U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 40-F

Check One

☐ **Registration Statement Pursuant to Section 12 of the Securities Exchange Act of 1934**

☒ **Annual Report Pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2018
Commission File Number: 001-38141

Sierra Metals Inc.

(Exact name of Registrant as specified in its charter)

N/A

(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))

N/A

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

161 Bay Street, Suite 4260, Toronto, Ontario M5J 2S1 Canada, (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	**NYSE American**
Title of each class	Name of each exchange on which registered

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

None

(Title of Class)

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

None

(Title of Class)

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: 163,427,335

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 of 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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

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

DISCLOSURE CONTROLS AND PROCEDURES

Sierra Metals Inc. (the "Company") has designed disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and Chief Financial Officer by others within the Company, including its consolidated subsidiaries, on a regular basis, including during the period in which the Company's Annual Report on Form 40-F relating to financial results for the fiscal year ended December 31, 2018 is being prepared. The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer have concluded, as of that evaluation date, that the Company's disclosure controls and procedures were effective to ensure that the material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act, was (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (the "SEC" or the "Commission") rules and forms and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROLS

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 99.2 to this Form 40-F and incorporated by reference herein.

AUDITOR ATTESTATION

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 CONTROL OVER FINANCIAL REPORTING

During the fiscal year ended December 31, 2018, there were no significant changes in the Company’s internal controls over financial reporting, or in other factors that could significantly affect such internal controls, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Company’s board of directors (the “Board”) has a standing audit committee (the “Audit Committee”) established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee consists of the following three Board members: Douglas Cater, Philip Renaud and Jose Vizquerra Benavides.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that all three members serving on its Audit Committee are considered “audit committee financial experts”. Each of Douglas Cater, Philip Renaud and Jose Vizquerra Benavides has been determined to be such an audit committee financial expert, within the meaning of Item 407 of Regulation S-K. Each of Mr. Cater, Mr. Renaud and Mr. Vizquerra Benavides is independent, as that term is defined by the New York Stock Exchange’s listing standards applicable to the Company. The Securities and Exchange Commission has indicated that the designation of each of Mr. Cater, Mr. Renaud and Mr. Vizquerra Benavides as an audit committee financial expert does not make Mr. Cater, Mr. Renaud and Mr. Vizquerra Benavides an “expert” for any purpose, impose any duties, obligations or liability on Mr. Cater, Mr. Renaud and Mr. Vizquerra Benavides that are greater than those imposed on Board members who do not carry this designation, or affect the duties, obligations or liabilities of any other Board member.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

PricewaterhouseCoopers LLP acted as our independent registered public accounting firm for the fiscal years ended December 31, 2018 and 2017. 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 Annual Information Form (“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.

CODE OF ETHICS

The Board has adopted a Code of Business Conduct & Ethics (the "Code"), covering all employees, officers, directors, agents and contractors of our company, to assist in maintaining 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 the Company's website at: https://s2.q4cdn.com/485819848/files/doc_downloads/corporate_gov/Code-of-Business-Conduct-and-Ethics-current.pdf .

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, 2018, we did not grant any waiver, including an implicit waiver, from a provision of the Code to any executive officer or director. With the exceptions of the Code, no information contained on the Company's website shall be incorporated by reference in this Form 40-F.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as defined in General Instruction B(11) to Form 40-F as of December 31, 2018.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

	Within 1 year $	1-2 years $	2-5 years $	After 5 years $	Total $	As at December 31, 2018 $
Accounts payable and accrued liabilities	36,092	-	-	-	36,092	36,092
Loans payable	27,520	6,000	22,733	-	56,253	56,253
Interest on loans payable	198	127	250	-	575	575
Other liabilities	8,908	1,081	-	-	9,989	9,989
Total Commitments	**72,718**	**7,208**	**22,983**	**-**	**102,909**	**102,909**

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, 2018 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 U.S. 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 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 may 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.

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, 2018, 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.

DISCLOSURE PURSUANT TO SECTION 13(r) OF THE EXCHANGE ACT

Pursuant to section 13(r) of the Exchange Act, the Company is required to disclose whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings related to both the Islamic Republic of Iran (“Iran”) and certain persons listed on the Specially Designated National and Blocked Persons list maintained by the U.S. Department of Treasury Office of Foreign Assets Control, during the year ended December 31, 2018. Disclosure of these certain activities, transactions or dealings is generally required even if conducted in compliance with applicable law and regulations. The Company is not aware that it or any of its affiliates have knowingly engaged in any transaction or dealing reportable under section 13(r) of the Exchange Act during the year ended December 31, 2018.

ADDITIONAL INFORMATION

Additional information relating to our company, including our AIF, Audited Financial Statements and Management's Discussion and Analysis ("MD&A"), can be found on SEDAR at www.sedar.com, on the SEC website at www.sec.gov, or on our website at *www.sierramatals.com* . Shareholders may also contact the Vice President, Corporate Development of the Company by phone at (866) 493-9646 or by email at *info@sierrametals.com* to request copies of these documents and this annual report on Form 40-F.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

The Company undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission 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.

The Company has previously filed a Form F-X in connection with each class of securities to which the obligation to file this Form 40-F arises. Any change to the name and address of the agent for service of process shall be communicated promptly to the Commission by amendment to Form F-X.

SIGNATURES

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

SIERRA METALS INC.

By: /s/ Igor Gonzales
Igor Gonzales
President and Chief Executive Officer

Dated: March 28, 2019

EXHIBITS

The following documents are filed as exhibits to this Form 40-F:

Exhibit Number	Document
Consents	
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Matthew Hastings
23.3	Consent of Daniel H. Sepulveda
23.4	Consent of Giovanny J. Ortiz
23.5	Consent of Enrique Rubio
23.6	Consent of Augusto Chung
23.7	Consent of Gordon Babcock
23.8	Consent of Americo Zuzunaga
Certifications	
31.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated March 28, 2019
31.2	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 28, 2019
Annual Information	
99.1	Annual Information Form for the year ended December 31, 2018
99.2	Management's Discussion and Analysis for the year ended December 31, 2018
99.3	Audited Consolidated Financial Statements for the years ended December 31, 2018 and 2017
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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 27, 2019 relating to the consolidated financial statements of the Company, which appears in this Annual Report.

"/s/PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 28, 2019

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
Autorité des marchés financiers
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, 2018, 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, 2018 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, 2018 (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 Preliminary Economic Assessment (PEA) for the Yauricocha Mine, Peru* " dated effective July 31, 2017 (the " **Yauricocha PEA** ") in the AIF and any amendments thereto, and the incorporation of such 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 PEA, 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 PEA, or within my knowledge as a result of the services I performed in connection with the Yauricocha PEA.

[*Signature page follows*]

Dated: March 28, 2019

/s/ Matthew Hastings

Matthew Hastings, MSc Geology,
MAusIMM

Exhibit 23.3

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
Autorité des marchés financiers
United States Securities and Exchange Commission

Dear Sirs/Mesdames:

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I hereby consent to the: (i) inclusion of the summary section of the report entitled " *NI 43-101 Preliminary Economic Assessment (PEA) for the Cusi Mine, Chihuahua State, Mexico"* dated effective August 31, 2017 (the " **Cusi PEA** ") in the AIF and any amendments thereto, and the incorporation of such 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 PEA, 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 Cusi PEA, or within my knowledge as a result of the services I performed in connection with or the Cusi PEA.

[*Signature page follows*]

Dated: March 28, 2019

/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
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Consent of Qualified Person

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I hereby consent to the: (i) inclusion of the summary section of the report entitled " *NI 43-101 Preliminary Economic Assessment (PEA) for the Cusi Mine, Chihuahua State, Mexico* " dated effective August 31, 2017 (the " **Cusi PEA** "), and the summary section of the report entitled " *NI 43-101 Preliminary Economic Assessment (PEA) for the Bolivar Mine, Mexico* " dated effective October 31, 2017 (the " **Bolivar PEA** ") 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 PEA and the Bolivar PEA, 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 PEA or the Bolivar PEA, or within my knowledge as a result of the services I performed in connection with the Cusi PEA or the Bolivar PEA.

[*Signature page follows*]

Dated: March 28, 2019

/s/ Giovanny J. Ortiz

Giovanny J. Ortiz, BSc Geology, FAusIMM

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
Autorité des marchés financiers
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Consent of Qualified Person

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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 PEA, the Cusi PEA or the Bolivar PEA, or within my knowledge as a result of the services I performed in connection with the Yauricocha PEA, the Cusi PEA or the Bolivar PEA.

[*Signature page follows*]

Dated: March 28, 2019

/s/ Enrique Rubio

Enrique Rubio, Ph. D.

Exhibit 23.6

VIA SEDAR / EDGAR

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

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Consent of Qualified Person

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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 PEA, the Cusi PEA or the Bolivar PEA, or within my knowledge as a result of the services I performed in connection with the Yauricocha PEA, the Cusi PEA or the Bolivar PEA.

[*Signature page follows*]

Dated: March 28, 2019

/s/ Augusto Chung

Augusto Chung, FAusIMM CP

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
Autorité des marchés financiers
United States Securities and Exchange Commission

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Consent of Qualified Person

Reference is made to the Annual Report on Form 40-F for the fiscal year ended December 31, 2018 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, 2018 for the Yauricocha Mine (the " **Yauricocha Mineral Resource and Reserve Estimate** "), the mineral resource and reserve estimates as of December 31, 2018 for the Bolivar Mine (the " **Bolivar Mineral Resource and Reserve Estimate** "), and the mineral resource estimate as of December 31, 2018 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*]

Dated: March 28, 2019

/s/ Gordon Babcock

Gordon Babcock, P. Eng.

Exhibit 23.8

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
Autorité des marchés financiers
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, 2018 (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, 2018 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, 2018 for the Yauricocha Mine (the " **Yauricocha Mineral Resource and Reserve Estimate** "), the mineral resource and reserve estimates as of December 31, 2018 for the Bolivar Mine (the " **Bolivar Mineral Resource and Reserve Estimate** "), and the mineral resource estimate as of December 31, 2018 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*]

Dated: March 28, 2019

/s/ Americo Zuzunaga

Americo Zuzunaga, MAusIMM CP

Exhibit 31.1

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 28, 2019

/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 28, 2019

/s/ Ed Guimaraes
Name: Ed Guimaraes
Title: Chief Financial Officer

Exhibit 31.2

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, 2018, 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 28, 2019

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, 2018, 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 28, 2019

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.

Exhibit 99.1

SIERRA METALS INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2018

DATED: MARCH 28, 2019

Corporate Office:

161 Bay Street, Suite 4260
Toronto, Ontario
M5J 2S1

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ANNUAL INFORMATION FORM DATED MARCH 28, 2019
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 28, 2019. Except as otherwise indicated, the information contained herein is as at December 31, 2018.

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 Preliminary Economic Assessment (PEA) for the Yauricocha Mine, Peru (the " **Yauricocha Technical Report** ").	July 31, 2017	August 10, 2018	Technical Report
NI 43-101 Preliminary Economic Assessment (PEA) for the Bolivar Mine, Mexico (the " **Bolivar Technical Report** ")	October 31, 2017	August 23, 2018	Technical Report
NI 43-101 Preliminary Economic Assessment (PEA) for the Cusi Mine, Chihuahua State, Mexico (the " **Cusi Technical Report** ")	August 31, 2017	August 2, 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 Cusihuiriachic 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 Corporate 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

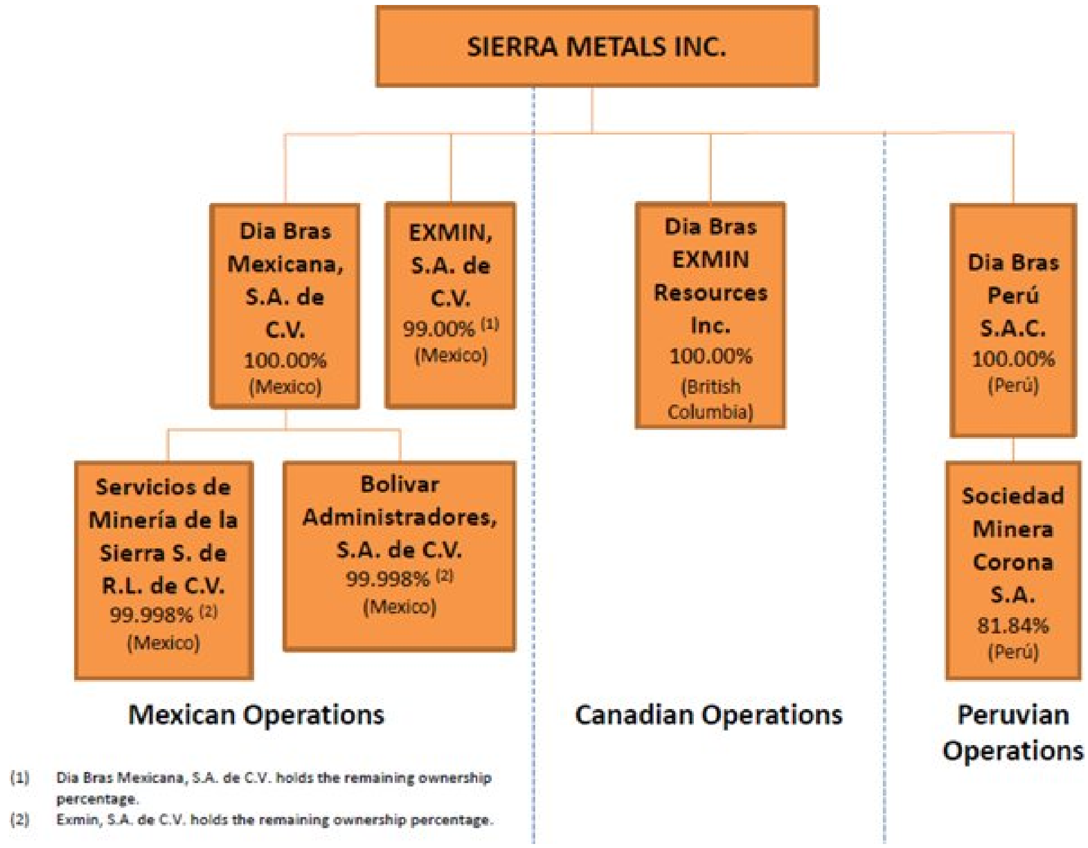
Name, Address and Incorporation

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 161 Bay Street, Suite 4260, Toronto, Ontario, Canada M5J 2S1. The head office of the Company’s Mexican subsidiaries is located at Calle Blas Cano de los Rios No 500, Colonia San Felipe, C.P 31203, Chihuahua, Chihuahua, 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

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.

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. 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.

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 continued 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 recent 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 provided 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.

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. Igor 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 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 under such offering will be offered or sold in Canada.

As at the date of this AIF, the Company has not issued and sold any Common Shares pursuant to the Sales Agreement.

2018

Peru

The Company reported the results of a Preliminary Economic Assessment (" **PEA** ") for the Yauricocha Mine (press release dated June 27, 2018) yielding a 486% return on investment and after-tax NPV of US$393 million at an 8% discount rate. The PEA was compiled under NI 43-101 standards by Mining Plus Peru SAC.

On October 1, 2018, the Company confirmed the discovery of a new style of mineralization (copper - molybdenum porphyry). The results were from testing of the geophysical anomalies, in the quartz monzonite intrusive, in the eastern part of the mineralized area. This area is known as the Central Mine which is located between the Cuye and Esperanza zones. Prior evidence of copper-molybdenum porphyry mineralization had been observed on surface within the monzonite intrusive and had previously been sampled by Rio Tinto Zinc. Subsequently, drill core was sampled at 10-meter intervals over the entire hole length and the Company obtained 122 samples. A hole was drilled from the Klepetko Tunnel to test the priority anomaly located in the monzonite intrusive as this zone had high conductivity within the Intrusive. A copper-molybdenum mineralized porphyry was discovered.

The Company reported that its subsidiary Sociedad Minera Corona S.A. received approval for its Environmental Impact Assessment Study for the expansion of its tailings deposition facility at the Yauricocha Mine.

Mexico

On May 22, 2018, the Company provided an update to its Mineral Reserve and Resource Estimate for the Bolivar Mine. Total Probable Mineral Reserves for Bolivar are 7,925,000 tonnes averaging 19 g/t silver, 0.86% copper and 0.25 g/t gold, 1.14% CuEq** representing an 83% increase to the previous Probable Mineral Reserve Estimate. Total Indicated Mineral Resources for Bolivar are 13,267,000 tonnes averaging 22.5 g/t silver, 1.04% copper and 0.29 g/t gold, 1.37% CuEq** representing a 42% increase to the previous Indicated Mineral Resource estimate. Total Inferred Mineral Resources for Bolivar are 8,012,000 tonnes averaging 22 g/t silver, 0.96% copper and 0.30 g/t gold, 1.35% CuEq** representing an 11.5% decrease to the previous Inferred Mineral Resource Estimate.

The Company reported the results of a PEA for the Bolivar Mine (press release dated July 9, 2018) yielding a 550% return on investment and after-tax net present value of US$214 million at an 8% discount rate. The PEA was compiled under NI 43-101 standards by Mining Plus Peru SAC, and was filed on the SEDAR website on August 23, 2018.

On June 6, 2018, the Company announced results of an infill drilling program evaluating the continuity and characteristics of geophysical anomalies that were previously tested as part of a recent Titan 24 Geophysical Survey and deemed high value targets at the Bolivar Property. Drilling has identified and defined a new zone named Cieneguita which is an extension of the Bolivar Northwest structure and is situated in close proximity to the Bolivar Northwest zone with similar characteristics. The Company has completed a successful infill drilling program on those previously tested areas, which resulted in a new structure being defined which demonstrates the continuity of the previously defined wide high-grade copper structures. The potential for further extensions to the North of the Cieneguita zone remain open and there is strong evidence of further high priority geological and geophysical anomalies.

The Company reported the results of a PEA for the Cusi Mine (press release dated June 18, 2018) yielding a 75% internal rate of return and after-tax NPV of US$92 million at an 8% discount rate. The PEA was compiled under NI 43-101 standards by Mining Plus Peru SAC.

On June 29, 2018, the Company announced that the development program at the Cusi Mine has confirmed a wide, high-grade silver stockwork zone located within the Santa Rosa de Lima vein complex. This mineralized zone extends to over 100 meters in length, 40 meters in width and 70 meters in height. The increased potential resources defined will allow the Company to utilize the highly productive exploitation method of sublevel caving and help achieve its economic objectives at the Cusi Mine.

Financing and Corporate Activities

Closing of New Senior Secured US$100 Million Corporate Credit Facility

On March 11, 2019, the Company entered into a new six-year senior secured corporate credit facility (" **Corporate Facility** ") with Banco de Credito del Peru that provides funding of up to US$100 million effective March 8, 2019. The Corporate Facility provides the Company with additional liquidity and will provide the financial flexibility to fund future capital projects in Mexico as well as corporate working capital requirements. The Company will also use the proceeds of the Corporate Facility to repay existing debt balances in the near term.

The most significant terms of the Corporate Facility are as follows:
- Term: 6-year term maturing March 2025
- Principal Repayment Grace Period: 2 years
- Principal Repayment Period: 4 years
- Interest Rate: 3.15% + LIBOR 3M

The Corporate Facility is subject to customary covenants, including consolidated net leverage and interest coverage ratios and customary events of default.

Initiation of Normal Course Issuer Bid with 1.5 Million Share Target

On December 11, 2018, the Company approved a share repurchase program in the form of a normal course issuer bid (the " **NCIB** ") in the open market through the facilities of the Toronto Stock Exchange (the " **TSX** ") and other Canadian marketplaces / alternative trading systems. Pursuant to the NCIB, the Company proposes to repurchase for cancellation up to 1,500,000 Common Shares, which represented approximately 0.92% of the issued and outstanding Common Shares as at December 11, 2018.

In connection with its implementation of the NCIB, Sierra Metals obtained TSX approval of its notice of intention to make a normal course issuer bid (the " **Notice** "). The Notice provided that the Company may purchase up to 1,500,000 Common Shares through the facilities of the TSX and other Canadian marketplaces / alternative trading systems during the 12-month period commencing on December 17, 2018 and ending on or before December 16, 2019. Any Common Share purchases made pursuant to the NCIB will be at the prevailing market price at the time of the transaction, purchased in accordance with the policies of the TSX and conducted by CIBC Capital Markets. In accordance with TSX rules, any daily purchases made under the NCIB are limited to a maximum of 4,214 Common Shares, which represents 25% of the average daily trading volume of 16,858 Common Shares on the TSX for the six months ended November 30, 2018. However, the Company may make one block purchase per calendar week which exceeds the daily repurchase restriction, up to and including the maximum annual aggregate limit of 1,500,000 Common Shares. Once the block purchase exception has been relied on, the Company may not make any further purchases under the NCIB for the remainder of that calendar day. As of December 31, 2018, the Company had not purchased any Common Shares under the NCIB; however, in January 2019, the Company purchased a total of 40,112 Common Shares under the NCIB.

Repayment of FIFOMI Loan in Mexico

During February 2019, the Company repaid the remaining US$1,657 owed on Dia Bras Mexicana's loan from FIFOMI. This repayment prior to the loan's maturity date did not result in any financial penalties and was within the terms of the 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 2016, 2017 and 2018 is as follows:

By Revenue (%)	2016	2017	2018
Silver	27%	15%	16%
Copper	28%	31%	37%
Lead	18%	14%	11%
Zinc	22%	38%	35%
Gold	5%	2%	1%

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, 2018 were not material.

Employees

As at December 31, 2018, the Company and its subsidiaries had 742 employees in Peru, 696 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.

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 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.

<u>*Control over Subsidiaries*</u>

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.

Yauricocha Technical Report

The following is the summary section of the Yauricocha Technical Report, prepared by Mining Plus Peru SAC, and reviewed by Qualified Persons Enrique Rubio, Ph.D. (of Redco Mining Consultants (" **Redco** ")), Matthew Hastings, MSc Geology, MAusIMM CP (of SRK Consulting (U.S.), Inc. (" **SRK** ")) and Augusto Chung, FAusIMM CP (of the Company). 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.

" **Executive Summary**

Sierra Metals Inc., (Sierra) formerly known as Día Bras Exploration Inc., engaged various specialist groups to evaluate how, on a conceptual level, mining, mineral processing, and tailings management could be adapted at the Yauricocha mine and Chumpe plant to achieve a sustainable and staged increase in mine production and mill throughput.

Sierra's Yauricocha Mine and Chumpe plant (combined to form the Property) in the Junín region of Peru has been producing and processing polymetallic mineral for more than 50 years, production from the mine is processed at the company's Chumpe Plant.

Mineralization at the Property is genetically and spatially related to the Yauricocha stock; 6 skarn bodies host mineral resources around the margins of the stock. Near surface mineral is exhausted but significant mineral resources are reported at depth, over 13Mt of measured and indicated resources and a further 6.5Mt of inferred resources were reported in the SRK resource - Effective date - July 31st, 2017 (Table 1-1).

Table 1-1: Summary of resource reported by SRK, November 19, 2017

Category	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	10,111	59.91	0.60	1.46	0.83	2.67	3.80
Measured + Indicated	13,205	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 that are not mineral reserves 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 cut-off values 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.*** The cut-off value for the Yauricocha Mine are variable and dependent on mining method and process/recovery costs, which vary between US$41/t and US$48/t. These values include static processing US$7.40/t and G&A US$3.90/t costs.

(3) SRK and Sociedad Minera Corona (SMCSA) utilized either Ordinary Kriging (OK) or Inverse Distance Weighting (IDW) to interpolate grade in all resource areas.

The geometry and grade of mineralization at Yauricocha lends itself to sub-level caving mining and accounted for more than 98% of total current mineral production (3,000 tpd). Mineral and waste is hoisted to the 720 level and is carried by electric locomotive to the Chumpe plant for processing. Yauricocha has three hoisting shafts with a combined capacity of 4,500 tpd at the current waste to mineral ratio of 0.5:1.

Sierra commissioned Redco to evaluate, on a conceptual level, how production at Yauricocha could be increased. Redco determined that with the introduction of mineralized bodies that are part of the resource, production could be increased to 5,500 tpd using the same sublevel caving mining method configuration. Production increases will require a significant amount of advanced development and expansion of infrastructure. The existing hoisting system does not have the capacity to maintain current production and accommodate additional waste associated with the advanced development.

Sierra is constructing a fourth shaft with a hoisting capacity of 5,900 tpd. When this shaft is completed (expected mid-2020), the combined hoisting capacity will be 10,400 tpd. Advanced development ahead of increased production will increase the waste to mineral ratio.

As part of their evaluation, Redco assumed that:

- Established operating costs of US$ 55.95/t would be used in the mine plan
- Operating costs per tonne would reduce to US$ 40.00/t when production rates reached 5,500 tpd.
- Factors that could negatively impact production as the mine extends to depth are increased dewatering challenges and increased potential for mud-rush.

