Income tax (expense) recovery	(3,913)	(1,511)	(333)	-	(5,757)
Net income (loss) from operations	(5,250)	(6,853)	3,306	(3,924)	(12,721)
December 31, 2016		Peru	Mexico	Canada	
Total assets		238,181	117,402	9,229	364,812
Non-current assets		180,260	97,329	8,341	285,930

Total liabilities

142,981

33,170

2,699

178,850

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

19 Segment reporting (continued)

For the year ended December 31, 2017, 75% of the revenues (\$154,153) were from two customers based in Peru and the remaining 25% of the revenues (\$50,965) were from two customers based in Mexico. In Peru, the two customers accounted for 73% and 27% of the revenues. In Mexico, the two customers accounted for 88% and 12% of the revenues.

For the year ended December 31, 2016, 68% of the revenues (\$97,290) were from two customers based in Peru and the remaining 32% of the revenues (\$45,890) were from two customers based in Mexico. In Peru, the two customers accounted for 65% and 35% of the revenues. In Mexico, the two customers accounted for 73% and 27% of the revenues.

As at December 31, 2017, the trade receivable balance of \$20,613 includes amounts outstanding of \$4,616 and \$15,997 from two customers in Mexico and two customers in Peru, respectively.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***20 Financial instruments and financial risk management**

The Company's financial instruments include cash and cash equivalents, trade receivables, financial assets, accounts payable and loans payable.

(a) Financial assets and liabilities by category

	Loans and receivables	FVTPL	Available for sale	Other financial liabilities	Total
At December 31, 2017	\$	\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	23,878	-	-	-	23,878
Trade receivables ⁽¹⁾	20,613	-	-	-	20,613
Total Financial assets	44,491	-	-	-	44,491
Financial liabilities					
Accounts payable	-	-	-	19,004	19,004
Loans payable	-	-	-	64,860	64,860
Total Financial liabilities	-	-	-	83,864	83,864
At December 31, 2016					
Financial assets					
Cash and cash equivalents	42,145	-	-	-	42,145
Trade receivables ⁽¹⁾	12,840	-	-	-	12,840
Total Financial assets	54,985	-	-	-	54,985
Financial liabilities					
Accounts payable	-	-	-	18,428	18,428
Loans payable	-	-	-	78,682	78,682
Total Financial liabilities	-	-	-	97,110	97,110

⁽¹⁾ Trade receivables exclude sales and income tax receivables.

(b) Fair value of financial instruments

As at December 31, 2017 and 2016, the fair value of the financial instruments approximates their carrying value.

(c) Fair value hierarchy

Financial instruments carried at fair value are categorized based on a three level valuation hierarchy that reflects the significance of inputs used in making the fair value measurements as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***20 Financial instruments and financial risk management (continued)**

The Company's metal concentrate sales are subject to provisional pricing with the selling prices adjusted at the end of the quotational period. The Company's trade receivables are marked-to-market at each reporting period based on quoted forward prices for which there exists an active commodity market.

Level 3 – inputs for the asset or liability that are not based on observable market data.

At December 31, 2017 and 2016, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the Consolidated Statement of Financial Position are categorized as follows:

Recurring measurements	December 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Trade receivables ⁽¹⁾	-	20,613	-	20,613	-	12,840	-	12,840
	-	20,613	-	20,613	-	12,840	-	12,840

⁽¹⁾ Trade receivables exclude sales and income tax receivables.

There were no transfers between level 1 and level 2 during the years ended December 31, 2017 and 2016.

(d) Financial risk management

The Company is exposed to financial risks, including credit risk, liquidity risk, currency risk, interest rate risk and price risk. The aim of the Company's overall risk management strategy is to reduce the potential adverse effect that these risks may have on the Company's financial position and results. The Company's Board of Directors has overall responsibility and oversight of management's risk management practices. Risk management is carried out under policies approved by the Board of Directors. The Company may from time to time, use foreign exchange contracts and commodity price future and forward contracts to manage its exposure to fluctuations in foreign currency and metals prices. The Company does not ordinarily enter into hedging arrangements to cover long term commodity price risk unless it has the obligation to so under a credit facility, which would be approved of the Board of Directors.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***20 Financial instruments and financial risk management (continued)****i) Market Risk****(1) Currency risk**

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company and its subsidiaries' financial instruments are exposed to currency risk where those instruments are denominated in currencies that are not the same as their functional currency; exchange gains and losses in these situations impact net income or loss. The Company's sales of silver, copper, lead and zinc are denominated in United States dollars and the Company's costs are incurred in Canadian dollars, United States dollars, Mexican pesos and Peruvian Nuevo Soles. The United States dollar is the functional currency of the Peruvian and Mexican entities. The Canadian dollar is the functional currency of all other entities. The company also holds cash and cash equivalents, trade and other receivables and accounts payable that are subject to currency risk.

The following are the most significant areas of exposure to currency risk:

	December 31, 2017			Total \$
	CAN dollar	Mexican Peso	Peruvian Nuevo Soles	
Cash and cash equivalents	132	167	634	933
Income tax and other receivables	158	9,618	918	10,694
	<u>290</u>	<u>9,785</u>	<u>1,552</u>	<u>11,627</u>
Accounts payable and other liabilities	<u>(1,461)</u>	<u>(30,674)</u>	<u>(21,838)</u>	<u>(53,973)</u>
Total	<u>(1,171)</u>	<u>(20,889)</u>	<u>(20,286)</u>	<u>(42,346)</u>
	December 31, 2016			
	CAN dollar	Mexican Peso	Peruvian Nuevo Soles	Total \$
Cash and cash equivalents	244	67	1,857	2,168
Income tax and other receivables	411	8,933	457	9,801
	<u>655</u>	<u>9,000</u>	<u>2,314</u>	<u>11,969</u>
Accounts payable and other liabilities	<u>(1,086)</u>	<u>(24,234)</u>	<u>(12,539)</u>	<u>(37,859)</u>
Total	<u>(431)</u>	<u>(15,234)</u>	<u>(10,225)</u>	<u>(25,890)</u>

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***20 Financial instruments and financial risk management (continued)**

The Company manages and monitors this risk with the objective of mitigating the potential adverse effect that fluctuations in currencies against the Canadian dollar and US dollar could have on the Company's Consolidated Statement of Financial Position and Consolidated Statement of income (loss). As at December 31, 2017, the Company has not entered into any derivative contracts to mitigate this risk.

A 10% appreciation in the US dollar exchange rate against the Peruvian Nuevo Soles and the Mexican Peso based on the financial assets and liabilities held at December 31, 2017, with all the other variables held constant, would have resulted in an increase to the Company's net loss of \$4,118 (increase in loss in 2016 of \$2,500).

A 10% appreciation in the Canadian dollar exchange rate against the US dollar based on the financial assets and liabilities held at December 31, 2017 and 2016, with all the other variables held constant, would have resulted in a negligible impact to the Company's net income (loss).

(2) Interest rate risk

Interest rate risk is the risk that the fair values or future cash flows of the Company will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its loans payable (note 10). The Company monitors its exposure to interest rates closely and has not entered into any derivative contracts to manage its risk. The weighted average interest rate paid by the Company during the year ended December 31, 2017 on its loans and notes payable in Peru was 4.31% (2016 – 4.47%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net loss by \$541 (2016 - \$635). The interest rate paid by the Company during the year ended December 31, 2017 on its loans payable in Mexico was 5.74% (2016 – 5.83%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net loss by \$60 (2016 - \$65).

(3) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market.

As at December 31, 2017 and 2016, the Company had certain amounts related to the sales of concentrates that have only been provisionally priced. Commodity price risk exists solely in Mexico as the Company fixes metal prices with the purchaser of its concentrates for specific sales for which concentrates have been delivered. The Company's exposure to commodity price risk is as follows:

Commodity	2017 \$	2016 \$
10% decrease in silver prices	(27)	(32)
10% decrease in copper prices	(456)	(213)
10% decrease in lead prices	(1)	(1)
10% decrease in gold prices	(87)	(84)

As at December 31, 2017 and 2016, the Company did not have any forward contracts outstanding.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***20 Financial instruments and financial risk management (continued)****ii) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligation as they fall due. The Company has in place planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion and development plans. The Company tries to ensure that it has sufficient committed credit facilities to meet its short-term operating needs, note 10.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities and undiscounted cash flows as at December 31, 2017 of the Company's financial liabilities and operating and capital commitments:

	Within 1 year	1-2 years	2-5 years	After 5 years	Total	As at December 31,
	\$	\$	\$	\$	\$	2017
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	32,319	-	-	-	32,319	32,319
Loans payable	28,770	7,520	28,430	-	64,720	64,860
Interest on loans payable	207	197	250	-	654	777
Other liabilities	8,579	1,113	-	-	9,692	9,692
Total Commitments	69,875	8,830	28,680	-	107,385	107,648

In the opinion of management, the working capital at December 31, 2017, together with future cash flows from operations and available loan facilities, is sufficient to support the Company's commitments through 2018.

iii) Credit risk

Credit risk is the risk that the counterparty to a financial instrument might fail to discharge its obligations under the terms of a financial contract. Credit risk is primarily associated with trade receivables; however, it also arises on cash and cash equivalents. The Company sells its concentrate to large international organizations. The Company is exposed to significant concentration of credit risk given that all of its revenues from Peru and Mexico were from two customers at each of the locations. At December 31, 2017 the Company has not recorded an allowance against trade receivables because it is confident that all of the balances will be collected in full when due and there have not been any issues collecting balances owed to the Company in the past.

The Company's policy is to keep its cash and cash equivalents only with highly rated financial institutions and to only invest in government securities. The Company considers the risk of loss associated with cash and cash equivalents to be low. The counterparty to the financial asset is a large international financial institution with strong credit ratings and thus the credit risk is considered to be low.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***20 Financial instruments and financial risk management (continued)**

The Company's maximum exposure to credit risk is as follows:

	December 31, 2017	December 31, 2016
	\$	\$
Cash and cash equivalents	23,878	42,145
Trade receivables	20,613	12,840
	<u>44,491</u>	<u>54,985</u>

21 Capital management

The Company's objectives of capital management are to safeguard its ability to support the Company's normal operating requirements on an ongoing basis; continue the development and exploration of its mining properties and pursue strategic growth initiatives, while minimizing the cost of such capital; and to provide an adequate return to its shareholders.

The capital of the Company consists of items included in equity attributable to owners of the Company and debt, net of cash and cash equivalents as follows:

	December 31, 2017	December 31, 2016
	\$	\$
Equity attributable to owners of the Company	154,571	160,268
Loans payable	64,860	78,682
	<u>219,431</u>	<u>238,950</u>
Less: Cash and cash equivalents	(23,878)	(42,145)
	<u>195,553</u>	<u>196,805</u>

In order to facilitate the management of capital requirements, annual budgets are prepared and updated as necessary based on various factors, many of which are beyond the Company's control. In assessing liquidity, the Company takes into account its expected cash flows from operations, including capital asset expenditures, and its cash and cash equivalents. The Board of Directors reviews the annual and updated budgets.

The Company ensures that there are sufficient committed credit facilities to meet its short term requirements. At December 31, 2017, the Company expects its current capital resources to be sufficient to support its normal operating requirements on an ongoing basis and planned development and explorations programs. At December 31, 2017, the Company was in compliance with the external capital requirements.

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

*(In thousands of United States dollars, unless otherwise stated)***22 Related party transactions****(a) Related party transactions**

During the year ended December 31, 2017, the Company recorded consulting fees of \$200 (2016 - \$200) to companies related by common directors or officers. At December 31, 2017, accounts payable and accrued liabilities include \$Nil (2016 - \$Nil) with these related parties. Related party transactions occurred in the normal course of business. As at December 31, 2017, the Company has accounts receivable outstanding from these related parties of \$Nil (2016 - \$284).

(b) Compensation of directors and key management personnel

The remuneration of the Company's directors, officers and other key management personnel during the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	\$	\$
Salaries and other short term employment benefits	2,968	3,847
Share-based payments	2,753	897
Total compensation	5,720	4,744

23 Supplemental cash flow information**Changes in working capital**

	2017	2016
	\$	\$
Trade and other receivables	(10,092)	(3,134)
Financial and other assets	(427)	209
Income tax receivable	61	1,050
Inventories	(1,624)	(4,874)
Accounts payable and accrued liabilities	5,116	4,164
Income taxes payable	(339)	(115)
Other liabilities	(594)	1,177
	(7,899)	(1,523)

Sierra Metals Inc.**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

24 Contingencies

The Company and its subsidiaries have been named as defendants in certain actions incurred in the normal course of business. In all cases the Company and its subsidiaries will continue to vigorously defend the actions and an accrual has been made in the consolidated financial statements for matters that are probable and can be reasonably estimated.

The contingencies outstanding associated with our Mexican subsidiaries are as follows:

- a) In October 2009, Polo y Ron Minerals, S.A. de C.V. ("P&R") sued the Company and one of its subsidiaries, Dia Bras Mexicana S.A. de C.V. P&R claimed damages for the cancellation of an option agreement (the "Option Agreement") regarding the San Jose properties in Chihuahua, Mexico (the "San Jose Properties"). The Company believes that it has complied with all of its obligations pertaining to the Option Agreement. In October 2011, the 8th Civil Court of the Judicial District of Morelos in Chihuahua issued a resolution that absolved the Company from the claims brought against it by P&R on the basis that P&R did not provide evidence to support any of its claims. P&R appealed this resolution to the State Court, which overruled the previous resolution and ordered the Company to: (i) transfer to P&R 17 mining concessions from the Company's Bolivar project, including the mining concessions where both mine operations and mineral reserves estimates are located; and (ii) pay \$422,674 to P&R. In February 2013, a Federal Court in the State of Chihuahua granted the Company a temporary suspension of the adverse resolution issued by the State Court of Chihuahua, Mexico. On February 12, 2016 The Second Federal Collegiate Court of Civil and Labor Matters, of the Seventeenth circuit in the State of Chihuahua, ("the Federal Court") issued a new judgment ruling that the State Court lacked jurisdiction to rule on issues concerning mining titles, and that no previous rulings by the State Court against the Company shall stand. They ordered the cancellation of the previous adverse resolution by the state Court. The Company will continue to vigorously defend this claim. Sierra Metals continues to believe that the original claim is without merit.
- b) In 2009, a personal action was filed in Mexico against DBM by an individual, Ambrosio Bencomo Muñoz as administrator of the intestate succession of Ambrosio Bencomo Casavantes y Jesus Jose Bencomo Muñoz, claiming the annulment and revocation of the purchase agreement of two mining concessions, Bolívar III and IV between Minera Senda de Plata S.A. de C.V. and Ambrosio Bencomo Casavantes, and with this, the nullity of purchase agreement between DBM and Minera Senda de Plata S.A. de C.V. In June 2011, the Sixth Civil Court of Chihuahua, Mexico, ruled that the claim was unfounded and dismissed the case, the plaintiff appealed to the State Court. The process is in the appealing court. The Company will continue to vigorously defend this action and is confident that the claim is of no merit.

25 Distribution of Cautivo Mining Inc. Shares

On August 8, 2017, the Company announced the completion of the previously announced distribution of Cautivo Mining Inc.'s ("Cautivo") common shares, issuance of rights pursuant to Cautivo's rights offering, and listing of the Cautivo Shares and the Rights on the Canadian Securities Exchange (the "CSE").

The distribution was completed by distributing to holders of Sierra common shares (other than ineligible holders) of record on July 26, 2017 all of the issued and outstanding Cautivo Shares, being 3,253,588 Cautivo Shares, as a return of capital, reducing Sierra's shareholdings in Cautivo from 100% to nil. The Cautivo Shares were distributed pursuant to a spin-off by Sierra and Sierra did not receive any proceeds from the distribution. Immediately following this distribution, Cautivo issued 11,904,761 Rights pursuant to the Rights Offering, whereby holders of Sierra common shares received 3.6589638 Rights for every Sierra common share held. For every whole Right held, a holder is entitled to subscribe for one Cautivo Share at a price of C\$0.84 per share at any time from August 8, 2017 to August 29, 2017.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(In thousands of United States dollars, unless otherwise stated)

25 Distribution of Cautivo Mining Inc. Shares (continued)

Effective August 8, 2017, the Cautivo Shares and the Rights commenced trading on the CSE under the trading symbols “CAI” and “CAI.RT”, respectively.

On July 26, 2017, the company disposed of Plexmar Resources and Cautivo Mining Inc. to the shareholders of the company as a return of capital.

A total of 3,253,588 shares were issued, as well as rights to subscribe for up to 11,904,761 shares at \$0.84 per share. As a result of this transaction the Company realized a non-cash loss on distribution of the net assets of Plexmar of \$4,412 and a distribution of capital of \$2,700 to shareholders relating to the fair value of the assets distributed.



**SIERRA METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Corporate Office

*Suite 2100, 79 Wellington St W.
Toronto, ON, Canada M5K 1H1*

*TSX: SMT
NYSE AMERICAN: SMTS
BVL: SMT
www.sierrametals.com*

TABLE OF CONTENTS

1.	INTRODUCTION	3
2.	COMPANY OVERVIEW	3
3.	2017 OPERATING AND FINANCIAL HIGHLIGHTS	4
4.	OUTLOOK	10
5.	RESULTS OF OPERATIONS	19
6.	SUMMARIZED FINANCIAL RESULTS	31
7.	QUARTERLY FINANCIAL REVIEW	37
8.	LIQUIDITY AND CAPITAL RESOURCES	40
9.	SAFETY, HEALTH AND ENVIRONMENT	41
10.	FINANCIAL INSTRUMENTS AND RELATED RISKS	41
11.	OTHER RISKS AND UNCERTAINTIES	45
12.	NON-IFRS PERFORMANCE MEASURES	50
13.	RELATED PARTY TRANSACTIONS	55
14.	CRITICAL ACCOUNTING POLICIES AND ESTIMATES	56
15.	OFF BALANCE SHEET ARRANGEMENTS	59
16.	DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (“ICFR”)	59
17.	CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	60

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

1. INTRODUCTION

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with Sierra Metals Inc.'s (the "Company" or "Sierra" or "Sierra Metals") consolidated financial statements for the year ended December 31, 2017 and related notes thereto (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). References herein to "\$" are to the United States dollar and "C\$" are to the Canadian dollar and all tabular amounts are expressed in thousands of \$ unless otherwise stated. All information contained in this MD&A is current as of March 20, 2018 unless otherwise noted. The Company's common shares (the "Common Shares") are listed and traded on the Toronto Stock Exchange (the "TSX"), the New York Stock Exchange (the "NYSE MKT"), and the Peruvian Bolsa de Valores de Lima ("BVL" or the "Lima Stock Exchange") under the symbol "SMT", and "SMTS" on the NYSE MKT. Additional information relating to the Company, including the Company's Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com and on the Company's website at www.sierrametals.com. A cautionary note regarding forward-looking information follows this MD&A.

QUALIFIED PERSONS

Gordon Babcock B.Sc., P. ENG., Chief Operating Officer, Sierra Metals, is the qualified person as defined in National Instrument 43-101 ("NI 43-101") relating to operational scientific and technical information of Sierra Metals which have been included in this MD&A.

Americo Zuzunaga, MAusIMM CP(Mining Engineer) and Vice President of Corporate Planning is a Qualified Person and chartered professional qualifying as a Competent Person under the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Augusto Chung, FAusIMM CP(Metallurgist) and Consultant to Sierra Metals is a Qualified Person and chartered professional qualifying as a competent person on metallurgical processes.

