

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, 2019
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, (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: 162,115,379

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted 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 and post 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, 2019 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, 2019, 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: Koko Yamamoto, Douglas Cater 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 Koko Yamamoto, Douglas Cater 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 Ms. Yamamoto, Mr. Cater and Mr. Vizquerra Benavides is independent, as that term is defined by the listing standards of the NYSE American, LLC ("NYSE American") applicable to the Company. The Securities and Exchange Commission has indicated that the designation of each of Ms. Yamamoto, Mr. Cater and Mr. Vizquerra Benavides as an audit committee financial expert does not make Ms. Yamamoto, Mr. Cater and Mr. Vizquerra Benavides an "expert" for any purpose, impose any duties, obligations or liability on Ms. Yamamoto, Mr. Cater 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.

NYSE AMERICAN CORPORATE GOVERNANCE

As a Canadian corporation listed on the NYSE American, we are not required to comply with certain NYSE American corporate governance standards, so long as we comply with applicable Canadian and Toronto Stock Exchange corporate governance requirements. In order to claim relief under these provisions, Section 110 of the NYSE American Company Guide requires us to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A comparison of NYSE American governance rules required to be followed by U.S. domestic issuers under NYSE American's listing standards and our corporate governance practices (such disclosure required by item 303A.11 of the NYSE American Listed Company Manual and section 110 of the NYSE American Company Guide) is available on the Corporate Governance section of our website at: https://s23.q4cdn.com/335191765/files/doc_downloads/corporate_governance/Sierra-Website-Disclosure-Governance.pdf.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

PricewaterhouseCoopers LLP acted as our independent registered public accounting firm for the fiscal years ended December 31, 2019 and 2018. 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://s23.q4cdn.com/335191765/files/doc_downloads/corporate_governance/2020/01/Code_of_Business_Conduct_and_Ethics_-_Final_June_2019.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, 2019, 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, 2019.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

	Within 1 year	1-2 years	2-5 years	After 5 years	As at December 31, 2019
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	44,910	-	-	-	44,910
Loans payable	-	18,750	81,064	-	99,814
Interest on loans payable	5,192	4,977	7,429	-	17,598
Other liabilities	7,248	1,554	-	-	8,802
Total Commitments	57,350	25,281	88,493	-	171,124

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, 2019 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, 2019, 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, 2019.

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.sierrametals.com. Shareholders may also contact the Vice President, Investor Relations of the Company by phone at 1-(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 30, 2020

EXHIBITS

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

Exhibit Number	Document
<u>Certifications</u>	
13.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated March 30, 2020
13.2	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 30, 2020
<u>Consents</u>	
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Andre Deiss
23.3	Consent of Daniel H. Sepulveda
23.4	Consent of Carl Kottmeier
23.5	Consent of Dan Mackie
23.6	Consent of Jarek Jakubec
23.7	Consent of Giovanni J. Ortiz
23.8	Consent of Enrique Rubio
23.9	Consent of Augusto Chung
23.10	Consent of Americo Zuzunaga
<u>Annual Information</u>	
99.1	Annual Information Form for the year ended December 31, 2019
99.2	Management's Discussion and Analysis for the year ended December 31, 2019
99.3	Audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018
99.4	Interactive Data File

**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 30, 2020

/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 30, 2020

/s/ Ed Guimaraes

Name: Ed Guimaraes

Title: Chief Financial Officer

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

In connection with the Annual Report on Form 40-F of Sierra Metals Inc. (the "Company") for the yearly period ended December 31, 2019, 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 30, 2020

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, 2019, 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 30, 2020

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.



Consent of Independent Registered Public Accounting Firm

We hereby consent to the inclusion in this Annual Report on Form 40-F for the year ended December 31, 2019 of Sierra Metals Inc. (the Company) of our report dated March 27, 2020, relating to the consolidated financial statements, which appears in this Annual Report.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 27, 2020

*PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2019 (the “AIF”),
Annual Report on Form 40-F for the Company’s fiscal year ended December 31, 2019 (File no. 1-38141) (the “Form 40-F”)
Consent of Qualified Person

Reference is made to the AIF and to the Form 40-F.