Redco determined that:

- o With the completion of the Yauricocha shaft, production rates could be increased
- o Conceptual economic analysis indicates that 5,500 tpd mineral production is the optimal mine output, which represents a production increase of 66% on current output
- o Based on the current resource and proposed 5,500 tpd optimal mine output, the Life of Mine (LoM) is 9 years
- o Throughout the LoM 125 km of waste development and 29 km of development in mineral will be required
- o The processing capacity of the Chumpe plant will need expanding from 3,000 tpd if it is to process increased mine output
- o Tailings capacity will need expanding to handle tails from the Chumpe Plant.
- o LoM capital requirements (Mine, Plant, Closure) to realise the proposed mine plan (5,500 tpd) are estimated at US$ 238 M.
- o Risks to the proposed mine plan are limited as Yauricocha is an established operation with proven mining methodology, mineral processing and metallurgical recovery, however, some risks are highlighted:
    - o The proposed mine plan is dependent on permitting, timings of permit approval process are not considered in the proposed mine plan
    - o The proposed mine plan considers hoisting of material beyond the capacity of the current hoisting system during 2018 and 2019
    - o Subsidence related to sub-level caving is recorded around the Central and Mascota shafts. These shafts are critical for the ingress and egress of material, if continued subsidence impacts the hoisting capacity of these shafts the proposed mine plan would be significantly impacted. Contingency planning in case of a failed shaft is not considered in the proposed mine plan
    - o The proposed mine plan considers inferred resources which are low confidence and are not suitable for the application of economic factors. Further drilling will improve confidence in these resources and better determine their potential economic viability
    - o Dewatering and ventilation demands will increase with depth and properly engineered solutions are needed if the mine plan is to be implemented
    - o Mud-rush is a known issue at Yauricocha and potential for mud-rush is likely to increase at depth. Mitigating this risk is essential to the proposed mine plan
    - o The Chumpe processing plant will need to be expanded to handle increased throughput
    - o Tailings storage capacity will need to be expanded to handle increased waste from the processing plant.

Economic Analysis

Mineral resources that are not mineral reserves do not have demonstrated economic viability. The economic analysis includes inferred mineral resources. This PEA is preliminary in nature and there is no certainty that the PEA will be realized.

The PEA calculates (Table 1-2) a Base Case after – tax Net Present Value (NPV) of US$ 393 M with an after-tax Return of Investment (ROI) of 486% using a discount rate of 8%. The total life of mine capital cost of the project is estimated to total US$ 238 M. The payback period for the Life of Mine (LoM) capital is estimated at 4.1 years. Operating costs of the LoM total US$ 593 M, equating to an operating cost of US$ 43.86 per tonne milled. Based on this economic analysis, the proposed mine plan should be investigated further and better refined.

Table 1-2: Plan considered in the PEA

PEA Highlights

Base case of US$1,323/oz Gold, US$18.68/oz Silver, US$0.98/lb Lead, US$1.19/lb Zinc, US$3.15/lb Copper.	**Unit**	**Value**
Net Present Value (After Tax 8% Discount Rate)	US$ M	393
Return On Investment (ROI)	ROI%	486
Mill Feed	Tonnes (Millions)	13.5
Mining Production Rate	t/year	1,800,000
LOM Project Operating Period	years	9
Total Capital Costs	US$ M	238
Net After – Tax Cashflow	US$ M	532
Total Operating Unit Cost	US$/t	43.86
LOM Gold Production (Payable)	oz	17,621
LOM Silver Production (Payable)	oz	11,408,281
LOM Lead Production (Payable)	t	87,881
LOM Zinc Production (Payable)	t	281,746
LOM Copper Production (Payable)	t	102,821

Additional Disclosure from the Yauricocha Technical Report

In addition to the summary from the Yauricocha Technical Report reproduced above, certain additional information from the Yauricocha Technical Report is summarized below:

Property Location

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 º S and 75.7219 º 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.

Geology and Mineralization

Mineralization at the Yauricocha Mine is represented by variably oxidized portions of a multiple-phase polymetallic system with at least two stages of mineralization, demonstrated by sulfide veins cutting brecciated polymetallic sulfide mineralized bodies. The mineralized bodies and quartz-sulfide veins appear to be intimately related and form a very important structural/mineralogical assemblage in the Yauricocha mineral deposit.

All parts of the property with historic exploration or current production activity are in the current area of operations. This area is nearly centred within the concession boundary and there is both space and potential to expand the resources and the operation both directions along the strike of the Yauricocha Fault. Minera Corona has developed local classifications describing milling and metallurgical characteristics of mineralization at Yauricocha: polymetallic, oxide, and copper. Polymetallic mineralization is represented by Lead-Zinc sulfides, often with significant Silver values, oxide refers to mineralization that predominantly comprises oxidized sulfides and resulting supergene oxides, hydroxides and/or carbonates (often with anomalous Gold), and the copper classification is represented by high values of Cu with little attendant Lead-Zinc.

Status of Exploration, Development and Operations

The Yauricocha mining district contains multiple polymetallic deposits represented by skarn and replacement bodies and intrusion-hosted veins related to Miocene-era magmatism. Mineralization is strongly structurally-controlled with the dominant features being the Yauricocha Fault and the contact between the Jumasha limestones and the Celendín Formation (especially the France Chert). Exploration is being conducted to expand the mineralized zones currently being exploited as well as on prospects in the vicinity of the operations.

Exploration in or close to the mining operations is of higher priority since it is performed under existing governmental and community permits. Any exploration success can be quickly incorporated into defined resources and reserves and thus the business plan.

Recommendations

The results of the PEA support the continued advancement of investigations to increase mine production and processing plant throughput at the Yauricocha Mine.

Further definitive studies are required to better define the economic potential of the Yauricocha Mine to support increased production, include:

- Undertake detailed engineering to determine the operational risk and how to control the impact of subsidence around the Central and Mascota shafts.
- Detailed engineering to confirm mine infrastructure requirements (i.e. ventilation, compressed air, electrical and dewatering).
- Conduct infill-drilling of inferred resources considered in the PEA.
- Determine the requirements and timelines to acquire new permits or updated existing permits as required to operate at 5,000 tpd.
- Investigate, in detail, factors such as the cost of power, pumping, tailings and waste rock management, ventilation.
- Refine cut-off values based on the outcome of the studies and investigations recommended above.
- Any changes to the production rate of Yauricocha should be reflected in an updated waste management plan.
- Investigation in to legal and permitting requirements to action mine plan changes

Bolivar Mine, Mexico

The Company owns 100% of the Bolivar Mine.

Bolivar Technical Report

The following is the summary section of the Bolivar Technical Report, prepared by Mining Plus Peru SAC, and reviewed by Qualified Persons Enrique Rubio, Ph.D. (of Redco), Giovanny Ortiz, BSc Geology, FAusIMM CP (of SRK) and Augusto Chung, FAusIMM CP (of the Company). The full text of the Bolivar 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 Bolivar Technical Report.

" **Executive Summary**

Introduction

Sierra Metals Inc. own and operate the Bolivar Mine and Piedras Verdes processing plant (combined to form the Property) located in the Piedras Verdes District of Chihuahua State, Mexico, approximately 250 kilometres southwest of the city of Chihuahua. The Property consists of 14 mineral concessions totaling 6,800 hectares.

Sierra Metals Inc., formerly known as Día Bras Exploration Inc., engaged various specialist groups to evaluate how, on a conceptual level; mining, mineral processing, and tailings management could be adapted at the Property to achieve a sustainable and staged increase in mine production and mill throughput. This Technical Report is a Preliminary Economic Assessment (PEA) prepared and filed in accordance with National Instrument 43-101 and Form 43-101F1.

Geology

The Bolivar Mine exploits Cu-Zn skarn mineralization and is one of many precious and base metal deposits of the north-northwest trending Sierra Madre belt in the states of Chihuahua, Durango and Sonora in north western Mexico. Stratigraphy exerts a strong control on mineralization, calcic beds host predominantly host zinc mineralization and underlying dolomitic beds host copper dominant mineralization. Highest grades develop in areas of structurally controlled brecciation around the margins of intrusions.

Resource

This PEA considers indicated and inferred resources reported by SRK on June 28th, 2018 with an effective date as of October 31, 2017. By definition resources have not had modifying economic factors applied to them and they are not demonstrated to be economically viable.

Table 1-1: Resource Summary

Class	Tonnes(000's)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (koz)	Au (koz)	Cu (t)
Indicated	13,267	22.5	0.29	1.04	9,616	124	137,537
Inferred	8,012	22.4	0.42	0.96	5,779	109	76,774

(1) Mineral resources that are not mineral reserves 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 cut-off values based on metal price assumptions*, metallurgical recovery assumptions**, mining/transport costs (US$17.59/t), processing costs (US$ 8.33/t), and general and administrative costs (US$2.41/t).

(3) The metal value COG for the Bolivar Mine is US$ 29.00 /t. No mineral resources are reported for the remaining pillars.
  * Metal price assumptions considered for the calculation of metal value are: Copper (Cu): US$/lb 3.00, Silver (Ag): US$/oz 18.25, and Gold (Au): US$/oz 1,291.00.
  **Metallurgical recovery assumptions are 83% Cu, 78% Ag, and 64% Au.
(4) The resources were estimated by David Keller of SRK consulting (Canada) using Ordinary Kriging (OK), and reviewed and validated by Giovanny Ortiz, B.Sc., PGeo, FAusIMM #304612 of SRK, a Qualified Person.
(5) Note: Mining has continued since the publication of this resource and resources have not been subsequently depleted.

Mining

A sustainable mine production of 3000 tpd is achieved at the Bolivar Mine using a combination of room and pillar and longhole stoping mining. Redco Mining Consultants (Redco) were commissioned by Sierra Metals to determine how mine production could be increased sustainably and also to define the optimal economic rate of mine production. Redco determined that the optimal rate of production is 5000 tpd and that a three-year period of advanced development would be required to achieve this production increase. Redco deemed that a capital investment of $62 M was needed to fund mine development and the acquisition of mine fleet.

Proposed production increases are based on the phasing out of room and pillar mining and the deployment of longhole stoping throughout the mine. Compared to room and pillar mining, longhole stoping offers the advantages of increased productivity and increased mine recoveries.

Longhole stoping in areas of shallower dipping mineralized bodies will increase total dilution compared to room and pillar mining, shallower dipping bodes are diluted up to 53% compared to more vertical bodies where total anticipated dilution can be much less at 17%.

Mineral Processing

The Piedras Verdes processing plant, located 8.2 kilometres from the Bolivar Mine, uses a conventional crushing-milling-flotation circuit to recover mineral and to produce commercial quality copper concentrates with silver and gold by-product credits.

The Piedras Verdes processing plant currently processes 3000 tpd and achieves recoveries of Cu 83%, Au 64% and Ag 78% all deported to a copper concentrate. Piedras Verdes previously recovered zinc, equipment related to the zinc recovery circuit is idle at the plant. Sierra metals determined that throughput at the plant could be increased to 5000 tpd, this increase requires a capital expenditure of $9.7 M over a three-year period. Throughput increases are dependent on:

- Overhauling and repurposing of idle equipment installed at the plant
- Overhauling and or replacement of active equipment, which will require a temporary shutdown of processing operations
- Purchase of mobile jaw and cone crushers for the crushing circuit; Sierra Metals determined that compared to fixed equipment, mobile equipment has a similar cost but offers more flexibility and does not require civil works and engineering ahead of installation
- Increase in tailings storage capacity.

Transmin have identified various areas for potential efficiency gains and processing improvements at the Piedras Verdes Plant, these areas of improvement are not considered in the mine plan are being investigated by Sierra Metals:

- Magnetic separation
- Removal of fines ahead of primary crushing
- Conversion of an idle conditioning tank to a flash flotation tank
- Introduction of a secondary milling circuit
- Union of milling outflow distribution to a single cluster of 10 hydro cyclones

Tailings Management

The current conventional tailings storage facility has capacity to store tailings until year end 2019 at a production rate of 3000 tpd. Anddes were commissioned by Sierra Metals to develop preliminary designs for a tailings storage facility with capacity to store 14Mt of tailings, is estimated to cost $4M and will be constructed in stages. Construction of a starter dam for a new filtered/dry-stack tailings storage facility has begun.

The 14 Mt storage capacity of the new facility is 4.6 Mt less than that required to store all the tailings associated with the proposed mine plan; additional tailings storage is required if the proposed mine plan is to be realised.

Economic Analysis

Redco undertook an Economic Analysis of their proposed mine plan combined with other factors including modifications to the Piedras Verdes processing plant and tailings storage facilities.

The PEA estimates a base case after – tax Net Present Value (NPV) of US$214 million, with an after-tax return on investment of 550% using a discount rate of 8%. The total life of mine capital cost of the project is estimated to total US$ 96 M. The payback period for the Life of Mine (LoM) capital is estimated at 3.4 years. Operating costs of the life of mine total US$ 359 M, equating to an operating cost of US$ 21.18 per tonne milled.

Copper ores from Gallo Inferior, El Salto, Bolivar West and Bolivar North West in flotation laboratory tests float readily in the first 2 to 4 minutes with finer grinding (55 to 60% minus 200 mesh) achieving rougher recovery between 85% to 90%. It is recommended to use 85% Cu recovery since the installation of the third ball mill is currently in progress and planned to be on line Q1-2019. Therefore, the metallurgical recoveries used in the evaluation are 85% Cu, 78% Ag and 64% Au.

Table 1-2: Economic Analysis Summary

PEA Highlights

Base case of $1,291/oz Gold, $18.25/oz Silver, $3.00/lb. Copper	**Unit**	**Value**
Net Present Value (After Tax 8% Discount Rate)	US$ M	214
Return on Investment	ROI (%)	550
Mill Feed	Tonnes (Mt)	16.9
Peak Mining Production Rate	t/year	1,800,000
LOM Project Operating Period	Years	11
Total Life of Mine (LoM) Capital Costs	US$ M	96
Net After – Tax Cashflow	US$ M	303
Total Operating Unit Costs	US$/t	21.18
LOM Gold Production (Payable)	oz	86,472
LOM Silver Production (Payable)	oz	7,013,157
LOM Copper Production (Payable)	t	114,537

Critical Risks

- Heavy reliance on inferred resources as the basis of the mine plan
- Mid to long term availability of tailings storage capacity

Recommendations

PEA's are based on resources that are not demonstrated to be economically viable. Based on the Economic Analysis of the proposed mine plan presented in this PEA, more definitive, studies are recommended.
Advancement of the proposed mine plan should consider the following:

- Geotechnical investigation should be extended to areas of the mine that are not currently in production but are considered in the mine plan
- Ventilation in the Bolivar mine is currently based on natural air flow which is influenced by atmospheric conditions on surface. Proposed production increases and associated machinery movement are likely to have a negative impact on air quality, to ensure safety in the mine, ventilation modelling is recommended based on which a ventilation plan should be defined
- The resources considered in the proposed mine plan are classed as either inferred or indicated. Further exploration drilling and exploration mine development should be undertaken to increase confidence in the resources used in the mine plan. The proposed mine plan should be refined when additional information is available
- The classification of mining blocks based on NSR value and proximity to other blocks could exclude potential mine feed from the proposed mine plan, subsequent revisions of the mine plan should consider blocks above the NSR marginal cut-off that are not necessarily immediately adjacent to other mine blocks above the economic NSR cut off. A ratio of development meters required for access compared to potential tonnages could be used to determine potential economics
- Longhole stoping is considered in areas where bodies dip up to 70 degrees, this introduces significant dilution, other mining methods should be considered in such areas as they could reduce dilution."

Additional Disclosure from the Bolivar Technical Report

In addition to the summary from the Bolivar Technical Report reproduced above, certain additional information from the Bolivar Technical Report is summarized below:

Property Location

The Bolivar property is located in Chihuahua, Mexico, in the municipality of Urique. The property is situated in the rugged, mountainous terrain of the Sierra Madre Occidental, approximately 250 km southwest of the city of Chihuahua and approximately 1,250 km northwest of Mexico City. The geographic centre of the property is 27°05'N Latitude and 107°59'W Longitude. It is roughly bounded to the northeast by the Copper Canyon mine (50 km from the Bolivar mine), to the south by the El Fuerte river (18 km), to the north by the village of Piedras Verdes (5 km), and to the northwest by the town of Cieneguita (12.5 km).

Mineral Titles

Día Bras wholly holds mineral concession titles allowing exploration and mining within 14 concessions (6,800 ha) that make up the project area. Production from the Bolivar Mine is not subject to any royalties; however, the concessions are subject to a federal tax that varies by concession.

Mineralization

Mineralization at the Bolivar property is hosted by skarn alteration in carbonate rocks adjacent to the Piedras Verdes granodiorite. Orientations of the skarn vary dramatically, although the majority are gently-dipping. Thicknesses vary from 2 m to over 20 m. Skarn mineralization is strongly zoned, with proximal Cu-rich garnet skarn in the South Bolivar area, close to igneous contacts, and more distal Zn-rich garnet+pyroxene skarn in the northern Bolivar and southern skarn zones near El Val. The presence of chalcopyrite+bornite dominant skarn (lacking sphalerite) in the South Bolivar area, along with K-silicate veins in the adjacent granodiorite suggests that this zone is close to a centre of hydrothermal fluid activity. In contrast, the main Bolivar mine is characterized by Zn>Cu and more distal skarn mineralogy such as pyroxene>garnet and pale green and brown garnets.

Mineralization exhibits strong stratigraphic control and two stratigraphic horizons host the majority: an upper calcic horizon, which predominantly hosts Zn-rich mineralization, and a lower dolomitic horizon, which predominantly hosts Cu-rich mineralization.

Cusi Mine, Mexico

The Company owns 100% of the Cusi Mine.

Cusi Preliminary Economic Assessment

The following is the summary section of the Cusi Technical Report, prepared by Mining Plus Peru SAC, and reviewed by Qualified Persons Enrique Rubio, Ph.D. (of Redco), Giovanny Ortiz, BSc Geology, FAusIMM CP (of SRK), Daniel H. Sepulveda, BSc Extractive Metallurgy Engineer, SME-RM (of SRK) and Augusto Chung, FAusIMM CP (of the Company). 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.

“Executive Summary

Sierra Metals operate the Cusi mine and Mal Paso plant, combined to form “the Property”. The Property currently operates at 650 tpd with an average head grade of 201 g/t Ag and produces commercial grade Pb/Ag and Zn concentrates. Production rates of 650 tpd are achieved at the Property using the conventional cut and fill method supported by minor longhole sub-level stoping. Sales of silver recovered in the Pb/Ag concentrate is the main revenue stream at Cusi.

The Property is in the Cusihuarachi District of Chihuahua State, Mexico, approximately 135 km southwest of Chihuahua City. Epithermal mineralization has been mined in the area since its discovery in the early 1800’s. Mineralization is bound between regionally significant northwest trending faults; 8 mineralized zones are recognized at the Property, mineralized zones are up to 10 m across and include; silicified faults, veins and breccias. Seven epithermal veins are recognized at the property, veins typically; range between 0.5 and 2 m wide, dip steeply, extend 100 to 200 m along strike and, extend up to 400 m depth. Vein orientations range between northeast and northwest.

This Preliminary Economic Assessment (PEA) considers depleted measured, indicated and inferred resources reported on February 12th, 2018 by SRK and effective as of August 31st, 2017. These resources are not demonstrated to be economically viable. The results of this PEA are indicative of conceptual potential and are not definitive.

Table 1-1: Summary of resource reported by SRK, February 12th, 2018 (Effective August 31st, 2017)

Class	Area	AgEq (g/t)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Tonnes (000's)
Measured	Santa Rosa de Lima (SRL)	268	225	0.13	0.55	0.68	362
Total Measured		**268**	**225**	**0.13**	**0.55**	**0.68**	**362**
Indicated	Promontorio	241	213	0.08	0.37	0.44	1097
Indicated	Eduwiges	293	198	0.26	1.35	1.32	928
Indicated	SRL	296	242	0.32	0.62	0.64	1435
Indicated	San Nicolas	195	176	0.13	0.21	0.22	414
Indicated	San Juan	208	189	0.13	0.2	0.21	121
Indicated	Minerva	222	198	0.4	0.09	0.05	57
Indicated	Candelaria	386	366	0.14	0.17	0.28	46
Indicated	Durana	224	219	0.06	0.05	0.02	97
Total Indicated		**267**	**217**	**0.21**	**0.64**	**0.66**	**4195**
Total Measured + Indicated		**267**	**217**	**0.21**	**0.63**	**0.66**	**4557**
Inferred	Promontorio	218	185	0.1	0.35	0.62	308
Inferred	Eduwiges	229	115	0.09	1.78	1.79	147
Inferred	SRL	216	158	0.22	0.55	1.04	658
Inferred	San Nicolas	181	161	0.14	0.21	0.23	340
Inferred	San Juan	200	186	0.04	0.15	0.27	44
Inferred	Minerva	149	143	0.05	0.08	0.06	5
Inferred	Candelaria	185	125	0.16	0.62	1.17	128
Inferred	Durana	124	115	0.01	0.17	0.09	3
Total Inferred		**207**	**158**	**0.16**	**0.54**	**0.84**	**1633**

Note: Mining has continued since the publication of this resource and resources have not been subsequently depleted.

Sierra Metals commissioned various specialist groups (Table 1-2) to evaluate how, on a conceptual level, mining, mineral processing, and tailings management could be adapted at the Property to achieve a sustainable and staged increase in mine production and mill throughput from 650 tpd to 1200 tpd by Q1 2019 and 2700 tpd by mid-2021.

Table 1-2: Groups involved in development for conceptual plan considered in the PEA

Group	Concept	Report
SRK Consulting (U.S.), Inc.	Resource Estimation	SRK, 2017
Redco Mining Consultants	Increase mine output to 2700 tpd	Redco, 2018
Sierra Metals (SM)	Increase Mal Paso Plant Capacity to 1200 tpd	Sierra, 2018
Ingenieria Carillo (IC)	Engineering associated with increased Mal Paso plant capacity	
Kappes Cassiday and Associates (KCA)	Preliminary design of 1500 tpd plant at Cusihuariachi	KCA, 2018
Anddes Consulting (AC)	Expansion of tailings storage capacity	Anddes, 2018
Flopac	Tailings Storage up to Q1-2020	Flopac, 2017

Mining Methodology

To determine how mine output could be increased, Sierra Metals commissioned Redco Mining Consultants (Redco) to undertake a scoping study, considering; existing development and infrastructure, geotechnical characteristics, geological controls and mineralization style. The study (Redco, 2018) determined that mechanized Avoca mining could be used to achieve a sustainable production of 2700 tpd. Improved productivity would be associated with improved safety as the requirement for man time spent in stopes is significantly reduced.

Head-grades are expected to reduce from the current 201 g/t Ag to 180 g/t Ag @ 1200 tpd and 170 g/t Ag @ (2700 tpd). Redco estimate that $95.11M capital investment is required to mechanise the Cusi Mine and achieve 2700 tpd production.

As part of their scoping study, Redco considered plans for ventilation and dewatering on a very general scale. Sierra Metals recognize that further and more detailed ventilation and dewatering plans are required to support the overall conceptual mine design.

Mineral Processing

The Mal Paso Plant, located 44 km from the Cusi Mine, uses a conventional crushing-milling-flotation circuit to recover mineral and to produce commercial quality Pb/Ag and Zn concentrates. Mineral is delivered from the mine to the plant in 20t trucks.

Mineral processing and the recovery of mineral is demonstrated, and silver recoveries are established at 86%.

The Mal Paso Plant increased throughput from 450 tpd at the beginning of 2018 to 650 tpd currently. In line with proposed increases in mine output, processing capacity at Mal Paso will increase to 1200 tpd in 2019, a new plant with a capacity of 1500 tpd is proposed at Cusihuariachi, to come online mid-2021.

Sierra Metals (Sierra, 2018) undertook an internal review to determine how the Mal Paso plant could be adjusted to increase throughput to 1200 tpd. This study identified bottlenecks in the existing plant, to overcome bottlenecks and achieve the desired throughput at Mal Paso. Sierra Metals have begun to purchase the pieces of equipment and project that the remaining pieces of equipment will be purchased and installed before Q1 2019.

An independent processing plant, operating complimentary to Mal Paso, will be required to process the proposed 2700 tpd mine output. Sierra Metals commissioned Kappes Cassiday and Associates (KCA) to produce a conceptual design for a modular plant to process 1500 tpd at Cusihuariachi from mid-2021. The modular plant is designed to be easily scalable in 1500 tpd increments.

The proposed plant at Cusihuariachi is significantly closer to the Cusi Mine than the Mal Paso Plant, KCA estimate that this would translate to an operational saving of USD $4/t. A further saving of USD $1/t, related to mineral processing, is envisaged by KCA. This combined USD $5/t operational saving, the equivalent of USD $2.7M/yr. (i.e. 1500 tpd x 360 days x USD $5/t) would be offset against projected Capital requirements of USD $30M.

Tailings Capacity

Tailings produced at Mal Paso are currently stored in two conventional tailings storage facilities. As of February 2018, planned and permitted raises to existing tailings facilities would provide 520k m3 of storage capacity, the equivalent of 1 year and 7 months storage at a production rate of 1200 tpd.

Sierra Metals recognize that increasing tailings storage capacity is critical to achieving and sustaining increased rates of production.

Anddes Consulting (AC) evaluated the merits of 9 new potential tailings storage facilities identified by Sierra Metals, based on preliminary work 4 sites are undergoing more detailed evaluation ahead of final selection and detailed engineering. The 4 sites offer varying storage capacities between 600k m3 and 2.5M m3.

The proposed plant at Cusihuariachi would require the development of a new tailings facility separate from those used at Mal Paso. A potential site for a dry-stack (>75% solids) tailings storage facility has been identified and is undergoing preliminary investigations. Conceptually, the identified site would provide storage for 5.4Mt of tailings, the equivalent of 11 years capacity operating at 1500 tpd.

Economic Analysis

The PEA calculates a Base Case after – tax NPV of USD $92.18 M with an after – tax IRR of 75% using a discount rate of 8%. The total life of mine capital cost of the project is estimated to total $104.46 M. The payback period for the LOM capital is estimated at 4.60 years. Operating costs of the life of mine total $259.32 M, equating to an operating cost of $41.36 per tonne milled.