2. COMPANY OVERVIEW

Sierra Metals is a Canadian and Peruvian listed mining company focused on the production, exploration and development of precious and base metals in Peru and Mexico. The Company plans to continue growing its production base through brownfield exploration investments within its properties. The Company's key priorities are to provide high returns on invested capital, to generate strong cash flows and to maximize shareholder value. The Company has three producing mining properties and manages its business on the basis of the geographical location of its mining projects. The Peruvian Operation ("Peru") is comprised of the Yauricocha mine ("Yauricocha" or the "Yauricocha Mine"), located in the province of Yauyos, its near-mine concessions, and exploration and early stage properties. The Mexican Operation ("Mexico") includes the Bolivar ("Bolivar" or the "Bolivar Mine") and Cusi ("Cusi" or the "Cusi Mine") mines, both located in Chihuahua State, Mexico, their near-mine concessions, and exploration and early stage properties. The Company's strategic focus is currently on its operations, improving efficiencies, as well as pursuing growth opportunities at, and surrounding, its operating projects. The Company is also considering other opportunities to add value and expand through external growth. Exploration remains a key aspect of the improvement programs being implemented at all three of the Company's mines and there is optimism that these brownfield exploration programs will continue to add high value tonnage going forward. Examples of this can be seen at Yauricocha with the Esperanza, Cuye-Mascota zones, at Bolivar, with the Bolivar West and Northwest zones, as well as at Cusi, with the recently announced Santa Rosa de Lima Zone. These results provide potential to further grow mineral resources and enhance shareholder value.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

3. 2017 OPERATING AND FINANCIAL HIGHLIGHTS

(In thousands of dollars, except per share and cash cost amounts, consolidated figures unless noted otherwise)

	Three Months Ended		Year Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Operating				
Ore Processed / Tonnes Milled	509,488	517,705	1,988,738	2,034,465
Silver Ounces Produced (000's)	496	789	2,317	2,979
Copper Pounds Produced (000's)	7,471	6,153	26,775	23,390
Lead Pounds Produced (000's)	5,736	9,990	29,704	40,551
Zinc Pounds Produced (000's)	19,545	17,039	76,088	56,610
Gold Ounces Produced	1,591	1,867	6,197	8,604
Copper Equivalent Pounds Produced (000's) ¹	21,856	24,969	90,354	91,398
Zinc Equivalent Pounds Produced (000's) ¹	47,287	51,229	193,152	211,583
Silver Equivalent Ounces Produced (000's) ¹	4,078	3,533	14,865	11,798
Cash Cost per Tonne Processed	\$ 50.57	\$ 40.05	\$ 46.87	\$ 40.47
Cost of sales per AgEqOz	\$ 7.91	\$ 7.17	\$ 7.75	\$ 8.72
Cash Cost per AgEqOz ²	\$ 7.54	\$ 6.84	\$ 7.41	\$ 8.58
AISC per AgEqOz ²	\$ 12.42	\$ 12.92	\$ 12.34	\$ 15.11
Cost of sales per CuEqLb ²	\$ 1.48	\$ 1.01	\$ 1.27	\$ 1.02
Cash Cost per CuEqLb ²	\$ 1.41	\$ 0.97	\$ 1.22	\$ 1.00
AISC per CuEqLb ²	\$ 2.32	\$ 1.83	\$ 2.03	\$ 1.77
Cost of sales per ZnEqLb ²	\$ 0.68	\$ 0.49	\$ 0.60	\$ 0.45
Cash Cost per ZnEqLb ²	\$ 0.65	\$ 0.47	\$ 0.57	\$ 0.44
AISC per ZnEqLb ²	\$ 1.07	\$ 0.89	\$ 0.95	\$ 0.80
Cash Cost per ZnEqLb (Yauricocha) ²	\$ 0.57	\$ 0.43	\$ 0.50	\$ 0.42
AISC per ZnEqLb (Yauricocha) ²	\$ 0.90	\$ 0.74	\$ 0.78	\$ 0.71
Cash Cost per CuEqLb (Bolivar) ²	\$ 1.72	\$ 1.00	\$ 1.49	\$ 1.12
AISC per CuEqLb (Bolivar) ²	\$ 3.03	\$ 2.59	\$ 2.68	\$ 2.21
Cash Cost per AgEqOz (Cusi) ²	\$ 18.67	\$ 12.88	\$ 15.38	\$ 9.37
AISC per AgEqOz (Cusi) ²	\$ 36.33	\$ 24.42	\$ 33.90	\$ 18.60
Financial				
Revenues	\$ 51,170	\$ 41,825	\$ 205,118	\$ 143,180
Adjusted EBITDA ²	\$ 19,208	\$ 15,985	\$ 81,034	\$ 41,887
Operating cash flows before movements in working capital	\$ 17,812	\$ 16,197	\$ 79,785	\$ 44,303
Adjusted net income attributable to shareholders ²	\$ 3,241	\$ 3,516	\$ 23,482	\$ 7,006
Net income (loss) attributable to shareholders	\$ 2,118	\$ (5,076)	\$ (4,645)	\$ (12,265)
Cash and cash equivalents	\$ 23,878	\$ 42,145	\$ 23,878	\$ 42,145
Working capital	\$ (6,784)	\$ 9,576	\$ (6,784)	\$ 9,576

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2017 were calculated using the following realized prices: \$16.77/oz Ag, \$3.13/lb Cu, \$1.11/lb Pb, \$1.45/lb Zn, \$1,282/oz Au. Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2016 were calculated using the following realized prices: \$16.82/oz Ag, \$2.38/lb Cu, \$0.95/lb Pb, \$1.16/lb Zn, \$1,210/oz Au. Silver equivalent ounces and copper and zinc equivalent pounds for 12M 2017 were calculated using the following realized prices: \$17.14/oz Ag, \$2.82/lb Cu, \$1.06/lb Pb, \$1.32/lb Zn, \$1,265/oz Au. Silver equivalent ounces and copper and zinc equivalent pounds for 12M 2016 were calculated using the following realized prices: \$17.08/oz Ag, \$2.21/lb Cu, \$0.85/lb Pb, \$0.95/lb Zn, \$1,254/oz Au.

(2) This is a non-IFRS performance measure, see Non-IFRS Performance Measures section of the MD&A.

2017 Operational Highlights and Growth Initiatives

During 2017, silver equivalent production increased by 26%, copper equivalent production decreased 1%, and zinc equivalent production decreased by 9% compared to 2016. During Q4 2017, silver equivalent production increased by 15%, copper equivalent production decreased 12%, and zinc equivalent production decreased by 8% compared to Q4 2016. The decrease in metal production was due to lower production in Mexico, partially offset by record throughput, which led to an increase in production, in Peru. The temporary decrease in metal production in Q4 2017 compared to Q4 2016 was primarily due to lower throughput, head grades, and recoveries at the Bolivar Mine, and decreases in throughput and recoveries at the Cusi Mine.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Similar to the successful program at Yauricocha in Peru, which began in 2015, the Company has engaged in an operation turnaround program in Mexico to modernize operations, improve production, and lower costs. The Company has already realized a 2% increase in throughput at Bolivar and a 23% increase at Cusi in Q4 2017 compared to Q3 2017, and further throughput increases are expected to continue during the first half of 2018. Equivalent metal production variances are partially the result of differences in realized metal prices used in the equivalent metal calculations for both periods.

Mexican operations have seen quarterly improvements over the last two quarters. At Bolivar, there have been increases in tonnages as a result of new equipment purchases, which have allowed more minable stopes to be incorporated into the mine plan. At Cusi, the Company has changed its focus from mining the existing narrow vein structures to the recently discovered Santa Rosa de Lima zone, which has significantly larger widths and higher grades. Cusi reported a significant improvement in metal recoveries, and the 2018 guidance is based on projections which reflect the potential for record silver production and lower costs, as a result of the restructuring program performed during the second half of 2017, which focused on the mining of the Santa Rosa de Lima structure. Both mines have also benefitted from successful improvement efforts in metallurgical recoveries, which have increased during Q4 2017 compared to previous quarters.

Brownfield exploration programs remains a key aspect at all three of our mines and we are very optimistic that they will continue to add high value tonnage going forward. Examples of this can be seen at Yauricocha with the Esperanza, Cuye-Mascota zones, at Bolivar with the Bolivar West and Northwest zones as well as at Cusi with the recently announced Santa Rosa de Lima Zone. When combined with our continued production optimization program, it should lead to substantial growth, not only in production with lower costs, but most importantly in shareholder value.

2017 Consolidated Production Highlights

- Silver equivalent production of 14.9 million ounces; a 26% increase from 2016
- Copper equivalent production of 90.4 million pounds; a 1% decrease from 2016
- Zinc equivalent production of 193.2 million pounds; a 9% decrease from 2016
- Total of 2.0 million tonnes processed; a 2% decrease from 2016
- Completion of key aspects of operational improvements and turnaround plan in Mexico

Fourth Quarter 2017 Production Highlights

- Silver equivalent production of 4.1 million ounces; a 15% increase from Q4 2016
- Copper equivalent production of 21.9 million pounds; a 12% decrease from Q4 2016
- Zinc equivalent production of 47.3 million pounds; an 8% decrease from Q4 2016
- Total of 498,199 tonnes processed; a 4% decrease from Q4 2016
- Tonnage at Bolivar and Cusi increased during Q4 2017 as key components of the operational improvement and turnaround plan were completed

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

2017 Consolidated Financial Highlights

- Revenue from metals payable of \$205.1 million in 2017 increased by 43% from \$143.2 million in 2016. Higher revenues are primarily attributable to the 14% increase in throughput, the increase in copper, and zinc head grades, and higher recoveries for all metals, except gold, at Yauricocha; and the increase in the prices of copper (26%), lead (26%), and zinc (35%) in 2017 compared to 2016; this was partially offset by a 7% decrease in throughput and lower head grades and recoveries for all metals, except gold recoveries, at Bolivar; and a 53% decrease in throughput and lower head grades for all metals, except gold, and lower recoveries of all metals, except zinc, at Cusi;
- Yauricocha's cost of sales per zinc equivalent payable pound was \$0.54 (2016 - \$0.44), cash cost per zinc equivalent payable pound was \$0.50 (2016 - \$0.42), and all-in sustaining cash cost ("AISC") per zinc equivalent payable pound was \$0.78 (2016 - \$0.71) for 2017 compared to 2016. The increase in the AISC per zinc equivalent payable pound for 2017 compared to 2016 were the result of increased sustaining capital expenditures, which included a substantial amount of infill drilling, ventilation improvements, equipment purchases, and plant improvements. The increase was also a result of temporary increases to the mining costs, partially due to timing; as well as slight increases related to infill drilling and drift development costs that will be utilized within one year, and thus are included in operating costs. This was partially offset by lower treatment and refining costs incurred during 2017 compared to 2016, resulting from improved terms on re-negotiated sales contracts with our off-takers, which helped offset higher sustaining capital expenditures;
- Bolivar's cost of sales per copper equivalent payable pound was \$1.54 (2016 - \$1.31), cash cost per copper equivalent payable pound was \$1.49 (2016 - \$1.12), and AISC per copper equivalent payable pound was \$2.68 (2016 - \$2.21) for 2017 compared to 2016. The increase in the AISC per copper equivalent payable pound during 2017 was due to a decrease in copper equivalent payable pounds as a result of 7% lower throughput, as well as an increase in sustaining capital expenditures related to the various equipment purchases made by the Company during the year in an effort to improve equipment availability and increase tonnage;
- Cusi's cost of sales per silver equivalent payable ounce was \$12.51 (2016 - \$5.47), cash cost per silver equivalent payable ounce was \$15.38 (2016 - \$9.37), and AISC per silver equivalent payable ounce was \$33.90 (2016 - \$18.60) for 2017 compared to 2016. AISC per silver equivalent payable ounce increased due to the 53% decline in throughput which resulted in fewer silver equivalent payable ounces as the Company continued its refocused efforts on completing access, development and production from the Santa Rosa de Lima zone which contains wider structures and higher silver grades;

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

- Adjusted EBITDA (1) of \$81.0 million for 2017 increased compared to \$41.9 million in 2016. The increase in adjusted EBITDA in 2017 was primarily due to the \$56.9 million increase in revenues at Yauricocha, discussed previously;
- Net income (loss) attributable to shareholders for 2017 was \$(4.6) million (2016: \$(12.3 million)) or \$(0.03) per share (basic and diluted) (2016: \$0.08). The net loss incurred in 2017 included a \$4.4 million non-cash loss on the distribution of Cautivo Mining Inc. assets to Sierra shareholders;
- Adjusted net income attributable to shareholders ⁽¹⁾ of \$23.5 million, or \$0.14 per share, for 2017 was higher than the adjusted net income of \$7.0 million, or \$0.04 per share for 2016;
- A large component of the net income (loss) for every period is the non-cash depletion charge in Peru, which was \$31.4 million for 2017 (2016: \$24.4 million). The non-cash depletion charge is based on the aggregate fair value of the Yauricocha mineral property at the date of acquisition of Corona of \$371.0 million amortized over the total proven and probable reserves of the mine. The increase in the non-cash depletion charge in 2017 was due to the reduction in proven and probable reserves reported in the Company's NI 43-101 Technical Report issued on August 11, 2016. Also, the increase in tonnes mined during 2017 compared to 2016 resulted in a higher depletion charge;
- Cash flow generated from operations before movements in working capital of \$79.8 million for 2017 increased compared to \$44.3 million in 2016. The increase in operating cash flow is mainly the result of higher revenues generated and higher gross margins realized; and
- Cash and cash equivalents of \$23.9 million and working capital of \$(6.8) million as at December 31, 2017 compared to \$42.1 million and \$9.6 million, respectively, at the end of 2016. Cash and cash equivalents have decreased by \$18.3 million during 2017 due to \$54.5 million of operating cash flows being offset by capital expenditures incurred in Mexico and Peru of \$(51.6) million, repayment of loans, credit facilities and interest of \$(47.5) million, dividends paid to non-controlling interest shareholders of \$(3.4) million, and proceeds from issuances of loans and credit facilities of \$29.8 million. Included in the \$54.5 million of operating cash flows were negative changes in non-cash working capital items of \$7.9 million due to the increase accounts receivable and decrease in deferred revenue as at December 31, 2017.

(1) This is a non-IFRS performance measure, see non-IFRS Performance Measures section of this MD&A.

Project Development

- The Company provided an updated Mineral Reserve Estimate at the Company's Yauricocha Mine (press release dated October 26, 2017). Previously the Company had also provided an updated Mineral Resource Estimate at the Company's Yauricocha Mine (press release dated September 28, 2017). The NI 43-101 Technical Report was filed on SEDAR and was prepared by SRK Consulting (U.S.) Inc.;
- The Company provided an updated NI 43-101 Technical Report on the Cusi Mine (press release dated February 12, 2018). Previously, the Company had also provided an updated Mineral Resource Estimate at the Cusi Mine (press release dated December 29, 2017). The NI 43-101 Technical Report was filed on SEDAR and was prepared by SRK Consulting (U.S.) Inc.;

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

- Mine development at Bolívar during Q4 2017 totaled 963 meters. Most of these meters (663) were developed to prepare stopes for mine production. The remainder of the meters (232) were related to the deepening of ramps and developing service ramps to be used for ventilation and pumping, and 68 meters of raises; and
- During Q4 2017, at the Cusi property, mine development totaled 1,172 meters, and 846 meters of infill drilling was carried out inside the Mine.

Exploration Highlights**Peru:**

During Q4 2017, the Company drilled 204 holes totaling 9,424 meters at Yauricocha. The drilling included the following:

Exploration Drilling:

- Cuye (Levels 1320 & 1370): 5 holes totaling 1,748 meters have intercepted the mineralized structure and economic mineral;
- Contacto Sur Medio II (Level 1070 Central Mine Zone): 3 holes totaling 525 meters to explore the area on levels 1120 & 170, has intercepted mineralized sections with high grade mineralization;
- Huamanripa (Level 720 Central Mine Zone): 1 hole of 1,149 meters with the objective of exploring and verifying geological anomalies based on the Titan 24 geophysical study;
- Escondida West (870 level Cachi Cachi): 1 hole totaling 759 meters with the objective of exploring and verifying geological anomalies based on the Titan 24 geophysical study;

Definition Drilling:

- Antacaca (Level 970): 15 holes totaling 1,329 meters to define the orebody on the 970 level, floors 16 and 8;
- Esperanza (920 levels): 8 holes totaling 992 meters to define and provide higher certainty on the size and quality of the orebody;
- Esperanza North (920 level): 7 holes totaling 685 meters to determine the continuity of the orebody from the 920 level to floor 8 on the 870 level;
- Antacaca Sur (970 level): 11 holes totaling 1,002 meters which have intercepted lead and silver oxides, and structures with polymetallic mineral;
- Mascota (1120 level, piso 8): 3 holes totaling 292 meters to further define the orebody;
- Catas (Levels 970 & 1020): 10 holes totaling 943 meters to further define the orebody;
- Karlita (870 Level): 5 holes totaling 535 meters to further define the orebody.

Positive Drill Results on Wide High-Grade Structures from the Cuye Zone at the Yauricocha Mine

On December 19, 2017, the Company announced drilling results demonstrating new limestone replacement mineralization at the Cuye Zone extension located within the Central Mine at Yauricocha.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The drill results represent the existence of high-grade polymetallic mineralization at the Northern extension of Cuye, and suggest the possibility of even further mineralization at depth specifically from the copper sulphide orebodies which contain significant widths. The Central Mine area contains several high-grade mineralized areas opening the possibility for further discovery of additional orebodies along the Yauricocha fault.

The results from Cuye demonstrate high-grade, sulphide mineralized sectors containing primarily silver, copper, lead and zinc. The potential still exists for further extensions, within the Cuye zone which remains open at depth. The exploration completed at depth demonstrates considerable widths and high-grade nature of these orebodies. The significance of this information is that prior exploration programs at Yauricocha have not typically assayed the intrusive rocks, as the mineralization was considered to occur in the contact of the intrusive and the volcanics. The existence of disseminated copper mineralization in the intrusive rock formation opens a new exploration horizon previously unknown and a new interpretation of the sources of copper mineralization in the Yauricocha district.

11 holes were executed from the 1070 level of the Yauricocha Mine in the Cuye area. These holes intercepted polymetallic sulphide mineralization containing high-grade silver, zinc, copper and lead zones over significant widths. These results demonstrate the potential for high grade mineralization within the reported area, and more importantly indicate the continued existence of extensive mineralization at depth. These results come as part of an ongoing brownfield drilling program testing priority targets at the Yauricocha Mine.

Drill hole highlights include:

Hole No.	From m	To m	Width	Ag g/t	Pb %	Cu %	Zn %	Au g/t
CUY 17-17-07	251.0	268.0	over 15 m	17	0.01	1.68	0.35	0.46
CUY 17-17-09	307.6	374.0	over 66 m	11	0.01	1.85	0.05	0.28
CUY 17-17-10	191.8	207.4	over 15 m	91	0.59	0.41	4.39	0.13
CUY 17-17-10	234.0	249.0	over 15 m	13	0.03	0.56	3.15	0.46
CUY 17-17-10	249.0	293.0	over 44 m	9	0.00	1.43	0.10	0.61

Confirmation of the Extension of Wide, High-Grade Structures at the Cuye Zone at the Yauricocha Mine

On February 7, 2018, the Company announced additional drill results from the Cuye Zone, including an intersection of 99 meters @ 1.48% Cu, 12 g/t Ag, 0.05% Zn, 0.01% Pb and 0.7 g/t Au.

- Copper sulphide mineralized areas have been defined containing intersections of more than 99 meters which remain open at depth
- Mineralized areas noted in core continue to identify large dioritic intrusive inclusions which previously were never studied and are the widest intercepts of copper mineralization in Sierra Metals history. This suggests a new geological interpretation concept in the intrusive rocks with potentially larger dimensions

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

- Drill hole 13 intercepted over 120 meters of continued high grade polymetallic and copper mineralization and included a 21-meter intercept of polymetallic mineralization followed by a 99-meter copper sulphide intercept

Drill hole highlights include:

Hole No.	From m	To m	Width	Ag g/t	Pb %	Cu %	Zn %	Au g/t
CUY 17-17-12	286.2	303.0	over 17 m	13	0.01	1.58	0.89	0.62
CUY 17-17-12	303.0	334.0	over 31 m	2.4	0.01	0.33	0.00	0.00
CUY 17-17-13	316.3	337.3	over 21 m	91	1.18	1.58	6.33	0.30
CUY 17-17-13	337.3	436.3	over 99 m	12	0.01	1.48	0.05	0.70
CUY 17-17-14	209.3	253.7	over 44 m	14	0.13	1.04	0.33	0.50

To date, 14 holes have been executed from the 1070 level of the Yauricocha Mine in the Cuye area. These holes have intercepted polymetallic sulphide mineralization containing high-grade silver, zinc, copper and lead zones over significant widths. These results demonstrate the potential for high-grade mineralization within the reported area and more importantly indicate the continued existence of extensive mineralization at depth.

Mexico:**Bolivar**

- At Bolivar during Q4 2017, 10,402 meters were drilled from surface as well as diamond drilling within the mine. 1,766 meters were drilled within the mine, 328 meters within Bolivar Northwest and 1,438 meters from Chimney 2. Diamond drilling from surface totaled 8,636 in the Bolivar Northwest area, exploring the extension of the orebody to the North and West, exploring the skarn orebody with semi-massive magnetite, and disseminated nodules of chalcopyrite. This area will continue to be explored during 2018.

Cusi:

- The Company drilled 846 meters inside the mines to verify the continuity of the orebodies and support development work on the various veins and 153 meters on surface.

4. OUTLOOK

The Company is focused on improving operating performance through the production of higher value ore, strengthening its asset base, continuing to increase its mineral reserves and resources at each of its mines, and exploring organic and external growth opportunities to enhance and deliver shareholder value. Significant increases to the resources at the Cusi Mine, as well reserves and resources at the Yauricocha Mine resulted from updated 43-101 Technical Reports released during 2017. This will be followed by an updated 43-101 Technical Report on the reserves and resources for the Bolivar Mine in Mexico during Q2 2018.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The Company's focus this year is to initiate preliminary scoping / PEA studies for all three mines, with the intent of production optimization at all sites. These PEA's will be followed by Prefeasibility and Feasibility studies to finalize future operational production increases and or maintain operations at a status quo. In addition to these work programs, the Company will also focus on including reviews of plant optimization strategies, mine shaft and infrastructure improvements, and review of processing plant efficiencies.

During 2018 at the Yauricocha Mine, the final infrastructure for the Yauricocha tunnel will be completed. This will enable the mine to have a direct run to the mill, which will result in a faster turn-around 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 another ventilation inlet to the mine, which benefits the current ventilation system. The tunnel has been driven in a limestone host area of the mine which is in more favorable ground conditions as compared to the Klepetko tunnel. The tunnel should be fully operational by the beginning of Q3 2018.

The 2018 work program for the Yauricocha shaft is to sink the shaft to the 1270 level, and to cut a loading pocket below the 1170 working level. This pocket will handle waste and ore from two streams in a multi feed raise configuration. Three loading points will be excavated on the 1170 level, with each having a grizzly cover, and independent discharge points for locomotive track haulage, and trackless haulage equipment. A mobile rock-breaker will handle any oversize muck encountered on the grizzly platforms. The company estimates this facility will be operational in 2020.

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

The updated Reserve and Resource Estimates more than doubled the previous mine life at current throughput levels and when compared to the previous estimate from August 2016, as the Company has realized a 134% increase to the mineral reserves for Yauricocha. The mineral reserves now consist of 8,917,000 tonnes averaging 48.3 g/t silver, 1.2% copper, 0.8% lead, 2.4% zinc and 0.5 g/t gold representing a 134% increase to the previous Reserve Estimate. These increases represent a significant amount of additional drilling and mine exploration development work completed at the Yauricocha Mine. This will allow the Company to look at potential production increases going forward, as well as continuing our brownfield exploration programs over the next year with the aim of further mineral resource expansions.