I hereby consent to the: (i) inclusion of the summary section of the report entitled “*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*” dated effective October 31, 2019 (the “**Yauricocha Technical Report**”) in the AIF and any amendments thereto, and the incorporation of this report in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto and (iii) being named in, and the use of the Yauricocha Technical Report, or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

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

[Signature page follows]

Dated: March 30, 2020

/s/ Andre M. Deiss

Andre M. Deiss, BSc. (Hons), Pri.Nat.Sci, MSAIMM

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, 2019 (the “AIF”),
Annual Report on Form 40-F for the Company’s fiscal year ended December 31, 2019 (File no. 1-38141) (the “Form 40-F”)
Consent of Qualified Person

Reference is made to the AIF and to 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 Cusi Mine, Chihuahua State, Mexico*” dated effective August 31, 2017 (the “**Cusi PEA**”), and the summary section of the report entitled “*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*” dated effective October 31, 2019 (the “**Yauricocha Technical Report**”) in the AIF and any amendments thereto, and the incorporation of this report in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto and (iii) being named in, and the use of the Cusi PEA and the Yauricocha Technical Report, or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

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

[Signature page follows]

Dated: March 30, 2020

/s/ Daniel H. Sepulveda

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

VIA SEDAR / EDGAR

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

Dear Sirs/Mesdames:

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Consent of Qualified Person

Reference is made to the AIF and to the Form 40-F.

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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 Technical Report, or within my knowledge as a result of the services I performed in connection with the Yauricocha Technical Report.

[Signature page follows]

Dated: March 30, 2020

/s/ Carl Kottmeier

Carl Kottmeier, B.A.Sc., P. Eng, MBA

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 AIF and to the Form 40-F.

I hereby consent to the: (i) inclusion of the summary section of the report entitled “*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*” dated effective October 31, 2019 (the “**Yauricocha Technical Report**”) in the AIF and any amendments thereto, and the incorporation of this report in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto and (iii) being named in, and the use of the Yauricocha Technical Report, or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

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

[Signature page follows]

Dated: March 30, 2020

/s/ Dan Mackie

Dan Mackie, M.Sc., B.Sc., PGeo

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, 2019 (the “AIF”),
Annual Report on Form 40-F for the Company’s fiscal year ended December 31, 2019 (File no. 1-38141) (the “Form 40-F”)
Consent of Qualified Person

Reference is made to the AIF and to the Form 40-F.

I hereby consent to the: (i) inclusion of the summary section of the report entitled “*NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru*” dated effective October 31, 2019 (the “**Yauricocha Technical Report**”) in the AIF and any amendments thereto, and the incorporation of this report in the AIF, (ii) incorporation of the AIF in the Form 40-F and any amendments thereto and (iii) being named in, and the use of the Yauricocha Technical Report, or portions thereof prepared, reviewed and/or approved by me, in the AIF and Form 40-F.

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

[Signature page follows]

Dated: March 30, 2020

/s/ Jarek Jakubec

Jarek Jakubec, C. Eng. FIMMM

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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Annual Report on Form 40-F for the Company’s fiscal year ended December 31, 2019 (File no. 1-38141) (the “Form 40-F”)
Consent of Qualified Person

Reference is made to the AIF and to 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 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 (iii) 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 30, 2020

/s/ Giovanni J. Ortiz

Giovanni J. Ortiz, BSc Geology, FAusIMM

VIA SEDAR / EDGAR

Ontario Securities Commission, as Principal Regulator
British Columbia Securities Commission
Alberta Securities Commission
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, 2019 (the “AIF”),
Annual Report on Form 40-F for the Company’s fiscal year ended December 31, 2019 (File no. 1-38141) (the “Form 40-F”)
Consent of Qualified Person

Reference is made to the AIF and to 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 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 (iii) 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 30, 2020

/s/ Enrique Rubio

Enrique Rubio, Ph. D.