Table 1-3: Plan considered in the PEA

PEA Highlights

Base case of $1,283/oz Gold, $18.30/oz Silver, $0.93/lb. Lead, $1.15/lb. Zinc	**Unit**	**Value**
Net Present Value (After Tax 8% Discount Rate)	US$ M	92.2
Internal Rate of Return	IRR	75%
Mill Feed	Tonnes (Mt)	6.27
Peak Mining Production Rate	t/year	972,000
LOM Project Operating Period	Years	9
Total Life of Mine (LoM) Capital Costs	US$ M	104.5
Net After – Tax Cashflow	US$ M	150.6
Total Operating Unit Costs	US$/t	41.36
LOM Gold Production (Payable)	Oz	19,706
LOM Silver Production (Payable)	MOz	30
LOM Lead Production (Payable)	t	28,256
LOM Zinc Production (Payable)	t	19,160

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, 2018 which is set out in the chart below:

Yauricocha Mine Consolidated Mineral Resource Estimate as of December 31, 2018

	TMS	**Ag/g-t**	**Au/g-t**	**% Cu**	**%Pb**	**%Zn**	**Ag (Koz)**	**Au (Koz)**	**Cu (t)**	**Pb (t)**	**Zn (t)**
Measured	**2,284,428**	**66.76**	**0.59**	**1.64**	**1.10**	**2.88**	**4,903.10**	**43.55**	**37,537.29**	**25,043.43**	**65,721.53**
Indicated	**9,482,739**	**60.26**	**0.59**	**1.47**	**0.82**	**2.61**	**18,372.92**	**180.48**	**139,307.93**	**77,719.93**	**247,813.56**
Measured + Indicated	**11,767,167**	**61.52**	**0.59**	**1.50**	**0.87**	**2.66**	**23,276.02**	**224.03**	**176,845.22**	**102,763.36**	**313,535.09**

	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, 2018 which is set out in the chart below:

Yauricocha Mine Consolidated Mineral Reserve Estimate as of December 31, 2018

	TMS	Ag/g-t	Au/g-t	% Cu	%Pb	%Zn	Ag (Koz)	Au (Koz)	Cu (t)	Pb (t)	Zn (t)
Proven	**1,070,220**	**45.21**	**0.60**	**1.03**	**0.82**	**1.92**	**1,555.45**	**20.65**	**11,074.81**	**8,725.25**	**20,539.51**
Probable	**6,412,166**	**48.12**	**0.47**	**1.25**	**0.72**	**2.26**	**9,921.07**	**97.59**	**79,868.67**	**46,168.04**	**145,226.85**
Proven + Probable	**7,482,386**	**47.71**	**0.49**	**1.22**	**0.73**	**2.22**	**11,476.52**	**118.24**	**90,943.48**	**54,893.28**	**165,766.36**

(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 FAusIMM 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, 2018. 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, 2018 which is set out in the chart below:

Bolivar Mine Consolidated Mineral Resource Estimate as of December 31, 2018

Resources	Tonnes (000´s)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (Koz)	Au (Koz)	Cu (t)
Measured	**0**	**0.0**	**0.00**	**0.00**	**0**	**0**	**0**
Indicated	**12,085**	**23.0**	**0.30**	**1.05**	**8,934**	**117**	**126,698**
Inferred	**8,012**	**22.4**	**0.42**	**0.96**	**5,771**	**108**	**76,915**

(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 a single value cut-off (CoG) of US$29 based on metal price assumptions*, metallurgical recovery assumptions**, mining/transport costs (US$17.95/t), processing costs (US$8.33/t), and general and administrative costs (US$2.41/t).

* Metal price assumptions considered for the calculation of metal value are: Copper (Cu): US$/lb 3.00, Silver (Ag): US$/oz 18.25, and Gold (Au): US$/oz 1,291.00.

** Metallurgical recovery assumptions are 83% Cu, 78% Ag, and 64% Au.

The Company prepared an updated mineral reserve estimate for the Bolivar Mine (on a consolidated basis) as at December 31, 2018 which is set out in the chart below:

Bolivar Mine Consolidated Mineral Reserve Estimate as of December 31, 2018

Reserve	Tonnes (000´s)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (Koz)	Au (Koz)	Cu (t)
Proven	**0**	**0.0**	**0.00**	**0.00**	**0**	**0**	**0**
Probable	**6,743**	**19.1**	**0.26**	**0.84**	**4,151**	**57**	**56,877**
P+P	**6,743**	**19.1**	**0.26**	**0.84**	**4,151**	**57**	**56,877**

Source: SRK, 2018

(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 unit value cut-offs 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 are: US$3/lb Cu, US$18.25/oz Ag, and US$1,291/oz Au.

** Metallurgical recovery assumptions are 83% Cu, 78% Ag, and 64% Au.

(3) The mining costs are based on historical actual costs.

(4) The NSR cut-off values are variable by mining method:

- The economic NSR cut-off value is:
  - o US$30.80 = Room and Pillar.
  - o US$33.10 = Longhole Stoping.
- The marginal NSR cut-off value is:
  - o US$26.50 = Room and Pillar.
  - o US$28.70 = Longhole Stoping.

(5) Mining recovery and dilution have been applied and are variable by mining area and proposed mining method.

The above mineral reserve and resource estimate has been prepared by Americo Zuzunaga FAusIMM 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 October 31, 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, 2018. 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, 2018 which is set out in the chart below:

Cusi Mine Consolidated Mineral Resource Estimate as of December 31, 2018

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**	**2615.07**	**1.51**	**1991.00**	**2461.60**
Indicated	**3,967,111**	**220**	**0.22**	**0.65**	**0.67**	**28005.39**	**27.65**	**25838.42**	**26562.75**
Measured + Indicated	**4,329,111**	**220**	**0.21**	**0.64**	**0.67**	**30620.46**	**29.16**	**27829.42**	**29024.35**
Inferred	**1,633,000**	**158**	**0.16**	**0.54**	**0.84**	**8285.02**	**8.33**	**8898.25**	**13790.44**

(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 FAusIMM 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, 2018. 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.

Reliance on Key Personnel and Labour Relations

The Company's operations are dependent on the abilities, experience and efforts of key personnel. If any of these individuals were to be unable or unwilling to continue to provide their services to the Company, there may be a material adverse effect on the Company's operations. The Company's success is dependent upon its ability to attract and retain qualified employees and personnel to meet its needs from time to time. The Company may be negatively impacted by the availability and potential increased costs that may be associated with experienced key personnel and general labour. Sierra's ability to achieve its future goals and objectives is dependent, in part, on maintaining good relations with its employees and minimizing employee turnover. Work stoppages or other industrial relations events at any of Sierra's operations could lead to delayed revenues, increased costs and delayed operation cash flows. As a result, prolonged labor disruptions at any of Sierra's operations could have a material adverse impact on its operations as a whole.

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. (collectively, the " **ARC Funds** ") and Arias Resource Capital Management LP (the " **Manager** ") 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, zinc and gold 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, 2018 was $5.8 million (December 31, 2017 - $5.7 million).

DIVIDENDS AND DISTRIBUTIONS

There have been no cash dividends or distributions declared on any of Sierra's securities for each of the three most recently completed financial years of the Company.

The amount of future dividends to be declared in the future, 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 163,512,023 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 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, 2018.

Period	High (C$)	Low (C$)	Volume
January 2018	3.31	2.97	429,845
February 2018	3.23	2.97	86,321
March 2018	3.40	2.90	407,818
April 2018	3.50	3.22	289,940
May 2018	3.76	3.27	226,202
June 2018	3.64	3.31	116,495
July 2018	3.55	3.33	67,252
August 2018	3.66	2.95	350,705
September 2018	3.40	3.23	215,173
October 2018	3.47	2.96	1,218,110
November 2018	3.35	3.03	173,273
December 2018	3.10	2.28	574,403

Prior Sales

During the fiscal year ended December 31, 2018, the Company issued the following securities that are not listed or quoted on a marketplace:

Date of Issue	Type of Security Issued	Number of Securities Issued
March 31, 2018	Restricted Share Units	501,039
April 10, 2018	Restricted Share Units	178,588

ESCROWED SECURITIES

To the Company’s knowledge, as at December 31, 2018, 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 CBCA.

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 *(a mining company)*	-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 *(a private fund manager)*	November 26, 2008
PHILIP RENAUD (1)(2)(3)(5) Director London, United Kingdom	Managing Director, LB Advisors *(an investment advisory firm)*	October 1, 2003
DOUGLAS F. CATER (1)(3)(4) Director Ontario, Canada	-January 2019 to present: Independent Consultant -January 2016 to January 2019: VP Exploration (Canada), Kirkland Lake Gold Inc. *(a mining company)* -June 2012 to January 2016: VP Exploration, St. Andrew Goldfields Inc. *(a mining company)*	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)(6) Director Ontario, Canada	-June 2016 to present: Executive VP of Strategic Development at Osisko Mining Inc. *(a mining company)* -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 *(a mining company)*	November 9, 2017
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. *(a mining company)*	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) *(a mining operations manager)*	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 *(an investor relations consulting firm)* -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 *(a mining company)*	January 19, 2015
JILL NEFF Corporate Secretary British Columbia, Canada	-April 2013 to present: Corporate Secretary of the Company	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, Environment & Community Relations Committee

As at December 31, 2018, the directors and executive officers of the Company as a group beneficially owned, directly and indirectly, or exercised control over, an aggregate of 90,079,518 Common Shares of the Company representing approximately 55.1% of the outstanding shares of the Company as at December 31, 2018. This includes an aggregate of 84,960,358 Common Shares owned by the ARC Funds and the Manager. The ARC Funds are managed by the Manager. 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. J. 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 Adviser

Mr. Alberto Beeck serves as an adviser to the Board. Pursuant to an 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.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as disclosed herein, no director, officer or executive officer of the Company is, as of the date of this AIF, or was within ten years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Company), that:

(a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, (an " **order** ") that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

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.

Except as disclosed herein, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

(a) is, as of the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including the company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, 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; or;

(b) has, within ten years before the date of this AIF, 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 the assets of the director, executive officer or shareholder.

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.

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Company has been subject to:

(a) 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

(b) 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 the Manager in the Company for which J. Alberto Arias may be deemed to share voting and dispositive power with respect to the Company securities beneficially owned by the ARC Funds and the Manager, 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 (" **NI 52-110** ").

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 recently retired from his position as Vice-President Exploration of Kirkland Lake Gold Inc. (2016 – 2019), and prior to that he was 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 LB 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). Mr. Vizquerra Benavides' experience in the mining industry has provided him with the knowledge required to understand accounting principles and financial statements.

Audit Committee Oversight

At no time since January 1, 2018 has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the Board.

Pre-Approval Policies and Procedures

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 NI 52-110, the engagement of non-audit services is considered by the Board, and where applicable the Audit Committee, on a case-by-case basis.

External Auditor Fees

PricewaterhouseCoopers LLP (" **PWC** " **)** was appointed as auditors of the Company on July 11, 2012. For the fiscal years ended December 31, 2018 and December 31, 2017, the fees billed by PWC are summarized below for each category:

Service	Fees Incurred 2018	Fees Incurred 2017
Audit Fees	$ 336,080	$ 395,668
Audit-Related Fees (1)	$ 55,184	$ 208,712
Tax Fees	$ nil	$ nil
All Other Fees	$ nil	$ nil
Total Fees Paid	**$ 391,264**	**$ 604,390**

(1) For the year ended December 31, 2018, the $55,184 in "Audit-Related Fees" relates to PWC's quarterly reviews.
(2) 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.

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

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. 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 cancelation 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 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.

The Company is not aware of any other legal proceedings known to be contemplated.

Regulatory Actions

During the financial year ended December 31, 2018, there were no: (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority; (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; and (c) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management of the Company is not aware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company:

(a) a director or executive officer of the Company;
(b) a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Company's outstanding voting securities; and
(c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) or (b).

TRANSFER AGENT AND REGISTRAR

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, 2018 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 reviewing the Yauricocha Technical Report are Enrique Rubio, Ph.D. (of Redco), Matthew Hastings, MSc Geology, MAusIMM CP (of SRK) and Augusto Chung, FAusIMM CP (of the Company).

The Qualified Persons responsible for reviewing the Bolivar Technical Report are Enrique Rubio, Ph.D. (of Redco), Giovanny Ortiz, BSc Geology, FAusIMM CP (of SRK) and Augusto Chung, FAusIMM CP (of the Company).

The Qualified Persons responsible for reviewing the Cusi Technical Report are Enrique Rubio, Ph.D. (of Redco), Giovanny Ortiz, BSc Geology, FAusIMM CP (of SRK), Daniel H. Sepulveda, BSc Extractive Metallurgy Engineer, SME-RM (of SRK) and Augusto Chung, FAusIMM CP (of the Company).

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, 2018, the Bolivar Mine consolidated mineral reserve and resource estimate as at December 31, 2018, and the Cusi Mine consolidated mineral resource estimate as at December 31, 2018, 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, 2018, the Bolivar Mine consolidated mineral reserve and resource estimate as at December 31, 2018, and the Cusi Mine mineral resource estimate as at December 31, 2018, under the heading “Updated Mineral Resource and Mineral Reserve Information”. As of the date hereof, Gordon Babcock holds 161,083 Common Shares and 254,349 restricted share units of the Company.

PWC are the auditors of the Company who have prepared the auditors’ report in respect of the annual financial statement for the fiscal year ended December 31, 2018. 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.

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’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities, and securities authorized for issuance under equity compensation plans, 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 financial 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 <u>SECRETARY</u>

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

V <u>MEETINGS</u>

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.

Exhibit 99.2

SIERRA METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Corporate Office

Suite 4260, 161 Bay Street
Toronto, ON, Canada M5J 2S1

TSX: SMT
NYSE AMERICAN: SMTS
BVL: SMT
www.sierrametals.com

TABLE OF CONTENTS

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, 2018 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 27, 2019 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 AMERICAN"), and the Peruvian Bolsa de Valores de Lima ("BVL" or the "Lima Stock Exchange") under the symbol "SMT", and "SMTS" on the NYSE AMERICAN. 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, American, 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 increased economic 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 Santa Rosa de Lima Zone. These results provide potential to further grow mineral resources and enhance shareholder value.

The Company is focused on improving operating performance through the production of higher volumes of ore to reduce unit costs, 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.

3. 2018 OPERATING AND FINANCIAL HIGHLIGHTS

(In thousands of dollars, except per share and cash cost amounts, consolidated figures unless noted otherwise)	Three Months Ended		Twelve Months Ended	
	December 31, 2018	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Operating				
Ore Processed / Tonnes Milled	**599,297**	498,199	**2,325,288**	1,988,738
Silver Ounces Produced (000's)	**701**	496	**2,716**	2,317
Copper Pounds Produced (000's)	**8,932**	7,471	**33,968**	26,775
Lead Pounds Produced (000's)	**7,948**	5,736	**27,714**	29,704
Zinc Pounds Produced (000's)	**17,545**	19,545	**76,831**	76,088
Gold Ounces Produced	**2,137**	1,591	**7,743**	6,197
Copper Equivalent Pounds Produced (000's) [1]	**23,447**	21,856	**95,184**	90,354
Zinc Equivalent Pounds Produced (000's) [1]	**56,287**	47,287	**215,053**	193,152
Silver Equivalent Ounces Produced (000's) [1]	**4,445**	4,078	**17,988**	14,865
Cash Cost per Tonne Processed	**$ 50.44**	$ 50.57	**$ 47.55**	$ 46.87
Cost of sales per AgEqOz	**$ 7.99**	$ 7.91	**$ 7.35**	$ 7.75
Cash Cost per AgEqOz [2]	**$ 7.68**	$ 7.54	**$ 7.03**	$ 7.41
AISC per AgEqOz [2]	**$ 10.59**	$ 12.42	**$ 10.04**	$ 12.34
Cost of sales per CuEqLb [2]	**$ 1.51**	$ 1.48	**$ 1.39**	$ 1.27
Cash Cost per CuEqLb [2]	**$ 1.45**	$ 1.41	**$ 1.33**	$ 1.22
AISC per CuEqLb [2]	**$ 2.00**	$ 2.32	**$ 1.90**	$ 2.03
Cost of sales per ZnEqLb [2]	**$ 0.63**	$ 0.68	**$ 0.61**	$ 0.60
Cash Cost per ZnEqLb [2]	**$ 0.61**	$ 0.65	**$ 0.58**	$ 0.57
AISC per ZnEqLb [2]	**$ 0.84**	$ 1.07	**$ 0.83**	$ 0.95
Cash Cost per ZnEqLb (Yauricocha) [2]	**$ 0.52**	$ 0.57	**$ 0.52**	$ 0.50
AISC per ZnEqLb (Yauricocha) [2]	**$ 0.73**	$ 0.90	**$ 0.73**	$ 0.78
Cash Cost per CuEqLb (Bolivar) [2]	**$ 1.67**	$ 1.72	**$ 1.44**	$ 1.49
AISC per CuEqLb (Bolivar) [2]	**$ 2.37**	$ 3.03	**$ 2.13**	$ 2.68
Cash Cost per AgEqOz (Cusi) [2]	**$ 18.96**	$ 18.66	**$ 15.71**	$ 15.37
AISC per AgEqOz (Cusi) [2]	**$ 23.27**	$ 36.33	**$ 22.09**	$ 33.90
Financial				
Revenues	**$ 55,019**	$ 51,170	**$ 232,371**	$ 205,118
Adjusted EBITDA [2]	**$ 15,263**	$ 19,208	**$ 89,756**	$ 81,034
Operating cash flows before movements in working capital	**$ 15,167**	$ 17,812	**$ 90,148**	$ 79,785
Adjusted net income attributable to shareholders [2]	**$ 783**	$ 3,241	**$ 29,009**	$ 23,482
Net income (loss) attributable to shareholders	**$ (2,654)**	$ 2,118	**$ 18,814**	$ (4,645)
Cash and cash equivalents	**$ 21,832**	$ 23,878	**$ 21,832**	$ 23,878
Working capital	**$ (8,290)**	$ (6,784)	**$ (8,290)**	$ (6,784)

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2018 were calculated using the following realized prices: \$14.63/oz Ag, \$2.77/lb Cu, \$0.89/lb Pb, \$1.16/lb Zn, \$1,238/oz Au. 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 12M 2018 were calculated using the following realized prices: \$15.65/oz Ag, \$2.96/lb Cu, \$1.02/lb Pb, \$1.31/lb Zn, \$1,269/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.

(2) This is a non-IFRS performance measure, see Non-IFRS Performance Measures section of the MD&A.

<u>2018 Operational Highlights and Growth Initiatives</u>

During 2018, the annual consolidated production of silver, copper, zinc and gold increased 17%, 27%, 1%, and 25%, respectively, while annual consolidated lead production decreased 7% compared to 2017. The Company achieved record consolidated quarterly ore throughput during Q4 2018, as well as record quarterly ore throughput from the Bolivar and Cusi Mines. These results continued the Company's successful production increases realized during the first three quarters of 2018, which resulted in strong annual consolidated production figures.

Metal production at Yauricocha increased 14% in Q4 2018 compared to Q4 2017 due to 5% higher ore throughput, higher head grades of all metals, except zinc, and higher lead and gold recoveries. At Bolivar, 20% higher ore throughput, and higher silver and gold head grades resulted in a 16% increase in copper equivalent pounds produced in Q4 2018 compared to Q4 2017. The Cusi Mine realized a 258% increase in throughput which resulted in a 70% increase in silver equivalent ounces produced during Q4 2018 compared to Q4 2017.

2019 will be an important year for the Company as we ramp up production in Mexico while continuing to modernize and improve all Mines implementing best operational practices. These changes should allow the Company to increase metal production to new highs. Our Company wide ongoing brownfield exploration programs should also lead to further significant growth in reserves and resources, which will add to the value of our assets during the year ahead.

2018 Consolidated Production Highlights

- Silver production of 2.7 million ounces; a 17% increase from 2017
- Copper production of 34.0 million pounds; a 27% increase from 2017
- Zinc production of 76.8 million pounds; a 1% increase from 2017
- Lead production of 27.7 million pounds; a 7% decrease from 2017
- Gold production of 7,743 ounces; a 25% increase from 2017
- Total of 2.3 million tonnes processed; a 16% increase from 2017

Q4 2018 Production Highlights

- Silver production of 0.7 million ounces; a 41% increase from Q4 2017
- Copper production of 8.9 million pounds; a 20% increase from Q4 2017
- Zinc production of 17.5 million pounds; a 10% decrease from Q4 2017
- Lead production of 7.9 million pounds; a 39% increase from Q4 2017
- Gold production of 2,137 ounces; a 34% increase from Q4 2017

2018 Consolidated Financial Highlights

- Revenue from metals payable of $232.4 million in 2018 increased by 13% from $205.1 million in 2017. Higher revenues are primarily attributable to the 8% increase in throughput, and the higher head grades and recoveries for copper and gold at Yauricocha in 2018 compared to 2017; the 16% increase in throughput, higher silver and gold head grades, and higher gold recoveries resulted in Bolivar's revenues being 17% higher than 2017; and the 112% increase in throughput, and higher silver recoveries resulted in Cusi's revenues being 88% higher than 2017; the increase in revenues were realized despite decreases in the prices of silver (9%), lead (4%), and zinc (1%), which copper prices increased by 5% and gold prices were consistent with 2017;

- Yauricocha's cost of sales per zinc equivalent payable pound was $0.55 (2017 - $0.54), cash cost per zinc equivalent payable pound was $0.52 (2017 - $0.50), and AISC per zinc equivalent payable pound of $0.73 (2017 - $0.78). The decrease in the AISC per zinc equivalent payable pound for 2018 compared to 2017 was a result of lower sustaining capital expenditures and higher zinc equivalent payable pounds, while cash costs remained consistent; this was partially offset by slight increases in general and administrative costs. These cost decreases were realized in spite of the $2.0 million payment made to the Company's union of mining employees made during Q4 2018;

- Bolivar's cost of sales per copper equivalent payable pound was $1.73 (2017 - $1.54), cash cost per copper equivalent payable pound was $1.44 (2017 - $1.49), and AISC per copper equivalent payable pound was $2.13 (2017 - $2.698) for 2018 compared to 2017. The decrease in the AISC per copper equivalent payable pound during 2018 compared to 2017 was due to the increase in copper equivalent payable pounds resulting from higher throughput, higher silver and gold head grades and higher gold recoveries, as well as a decrease in sustaining capital expenditures;

- Cusi's cost of sales per silver equivalent payable ounce was $8.97 (2017 - $12.51), cash cost per silver equivalent payable ounce was $15.71 (2017 - $15.37), and AISC per silver equivalent payable ounce was $22.09 (2017 - $33.90) for 2018 compared to 2017. AISC per silver equivalent payable ounce decreased due to higher silver equivalent payable ounces resulting from higher throughput, higher silver recoveries, lower treatment and refining charges, and lower sustaining capital expenditures;

- Adjusted EBITDA (1) of $89.8 million for 2018 increased 11% compared to $81.0 million in 2017. The increase in adjusted EBITDA in 2018 was due to the increase in revenues realized at all three mines during 2018, mainly the result of higher throughput;

- Net income (loss) attributable to shareholders for 2018 was $18.8 million (2017: $(4.6) million) or $0.12 per share (basic and diluted) (2017: $(0.03)). 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 $29.0 million, or $0.17 per share, for 2018 was higher than the adjusted net income of $23.5 million, or $0.14 per share for 2017;

- A large component of the net income for every period is the non-cash depletion charge in Peru, which was $10.5 million for 2018 (2017: $31.5 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 decrease in the non-cash depletion charge in 2018 was due to the 134% increase in proven and probable reserves reported in the Company's NI 43-101 Technical Report issued on October 26, 2017;

- Cash flow generated from operations before movements in working capital of $90.1 million for 2018 increased compared to $79.8 million in 2017. 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 $21.8 million and working capital of $(8.3) million as at December 31, 2018 compared to $23.9 million and $(6.8) million, respectively, at the end of 2017. Cash and cash equivalents have decreased by $2.0 million during 2018 due to $61.9 million of operating cash flows, and $10.0 million drawn down from a short term revolving line of credit, being offset by capital expenditures incurred in Mexico and Peru of $(49.3) million, repayment of loans, credit facilities and interest of $(21.5) million, dividends paid to non-controlling interest shareholders of $(2.9) million.

(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 and Resource Estimate at the Bolivar Mine (press release dated July 5, 2018). The NI 43-101 Technical Report was filed on SEDAR and was prepared by SRK Consulting (U.S.) Inc.;

- The Company reported the results of a Preliminary Economic Assessment ("PEA") for the Bolivar Mine (press release dated July 9, 2018) yielding a 550% return on investment and after-tax net present value ("NPV") of US$214 million at an 8% discount rate. The PEA was compiled under NI 43-101 standards by Mining Plus Peru SAC, and filed on SEDAR on August 23, 2018;

- The Company reported the results of a PEA for the Yauricocha Mine (press release dated June 27, 2018) yielding a 486% return on investment and after-tax NPV of US$393 million at an 8% discount rate. The PEA was compiled under NI 43-101 standards by Mining Plus Peru SAC;

- The Company reported the results of a PEA for the Cusi Mine (press release dated June 18, 2018) yielding a 75% internal rate of return ("IRR") and after-tax NPV of US$92 million at an 8% discount rate. The PEA was compiled under NI 43-101 standards by Mining Plus Peru SAC;

- The Company reported that their subsidiary Sociedad Minera Corona S.A. received approval for its Environmental Impact Assessment ("EIA") Study for the expansion of its tailings deposition facility at the Yauricocha Mine;

- Mine development at Bolívar during Q4 2018 totaled 1,136 meters. Most of these meters (553m) were developed to prepare stopes for mine production. The remainder of the meters (583m) were related to the deepening of ramps and developing service ramps to be used for ventilation and pumping in the El Gallo Inferior orebody; and

- During Q4 2018, at the Cusi property, mine development totaled 1,059 meters, which included 25 meters of ramp development at the Santa Rosa de Lima Zone; the rest of the development related to stope preparation in various zones within the mines;

Exploration Highlights

Peru:
During Q4 2018, the Company drilled 58 holes totaling 10,537 meters at Yauricocha. The drilling included the following:

Exploration Drilling:

- Copper Porphyry Mineralization (Central Mine Zone Level 720): 2 holes totaling 1,341 meters were drilled to continue to test the priority anomaly located in the monzonite intrusive zone, where a copper molybdenum mineralized porphyry was discovered earlier in the year; drill results continue to display the presence of a copper molybdenum porphyry orebody, where we have observed typical alterations, as well as copper mineralization disseminated in the encased rock, as veinlets with quartz and copper are present with molybdenum;
- Cuye Orebody (Level 1070 Central Mine Zone): 1 hole totaling 210 meters to explore the continuity of mineralization of the orebody at depth; the hole confirmed the continuity of this mineralized orebody at depth;
- Catas Orebody (Level 1070 Central Mine Zone) – 1 hole totaling 681 meters confirmed the continuity of the copper mineralization at depth;
- Contacto Occidental Orebody (Level 1070 Central Mine Zone): 1 hole totaling 86 meters confirmed the continuity of mineralization at depth of this "cuerpo chico", or small orebody;
- Escondida Norte (Level 870 Cachi Cachi): 4 holes totaling 1,745 meters with the objective of exploring and defining the fresh sulphide zones, as areas previously explored in this area have intercepted oxide zones with silver and lead mineralization; these holes drilled intercepted mineralized structures of polymetallic sulphide zones;
- Cachi Cachi Norte (Level 720 Cachi Cachi): 2 holes totaling 681 meters with the objective of exploring the northern part of the mineralized orebodies already recognized within the Cachi Cachi Mine, but did not encounter any mineralization of ore grade material.