Brownfield exploration remains a key component of the Company's growth program. The Company has budgeted drilling campaigns of 70,000 meters to be performed during 2018. Promising drill results from the Cachi-Cachi Mine confirm the existence of important high grade mineralized areas and unlocks the possibility of discovering additional orebodies along the Yauricocha fault between the Esperanza and Cachi-Cachi ore bodies. The Company is planning to mine the Escondida zone in 2018 on the level 920 at Cachi-Cachi. The successful drill results from the Cuye Zone demonstrating new limestone replacement mineralization at the Cuye Zone extension located within the Central Mine at Yauricocha, provides the Company with additional opportunities to add to the previously increased reserves and resources at the mine.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The Company is currently focused on the operational improvement program taking place at its Bolivar and Cusi Mines in Mexico, focusing on modernizing operations, improving production, and reducing unit costs. The program to date has focused on strengthening the corporate team, adding technical expertise at the projects, improvements to production capacity through mine design, planning and sequencing, and improving metals production through improvements to the metallurgical recovery process and ore throughput. At both the Bolivar and Cusi Mines, the long-term intent is to implement sub-level long-hole stope drilling to improve productivity in the current operations.

The Company continues to define higher grade ore sources at Bolivar West and Bolivar Northwest which are expected to come into the mine plan by the second half of 2019. However, as a short-term planning strategy, the Bolivar Mine continues to focus on developing and mining the El Gallo Inferior zone to centralize operations, optimize equipment usage and to improve productivity. Two re-furbished ball mills were purchased during Q4 2017 and are being installed at the Mal Paso and Piedras Verdes Mills. The additional ball mill being installed at the Piedras Verdes Plant will provide flexibility for the Company's milling operations. Bolivar production for 2018 is expected to reach 3,000 tonnes per day in Q1 2018, and to reach 3,500 tpd during Q3 or Q4 2018. Metallurgical recoveries are expected to remain at current levels for 2018. The Company has been successful increasing tonnage at Bolivar through the commissioning of 13 new pieces of equipment. The new equipment along with the best use of existing mine infrastructure and equipment will help to maximize ore delivery to the processing plant.

The Company is currently finalizing an updated 43-101 Technical Report for the Bolivar Mine which is expected to be released during Q2 2018.

At the Cusi Mine, the Company is focused on completing access, development and production of the Santa Rosa de Lima zone, which has wider structures and higher silver grades than the narrow veins currently being mined. The Company has reached the Santa Rosa de Lima structure and is currently developing drifts to mine this area. The Company is currently mining selected higher-grade structures at the old mine, in addition to campaigning development ore from the Santa Rosa de Lima structure containing improved head grades to the mill at Cusi. The Company expects to gradually increase tonnage from the Santa Rosa de Lima zone as well as other zones in the areas previously developed with a different mandate to produce from disseminated mineralized zones until the mill is operating at its capacity of 650 tonnes per day. It is expected that the main supply of ore in-terms of tonnage and grade will come from Santa Rosa de Lima, in conjunction with other zones such as Promontorio, and Azucarera, starting in Q2 2018. Additionally, structural development at the Santa Rosa de Lima zone will be completed using long hole mining versus the existing cut and fill methodology which should result in lower costs going forward.

A scoping/ PEA study are underway to review economic options which will define parameters for increased production and the implementation of a potential new plant at the Cusi Mine operation. This will be followed up with a prefeasibility study and capex estimate study to follow through with a future potential new Cusi plant and underground infrastructure to support an increased production rate at Cusi. This is targeted for the second half of 2018. At year end 2017, the Company purchased a second ball mill (8x14) from Canada slated for installation in the Mal Paso plant by year end 2018. The successful implementation of this newly purchased re-furbished ball mill at the Mal Paso Plant will allow the Company to ramp production up to 1,200 tpd by January 2019.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The Company has also been focused on improving metallurgical recoveries at both mills in Mexico and has successfully achieved consistently higher metallurgical recovery levels to an average level of 82% at the Piedras Verdes Mill located at the Bolivar Mine and to an average level of 83% at the Malpaso Mill located near the Cusi Mine. This has been accomplished through a reduction in the grind size of the ore processed to a particle size distribution level of P80 allowing for the optimal release of mineralization, and milling throughput. Additionally, at the Cusi Mine recoveries have been increased through the identification, classification and individual treatment of separated ore types. The separated ore types are then processed through individual campaigns, and through the addition of lime, recoveries are increased. Furthermore, at Cusi the Company has also implemented a comprehensive cost analysis for each campaign sent to the mill to ensure that only economic ore is processed which also helps to control mill expenses and improve operating margins. Studies are underway to define capital requirements to expand the Yauricocha, Cusi, and Bolivar mines in the following areas: New tailings facilities, mine development and plant expansions during the second half of 2018.

The Company has a history of strong operating cash flow generation, as evidenced by \$79.8 million of operating cash flows before movements in working capital generated during 2017, and had cash and cash equivalents of \$23.9 million as at December 31, 2017. The Company has been successful in maintaining positive cash flow generation from its existing operations in order to reduce debt levels, fund required capital expenditures, and maintain liquidity. The Company's objective of reducing debt levels equal to or less than 1 times EBITDA was reached during 2017 as 2017 Adjusted EBITDA of \$81 million was greater than the \$65 million of debt on the books at year end. The Company continues to believe that its treasury, future cash flows, and potential ATM financing will be adequate to finance the capital expenditures budgeted at each of the three mines.

Filing of Preliminary Base Shelf Prospectus and Registration Statement

On May 18, 2017, the Company announced that it filed a preliminary short form base shelf prospectus (the "Shelf Prospectus") with the securities regulatory authorities in each of the provinces of British Columbia, Alberta and Ontario, and a corresponding registration statement on Form F-10 (the "Registration Statement") with the U.S. Securities and Exchange Commission ("SEC") in accordance with the Multijurisdictional Disclosure System established between Canada and the United States.

The Shelf Prospectus and Registration Statement, when made final and effective, will enable the Company to make offerings of up to C\$75 million of common shares, warrants, units and subscription receipts or a combination thereof of the Company from time to time, separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of the offering and as set out in an accompanying prospectus supplement, during the 25-month period that the Shelf Prospectus and Registration Statement, when made final, remain effective. Unless otherwise specified in the prospectus supplement relating to a particular offering of securities, the net proceeds from any sale of any securities will be used for general working capital purposes, and for one or more other general corporate purposes including to complete corporate acquisitions, to, directly or indirectly, finance future growth opportunities and to repay existing or future indebtedness. The specific terms of any future offering will be established in a prospectus supplement to the Shelf Prospectus, which supplement will be filed with the applicable Canadian securities regulatory authorities and the SEC.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Announcement of "At-The-Market" Issuance Program and Filing of Prospectus Supplement

On October 10, 2017, the Company announced that it entered into an Open Market Sale Agreement SM (the "Sales Agreement") with Jefferies LLC, H.C. Wainwright & Co., LLC, Scotia Capital (USA) Inc. and Noble Capital Markets, Inc. (collectively, the "Agents"), pursuant to which the Company may, at its discretion and from time to time during the term of the Sales Agreement, sell, through the Agents, acting as agent and/or principal, such number of common shares of the Company ("Common Shares") as would result in aggregate gross proceeds to the Company of up to US\$55 million. Sales of Common Shares through the Agents, acting as agent, will be made through "at the market" issuances on the NYSE American at the market price prevailing at the time of each sale, and, as a result, sale prices may vary. No Common Shares will be offered or sold in Canada.

The Company has filed a prospectus supplement, dated October 10, 2017, to the base prospectus included in its U.S. registration statement on Form F-10 (Registration No. 333-218076) declared effective on July 7, 2017, pursuant to which the Company may issue up to US\$55.0 million of Common Shares (but not more than 22,500,000 Common Shares) in an at-the-market distribution.

The Company intends to use the net proceeds of the offering for general corporate purposes, including debt repayment and/or capital requirements. In accordance with our amended acquisition credit facility with Banco de Credito del Peru ("BCP"), at least 50% of the proceeds which we receive from the offering must be allocated to the mandatory prepayment of the amounts owing to BCP under such facility.

2018 Production and Cost Guidance

This section of the MD&A provides management's production, cost, and capex estimates for 2018. These are "forward-looking statements" and subject to the cautionary note regarding the risks associated with forward-looking statements contained at the end of this document

2018 Production and Cost Guidance

The Company anticipates that 2018 silver equivalent production will range between 13.9 and 16.2 million ounces, copper equivalent production will range between 89.2 and 104.0 million pounds, and zinc equivalent production will range between 183.8 and 214.5 million pounds. The forecasted range is a result of increased throughput, production, and higher recoveries at Bolivar and Cusi. Yauricocha will see consistently strong, albeit flat levels of throughput in 2018 due to a rehabilitation of the lower part of the Mascota shaft in Q2 2018, which will slightly lower throughput rates during that time period.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

A table summarizing 2018 production guidance has been provided below:

	2018 Guidance		2017
	Low	High	Actual
Silver ounces (000's)	2,474	2,886	2,317
Copper pounds (000's)	32,700	38,100	26,775
Lead pounds (000's)	19,100	22,300	29,704
Zinc pounds (000's)	62,900	73,400	76,088
Gold ounces	6,700	7,800	6,197
Silver equivalent ounces (000's) ⁽¹⁾	13,900	16,210	14,865
Copper equivalent pounds (000's) ⁽¹⁾	89,184	104,005	90,354
Zinc equivalent pounds (000's) ⁽¹⁾	183,830	214,468	193,152

(1) Silver equivalent ounces, copper and zinc equivalent pounds for 2018 were calculated using the following metal prices: \$18.25/oz Ag, \$3.00/lb Cu, \$1.38/lb Pb, \$1.05/lb Zn, \$1,291/oz Au. Silver equivalent ounces, copper and zinc equivalent pounds for 12M 2017 were calculated using the following realized prices: \$17.14/oz Ag, \$2.82/lb Cu, \$1.06/lb Pb, \$1.32/lb Zn, \$1,265/oz Au.

A mine by mine breakdown of 2018 production guidance, cash costs and all-in sustaining costs ("AISC") are included in the table below. Cash costs and AISC guidance is shown per payable zinc equivalent pound at Yauricocha, copper equivalent pound at Bolivar, and silver equivalent ounce at Cusi.

Mine		Equivalent Production Range	Cash Costs per		AISC (\$) * per	
			ZnEqLb or CuEqLb or AgEqOz Sold		ZnEqLb or CuEqLb or AgEqOz Sold	
Yauricocha	Zinc Eq Lbs (000's)	123,897 - 144,546	\$	0.62/lb	\$	0.78/lb
Bolivar	Copper Eq Lbs (000's)	21,986 - 25,651	\$	1.60/lb	\$	1.96/lb
Cusi	Silver Eq Ozs (000's)	1,205 - 1,406	\$	11.12/oz	\$	14.28/oz

*AISC includes Treatment and Refining Charges, Selling Costs, G&A Costs and Sustaining Capex

(1) 2018 Silver equivalent ounces, copper and zinc equivalent pounds were calculated using the following metal prices: \$18.25/oz Ag, \$3.00/lb Cu, \$1.05/lb Pb, \$1.38/lb Zn, \$1,291/oz Au

2018 Capital Expenditures

In 2018, the Company plans to invest a total of \$49 million on capital expenditures, including \$13.1 million for sustaining capital requirements and \$35.7 million for expansion, growth projects and exploration expenses. These capital expenditures will allow Sierra Metals to continue to significantly grow mineral resources and increase production, which will provide increased cash flow and lower cash costs. This program will be funded by operating cash flow.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The 2018 budget includes several capital investments for property, plant and equipment; underground development; exploration; and corporate projects including tunnel completion, shaft deepening and rehabilitation at the Yauricocha Mine, and improvements to existing tailings deposition facilities at the Bolivar and Cusi Mines. Management will continue to review metal prices and retains the option to adjust the 2018 budget should metal prices experience any dramatic changes within the year.

A breakdown by mine of the throughput and planned capital investments is shown below:

The Yauricocha Mine in Peru plans to process up to 1.0 million tonnes (3,000 tpd) in 2018. Sustaining capex will be approximately \$8.4 million and growth capex will be approximately \$19.3 million.

2018 major capital investments include:

- **\$6.0 million for deepening of the Yauricocha Shaft**
- **\$1.8 million for rehabilitation of the lower portion of Mascota Shaft**
- **\$2.7 million for the completion of the Yauricocha Tunnel**
- **\$3.2 million ventilation**
- **\$6.0 million for brownfield exploration and existing definition drilling and development**
- **\$1.1 million for concentrator plant**
- **\$1.0 million for mine camp**
- **\$3.3 million for equipment**

The Bolivar Mine in Mexico plans to process up to 1.2 million tonnes, with initial production at 3,000 tpd with an objective to reach 3,500 tpd by year end in 2018. Sustaining capex will be approximately \$2.8 million and growth capex will be approximately \$9.0 million.

2018 major capital investments include:

- **\$1.0 million for tailings deposition facility expansion**
- **\$5.1 million for brownfield exploration and existing definition drilling and development**
- **\$3.0 million for concentrator plant**
- **\$2.7 million for equipment**

The Cusi Mine in Mexico plans to process up to 201,540 tonnes, ramping up from 300 tpd with an objective to reach 650 tpd in Q2 2018. Sustaining capex will be approximately \$1.9 million and growth capex will be \$7.4 million.

2018 major capital investments include:

- **\$1.5 million for tailings deposition facility**
- **\$4.3 million for brownfield exploration and existing definition drilling and development**
- **\$1.4 million for equipment**
- **\$1.9 million for concentrator plant**

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***Market Review and Trends**

Metal Prices

One of the primary drivers of Sierra's earnings and ability to generate operating cash flows are the market prices of silver, copper, zinc, lead and gold, which were approximately 26% higher for copper, 26% higher for lead, 35% higher for zinc, and consistent for silver and gold, during 2017 compared to the average realized prices for 2016. A shortage of non-ferrous raw materials combined with an improved view of the Chinese economy have, in recent months, had a positive impact on the prices.

LME Average Prices <i>(In US dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Silver (oz)	\$ 16.70	\$ 17.19	\$ 17.05	\$ 17.10
Copper (lb)	\$ 3.09	\$ 2.39	\$ 2.80	\$ 2.21
Lead (lb)	\$ 1.13	\$ 0.94	\$ 1.05	\$ 0.85
Zinc (lb)	\$ 1.47	\$ 1.14	\$ 1.31	\$ 0.95
Gold (oz)	\$ 1,277	\$ 1,260	\$ 1,258	\$ 1,248

Since February 2016, supply concerns, prevailing low to negative interest rates and political uncertainty led to renewed investment demand in precious metals in comparison to the last nine months of 2015. However, nearing the end of 2016, the U.S. election results revived the sentiment towards the U.S. economy and U.S. dollar, resulting in both silver and gold prices depreciating against the U.S. currency. The price of gold began the quarter at \$1,245 per ounce and closed, essentially unchanged, at \$1,243 per ounce. The main economic feature of the quarter was a further interest rate hike by the US Federal Reserve on June 14, 2017, and it was this, and the threat of further rate hikes during the remainder of the year, that may have kept the price capped. In 2017, investor uncertainty surrounding the effectiveness of the U.S. administration and its policies, particularly escalating signals of implementing tariffs has renewed interest in precious metals.

During 2017, the prices of silver and gold were consistent compared to 2016, with the price ranging from \$15.18 to \$18.55 per ounce for silver and \$1,150 to \$1,350 per ounce for gold. Sierra's average realized silver price for 2017 was \$17.14 per ounce compared to \$17.16 per ounce in 2016. Sierra's average realized gold price for 2017 was \$1,265 per ounce compared to \$1,267 per ounce in 2016.

London Metal Exchange (LME) copper prices traded in a range of \$2.48 to \$3.27 per pound with an average price of \$2.80 per pound compared with \$2.21 per pound in 2016. Global demand for copper metal grew by 2.0% in 2017, in comparison to 2.7% in 2016, to reach an estimated 23.0 million tonnes. In 2017, global copper mine production decreased 0.7% in 2017, with total production estimated at 19.9 million tonnes. The industry faced several disruptions to production in the first half of 2017, mostly attributable to labour disputes. Fundamentals remain positive over the medium to long term, with supply constrained by lower grades and a lack of investment in new projects over the past six years due to the downtrend in copper prices. Sierra's average realized copper price for 2017 was \$2.28 per pound compared to \$2.23 per pound in 2016.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

During 2017, zinc prices traded in a range of \$1.10 to \$1.53 per pound with an average price of \$1.31 compared with \$0.95 per pound in 2016. Sierra's realized zinc price for 2017 was \$1.32 per pound compared to \$0.98 per pound in 2016. Year to date LME zinc prices averaged US\$1.31 per pound, up US\$0.36 per pound or 40% over the same period last year. Zinc reached a 10-year high in October at just under US \$1.53 per pound, a price last seen in August 2007. LME stocks fell by 245,800 tonnes in 2017, a 58% decline from 2016 levels, finishing the year at 182,050 tonnes. We estimate that total reported global stocks — which include producer, consumer, merchant and terminal stocks — fell by approximately 345,200 tonnes in 2017 and, at year-end, were 0.75 million tonnes, representing an estimated 20 days of global demand, compared to the 25-year average of 41 days.

Lead prices traded in a range of \$0.93 to \$1.18 per pound in 2017. Sierra's realized lead price during 2017 was \$1.06 per pound compared to \$0.84 per pound in 2016.

Currency Exchange Rates

The results of Sierra's operations are affected by US dollar exchange rates. Sierra's largest exposures are to the US dollar/Peruvian Nuevo Sol exchange rate and the US dollar/Mexican Peso exchange rate which impacts operating and administration costs in Peru and Mexico incurred in Nuevo Soles and Pesos while revenues are earned in US dollars. As at December 31, 2017 the US dollar/Peruvian Nuevo Sol exchange rate was 3.26 (December 31, 2016: 3.35) and the US dollar/Mexican Peso exchange rate was 19.74 (December 31, 2016: 20.74). A 10% change in the value of the Nuevo Sol and Peso against the US dollar would result in a change of \$4.2 million and \$1.4 million in the Company's net profit, respectively, assuming that our operational performance during 2017 was consistent with 2016.

The Company also has a minor exposure to the Canadian dollar through corporate administrative costs.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***5. RESULTS OF OPERATIONS****Selected Production Results on a Mine-by-Mine Basis for the Past Eight Quarters**

Production Highlights	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Ore Processed/tonnes milled								
Yauricocha	266,222	268,178	237,912	251,180	236,650	237,429	215,510	207,580
Bolivar	226,986	223,339	192,937	243,974	245,000	250,261	236,252	218,886
Cusi	16,280	13,234	23,956	34,541	36,055	48,863	52,226	49,753
Consolidated	509,488	504,751	454,805	529,695	517,705	536,553	503,988	476,219
Silver ounces produced (000's)								
Yauricocha	330	376	448	499	550	545	463	283
Bolivar	84	76	73	94	98	95	106	97
Cusi	82	55	95	104	140	172	211	207
Consolidated	496	507	616	697	788	812	780	588
Copper pounds produced (000's)								
Yauricocha	3,567	3,178	2,192	2,783	1,720	1,740	959	1,863
Bolivar	3,904	3,522	3,123	4,508	4,433	4,417	4,287	3,974
Cusi	-	-	-	-	-	-	-	-
Consolidated	7,471	6,700	5,315	7,290	6,152	6,156	5,245	5,836
Lead pounds produced (000's)								
Yauricocha	5,431	6,112	8,010	8,382	9,295	10,651	9,550	6,944
Bolivar	-	-	-	-	-	-	-	-
Cusi	305	246	457	761	695	999	1,105	1,312
Consolidated	5,736	6,358	8,467	9,143	9,990	11,650	10,655	8,256
Zinc pounds produced (000's)								
Yauricocha	19,393	19,717	18,268	17,774	16,776	14,041	13,708	10,281
Bolivar	-	-	-	-	-	-	-	-
Cusi	152	160	262	363	263	394	510	638
Consolidated	19,545	19,877	18,530	18,137	17,039	14,435	14,218	10,919
Gold ounces produced								
Yauricocha	723	827	566	779	908	1,457	1,237	1,062
Bolivar	791	629	620	840	801	583	743	859
Cusi	77	61	126	159	158	265	217	314
Consolidated	1,591	1,517	1,312	1,778	1,867	2,305	2,197	2,235

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Production Highlights	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Silver equivalent ounces produced (000's) ¹								
Yauricocha	3,084	2,973	2,551	2,735	2,541	2,062	1,806	1,510
Bolivar	873	736	586	825	783	634	700	720
Cusi	121	88	149	186	209	255	303	333
Consolidated	4,078	3,797	3,286	3,746	3,533	2,951	2,809	2,563
Copper equivalent pounds produced (000's) ¹								
Yauricocha	16,527	17,107	17,029	18,346	17,956	18,304	14,347	10,821
Bolivar	4,677	4,235	3,914	5,533	5,536	5,627	5,563	5,161
Cusi	652	509	995	1,247	1,477	2,267	2,410	2,384
Consolidated	21,856	21,851	21,938	25,126	24,969	26,198	22,320	18,366
Cash cost per tonne processed								
Yauricocha	\$ 64.90	\$ 62.33	\$ 61.13	\$ 57.81	\$ 56.15	\$ 56.17	\$ 55.41	\$ 55.30
Bolivar	\$ 28.84	\$ 25.69	\$ 22.53	\$ 19.51	\$ 21.88	\$ 22.99	\$ 26.40	\$ 26.55
Cusi	\$ 119.06	\$ 134.77	\$ 67.33	\$ 52.71	\$ 57.83	\$ 47.21	\$ 42.57	\$ 50.38
Consolidated	\$ 50.57	\$ 48.01	\$ 44.37	\$ 39.84	\$ 40.06	\$ 39.87	\$ 40.48	\$ 41.57

Consolidated Production	Three Months Ended			% Var	Year Ended		
	December 31, 2017	December 31, 2016			December 31, 2017	December 31, 2016	% Var
Tonnes processed	509,488	517,705		-2%	1,988,738	2,034,465	-2%
Daily throughput	5,694	5,917		-4%	5,711	5,813	-2%
Silver ounces (000's)	496	789		-37%	2,317	2,979	-22%
Copper pounds (000's)	7,471	6,153		21%	26,775	23,390	14%
Lead pounds (000's)	5,736	9,990		-43%	29,704	40,551	-27%
Zinc pounds (000's)	19,545	17,039		15%	76,088	56,610	34%
Gold ounces	1,591	1,867		-15%	6,197	8,604	-28%
Silver equivalent ounces (000's) ⁽¹⁾	4,078	3,533		15%	14,865	11,798	26%
Copper equivalent pounds (000's) ⁽¹⁾	21,856	24,969		-12%	90,354	91,398	0%
Zinc equivalent pounds (000's) ⁽¹⁾	47,287	51,229		-8%	193,152	211,583	-8%
Metals payable in concentrates							
Silver ounces (000's)	400	684		-42%	1,976	2,520	-22%
Copper pounds (000's)	7,078	6,210		14%	25,602	21,258	20%
Lead pounds (000's)	5,193	9,547		-46%	28,075	37,781	-26%
Zinc pounds (000's)	15,047	14,231		6%	62,796	48,042	31%
Gold ounces	815	1,062		-23%	3,708	5,735	-35%
Silver equivalent ounces (000's) ⁽¹⁾	3,428	2,929		17%	13,034	10,012	30%
Copper equivalent pounds (000's) ⁽¹⁾	18,367	20,700		-11%	79,222	77,376	1%
Zinc equivalent pounds (000's) ⁽¹⁾	39,648	42,470		-7%	169,248	180,000	-7%

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2017 were calculated using the following realized prices: \$16.77/oz Ag, \$3.13/lb Cu, \$1.11/lb Pb, \$1.45/lb Zn, \$1,282/oz Au. Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2016 were calculated using the following realized prices: \$16.82/oz Ag, \$2.38/lb Cu, \$0.95/lb Pb, \$1.16/lb Zn, \$1,210/oz Au. Silver equivalent ounces and copper and zinc equivalent pounds for 12M 2017 were calculated using the following realized prices: \$17.14/oz Ag, \$2.82/lb Cu, \$1.06/lb Pb, \$1.32/lb Zn, \$1,265/oz Au. Silver equivalent ounces and copper and zinc equivalent pounds for 12M 2016 were calculated using the following realized prices: \$17.08/oz Ag, \$2.21/lb Cu, \$0.85/lb Pb, \$0.95/lb Zn, \$1,254/oz Au.