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”)
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Annual Report on Form 40-F for the Company’s fiscal year ended December 31, 2019 (File no. 1-38141) (the “Form 40-F”)
Consent of Qualified Person

Reference is made to the AIF and to 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 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 (iii) 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 30, 2020

/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

Dear Sirs/Mesdames:

**Re: Sierra Metals Inc. (the “Company”)
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Annual Report on Form 40-F for the Company’s fiscal year ended December 31, 2019 (File no. 1-38141) (the “Form 40-F”)
Consent of Qualified Person**

Reference is made to the AIF and to 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, 2019 for the Yauricocha Mine (the “**Yauricocha Mineral Resource and Reserve Estimate**”), the mineral resource and reserve estimates as of December 31, 2019 for the Bolivar Mine (the “**Bolivar Mineral Resource and Reserve Estimate**”), and the mineral resource estimate as of December 31, 2019 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 (iii) 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 30, 2020

/s/ Americo Zuzunaga

Americo Zuzunaga, MAusIMM CP



SIERRA METALS INC.
ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2019
DATED: MARCH 30, 2020

Corporate Office:

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

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ANNUAL INFORMATION FORM DATED MARCH 30, 2020
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 30, 2020. Except as otherwise indicated, the information contained herein is as at December 31, 2019.

Documents Incorporated by Reference

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

Document	Effective Date/ Period Ended	Date Filed on SEDAR website	Document Category on the SEDAR Website
NI 43-101 Technical Report on Resources and Reserves, Yauricocha Mine, Yauyos Province, Peru (the “ Yauricocha Technical Report ”).	October 31, 2019	February 3, 2020	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 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 Cusi 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; the SIB (as defined herein) 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; credit risks; risks relating to climate change and risks relating to coronavirus (COVID-19) ("COVID-19").

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 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

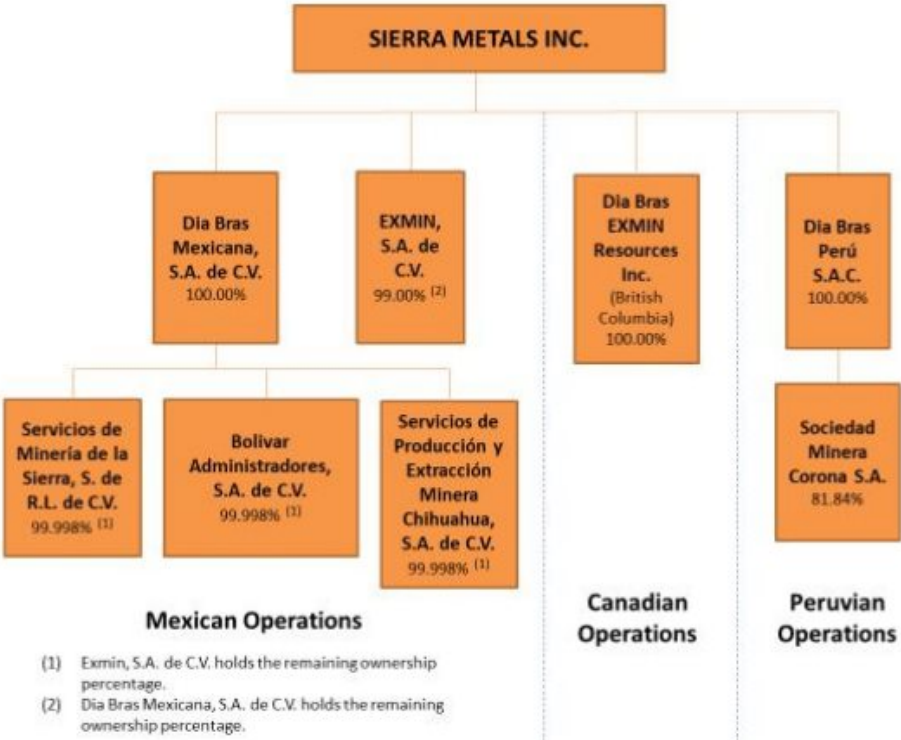
Name, Address and Incorporation

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

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 the Cachi-Cachi Mine at the Yauricocha Mine. Drill results were also announced on this date, which demonstrate 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 announced it had updated its 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 Mineral 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 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 at the Bolivar Mine which continued to define high grade silver-gold and polymetallic mineralization within the La Sidra vein. The mineralized zone extended to over 500 meters in length and 300 meters in depth and was 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) in order to define high grade copper with coincident strong chargeability and within resistivity zones detected during a completed 400 Hectare Titan 24 Induced Polarization (IP) survey conducted by Quantec Geosciences of Toronto, Canada.

On April 17, 2019, the Company filed a NI 43-101 Technical Report on Resources for the Cusi Mine in Mexico. The report provided support for total indicated mineral resources of 1,990,000 tonnes averaging 237 g/t silver, 0.53% lead, 0.53% zinc, 0.16 g/t gold, 283 g/t AgEq and 18.3 Moz AgEq; and total inferred mineral resources of 1,200,000 tonnes averaging 305 g/t silver, 0.51% lead, 0.64% zinc, 0.14 g/t gold, 354 g/t AgEq and 13.7 Moz AgEq.