Definition Drilling:

- Antacaca Sur (Level 920): 17 holes totaling 2,186 meters with the objective of defining more certainty on the orebody between the 970 level and the 8th floor on the 1020 level;
- Esperanza (Level 970): 14 holes totaling 1,770 meters which confirmed the continuity of mineralization of the orebody; holes were executed between the sublevel development level 8 meters above the 1020 level;
- Angelita (Level 870 Cachi Cachi): 11 holes totaling 1,577 meters to further define the orebody on the 870 level between floors 8 and 16;
- Yoselin (920 Level Cachi Cachi Mine): 5 holes totaling 260 meters which confirmed the orebody and the extension of the orebody to 1070 level. These drill holes provided more geological information to help plan potential mining of the orebody. Once the drift reaches the 1070 level the remainder of orebody below will be drilled off from the 1070 level. Initial highlights of the average grades encountered in this "cuerpo chico" or "small orebody" included grades of 1.2 Oz Ag, 4.8% Pb, 0.09% Cu, 8.5% Zn.

Mexico:

Bolivar

- At Bolívar during Q4 2018, 6,258 meters were drilled from surface as well as diamond drilling within the mine. 2,183 meters were drilled within the mine in the El Gallo zone. There was also 3,865 meters drilled at the Bolivar West extension to explore the extension of the orebody to the North and West, exploring the skarn orebody with semi-massive magnetite, and disseminated nodules of chalcopyrite. There was also 210 meters drilled at La Campana, which is a new exploration target where we are exploring the possibility of finding a skarn orebody with copper and zinc;

Cusi

- During Q4 2018 the Company drilled 1,781 meters to support the development of the Santa Rosa de Lima vein in Promontorio to further verify the size and continuity of the orezone. 2,497 meters of surface diamond drilling was performed to explore the depth of the mineralized structure of San Nicolas in the area of the San Juan Mine.

4. OUTLOOK

The Company has continued to be successful in maintaining positive operating cash flow generation from its existing operations in order to reduce debt levels, fund required capital expenditures, and maintain liquidity. Planned capital expenditures of $83 million have been approved for 2019 to deliver on the focus of capitalizing on the successful drilling campaigns during the previous two years which resulted in significant increases to the reserves and resources at each of the three mines, in addition to providing the basis for the successful results of the PEA's released during 2018 at all three mines. Also, the new $100 million Corporate Credit Facility finalized during March 2019, provides the Company with additional liquidity and will provide the financial flexibility to fund future capital projects in Mexico as well as corporate working capital requirements. The Company will also use the proceeds of the new facility to repay existing debt balances in the near term.

The Company has made significant progress on the expansion plans at all three mines, as well as the preparation of updated Life Of Mine ("LOM") Plans, and NI 43-101 Technical Reports, based on the encouraging PEA's results released for all three mines, demonstrating positive economics, and supporting the immense potential for future operational production increases. These studies are intended to provide further clarity and confidence to either progress with the potential future operational production increases, which are scalable in nature, and potential production increases can be made gradually, if optimal. Development at all three mines will continue with the objective of expediting the resource increases at the Cusi Mine, as well as the reserve and resource increases at the Yauricocha and Bolivar Mines into the mine plans. Continued production growth is expected to be realized from the strategic allocation of operating cash flows towards growth efficient capital, in order to provide the infrastructure, and scoping studies necessary to continue the process of monetizing the reserve and resource increases as quickly as possible.

Looking ahead 2019 represents a critical year at Yauricocha for projects, improvements and exploration. The Company continues to work on the expansion plans at Yauricocha, which we expect to complete during 2019. Having now received approval for the EIA study at Yauricocha, we can now proceed to obtain a construction permit for the next phase of the tailings deposition facility, and a permit for the expanded waste rock facility. Once those permits have been received, we would then be able to complete a final submission for an ITS permit, which is required for any potential expansion of the Mine.

We have also commenced internal studies on a potential secondary stage expansion plan at the Mine, as well as an updated NI 43-101 report which we expect to have completed during Q2 2019. The Company continues to make progress on projects at the Mine and during the fourth quarter we completed the refurbishment of the lower part of the Mascota Shaft as well as the infrastructure and tie-ins for the Yauricocha tunnel, allowing for faster turn-around in the cycle time of the trolley locomotives, and providing for increased capacity and handling of larger volumes of ore and waste.

Additionally, the Yauricocha shaft will continue to be sunk to the 1270 level this year to provide access to further reserves and resources at the Mine and loading pockets will be added on the 1210 level. Work will also commence on a ramp connecting the 920 level with the 720 level of the Yauricocha Mine providing for an additional 10,000 tonnes per month of increased capacity to move ore and waste from the Mine.

Furthermore, the Company continues to have success in its drilling campaigns at the Mine as evidenced in a recent press release dated October 1, 2018, demonstrating the existence of porphyry style mineralization at Yauricocha and a great opportunity for further expansion potential at the Mine. There are several higher-grade intercepts between 798 and 980 meters, and the objective is to follow-up drilling programs to define the geometry of the higher-grade core of the porphyry during 2019. The Company continues to perform drilling on the porphyry and has budgeted approximately $4.0 million for this drilling during 2019. Also, during 2019 infill drilling programs will be focused on the Central Mine Zone, Esperanza, Cachi Cachi and the Cuerpos Chicos. While brownfield drilling campaigns will focus on the Kilkaska and Dona Leona areas located on the Chonta Fault System. Mine development during 2019 will continue to focus on the Central Mine Zone and Cachi Cachi areas, and the Company is planning on making improvements to the ventilation system within the mine.

We are very pleased with the progress made with our expansion plans at the Bolivar Mine. With the early completion of construction at the Piedras Verdes Mill, we expect deliver on our goal of a 20% increase in production from 3,000 TPD to 3,600 TPD, during H1 2019. Completion of the expansion included the installation of a refurbished mill, an electrical substation with 1250 KVA of capacity, a secondary crusher and a hydrocyclone cluster that allows for finer grind size optionality that is estimated to provide a 6% increase in copper recoveries from 80% to 86% at Bolivar Mine. The expansion at Bolivar will contribute through a 20% increase in production rates, a 6% increase in copper recoveries and a decrease in costs per unit.

A revised LOM plan is nearing completion at Bolivar, and we expect to have an updated NI 43-101 report for the Bolivar Mine during Q4 2019. Development and infrastructure improvements continue in the effort to push throughput at Bolivar to 4,000 tpd during the second half of 2019. During 2019, target mining areas will be the Gallo Inferior, Mina de Fierro, Chimneys, Breccias and Gallo Superior orebodies. Infill drilling will continue on the Bolivar West and Gallo Inferior areas, while mine development will focus on the Gallo Inferior and Breccia zones. This work will allow the Company to increase the number of minable stopes available in order to increase throughput at the plant. Improvements continue to be made at the Piedras Verdes Plant, as one flash flotation cell has been installed, and two more will be installed during the first half of 2019. Also, a new concentrate filter and fine ore bin are currently being installed.

The Company is also pleased to report that the replacement program for the main reservoir of the Bolivar water dam has progressed successfully and is 50% complete. We expect the work to be finished during the first half of 2019.

At Cusi, the Company realized continued improvements in tonnage in the fourth quarter, and the Mine realized a sequential increase in ore throughput and a 6% increase when compared to Q3 2018. The increase in throughput was partially the result of the Company's successful development and mining of ore from the recently discovered high-grade silver stockwork zone located within the Santa Rosa de Lima ("SRL") vein complex. This mineralized zone extends to over 100 meters in length, 50 meters in width and 70 meters in height. Our development plan is now incorporating the wider dimensions of this zone.

A revised LOM plan is nearing completion at Cusi, and we expect to have an updated NI 43-101 report completed during Q4 2019, which will include a maiden reserve estimate for the mine. The Company continues to increase mill feed from the Santa Rosa de Lima zone, while mining selected structures in the older part of the mine. The successful addition of another ball mill has seen the capacity increase from 650 tonnes per day to approximately 1,200 tonnes per day during H1 2019. A decanter was also installed at the Mal Paso Mill which will help improve water availability and provide some flexibility with the tailings facility. Development plans are in place to increase production from 1,200 tpd to 2,400 tpd by Q1 2020.

During 2019, the majority of the mine production at Cusi will come from the SRL zone, from sublevel long hole stoping and sublevel caving from the SRL zone. Infill drilling will be performed on the SRL zone, San Nicolas zone, and the Promontorio Mine. Plant improvements during 2019 will include the installation of an additional ball mill during Q3 2019, as well as new tank cells to improve flotation, and are required to push the plant's capacity up to 2,400 tpd.

Brownfield exploration remains a key component of the Company's growth program. The Company has budgeted drilling campaigns of 51,000 meters to be performed during 2019. 21,500 meters have been budgeted at Yauricocha, which includes underground exploration drilling on the Cuerpos Chicos, Esperanza – Norte – Mascota, and other areas on the interior of the mine, as well as brownfield exploration on the Dona Leona, Victoria, Alida, El Paso, Millpoca and Kilkasa areas on the Chonta Fault. 20,000 meters of brownfield exploration drilling have been budgeted at Bolivar for 2019 which will focus on the Bolivar West and Bolivar Northwest areas. While at Cusi, 9,500 meters of brownfield exploration drilling has been budgeted for 2019 which will focus on the Margarita, San Juan, SRL Extension Norte, and Sayra and Bibiana areas, all located within the SRL mine complex.

Management is very optimistic for the next twelve months, and beyond, as the groundwork has been set for continued improvements, through the modernizing and implementation of best operational practices. We continue to realize positive returns on our capital investments, and the recent PEA results demonstrate a path for continued growth at all our Mines. Ongoing aggressive brownfield exploration programs at all mines are expected to provide further growth in reserves and resources adding to the value of our assets going forward.

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

Confirmation of Porphyry Mineralization at Yauricocha

On October 1, 2018, the Company confirmed the discovery of a new style of mineralization (copper - molybdenum porphyry). The results were from testing of the geophysical anomalies, in the quartz monzonite intrusive, in the eastern part of the mineralized area. This area is known as the Central Mine which is located between the Cuye and Esperanza zones.

Prior evidence of copper-molybdenum porphyry mineralization had been observed on surface within the monzonite intrusive and had previously been sampled by Rio Tinto Zinc. Subsequently, drill core was sampled at 10-meter intervals over the entire hole length and the Company obtained 122 samples. The hole was drilled from the Klepetko Tunnel located on the 720 level to a depth of 1,394.6 meters. The samples indicated an average of >0.1% Copper.

A recently completed TITAN 24 Geophysical Study identified more than 100 anomalies at Yauricocha and a program to test this first geophysical anomaly was designed. Hole (E-PORF 10-18-01) was drilled from the Klepetko Tunnel to test the priority anomaly located in the monzonite intrusive as this zone had high conductivity within the Intrusive. A copper-molybdenum mineralized porphyry was discovered. Results to date show mineralized sectors with notable grades of copper and molybdenum (see table 1) and this discovery confirms the existence of a new style of mineralization at Yauricocha. The Company will continue with a drilling program which will allow for a better understanding of the distribution of mineralization.

Table 1 – Assays obtained from Drill Hole E PORF 10-18-10 showing copper, molybdenum and cobalt values.

Description	From	To	Width m	Cu %	Mo ppm	Co Ppm
	396.00	418.00	22.00	0.13	19.45	7.73
	418.00	432.00	14.00	0.08	25.71	6.71
	432.00	454.00	22.00	0.11	27.36	8.55
	454.00	468.00	14.00	0.07	26.00	6.29
	468.00	574.00	106.00	0.13	39.60	10.70
	574.00	600.00	26.00	0.07	20.00	7.69
	600.00	702.00	102.00	0.15	94.84	8.69
	702.00	798.00	96.00	0.19	48.02	11.27
	798.00	806.00	8.00	0.46	219.00	24.25
	806.00	822.00	14.00	0.21	39.57	10.57
	822.00	844.00	22.00	0.46	133.73	10.73
	844.00	854.00	10.00	0.18	104.00	10.60
	854.00	872.00	18.00	0.54	131.44	17.67
	872.00	950.00	78.00	0.15	68.41	7.05
	950.00	958.00	8.00	0.49	110.00	6.25
	958.00	968.00	10.00	0.23	50.40	7.80
	968.00	980.00	12.00	0.45	68.00	6.50
	980.00	1024.00	44.00	0.19	55.23	9.50
	1024.00	1072.00	48.00	0.23	90.33	5.33
	1072.00	1092.00	20.00	0.21	173.30	4.30
	1092.00	1294.00	202.00	0.15	194.00	3.90

Closing of New Senior Secured US$100 Million Corporate Credit Facility

On March 11, 2019, the Company entered into a new six-year senior secured corporate credit facility ("Corporate Facility") with Banco de Credito del Peru ("BCP") that provides funding of up to US$100 million effective March 8, 2019. The Corporate Facility provides the Company with additional liquidity and will provide the financial flexibility to fund future capital projects in Mexico as well as corporate working capital requirements. The Company will also use the proceeds of the Corporate Facility to repay existing debt balances in the near term.

The most significant terms of the Corporate Facility are as follows:
- Term: 6-year term maturing March 2025
- Principal Repayment Grace Period: 2 years
- Principal Repayment Period: 4 years
- Interest Rate: 3.15% + LIBOR 3M

The Corporate Facility is subject to customary covenants, including consolidated net leverage and interest coverage ratios and customary events of default.

Initiation of Normal Course Issuer Bid with 1.5 Million Share Target

On December 11, 2018, the Company approved a share repurchase program in the form of a normal course issuer bid (the "NCIB") in the open market through the facilities of the Toronto Stock Exchange (the "TSX") and other Canadian marketplaces / alternative trading systems. Pursuant to the NCIB, the Company proposed to repurchase for cancellation up to 1,500,000 common shares of the Company (the "Common Shares"), which represented approximately 0.92% of the issued and outstanding Common Shares as at December 11, 2018.

In connection with its implementation of the NCIB, Sierra Metals obtained TSX approval of its notice of intention to make a normal course issuer bid (the "Notice"). The Notice provided that the Company may purchase up to 1,500,000 Common Shares through the facilities of the TSX and other Canadian marketplaces / alternative trading systems during the 12-month period commencing on December 17, 2018 and ending on or before December 16, 2019. Any Common Share purchases made pursuant to the NCIB will be at the prevailing market price at the time of the transaction, purchased in accordance with the policies of the TSX and conducted by CIBC. In accordance with TSX rules, any daily purchases made under the NCIB are limited to a maximum of 4,214 Common Shares, which represents 25% of the average daily trading volume of 16,858 Common Shares on the TSX for the six months ended November 30, 2018. However, the Company may make one block purchase per calendar week which exceeds the daily repurchase restriction, up to and including the maximum annual aggregate limit of 1,500,000 Common Shares. Once the block purchase exception has been relied on, the Company may not make any further purchases under the NCIB for the remainder of that calendar day.

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

Repayment of FIFOMI Loan in Mexico

During February 2019, the Company repaid the remaining US$1,657 owed on Dia Bras Mexicana's loan from FIFOMI. This repayment prior to the loan's maturity date did not result in any financial penalties and was within the terms of the agreement.

2019 Production and Cost Guidance

This section of the MD&A provides management's production, cost, and capex estimates for 2019. 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

The Company anticipates that 2019 silver equivalent production will range between 19.5 to 21.8 million ounces, copper equivalent production will range between 107.0 to 119.9 million pounds, and zinc equivalent production will range between 261.5 to 292.9 million pounds. The increase in 2019 guidance for silver ounces and copper pounds compared to the actual 2018 production is due to the significant throughput and recovery increases planned at Bolivar and Cusi. At Yauricocha, higher copper production should be realized due to consistent copper head grades and improvement to recoveries expected from the various areas planned to be mined from the copper areas in the Esperanza Zone during 2019.

A table summarizing 2019 production guidance has been provided below:

	2019 Guidance		**2018**
	Low	**High**	**Actual**
Silver ounces (000's)	3,730	4,176	**2,716**
Copper pounds (000's)	45,000	50,400	**33,968**
Lead pounds (000's)	25,500	28,600	**27,714**
Zinc pounds (000's)	72,400	81,100	**76,831**
Gold ounces	8,100	9,000	**7,743**
Silver equivalent ounces (000's) (1)	**19,478**	**21,812**	**17,988**
Copper equivalent pounds (000's) (1)	**107,035**	**119,858**	**95,184**
Zinc equivalent pounds (000's) (1)	**261,545**	**292,880**	**215,053**

(1) 2019 Silver equivalent ounces, copper and zinc equivalent pounds were calculated using the following metal prices: $16.65/oz Ag, $3.03/lb Cu, $1.01/lb Pb, $1.24/lb Zn, $1,275/oz Au

2019 Cost Guidance

A mine by mine breakdown of 2019 production guidance, cash costs and all-in sustaining costs ("AISC") are included in the table below. Cash costs and AISC guidance is shown per zinc equivalent payable pound at Yauricocha, copper equivalent payable pound at Bolivar, and silver equivalent payable ounce at Cusi.

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

Mine		Equivalent Production Range	Cash Costs per ZnEqLb or CuEqLb or AgEqOz Sold	AISC ($)* per ZnEqLb or CuEqLb or AgEqOz Sold
Yauricocha	Zinc Eq Lbs (000's)	163,884 - 183,478	$ 0.58/lb	$ 0.88/lb
Bolivar	Copper Eq Lbs (000's)	29,877 - 33,449	$ 1.35/lb	$ 2.08/lb
Cusi	Silver Eq Ozs (000's)	1,862 - 2,085	$ 14.29/oz	$ 20.70/oz

*AISC includes Treatment and Refining Charges, Selling Costs, G&A Costs and Sustaining Capex
(1) 2019 Silver equivalent ounces, copper and zinc equivalent pounds were calculated using the following metal prices: $16.65/oz Ag, $3.03/lb Cu, $1.01/lb Pb, $1.24/lb Zn, $1,275/oz Au

2019 Capital Expenditures

In 2019, the Company plans to invest a total of up to $83 million on capital expenditures, including $39 million for sustaining capital requirements and $44 million for expansion, growth projects and exploration expenses. These capital expenditures will allow Sierra Metals to continue to significantly grow our mineral reserves and resources, complete the development work required in operations in order to increase production in the future, as well as complete plant expansion projects to process the increased production. These significant capital expenditure projects are expected to result in increased cash flows, and lower cash costs. These capital expenditure programs will be funded through the generation of operating cash flows, as well as additional liquidity provided from the new credit facility in process if needed.

A breakdown by mine of the throughput and planned capital investments is shown below:

The Yauricocha Mine in Peru plans to process up to 1.1 million tonnes (3,250 tpd) in 2019. Sustaining capex will be approximately $18 million and growth capex will be approximately $23 million.

2019 major capital investments include:

Yauricocha 2019 Major Capital Investments	Up to ($ millions)
Deepening of the Yauricocha Shaft	$ 8
Regional and Brownfield Exploration and Lower Level Development	$ 6
Ventilation	$ 5
Mine Camp Improvements	$ 4
Equipment	$ 4
Tailings Dam Facility Expansion (next lift)	$ 2
Mascota Ramp from 920 to 720 Level	$ 2
Central Mine Zone and Cachi Cachi Mine Development	$ 7

The Bolivar Mine in Mexico plans to process up to 1.4 million tonnes, with an average production rate of 4,000 tpd in 2019. Sustaining capex will be approximately $12.0 million and growth capex will be approximately $10 million.

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

2019 major capital investments include:

Bolivar 2019 Major Capital Investments	**Up to ($ millions)**	
Regional and Brownfield Exploration and Drift and Drill Station Development	$	9
Equipment	$	5
Concentrator Plant	$	4
Tailings Dam Facility Expansion	$	2

The Cusi Mine in Mexico plans to process up to 515,500 tonnes, ramping up from 650 tpd with an objective of reaching 1,200 tpd in Q2 2019 and 2,400 tpd in Q1 2020. Sustaining capex will be approximately $8 million and growth capex will be $12 million.

2019 major capital investments include:

Cusi 2019 Major Capital Investments	**Up to ($ millions)**	
Regional and Brownfield Exploration and Drift and Drill Station Development	$	5
Equipment	$	4
Concentrator Plant	$	5
Tailings Dam Facility Expansion	$	4

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 5% higher for copper, 4% lower for lead, 1% lower for zinc, 9% lower for silver, and consistent for gold, during 2018 compared to the average realized prices for 2017. 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 base metal prices. However, recent uncertainty has arose following the imposition of trade tariffs by the U.S. government on Chinese exports which has negatively impacted base metal prices.

LME Average Prices	**Three months ended December 31,**				**Year ended December 31,**			
(In US dollars)	**2018**		**2017**		**2018**		**2017**	
Silver (oz)	$	14.55	$	16.70	$	15.71	$	17.05
Copper (lb)	$	2.80	$	3.09	$	2.96	$	2.80
Lead (lb)	$	0.89	$	1.13	$	1.02	$	1.05
Zinc (lb)	$	1.19	$	1.47	$	1.33	$	1.31
Gold (oz)	$	1,229.00	$	1,277	$	1,270.00	$	1,258

The price of gold can fluctuate widely and is affected by a number of macroeconomic factors, including the sale or purchase of gold by central banks and financial institutions, interest rates, exchange rates, inflation or deflation, global and regional supply and demand and the political and economic conditions of major gold-producing and gold-consuming countries throughout the world. A steady tightening of US monetary policy provided the backdrop for gold price movement in 2018, with the US Federal Reserve raising benchmark interest rates four times during the year, for a total of nine such increases since the current cycle began three years ago. The US dollar was a major beneficiary of the higher interest rate environment and this negatively impacted gold prices. Gold recorded its highest price for the year in late January at $1,366 per ounce and remained relatively strong until mid-April, before falling steadily until mid-August when it recorded a low price of $1,160 per ounce. Notwithstanding this period of weakness in the second and third quarters, the precious metal rallied over the remainder of the year to close 2018 at $1,282 per ounce; recording a modest overall annual loss of 2%.

During 2018, the price of silver was 9% lower, and gold 1% lower, compared to 2017, with the price ranging from $14.00 to $17.50 per ounce for silver and $1,180 to $1,360 per ounce for gold. Sierra's average realized silver price for 2018 was $15.65 per ounce compared to $17.14 per ounce in 2017. Sierra's average realized gold price for 2018 was $1,269 per ounce compared to $1,265 per ounce in 2017.

London Metal Exchange (LME) copper prices in the fourth quarter of 2018 averaged US$2.80 per pound, up 1% from the third quarter, but down 9% from the fourth quarter a year ago. Annual prices in 2018 averaged US$2.96 per pound, a 6% increase from 2017 averages. Copper prices hit a three-year high in June, settling at US$3.29 per pound due to improving outlook for global synchronized demand in the first half of 2018. However, copper prices then began to weaken for the remainder of the year on concerns over impending global trade disputes and averaged 11% lower in the second half of the year. Although copper prices were affected by overall global macro investor sentiment, fundamentals in the second half remained strong with global exchange stocks falling 58%. During 2018, copper prices traded in a range of $2.61 to $3.32 per pound with an average price of $2.96 per pound compared with $2.80 per pound in 2017. Sierra's average realized copper price for 2018 was $2.96 per pound compared to $2.82 per pound in 2017.

London Metal Exchange (LME) zinc prices averaged US$1.19 per pound in the fourth quarter of 2018, an increase of 4% over the third quarter, but down 19% from the fourth quarter of 2017. Annual LME zinc prices in 2018 averaged US$1.33 per pound, similar to US$1.31 per pound in 2017. Zinc reached an 11-year high in February at just over US$1.64 per pound, a price last seen in July 2007. Sierra's realized zinc price for 2018 was $1.31 per pound compared to $1.32 per pound in 2017.

Lead prices traded in a range of $0.87 to $1.16 per pound in 2018. Sierra's realized lead price during 2018 was $1.02 per pound compared to $1.06 per pound in 2017.

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, 2018 the US dollar/Peruvian Nuevo Sol exchange rate was 3.38 (December 31, 2017: 3.26) and the US dollar/Mexican Peso exchange rate was 19.64 (December 31, 2017: 19.74). A 10% change in the value of the Nuevo Sol and Peso against the US dollar would have resulted in a change of $4.7 million and $2.3 million in the Company's net profit, respectively, assuming that our operational performance during 2018 was consistent with 2017.