The Peruvian Operation
Yauricocha Mine, Yauyos, Peru

Corona's main asset, Yauricocha, is an underground mine located in western central Peru in the Yauyos province, approximately 12 km west of the Continental Divide. The Yauricocha property covers 18,778 hectares that straddle a 20 km strike length of the prolific Yauricocha fault, a major ore controlling structure in this part of western central Peru. The mine is at an average altitude of 4,600 meters and has been producing for more than 68 years. Ore is processed at the on-site Chumpe plant using a combination of crushing, grinding and flotation and is soon to be permitted to produce at a rate of 3,000 tpd. The ore is treated in two separate circuits and is extracted from three different types of deposits which include the following:

- A polymetallic deposit, containing silver, lead, zinc, copper, and gold
- A lead oxide deposit, containing lead, silver and gold
- A copper oxide deposit, containing copper, silver, lead and gold

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***Yauricocha Mineral Reserve Estimate**

The Reserves Estimate at Yauricocha is the result of the recent significant increase to Mineral Resource stated in the September 28, 2017 press release. A Technical Report was prepared by SRK Consulting (U.S.) Inc. in accordance with NI 43-101 and was filed on SEDAR.

- Mineral Reserves for Yauricocha are 8,917,000 tonnes averaging 48.3 g/t silver, 1.2% copper, 0.8% lead, 2.4% zinc and 0.5 g/t gold representing a 134% increase to the previous Reserve Estimate.
- Total Proven and Probable Contained Metal has significantly increased by 86% silver, 237% copper, 58% lead, 96% zinc, and 97% gold as compared to the previous August 2016 reserve estimate.
- Increases to copper contained metal reflect the discovery and delineation of new Cu-rich zones in Cuye, Mascota, and Esperanza and a 14% increase in Copper Price.
- The updated Reserve Estimate has incorporated the recent significant increase to Yauricocha's Mineral Resource (press released on September 28th, 2017). This Reserve Estimate does not include the latest drill intercepts reported from Cuye-Mascota (press released on October 2, 2017) as they were completed after the cut-off date of the current report.
- In addition, metal pricing, metallurgical recoveries, costs, and other factors have been updated to reflect July 31, 2017 actuals and assumptions

Consolidated Yauricocha Reserve Estimate – July 31, 2017

Reserves - Proven and Probable	Tonnes (000's)	Ag g/t	Cu %	Pb %	Zn %	Au g/t	Contained Metal				
							Ag M oz	Cu M lb	Pb M lb	Zn M lb	Au K oz
Yauricocha											
Proven	1,836	46.6	1.1	0.8	2.6	0.6	2.8	43.7	33.8	105.0	37.7
Probable	7,081	48.8	1.2	0.8	2.4	0.5	11.1	191.6	117.3	372.2	111.9
Proven & Probable	8,917	48.3	1.2	0.8	2.4	0.5	13.9	235.3	151.1	477.2	149.6

- (1) All figures rounded to reflect the relative accuracy of the estimates. Total may not sum due to rounding.
- (2) The consolidated Yauricocha Reserve Estimate is comprised of the proven and probable material in the Mina Central, Esperanza, Cach-Cachi, Mascota, Cuye, and Cuerpos Pequeños mining areas.
- (3) Mineral reserves are reported at unit value cut-offs (COG) based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries** as a function of grade and relative metal distribution in individual concentrates), and variable grade adjustments*** made to the resource model.
 - * Metal price assumptions considered for the calculation of unit values are: Gold (US\$/oz 1,255.00), Silver (US\$/oz 17.80), Copper (US\$/lb 2.60), Lead (US\$/lb 1.01), and Zinc (US\$/lb 1.25)
 - ** Metallurgical recovery assumptions for the Yauricocha Mine are variable by mineralization style and degree of oxidation. Recovery is a function of grade and relative metal distribution in individual concentrates. The assumptions are built in to the unit values for each area, as a function of the metallurgical recovery multiplied by the metal price.
 - *** Grade adjustment factors are based on historical mine to mill reconciliation and are variable by mining area.
- (4) The mining costs are variable by mining method.
- (5) Mining recovery and dilution have been applied and are variable by mining area and proposed mining method.
- (6) The unit value cut-off grades (COG) are variable by mining area and proposed mining method. The economic COG ranges from US\$56-63.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)*Mineral Reserve Estimate

Mineral Reserve Estimations have been conducted or reviewed by the following Qualified Persons:

Shannon L. Rhéaume of SRK Consulting (Canada) Inc.; Datamine Studio 5DP™ and Enhanced Production Scheduler (EPS)™ Software

Yauricocha Mineral Resource Estimate

The Resource Estimate at Yauricocha is the result of a successful exploration drill program completed at several zones within the mine including Mina Central, Esperanza, Cachi-Cachi, Escondida and Cuye-Mascota which have been previously press released and now represent a material proportion of the mine's overall resources. A Technical Report is currently being prepared by SRK Consulting (U.S.) Inc. in accordance with NI 43-101 and will be filed on SEDAR and with the Securities Exchange Commission within 45 days of the news release dated September 28, 2017.

- Total Measured and Indicated Contained Metal has significantly increased by 72% silver, 128% copper, 74% zinc, 64% lead and 61% gold
- Total Inferred Contained Metal has significantly increased by 55% silver, 59% copper, 105% zinc, 42% lead and 83% gold
- Mineral Resources for Yauricocha are 13,206,000 tonnes averaging 62.3 g/t silver, 1.5% copper, 0.9% lead, 2.8% zinc and 0.6 g/t gold representing a 68% increase from the previous resource tonnage estimate
- Total Inferred Mineral Resources for Yauricocha are 6,632,000 tonnes averaging 43.0 g/t silver, 1.2% copper, 0.5% lead, 2.2% zinc and 0.5 g/t gold representing a 77% increase from the previous resource tonnage estimate
- Increases to copper grade reflect the discovery and delineation of new Cu-rich zones in Cuye, Mascota, and Esperanza and a 14% increase in Copper Price assumptions

Consolidated Yauricocha Resource Estimate – July 31, 2017

Resources - Measured and Indicated	Tonnes (000's)	Ag g/t	Cu %	Pb %	Zn %	Au g/t	Contained Metal					
							Ag M oz	Cu M lb	Pb M lb	Zn M lb	Au K oz	
Yauricocha												
Measured	3,094	70.0	1.7	1.2	3.2	0.8	7.0	117.3	83.7	218.5	78.3	
Indicated	10,112	59.9	1.5	0.8	2.7	0.6	19.5	326.3	185.4	594.8	195.6	
M + I	13,206	62.3	1.5	0.9	2.8	0.6	26.4	443.6	269.1	813.3	274.0	
Inferred	6,632	43.0	1.2	0.5	2.2	0.5	9.2	174.7	68.0	315.2	117.0	

(1) Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, copper lead and zinc assays were capped where appropriate.

(2) Mineral resources are reported at unit value cut-offs grades (COG) based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries** as a function of grade and relative metal distribution in individual concentrates), generalized mining/processing costs).

* Metal price assumptions considered for the calculation of unit values are: Gold (US\$/oz 1,255.00), Silver (US\$/oz 17.80), Copper (US\$/lb 2.60), Lead (US\$/lb 1.01) and Zinc (US\$/lb 1.25)

** Metallurgical recovery assumptions for the Yauricocha Mine are variable by mineralization style and degree of oxidation. The assumptions are built in to the unit values for each area, as a function of the metallurgical recovery multiplied by the metal price.

(3) The unit value COG are variable, by mining area and proposed mining method. The COG ranges from US\$41-48.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The updated Resource Estimate has incorporated significant new exploration information into the geologic interpretation and grade estimations, providing more refined resource models in previously known areas as well as expanding the resource base with new discoveries.

The Updated Resource Estimate varies significantly from the 2016 Technical Report due to a combination of material factors including but not limited to:

- Significant additional drilling (80,000m) and mine exploration development (10,000m).
- The previous drilling and sampling information was based on end-of-year 2015 totals, and is now effective as of July 31, 2017.
- Refinements to the geologic models and additions of previously un-modeled areas.
- Discovery and delineation of new Cu-rich zones in Cuye, Mascota, and Esperanza.
- Expansion of Mina Central, Cachi Cachi, and Esperanza mineralization along strike and at depth.
- Increases in metal pricing compared to previous estimates, most notably a 33% increase in Zn and a 14% increase in Cu metal price assumptions.
- Zn is a major commodity produced at Yauricocha, and this increase in pricing has a material effect on the value of material that may have previously been marginal or not reported in the previous resource statement.

Update to the Yauricocha Capex included in the recently published NI 43-101 Technical Report

The technical report filed on SEDAR on November 10, 2017 noted the inclusion in reserves of 9M tonnes. As indicated in the report, during the years 2018, 2019 and 2020, capital expenditures would have amounted to approximately \$70 million, and this estimate had the shaft sinking down to the 1400 level.

Management has revised some of the estimated capex, and the related activity program for the expenditures was reduced to 2 years from the 3-year timeline set out in the November 2017 technical report.

The capital expenditures included in the technical report has been reduced by \$18M, to \$52M (capex expected to be spent in 2018 is \$28M). This reduction resulted in the elimination of 130 meters of shaft sinking, the elimination of the proposed 1370 level station, and the elimination of the 1400 level loading and spill pocket. This program does not compromise the ability to access the 9M tonnes of reserves delineated in the technical report. This revised capex estimate reflects the necessary capital required to mine the existing 9M tonnes of reserves included in the technical report.

Mineral Resource Estimate

Mineral Resource Estimations have been conducted or reviewed by the following Qualified Person:

Matthew Hastings of SRK Consulting (U.S.) Inc.; Maptek Vulcan™ Software

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***Yauricocha Production**

A summary of contained metal production from the Yauricocha Mine for the three months and year ended December 31, 2017 has been provided below:

Yauricocha Production	3 Months Ended			12 Months Ended		
	Q4 2017	Q4 2016	% Var.	Q4 2017	Q4 2016	% Var.
Tonnes processed (mt)	266,222	236,650	12%	1,023,491	897,169	14%
Daily throughput	3,043	2,705	12%	2,924	2,563	14%
Silver grade (g/t)	53.57	100.37	-47%	67.13	97.69	-31%
Copper grade	0.80%	0.51%	58%	0.79%	0.54%	48%
Lead grade	1.19%	2.18%	-45%	1.48%	2.52%	-41%
Zinc grade	3.91%	3.63%	8%	3.74%	3.18%	18%
Gold Grade (g/t)	0.55	0.59	-7%	0.54	0.64	-16%
Silver recovery	75.13%	72.05%	4%	74.82%	65.34%	15%
Copper recovery	78.86%	64.75%	22%	65.45%	59.26%	10%
Lead recovery	81.32%	81.72%	0%	83.64%	73.07%	14%
Zinc recovery	88.25%	88.49%	0%	89.14%	87.18%	2%
Gold Recovery	16.02%	20.06%	-20%	16.30%	25.19%	-35%
Silver ounces (000's)	330	550	-40%	1,653	1,841	-10%
Copper pounds (000's)	3,567	1,720	107%	11,719	6,281	87%
Lead pounds (000's)	5,431	9,295	-42%	27,934	36,440	-23%
Zinc pounds (000's)	19,393	16,776	16%	75,151	54,805	37%
Gold ounces	723	908	-20%	2,894	4,664	-38%
Zinc equivalent pounds (000's) ⁽¹⁾	35,758	36,841	-3%	146,816	140,928	4%

(1) Zinc equivalent pounds for Q4 2017 were calculated using the following realized prices: \$16.77/oz Ag, \$3.13/lb Cu, \$1.11/lb Pb, \$1.45/lb Zn, \$1,282/oz Au. Zinc equivalent pounds for Q4 2016 were calculated using the following realized prices: \$16.82/oz Ag, \$2.38/lb Cu, \$0.95/lb Pb, \$1.16/lb Zn, \$1,210/oz Au. Zinc equivalent pounds for 12M 2017 were calculated using the following realized prices: \$17.14/oz Ag, \$2.82/lb Cu, \$1.06/lb Pb, \$1.32/lb Zn, \$1,265/oz Au. Zinc equivalent pounds for 12M 2016 were calculated using the following realized prices: \$17.08/oz Ag, \$2.21/lb Cu, \$0.85/lb Pb, \$0.95/lb Zn, \$1,254/oz Au.

The Yauricocha Mine processed a total of 1,023,491 tonnes during 2017, representing a 14% increase from 2016. The mine processed a total of 266,222 tonnes in Q4 2017, representing a 12% increase compared to Q4 2016. Higher metal production was driven by increased throughput, higher copper and zinc head grades, and higher recoveries of all metals, except gold, which were a consequence of higher head grades in the ore sources available to be mined, as the Esperanza Zone and Cuerpos Chicos continued to contribute to the metal production.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Year over year zinc equivalent production was 4% higher in 2017 compared to the prior year. Copper Production was 87% higher and zinc production 37% higher. This was offset by a 10% decrease in silver production, a 23% decrease in lead production and a 38% decrease in gold production from 2016. The Company continued to see positive improvements from the restructuring at Yauricocha with increased throughput; however, slightly lower grades were noted with increased contribution from the Esperanza zone into the production schedule in Q4 2017, as evidenced a 3% decrease in zinc equivalent production over Q4 2016. During Q4 2017, the Company saw a significant 107% increase in the production of copper and a 16% increase in the production of zinc, offset by decreases in production of silver (40%), lead (42%) and gold (20%) compared to Q4 2016.

The Mexican Operations**Bolivar Mine, Chihuahua State**

The Bolivar Mine is a contiguous portion of the 15,217 hectare Bolivar Property land package within the municipality of Urique, in the Piedras Verdes mining district of Chihuahua State, Mexico. During 2012, the Company achieved its first full year of commercial production at the new Piedras Verdes plant, which is located 6 kilometres from the Bolivar Mine that had an initial capacity of 1,000 tpd. In September 2013, the Piedras Verdes plant further increased its daily throughput capacity to 2,000 tpd by installing a new circuit. The Company is currently producing at a rate of approximately 2,700 tpd and expects to increase this throughput rate to 3,000 tpd and higher during Q4 2017 and beyond.

At Bolívar during Q4 2017, 10,402 meters were drilled from surface as well as diamond drilling within the mine. 1,766 meters were drilled within the mine, 328 meters within Bolivar Northwest and 1,438 meters from Chimney 2. Diamond drilling from surface totaled 8,636 in the Bolivar Northwest area, exploring the extension of the orebody to the North and West, exploring the skarn orebody with semi-massive magnetite, and disseminated nodules of chalcopyrite. This area will continue to be explored during 2018.

Positive Drill Results from the High-Grade Bolivar West Zone at the Bolivar Mine

On September 5, 2017, the Company announced assay results from a recently completed definition drilling program at the Bolivar West zone, which is adjacent to the current operations at the Bolivar Mine. The highlight of this program is that at completion the drill information will be included in a future resource update for the Bolivar Mine. Our exploration programs have identified skarn ore deposits in the form of mantos in the area extending for eight kilometers. The brownfield drilling program completed had been designed with a target of increasing the grades being mined at the Bolivar Mine and defining further mineral resources.

Recently completed drill program of 28 holes (12,300 meters), has provided the Company with good Copper, Zinc and Silver Grades. This detailed drill data will provide the Company with new data to update the current resources at the Bolivar mine. This resource update will be completed by Q4 2017. Average grade of 2.55% copper equivalent with an average true width of 9.1 meters, which is significantly above Bolivar's current resource grade and current head grades. The in-fill drilling in this manto formation covered an area 300 meters long and 180 meters wide. Bolivar West still has further potential resource growth prospects and remains open to the northeast.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***Discovery of Several Wide, High-Grade Copper Structures at the Bolivar Mine**

On October 4, 2017, the Company announced the initial results of the drilling program designed to test the anomalies of the Titan 24 Geophysical Survey recently completed on the Bolivar Property. The Titan 24 survey was completed to follow up on geophysical, geological and geochemical anomalies identified. The Titan 24 Geophysical survey was carried out to assist in mapping the extent of the Mantos and structures containing copper and copper/zinc skarn mineralization for drill targeting in the immediate vicinity of the mine. The Bolivar survey grid consisted of a total of 12 lines which were 26.5 kilometers in length. Titan 24 lines had 100-meter dipole spacing and 200-meter line spacing. The survey covers an area of approximately 2.4 kilometers by 2.2 kilometers.

The Titan 24 survey highlighted over 40 specific areas of interest requiring further investigation and follow up. The 3D inversion modelling of the data provided an excellent tool for further exploration and highlights the overall structure below the deposit, in addition to similar structures and mineralization to the north of the deposit. The Company began the first phase of a drilling program to test the most promising anomalies and drilled the first four holes. The results were very positive, as indicated in Table 1 and 2 below, and therefore the potential exists for further exploration in these areas and the other multiple geophysical anomaly targets.

Bolivar Production

A summary of contained metal production from the Bolivar Mine for the three months and year ended December 31, 2017 has been provided below:

Bolivar Production	3 Months Ended			12 Months Ended		
	Q4 2017	Q4 2016	% Var.	Q4 2017	Q4 2016	% Var.
Tonnes processed (mt)	226,986	245,000	-7%	887,237	950,398	-7%
Daily throughput	2,594	2,800	-7%	2,535	2,715	-7%
Copper grade	0.94%	0.99%	-5%	0.96%	1.00%	-3%
Silver grade (g/t)	14.67	15.53	-6%	14.93	16.72	-11%
Gold grade (g/t)	0.16	0.18	-13%	0.17	0.19	-12%
Copper recovery	83.03%	83.03%	0%	79.82%	81.73%	-2%
Silver recovery	78.35%	80.42%	-3%	76.88%	77.84%	-1%
Gold recovery	68.42%	55.62%	23%	59.50%	50.55%	18%
Copper pounds (000's)	3,904	4,433	-12%	15,056	17,109	-12%
Silver ounces (000's)	84	98	-15%	327	398	-18%
Gold ounces	791	801	-1%	2,880	2,986	-4%
Copper equivalent pounds (000's) ⁽¹⁾	4,677	5,536	-16%	18,338	21,889	-16%

(1) Copper equivalent pounds for Q4 2017 were calculated using the following realized prices: \$16.77/oz Ag, \$3.13/lb Cu, \$1.11/lb Pb, \$1.45/lb Zn, \$1,282/oz Au. Copper equivalent pounds for Q4 2016 were calculated using the following realized prices: \$16.82/oz Ag, \$2.38/lb Cu, \$0.95/lb Pb, \$1.16/lb Zn, \$1,210/oz Au. Copper equivalent pounds for 12M 2017 were calculated using the following realized prices: \$17.14/oz Ag, \$2.82/lb Cu, \$1.06/lb Pb, \$1.32/lb Zn, \$1,265/oz Au. Copper equivalent pounds for 12M 2016 were calculated using the following realized prices: \$17.08/oz Ag, \$2.21/lb Cu, \$0.85/lb Pb, \$0.95/lb Zn, \$1,254/oz Au.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The Bolivar Mine processed 887,237 tonnes in 2017, representing a 7% decrease over 2016. Q4 2017 throughput was 226,986 tonnes, which was 7% lower when compared to Q4 2016. The lower throughput and recoveries, along with lower head grades encountered, resulted in a 16% decrease in copper equivalent production in Q4 2017 compared to Q4 2016. The decrease in throughput was due to the lack of availability of equipment required to mine current production stopes and minable ore zones, as well as a lack of development within the mine. The focus remains on increasing tonnage at Bolivar through the commissioning of the newly acquired equipment, all of which has arrived was commissioned during Q4 2017. We continue to define higher grade ore sources through further development, which are expected to come into the mine plan in the future.