On April 19, 2017, the Company filed a NI 43-101 Technical Report on Resources and Reserves for 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; 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 completed definition drilling program at the Bolivar West zone, adjacent to the operations at the Bolivar Mine. The exploration programs 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 Mine. 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 announced that it had updated its 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 update 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 (the “**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 (the “**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 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 the filing of 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 (the “**Registration Statement**”) with the SEC in accordance with the Multijurisdictional Disclosure System established between Canada and the United States. A final short form base shelf prospectus (the “**Shelf Prospectus**”) was subsequently filed on June 29, 2017, providing for the offerings for sale of up to C\$75 million of Common Shares, warrants, units and subscription receipts or a combination thereof, 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 sale and as set forth in an accompanying prospectus supplement. The Registration Statement was declared effective by the SEC on July 7, 2017.

On July 6, 2017, the Company announced that its Common Shares were approved for listing on the NYSE American Stock Exchange (the “**NYSE American**”) and were expected to begin trading under the symbol “SMTS” beginning on July 11, 2017.

On October 10, 2017, the Company announced that it entered into an Open Market Sale AgreementSM (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 was permitted, 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 (the “**ATM Offering**”). Sales of Common Shares through the Agents, acting as agent, were to be made through “at the market” issuances on the NYSE American at the market price prevailing at the time of each sale. On October 10, 2017, the Company also filed a prospectus supplement for the ATM Offering pursuant to the Sales Agreement. No Common Shares under such offering were offered or sold in Canada. The Sales Agreement expired on July 29, 2019, and as of such date, the Company had not issued or sold any Common Shares pursuant to such agreement.

2018

Peru

On June 27, 2018, the Company reported the results of a PEA for the Yauricocha Mine, yielding a 486% return on investment and after-tax net present value (“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.

Mexico

On May 22, 2018, the Company announced an update to its Mineral Reserve and Resource Estimate for the Bolivar Mine. Total Probable Mineral Reserves for the Bolivar Mine were 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 were 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 were 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.

On June 6, 2018, the Company announced the 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 Mine. 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 completed a successful infill drilling program on those previously tested areas, which resulted in a new structure being defined demonstrating the continuity of the previously defined wide high-grade copper structures.

On June 18, 2018, the Company reported the results of the Cusi Technical Report, yielding a 75% internal rate of return and after-tax NPV of US\$92 million at an 8% discount rate. The Cusi Technical Report was compiled under NI 43-101 standards by Mining Plus Peru SAC and was filed on SEDAR on August 2, 2018.

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.

On July 9, 2018, the Company reported the results of the Bolivar Technical Report, yielding a 550% return on investment and after-tax NPV of US\$214 million at an 8% discount rate. The Bolivar Technical Report was compiled under NI 43-101 standards by Mining Plus Peru SAC and was filed on SEDAR on August 23, 2018.

Financing and Corporate Activities

Initiation of Normal Course Issuer Bid

On December 11, 2018, the Company announced that its board of directors (the “**Board**”) 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, which represented approximately 0.92% of the issued and outstanding Common Shares as at December 11, 2018.

Under the NCIB, the Company was permitted to 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 were to 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 (“**CIBC**”). In accordance with TSX rules, any daily purchases made under the NCIB were limited to a maximum of 4,214 Common Shares, which represented 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 was permitted to make one block purchase per calendar week which exceeded the daily repurchase restriction, up to and including the maximum annual aggregate limit of 1,500,000 Common Shares.

2019

Peru

On February 13, 2019, the Company announced that Sociedad Minera Corona, S.A. (“**Minera Corona**”), one of its Peruvian subsidiaries, received approval from SENACE (National Environmental Certification Service), whom are the agency responsible for the evaluation of natural resources and production projects in Peru, with respect to its recent Environmental Impact Assessment (“**EIA**”) study for the expansion of the tailings deposition facility at the Yauricocha Mine. With this approval for the EIA study, the Company became in a position to proceed to obtain a construction permit for the next phase of the tailings deposition facility, and commence planning for an expanded waste rock facility. Once those steps have been completed, the Company will be able to complete a final submission of its Informe Técnico Sustentatorio document (“**ITS**”) (English translation: Supporting Technical Report), which is required for any potential expansion of the Yauricocha Mine.