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

The Company also has a minor exposure to the Canadian dollar through corporate administrative costs.

5. RESULTS OF OPERATIONS

Selected Production Results on a Mine-by-Mine Basis for the Past Eight Quarters

	2018				2017			
Production Highlights	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Ore Processed/tonnes milled								
Yauricocha	268,363	283,446	283,450	271,389	266,222	268,178	237,912	251,180
Bolivar	272,645	227,690	272,040	259,375	226,986	223,339	192,937	243,974
Cusi	58,289	55,058	46,597	26,946	16,280	13,234	23,956	34,541
Consolidated	599,297	566,194	602,087	557,710	509,488	504,751	454,805	529,695
Silver ounces produced (000's)								
Yauricocha	402	404	392	366	330	376	448	499
Bolivar	128	94	110	120	84	76	73	94
Cusi	171	230	190	108	82	55	95	104
Consolidated	701	728	692	594	496	507	616	697
Copper pounds produced (000's)								
Yauricocha	4,702	4,428	3,884	3,727	3,567	3,178	2,192	2,783
Bolivar	4,230	3,898	4,737	4,363	3,904	3,522	3,123	4,508
Cusi	-	-	-	-	-	-	-	-
Consolidated	8,932	8,326	8,621	8,090	7,471	6,700	5,315	7,290
Lead pounds produced (000's)								
Yauricocha	7,528	6,114	6,809	6,069	5,431	6,112	8,010	8,382
Bolivar	-	-	-	-	-	-	-	-
Cusi	421	244	287	243	305	246	457	761
Consolidated	7,949	6,358	7,096	6,312	5,736	6,358	8,467	9,143
Zinc pounds produced (000's)								
Yauricocha	17,545	20,772	20,300	18,144	19,393	19,717	18,268	17,774
Bolivar	-	-	-	-	-	-	-	-
Cusi	-	-	-	70	152	160	262	363
Consolidated	17,545	20,772	20,300	18,214	19,545	19,877	18,530	18,137
Gold ounces produced								
Yauricocha	850	911	807	835	723	827	566	779
Bolivar	1,163	911	911	1,048	791	629	620	840
Cusi	124	84	96	69	77	61	126	159
Consolidated	2,137	1,906	1,814	1,952	1,591	1,517	1,312	1,778

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

Production Highlights	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Silver equivalent ounces produced (000's) [1]								
Yauricocha	3,209	3,292	3,361	3,236	3,084	2,973	2,551	2,735
Bolivar	1,029	902	1,085	1,021	873	736	586	825
Cusi	207	253	217	136	121	88	149	186
Consolidated	4,445	4,447	4,663	4,393	4,078	3,797	3,286	3,746
Copper equivalent pounds produced (000's) [1]								
Yauricocha	16,929	17,493	17,624	17,266	16,527	17,107	17,029	18,346
Bolivar	5,426	4,790	5,691	5,450	4,677	4,235	3,914	5,533
Cusi	1,092	1,345	1,137	728	652	509	995	1,247
Consolidated	23,447	23,628	24,452	23,444	21,856	21,851	21,938	25,126
Cash cost per tonne processed								
Yauricocha	$ 69.37	$ 60.34	$ 60.51	$ 63.04	$ 64.90	$ 62.33	$ 64.63	$ 57.81
Bolivar	$ 30.25	$ 31.06	$ 24.31	$ 25.68	$ 28.84	$ 25.69	$ 26.35	$ 19.51
Cusi	$ 57.74	$ 59.00	$ 66.56	$ 83.57	$ 119.06	$ 134.77	$ 88.41	$ 52.71
Consolidated	$ 50.44	$ 48.43	$ 44.62	$ 46.66	$ 50.57	$ 48.01	$ 49.64	$ 39.84

Consolidated Production	Three Months Ended			Twelve Months Ended		
	December 31, 2018	**December 31, 2017**	**% Var**	**December 31, 2018**	**December 31, 2017**	**% Var**
Tonnes processed	**599,297**	498,199	20%	**2,325,288**	1,988,738	17%
Daily throughput	6,849	5,694	20%	6,644	5,711	16%
Silver ounces (000's)	**701**	496	41%	**2,716**	2,317	17%
Copper pounds (000's)	**8,932**	7,471	20%	**33,968**	26,775	27%
Lead pounds (000's)	**7,949**	5,736	39%	**27,714**	29,704	-7%
Zinc pounds (000's)	**17,545**	19,545	-10%	**76,831**	76,088	1%
Gold ounces	**2,137**	1,591	34%	**7,743**	6,197	25%
Silver equivalent ounces (000's) (1)	**4,445**	4,078	9%	**17,988**	14,865	21%
Copper equivalent pounds (000's) (1)	**23,447**	21,856	7%	**95,184**	90,354	6%
Zinc equivalent pounds (000's) (1)	**56,287**	47,287	19%	**215,053**	193,152	12%
Metals payable in concentrates						
Silver ounces (000's)	**573**	400	43%	**2,222**	1,976	12%
Copper pounds (000's)	**8,293**	7,078	17%	**31,255**	25,602	22%
Lead pounds (000's)	**7,161**	5,193	38%	**26,506**	28,075	-6%
Zinc pounds (000's)	**14,918**	15,047	-1%	**64,872**	62,796	3%
Gold ounces	**1,370**	815	68%	**5,176**	3,708	40%
Silver equivalent ounces (000's) (1)	**3,878**	3,428	13%	**15,673**	13,034	20%
Copper equivalent pounds (000's) (1)	**20,480**	18,367	12%	**82,992**	79,222	4%
Zinc equivalent pounds (000's) (1)	**48,904**	39,648	23%	**188,750**	169,248	11%

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2018 were calculated using the following realized prices: $14.63/oz Ag, $2.77/lb Cu, $0.89/lb Pb, $1.16/lb Zn, $1,238/oz Au. 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 12M 2018 were calculated using the following realized prices: $15.65/oz Ag, $2.96/lb Cu, $1.02/lb Pb, $1.31/lb Zn, $1,269/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.

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 permitted to produce at a rate of 3,150 tpd, which we expect to increase to 3,600 tpd during 2019 upon receipt of the ITS permit. The ore is treated in two separate circuits and is extracted from three different types of deposits which include the following:

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

- 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

Yauricocha Preliminary Economic Assessment ("PEA")

On June 27, 2018, the Company reported the results of the PEA for the Yauricocha Mine, which included the following highlights (see Company's website for the Press Release):

PEA Highlights

Base case of US$1,323/oz Gold, US$18.68/oz Silver, US$0.98/lb Lead, US$1.19/lb Zinc, US$3.15/lb Copper.	**Unit**		**Value**
Net Present Value (After Tax 8% Discount Rate)	US$ M	$	393
Return On Investment (ROI)	ROI%		486%
Mill Feed	Tonnes (Millions)		13.5
Mining Production Rate	t/year		1,800,000
LOM Project Operating Period	years		9
Total Capital Costs	US$ M	$	238
Net After – Tax Cashflow	US$ M	$	532
Total Operating Unit Cost	US$/t	$	43.86
LOM Gold Production (Payable)	oz		17,621
LOM Silver Production (Payable)	oz		11,408,281
LOM Lead Production (Payable)	t		87,881
LOM Zinc Production (Payable)	t		281,746
LOM Copper Production (Payable)	t		102,821

The PEA calculates a Base Case after – tax NPV of US$393 million with an after – tax Return on Investment (ROI) of 486% using a discount rate of 8%. The total life of mine capital cost of the project is estimated to total US$238 million. The payback period for the LoM capital is estimated at 4.1 years. Operating costs of the LoM total US$593 million, equating to an operating cost of US$43.86 per tonne milled.

(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, 2018 has been provided below:

	3 Months Ended			12 Months Ended		
Yauricocha Production	**Q4 2018**	**Q4 2017**	**% Var.**	**Q4 2018**	**Q4 2017**	**% Var.**
Tonnes processed (mt)	**268,363**	**254,933**	*5%*	**1,106,649**	**1,023,491**	*8%*
Daily throughput	3,067	2,914	*5%*	3,162	2,924	*8%*
Silver grade (g/t)	64.06	53.57	*20%*	60.32	67.13	*-10%*
Copper grade	1.06%	0.80%	*33%*	0.97%	0.79%	*22%*
Lead grade	1.51%	1.19%	*27%*	1.30%	1.48%	*-12%*
Zinc grade	3.41%	3.91%	*-13%*	3.55%	3.74%	*-5%*
Gold Grade (g/t)	0.57	0.55	*3%*	0.58	0.54	*7%*
Silver recovery	72.66%	75.13%	*-3%*	72.85%	74.82%	*-3%*
Copper recovery	74.89%	78.86%	*-5%*	70.84%	65.45%	*8%*
Lead recovery	84.42%	81.32%	*4%*	83.75%	83.64%	*0%*
Zinc recovery	87.07%	88.25%	*-1%*	88.74%	89.14%	*0%*
Gold Recovery	17.20%	16.02%	*7%*	16.63%	16.30%	*2%*
Silver ounces (000's)	**402**	**330**	*22%*	**1,563**	**1,653**	*-5%*
Copper pounds (000's)	**4,702**	**3,567**	*32%*	**16,741**	**11,719**	*43%*
Lead pounds (000's)	**7,528**	**5,431**	*39%*	**26,520**	**27,934**	*-5%*
Zinc pounds (000's)	**17,545**	**19,393**	*-10%*	**76,761**	**75,151**	*2%*
Gold ounces	**850**	**723**	*18%*	**3,403**	**2,894**	*18%*
Zinc equivalent pounds (000's) (1)	**40,640**	**35,758**	*14%*	**157,151**	**146,816**	*7%*

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2018 were calculated using the following realized prices: \$14.63/oz Ag, \$2.77/lb Cu, \$0.89/lb Pb, \$1.16/lb Zn, \$1,238/oz Au. 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 12M 2018 were calculated using the following realized prices: \$15.65/oz Ag, \$2.96/lb Cu, \$1.02/lb Pb, \$1.31/lb Zn, \$1,269/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, \$/1.06lb Pb, \$1.32/lb Zn, \$1,265/oz Au.

The Yauricocha Mine processed a total of 1,106,649 tonnes during 2018, representing an 8% increase from 2017, and 268,363 tonnes in Q4 2018, representing a 5% increase compared to Q4 2017. Zinc equivalent metal production in Q4 2018 increased by 14% due to higher ore throughput, higher head grades for all metals, except zinc, and higher lead and copper recoveries. The higher lead head grades and lead production realized during Q4 2018 was the result of increased production from the cuerpos chicos that contained higher lead grades during the quarter. Higher copper head grades and lower zinc head grades resulted from the inclusion of certain copper-enriched zones at Esperanza, polymetallic ore from the Central Mine Zone, and a small inclusion of polymetallic ore from the cuerpos chicos.

Year over year zinc equivalent production was 7% higher in 2018 compared to the prior year. Copper Production was 43% higher, zinc production 2% higher, and gold production was 18% higher. This was partially offset by a 5% decrease in silver production, and a 5% decrease in lead production from 2017.

The Mexican Operations

Bolivar Mine, Chihuahua State

The Bolivar Mine is a contiguous portion of the 15,217 hectare Bolívar 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 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. Work continues on the installation of an additional mill in the fourth quarter which will help grind size optionality and improve recoveries at the plant. Production has increased incrementally in Q4 2018 and we should be at the 3,600 tonnes per day level during Q1 2019.

At Bolívar during Q4 2018, 6,258 meters were drilled from surface as well as diamond drilling within the mine. 2,183 meters were drilled within the mine in the El Gallo zone. There was also 3,865 meters drilled at the Bolivar West extension to explore the extension of the orebody to the North and West, exploring the skarn orebody with semi-massive magnetite, and disseminated nodules of chalcopyrite. There was also 210 meters drilled at La Campana, which is a new exploration target where we are exploring the possibility of finding a skarn orebody with copper and zinc.

Bolivar Reserve and Resource Update

On May 22, 2018, the Company provided an update to its Mineral Reserve and Resource Estimate for the Bolivar Mine.

Mineral Reserve and Resource Estimate

Mineral Reserve Estimations have been conducted or reviewed by the following Qualified Persons:

- Enrique Rubio, Ph.D. of REDCO Mining Consultants (Chile); Datamine Studio 5DP™ and Enhanced Production Scheduler (EPS)™ software.

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

- Shannon L. Rhéaume, P.Eng. of SRK Consulting (Canada) Inc.; Datamine Studio 5DP™ and Enhanced Production Scheduler (EPS)™ software.

Mineral Resource Estimations have been conducted by David Keller, P.Geo. of SRK Consulting Canada and reviewed by Giovanny Ortiz, FAusIMM CP an associate of SRK Consulting (U.S.) Inc. and a Qualified Person under National Instrument 43-101 – Standards of Disclosure for Mineral Projects. The estimations were carried out using Datamine Studio RM™ and Leapfrog Geo™ software.

The consolidated mineral reserve statement for the Bolivar Mine area is presented in Table 1. The effective date for the reserves estimated herein is October 31, 2017. SRK has prepared an NI 43-101 Technical Report which supports this disclosure.

Table 1: Consolidated Bolivar Mineral Reserve Estimate as of October 31, 2017 – SRK Consulting (U.S.), Inc.

Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (Koz)	Au (Koz)	Cu (t)
Proven Probable	7,925	18.9	0.25	0.86	4,823	63	67,925
P+P	7,925	18.9	0.25	0.86	4,823	63	67,925

(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 unit value cut-offs 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 are: Copper (Cu): US$/lb 3.00, Silver (Ag): US$/oz 18.25, and Gold (Au): US$/oz 1,291.00.
** Metallurgical recovery assumptions are 83% Cu, 78% Ag, and 64% Au.
(3) The mining costs are based on historical actual costs.
(4) The NSR cut-off values are variable by proposed mining method.
- The economic NSR cut-off value is:
  - US$30.80 = Room and Pillar; and
  - US$33.10 = Longhole Stoping.
- The marginal NSR cut-off value is:
  - US$26.50 = Room and Pillar; and
  - US$28.70 = Longhole Stoping.

(5) Mining recovery and dilution have been applied and are variable by mining area and proposed mining method.

The October 31, 2017, consolidated mineral resource statement for the Bolivar Mine area is presented in Table 2. These resources have been stated in unmined areas of the deposits. Potential resources within surveyed pillar shapes in the existing mined out areas are not reported. SRK has prepared an NI 43-101 Technical Report which supports this disclosure.

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

Table 2: Consolidated Bolivar Mineral Resource Estimate as of October 31, 2017 – SRK Consulting (U.S.), Inc.

Category	Tonnes (000's)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (Koz)	Au (Koz)	Cu (t)
Indicated	13,267	22.5	0.29	1.04	9,616	124	137,537
Inferred	8,012	22.4	0.42	0.96	5,779	109	76,774

(6) 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.
(7) Mineral resources are reported at variable metal value cut-off grades based on metal price assumptions*, metallurgical recovery assumptions**, mining/transport costs (US$17.95/t), processing costs (US$8.33/t), and general and administrative costs (US$2.41/t).
(8) The metal value cut-off grade for the Bolivar Mine is US$29. No mineral resources are reported for remaining pillars.
(9) * Metal price assumptions considered for the calculation of metal value are: Copper (Cu): US$/lb 3.00, Silver (Ag): US$/oz 18.25, and Gold (Au): US$/oz 1,291.00.
(10) ** Metallurgical recovery assumptions are 83% Cu, 78% Ag, and 64% Au.

Bolivar Preliminary Economic Assessment ("PEA")

On July 9, 2018, the Company reported the results of the PEA for the Bolivar Mine, which included the following highlights (see Company's website for the Press Release):

PEA Highlights

Base case of $1,291/oz Gold, $18.25/oz Silver, $3.00/lb. Copper	Unit		Value
Net Present Value (After Tax 8% Discount Rate)	US$ M	$	214
Return on Investment	ROI (%)		550%
Mill Feed	Tonnes (Mt)		16.9
Peak Mining Production Rate	t/year		1,800,000
LOM Project Operating Period	Years		11
Total Life of Mine (LoM) Capital Costs	US$ M	$	96
Net After – Tax Cashflow	US$ M	$	303
Total Operating Unit Costs	US$/t	$	21.18
LOM Gold Production (Payable)	oz		86,472
LOM Silver Production (Payable)	oz		7,013,157
LOM Copper Production (Payable)	t		114,537

The PEA calculates a Base Case after-tax NPV of US$214 million, with an after – tax Return on Investment of 550% using a discount rate of 8%. The total life of mine capital cost of the project is estimated to total US$96.0 million. The payback period for the Life of Mine (LoM) capital is estimated at 3.4 years. Operating costs of the life of mine total US$359 million, equating to an operating cost of US$21.18 per tonne milled.

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

Bolivar Production

A summary of contained metal production from the Bolivar Mine for the three months and year ended December 31, 2018 has been provided below:

Bolivar Production	3 Months Ended Q4 2018	Q4 2017	% Var.	12 Months Ended Q4 2018	Q4 2017	% Var.
Tonnes processed (mt)	**272,645**	**226,986**	***20%***	**1,031,750**	**887,237**	***16%***
Daily throughput	3,116	2,594	*20%*	2,948	2,535	*16%*
Copper grade	0.89%	0.94%	*-6%*	0.95%	0.96%	*-2%*
Silver grade (g/t)	19.00	14.67	*30%*	17.69	14.93	*19%*
Gold grade (g/t)	0.21	0.16	*30%*	0.17	0.17	*3%*
Copper recovery	79.27%	83.03%	*-5%*	79.95%	79.82%	*0%*
Silver recovery	77.14%	78.35%	*-2%*	77.08%	76.88%	*0%*
Gold recovery	64.29%	68.42%	*-6%*	68.55%	59.50%	*15%*
Copper pounds (000's)	**4,230**	**3,904**	***8%***	**17,227**	**15,056**	***14%***
Silver ounces (000's)	**128**	**84**	***53%***	**452**	**327**	***38%***
Gold ounces	**1,163**	**791**	***47%***	**3,968**	**2,880**	***38%***
Copper equivalent pounds (000's) (1)	**5,426**	**4,677**	***16%***	**21,323**	**18,338**	***16%***

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2018 were calculated using the following realized prices: $14.63/oz Ag, $2.77/lb Cu, $0.89/lb Pb, $1.16/lb Zn, $1,238/oz Au. 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 12M 2018 were calculated using the following realized prices: $15.65/oz Ag, $2.96/lb Cu, $1.02/lb Pb, $1.31/lb Zn, $1,269/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, $/1.06lb Pb, $1.32/lb Zn, $1,265/oz Au.

The Bolivar Mine processed 1,031,750 tonnes in 2018, representing a 16% increase over 2017. Q4 2018 record throughput was 272,645 tonnes, which was 20% higher when compared to Q4 2017. The higher throughput and higher gold and silver head grades resulted in a 16% increase in copper equivalent production in Q4 2018 compared to Q4 2017. The increase in throughput was due to the work performed to increase the profile of the ramps and main access drives to 5 meters wide x 5 meters high within the mine to provide access to larger conventional road dump trucks as well as articulating 6-wheel trucks to move higher volumes of ore out of the mine. The development work performed during the year resulted in increased access to more minable stopes which also contributed to the higher throughput. The Company is pleased with the progress made on the expansion plans at the Bolivar Mine. With the early completion of construction at the Piedras Verdes Mill, we expect to deliver on the goal of a 20% increase in production from 3,000 TPD to 3,600 TPD, in Q1 2019.

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

Copper equivalent production at the Bolivar Mine increased 16% in 2018 compared to 2017, with copper production 14% higher, silver production 38% higher, and gold production 38% higher. In Q4 2018, copper production increased by 8% to 4,230,000 pounds, silver production increased 53% to 128,000 ounces, and gold production increased 47% to 1,163 ounces compared to Q4 2017. The 16% increase in copper equivalent production was driven by higher throughput, and higher silver and gold head grades.

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.

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 2018 the Company drilled 1,781 meters to support the development of the Santa Rosa de Lima vein in Promontorio to further verify the size and continuity of the orezone. 2,497 meters of surface diamond drilling was performed to explore the depth of the mineralized structure of San Nicolas in the area of the San Juan Mine.

Cusi Preliminary Economic Assessment ("PEA")

On June 18, 2018, the Company reported the results of the PEA for the Cusi Mine, which included the following highlights (see Company's website for the Press Release):

PEA Highlights

Base case of $1,283/oz Gold, $18.30/oz Silver, $0.93/lb. Lead, $1.15/lb. Zinc	**Unit**		**Value**
Net Present Value (After Tax 8% Discount Rate)	US$ M	$	92.2
Internal Rate of Return	IRR		75%
Mill Feed	Tonnes (Mt)		6.27
Peak Mining Production Rate	t/year		972,000
LOM Project Operating Period	Years		9
Total Life of Mine (LoM) Capital Costs	US$ M	$	104.5
Net After – Tax Cashflow	US$ M	$	150.6
Total Operating Unit Costs	US$/t	$	41.36
LOM Gold Production (Payable)	Oz		19,706
LOM Silver Production (Payable)	MOz		30
LOM Lead Production (Payable)	t		28,256
LOM Zinc Production (Payable)	t		19,160

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

The PEA calculates a Base Case after-tax NPV of US$92.2 million, with an after-tax IRR of 75% using a discount rate of 8%. The total life of mine capital cost of the project is estimated to total US$104.5 million. The payback period for the Life of Mine (LoM) capital is estimated at 4.6 years. Operating costs of the life of mine total US$259.3 million, equating to an operating cost of US$41.36 per tonne milled.

Cusi Production

A summary of contained metal production from the Cusi Mine for the three months and year ended December 31, 2018 has been provided below:

		3 Months Ended			12 Months Ended	
Cusi Production	**Q4 2018**	**Q4 2017**	**% Var.**	**Q4 2018**	**Q4 2017**	**% Var.**
Tonnes processed (mt)	**58,289**	**16,280**	***258%***	**186,889**	**88,011**	***112%***
Daily throughput	666	186	*258%*	534	251	*112%*
Silver grade (g/t)	111.10	178.60	*-38%*	140.17	164.93	*-15%*
Gold grade (g/t)	0.16	0.25	*-36%*	0.16	0.26	*-38%*
Lead grade	0.41%	0.97%	*-58%*	0.36%	1.12%	*-68%*
Zinc grade	0.49%	1.00%	*-50%*	0.40%	1.13%	*-64%*
Silver recovery	82.06%	88.15%	*-7%*	83.10%	72.17%	*15%*
Gold recovery	40.72%	58.09%	*-30%*	39.14%	58.40%	*-33%*
Lead recovery	80.61%	87.65%	*-8%*	79.92%	81.26%	*-2%*
Zinc recovery	0.00%	42.50%	*-100%*	4.26%	42.56%	*-90%*
Silver ounces (000's)	**171**	**82**	***107%***	**700**	**337**	***108%***
Gold ounces	**124**	**77**	***62%***	**372**	**423**	***-12%***
Lead pounds (000's)	**421**	**305**	***38%***	**1,194**	**1,769**	***-33%***
Zinc pounds (000's)	**0**	**152**	***-100%***	**71**	**937**	***-92%***
Silver equivalent ounces (000's) (1)	**207**	**122**	***70%***	**813**	**550**	***48%***

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2018 were calculated using the following realized prices: $14.63/oz Ag, $2.77/lb Cu, $0.89/lb Pb, $1.16/lb Zn, $1,238/oz Au. 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 12M 2018 were calculated using the following realized prices: $15.65/oz Ag, $2.96/lb Cu, $1.02/lb Pb, $1.31/lb Zn, $1,269/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, $/1.06lb Pb, $1.32/lb Zn, $1,265/oz Au.

Annual production at the Cusi Mine was 186,889 tonnes in 2018, which was 112% higher than 2017. Total ore processed increased 258% to 58,289 tonnes during Q4 2018 compared to Q4 2017. The higher throughput was partially offset by lower head grades and recoveries for all metals, but still resulted in a 70% increase in silver equivalent production in Q4 2018 compared to Q4 2017.

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

Silver equivalent production increased 48% during 2018 compared to 2017, as silver production increased 108% to 700,000 ounces, while gold production decreased 12% to 372 ounces, lead production decreased 33% to 1,194,000 pounds and zinc production decreased 92% to 71,000 pounds. However, during Q4 2018, silver, gold, and lead production were 107%, 62%, and 38% higher than Q4 2017, respectively.

The increase in throughput was partially the result of the Company's successful development and mining of ore from the recently discovered high-grade silver stockwork zone located within the Santa Rosa de Lima ("SRL") vein complex. This mineralized zone extends to over 100 meters in length, 50 meters in width and 70 meters in height. Our development plan is now incorporating the wider dimensions of this zone.