Metal production at the Bolivar Mine decreased in 2017 compared to 2016 with copper production 12% lower, silver production 18% lower and gold production 4% lower. In Q4 2017, copper production decreased by 12% to 3,904,000 pounds, silver production decreased 15% to 84,000 ounces, and gold production decreased 1% to 791 ounces compared to Q4 2016. The 16% decrease in metal production was driven by lower throughput, lower head grades and lower recoveries for all metals, with the exception of gold recoveries.

The Cusi Mine, Chihuahua

The Company's Cusi Mine encompasses 73 concessions covering 11,977 hectares that include 12 historical mines, each located on a mineralized structure, which lie within 40 kilometers of the Malpaso Plant located in Chihuahua State, Mexico. On January 1, 2013 the Company announced that the Cusi Mine achieved commercial production.

During Q4 2017, at the Cusi property, mine development totaled 1,172 meters, and 846 meters of infill drilling was carried out inside the Mine. The Company drilled 846 meters inside the mines to verify the continuity of the orebodies and support development work on the various veins and 153 meters on surface.

Cusi Mineral Resource Estimate

On December 29, 2017 the Company provided its updated Mineral Resource Estimate at the Company's Cusi Mine, located in Chihuahua State, Mexico.

The updated Mineral Resource Estimate is the result of drilling programs completed between January 2014 and August 2017. Subsequent to the cut-off date of August 31, 2017 the updated Resource statement includes additional 48,684 metre drilling program that was focused on the high-grade Santa Rosa de Lima zone and Promontorio.

The Company believes that the Santa Rosa de Lima zone demonstrates strong potential for further structural extensions of high-grade zones at the Company's Cusi Mine. Conversion of some of the higher grade to measured and indicated resources has been the priority for the Cusi exploration efforts.

A Technical Report prepared by SRK Consulting (U.S.) Inc. in accordance with NI 43-101 standards of disclosure was completed and filed on SEDAR.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

- Total Measured and Indicated Resources increased 129% to 4,557,000 tonnes from 1,990,000 tonnes previously reported; and Total Inferred Resources increased 36% to 1,633,000 tonnes from 1,200,000 tonnes previously reported
- Total Measured Mineral Resources for Cusi are 362,000 tonnes averaging 225g/t silver, 0.55% lead, 0.68% zinc, 0.13 g/t gold for a total 268 g/t Ag Eq
- Total Indicated Mineral Resources for Cusi are 4,195,000 tonnes averaging 217 g/t silver, 0.64% lead, 0.66% zinc, 0.21 g/t gold and 267 g/t AgEq
- Total Inferred Mineral Resources for Cusi are 1,633,000 tonnes averaging 158 g/t silver, 0.54% lead, 0.84% zinc, 0.16 g/t gold and 207 g/t AgEq
- The updated Resource Estimate varies from the previous 2017 Technical Report due to a variety of factors, including the use of silver equivalent cut-off grade and depletion by production since the previous Report was completed
- The updated Resource Estimate has incorporated new exploration drilling, sampling, and underground mapping information into the geologic interpretation and grade estimations providing more refined resource models in the areas of San Nicolas and Promontorio

The update of the Mineral Resource Estimations have been conducted by Giovanni Ortiz of SRK Consulting (U.S.) Inc., a Qualified Person under National Instrument 43-101 – Standards of Disclosure for Mineral Projects, using Maptek Vulcan™ and Leapfrog Geo™ software.

This summary features mineral resources reported from models reviewed and estimated by SRK using criteria determined by the Company and SRK to be reasonable for reporting of these resources.

SRK has worked with the Company's personnel to review the geology models, and independently estimated and reported the mineral resources for Cusi. Geology models were developed internally by the Company's geologists and were reviewed by SRK. In all, there are thirty-eight individual mineralized bodies identified through drilling and mine development. These were used as hard boundaries for the purposes of the estimation. The resource is supported by a database featuring over 233,750m of drilling and over 23,800m of channel sampling in mine development. The block models were created by SRK, and have been estimated using inverse distance squared methods. SRK has validated the estimation for each model using a variety of methods considered to be industry standard. These include a visual comparison of the blocks versus the composites, an assessment of the quality of the estimate, and comparative statistics of block estimates vs. composites. The models have been depleted for previous production and reported within the boundaries of Sierra Metal's mineral titles. The mineral resources have been estimated and reported in conformity with generally accepted CIM "Estimation of Mineral Resource and Mineral Reserves Best Practices" guidelines.

The August 31, 2017, consolidated mineral resource statement for the Cusi Mine area is presented in Table 1.

Table 1: Consolidated Cusi Mineral Resource Estimate as at August 31, 2017 – SRK Consulting (U.S.), Inc.

Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	AgEq (g/t)	Ag Moz	Au Koz	Pb Mlb	Zn Mlb	AgEq Moz
Measured	362	225	0.13	0.55	0.68	268	2.6	1.5	4.4	5.4	3.1

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	AgEq (g/t)	Ag Moz	Au Koz	Pb Mlb	Zn Mlb	AgEq Moz
Indicated	4,195	217	0.21	0.64	0.66	267	29.2	28.7	59.0	60.8	36.0
Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	AgEq (g/t)	Ag Moz	Au Koz	Pb Mlb	Zn Mlb	AgEq Moz
Inferred	1,633	158	0.16	0.54	0.84	207	8.3	8.3	19.6	30.4	10.87

(1) Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, lead and zinc assays were capped where appropriate.

(2) Mineral resources are reported at a single cut-off grade of 105 g/t AgEq based on metal price assumptions*, metallurgical recovery assumptions, mining costs (US\$29.41/t), processing costs (US\$18.3/t), and general and administrative costs (US\$3.74/t).

* Metal price assumptions considered for the calculation of the cut-off grade and equivalency are: Silver (Ag): US\$/oz 18.30, Lead (US\$/LB 0.93), Zinc (US\$/lb 1.15) and Gold (US\$/oz 1,283.00).

The resources were estimated by SRK. Giovanni Ortiz, B.Sc., PGeo, FAusIMM #304612 of SRK, a Qualified Person, performed the resource calculations for the Cusi Mine.

** Based on the historical production information of Cusi, the metallurgical recovery assumptions are: 84% Ag, 57% Au, 86% Pb, 51% Zn.

Cusi Production

A summary of contained metal production from the Cusi Mine for the three months and year ended December 31, 2017 has been provided below:

Cusi Production	3 Months Ended			12 Months Ended		
	Q4 2017	Q4 2016	% Var.	Q4 2017	Q4 2016	% Var.
Tonnes processed (mt)	16,280	36,055	-55%	88,011	186,898	-53%
Daily throughput	186	412	-55%	251	534	-53%
Silver grade (g/t)	178.60	172.70	3%	164.93	171.78	-4%
Gold grade (g/t)	0.25	0.23	8%	0.26	0.26	0%
Lead grade	0.97%	1.13%	-14%	1.12%	1.21%	-7%
Zinc grade	1.00%	1.04%	-4%	1.13%	1.16%	-2%
Silver recovery	88.15%	70.04%	26%	72.17%	71.66%	1%
Gold recovery	58.09%	58.16%	0%	58.40%	61.82%	-6%
Lead recovery	87.65%	77.43%	13%	81.26%	82.24%	-1%
Zinc recovery	42.50%	31.86%	33%	42.56%	37.72%	13%
Silver ounces (000's)	82	140	-41%	337	740	-54%
Gold ounces	77	158	-51%	423	954	-56%
Lead pounds (000's)	305	695	-56%	1,769	4,110	-57%
Zinc pounds (000's)	152	263	-42%	937	1,804	-48%
Silver equivalent ounces (000's) ⁽¹⁾	122	209	-42%	549	1,114	-51%

(1) Silver equivalent ounces for Q4 2017 were calculated using the following realized prices: \$16.77/oz Ag, \$3.13/lb Cu, \$1.11/lb Pb, \$1.45/lb Zn, \$1,282/oz Au. Silver equivalent ounces for Q4 2016 were calculated using the following realized prices: \$16.82/oz Ag, \$2.38/lb Cu, \$0.95/lb Pb, \$1.16/lb Zn, \$1,210/oz Au. Silver equivalent ounces for 12M 2017 were calculated using the following realized prices: \$17.14/oz Ag, \$2.82/lb Cu, \$1.06/lb Pb, \$1.32/lb Zn, \$1,265/oz Au. Silver equivalent ounces for 12M 2016 were calculated using the following realized prices: \$17.08/oz Ag, \$2.21/lb Cu, \$0.85/lb Pb, \$0.95/lb Zn, \$1,254/oz Au.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Annual production at the Cusi Mine was 88,011 tonnes in 2017, which was 53% lower than 2016. Total ore processed decreased 55% to 16,280 tonnes during Q4 2017 compared to Q4 2016. The lower throughput was partially offset by increased head grades for gold and silver and increased recoveries of all metals except gold, and resulted in a 42% decrease in silver equivalent production in Q4 2017 compared to Q4 2016. Recovery improvements at Cusi also helped, with metallurgical recoveries increasing in Q4 2017 compared to previous quarters.

Metal production decreased in 2017 compared to 2016 for all metals including silver (54%), gold (56%), lead (57%) and zinc (48%). Silver production decreased 41% to 82,000 ounces, gold production decreased 51% to 77 ounces, lead production decreased 56% to 305,000 pounds and zinc production decreased 42% to 152,000 pounds during Q4 2017 compared to Q4 2016.

The lower throughput was the result of the Company refocusing its efforts away from the existing structures to the recently discovered Santa Rosa de Lima structure, which is wider and has higher silver grades compared to the narrow veins currently being mined. The Company remains focused on the development of the Santa Rosa de Lima zone, developing drifts to mine this area and with production ramping up from this area, which is expected to continually increase into Q2 2018 when full mill feed capacity will come from this new zone.

Consolidated Mineral Resources

Reserves - Proven and Probable

		Contained Metal														
		Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	Ag (M oz)	Cu (M lb)	Pb (M lb)	Zn (M lb)	Au (K oz)	AgEq (M oz)	CuEq (M lb)
Yauricocha	Proven	1,836	46.6	1.08	0.84	2.59	0.64	369.3	-	2.8	43.7	33.8	105.0	37.7	21.8	-
	Probable	7,081	48.8	1.23	0.75	2.38	0.49	365.9	-	11.1	191.6	117.3	372.2	111.9	83.3	-
	Proven & Probable	8,917	48.3	1.20	0.77	2.43	0.52	366.6	-	13.9	235.3	151.1	477.2	149.6	105.1	-
Bolivar	Proven	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Probable	4,327	17.5	0.85	-	-	0.31	-	1.18	2.4	80.7	-	-	44.0	-	112.1
	Proven & Probable	4,327	17.5	0.85	-	-	0.31	-	1.18	2.4	80.7	-	-	44.0	-	112.1
Total	Proven & Probable	13,244	38.2	1.08	0.77	2.43	0.45			16.3	316.0	151.1	477.2	193.6		

Resources - Measured and Indicated

		Contained Metal														
		Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	Ag (M oz)	Cu (M lb)	Pb (M lb)	Zn (M lb)	Au (K oz)	AgEq (M oz)	CuEq (M lb)
Yauricocha	Measured	3,094	70.0	1.72	1.23	3.20	0.79	515.7	-	7.0	117.3	83.7	218.5	78.3	51.3	-
	Indicated	10,112	59.9	1.46	0.83	2.67	0.60	424.0	-	19.5	326.3	185.4	594.8	195.6	137.8	-
	Measured & Indicated	13,206	62.3	1.52	0.92	2.79	0.65	445.5	0.00	26.4	443.6	269.1	813.3	274.0	189.1	-
Bolivar	Measured	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-
	Indicated	9,335	18.1	0.90	-	-	0.30	-	1.23	5.4	184.9	-	-	91.0	-	252.9
	Measured & Indicated	9,335	18.1	0.90	0.0	0.0	0.30	0.00	1.23	5.4	184.9	-	-	91.0	-	252.9
Cusi	Measured	362	225.0	-	0.55	0.68	0.13	268	-	2.6	-	4.4	5.4	1.5	3.1	-
	Indicated	4,195	217.0	-	0.64	0.66	0.21	267	-	29.2	-	59.0	60.8	28.7	36.0	-
	Measured & Indicated	4,557	217.6	0.0	0.63	0.66	0.20	267.1	0.00	31.8	-	63.4	66.2	30.2	39.1	-
Total	Measured & Indicated	27,098	73.2	1.05	0.56	1.47	0.45	262.02	0.42	63.6	628.5	332.5	879.5	395.2		

Resources - Inferred

		Contained Metal														
		Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	Ag (M oz)	Cu (M lb)	Pb (M lb)	Zn (M lb)	Au (K oz)	AgEq (M oz)	CuEq (M lb)
Yauricocha	Inferred	6,632	43.0	1.19	0.47	2.16	0.55	329.24	0.00	9.2	174.7	68.0	315.2	117.0	70.2	-
Bolivar	Inferred	9,055	17.9	0.86	0.00	0.00	0.33	0.00	1.20	5.2	171.6	-	-	97.0	-	239.8
Cusi	Inferred	1,633	158.0	0.00	0.54	0.84	0.16	207	0.00	8.3	-	19.6	30.4	8.3	10.9	-
Total	Inferred	17,320	40.7	0.91	0.23	0.90	0.40	145.6	0.63	22.7	346.3	87.6	345.6	222.3		

Notes:

- The effective date of the mineral reserve and resource statement for the Yauricocha Mine is July 31, 2017. Details of the estimate are provided in a NI 43-101 technical report filed on SEDAR on November 10, 2017. Silver/copper equivalent is based on the following metal price assumptions: US\$17.31/oz Ag, US\$2.70/lb Cu, US\$1.03/lb Pb and US\$1.28 Zn and US\$1,253/oz Au. Metallurgical recovery assumptions are based on Yauricocha actual plant data for 2017 and are 67% Ag, 65% Cu, 85% Pb, 89% Zn, 16% Au. The equivalency expression is designed to present an in-situ silver equivalent, considering the recovered value of the other metals expressed in the value of silver g/t.
The equation is: $AgEq = ((Ag * Ag * Agrec) + (Cu * Cu * Curec) + (Pb * Pb * Pbrrec) + (Zn * Zn * Znrec) + (Au * Au * Aurec)) / (Ag * Agrec)$.
- The effective date of the Bolivar mineral reserve and resource estimate is Sep 31, 2016. Details of the estimate are provided in the Company's Apr 11, 2017 press releases and a NI 43-101 compliant technical report filed on SEDAR on Apr 19, 2017. Measured, Indicated and Inferred Resources include

Proven and Probable Reserves. Copper equivalent is based on the following metal prices: US\$18.30/oz Ag, US\$2.43/lb Cu and US\$1,283 Au. Totals for proven and probable are diluted for internal waste.

3. The effective date of the Cusi mineral resource estimate is Aug 31, 2017. Details of the estimate are provided in an NI 43-101 compliant technical report filed on SEDAR on February 12, 2018. Silver equivalent is based on the following metal price assumptions. US\$18.30/oz Ag, US\$0.93/lb Pb, US\$1.15 Zn, and US\$1,283/oz Au. Based on the historical production information for Cusi, the metallurgical recovery assumptions are 84% Ag, 86% Pb, 51% Zn, 57% Au. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***6. SUMMARIZED FINANCIAL RESULTS****Year ended December 31, 2017 (compared to the year ended December 31, 2016)**

<i>(In thousands of United States dollars, except cash costs)</i>	Dec 31, 2017	Year ended Dec 31, 2016	Dec 31, 2015
Revenue	\$ 205,118	\$ 143,180	\$ 134,052
Adjusted EBITDA ¹	81,034	41,887	32,317
Cash flow from operations before movements in working capital	79,785	44,303	32,475
Adjusted net income attributable to shareholders	23,482	7,006	4,108
Non-cash charge on the acquisition of Corona	31,448	24,384	27,562
Gross profit (loss)	45,964	16,780	7,331
Income tax recovery (expense)	(10,348)	(5,757)	2,823
Net income (loss) attributable to shareholders	(4,645)	(12,265)	(33,302)

<i>(In thousands of United States dollars)</i>	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Cash and cash equivalents	\$ 23,878	\$ 42,145	\$ 25,102
Assets	340,601	364,812	368,525
Liabilities	159,923	178,850	170,951
Net Debt ²	40,982	36,537	50,984
Equity	180,678	185,962	197,574

¹ This is a non-IFRS performance measure, see Non-IFRS Performance Measures section² Loans payable minus cash and cash equivalents.

Net income (loss) attributable to shareholders for 2017 was \$(4.6) million (2016: \$(12.3) million) or \$(0.03) per share (basic and diluted) (2016: \$(0.08)). Included in the net loss of \$(4.6) million for 2017 was a \$(4.4) million loss on the distribution of assets to Sierra shareholders as part of the spin out of Cautivo Mining Inc. The other major differences between these periods are explained below.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Revenues

Revenue from metals payable at the Yauricocha Mine in Peru of \$154.2 million for the year ended December 31, 2017 compared to \$97.3 million for the same period in 2016. The increase in revenue was primarily due to the increases in the prices of copper (26%), lead (26%), and zinc (35%), the 14% increase in throughput, the increase in copper, and zinc head grades, and higher recoveries for all metals, except gold, during 2017 compared to 2016. The Company continued to achieve exceptional production during 2017 as the operational improvement program, and the focus on extracting higher value ore, in addition to ore sourced from the Esperanza Zone, has positively impacted the revenues during the last year and a half.

Revenue from metals payable in Mexico were \$51.0 million for the year ended December 31, 2017 compared to \$45.9 million for the same period in 2016. Revenue in Mexico increased as a result of the increase in copper (26%) lead (26%), and zinc (35%) prices during 2017 compared to 2016; and higher recoveries of gold at the Bolivar Mine. This was partially offset by the decrease in throughput, head grades of all metals at Bolivar, and lower throughput, head grades, and recoveries of all metals, except gold head grades and zinc recoveries, at the Cusi Mine. Another reason for the increase in revenues in Mexico was because the Company received a payment of \$4.9 million in December 2016 for Bolivar copper concentrate stockpiled at the Piedras Verdes Plant which was awaiting a new filter in order to further process and dry the concentrate. The \$4.9 million payment has been recognized as revenue during January – April 2017 as it was shipped.

Revenue from metals payable at the Bolivar Mine were \$45.0 million for the year ended December 31, 2017 compared to \$33.3 million for the same period in 2016. The increase in revenue from the Bolivar Mine was due to the 26% increase in the price of copper realized in 2017 compared to 2016, as well as the higher gold recoveries realized due to plant enhancements completed at Bolivar which included the installation of a new vibrating screen, filters, and cyclones.

Revenue from metals payable at the Cusi Mine for the year ended December 31, 2017 were \$6.0 million compared to \$12.6 million for the same period in 2016. The decrease in revenues was due to the 53% decrease in throughput, and lower head grades and recoveries for all metals, except zinc and silver recoveries, realized during 2017. Despite the decreases in tonnage and metal production at Cusi it is important to note that Cusi only represents approximately 4% of Sierra Metals current total production. The Company is currently mining selected higher-grade structures at the old mine in addition to campaigning development ore from the Santa Rosa de Lima structure containing improved head grades to the mill at Cusi. The Company expects to gradually increase tonnage from the Santa Rosa de Lima zone until the mill is operating at its capacity of 650 tonnes per day using only ore from the Santa Rosa de Lima zone. It is expected that the main supply of ore in-terms of tonnage and grade will come from Santa Rosa de Lima starting in Q2 2018.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The following table shows the Company's realized selling prices for each quarter in 2017 and 2016:

<i>Realized Metal Prices</i> <i>(In US dollars)</i>	2017					2016				
	Q4	Q3	Q2	Q1	YTD	Q4	Q3	Q2	Q1	YTD
Silver (oz)	\$ 16.77	\$ 16.86	\$ 17.22	\$ 17.71	\$ 17.14	\$ 16.82	\$ 19.17	\$ 17.08	\$ 15.26	\$ 17.16
Copper (lb)	\$ 3.13	\$ 2.93	\$ 2.58	\$ 2.64	\$ 2.82	\$ 2.38	\$ 2.16	\$ 2.15	\$ 2.13	\$ 2.23
Lead (lb)	\$ 1.11	\$ 1.08	\$ 0.99	\$ 1.04	\$ 1.06	\$ 0.95	\$ 0.85	\$ 0.79	\$ 0.80	\$ 0.84
Zinc (lb)	\$ 1.45	\$ 1.36	\$ 1.20	\$ 1.27	\$ 1.32	\$ 1.16	\$ 1.02	\$ 0.86	\$ 0.77	\$ 0.98
Gold (oz)	\$ 1,282	\$ 1,280	\$ 1,265	\$ 1,231	\$ 1,265	\$ 1,210	\$ 1,347	\$ 1,246	\$ 1,212	\$ 1,267

Yauricocha's cost of sales per zinc equivalent payable pound was \$0.54 (2016 - \$0.44), cash cost per zinc equivalent payable pound was \$0.50 (2016 - \$0.42), and AISC per zinc equivalent payable pound was \$0.78 (2016 - \$0.71) for 2017 compared to 2016. The increase in the AISC per zinc equivalent payable pound for 2017 compared to 2016 were the result of increased sustaining capital expenditures, which included a substantial amount of infill drilling, ventilation improvements, equipment purchases, and plant improvements. The increase was also a result of temporary increases to the mining costs, partially due to timing; as well as slight increases related to infill drilling and drift development costs that will be utilized within one year, and thus are included in operating costs. This was partially offset by lower treatment and refining costs incurred during 2017 compared to 2016, resulting from improved terms with re-negotiated sales contracts with our off-takers, which helped offset higher sustaining capital expenditures.