On March 21, 2019, the Company announced that employees who were members of the Union of the Mine and Metallurgical Workers of Minera Corona, representing approximately 66% of the employees at the Yauricocha Mine, initiated a strike action in protest of contractor changes made as part of regular operations at the Yauricocha Mine. The Company suspended all mining and milling activities for the safety of all employees as of March 19, 2019. The Peruvian Ministry of Labour, upon receiving notification by the Union of its intent to strike, indicated that the strike could not proceed. Once the strike had materialized, they deemed the strike as illegal under current legislation. On April 12, 2019, the Company announced the resolution of the strike action at the Yauricocha Mine.

On June 27, 2019, the Company announced the receipt of its permit to construct the expansion of the tailing dam facility as well as its permit for the surface drilling program at the Yauricocha Mine.

On December 19, 2019, the Company announced an updated Mineral Reserve and Resource Estimate at the Yauricocha Mine. The updated Mineral Reserve and Resource Estimate disclosed the following:

- Mineral Reserves of 8,439,000 tonnes averaging 46.5 g/t silver, 1.1% copper, 0.8% lead, 3.1% zinc and 0.5 g/t gold representing a 5.4% overall tonnage decrease to the previous Reserve Estimate, however, Proven Mineral Reserves increased 45% with Probable Mineral Reserves decreasing 18% as compared to the previous Reserve Estimate.
- Total Proven and Probable Contained Metal decreased by 8.9% silver, 10.9% copper, 4.6% lead, increased by 20.1% zinc, and decreased by 8.9% gold as compared to the previous Reserve Estimate.
- Measured and Indicated Mineral Resources of 12,651,000 tonnes averaging 51.5 g/t silver, 1.3% copper, 0.9% lead, 3.0% zinc and 0.6 g/t gold representing a 4% tonnage decrease from the previous resource tonnage estimate, however, Measured Mineral Resources increased 18% with Indicated Mineral Resources decreasing 11% as compared to the previous Resource Estimate.
- Total Measured and Indicated Contained Metal reduced by 21% silver, 15% copper, 7% lead, increased by 8% zinc, and reduced by 12% gold as compared to the previous Resource Estimate.
- Total Inferred Mineral Resources of 6,501,000 tonnes averaging 39.1 g/t silver, 1.5% copper, 0.6% lead, 1.7% zinc and 0.5 g/t gold compared from the previous Resource Estimate, representing a 2% tonnage decrease to the overall Inferred Resource Estimate.
- Total Inferred Contained Metal reduced by 11% silver, 26% copper, increase by 32% lead, reduced by 23% zinc and 9% gold as compared to the previous Resource Estimate.

Mexico

On January 9, 2019, the Company reported that its expansion plans were on track at the Bolivar Mine. In July 2018, the Company had announced the results of a PEA at Bolivar to achieve a sustainable and staged increase in mine production and mill throughput from 3,000 tonnes per day (“tpd”) to 3,600 tpd in Q1-2019, and to 5,000 tpd by mid-2020. 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 allowed for finer grind size optionality.

On April 3, 2019, the Company announced positive results from a drilling program designed to test the continuity and characteristics of geophysical anomalies identified in a recent Titan 24 Geophysical Survey. The areas drilled had been deemed as high-value targets within the Bolivar West zone, located at the Bolivar Mine. Drilling identified and defined a new zone named West Extension to the Bolivar West zone which is an extension of the Bolivar West structure and is within close proximity to the Bolivar West zone with similar characteristics.

On June 3, 2019, the Company announced that it had agreed to repurchase a royalty on the Cusi Mine from Minera Cusi SA de CV, for US\$4.0 million. The royalty agreement required the Company to pay a 3% royalty on the net revenues generated by the mine, less transportation costs, for the life of the Cusi Mine. The Company already paid US\$2.5 million upon signing the repurchase contract on May 10, 2019 and is required to pay a further US\$1.5 million on May 10, 2021.