Consolidated Mineral Resources

Consolidated Reserves and Resources

Reserves - Proven and Probable

		Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	ZnEq (%)	Contained Metal Ag (M oz)	Cu (M lb)	Pb (M lb)	Zn (M lb)	Au (K oz)	AgEq (M oz)	CuEq (M lb)	ZnEq (M lb)
Yauricocha	Proven	1,836	47	1.08	0.84	2.59	0.64	-	-	5.78	3	44	34	105	38		-	234
	Probable	7,081	49	1.23	0.75	2.38	0.49	-	-	5.72	11	192	117	372	112		-	893
	Proven & Probable	8,917	48	1.20	0.77	2.43	0.52	-	-	5.73	14	235	151	477	150		-	1,127
Bolivar	Proven	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Probable	7,925	19	0.86	-	-	0.25	-	1.14	-	5	150	-	-	64	-	199	-
	Proven & Probable	7,925	19	0.86	-	-	0.25	-	1.14	-	5	150	-	-	64	-	199	-
Total	**Proven & Probable**	**16,842**	**34**	**1.04**	**0.41**	**1.29**	**0.39**				**19**	**386**	**151**	**477**	**213**			

Resources - Measured and Indicated

		Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	ZnEq (%)	Contained Metal Ag (M oz)	Cu (M lb)	Pb (M lb)	Zn (M lb)	Au (K oz)	AgEq (M oz)	CuEq (M lb)	ZnEq (M lb)
Yauricocha	Measured	3,094	70	1.72	1.23	3.20	0.79	-	-	8.06	7	117	84	219	78	-	-	550
	Indicated	10,112	60	1.46	0.83	2.67	0.60	-	-	6.63	19	326	185	595	196	-	-	1,478
	Measured & Indicated	13,206	62	1.52	0.92	2.79	0.65	-	-	6.97	26	444	269	813	274	-	-	2,028
Bolivar	Measured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Indicated	13,267	23	1.04	-	-	0.30	-	1.37	-	10	304	-	-	128	-	402	-
	Measured & Indicated	13,267	23	1.04	-	-	0.30	-	1.37	-	10	304	-	-	128	-	402	-
Cusi	Measured	362	225	-	0.55	0.68	0.13	269	-	-	3	-	4	5	2	3	-	-
	Indicated	4,195	217	-	0.64	0.66	0.21	267	-	-	29	-	59	61	28	36	-	-
	Measured & Indicated	4,557	218	-	0.63	0.66	0.20	267	-	-	32	-	64	66	30	39	-	-
Total	**Measured & Indicated**	**31,030**	**68**	**1.09**	**0.49**	**1.29**	**0.43**				**68**	**748**	**333**	**880**	**432**			

Resources - Inferred

		Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	ZnEq (%)	Contained Metal Ag (M oz)	Cu (M lb)	Pb (M lb)	Zn (M lb)	Au (K oz)	AgEq (M oz)	CuEq (M lb)	ZnEq (M lb)
Yauricocha		6,632	43	1.19	0.47	2.16	0.55	-	-	5.15	9	175	68	315	117	-	-	753
Bolivar		8,012	22	0.96	-	-	0.42	-	1.35	-	6	170	-	-	108	-	238	-
Cusi		1,633	158	-	0.54	0.84	0.16	207	-	-	8	-	19	30	8	11	-	-
Total	**Inferred**	**16,277**	**44**	**0.96**	**0.24**	**0.96**	**0.45**				**23**	**344**	**87**	**345**	**234**			

Notes:

1. The effective date of the Yauricocha mineral reserve and resource estimate is July 31, 2017. Details of the estimate are provided in a NI 43-101 technical report filed on SEDAR on November 10, 2017. Zinc equivalency is based on the following metal price assumptions: US$17.80/oz Ag, US$2.60/lb Cu, US$1.01/lb Pb, US$1.25/lb Zn and US$1,255/oz Au. Metallurgical recovery assumptions are variable between mineralization types, and are based on actual plant data for 2017. They range (where recovered) from 28-67% Ag, 39-65% Cu, 66-85% Pb, 89% Zn, 16-54% Au. The equivalency expression is designed to present an in-situ zinc equivalent, considering the recovered value of the other metals expressed in the value of zinc percent.

- The equation is: ZnEq = ((Ag*Ag$*Agrec)+(Cu*Cu$*Curec)+(Pb*Pb$*Pbrec)+(Zn*Zn$*Znrec)+(Au*Au$*Aurec)) / (Zn$*Znrec).

2. The effective date of the Bolivar mineral reserve and resource estimate is October 31, 2017. Details of the estimate are provided in the Company's May 22, 2018 press releases and a NI 43-101 technical report will be filed on SEDAR within 45 days of the May 22, 2018 press release. Measured, Indicated and Inferred Resources include Proven and Probable Reserves. Copper equivalent is based on the following metal prices: US$18.25/oz Ag, US3.00/lb Cu and US$1,291 Au. Totals for Proven and Probable are diluted for internal waste. Metallurgical recovery assumptions are based on actual plant data for 2017 and are 78% Ag, 83% Cu, and 64% Au. The equivalency expression is designed to present an in-situ copper equivalent, considering the recovered value of the other metals expressed in the value of copper percent.
   - The equation is: CuEq = ((Ag*Ag$*Agrec)+(Cu*Cu$*Curec)+(Au*Au$*Aurec)) / (Cu$*Curec).
3. The effective date of the Cusi mineral resource estimate is Aug 31, 2017. Details of the estimate are provided in a NI 43-101 technical report filed on SEDAR on February 12, 2018. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Silver equivalency is based on the following metal price assumptions: US$18.30/oz Ag, US$0.93/lb Pb, US$1.15/lb Zn and US$1,283/oz Au. Based on the historical production information for Cusi, the metallurgical recovery assumptions are 84% Ag, 86% Pb, 51% Zn, 57% Au. The equivalency expression is designed to present an in-situ silver equivalent, considering the recovered value of the other metals expressed in the value of silver g/t.
   - The equation is: AgEq = ((Ag*Ag$*Agrec)+(Pb*Pb$*Pbrec)+(Zn*Zn$*Znrec)+(Au*Au$*Aurec)) / (Ag$*Agrec).

6. SUMMARIZED FINANCIAL RESULTS

Year ended December 31, 2018 (compared to the year ended December 31, 2017)

(In thousands of United States dollars, except cash costs)	Dec 31, 2018	Year ended Dec 31, 2017	Dec 31, 2016
Revenue	$ 232,371	$ 205,118	$ 143,180
Adjusted EBITDA [1]	**89,756**	**81,034**	**41,887**
Cash flow from operations before movements in working capital	**90,148**	**79,785**	**44,303**
Adjusted net income attributable to shareholders	**29,009**	**23,482**	**7,006**
Non-cash charge on the acquisition of Corona	10,534	31,448	24,384
Gross profit	85,782	45,964	16,780
Income tax expense	(26,340)	(10,348)	(5,757)
Net income (loss) attributable to shareholders	18,814	(4,645)	(12,265)

(In thousands of United States dollars)	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
Cash and cash equivalents	$ 21,832	$ 23,878	$ 42,145
Assets	356,441	340,601	364,812
Liabilities	152,836	159,923	178,850
Net Debt [2]	**34,421**	**40,982**	**36,537**
Equity	203,605	180,678	185,962

[1] This is a non-IFRS performance measure, see Non-IFRS Performance Measures section

[2] Loans payable minus cash and cash equivalents.

Net income (loss) attributable to shareholders for 2018 was $18.8 million (2017: $(4.6) million) or $0.12 per share (basic and diluted) (2017: $(0.03)). 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. The other major differences between these periods are explained below.

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

Revenues

Revenue from metals payable at the Yauricocha Mine in Peru of $168.7 million for 2018 increased by 9% compared to $154.2 million of revenues in 2017. Higher revenues are primarily attributable to the 8% increase in throughput, and the higher head grades and recoveries for copper and gold at Yauricocha in 2018 compared to 2017. The increase in revenues were realized despite decreases in the prices of silver (9%), lead (4%), and zinc (1%), which copper prices increased by 5% and gold prices were consistent with 2017. The Company continued to achieve consistent production throughout 2018 as the operational improvement program, and the focus on extracting higher value ore, in addition to ore sourced from the Esperanza Zone, continues to generate significant cash flows.

Revenue from metals payable in Mexico were $63.7 million for 2018 compared to $51.0 million in 2017. Revenues increased by 25% in Mexico during 2018 as a result of the 16% increase in throughput, higher silver and gold head grades, and higher gold recoveries realized at Bolivar; as well as the 112% increase in throughput, and higher silver recoveries realized at Cusi. The increase in revenues were realized despite decreases in the prices of silver (9%), lead (4%), and zinc (1%), which copper prices increased by 5% and gold prices were consistent with 2017; Revenue from metals payable at the Bolivar Mine were $52.5 million for 2018 compared to $45.0 million in 2017. The increase in revenue from the Bolivar Mine in 2018 was due to the 5% increase in the price of copper realized, the 16% increase in throughput, higher silver and gold head grades, and higher recoveries of gold 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 2018 were $11.3 million compared to $6.0 million in 2017. The increase in revenues was the result of a 112% increase in throughput, and higher silver recoveries realized at Cusi. The Company has successfully transitioned to mining the recently developed Santa Rosa de Lima zone. This zone was being developed for the majority of 2017 as ramps were being prepared to access the minable stopes within the deposit. The Company is currently mining selected higher-grade structures at the old mine, the San Antonio vein, as well as the Santa Rosa de Lima structure containing improved head grades to the mill at Cusi.

The following table shows the Company's realized selling prices for each quarter in 2018 and 2017:

Realized Metal Prices	**2018**					**2017**			
(In US dollars)	**Q4**	**Q3**	**Q2**	**Q1**	**YTD**	**Q3**	**Q2**	**Q1**	**YTD**
Silver (oz)	$ 14.63	$ 14.85	$ 16.36	$ 16.75	$ 15.65	$ 16.86	$ 17.22	$ 17.71	$ 17.14
Copper (lb)	$ 2.77	$ 2.79	$ 3.12	$ 3.14	$ 2.96	$ 2.93	$ 2.58	$ 2.64	$ 2.82
Lead (lb)	$ 0.89	$ 0.94	$ 1.09	$ 1.15	$ 1.02	$ 1.08	$ 0.99	$ 1.04	$ 1.06
Zinc (lb)	$ 1.16	$ 1.14	$ 1.38	$ 1.56	$ 1.31	$ 1.36	$ 1.20	$ 1.27	$ 1.32
Gold (oz)	$ 1,238	$ 1,206	$ 1,296	$ 1,334	$ 1,269	$ 1,280	$ 1,265	$ 1,231	$ 1,265

Yauricocha's cost of sales per zinc equivalent payable pound was $0.55 (2017 - $0.54), cash cost per zinc equivalent payable pound was $0.52 (2017 - $0.50), and AISC per zinc equivalent payable pound of $0.73 (2017 - $0.78). The decrease in the AISC per zinc equivalent payable pound for 2018 compared to 2017 was a result of lower sustaining capital expenditures and higher zinc equivalent payable pounds, while cash costs remained consistent; this was partially offset by slight increases in general and administrative costs. These cost decreases were realized despite a $2.0 million increase in labor costs, due to the Company's union agreement and a salary adjustment to bring the 2018 salaries in line with the current market rates. The payment was made during November and December 2018 but retroactive to the entire year's salaries. Going forward these costs will be amortized over the entire year for 2019. The union was formed in July 2017 and has grown to 406 workers at the end of 2018, equivalent to approximately 60% of the Company's workforce, representing the majority of the mine employees.

Bolivar's cost of sales per copper equivalent payable pound was $1.73 (2017 - $1.54), cash cost per copper equivalent payable pound was $1.44 (2017 - $1.49), and AISC per copper equivalent payable pound was $2.13 (2017 - $2.698) for 2018 compared to 2017. The decrease in the AISC per copper equivalent payable pound during 2018 compared to 2017 was due to the increase in copper equivalent payable pounds resulting from higher throughput, higher silver and gold head grades and higher gold recoveries, as well as a decrease in sustaining capital expenditures.

Cusi's cost of sales per silver equivalent payable ounce was $8.97 (2017 - $12.51), cash cost per silver equivalent payable ounce was $15.71 (2017 - $15.37), and AISC per silver equivalent payable ounce was $22.09 (2017 - $33.90) for 2018 compared to 2017. AISC per silver equivalent payable ounce decreased due to higher silver equivalent payable ounces resulting from higher throughput, higher silver recoveries, lower treatment and refining charges, and lower sustaining capital expenditures.

Non-cash depletion, depreciation and amortization

The Company recorded total non-cash depletion, depreciation and amortization expense for 2018 of $31.3 million compared to $58.2 million for the same period in 2017.

A large component of the net income for every period is the non-cash depletion charge in Peru, which was $10.5 million for 2018 (2017: $31.5 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 decrease in the non-cash depletion charge in 2018 was due to the 134% increase in proven and probable reserves reported in the Company's NI 43-101 Technical Report issued on October 26, 2017.

General and Administrative Expenses

The Company incurred general and administrative expenses of $18.9 million in 2018 compared to $20.3 million in 2017. The decrease in general and administrative costs in 2018 compared to 2017 was due to a decrease in consultant fees, professional fees and legal fees incurred in Canada during 2017 with regards to the work being performed towards listing Sierra Metals Inc. on the NYSE AMERICAN stock exchange, as well as the spin-out of the Northern Peruvian Properties from the Company's previous subsidiary, Plexmar Resources Inc.

Adjusted EBITDA [(1)]

The Company recorded adjusted EBITDA of $89.8 million during 2018 (2017: $81.0 million) which was comprised of $79.5 million (2017: $74.8 million) from the Peruvian operations and $13.8 million (2017: $10.5 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 $25.4 million for 2018 compared to $23.4 million in 2017. The increase was the result of the higher taxable income generated in Peru during 2018 compared to 2017.

During 2018, the Company recorded a deferred tax expense of $(0.9) million compared to $13.1 million deferred tax recovery in 2017. 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 period over period, in line with the non-cash depletion charge mentioned previously.

Adjusted net income attributable to shareholders [(1)]

Adjusted net income attributable to shareholders [(1)] of $29.0 million, or $0.17 per share, for 2018 was higher than the adjusted net income of $23.5 million, or $0.14 per share for 2017. 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

Other comprehensive income ("OCI") for 2018 was $24.3 million compared to OCL of $(0.4) million in 2017. OCI includes a foreign currency loss of $1.6 million for 2018 (2017: $0.5 million). The unrealized foreign currency translation loss was caused by the weakening of the Canadian dollar relative to the US dollar during the period which resulted in a foreign exchange loss 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 quarterly financial results detailed by operating segment:

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

Year ended December 31, 2018	Peru Yauricocha Mine $	Mexico Bolivar Mine $	Mexico Cusi Mine	Canada Corporate $	Total $
Revenue [1]	168,657	52,451	11,263	-	**232,371**
Production cost of sales	(74,731)	(33,168)	(7,281)	-	**(115,180)**
Depletion of mineral property	(13,229)	(2,918)	(640)	-	**(16,787)**
Depreciation and amortization of property, plant and equipment	(4,626)	(8,197)	(1,799)	-	**(14,622)**
Cost of sales	(92,586)	(44,283)	(9,720)	-	**(146,589)**
Gross profit from mining operations	76,071	8,168	1,543	-	**85,782**
Net income (loss) from operations	34,938	(3,593)	(1,228)	(4,277)	**25,840**
Adjusted EBITDA	79,524	10,984	2,792	(3,544)	**89,756**

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)	**81,034**

Cash Flows

Cash flow generated from operations before movements in working capital of $90.1 million for 2018 increased compared to $79.8 million in 2017. The increase in operating cash flow is mainly the result of higher revenues generated and higher gross margins realized.

Net cash flow of $(49.3) million (2017: $(51.6) million) used in investing activities during 2018 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 $49.3 million during the year ended December 31, 2018 is presented below:

2018 Capital Expenditures by Mine

($ Millions)	Yauricocha	Bolivar	Cusi	Total
Expenditure				
Mascota Shaft Refurbishing	$ 1.50	$ -	$ -	$ 1.50
Concentrator Plant Improvements	$ 2.00	$ -	$ -	$ 2.00
Investment in Equipment	$ 3.90	$ 2.20	$ 2.10	$ 8.20
Exploration Drilling	$ 1.80	$ 2.20	$ 2.60	$ 6.60
Mine Development	$ 5.70	$ 2.50	$ 2.30	$ 10.50
Plant Improvements (production increases)	$ 0.90	$ 6.30	$ 2.40	$ 9.60
Ventilation	$ 1.00	$ -	$ -	$ 1.00
Yauricocha Tunnel	$ 3.60	$ -	$ -	$ 3.60
Yauricocha Shaft	$ 4.60	$ -	$ -	$ 4.60
Tailings Dam	$ 0.20	$ 0.50	$ 0.60	$ 1.30
Mining Concession Fees	$ -	$ 0.40	$ -	$ 0.40
	$ 25.20	$ 14.10	$ 10.00	$ 49.30

Net cash flow of $(14.5) million (2017: $(21.1) million) from (used in) financing activities for 2018 consists of $(18.8) million (2017: $(44.5) million) in repayments of loans and credit facilities, $(2.8) million (2017: $(3.0) million) in interest paid on loans and credit facilities, and $(2.9) million (2017: $(3.4) million) of dividends paid to non-controlling interest shareholders. This was partially offset by proceeds received from the issuance of credit facilities of $10.0 million during 2018 (2017: $29.8 million).

7. QUARTERLY FINANCIAL REVIEW

The following table displays selected results from the eight most recent quarters:

	2018				2017			
(In thousands of United States dollars, except per share amounts)	**Dec-31**	**Sep-30**	**Jun-30**	**Mar-31**	**Dec-31**	**Sep-30**	**Jun-30**	**Mar-31**
Revenues	55,019	52,956	62,721	61,675	51,170	50,859	48,571	54,518
Adjusted EBITDA	15,263	18,212	28,878	27,403	19,208	18,845	17,620	25,361
Adjusted net income attributable to shareholders	783	4,482	12,557	11,187	3,241	4,993	4,258	10,990
Net income (loss) attributable to shareholders	(2,654)	1,922	10,843	8,703	2,118	(6,523)	(2,798)	2,558
Basic and diluted earnings (loss) per share ($)	(0.01)	0.01	0.07	0.05	0.01	(0.04)	(0.02)	0.02

Three months ended December 31, 2018 (compared to the three months ended December 31, 2017)

Net income (loss) attributable to shareholders for Q4 2018 was $(2.7) million, or $(0.01) per share (basic and diluted), compared to net income of $2.1 million, or $0.01 per share (basic and diluted) for the same period in 2017. The major differences between these periods are explained below.

Revenues

Revenues from metals payable from the Yauricocha Mine in Peru were $39.2 million for Q4 2018 compared to $38.2 million in Q4 2017. The increase in revenues for Q4 2018 compared to Q4 2017 was due to a 5% increase in tonnes processed, higher head grades for all metals, except zinc, and higher recoveries for lead and gold. Increased revenues were realized due to the higher metal production, despite decreases in the prices of silver (13%), copper (12%), zinc (20%), lead (20%), and gold (3%).

Revenue from metals payable in Mexico were $15.8 million for Q4 2018, compared to $12.9 million for the same period in 2017. Revenues in Mexico increased as a result the 20% increase in throughput, higher silver and gold head grades at Bolivar; and the 258% increase in throughput at Cusi. Increased revenues were realized due to the higher metal production, despite decreases in the prices of silver (13%), copper (12%), zinc (20%), lead (20%), and gold (3%).

Revenues generated at the Bolivar Mine for Q4 2018 were $12.0 million, compared to $12.0 million for the same period in 2017. The 20% increase in throughput, and higher head grades of silver and gold resulted in an increase in equivalent metal production and revenues compared to Q4 2017.

Revenues generated at the Cusi Mine for Q4 2018 were $3.8 million compared to $1.0 million for Q4 2017. The increased revenue resulted as tonnage continued to improve in the fourth quarter, and the Mine realized a 258% increase in ore throughput when compared to Q4 2017. The Company continues to increase mill feed from the Santa Rosa de Lima zone, while mining selected structures in the older part of the mine. The addition of another ball mill will see the capacity increase to approximately 1,200 tonnes per day in 2019. Additionally, the company has recently defined a significant high-grade silver zone, which remains open to depth within the Santa Rosa de Lima structure which will help contribute increased, higher grade mill feed going forward.

Yauricocha's cost of sales per zinc equivalent payable pound was $0.54 (Q4 2017 - $0.63), cash cost per zinc equivalent payable pound was $0.52 (Q4 2017 - $0.57), and AISC per zinc equivalent payable pound of $0.73 (Q4 2017 - $0.90). The decrease in the AISC per zinc equivalent payable pound for Q4 2018 compared to Q4 2017 was the result of higher zinc equivalent payable pounds due to higher throughput, and higher copper and gold head grades and recoveries. These cost decreases were realized despite a $2.0 million increase in labor costs, due to the Company's union agreement and a salary adjustment to bring the 2018 salaries in line with the current market rates. The payment was made during November and December 2018 but retroactive to the entire year's salaries. Going forward these costs will be amortized over the entire year for 2019. The union was formed in July 2017 and has grown to 406 workers at the end of 2018, equivalent to approximately 60% of the Company's workforce, representing the majority of the mine employees

Bolivar's cost of sales per copper equivalent payable pound was $2.11 (Q4 2017 - $1.66), cash cost per copper equivalent payable pound was $1.67 (Q4 2017 - $1.72), and AISC per copper equivalent payable pound was $2.37 (Q4 2017 - $3.03) for Q4 2018 compared to Q4 2017. The decrease in the AISC per copper equivalent payable pound during Q4 2018 compared to Q4 2017 was due to the increase in copper equivalent payable pounds resulting from higher throughput, and silver and gold head grades, as well as a decrease in sustaining capital expenditures.

Cusi's cost of sales per silver equivalent payable ounce was $11.04 (Q4 2017 - $17.18), cash cost per silver equivalent payable ounce was $18.96 (Q4 2017 - $18.66), and AISC per silver equivalent payable ounce was $23.27 (Q4 2017 - $36.33) for Q4 2018 compared to Q4 2017. AISC per silver equivalent payable ounce decreased due to higher silver equivalent payable ounces resulting from higher throughput, and lower sustaining capital expenditures.

Non-cash depletion, depreciation and amortization

The Company recorded total non-cash depletion, depreciation and amortization expense for Q4 2018 of $8.0 million compared to $7.9 million for the same period in 2017.

A large component of the non-cash depletion, depreciation and amortization expense is the depletion charge on the acquisition of Corona of $2.5 million for Q4 2018 compared to $2.7 million for the same period in 2017. 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.

General and Administrative Expenses

The Company incurred general and administrative expenses of $5.0 million for Q4 2018 compared to $8.6 million for Q4 2017. General and administrative costs in Q4 2017 included a substantial amount of legal fees incurred in Canada with regards to the work performed towards listing Sierra Metals Inc on the NYSE MKT stock exchange, as well as the spin-out of the Northern Peruvian Properties.

Adjusted EBITDA

Adjusted EBITDA (1) of $15.3 million for Q4 2018 decreased 21% compared to $19.2 million in Q4 2017. The decrease in adjusted EBITDA in Q4 2018 was due to the decreases in the prices of silver (13%), copper (12%), lead (20%), zinc (20%), and gold (3%) during Q4 2018 compared to Q4 2017, which had a negative impact on the Company's revenues. The Company also made a payment of $2.0 million to the Yauricocha union of mining employees during Q4 2018, which had a negative impact on the Adjusted EBITDA during the quarter.

Income taxes

The Company recorded current tax expense of $5.3 million for Q4 2018 compared to $5.6 million in Q4 2017 and the decrease was the result of the slightly lower taxable income generated in Peru during Q4 2018 compared to Q4 2017.

During Q4 2018, the Company recorded a deferred tax expense of $(1.3) million compared to a deferred tax recovery of $0.6 million in Q4 2017. 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 year over year in line with the non-cash depletion charge mentioned previously.

Adjusted net income attributable to shareholders

The Company recorded an adjusted net income of $0.8 million for Q4 2018 compared to $3.2 million for Q4 2017. 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)

OCL for Q4 2018 was $(2.8) million compared to OCI of $3.6 million for the same period in 2017. OCI includes a foreign currency loss of $(1.1) million in Q4 2018 (Q4 2017: $(0.1) million). The unrealized foreign currency translation loss was caused by the weakening of the Canadian dollar relative to the US dollar during the quarter, which resulted in a foreign exchange loss on the translation of the Canadian dollar net assets into the Company's US dollar presentation currency.

(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, 2018 and December 31, 2017:

(000's)	December 31, 2018	December 31, 2017
Cash and cash equivalents	**$ 21,832**	$ 23,878
Working capital	**$ (8,290)**	$ (6,784)
Total assets	**$ 356,441**	$ 340,601
Debt (net of financing fees)	**$ 56,253**	$ 64,860
Total liabilities	**$ 152,836**	$ 159,923
Equity attributable to owners of the Company	**$ 173,355**	$ 154,571

Cash and cash equivalents of $21.8 million and working capital of $(8.3) million as at December 31, 2018 compared to $23.9 million and $(6.8) million, respectively, at the end of 2017. Cash and cash equivalents have decreased by $2.0 million during 2018 due to $61.9 million of operating cash flows, and $10.0 million drawn down from a short term revolving line of credit, being offset by capital expenditures incurred in Mexico and Peru of $(49.3) million, repayment of loans, credit facilities and interest of $(21.5) million, dividends paid to non-controlling interest shareholders of $(2.9) million.

Trade and other receivables include $5.8 million (December 31, 2017 - $5.7 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 $15.6 million for some of the monthly claims submitted over the past three years. The Company expects to collect or offset the VAT balance against 2019 VAT payables. Amounts included in trade and other receivables are current and the Company has no allowance for doubtful accounts as at December 31, 2018.

Sierra's outstanding loan and credit facilities are shown below:

		Balance Outstanding	
(000's)	Limit	December 31, 2018	December 31, 2017
Dia Bras Peru loan with BCP (Corona Acquisition) [1]	$ -	**$ 34,596**	$ 40,377
Corona loan with BCP (Corona Operating) [2]	$ -	**$ -**	$ 6,309
DBP revolving credit facility with BCP [3]	$ 15,000	**$ 15,000**	$ 15,000
Corona Notes payable to BBVA Banco Continental [4]	$ 5,000	**$ 5,000**	$ -
FIFOMI working capital facility	$ 7,543	**$ 1,657**	$ 3,174
Total Debt		**$ 56,253**	$ 64,860
Less cash balances		**$ 21,832**	$ 23,878
Net Debt		**$ 34,421**	$ 40,982

[1 – 4] See consolidated financial statements as at December 31, 2018 for details of each loan and credit facility.