Bolivar's cost of sales per copper equivalent payable pound was \$1.54 (2016 - \$1.31), cash cost per copper equivalent payable pound was \$1.49 (2016 - \$1.12), and AISC per copper equivalent payable pound was \$2.68 (2016 - \$2.21) for 2017 compared to 2016. The increase in the AISC per copper equivalent payable pound during 2017 was due to a decrease in copper equivalent payable pounds as a result of 7% lower throughput, as well as an increase in sustaining capital expenditures related to the various equipment purchases made by the Company during the year in an effort to improve equipment availability and increase tonnage. The effect of the new equipment purchased will improve availability and has helped improve production and will continue to do so.

Cusi's cost of sales per silver equivalent payable ounce was \$12.51 (2016 - \$5.47), cash cost per silver equivalent payable ounce was \$15.38 (2016 - \$9.37), and AISC per silver equivalent payable ounce was \$33.90 (2016 - \$18.60) for 2017 compared to 2016. AISC per silver equivalent payable ounce increased due to the decline in throughput which resulted in fewer silver equivalent payable ounces as the Company continued its refocused efforts on completing access, development and production from the Santa Rosa de Lima zone which contains wider structures and higher silver grades.

Non-cash depletion, depreciation and amortization

The Company recorded total non-cash depletion, depreciation and amortization expense for the year ended December 31, 2017 of \$58.2 million compared to \$45.7 million for the same period in 2016.

A large component of the net income (loss) for every period is the non-cash depletion charge in Peru, which was \$31.4 million for 2017 (2016: \$24.4 million). The non-cash depletion charge is based on the aggregate fair value of the Yauricocha mineral property at the date of acquisition of Corona of \$371.0 million amortized over the total proven and probable reserves of the mine. The increase in the non-cash depletion charge in 2017 was due to the reduction in proven and probable reserves reported in the Company's NI 43-101 Technical Report issued on August 11, 2016. Also, the increase in tonnes mined during 2017 compared to 2016 resulted in a higher depletion charge. The depletion charge will be reduced significantly during 2018, and beyond, as a result of the significant increase in proven and probable reserves reported in the Company's NI 43-101 Technical Report issued on October 26, 2017.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

General and Administrative Expenses

The Company incurred general and administrative expenses of \$20.3 million for the year ended December 31, 2017 compared to \$14.9 million for the same period in 2016. The increase in general and administrative costs in 2017 compared to the same period in 2016 was due to an increase in consultant fees, professional fees, and legal fees incurred in Canada with regards to the work being performed towards listing Sierra Metals Inc on the NYSE MKT stock exchange, as well as the proposed spin-out of the Northern Peruvian Properties within the Company's Plexmar Resources subsidiary.

Adjusted EBITDA ⁽¹⁾

The Company recorded adjusted EBITDA of \$81.0 million during the year ended December 31, 2017 (2016: \$41.9 million) which was comprised of \$74.8 million (2016: \$34.3 million) from the Peruvian operations and \$10.5 million (2016: \$11.6 million) from the operations in Mexico. The increase in adjusted EBITDA is due to the increase in revenues discussed previously. Adjusted EBITDA is a non-IFRS measure that represents an indication of the Company's continuing capacity to generate earnings from operations before taking into account management's financing decisions and costs of consuming capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Adjusted EBITDA comprises revenue less operating expenses before interest expense (income), property, plant and equipment amortization and depletion, foreign exchange variations, non-recurring provisions, share-based payments expense, and income taxes. The Company considers cash flow before movements in working capital to be the IFRS performance measure that is most closely comparable to adjusted EBITDA.

Income taxes

The Company recorded current tax expense of \$23.4 million for the year ended December 31, 2017 compared to \$9.6 million for the same period in 2016. The increase was the result of the higher taxable income generated in Peru during 2017 compared to 2016.

During the year ended December 31, 2017, the Company recorded a deferred tax recovery of \$13.1 million compared to \$3.9 million in the same period in 2016. The main driver for the Company's consolidated deferred tax recovery is the non-cash recovery associated with the acquisition of Corona which has increased year over year in line with the non-cash depletion charge mentioned previously.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)*Adjusted net income attributable to shareholders ⁽¹⁾

The Company recorded an adjusted net income of \$23.5 million for the year ended December 31, 2017 compared to an adjusted net income of \$7.0 million for the same period in 2016. The increase resulted from the increase in revenues at the Yauricocha and Bolivar Mines. Adjusted net income is defined by management as the net income attributable to shareholders shown in the condensed interim consolidated statements of income excluding the non-cash depletion charge due to the acquisition of Corona, the corresponding deferred income tax recovery, and certain non-recurring or non-cash items. Accordingly, management considers this metric to be more meaningful to measure the Company's profitability than net income as it adjusts for specific non-cash items.

Other Comprehensive Income (Loss)

Other comprehensive loss ("OCL") for the year ended December 31, 2017 was \$(0.4) million compared to OCL of \$(11.9) million for the same period in 2016. OCL includes a foreign currency gain of \$0.5 million for the year ended December 31, 2017 (2016: \$0.8 million gain). The unrealized foreign currency translation gain was caused by the strengthening of the Canadian dollar relative to the US dollar during the period which resulted in a foreign exchange gain on the translation of the Canadian dollar net assets into the Company's US dollar presentation currency.

⁽¹⁾ This is a non-IFRS performance measure, see non-IFRS Performance Measures section of this MD&A.

The following tables display selected annual financial results detailed by operating segment:

Year ended December 31, 2017	Peru Yauricocha Mine \$	Mexico Bolivar Mine \$	Mexico Cusi Mine	Canada Corporate \$	Total \$
Revenue	154,153	44,949	6,016	-	205,118
Production cost of sales	(67,542)	(27,418)	(6,019)	-	(100,979)
Depletion of mineral property	(31,448)	(3,163)	(690)	-	(35,301)
Depreciation and amortization of property, plant and equipment	(12,783)	(8,275)	(1,816)	-	(22,874)
Cost of sales	(111,773)	(38,856)	(8,525)	-	(159,154)
Gross profit (loss) from mining operations	42,380	6,093	(2,509)	-	45,964
Net income (loss) from operations	17,958	(3,230)	(4,593)	(10,995)	(860)
Adjusted EBITDA	74,815	11,900	(1,404)	(4,277)	81,304

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Year ended December 31, 2016	Peru Yauricocha Mine \$	Mexico Bolivar Mine \$	Mexico Cusi Mine	Canada Corporate \$	Total \$
Revenue	97,290	33,267	12,623	-	143,180
Production cost of sales	(53,705)	(23,064)	(5,063)	-	(81,832)
Depletion of mineral property	(24,384)	(3,426)	(752)	-	(28,562)
Depreciation and amortization of property, plant and equipment	(7,812)	(6,719)	(1,475)	-	(16,006)
Cost of sales	(85,901)	(33,209)	(7,290)	-	(126,400)
Gross profit from mining operations	11,389	58	5,333	-	16,780
Net income (loss) from operations	(5,250)	(6,853)	3,306	(3,924)	(12,721)
Adjusted EBITDA	34,264	5,120	6,445	(3,942)	41,887

Cash Flows

Cash flow from operating activities before movements in working capital of \$79.8 million for the year ended December 31, 2017 increased from \$44.3 million in the same period of 2016. The increase was due to the increase in revenues and operating margins previously discussed.

Net cash flow of \$(51.6) million (2016: \$(25.4) million) used in investing activities for the year ended December 31, 2017 consists of purchases of property, plant and equipment, capital expenditures related to the Yauricocha shaft and tunnel development, and exploration and evaluation assets in Peru and Mexico.

A breakdown of the Company's capital expenditures of \$51.6 million during the year ended December 31, 2017 is presented below:

(\$ Millions)	2017 Capital Expenditures by Mine			
	Yauricocha	Bolivar	Cusi	Total
Expenditure				
Esperanza development and infill drilling	\$ 1.20	\$ -	\$ -	\$ 1.20
Mine Development	\$ 1.60	\$ 2.00	\$ 4.00	\$ 7.60
Shafts	\$ 5.00	\$ -	\$ -	\$ 5.00
Tunnel	\$ 2.00	\$ -	\$ -	\$ 2.00
Equipment	\$ 6.00	\$ 5.70	\$ 1.70	\$ 13.40
Tailings Dam	\$ 0.50	\$ 0.30	\$ 1.70	\$ 2.50
Increase Mill Capacity/maintenance	\$ 1.60	\$ 2.70	\$ 0.50	\$ 4.80
Mine Exploration	\$ 0.80	\$ 4.90	\$ 4.40	\$ 10.10
Mining Concession Fees	\$ -	\$ -	\$ 5.00	\$ 5.00
	\$ 18.70	\$ 15.60	\$ 17.30	\$ 51.60

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Net cash flow of \$(21.1) million (2016: \$1.0 million) from (used in) financing activities for the year ended December 31, 2017 consists of \$(44.5) million (2016: \$(20.5) million) in repayments of loans and credit facilities, \$(3.0) million (2016: \$(3.7) million) in interest paid on loans and credit facilities, and \$(3.4) million (2016: \$(0.5) million) of dividends paid to non-controlling interest shareholders. This was partially offset by proceeds received from the issuance of credit facilities of \$29.8 million during the year ended December 31, 2017 (2016: 23.8 million).

7. QUARTERLY FINANCIAL REVIEW

The following table displays selected results from the eight most recent quarters:

<i>(In thousands of United States dollars, except per share amounts)</i>	2017				2016			
	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31
Revenues	51,170	50,859	48,571	54,518	41,825	40,757	36,858	23,740
Adjusted EBITDA	19,208	18,845	17,620	25,361	15,985	16,264	5,265	4,373
Adjusted net income (loss) attributable to shareholders	3,241	4,993	4,258	10,990	3,516	5,003	454	(1,967)
Net income (loss) attributable to shareholders	2,118	(6,523)	(2,798)	2,558	(5,076)	1,367	(3,440)	(5,116)
Basic and diluted earnings (loss) per share (\$)	0.01	(0.04)	(0.02)	0.02	(0.04)	0.01	(0.02)	(0.03)

Three months ended December 31, 2017 (compared to the three months ended December 31, 2016)

Net income (loss) attributable to shareholders for Q4 2017 was \$2.1 million, or \$0.01 per share (basic and diluted), compared to net income (loss) of \$(5.1) million, or \$(0.04) per share (basic and diluted) for the same period in 2016. The major differences between these periods are explained below.

Revenues

Revenue from metals payable from the Yauricocha Mine in Peru were \$38.2 million for Q4 2017 compared to \$31.8 million for the same period in 2016. Higher revenues are primarily attributable to the 12% increase in throughput, the increase in copper, and zinc head grades, higher recoveries for silver and copper, and the increase in the prices of copper (32%), lead (17%), zinc (25%), and gold (6%) in Q4 2017 compared to Q4 2016.

Revenue from metals payable in Mexico were \$12.9 million for Q4 2017, compared to \$9.9 million for the same period in 2016. Revenues in Mexico increased as a result the 32% increase in copper prices in Q4 2017 compared to Q4 2016, as well as the copper concentrate stockpiled at the Piedras Verdes Plant during Q4 2016 for which the Company received a payment of \$4.9 million which was recognized in revenue during 2017. This offset the declines in throughput at Bolivar and Cusi, as well as the lower head grades for all metals at Bolivar, and lower lead and zinc grades at Cusi.

Revenues generated at the Bolivar Mine for Q4 2017 were \$12.0 million, compared to \$7.2 million for the same period in 2016. At Bolivar, lower throughput was due to reduced equipment availability as the Company was awaiting the final deliveries of equipment purchases made during the year. The mine also encountered lower head grades and recoveries which have been slightly lower due to higher antimony levels which have required some blending with lower grade ore stopes. However, the Company benefitted from the 32% increase in copper prices during Q4 2017 compared to Q4 2016, as well as improved gold recoveries.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Revenues generated at the Cusi Mine for Q4 2017 were \$1.0 million compared to \$2.7 million for Q4 2016. The decrease in revenue was due to only 16,280 tonnes of ore being processed during Q4 2017 which decreased 55% compared to Q4 2016. Cusi's contribution to the Company's overall production is expected to increase in the future as the Company continues with the development of the Santa Rosa de Lima structure, which is wider and has higher silver grades compared to the narrow veins currently being mined. The Company is currently developing drifts to mine this area and with production ramping up from this area, which is expected to continually increase into Q2 2018 when full mill feed capacity will come from this zone.

Yauricocha's cost of sales per zinc equivalent payable pound was \$0.63 (Q4 2016 - \$0.46), cash cost per zinc equivalent payable pound was \$0.57 (Q4 2016 - \$0.43), and AISC per zinc equivalent payable pound was \$0.90 (Q4 2016 - \$0.74) for Q4 2017 compared to the same period in 2016. The increase in the Q4 2017 AISC per zinc equivalent payable pound relative to Q4 2016 is a result of increased Capex, including a substantial amount of infill drilling, infrastructure improvements including ramp and shaft development, ventilation improvements, equipment, as well as plant improvements that were completed. The increase was also a result of Opex including infill drilling and drift development that will be utilized within one year.

Bolivar's cost of sales per copper equivalent payable pound was \$1.66 (Q4 2016 - \$1.45), cash cost per copper equivalent payable pound was \$1.72 (Q4 2016 - \$1.00), and AISC per copper equivalent payable pound was \$3.03 (Q4 2016 - \$2.59) for Q4 2017 compared to the same period in 2016. The increase in the AISC per copper equivalent payable pound during Q4 2017 was due to a decrease in copper equivalent payable pounds as a result of 11% lower throughput, as well as an increase in sustaining capital expenditures related to the various equipment purchases made by the Company during the quarter in an effort to improve equipment availability and increase tonnage.

Cusi's cost of sales per silver equivalent payable ounce was \$17.18 (Q4 2016 - \$5.58), cash cost per silver equivalent payable ounce was \$18.67 (Q4 2016 - \$12.88), and AISC per silver equivalent payable ounce was \$36.33 (Q4 2016 - \$24.42) for Q4 2017 compared to the same period in 2016. AISC per silver equivalent payable ounce increased due to the decline in throughput which resulted in fewer silver equivalent payable ounces as the Company continued its refocused efforts on completing access, development and production from the Santa Rosa de Lima zone which contains wider structures and higher silver grades.

Non-cash depletion, depreciation and amortization

The Company recorded total non-cash depletion, depreciation and amortization expense for Q4 2017 of \$7.9 million compared to \$15.3 million for the same period in 2016.

A large component of the non-cash depletion, depreciation and amortization expense is the depletion charge on the acquisition of Corona of \$2.7 million for Q4 2017 compared to \$8.4 million for the same period in 2016. The non-cash depletion charge is based on the aggregate fair value of the Yauricocha mineral property at the date of acquisition of Corona of \$371.0 million amortized over the total proven and probable reserves of the mine. The decrease in the non-cash depletion charge in Q4 2017 was due to the significant increase in proven and probable reserves reported in the Company's NI 43-101 Technical Report issued on October 26, 2017.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

General and Administrative Expenses

The Company incurred general and administrative expenses of \$8.6 million for Q4 2017 compared to \$4.7 million for Q4 2016. The increase in general and administrative costs in Q4 2017 compared to the same period in 2016 was due to an increase in consultant fees, professional fees, and legal fees incurred in Canada and Mexico.

Adjusted EBITDA

Adjusted EBITDA of \$19.2 million for Q4 2017 increased compared to \$16.0 million in Q4 2016. The increase in adjusted EBITDA in Q4 2017 was primarily due to the increase in revenues at Yauricocha, discussed previously.

Income taxes

The Company recorded current tax expense of \$5.6 million for Q4 2017 compared to \$4.6 million in Q4 2016 and the increase was the result of the higher taxable income generated in Peru during Q4 2017 compared to Q4 2016.

During Q4 2017, the Company recorded a deferred tax recovery of \$0.6 million compared to \$1.8 million in Q4 2016. The main driver for the Company's consolidated deferred tax recovery is the non-cash recovery associated with the acquisition of Corona which has decreased quarter over quarter in line with the non-cash depletion charge mentioned previously.

Adjusted net income attributable to shareholders

The Company recorded an adjusted net income of \$3.2 million for Q4 2017 compared to \$3.5 million for Q4 2016. Adjusted net income is defined by management as the net income attributable to shareholders shown in the condensed interim consolidated statements of income excluding the non-cash depletion charge due to the acquisition of Corona, the corresponding deferred income tax recovery, and certain non-recurring or non-cash items. Accordingly, management considers this metric to be more meaningful to measure the Company's profitability than net income as it adjusts for specific non-cash items.

Other Comprehensive Income (Loss)

OCI for Q4 2017 was \$3.6 million compared to OCL of \$(5.6) million for the same period in 2016. OCL includes a foreign currency loss of \$0.1 million in Q4 2017 (Q4 2016: \$(0.4) million).

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***8. LIQUIDITY AND CAPITAL RESOURCES****Financial Condition Review**

The following table provides a comparison of key elements of Sierra's balance sheet as at December 31, 2017 and December 31, 2016:

(000's)	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 23,878	\$ 42,145
Working capital	\$ (6,784)	\$ 9,576
Total assets	\$ 340,601	\$ 364,812
Debt (net of financing fees)	\$ 64,860	\$ 78,682
Total liabilities	\$ 159,923	\$ 178,850
Equity attributable to owners of the Company	\$ 154,571	\$ 160,268

Cash and cash equivalents of \$23.9 million and working capital of \$(6.8) million as at December 31, 2017 compared to \$42.1 million and \$9.6 million, respectively, at the end of 2016. Cash and cash equivalents have decreased by \$18.3 million during 2017 due to \$54.5 million of operating cash flows being offset by capital expenditures incurred in Mexico and Peru of \$(51.6) million, repayment of loans, credit facilities and interest of \$(47.5) million, dividends paid to non-controlling interest shareholders of \$(3.4) million, and proceeds from issuances of loans and credit facilities of \$29.8 million. Included in the \$54.5 million of operating cash flows were negative changes in non-cash working capital items of \$7.9 million due to the increase accounts receivable and decrease in deferred revenue as at December 31, 2017.

Trade and other receivables includes \$5.7 million (December 31, 2016 - \$3.8 million) of Mexican value-added tax ("VAT") receivables. During 2014, the Company commenced the process to request the refund of the VAT receivable relating to 2012 and 2013 and has successfully received refunds of \$14.0 million for some of the monthly claims submitted over the past three years. The Company expects to collect or offset the VAT balance against 2018 VAT payables. Amounts included in trade and other receivables are current and the Company has no allowance for doubtful accounts as at December 31, 2017.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Sierra's outstanding loan and credit facilities are shown below:

(000's)	Limit	Balance Outstanding	
		December 31, 2017	December 31, 2016
Dia Bras Peru loan with BCP (Corona Acquisition) ⁽¹⁾	\$ -	\$ 40,377	\$ 45,820
Corona loan with BCP (Corona Operating) ⁽²⁾	\$ -	\$ 6,309	\$ 12,449
DBP revolving credit facility with BCP ⁽³⁾	\$ 15,000	\$ 15,000	\$ -
Corona Notes payable to Scotiabank and Interbank Peru ⁽⁴⁾	\$ 15,000	\$ -	\$ 14,750
Pre-export finance facility with Metagri S.A. de C.V. ⁽⁵⁾	\$ -	\$ -	\$ 1,179
FIFOMI working capital facility	\$ 7,543	\$ 3,174	\$ 4,484
Total Debt		\$ 64,860	\$ 78,682
Less cash balances		\$ 23,878	\$ 42,145
Net Debt		\$ 40,982	\$ 36,537

⁽¹⁻⁵⁾ See consolidated financial statements as at December 31, 2017 for details of each loan and credit facility.**Outstanding shares**

The authorized share capital at December 31, 2017 was an unlimited number of common shares without par value. As at March 20, 2018, the Company had 162.8 million shares issued and outstanding (December 31, 2016 – 162.4 million shares issued and outstanding).

As at December 31, 2017, there were 1,316,314 RSUs outstanding at a weighted average fair value of C\$2.45.

As at March 20, 2018 there are 1,103,330 RSU's outstanding at a weighted average fair value of C\$2.45.

9. SAFETY, HEALTH AND ENVIRONMENT

Sierra Metals is fully committed to disciplined and responsible growth and has Safety and Health and Environmental Policies in place to support this commitment. The Company's corporate responsibility objectives are to prevent pollution, minimize the impact operations may cause to the environment and practice progressive rehabilitation of areas impacted by its activities. The Company aims to operate in a socially responsible and sustainable manner, and to follow international guidelines in Mexico and Peru. The Company focuses on social programs with the local communities in Mexico and Peru on an ongoing basis.

10. FINANCIAL INSTRUMENTS AND RELATED RISKS**Financial risk management**

The Company is exposed to financial risks, including credit risk, liquidity risk, currency risk, interest rate risk and price risk. The aim of the Company's overall risk management strategy is to reduce the potential adverse effect that these risks may have on the Company's financial position and results.

The Company's Board of Directors has overall responsibility and oversight of management's risk management practices. Risk management is carried out under policies approved by the Board of Directors. The Company may from time to time, use foreign exchange contracts, future and forward contracts to manage its exposure to fluctuations in foreign currency and metals prices. The Company does not ordinarily enter into hedging arrangements to cover long term commodity price risk unless it has the obligation to do so under a credit facility, which would be approved by the Board of Directors.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***i) Market Risk****(1) Currency risk**

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company and its subsidiaries' financial instruments are exposed to currency risk where those instruments are denominated in currencies that are not the same as their functional currency; exchange gains and losses in these situations impact net income or loss. The Company's sales of silver, copper, lead and zinc are denominated in United States dollars and the Company's costs are incurred in Canadian dollars, United States dollars, Mexican pesos and Peruvian Nuevo Soles. The United States dollar is the functional currency of the Peruvian and Mexican entities. The Canadian dollar is the functional currency of all other entities. The company also holds cash and cash equivalents, trade and other receivables and accounts payable that are subject to currency risk.