On December 31, 2019, the Company announced an update to its Mineral Resource Estimate at the Bolivar Mine. The updated Mineral Resource Estimate disclosed the following:

- Total Indicated Mineral Resources are 11.63 million tonnes averaging 0.95% copper, 18.1 g/t silver and 0.24 g/t gold or 1.17% CuEq which represents a 12% overall tonnage decrease from the previous Indicated Resource Estimate, but which includes depletions since the previous Resource Update. Metal grades were also reduced by 9% for copper, 20% for silver and 17% for gold.
- Total Inferred Mineral Resources are 16.69 million tonnes averaging 0.93% copper, 16.8 g/t silver and 0.30 g/t gold or 1.16% CuEq which represents a 108% overall tonnage increase from the previous Inferred Resource Estimate. Metal grades were reduced by 3% for copper, 25% for silver and 29% for gold.

The Company is planning to release another updated Mineral Resource and Reserve Estimate, which will include additional drilling and information from a litho-structural model, by March 31, 2020, followed by a NI 43-101 technical report to be filed within 45 days of this update.

Financing and Corporate Activities

Repayment of FIFOMI Loan in Mexico

During February 2019, the Company repaid the remaining US\$1,657,000 owed on Dia Bras Mexicana S.A. de C.V. (“**Dia Bras Mexicana**”)’s loan from FIFOMI. Dia Bras Mexicana is a wholly-owned subsidiary of Sierra Metals. This repayment, prior to the loan’s maturity date, did not result in any financial penalties and was within the terms of the agreement.

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

The Company, together with Dia Bras Peru S.A.C. and Dia Bras Mexicana, as co-obligors, entered into a new six-year senior secured corporate credit facility (“**Corporate Facility**”) dated March 8, 2019, as amended on July 11, 2019, with Banco de Credito del Peru, as lender, and Banco de Credito del Peru, as administrative agent and agent of guarantees, that provides funding of up to US\$100 million. 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 also used a portion of the proceeds of the Corporate Facility to repay old debt balances.

The key 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.

Changes to the Board

On April 4, 2019, the Company announced the appointment of Ricardo Arrarte to the Board. Mr. Arrarte filled the vacancy created by the resignation of Philip Renaud.

On July 15, 2019, the Company announced the appointment of Koko Yamamoto to the Board. Ms. Yamamoto was also appointed to the audit committee of the Board (the “**Audit Committee**”) and would serve as its Chair.

Automatic Share Purchase Plan and NCIB Amendment

On April 15, 2019, the Company announced that, in connection with its NCIB, it had entered into an automatic share purchase plan (the “**ASPP**”) with CIBC, the Company’s designated broker for the NCIB.

The ASPP permitted CIBC to purchase Common Shares at times when the Company ordinarily would not be active in the market due to insider trading rules and its own internal trading blackout periods. Purchases were only to be made by CIBC based upon parameters set out by the Company prior to the commencement of any such blackout period and in accordance with the terms of the ASPP. Outside of these blackout periods, Common Shares would continue to be purchased at the Company’s discretion, subject to the rules of the TSX and applicable securities laws. The Company’s NCIB commenced on December 17, 2018 and remained active until December 16, 2019.

On September 18, 2019, the Company announced its intention to amend the NCIB to increase the number of Common Shares which the Company was permitted to repurchase for cancellation thereunder from 1,500,000 Common Shares to 2,500,000 Common Shares. Other than the increase to the maximum number of Common Shares purchasable by the Company pursuant to the NCIB, no other amendments had been made to the NCIB. The Company purchased a total of 2,012,654 Common Shares under the NCIB.

Management Changes

On August 1, 2019, the Company announced the mutually agreed upon departure of Gordon Babcock, its Chief Operating Officer. Mr. Babcock’s responsibilities were taken over by Alonso Lujan, Vice President Exploration and Country Manager Mexico, and James Leon, Country Manager Peru.

2020

On January 8, 2020, the Company announced that, as a result of entering into a new phase as a generator of free cash flow, it was in a position to start returning capital to its shareholders. In this regard, the Board approved a plan to return up to US\$30 million to shareholders in the coming year. In furtherance of this plan, the Company announced its intention to launch a substantial issuer bid (the “**SIB**”) pursuant to which the Company would offer to repurchase for cancellation up to US\$15 million in value of Common Shares from shareholders for cash. The SIB was intended to proceed by way of a modified Dutch auction and would be funded with available cash on hand.