Outstanding shares

The authorized share capital at December 31, 2018 was an unlimited number of common shares without par value. As at March 27, 2019, the Company had 163.5 million shares issued and outstanding (December 31, 2017 – 162.8 million shares issued and outstanding).

As at December 31, 2018, there were 1,380,085 RSUs outstanding at a weighted average fair value of C$3.01.

As at March 27, 2019 there are 1,255,285 RSU’s outstanding at a weighted average fair value of C$3.15.

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.

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.

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

The following are the most significant areas of exposure to currency risk:

	December 31, 2018			
	CAN dollar	Mexican Peso	Peruvian Nuevo Soles	Total $
Cash and cash equivalents	183	393	1,064	**1,640**
Income tax and other receivables	32	8,748	617	**9,397**
	215	9,141	1,681	**11,037**
Accounts payable and other liabilities	(1,268)	(22,865)	(19,632)	**(43,765)**
Total	**(1,053)**	**(13,724)**	**(17,951)**	**(32,728)**

	December 31, 2017			
	CAN dollar	Mexican Peso	Peruvian Nuevo Soles	Total $
Cash and cash equivalents	132	167	634	933
Income tax and other receivables	158	9,618	918	10,694
	290	9,785	1,552	11,627
Accounts payable and other liabilities	(1,461)	(30,674)	(21,838)	(53,973)
Total	(1,171)	(20,889)	(20,286)	(42,346)

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, 2018, 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, 2018, with all the other variables held constant, would have resulted in an increase to the Company's net income of $1,992 (increase in loss in 2017 of $4,118).

A 10% appreciation in the Canadian dollar exchange rate against the US dollar based on the financial assets and liabilities held at December 31, 2018 and 2017, with all the other variables held constant, would have resulted in a negligible impact to the Company's net income (loss).

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

(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, 2018 on its loans and notes payable in Peru was 4.26% (2017 – 4.31%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net loss by $486 (2017 - $541). The interest rate paid by the Company during the year ended December 31, 2018 on its loans payable in Mexico was 5.63% (2017 – 5.74%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net income by $57 (2017 - $60).

(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, 2018 and 2017, 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	2018 $	2017 $
10% decrease in silver prices	**(62)**	(27)
10% decrease in copper prices	**(325)**	(456)
10% decrease in lead prices	**(1)**	(1)
10% decrease in gold prices	**(134)**	(87)

As at December 31, 2018 and 2017, 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, 2018 of the Company's financial liabilities and operating and capital commitments:

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

	Within 1 year	1-2 years	2-5 years	After 5 years	Total	As at December 31, 2018
	$	$	$	$	$	$
Accounts payable and accrued liabilities	36,092	-	-	-	36,092	36,092
Loans payable	27,520	6,000	22,733	-	56,253	56,253
Interest on loans payable	198	127	250	-	575	575
Other liabilities	8,908	1,081	-	-	9,989	9,989
Total Commitments	**72,718**	**7,208**	**22,983**	**-**	**102,909**	**102,909**

In the opinion of management, the working capital at December 31, 2018, together with future cash flows from operations and available loan facilities, is sufficient to support the Company's commitments through 2019.

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, 2018 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.

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.

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.

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.

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.

Reliance on Key Personnel and Labour Relations

The Company's operations are dependent on the abilities, experience and efforts of key personnel. If any of these individuals were to be unable or unwilling to continue to provide their services to the Company, there may be a material adverse effect on the Company's operations. The Company's success is dependent upon its ability to attract and retain qualified employees and personnel to meet its needs from time to time. The Company may be negatively impacted by the availability and potential increased costs that may be associated with experienced key personnel and general labour. Sierra's ability to achieve its future goals and objectives is dependent, in part, on maintaining good relations with its employees and minimizing employee turnover. Work stoppages or other industrial relations events at any of Sierra's operations could lead to delayed revenues, increased costs and delayed operation cash flows. As a result, prolonged labor disruptions at any of Sierra's operations could have a material adverse impact on its operations as a whole.

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.

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. 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.

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, 2018 and 2017:

	Three Months Ended		**Twelve Months Ended**	
(In thousands of United States dollars)	**December 31, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Net income (loss)	**$ 1,616**	$ 3,719	**$ 25,840**	$ (860)
Adjusted for:				
Depletion and depreciation	**7,959**	7,906	**31,349**	58,236
Interest expense and other finance costs	**1,055**	860	**3,634**	3,639
Loss on spin out of Cautivo Mining Inc.	**-**	-	**-**	4,412
Interest income	**(50)**	(253)	**(159)**	(376)
Share-based payments	**346**	554	**1,542**	1,198
Foreign currency exchange and other provisions	**959**	1,463	**1,210**	4,437
Income taxes	**6,610**	4,959	**26,340**	10,348
Adjusted EBITDA	**$ 15,263**	$ 19,208	**$ 89,756**	$ 81,034

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.

The following table provides a reconciliation of adjusted net income to the consolidated financial statements for the three months and year ended December 31, 2018 and 2017:

(In thousands of United States dollars)	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Twelve Months Ended December 31, 2018	Twelve Months Ended December 31, 2017
Net income (loss) attributable to shareholders	**$ 2,654**	$ 2,118	**$ 18,814**	$ (4,645)
Non-cash depletion charge on Corona's acquisition	**2,497**	2,721	**10,534**	31,448
Deferred tax recovery on Corona's acquisition depletion charge	**(365)**	(915)	**(3,091)**	(10,668)
Share-based compensation	**346**	554	**1,542**	1,198
Foreign currency exchange gain	**959**	(1,237)	**1,210**	1,737
Loss on spin out of Cautivo Mining Inc.	**-**	-	**-**	4,412
Adjusted net income attributable to shareholders	**$ 783**	$ 3,241	**$ 29,009**	$ 23,482

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."*

(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 for the three months and year ended December 31, 2018 and 2017:

		Twelve months ended December 31, 2018				Twelve months ended December 31, 2017			
(In thousand of US dollars, unless stated)		Yauricocha	Bolivar	Cusi	Consolidated	Yauricocha	Bolivar	Cusi	Consolidated
Cash Cost per Tonne of Processed Ore									
Cost of Sales		92,586	37,499	16,505	146,589	111,733	36,616	10,804	159,153
Reverse: Workers Profit Sharing		(4,938)	-	-	(4,938)	(4,446)	-	-	(4,446)
Reverse: D&A/Other adjustments		(17,726)	(9,931)	(3,752)	(31,409)	(44,619)	(10,148)	(3,409)	(58,176)
Reverse: Variation in Finished Inventory		54	1,026	(745)	335	1,222	(4,342)	264	(2,856)
Total Cash Cost		**69,976**	**28,593**	**12,008**	**110,577**	**63,890**	**22,126**	**7,659**	**93,675**
Tonnes Processed		1,106,649	1,031,750	186,889	2,325,288	1,023,492	887,236	88,011	1,998,739
Cash Cost per Tonne Processed	**US$**	**63.23**	**27.71**	**64.25**	**47.55**	**62.42**	**24.94**	**87.02**	**46.87**

		Three months ended December 31, 2018				Three months ended December 31, 2017			
(In thousand of US dollars, unless stated)		Yauricocha	Bolivar	Cusi	Consolidated	Yauricocha	Bolivar	Cusi	Consolidated
Cash Cost per Tonne of Processed Ore									
Cost of Sales		23,785	10,230	4,948	38,962	22,551	9,964	2,423	34,938
Reverse: Workers Profit Sharing		(1,206)	-	-	(1,206)	(1,268)	-	-	(1,268)
Reverse: D&A/Other adjustments		(4,195)	(2,520)	(1,269)	(7,984)	(4,536)	(2,552)	(725)	(7,812)
Reverse: Variation in Finished Inventory		231	537	(313)	455	531	(867)	240	(96)
Total Cash Cost		**18,615**	**8,246**	**3,366**	**30,227**	**17,278**	**6,545**	**1,938**	**25,762**
Tonnes Processed		268,363	272,644	58,289	599,297	266,222	226,986	16,281	509,488
Cash Cost per Tonne Processed	**US$**	**69.37**	**30.25**	**57.74**	**50.44**	**64.90**	**28.84**	**119.06**	**50.57**

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, 2018 and 2017:

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

Yauricocha:

YAURICOCHA *(In thousand of US dollars, unless stated)*		Three months ended December 31, 2018	Three months ended December 31, 2017	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
Cash Cost per zinc equivalent payable pound					
Total Cash Cost		18,615	17,278	69,976	63,890
Variation in Finished inventory		(231)	(531)	(54)	(1,222)
Total Cash Cost of Sales		18,384	16,747	69,922	62,668
Treatment and Refining Charges		2,371	4,461	9,909	12,447
Selling Costs		1,167	1,057	4,382	4,156
G&A Costs		1,648	1,844	7,203	6,054
Sustaining Capital Expenditures		2,043	2,156	7,186	11,632
All-In Sustaining Cash Costs		**25,613**	**26,265**	**98,602**	**96,957**
Silver Equivalent Payable Ounces (000's)		2,810	2,534	11,238	9,633
Cost of Sales		**19,085**	**18,443**	**74,731**	**67,542**
Cost of Sales per Silver Equivalent Payable Ounce	**(US$)**	**6.79**	**7.28**	**6.65**	**7.01**
Cash Cost per Silver Equivalent Payable Ounce	**(US$)**	**6.54**	**6.61**	**6.22**	**6.51**
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce	**(US$)**	**9.12**	**10.37**	**8.77**	**10.07**
Copper Equivalent Payable Pounds (000's)		14,838	13,575	59,508	58,547
Cost of Sales per Copper Equivalent Payable Pound	**(US$)**	**1.29**	**1.36**	**1.26**	**1.15**
Cash Cost per Copper Equivalent Payable Pound	**(US$)**	**1.24**	**1.23**	**1.18**	**1.07**
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound	**(US$)**	**1.73**	**1.93**	**1.66**	**1.66**
Zinc Equivalent Payable Pounds (000's)		35,288	29,303	135,505	125,077
Cost of Sales per Zinc Equivalent Payable Pound	**(US$)**	**0.54**	**0.63**	**0.55**	**0.54**
Cash Cost per Zinc Equivalent Payable Pound	**(US$)**	**0.52**	**0.57**	**0.52**	**0.50**
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound	**(US$)**	**0.73**	**0.90**	**0.73**	**0.78**

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, 2018 and 2017:

Bolivar:

BOLIVAR *(In thousand of US dollars, unless stated)*		Three months ended December 31, 2018	Three months ended December 31, 2017	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
Cash Cost per copper equivalent payable pound					
Total Cash Cost		8,246	6,545	28,593	22,126
Variation in Finished inventory		(537)	867	(1,026)	4,342
Total Cash Cost of Sales		7,710	7,412	27,568	26,468
Treatment and Refining Charges		1,007	1,152	4,233	4,695
Selling Costs		938	726	3,419	2,777
G&A Costs		1,015	834	3,651	2,577
Sustaining Capital Expenditures		256	2,891	2,011	11,054
All-In Sustaining Cash Costs		**10,926**	**13,015**	**40,882**	**47,571**
Silver Equivalent Payable Ounces (000's)		873	803	3,623	2,920
Cost of Sales		**9,751**	**7,121**	**33,168**	**27,418**
Cost of Sales per Silver Equivalent Payable Ounce	**(US$)**	**11.17**	**8.87**	**9.15**	**9.39**
Cash Cost per Silver Equivalent Payable Ounce	**(US$)**	**8.83**	**9.23**	**7.61**	**9.06**
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce	**(US$)**	**12.52**	**16.21**	**11.28**	**16.29**
Copper Equivalent Payable Pounds (000's)		4,614	4,302	19,183	17,747
Cost of Sales per Copper Equivalent Payable Pound	**(US$)**	**2.11**	**1.66**	**1.73**	**1.54**
Cash Cost per Copper Equivalent Payable Pound	**(US$)**	**1.67**	**1.72**	**1.44**	**1.49**
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound	**(US$)**	**2.37**	**3.03**	**2.13**	**2.68**
Zinc Equivalent Payable Pounds (000's)		11,018	9,286	43,644	37,914
Cost of Sales per Zinc Equivalent Payable Pound	**(US$)**	**0.89**	**0.77**	**0.76**	**0.72**
Cash Cost per Zinc Equivalent Payable Pound	**(US$)**	**0.70**	**0.80**	**0.63**	**0.70**
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound	**(US$)**	**0.99**	**1.40**	**0.94**	**1.25**

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, 2018 and 2017:

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

Cusi:

CUSI *(In thousand of US dollars, unless stated)*		Three months ended December 31, 2018	 December 31, 2017	Twelve months ended December 31, 2018	 December 31, 2017
Cash Cost per silver equivalent payable ounce					
Total Cash Cost		3,366	1,938	12,008	7,659
Variation in Finished inventory		313	(240)	745	(264)
Total Cash Cost of Sales		3,679	1,698	12,753	7,395
Treatment and Refining Charges		250	181	1,498	2,412
Selling Costs		205	160	750	610
G&A Costs		223	183	802	566
Sustaining Capital Expenditures		157	1,084	2,132	5,323
All-In Sustaining Cash Costs		**4,513**	**3,306**	**17,934**	**16,306**
Silver Equivalent Payable Ounces (000's)		194	91	812	481
Cost of Sales		**2,141**	**1,563**	**7,281**	**6,019**
Cost of Sales per Silver Equivalent Payable Ounce	**(US$)**	**11.04**	**17.18**	**8.97**	**12.51**
Cash Cost per Silver Equivalent Payable Ounce	**(US$)**	**18.96**	**18.66**	**15.71**	**15.37**
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce	**(US$)**	**23.27**	**36.33**	**22.09**	**33.90**
Copper Equivalent Payable Pounds (000's)		1,028	490	4,301	2,928
Cost of Sales per Copper Equivalent Payable Pound	**(US$)**	**2.08**	**3.19**	**1.69**	**2.06**
Cash Cost per Copper Equivalent Payable Pound	**(US$)**	**3.58**	**3.47**	**2.97**	**2.53**
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound	**(US$)**	**4.39**	**6.75**	**4.17**	**5.57**
Zinc Equivalent Payable Pounds (000's)		2,598	1,059	9,601	6,257
Cost of Sales per Zinc Equivalent Payable Pound	**(US$)**	**0.82**	**1.48**	**0.76**	**0.96**
Cash Cost per Zinc Equivalent Payable Pound	**(US$)**	**1.42**	**1.60**	**1.33**	**1.18**
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound	**(US$)**	**1.74**	**3.12**	**1.87**	**2.61**

Consolidated:

CONSOLIDATED *(In thousand of US dollars, unless stated)*		Three months ended December 31, 2018	 December 31, 2017	Twelve months ended December 31, 2018	 December 31, 2017
Total Cash Cost of Sales		29,772	25,857	110,242	96,531
All-In Sustaining Cash Costs		**41,052**	**42,586**	**157,418**	**160,834**
Silver Equivalent Payable Ounces (000's)		3,877	3,428	15,673	13,034
Cost of Sales		**30,977**	**27,127**	**115,180**	**100,979**
Cost of Sales per Silver Equivalent Payable Ounce	**(US$)**	**7.99**	**7.91**	**7.35**	**7.75**
Cash Cost per Silver Equivalent Payable Ounce	**(US$)**	**7.68**	**7.54**	**7.03**	**7.41**
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce	**(US$)**	**10.59**	**12.42**	**10.04**	**12.34**
Copper Equivalent Payable Pounds (000's)		20,480	18,367	82,992	79,222
Cost of Sales per Copper Equivalent Payable Pound	**(US$)**	**1.51**	**1.48**	**1.39**	**1.27**
Cash Cost per Copper Equivalent Payable Pound	**(US$)**	**1.45**	**1.41**	**1.33**	**1.22**
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound	**(US$)**	**2.00**	**2.32**	**1.90**	**2.03**
Zinc Equivalent Payable Pounds (000's)		48,904	39,648	188,750	169,248
Cost of Sales per Zinc Equivalent Payable Pound	**(US$)**	**0.63**	**0.68**	**0.61**	**0.60**
Cash Cost per Zinc Equivalent Payable Pound	**(US$)**	**0.61**	**0.65**	**0.58**	**0.57**
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound	**(US$)**	**0.84**	**1.07**	**0.83**	**0.95**

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.

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.

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

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018, the Company recorded consulting fees of $200 (2017 - $200) to companies related by common directors or officers. At December 31, 2018, accounts payable and accrued liabilities include $Nil (2017 – $Nil) with these related parties. Related party transactions occurred in the normal course of business. As at December 31, 2018, the Company has accounts receivable outstanding from these related parties of $Nil (2017 - $Nil).

(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, 2018 and 2017 are as follows:

	2018	**2017**
	$	**$**
Salaries and other short term employment benefits	**2,816**	2,968
Share-based payments	**1,500**	2,753
Total compensation	**4,316**	5,721

(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.

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

The principal subsidiaries of the Company and their geographical locations as at December 31, 2018 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, 2018 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, 2018, management assessed its mining property assets and exploration and evaluation expenditures for impairment and determined that no impairment was required.

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.

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, 2019, or later periods:

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 is in the process of determining the effect that the adoption of IFRS 16 will have on its consolidated financial statements.

15. OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at December 31, 2018.

16. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

<u>Disclosure controls and procedures</u>

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, 2018, 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 2018. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at December 31, 2018 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.

Changes in internal controls over financial reporting

There have been no changes in ICFR during the three months ended December 31, 2018 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 28, 2019 available at www.sedar.com and at www.sec.gov 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.

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 Corporate 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 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.

SIERRA METALS INC.

Consolidated Financial Statements

Years ended December 31, 2018 and 2017

March 27, 2019

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"	*"Ed Guimaraes"*
Igor Gonzales	Ed Guimaraes
President and Chief Executive Officer	Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Sierra Metals Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Sierra Metals Inc. and its subsidiaries (together, the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, including the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and their financial performance and their cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

"/s/PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 27, 2019

We have served as the Company's auditor since 1997.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Sierra Metals Inc.
Consolidated Statements of Financial Position
December 31, 2018 and 2017
(In thousands of United States dollars)

	Note	December 31, 2018 $	December 31, 2017 $
ASSETS			
Current assets:			
Cash and cash equivalents		**21,832**	23,878
Trade and other receivables	5	**26,007**	27,876
Income tax receivable		**142**	220
Prepaid expenses		**1,531**	1,130
Inventories	6	**21,986**	20,799
		71,498	73,903
Non-current assets:			
Property, plant and equipment	7	**283,513**	266,240
Deferred income tax	9	**1,430**	458
Total assets		**356,441**	340,601
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	8	**36,091**	32,319
Income tax payable		**5,032**	9,440
Loans payable	10	**27,718**	28,977
Decommissioning liability	11	**2,038**	1,372
Other liabilities		**8,908**	8,579
		79,787	80,687
Non-current liabilities:			
Loans payable	10	**28,535**	35,883
Deferred income tax	9	**32,167**	30,341
Decommissioning liability	11	**11,266**	11,899
Other liabilities	12	**1,081**	1,113
Total liabilities		**152,836**	159,923
EQUITY			
Share capital	13	**231,792**	230,283
Accumulated deficit		**(69,307)**	(88,121)
Other reserves		**10,870**	12,409
Equity attributable to owners of the Company		**173,355**	154,571
Non-controlling interest	14	**30,250**	26,107
Total equity		**203,605**	180,678
Total liabilities and equity		**356,441**	340,601

Contingencies (note 24) and Subsequent Events (note 26)

Approved on behalf of the Board and authorized for issue on March 27, 2019:

"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, 2018 and 2017
(In thousands of United States dollars, except per share amounts)

	Note	Year Ended December 31, 2018 $	2017 $
Revenue	23	**232,371**	205,118
Cost of sales			
Mining costs	15	**(115,180)**	(100,979)
Depletion, depreciation and amortization	15	**(31,409)**	(58,175)
		(146,589)	(159,154)
Gross profit from mining operations		**85,782**	45,964
General and administrative expenses	15	**(18,919)**	(20,339)
Selling expenses		**(8,551)**	(7,543)
Income from operations		**58,312**	18,082
Other income (loss)	16	**(1,288)**	818
Foreign currency exchange loss		**(1,210)**	(1,737)
Interest expense and other finance costs	17	**(3,634)**	(3,263)
Loss on spin out of Plexmar net assets	25	**-**	(4,412)
Income before income tax		**52,180**	9,488
Income taxes (expense) recovery:			
Current tax expense	9	**(25,432)**	(23,416)
Deferred tax recovery (expense)	9	**(908)**	13,068
		(26,340)	(10,348)
Net income (loss)		**25,840**	(860)
Net income (loss) attributable to:			
Shareholders of the Company		**18,814**	(4,645)
Non-controlling interests		**7,026**	3,785
		25,840	(860)
Weighted average shares outstanding (000s)			
Basic		**163,296**	162,554
Diluted		**164,676**	162,554
Basic earnings (loss) per share		**0.12**	(0.03)
Diluted earnings (loss) per share		**0.12**	(0.03)

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, 2018 and 2017
(In thousands of United States dollars)

	Year ended December 31, 2018 $	2017 $
Net income (loss)	**25,840**	(860)
Other comprehensive income (loss)		
Items that may be subsequently classified to net income (loss):		
Currency translation adjustments on foreign operations	**(1,572)**	450
Total comprehensive income (loss)	**24,268**	(410)
Total comprehensive income (loss) attributable to shareholders	**17,242**	(4,195)
Non-controlling interests	**7,026**	3,785
Total comprehensive income (loss) attributable to shareholders	**24,268**	(410)

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, 2018 and 2017
(In thousands of United States dollars)

	Common Shares		Other	Retained earnings	Total attributable	Non-controlling	Total
	Shares	Amounts	reserves	(accumulated deficit)	to shareholders	Interest	shareholders' equity
		$	$	$	$	$	$
Balance at January 1, 2018	162,812,764	230,283	12,409	(88,121)	154,571	26,107	180,678
Exercise of RSUs	614,572	1,509	(1,509)	-	-	-	-
Share-based compensation expense	-	-	1,542	-	1,542	-	1,542
Dividends paid to non-controlling interest	-	-	-	-	-	(2,883)	(2,883)
Total comprehensive income (loss)	-	-	(1,572)	18,814	17,242	7,026	24,268
Balance at December 31, 2018	**163,427,336**	**231,792**	**10,870**	**(69,307)**	**173,355**	**30,250**	**203,605**

	Common Shares		Other	Retained earnings	Total attributable	Non-controlling	Total
	Shares	Amounts	reserves	(accumulated deficit)	to shareholders	Interest	shareholders' equity
		$	$	$	$	$	$
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
Non-cash dividend distribution of Plexmar net assets	-	-	-	(2,700)	(2,700)	-	(2,700)
Dividends paid to non-controlling interest	-	-	-	-	-	(3,372)	(3,372)
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

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, 2018 and 2017
(In thousands of United States dollars)

	Note	2018 $	2017 $
Cash flows from operating activities			
Net income (loss) from operations		**25,840**	(860)
Adjustments for:			
Items not affecting cash:			
Depletion, depreciation and amortization		**31,349**	58,236
Share-based compensation		**1,542**	1,198
Change in supplies inventory reserve		**1,730**	-
Interest expense and other finance costs		**3,634**	3,726
Loss on spin out of Plexmar net assets		**-**	4,412
NRV adjustment to inventory		**1,110**	2,106
Current income tax expense		**25,432**	23,416
Deferred income taxes recovery		**908**	(13,068)
Unrealized foreign currency exchange gain (loss)		**(1,397)**	619
Operating cash flows before movements in working capital		**90,148**	79,785
Net changes in non-cash working capital items	22	**2,447**	(7,899)
Decomissioning liabilities settled	11	**(1,163)**	(1,423)
Income tax paid		**(29,529)**	(15,994)
Cash generated from operating activities		**61,903**	54,469
Cash used in investing activities			
Capital expenditures		**(49,315)**	(51,607)
Cash used in investing activities		**(49,315)**	(51,607)
Cash (used in) financing activities			
Proceeds from issuance of notes payable	10	**10,000**	14,750
Proceeds from issuance of loans and credit facilities	10	**15,000**	15,000
Repayment of loans and credit facilities	10	**(33,810)**	(44,516)
Loans interest paid	10	**(2,766)**	(2,953)
Dividends paid to non-controlling interest		**(2,883)**	(3,372)
Cash (used in) financing activities		**(14,459)**	(21,091)
Effect of foreign exchange rate changes on cash and cash equivalents		**(175)**	(38)
Decrease in cash and cash equivalents		**(2,046)**	(18,267)
Cash and cash equivalents, beginning of year		**23,878**	42,145
Cash and cash equivalents, end of year		**21,832**	23,878
Supplemental cash flow information	22		

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

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 161 Bay Street, Suite 4260, Toronto, Ontario, M5J 2S1, 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 27, 2019.

(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.

(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, 2018 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.

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

The Company has adopted IFRS 9, Financial Instruments ("IFRS 9") effective January 1, 2018 on a retrospective basis in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated.

The adoption of IFRS 9 did not result in any change in the carrying values of any of the Company's financial assets on the transition date; therefore comparative figures have not been restated.

As detailed below, the Company has changed its accounting policy for financial instruments retrospectively, except where described below. The main areas of change and corresponding transitional adjustments applied on January 1, 2018 are as follows:

Financial Assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents are recorded at amortized cost using the effective interest method. Previously under IAS 39 these amounts were classified differently. The change in classification did not impact the measurement of cash and cash equivalents.

- Trade receivables are classified as financial assets at fair value through profit or loss and measured at fair value. Previously under IAS 39, trade receivables were classified as loans and receivables measured at amortized cost except for the provisional pricing embedded derivative that was measured at fair value through profit or loss.