The following are the most significant areas of exposure to currency risk:

	December 31, 2017			Total \$
	CAN dollar	Mexican Peso	Peruvian Nuevo Soles	
Cash and cash equivalents	132	167	634	933
Income tax and other receivables	158	9,618	918	10,694
	<u>290</u>	<u>9,785</u>	<u>1,552</u>	11,627
Accounts payable and other liabilities	(1,461)	(30,674)	(21,838)	(53,973)
Total	(1,171)	(20,889)	(20,286)	(42,346)

	December 31, 2016			Total \$
	CAN dollar	Mexican Peso	Peruvian Nuevo Soles	
Cash and cash equivalents	244	67	1,857	2,168
Income tax and other receivables	411	8,933	457	9,801
	<u>655</u>	<u>9,000</u>	<u>2,314</u>	<u>11,969</u>
Accounts payable and other liabilities	(1,086)	(24,234)	(12,539)	(37,859)
Total	(431)	(15,234)	(10,225)	(25,890)

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The Company manages and monitors this risk with the objective of mitigating the potential adverse effect that fluctuations in currencies against the Canadian dollar and US dollar could have on the Company's Consolidated Statement of Financial Position and Consolidated Statement of income (loss). As at December 31, 2017, the Company has not entered into any derivative contracts to mitigate this risk.

A 10% appreciation in the US dollar exchange rate against the Peruvian Nuevo Soles and the Mexican Peso based on the financial assets and liabilities held at December 31, 2017, with all the other variables held constant, would have resulted in an increase to the Company's net loss of \$4,118 (increase in loss in 2016 of \$2,500).

A 10% appreciation in the Canadian dollar exchange rate against the US dollar based on the financial assets and liabilities held at December 31, 2017 and 2016, with all the other variables held constant, would have resulted in a negligible impact to the Company's net income (loss).

(2) Interest rate risk

Interest rate risk is the risk that the fair values or future cash flows of the Company will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its loans payable. The Company monitors its exposure to interest rates closely and has not entered into any derivative contracts to manage its risk. The weighted average interest rate paid by the Company during the year ended December 31, 2017 on its loans and notes payable in Peru was 4.31% (2016 – 4.47%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net loss by \$541 (2016 - \$635). The interest rate paid by the Company during the year ended December 31, 2017 on its loans payable in Mexico was 5.74% (2016 – 5.83%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net loss by \$60 (2016 - \$65).

(3) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market.

As at December 31, 2017 and 2016, the Company had certain amounts related to the sales of concentrates that have only been provisionally priced. Commodity price risk exists solely in Mexico as the Company fixes metal prices with the purchaser of its concentrates for specific sales for which concentrates have been delivered. The Company's exposure to commodity price risk is as follows:

Commodity	2017	2016
	\$	\$
10% decrease in silver prices	(27)	(32)
10% decrease in copper prices	(456)	(213)
10% decrease in lead prices	(1)	(1)
10% decrease in gold prices	(87)	(84)

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

As at December 31, 2017 and 2016, the Company did not have any forward contracts outstanding.

ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligation as they fall due. The Company has in place planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion and development plans. The Company tries to ensure that it has sufficient committed credit facilities to meet its short-term operating needs.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities and undiscounted cash flows as at December 31, 2017 of the Company's financial liabilities and operating and capital commitments:

	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>After 5 years</u>	<u>Total</u>	<u>As at December 31, 2017</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Accounts payable and accrued liabilities	32,319	-	-	-	32,319	32,319
Loans payable	28,770	7,520	28,430	-	64,720	64,860
Interest on loans payable	207	197	250	-	654	777
Other liabilities	8,579	1,113	-	-	9,692	9,692
Total Commitments	69,875	8,830	28,680	-	107,385	107,648

In the opinion of management, the working capital at December 31, 2017, together with future cash flows from operations and available loan facilities, is sufficient to support the Company's commitments through 2018.

iii) Credit risk

Credit risk is the risk that the counterparty to a financial instrument might fail to discharge its obligations under the terms of a financial contract. Credit risk is primarily associated with trade receivables; however, it also arises on cash and cash equivalents. The Company sells its concentrate to large international organizations. The Company is exposed to significant concentration of credit risk given that all of its revenues from Peru and Mexico were from two customers at each of the locations. At December 31, 2017 the Company has not recorded an allowance against trade receivables because it is confident that all of the balances will be collected in full when due and there have not been any issues collecting balances owed to the Company in the past.

The Company's policy is to keep its cash and cash equivalents only with highly rated financial institutions and to only invest in government securities. The Company considers the risk of loss associated with cash and cash equivalents to be low. The counterparty to the financial asset is a large international financial institution with strong credit ratings and thus the credit risk is considered to be low.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

11. OTHER RISKS AND UNCERTAINTIES**Foreign operations**

The Company currently conducts foreign operations and has exploration properties in Peru and Mexico, and as such is exposed to various levels of economic, political and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, royalties and tax increases or claims by governmental bodies, expropriation or nationalization, foreign exchange controls, import and export regulations, cancellation or renegotiation of contracts and environmental permitting regulations. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have a material adverse effect on operations or profitability.

The Company currently has no political risk insurance coverage against these risks. The Company is unable to determine the impact of these risks on its future financial position or results of operations. Changes, if any, in mining or investment policies or shifts in political attitude in foreign countries may substantively affect Company's exploration, development and production activities.

Environmental regulation

The Company's activities are subject to extensive laws and regulations governing environmental protection which are complex and have tended to become more stringent over time. The Company is required to obtain governmental permits and in some instances provide bonding requirements under federal, state, or provincial air, water quality, and mine reclamation rules and permits. Although the Company makes provisions for reclamation costs, it cannot be assured that these provisions will be adequate to discharge its future obligations for these costs. Failure to comply with applicable environmental laws may result in injunctions, damages, suspension or revocation of permits and imposition of penalties. While responsible environmental stewardship is one of the Company's top priorities, there can be no assurance that the Company has been or will be at all times in complete compliance with such laws, regulations and permits, or that the costs of complying with current and future environmental laws and permits will not materially and adversely affect the Company's business, results of operations or financial condition.

Exploration, development and mining risk

Sierra's operations will be subject to all the hazards and risks normally encountered in the exploration, development and production of base or precious metals, including, without limitation, unusual and unexpected geologic formations, seismic activity, rock bursts, pit-wall failures, cave-ins, flooding, mudrushes and other conditions involved in the drilling, mining and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and legal liability. Milling operations are also subject to various hazards, including, without limitation, equipment failure and failure of retaining dams around tailings disposal areas, which may result in environmental pollution and legal liability.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Loan repayment risk

The Company's ability to repay its loans depends on its future cash flows, profitability, results of operations and financial condition. The Company has prepared budgets based on estimates of commodity prices, future production, operating costs and capital costs however the Company cannot assure you that such revenues, production plans, costs or other estimates will be achieved. Actual revenues and production costs may vary from the estimates depending on a variety of factors, many of which are not within the Company's control. These factors include, but are not limited to: commodity price fluctuations; actual ore mined varying from estimates of grade, tonnage, dilution, and metallurgical and other characteristics; mine failures, slope failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; exchange rate and commodity price fluctuations; shortages of principal supplies needed shortages of principal supplies needed for operations, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labor shortages or strikes; high rates of inflation; civil disobedience and protests; and restrictions (including change to the taxation regime) or regulations imposed by governmental or regulatory authorities or other changes in the regulatory environments. Failure to achieve revenue, production or cost estimates or material increases in costs or material decreases in commodity prices could have a material adverse impact on the Company's future cash flows, profitability, results of operations and financial condition.

Title risk

Although the Company believes that it has exercised commercially reasonable due diligence with respect to determining title to properties that it owns or controls, there is no guarantee that title to such properties will not be challenged or impugned. The Company's properties may be subject to prior unrecorded agreements or transfers or native land claims and title may be affected by undetected defects. There may be valid challenges to the title of the Company's properties which could impair development and/or operations of the Company.

Permit risk

In the ordinary course of business, the Company will be required to obtain and renew governmental permits and licenses for the operation and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process. The duration and success of the Company's efforts to obtain and renew permits and licenses are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licensing authority. The Company may not be able to obtain or renew permits and licenses that are necessary to continue its operations or the cost to obtain or renew permits and licenses may exceed what the Company expects. Any unexpected delays or costs associated with the permitting and licensing process could delay the development or impede operations, which may adversely affect the Company's revenues and future growth.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Estimates of mineralized materials are subject to geologic uncertainty and inherent sample variability

Although the estimated resources have been delineated with appropriately spaced drilling and sampling, both underground and surface, there is inherent variability between duplicate samples taken adjacent to each other and between sampling points that cannot be reasonably eliminated. There also may be unknown geologic details that have not been identified or correctly appreciated at the current level of delineation. This results in uncertainties that cannot be reasonably eliminated from the estimation process. Some of the resulting variances can have a positive effect and others can have a negative effect on mining and processing operations. Acceptance of these uncertainties is part of any mining operation.

Estimates of mineralized material constitute forward-looking information, which is inherently subject to variability. Although resource estimates require a high degree of assurance in the underlying data when the estimates are made, unforeseen events and uncontrollable factors can have significant adverse or positive impacts on the estimates. Actual results will inherently differ from estimates. The unforeseen events and uncontrollable factors include: geologic uncertainties including inherent sample variability, metal price fluctuations, variations in mining and processing parameters, and adverse changes in environmental or mining laws and regulations. The timing and effects of variances from estimated values cannot be accurately predicted.

Mineral resources

Although the Company's reported mineral resources have been carefully prepared by qualified persons, these amounts are estimates only by independent geologists, and the Company cannot be certain that any specified level of recovery of mineral will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body that can be economically exploited. Mineralized materials, which are not mineral reserves, do not have demonstrated economic viability. Any material change in the quantity of mineralization, grade or stripping ratio, or the metal price may affect the economic viability of the Company's properties. In addition, the Company cannot be certain that metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Until an un-mined deposit is actually mined and processed, the quantity of mineral resources and reserves and grades must be considered as estimates only. In addition, the economic value of mineral reserves and mineral resources may vary depending on, among other things, metal prices.

Insurance risk

The Company's insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, the Company expects that insurance against risks such as environmental pollution or other hazards as a result of exploration and production may be prohibitively expensive to obtain for a company of Sierra's size and financial means. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon the Company's financial condition and results of operations.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Competitive risk

The mining industry is competitive in all of its phases. The Company faces strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, base and precious metals. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company does. As a result of this competition, the Company may be unable to maintain or acquire attractive mining properties on terms acceptable to the Company or at all. Consequently, the Company's revenues, operations and financial condition could be materially adversely affected.

Sierra's common shares may experience price volatility

Securities of mineral resource and mining companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, as well as market perceptions of the attractiveness of particular industries. The price of the Company's common shares is also likely to be significantly affected by short-term changes in commodity prices and currency exchange fluctuation. As a result of any of these factors, the market price of the Company's common shares at any given point in time may not accurately reflect the long-term value of the Company. Securities class-action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Global financial risk

Financial markets globally have been subject to increased volatility. Access to financing has been negatively impacted by liquidity crises throughout the world. These factors may impact the Company's ability to obtain loans and other credit facilities in the future and, if obtained, on terms favorable to Sierra. The levels of volatility and market turmoil are on the rise, and the Company may not be able to secure appropriate debt or equity financing, any of which could affect the trading price of the Company's securities in an adverse manner.

Claims and Legal Proceedings

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the normal course of business. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably to the Company. The Company carries liability insurance coverage and will establish accruals and provisions for matters that are probable and can be reasonably estimated. In addition, the Company may be involved in disputes with other parties in the future which may result in a significant impact on our financial condition, cash flow and results of operations.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The claims associated with the Company's Mexican operations are discussed in detail below:

- a) In October 2009, Polo y Ron Minerals, S.A. de C.V. ("P&R") sued the Company and one of its subsidiaries, Dia Bras Mexicana S.A. de C.V. ("DBM"). P&R claimed damages for the cancellation of an option agreement (the "Option Agreement") regarding the San Jose properties in Chihuahua, Mexico (the "San Jose Properties"). The San Jose Properties are not located in any areas where DBM currently operates, nor are these properties included in any resource estimates of the Company. The Company believes that it has complied with all of its obligations pertaining to the Option Agreement. In October 2011, the 8th Civil Court of the Judicial District of Morelos in Chihuahua issued a resolution that absolved the Company from the claims brought against it by P&R on the basis that P&R did not provide evidence to support any of its claims. P&R appealed this resolution to the State Court, which overruled the previous resolution and ordered the Company to: (i) transfer to P&R 17 mining concessions from the Company's Bolivar project, including the mining concessions where both mine operations and mineral reserves are located; and (ii) pay \$423 to P&R; the Company was not appropriately notified of this resolution. In February 2013, a Federal Court in the State of Chihuahua granted the Company a temporary suspension of the adverse resolution issued by the State Court of Chihuahua, Mexico. In July 2014, a Federal Court in the State of Chihuahua ordered that the Company was entitled to receive proper notice of the adverse resolution previously issued by the State Court of Chihuahua. This allows the Company to proceed with its appeal (writ of "amparo") of the State Court's previous resolution. The adverse resolution has been temporarily suspended since March 2013, which suspension will remain in place pending the writ of amparo. The amparo is being heard in Federal Court and will challenge the State Court's ruling. The Federal Court's verdict in the amparo will be final and non-appealable. The Company continues to vigorously defend its position by applying the proper legal resources necessary to defend its position. On February 12, 2016, The Second Federal Collegiate Court of Civil and Labor Matters, of the Seventeenth circuit in the State of Chihuahua, ("the Federal Court") issued a new judgment ruling that the State Court lacked jurisdiction to rule on issues concerning mining titles, and that no previous rulings by the State Court against the Company shall stand. They ordered the cancellation of the previous adverse resolution by the state Court. The Company will continue to vigorously defend this claim. Sierra Metals continues to believe that the original claim is without merit.
- b) In 2009, a personal action was filed in Mexico against DBM by an individual, Ambrosio Bencomo Muñoz as administrator of the intestate succession of Ambrosio Bencomo Casavantes y Jesus Jose Bencomo Muñoz, claiming the annulment and revocation of the purchase agreement of two mining concessions, Bolívar III and IV between Minera Senda de Plata S.A. de C.V. and Ambrosio Bencomo Casavantes, and with this, the nullity of purchase agreement between DBM and Minera Senda de Plata S.A. de C.V. In June 2011, the Sixth Civil Court of Chihuahua, Mexico, ruled that the claim was unfounded and dismissed the case, the plaintiff appealed to the State Court.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

*(In thousands of United States dollars, unless otherwise stated)***12. NON-IFRS PERFORMANCE MEASURES**

The non-IFRS performance measures presented do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be directly comparable to similar measures presented by other issuers.

Non-IFRS reconciliation of adjusted EBITDA

EBITDA is a non-IFRS measure that represents an indication of the Company's continuing capacity to generate earnings from operations before taking into account management's financing decisions and costs of consuming capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. EBITDA comprises revenue less operating expenses before interest expense (income), property, plant and equipment amortization and depletion, and income taxes. Adjusted EBITDA has been included in this document. Under IFRS, entities must reflect in compensation expense the cost of share-based payments. In the Company's circumstances, share-based payments involve a significant accrual of amounts that will not be settled in cash but are settled by the issuance of shares in exchange for cash. As such, the Company has made an entity specific adjustment to EBITDA for these expenses. The Company has also made an entity-specific adjustment to the foreign currency exchange (gain)/loss. The Company considers cash flow before movements in working capital to be the IFRS performance measure that is most closely comparable to adjusted EBITDA.

The following table provides a reconciliation of adjusted EBITDA to the consolidated financial statements for the three months and year ended December 31, 2017 and 2016:

<i>(In thousands of United States dollars)</i>	Three Months Ended		Year Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net income (loss)	\$ 3,719	\$ (5,210)	\$ (860)	\$ (12,721)
<i>Adjusted for:</i>				
Depletion and depreciation	7,906	15,301	58,236	45,711
Interest expense and other finance costs	860	(274)	3,639	3,676
Loss on spin out of Cautivo Mining Inc.	-	-	4,412	-
Interest income	(253)	(18)	(376)	(60)
Share-based payments	554	364	1,198	819
Foreign currency exchange and other provisions	1,463	(520)	4,437	(1,295)
Income taxes	4,959	6,342	10,348	5,757
Adjusted EBITDA	\$ 19,208	\$ 15,985	\$ 81,034	\$ 41,887

Non-IFRS reconciliation of adjusted net income

The Company has included the non-IFRS financial performance measure of adjusted net income, defined by management as the net income attributable to shareholders shown in the statement of earnings plus the non-cash depletion charge due to the acquisition of Corona and the corresponding deferred tax recovery and certain non-recurring or non-cash items such as share-based compensation and foreign currency exchange (gains) losses. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors may want to use this information to evaluate the Company's performance and ability to generate cash flows. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance in accordance with IFRS.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The following table provides a reconciliation of adjusted net income to the consolidated financial statements for the three months and year ended December 31, 2017 and 2016:

<i>(In thousands of United States dollars)</i>	Three Months Ended		Year Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net loss attributable to shareholders	\$ 2,118	\$ (5,076)	\$ (4,645)	\$ (12,265)
Non-cash depletion charge on Corona's acquisition	2,721	8,391	31,448	24,384
Deferred tax recovery on Corona's acquisition depletion charge	(915)	357	(10,668)	(4,637)
Share-based compensation	554	364	1,198	819
Foreign currency exchange gain	(1,237)	(520)	1,737	(1,295)
Loss on spin out of Cautivo Mining Inc.	-	-	4,412	-
Adjusted net income attributable to shareholders	\$ 3,241	\$ 3,516	\$ 23,482	\$ 7,006

Cash cost per silver equivalent payable ounce, copper equivalent payable pound, and zinc equivalent payable pound

The Company uses the non-IFRS measure of cash cost per silver equivalent ounce, copper equivalent payable pound, and zinc equivalent payable pound to manage and evaluate operating performance. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flows. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Company considers cost of sales per silver equivalent payable ounce, copper equivalent payable pound, and zinc equivalent payable pound to be the most comparable IFRS measure to cash cost per silver equivalent payable ounce, copper equivalent payable pound, and zinc equivalent payable pound, and has included calculations of this metric in the reconciliations within the applicable tables to follow.

All-in sustaining cost per silver equivalent payable ounce, copper equivalent payable pound, and zinc equivalent payable pound

All-In Sustaining Cost ("AISC") is a non-IFRS measure and was calculated based on guidance provided by the World Gold Council ("WGC") in June 2013. WGC is not a regulatory industry organization and does not have the authority to develop accounting standards for disclosure requirements. Other mining companies may calculate AISC differently as a result of differences in underlying accounting principles and policies applied, as well as differences in definitions of sustaining versus development capital expenditures.

AISC is a more comprehensive measure than cash cost per ounce/pound for the Company's consolidated operating performance by providing greater visibility, comparability and representation of the total costs associated with producing silver and copper from its current operations.

The Company defines sustaining capital expenditures as, "costs incurred to sustain and maintain existing assets at current productive capacity and constant planned levels of productive output without resulting in an increase in the life of assets, future earnings, or improvements in recovery or grade. Sustaining capital includes costs required to improve/enhance assets to minimum standards for reliability, environmental or safety requirements. Sustaining capital expenditures excludes all expenditures at the Company's new projects and certain expenditures at current operations which are deemed expansionary in nature."

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Consolidated AISC includes total production cash costs incurred at the Company's mining operations, including treatment and refining charges and selling costs, which forms the basis of the Company's total cash costs. Additionally, the Company includes sustaining capital expenditures and corporate general and administrative expenses. AISC by mine does not include certain corporate and non-cash items such as general and administrative expense and share-based payments. The Company believes that this measure represents the total sustainable costs of producing silver and copper from current operations, and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver and copper production from current operations, new project capital and expansionary capital at current operations are not included. Certain other cash expenditures, including tax payments, dividends and financing costs are also not included.