In the first quarter of 2020, metal prices have weakened further due to the impact of COVID-19. While the Company now expects lower cash flows at least in the first half of the year, the extent and duration of the impacts of COVID-19 on the metal prices and the operations of the Company are still unknown at this time. Due to the highly uncertain economic situation as a result of COVID-19 and its impact on the Company’s operations and metal prices, the Company has decided to postpone the contemplated SIB.

On February 3, 2020, the Company filed the Yauricocha Technical Report.

On February 6, 2020, the Company announced the settlement of the P&R Litigation (as defined herein). The accord was executed in The Second District Court (the “**Court**”) in the state of Chihuahua, Mexico. The declaration of the termination of P&R Litigation was issued by the Court on February 6, 2020. This settlement ends all claims against and litigation against the Company and Dia Bras Mexicana from P&R. The impact of the settlement amount paid on the Company’s financial condition and operating results is not significant. For further details on the P&R Litigation, see “*Legal Proceedings and Regulatory Actions – Legal Proceedings*”.

On March 17, 2020, the Company announced that the Peruvian government had declared a 15-day state of emergency to contain the advancement of COVID-19, which restricts travel within the country and requires citizens to remain at home with the exception of grocery, banks and medical. On March 26, 2020, the Peruvian government extended the state of emergency for an additional 13 days until April 12, 2020. As such, all mining activities and permitting submissions in Peru have also been halted. This will result in a delay in all permits being issued. Pursuant to this declaration, the Company has also ceased its mining operations at the Yauricocha Mine, with the exception of emergency staff as permitted by the government. Due to the uncertainty of the effect that the COVID-19 pandemic could have on the Company’s operations and financial condition, and due to rapidly changing developments, the Company is currently implementing proactive and reactive mitigation measures to minimize any potential impacts that COVID-19 may have on its employees, communities, operations, supply chain and finances. This also includes preserving capital and deferring capital programs, where appropriate, in order to improve liquidity. The Company is maintaining its guidance due to the operating flexibility of its Yauricocha Mine and the current normal operation of its Mexican mines. Should any material changes occur, the Company would update its guidance promptly, and expects to provide a more comprehensive update with more data points on metal prices and operating developments as part of the Q1 2020 reporting process.

DESCRIPTION OF THE BUSINESS

General

Summary

Sierra Metals is a diversified Canadian 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 zinc, copper and lead concentrates with gold and silver by-products from its polymetallic circuit at the Yauricocha Mine; copper concentrates at the Bolivar Mine; and a silver-lead concentrate at the Cusi Mine. 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 2017, 2018 and 2019 is as follows:

By Revenue (%)	2017	2018	2019
Silver	15%	16%	19%
Copper	31%	37%	38%
Lead	14%	11%	12%
Zinc	38%	35%	26%
Gold	2%	1%	6%

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. Polymetallic ore is processed and treated in a polymetallic circuit.

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 rated at 5,000 tpd depending on the work index.

Mexico – Cusi Mine

Mining at the 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 three ball mills: (1) 8' x 14' mill, with capacity of 28 tph; (2) 8' x 7' mill, with capacity of 13 tph; and (3) 7' x 10' mill, with capacity of 9 tph. Total capacity between the three mills is 50 tph, or 1,200 tpd.

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.

Cycles

The mining and exploration industry is cyclical in nature. The mining industry is subject to commodity pricing, which is in turn affected by other economic indicators and worldwide cycles. The pricing cycles that the mining industry experiences affect the overall environment in which the Company conducts its business. For example, if commodity pricing is low, Sierra's access to capital may be restricted. Continuing periods of low commodity prices or economic stalls could also affect the economic potential of the Company's current properties and may affect its ability to, among other things: (i) capitalize on financing, including equity financing, to fund its ongoing operations and exploration and development activities; and (ii) continue exploration or development activities on its properties.

Furthermore, weather cycles may affect the Company's ability to conduct exploration activities at its mines, including the Yauricocha Mine, Bolivar Mine and Cusi Mine. More specifically, drilling and other exploration activities may be restricted during periods of adverse weather conditions or winter seasons as a result of weather related factors, including inclement weather, snow covering the ground, frozen ground and restricted access due to snow, ice, or other weather related factors.

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, 2019 were not material.