Financial Liabilities

Financial liabilities are recognized initially at fair value and in the case of financial liabilities not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, canceled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Company does not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities. Accounts payable and accrued liabilities, interest payable, and long-term debt are classified as financial liabilities to be subsequently measured at amortized cost.

Expected Credit Loss Impairment Model

IFRS 9 introduces a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements, and did not result in a transitional adjustment.

2 Significant accounting policies (continued)

Financial Instruments

The Company's financial assets and liabilities (financial instruments) include cash and cash equivalents, trade receivables, accounts payable and accrued liabilities and long-term debt. All financial instruments are recorded at fair value at recognition. Subsequent to initial recognition, financial instruments classified as cash and cash equivalents, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost using the effective interest method. Other financial assets and liabilities are recorded at fair value subsequent to initial recognition.

(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. 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. 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.

(h) Exploration and evaluation expenditure

Exploration and evaluation expenditures is comprised of 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. Evaluation expenditures are costs incurred in determining the technical feasibility and commercial viability of a mineral resource. Exploration and 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.

2 Significant accounting policies (continued)

Capitalized exploration and 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:

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.

2 Significant accounting policies (continued)

(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.

(l) Revenue recognition

The Company has adopted IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") effective January 1, 2018 on a modified retrospective basis in accordance with the transitional provisions of IFRS 15. Results for reporting periods beginning after January 1, 2018 are presented under IFRS 15, while prior reporting period amounts have not been restated and continue to be reported under IAS 18 – Revenue ("IAS 18") (accounting standard in effect for those periods).

The Company has concluded that there are no significant differences between the point of transfer of risks and rewards for its metals under IAS 18 and the point of transfer of control under IFRS 15. No adjustment has been recorded to the opening deficit balance at January 1, 2018.

The following policies applied in accounting for revenue for the year ended December 31, 2018. In the comparative period, revenue was accounted for in accordance with the revenue recognition policy disclosed in the Company's December 31, 2017 annual audited consolidated financial statements.

2 Significant accounting policies (continued)

Metal Concentrates

The Company sells concentrate from certain of its mines to third-party smelter customers. These concentrates predominantly contain zinc, lead, and copper, along with quantities of gold and silver.

The Company recognizes revenue from these concentrate sales when control of the concentrate has transferred to the customer, which is the point in time that the concentrate is delivered to the customer. Upon delivery, the customer has legal to, physical possession of, and the risks and rewards of ownership of the concentrate. The customer is also committed to accept and pay for the concentrates once delivered; therefore, the customer is able to direct the use of and obtain substantially all of the remaining benefits from the concentrate.

The final prices for metals contained in the concentrate are generally determined based on the prevailing spot market metal prices on a specific future date, which is established on a date prior to the concentrate being delivered to the customer. Upon transfer of control at delivery, the Company measures revenue under these contracts based on forward prices agreed upon with the customer at the time of delivery and the most recent determination of the quantity of contained metals less smelting and refining charges charged by the customer. This reflects the best estimate of the transaction price expected to be received at final settlement. The variability associated with the embedded derivative for changes in the metal prices is recognized at fair value. These changes in the fair value of the receivable are adjusted through revenue from other sources at each subsequent financial statement date.

(m) 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.

(n) 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.

(o) 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.

2 Significant accounting policies (continued)

(p) 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.

(q) 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.

(r) 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 outflows.

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, 2018 the Company assessed the carrying value of its long-lived assets and exploration and evaluation expenditures and determined that no impairment was required.

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.

(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.

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

4 Adoption of new accounting standards and future accounting changes

The Company adopted IFRS 9, Financial Instruments, and IFRS 15 – Revenue from Contracts with Customers effective January 1, 2018 on a modified retrospective basis. Refer to Note 2 for the adoption of IFRS 9 and IFRS 15.

Future accounting changes

The following standards and amendments to existing standards have been published and are mandatory for annual periods beginning January 1, 2019, or later periods:

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 is in the process of determining the effect that the adoption of IFRS 16 will have on its consolidated financial statements.

5 Trade and other receivables

	December 31, 2018 $	December 31, 2017 $
Trade receivables	**19,199**	20,613
Sales tax receivables	**6,718**	7,210
Other receivables	**90**	53
	26,007	27,876

6 Inventories

	December 31, 2018 $	December 31, 2017 $
Stockpiles	**1,074**	1,554
Concentrates	**4,476**	3,839
Supplies and spare parts	**16,436**	15,406
	21,986	20,799

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, 2018 and 2017 of $146,589 and $159,154, respectively. Supplies and spare parts inventory as at December 31, 2018 is stated net of a provision of $3,331 (2017 - $1,663) to write inventories down due to obsolescence or infrequent use. Supplies and spare parts inventory held at NRV at December 31, 2018 was $8,602 (2017 - $9,045). During the year ended December 31, 2018, the Company wrote down stockpile and concentrate inventory to its NRV, recording a charge of $1,110 (2017 - $2,106). Stockpile and concentrate inventory held at NRV as at December 31, 2018 was $168 (2017 - $794).

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

7 Property, plant and equipment

Cost	Plant and equipment	Mining properties	Assets under construction	Exploration and evaluation expenditure	Total $
Balance as of January 1, 2017	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
Additions	10,143	4,648	20,781	13,209	**48,781**
Change in estimate of decomissioning liability	512				**512**
Disposals	(1,115)	-	-	-	**(1,115)**
Transfers	7,152	-	(7,152)	-	-
Balance as of December 31, 2018	**239,921**	**436,810**	**47,482**	**64,524**	**788,737**
Balance as of January 1, 2017	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
Depletion, depreciation and amortization	14,562	16,787	-	-	**31,349**
Disposals	(444)	-	-	-	**(444)**
Balance as of December 31, 2018	**156,223**	**335,960**	**-**	**13,041**	**505,224**
Net Book Value - December 31, 2018	**83,698**	**100,850**	**47,482**	**51,483**	**283,513**
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**

For the year ended December 31, 2018, depletion and depreciation expense of $31,349 (2017: $57,975) has been charged to depletion, depreciation and amortization in property, plant, and equipment. Additionally, depletion and depreciation expense of $887 (2017: $1,133) has been capitalized to inventory.

During the year ended December 31, 2018, the Company has capitalized borrowing costs amounting to $116 (2017 – $349) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of 5.25%.

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

8 Accounts payable and accrued liabilities

	December 31, 2018 $	December 31, 2017 $
Trade payables	**24,662**	19,004
Other payables and accrued liabilities	**11,429**	13,315
	36,091	32,319

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

	2018 $	2017 $
Current Tax Expense		
Current income tax	**25,432**	23,416
	25,432	23,416
Deferred Tax Recovery		
Deferred Tax Expense (recovery)	**908**	(13,068)
	908	(13,068)
Total tax expense	**26,340**	10,348

(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:

	2018 $	2017 $
Income (loss) before income taxes	**52,180**	9,488
Expected Tax Rate @ 26.50% (2017 - 26.50%)	**13,828**	2,555
Effect of tax rate differences	**1,672**	(512)
Stock based compensation costs	**395**	258
Other Non-deductible expenses	**347**	449
Unrealized foreign exchange income	**84**	148
Inflation Adjustment for Mexico tax purposes	**(321)**	(420)
Expired losses	**381**	-
Change in benefit of other temporary differences not recognized	**572**	2,280
Foreign exchange and other	**2,555**	(807)
Mining royalties and other	**6,827**	6,397
	26,340	10,348

(c) Deferred tax asset and liability

Deferred tax assets have not been recognized in respect of the following temporary differences:

	2018 $	2017 $
Non-capital and capital losses	**37,696**	35,512
Property, plant and equipment	**9**	60
Mineral properties	**2,128**	2,445
Other	**(53)**	(385)
	39,780	37,632

The significant components and movements of the Company's net deferred tax assets and liabilities are as follows:

	Balance January 1, 2017 $	Change in 2017 $	Balance December 31, 2017 $	Change in 2018 $	Balance December 31, 2018 $
Mining assets	-	-	-	-	-
Property, Plant, and equipment	(3,935)	2,139	(1,796)	130	**(1,666)**
Inventory	(2,482)	1,020	(1,462)	(636)	**(2,098)**
Provisions	(600)	1,267	667	2,089	**2,756**
Decommissioning liabilities	4,094	(166)	3,928	(24)	**3,904**
Mining royalties	878	363	1,241	223	**1,464**
Mining assets	(50,302)	8,261	(42,041)	76	**(41,965)**
Deferred revenue	1,471	(1,471)	-	-	**-**
Other items	919	613	1,532	(1,216)	**316**
Non-capital losses	6,674	1,374	8,048	(1,496)	**6,552**
	(43,283)	13,400	(29,883)	(854)	**(30,737)**

(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 $25,605 (December 31, 2017 – $27,153) expiring in periods from 2026 to 2038. 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, 2018 (December 31, 2017 - $8,578).

(e) Unrecognized deferred tax liabilities

As at December 31, 2018, the Company has taxable temporary difference of $52,396 (2017 - $21,542) 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, 2018 $	**December 31, 2017** $
Current		
Acquisition loan with Banco de Credito del Peru (a)	**6,188**	6,141
Operating loan with Banco de Credito del Peru (b)	**-**	6,309
Revolving credit facility with Banco de Credito del Peru (c)	**15,000**	15,000
Notes payable to BBVA Banco Continental (d)	**5,000**	-
Loan with FIFOMI (e)	**1,530**	1,527
	27,718	28,977
Non-current		
Acquisition loan with Banco de Credito del Peru (a)	**28,408**	34,236
Loan with FIFOMI (e)	**127**	1,647
	28,535	35,883
Total loans payable	**56,253**	64,860

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 3M LIBOR plus 4.15% 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

Principal repayments totalling $6,000 have been made for the year ended December 31, 2018 (2017 - $6,000).

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 $200 has been recorded for the year ended December 31, 2018 (2017 - $217). Interest payments totalling $2,177 have been made for the year ended December 31, 2018 (2017 - $2,141).

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, 2018.

(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.

10 Loans payable (continued)

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, 2018 (2017 – $6,250). Interest payments totalling $341 have been made for the year ended December 31, 2018 (2017 – $827).

The loan has been repaid in full during 2018.

(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 was repaid in full on the anniversary date of August 9, 2018, while interest payments were made quarterly.

On August 9, 2018, the Company renewed the credit facility and drew $15,000 for another 1-year term to be used to fund short term working capital requirements. The new facility has an interest rate of 3M LIBOR plus 1.04%, with interest payments due quarterly. The credit facility is guaranteed by the common shares of DBP's subsidiary Sociedad Minera Corona.

(d) Corona Notes payable with BBVA Banco Continental

In order to fund its short-term working capital needs, Corona repaid and drew down the following notes payable:

- On March 31, 2018 a $5,000 revolving credit facility with BBVA Banco Continental was obtained. The credit facility bears an interest rate of three-month LIBOR plus 2.52%. The facility was renewed on September 25, 2018.

- On September 25, 2018, the Company renewed the $5,000 revolving credit facility with BBVA Banco Continental at an interest rate of 2.68%, with a term of 90 days, and was repaid in full on December 24, 2018.

- On December 24, 2018, the Company renewed the revolving credit facility with BBVA Banco Continental, after repaying the $5,000 balance owed, and drew $5,000 at an interest rate of 2.80%, with a term of 30 days, to be repaid in full by January 24, 2019. The Company repaid the $5,000 owing on the revolving credit facility during January 2019.

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

10 Loans payable (continued)

(e) 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 TIIE + 3%. Interest payments began in February 2015 and during the year ended December 31, 2018, DBM has made interest payments of $248 (MXP$4,772) (2017 – $366 (MXP$6,918)). Principal payments of $1,560 (MXP$30,000) (2017 - $1,588 (MXP$30,000) have been made during the year ended December 31, 2018.

11 Decommissioning liability

	December 31, 2018 $	December 31, 2017 $
Balance, beginning of year	**13,271**	13,852
Liabilities settled during the year	**(1,293)**	(1,424)
Interest cost	**684**	843
Revisions and new estimated cash flows	**642**	-
Balance, end of year	**13,304**	13,271
Less: current portion	**(2,038)**	(1,372)
Long-term decommissioning liability	**11,266**	11,899

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 2018 and 2017, the decommissioning liability was calculated based on the following key assumptions:

	2018		2017	
	Mexico	Peru	Mexico	Peru
Estimated undiscounted cash flows ($)	965	15,580	1,021	15,203
Discount rate (%)	10.0	7.0	10.0	6.9
Settlement period (years)	6	5-11	6	5-10

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

12 Other liabilities

	December 31, 2018 $	December 31, 2017 $
Current		
Profit-sharing and other employee related obligations (a)	**8,908**	**8,579**
Non-current		
Other employee related obligations	**1,081**	**1,113**

(a) Profit sharing and other employee related obligations

As at December 31, 2018, there is a provision amounting to $5,965 for employee profit sharing in Peru and $2,943 for wages, salaries and other employee benefits outstanding (December 31, 2017 - $5,487 and $3,092, respectively).

13 Share capital and share-based payments

(a) Authorized capital

The Company has an unlimited amount of authorized common shares with no par value.

(b) Restricted share units ("RSUs")

The changes in RSU's issued during the years ended December 31, 2018 and 2017 was as follows:

	December 31, 2018	December 31, 2017
Outstanding, beginning of period	**1,316,314**	1,771,877
Granted	**679,627**	1,126,254
Exercised	**(614,572)**	(739,471)
Forfeited	**(1,284)**	(842,346)
Outstanding, end of period	**1,380,085**	1,316,314

13 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 RSU's 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, and the vesting conditions are non-market conditions and are not performance based.

During the year ended December 31, 2018, the Company granted two tranches of RSU's totalling 679,627 which had a fair value of C$3.28 based on the closing share price at grant date. RSUs exercised during the year ended December 31, 2018 had a weighted average fair value of C$2.12 and the RSUs forfeited had a weighted average fair value of C$1.52 (2017 – C$3.49 and C$2.43, respectively). As at December 31, 2018, the weighted average fair value of the RSUs outstanding is C$3.01 (2017 – C$2.45).

The total RSU expense recognized during the year ended December 31, 2018 was $1,542 with a corresponding credit to other reserves (2017 - $1,198).

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

14 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, 2018 $	December 31, 2017 $
Current		
Assets	**78,207**	67,867
Liabilities	**(36,622)**	(39,466)
Total current net assets	**41,585**	28,401
Non-current		
Assets	**162,733**	155,259
Liabilities	**(37,519)**	(39,404)
Total non-current net assets	**125,214**	115,855
Net assets	**166,799**	144,256

Summarized income statement

	For the year ended December 31, 2018 $	2017 $
Revenue	**168,657**	154,153
Income before income tax	**62,735**	30,855
Income tax expense	**(24,047)**	(10,014)
Total income	**38,688**	20,841
Total income attributable to non-controlling interests	**7,026**	3,785
Dividends paid to non-controlling interests	**(2,883)**	(3,372)

Summarized cash flows

	For the year ended December 31, 2018 $	2017 $
Cash flows from operating activities		
Cash generated from operating activities	**83,178**	76,269
Net changes in non cash working capital items	**875**	(3,968)
Decomissioning liabilities settled	**(1,293)**	(1,423)
Income taxes paid	**(29,529)**	(15,994)
Net cash generated from operating activities	**53,231**	54,884
Net cash used in investing activities	**(25,243)**	(18,740)
Net cash used in financing activities	**(29,963)**	(53,126)
Effect of foreign exchange rate changes on cash and cash equivalents	**(35)**	13
Decrease in cash and cash equivalents	**(2,010)**	(16,969)
Cash and cash equivalents, beginning of period	**19,908**	36,877
Cash and cash equivalents, end of period	**17,898**	19,908

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

15 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 years ended December 31, 2018 and 2017 relate to the Yauricocha, Bolivar and Cusi Mines.

(a) Mining costs

	2018 $	2017 $
Employee compensation and benefits	**27,458**	23,046
Third party and contractors costs	**46,599**	43,041
Depreciation	**31,409**	58,175
Consumables	**34,655**	27,659
Changes in inventory and other	**6,468**	7,233
	146,589	159,154

(b) General and administrative expenses

	2018 $	2017 $
Salaries and benefits	**7,333**	6,405
Consulting and professional fees	**3,987**	6,583
Other	**1,462**	1,581
Office expenses	**1,507**	1,604
Marketing and communication expenses	**805**	925
Share-based compensation expense	**1,542**	1,162
Listing and filing fees	**344**	390
Director expenses	**1,312**	1,168
Travelling expense	**627**	521
	18,919	20,339

16 Other income (expenses)

	2018 $	2017 $
Gain on sale of supplies and fixed assets	**85**	58
Interest income	**36**	36
Allowance for inventory obsolescence	**(1,739)**	-
Miscellaneous income (expenses)	**330**	724
	(1,288)	818

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

17 Interest expense and other finance costs

	2018 $	2017 $
Interest expense on BCP loan	**2,903**	2,370
Interest expense on other liabilities	**10**	4
Amortization of loan transaction costs	**37**	46
Interest cost on decommissioning liability	**684**	843
	3,634	3,263

18 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

The following is a summary of the reported amounts of net income (loss) and the carrying amounts of assets and liabilities by operating segment:

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

18 Segment reporting (continued)

Year ended December 31, 2018	Peru Yauricocha Mine $	Mexico Bolivar Mine $	Mexico Cusi Mine	Canada Corporate $	Total $
Revenue [1]	168,657	52,451	11,263	-	**232,371**
Production cost of sales	(74,731)	(33,168)	(7,281)	-	**(115,180)**
Depletion of mineral property	(13,229)	(2,918)	(640)	-	**(16,787)**
Depreciation and amortization of property, plant and equipment	(4,626)	(8,197)	(1,799)	-	**(14,622)**
Cost of sales	(92,586)	(44,283)	(9,720)	-	**(146,589)**
Gross profit from mining operations	76,071	8,168	1,543	-	**85,782**
Income (loss) from operations	60,640	1,836	919	(5,083)	**58,312**
Interest expense and other finance costs	(2,637)	0	(997)	0	**(3,634)**
Other income (expense)	1,029	(1,967)	(347)	(3)	**(1,288)**
Foreign currency exchange loss	(26)	(1,694)	(299)	809	**(1,210)**
Income (loss) before income tax	59,006	(1,825)	(724)	(4,277)	**52,180**
Income tax expense	(24,068)	(1,768)	(504)	-	**(26,340)**
Net income (loss) from operations	34,938	(3,593)	(1,228)	(4,277)	**25,840**

December 31, 2018	Peru	Mexico	Canada	
Total assets	209,159	145,775	1,507	**356,441**
Non-current assets	163,222	120,528	67	**284,943**
Total liabilities	124,020	27,607	1,209	**152,836**

[1] Includes provisional pricing adjustments of: $1,289 for Yauricocha, $(190) for Bolivar, and $(45) for Cusi.

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**

18 Segment reporting (continued)

For the year ended December 31, 2018, 73% of the revenues ($168,657) were from two customers based in Peru and the remaining 27% of the revenues ($63,714) were from two customers based in Mexico. In Peru, the two customers accounted for 79% and 21% of the revenues. In Mexico, the two customers accounted for 82% and 18% of the revenues.

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.

As at December 31, 2018, the trade receivable balance of $19,199 includes amounts outstanding of $3,995 and $15,204 from two customers in Mexico and two customers in Peru, respectively.

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

19 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

At December 31, 2018	Amortized Cost $	FVTPL $	Total $
Financial assets			
Cash and cash equivalents	**21,832**	**-**	**21,832**
Trade receivables (1)		**19,199**	**19,199**
Total Financial assets	**21,832**	**19,199**	**41,031**
Financial liabilities			
Accounts payable	**24,662**	**-**	**24,662**
Loans payable	**56,253**	**-**	**56,253**
Total Financial liabilities	**80,915**	**-**	**80,915**

At December 31, 2017	Loans and receivables $	Other financial liabilities $	Total $
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

(1) Trade receivables exclude sales and income tax receivables.

(b) Fair value of financial instruments

As at December 31, 2018 and 2017, 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)

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

19 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, 2018 and 2017, 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:

	December 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Recurring measurements	$	$	$	$	$	$	$	$
Trade receivables [1]	-	**19,199**	-	**19,199**	-	20,613	-	20,613
	-	**19,199**	-	**19,199**	-	20,613	-	20,613

[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, 2018 and 2017.

(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.

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

19 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, 2018			
	CAN dollar	**Mexican Peso**	**Peruvian Nuevo Soles**	**Total $**
Cash and cash equivalents	183	393	1,064	**1,640**
Income tax and other receivables	32	8,748	617	**9,397**
	215	9,141	1,681	**11,037**
Accounts payable and other liabilities	(1,268)	(22,865)	(19,632)	**(43,765)**
Total	**(1,053)**	**(13,724)**	**(17,951)**	**(32,728)**

	December 31, 2017			
	CAN dollar	**Mexican Peso**	**Peruvian Nuevo Soles**	**Total $**
Cash and cash equivalents	132	167	634	933
Income tax and other receivables	158	9,618	918	10,694
	290	9,785	1,552	11,627
Accounts payable and other liabilities	(1,461)	(30,674)	(21,838)	(53,973)
Total	(1,171)	(20,889)	(20,286)	(42,346)

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

19 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, 2018, 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, 2018, with all the other variables held constant, would have resulted in an increase to the Company's net income of $1,992 (increase in loss in 2017 of $4,118).

A 10% appreciation in the Canadian dollar exchange rate against the US dollar based on the financial assets and liabilities held at December 31, 2018 and 2017, 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, 2018 on its loans and notes payable in Peru was 4.26% (2017 – 4.31%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net loss by $486 (2017 - $541). The interest rate paid by the Company during the year ended December 31, 2018 on its loans payable in Mexico was 5.63% (2017 – 5.74%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net income by $57 (2017 - $60).

(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, 2018 and 2017, 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	2018 $	2017 $
10% decrease in silver prices	**(62)**	(27)
10% decrease in copper prices	**(325)**	(456)
10% decrease in lead prices	**(1)**	(1)
10% decrease in gold prices	**(134)**	(87)

As at December 31, 2018 and 2017, the Company did not have any forward contracts outstanding.

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

19 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, 2018 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, 2018 $
Accounts payable and accrued liabilities	36,092	-	-	-	36,092	36,092
Loans payable	27,520	6,000	22,733	-	56,253	56,253
Interest on loans payable	198	127	250	-	575	575
Other liabilities	8,908	1,081	-	-	9,989	9,989
Total Commitments	**72,718**	**7,208**	**22,983**	**-**	**102,909**	**102,909**

In the opinion of management, the working capital at December 31, 2018, together with future cash flows from operations and available loan facilities, is sufficient to support the Company's commitments through 2019.

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. There are no significant provisions recorded for expected credit losses as at December 31, 2018.

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.

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

19 Financial instruments and financial risk management (continued)

The Company's maximum exposure to credit risk is as follows:

	December 31, 2018 $	December 31, 2017 $
Cash and cash equivalents	**21,832**	23,878
Trade receivables	**19,199**	20,613
	41,031	44,491

20 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, 2018 $	December 31, 2017 $
Equity attributable to owners of the Company	**173,355**	154,571
Loans payable	**56,253**	64,860
	229,608	219,431
Less: Cash and cash equivalents	**(21,832)**	(23,878)
	207,776	195,553

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, 2018, 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, 2018, the Company was in compliance with the external capital requirements.

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

21 Related party transactions

(a) Related party transactions

During the year ended December 31, 2018, the Company recorded consulting fees of $200 (2017 - $200) to companies related by common directors or officers. At December 31, 2018, accounts payable and accrued liabilities include $Nil (2017 – $Nil) with these related parties. Related party transactions occurred in the normal course of business. As at December 31, 2018, the Company has accounts receivable outstanding from these related parties of $Nil (2017 - $Nil).

(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, 2018 and 2017 are as follows:

	2018 $	2017 $
Salaries and other short term employment benefits	**2,816**	2,968
Share-based payments	**1,500**	2,753
Total compensation	**4,316**	5,721

22 Supplemental cash flow information

Changes in working capital

	2018 $	2017 $
Trade and other receivables	**1,869**	(10,092)
Financial and other assets	**(401)**	(427)
Income tax receivable	**78**	61
Inventories	**(2,917)**	(1,624)
Accounts payable and accrued liabilities	**4,201**	5,116
Income taxes payable	**(311)**	(339)
Other liabilities	**(72)**	(594)
	2,447	(7,899)

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

23 Revenues from mining operations

The Company has recognized the following amounts related to revenue in the consolidated statements of income:

	Year Ended December 31, 2018 $
Revenues from contracts with customers	**231,373**
Provisional pricing adjustments on concentrate sales	**998**
Total revenues	**232,371**

The following table sets out the disaggregation of revenue by metals and form of sale:

	Year Ended December 31, 2018 $
Revenues from contracts with customers:	
Silver	**32,890**
Copper	**84,838**
Lead	**24,862**
Zinc	**82,441**
Gold	**6,342**
Total revenues from contracts with customers	**231,373**

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.

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.

26 Subsequent Events

Closing of New Senior Secured US$100 Million Corporate Credit Facility

On March 11, 2019, the Company entered into a new six-year senior secured corporate credit facility ("Corporate Facility") with Banco de Credito del Peru ("BCP") that provides funding of up to US$100 million effective March 8, 2019. The Corporate Facility provides the Company with additional liquidity and will provide the financial flexibility to fund future capital projects in Mexico as well as corporate working capital requirements. The Company will also use the proceeds of the new facility to repay existing debt balances in the near term.

Repayment of FIFOMI Loan in Mexico

During February 2019, the Company repaid the remaining US$1,657 owed on Dia Bras Mexicana's loan from FIFOMI. This repayment prior to the loan's maturity date did not result in any financial penalties and was within the terms of the agreement.