The following table provides a reconciliation of cash costs to cost of sales, as reported in the Company's consolidated statement of income (loss) for the three months and year ended December 31, 2017 and 2016:

<i>(In thousand of US dollars, unless stated)</i>	Year ended December 31, 2017				Year ended December 31, 2016			
	Yauricocha	Bolivar	Cusi	Consolidated	Yauricocha	Bolivar	Cusi	Consolidated
Cash Cost per Tonne of Processed Ore								
Cost of Sales	111,733	36,616	10,804	159,153	85,901	26,009	14,491	126,401
Reverse: Workers Profit Sharing	(4,446)	-	-	(4,446)	(1,939)	-	-	(1,939)
Reverse: D&A/Other adjustments	(44,619)	(10,148)	(3,409)	(58,175)	(32,445)	(6,309)	(5,814)	(44,568)
Reverse: Variation in Finished Inventory	1,222	(4,342)	264	(2,856)	(1,472)	3,462	444	2,434
Total Cash Cost	63,890	22,127	7,659	93,676	50,045	23,162	9,121	82,328
Tonnes Processed	1,023,492	887,236	88,011	1,998,738	897,169	950,398	186,897	2,034,464
Cash Cost per Tonne Processed	US\$ 62.42	24.94	87.03	46.87	55.78	24.37	48.80	40.47

<i>(In thousand of US dollars, unless stated)</i>	Three months ended December 31, 2017				Three months ended December 31, 2016			
	Yauricocha	Bolivar	Cusi	Consolidated	Yauricocha	Bolivar	Cusi	Consolidated
Cash Cost per Tonne of Processed Ore								
Cost of Sales	22,551	9,964	2,423	34,938	26,475	5,204	3,837	35,516
Reverse: Workers Profit Sharing	(1,268)	-	-	(1,268)	(970)	-	-	(970)
Reverse: D&A/Other adjustments	(4,536)	(2,552)	(725)	(7,812)	(11,488)	(1,744)	(1,287)	(14,519)
Reverse: Variation in Finished Inventory	531	(867)	240	(96)	(729)	1,901	(465)	707
Total Cash Cost	17,278	6,546	1,938	25,762	13,288	5,361	2,085	20,734
Tonnes Processed	266,222	226,986	16,281	509,488	236,650	245,000	36,055	517,705
Cash Cost per Tonne Processed	US\$ 64.90	28.84	119.06	50.57	56.15	21.88	57.83	40.05

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The following table provides detailed information on Yauricocha's cost of sales, cash cost, and all-in sustaining cost per silver equivalent payable ounce, copper equivalent payable pound, and zinc equivalent payable pound for the three months and year ended December 31, 2017 and 2016:

Yauricocha:

YAURICOCHA <i>(In thousand of US dollars, unless stated)</i>	Three months ended		Year ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cash Cost per silver equivalent payable ounce				
Total Cash Cost	17,278	13,288	63,890	50,045
Variation in Finished inventory	(531)	729	(1,222)	1,472
Total Cash Cost of Sales	16,747	14,017	62,668	51,517
Treatment and Refining Charges	4,461	5,554	12,447	19,502
Selling Costs	1,057	1,022	4,156	3,613
G&A Costs	1,844	1,598	6,054	4,928
Sustaining Capital Expenditures	2,156	1,851	11,632	7,357
All-In Sustaining Cash Costs	26,265	24,042	96,957	86,917
Silver Equivalent Payable Ounces (000's)	2,534	2,241	9,633	6,803
Cost of Sales	18,443	14,862	67,542	53,705
Cost of Sales per Silver Equivalent Payable Ounce	(US\$) 7.28	6.63	7.01	7.89
Cash Cost per Silver Equivalent Payable Ounce	(US\$) 6.61	6.25	6.51	7.57
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce	(US\$) 10.37	10.73	10.07	12.78
Copper Equivalent Payable Pounds	13,575	15,835	58,547	52,575
Cost of Sales per Copper Equivalent Payable Pound	(US\$) 1.36	0.94	1.15	1.02
Cash Cost per Copper Equivalent Payable Pound	(US\$) 1.23	0.89	1.07	0.98
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound	(US\$) 1.93	1.52	1.66	1.65
Zinc Equivalent Payable Pounds	29,303	32,488	125,077	122,306
Cost of Sales per Zinc Equivalent Payable Pound	(US\$) 0.63	0.46	0.54	0.44
Cash Cost per Zinc Equivalent Payable Pound	(US\$) 0.57	0.43	0.50	0.42
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound	(US\$) 0.90	0.74	0.78	0.71

The following table provides detailed information on Bolivar's cost of sales, cash cost, and all-in sustaining cost per copper equivalent payable pound, zinc equivalent payable pound, and silver equivalent payable ounce for the three months and year ended December 31, 2017 and 2016:

Bolivar:

BOLIVAR <i>(In thousand of US dollars, unless stated)</i>	Three months ended		Year ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cash Cost per copper equivalent payable pound				
Total Cash Cost	6,546	5,361	22,127	23,162
Variation in Finished inventory	867	(1,901)	4,342	(3,462)
Total Cash Cost of Sales	7,412	3,460	26,468	19,700
Treatment and Refining Charges	1,152	1,254	4,695	5,697
Selling Costs	726	527	2,777	2,610
G&A Costs	834	781	2,577	3,219
Sustaining Capital Expenditures	2,891	2,936	11,054	7,827
All-In Sustaining Cash Costs	13,016	8,958	47,572	39,053
Silver Equivalent Payable Ounces (000's)	803	490	2,920	2,283
Cost of Sales	7,121	5,031	27,418	23,064
Cost of Sales per Silver Equivalent Payable Ounce	(US\$) 8.87	10.27	9.39	10.10
Cash Cost per Silver Equivalent Payable Ounce	(US\$) 9.23	7.06	9.06	8.63
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce	(US\$) 16.21	18.28	16.29	17.11
Copper Equivalent Payable Pounds	4,302	3,463	17,747	17,646
Cost of Sales per Copper Equivalent Payable Pound	(US\$) 1.66	1.45	1.54	1.31
Cash Cost per Copper Equivalent Payable Pound	(US\$) 1.72	1.00	1.49	1.12
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound	(US\$) 3.03	2.59	2.68	2.21
Zinc Equivalent Payable Pounds	9,286	7,105	37,914	41,051

Cost of Sales per Zinc Equivalent Payable Pound	(US\$) 0.77	0.71	0.72	0.56
Cash Cost per Zinc Equivalent Payable Pound	(US\$) 0.80	0.49	0.70	0.48
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound	(US\$) 1.40	1.26	1.25	0.95

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The following table provides detailed information on Cusi's cost of sales, cash cost, and all-in sustaining cost per silver equivalent payable ounce, copper equivalent payable pound, and zinc equivalent payable pound for the three months and year ended December 31, 2017 and 2016:

Cusi:

CUSI <i>(In thousand of US dollars, unless stated)</i>	Three months ended		Year ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cash Cost per silver equivalent payable ounce				
Total Cash Cost	1,938	2,085	7,659	9,121
Variation in Finished inventory	(240)	465	(264)	(444)
Total Cash Cost of Sales	1,699	2,550	7,396	8,677
Treatment and Refining Charges	181	678	2,412	2,868
Selling Costs	160	116	610	573
G&A Costs	183	172	566	707
Sustaining Capital Expenditures	1,084	1,319	5,323	4,401
All-In Sustaining Cash Costs	3,306	4,835	16,306	17,226
Silver Equivalent Payable Ounces (000's)	91	198	481	926
Cost of Sales	1,563	1,104	6,019	5,063
Cost of Sales per Silver Equivalent Payable Ounce	(US\$) 17.18	5.58	12.51	5.47
Cash Cost per Silver Equivalent Payable Ounce	(US\$) 18.67	12.88	15.38	9.37
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce	(US\$) 36.33	24.42	33.90	18.60
Copper Equivalent Payable Pounds	490	1,402	2,928	7,155
Cost of Sales per Copper Equivalent Payable Pound	(US\$) 3.19	0.79	2.06	0.71
Cash Cost per Copper Equivalent Payable Pound	(US\$) 3.47	1.82	2.53	1.21
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound	(US\$) 6.75	3.45	5.57	2.41
Zinc Equivalent Payable Pounds	1,059	2,877	6,257	16,643
Cost of Sales per Zinc Equivalent Payable Pound	(US\$) 1.48	0.38	0.96	0.30
Cash Cost per Zinc Equivalent Payable Pound	(US\$) 1.60	0.89	1.18	0.52
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound	(US\$) 3.12	1.68	2.61	1.04

Consolidated:

CONSOLIDATED <i>(In thousand of US dollars, unless stated)</i>	Three months ended		Year ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Total Cash Cost of Sales	25,858	20,027	96,532	79,894
All-In Sustaining Cash Costs	42,587	37,835	160,835	143,196
Silver Equivalent Payable Ounces (000's)	3,428	2,929	13,034	10,012
Cost of Sales	27,127	20,997	100,979	81,832
Cost of Sales per Silver Equivalent Payable Ounce	(US\$) 7.91	7.17	7.75	8.17
Cash Cost per Silver Equivalent Payable Ounce	(US\$) 7.54	6.84	7.41	7.98
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce	(US\$) 12.42	12.92	12.34	14.30
Copper Equivalent Payable Pounds	18,367	20,700	79,222	77,376
Cost of Sales per Copper Equivalent Payable Pound	(US\$) 1.48	1.01	1.27	1.06
Cash Cost per Copper Equivalent Payable Pound	(US\$) 1.41	0.97	1.22	1.03
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound	(US\$) 2.32	1.83	2.03	1.85
Zinc Equivalent Payable Pounds	39,648	42,470	169,248	180,000
Cost of Sales per Zinc Equivalent Payable Pound	(US\$) 0.68	0.49	0.60	0.45
Cash Cost per Zinc Equivalent Payable Pound	(US\$) 0.65	0.47	0.57	0.44
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound	(US\$) 1.07	0.89	0.95	0.80

Additional non-IFRS measures

The Company uses other financial measures, the presentation of which is not meant to be a substitute for other subtotals or totals presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measures. The following other financial measures are used:

- Operating cash flows before movements in working capital - excludes the movement from period-to-period in working capital items including trade and other receivables, prepaid expenses, deposits, inventories, trade and other payables and the effects of foreign exchange rates on these items.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The terms described above do not have a standardized meaning prescribed by IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies. The Company's management believes that their presentation provides useful information to investors because cash flows generated from operations before changes in working capital excludes the movement in working capital items. This, in management's view, provides useful information of the Company's cash flows from operations and are considered to be meaningful in evaluating the Company's past financial performance or its future prospects. The most comparable IFRS measure is cash flows from operating activities.

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2017, the Company recorded consulting fees of \$200 (2016 - \$200) to companies related by common directors or officers. At December 31, 2017, accounts payable and accrued liabilities include \$Nil (2016 - \$Nil) with these related parties. Related party transactions occurred in the normal course of business. As at December 31, 2017, the Company has accounts receivable outstanding from these related parties of \$Nil (2016 - \$284).

(a) Compensation of directors and key management personnel

The remuneration of the Company's directors, officers and other key management personnel during the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	\$	\$
Salaries and other short term employment benefits	2,968	3,847
Share-based payments	2,753	897
Total compensation	5,720	4,744

(b) Principal Subsidiaries

The consolidated financial statements include the accounts of the Company and its subsidiaries, which are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date that control commences until the date that control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

The principal subsidiaries of the Company and their geographical locations as at December 31, 2017 are as follows:

Name of the subsidiary	Ownership interest	Location
Dia Bras EXMIN Resources Inc.	100%	Canada
Sociedad Minera Corona, S. A. ("Corona") ¹	81.84%	Perú
Dia Bras Peru, S. A. C. ("Dia Bras Peru") ¹	100%	Perú
Dia Bras Mexicana, S. A. de C. V. ("Dia Bras Mexicana")	100%	México
Servicios de Minería de la Sierra, S. A. de C. V.	100%	México
Bolívar Administradores, S. A. de C. V.	100%	México
Exploraciones Mineras Dia Bras, S. A. de C. V.	100%	México
EXMIN, S. A. de C. V.	100%	México

¹ The Company, through its wholly owned subsidiary Dia Bras Peru, holds an 81.84% interest in Corona, which represents 92.33% of the voting shares. The Company consolidates Corona's financial results and records a non-controlling interest for the 18.16% that it does not own.

14. CRITICAL ACCOUNTING POLICIES AND ESTIMATES**Significant accounting judgments and estimates**

In the application of the Company's accounting policies, which are described in note 2 of the Company's December 31, 2016 consolidated financial statements, management is required to make judgments, estimates and assumptions about the effects of uncertain future events on the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on management's best knowledge of the relevant facts and circumstances and historical experience. Actual results may differ from these estimates; potentially having a material future effect on the Company's consolidated financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the significant judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

I. Impairment review of asset carrying values

In accordance with the Company's accounting policy, at every reporting period, the Company assesses whether there are any indicators that the carrying value of its assets or CGUs may be impaired, which is a significant management judgment. Where there is an indication that the carrying amount of an asset may not be recoverable, the Company prepares a formal estimate of the recoverable amount by analyzing discounted cash flows. The resulting valuations are particularly sensitive to changes in estimates such as long term commodity prices, exchange rates, sales volume, operating costs, and discount rates. In the event of impairment, if there is an adverse change in any of the assumptions or estimates used in the discounted cash flow model, this could result in a further impairment of the asset. Also, in accordance with the Company's accounting policy, the Company capitalizes evaluation expenditures when there is a high degree of confidence that these costs are recoverable and have a probable future benefit. As at December 31, 2017, management assessed its mining property assets and exploration and evaluation expenditures for impairment and determined that no impairment was required.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

II. Mineral reserves and resources

The Company estimates mineral reserves and resources based on information prepared by qualified persons as defined in accordance with the Canadian Securities Administrators' National Instrument ("NI") 43-101. These estimates form the basis of the Company's life of mine ("LOM") plans, which are used for a number of important and significant accounting purposes, including: the calculation of depletion expense and impairment charges, forecasting the timing of the payment of decommissioning costs and future taxes. There are significant uncertainties inherent in the estimation of mineral reserves and the assumptions used which include commodity prices, production costs, recovery rates and exchange rates may change significantly when new information becomes available. Changes in assumptions could result in mineral reserves being revised, which in turn would impact our depletion expense, asset carrying values and the provision for decommissioning costs.

III. Deferred tax assets and liabilities

The Company's management makes significant estimates and judgments in determining the Company's tax expense for the period and the deferred tax assets and liabilities. Management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. In addition, management makes estimates related to expectations of future taxable income based on cash flows from operations and the application of existing tax laws in each jurisdiction. Assumptions used in the cash flow forecast are based on management's estimates of future production and sales volume, commodity prices, operating costs, capital expenditures, dividends, and decommissioning and reclamation expenditures. These estimates are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to the statement of loss. The Company is subject to assessments by the various tax authorities who may interpret the tax laws differently. These differences may impact the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on management's best estimates of the probable outcome of these matters.

IV. Decommissioning and restoration liabilities costs

The Company's provision for decommissioning and restoration costs is based on management's best estimate of the present value of the future cash outflows required to settle the liability. In determining the liability, management makes estimates about the future costs, inflation, foreign exchange rates, risks associated with the cash flows, and the applicable risk-free interest rates for discounting future cash flows. Changes in any of these estimates could result in a change in the provision recognized by the Company. Also, the ultimate costs of environmental disturbance are uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Changes in decommissioning and restoration liabilities are recorded with a corresponding change to the carrying amounts of the assets to which they relate. Adjustments made to the carrying amounts of the asset can result in a change to the depreciation charged in the consolidated statement of loss.

V. Functional currency

The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on our consolidated results based on the foreign currency translation methods described in the audited consolidated financial statements.

Future accounting changes

The following standards and amendments to existing standards have been published and are mandatory for annual periods beginning January 1, 2018, or later periods:

IFRS 9, Financial Instruments: Recognition and measurement ("IFRS 9")

The IASB issued its completed version of IFRS 9, Financial Instruments ("IFRS 9") in July 2014. The completed standard provides revised guidance on the recognition and measurement of financial assets and liabilities. It also introduces a new expected credit loss model for calculating impairment for financial assets and liabilities. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard.

This final version of IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the extent of the impact of the adoption of this standard and does not foresee a material impact upon adopting this standard.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15, was issued in May 2014, which covers principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the extent of the impact of the adoption of this standard and does not foresee a material impact upon adopting this standard.

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued this standard which is effective for periods beginning on or after January 1, 2019, which replaces the current guidance in IAS 17, Leases, and is to be applied either retrospectively or a modified retrospective approach. Early adoption is permitted, but only in conjunction with IFRS 15, Revenue from Contracts with Customers. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflective of future lease payments and a "right-of-use asset" for virtually all lease contracts. The Company has not yet determined the effect of adoption of IFRS 16 on its consolidated financial statements.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Amendments to IAS 7, Statements of Cash Flows ("IAS 7")

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company has determined that there is no impact on the adoption of this amendment within the consolidated financial statements.

15. OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at December 31, 2017.

16. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

Disclosure controls and procedures

The Company's management is responsible for designing and maintaining adequate internal controls over financial reporting and disclosure controls and procedures, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS.

Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at December 31, 2017, as defined in the rules of the Canadian Securities Administration. Based on this evaluation, they concluded that our disclosure controls and procedures are effective in providing reasonable assurance that the information required to be disclosed in reports we filed or submitted under Canadian securities legislation was recorded, processed, summarized and reported within the time periods specified in those rules.

Internal controls over financial reporting

Management, including the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, and used the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to evaluate the effectiveness of our controls in 2017. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at December 31, 2017 and provided a reasonable assurance of the reliability of our financial reporting and preparation of the financial statements.

No matter how well designed any system of internal control has inherent limitations. Even systems determined to be effective can provide only reasonable assurance of the reliability of financial statement preparation and presentation.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Changes in internal controls over financial reporting

There have been no changes in ICFR during the three months ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, ICFR.

17. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This discussion includes certain statements that may be deemed "forward-looking". All statements in this discussion, other than statements of historical fact, addressing future exploration drilling, exploration and development activities, production activities and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing, general economic, market or business conditions, and other factors which are discussed under "Risk Factors" in the Company's Annual Information Form dated March 30, 2016 available at www.sedar.com under the Company's name.

The MD&A contains "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act* of 1995 and "forward looking information" within Canadian securities laws (collectively "forward-looking statements") related to the Company and its operations, and in particular, the anticipated developments in the Company's operations in future periods, the Company's planned exploration activities, the adequacy of the Company's financial resources and other events or conditions that may occur in the future. Statements concerning mineral reserve and resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if and when the properties are developed or further developed. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

These forward-looking statements include, but are not limited to, relate to, among other things: future production of silver, lead, copper and zinc (the "metals"); future cash costs per ounce or pound of the metals; the price of the metals; the effects of domestic and foreign laws, regulations and government policies and actions affecting the Company's operations or potential future operations; future successful development of the Yauricocha, Bolivar and Cusi near-mine exploration projects and other exploration and development projects; the sufficiency of the Company's current working capital, anticipated operating cash flow or the Company's ability to raise necessary funds; estimated production rates for the metals produced by the Company; timing of production; the estimated cost of sustaining capital; ongoing or future development plans and capital replacement, improvement or remediation programs; the estimates of expected or anticipated economic returns from the Company's mining projects; future sales of the metals, concentrates or other future products produced by the Company; and the Company's plans and expectations for its properties and operations.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

Risks and uncertainties relating to foreign currency fluctuations; risks inherent in the mining industry including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems, flooding and mud rushes; risks associated with the estimation of mineral resources and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties or shortages of labour or interruptions in production; actual material mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of pilot-mining activities and cost estimates, including the potential for unexpected costs/expenses and commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential" or variations thereof, or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking information. Forward-looking information is subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking information, including, without limitation: uncertainty of production and cost estimates for the Yauricocha Mine (as hereinafter defined), the Bolivar Mine (as hereinafter defined) and the Cusi Mine (as hereinafter defined); uncertainty of production at the Company's exploration and development properties; risks and uncertainties associated with developing and exploring new mines including start-up delays; risks and hazards associated with the business of mineral exploration, development and mining (including operating in foreign jurisdictions, environmental hazards, industrial accidents, unusual or unexpected geological or structure formations, pressures, cave-ins and flooding); risks and uncertainties relating to the interpretation of drill results and the geology, grade and continuity of the Company's mineral deposits; risks related to the Company's ability to obtain adequate financing for the Company's planned development activities and to complete further exploration programs; fluctuations in spot and forward markets for the metals and certain other commodities; risks related to obtaining long-term sales contracts or completing spot sales for the Company's products; the Company's history of losses and the potential for future losses; risks related to general economic conditions, including recent market and world events and conditions; inadequate insurance, or inability to obtain insurance, to cover these risks and hazards; relationships with and claims by local communities and indigenous populations; diminishing quantities or grades of mineral reserves as properties are mined; challenges to, or difficulty maintaining, the Company's title to properties and continued ownership thereof; risks related to the Company's covenants with respect to the BCP Facility (as hereinafter defined); changes in national and local legislation, taxation, controls or regulations and political or economic developments or changes in Canada, Mexico, Peru or other countries where they may carry on business; risks related to the delay in obtaining or failure to obtain required permits, or non-compliance with permits the Company has obtained; increased costs and restrictions on operations due to compliance with environmental laws and regulations; regulations and pending legislation governing issues involving climate change, as well as the physical impacts of climate change; risks related to reclamation activities on the Company's properties; uncertainties related to title to the Company's mineral properties and the surface rights thereon, including the Company's ability to acquire, or economically acquire, the surface rights to certain of the Company's exploration and development projects; the Company's ability to successfully acquire additional commercially mineable mineral rights; risks related to currency fluctuations (such as the Canadian dollar, the United States dollar, the Peruvian sol and the Mexican peso); increased costs affecting the mining industry, including occasional high rates of inflation; increased competition in the mining industry for properties, qualified personnel and management; risks related to some of the Company's directors' and officers' involvement with other natural resource companies; the Company's ability to attract and retain qualified personnel and management to grow the Company's business; risks related to estimates of deferred tax assets and liabilities; risks related to claims and legal proceedings and the Company's ability to maintain adequate internal control over financial reporting.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2017

(In thousands of United States dollars, unless otherwise stated)

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Forward looking statements are statements about the future and are inherently uncertain, and the Company's actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this MD&A under the heading "Other Risks and Uncertainties". The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, other than as required by applicable law. For the reasons set forth above, one should not place undue reliance on forward-looking statements.

Cautionary Note to U.S. Investors Concerning Estimates of Inferred Resources

This document uses the term "Inferred Mineral Resources". U.S. investors are advised that while this term is recognized and required by Canadian regulations, the Securities and Exchange Commission ("SEC") does not recognize it. Inferred Mineral Resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of economic studies other than a Preliminary Economic Assessment (PEA).

This document also uses the terms "Measured and Indicated Mineral Resources". The Company advises U.S. investors that while these terms are recognized by Canadian regulations, the SEC does not recognize them. U.S. investors are cautioned not to assume that any part or all of mineral deposits included in these categories will ever be converted into mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Disclosure of "contained ounces" is permitted under Canadian regulations; however, the SEC normally only permits the reporting of non-reserve mineralization as in-place tonnage and grade.