Employees

As at December 31, 2019, the Company and its subsidiaries had 784 employees in Peru, 654 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 EIA, 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); 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. This rate applies to dividends that correspond to profits generated since January 1, 2017. Profits generated up to December 31, 2014 are subject to a withholding tax rate of 4.1%, and profits generated between January 1, 2015 and December 31, 2016 are subject to a withholding tax at a rate of 6.8%, even if the relevant profits are distributed in future years.

Peru’s transfer-pricing rules apply to cross-border and domestic transactions between related parties and to all transactions with residents in tax-haven jurisdictions. The transfer-pricing rules also apply to transactions with residents in non-cooperating jurisdictions, as well as transactions with residents whose revenue or income is subject to a preferential tax regime.

In Peru, the Boar will be responsible for approving the entity’s tax planning. This obligation cannot be delegated.

Peru has entered into double tax treaties with Brazil, Canada, Chile, Korea (South), Mexico, Portugal and Switzerland. It has also entered into an agreement to avoid double taxation with the other members of the “Comunidad Andina” (Bolivia, Colombia and Ecuador).

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 through the Subsecretaría de Minería, which is officially located and administered from Chihuahua City, with offices in 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. Federal, 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 every year by the end of May. Non-compliance with these requirements is cause for cancellation only after the authority communicates in writing to the concessionaire any such default, granting the concessionaire a specified time frame in which to remedy the default.

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

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

Special mining fee:

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

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

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

Additional mining fee:

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

Extraordinary mining fee:

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

Control over Subsidiaries

Corporate Governance

The Company has implemented a system of corporate governance, internal controls over financial reporting, and disclosure controls and procedures that apply at all levels of the Company and its subsidiaries. These systems are overseen by the Board 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, and/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 International Financial Reporting Standards ("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 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), Ricardo Arrarte (Director), Igor Gonzales (Chief Executive Officer), Ed Guimaraes (Chief Financial Officer), Alonso Lujan (Vice President, Exploration) and Rajesh Vyas (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 Minera 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 SRK Consulting (Canada) Inc. ("SRK"), and signed by Qualified Persons Andre M. Deiss, BSc. (Hons), Pri.Nat.Sci, MSAIMM, SRK Principal Consultant (Resource Geology); Carl Kottmeier, B.A.Sc., P. Eng, MBA, SRK Principal Consultant (Mining); Daniel H. Sepulveda, BSc, SME-RM, SRK Associate Consultant (Metallurgy); Dan Mackie, M.Sc., B.Sc., PGeo, SRK Principal Consultant (Hydrogeologist); and Jarek Jakubec, C. Eng. FIMMM, SRK Practice Leader/Principal Consultant (Mining, Geotechnical). The full text of the Yauricocha Technical Report is available for viewing on SEDAR at www.sedar.com and is incorporated by reference in this AIF. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the Yauricocha Technical Report.

"1 Executive Summary

This report was prepared as a Canadian National Instrument 43-101 (NI 43-101) Technical Report on Resources and Reserves (Technical Report) for Sierra Metals Inc. (Sierra Metals), previously known as Dia Bras Exploration, Inc., on the Yauricocha Mine (Yauricocha or Project), which is located in the eastern part of the Department of Lima, Peru. The purpose of this report is to present the Mineral Resource and Reserve estimates, operating and capital costs, description of the mining methods used, the processing plant, and the related surface and underground infrastructure.

The Consultants preparing this technical report are specialists in the fields of geology, exploration, Mineral Resource and Mineral Reserve estimation and classification, underground mining, geotechnical, environmental, permitting, metallurgical testing, mineral processing, processing design, capital and operating cost estimation, and mineral economics.

1.1 Property Description and Ownership

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

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

1.2 Geology and Mineralization

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

1.3 Exploration Status

The Yauricocha Mine is concurrently undertaking exploration, development and operations. Exploration is ongoing within the mine claim and is supported predominantly by drilling and exploration drifting. The mine is also currently producing multiple types of metal concentrates from several underground mine areas.

1.4 Mineral Resource Estimate

The understanding of the geology and mineralization, as reported in the Resource Statement for Yauricocha is based on a combination of geologic mapping, drilling and development sampling that guides the ongoing mine design. SRK has reviewed the methods and procedures for these data collection methods and notes that they are generally reasonable and consistent with industry best practice. The validation and verification of data and information supporting the Mineral Resource estimation has historically been deficient, but strong efforts are being made to modernize and validate the historic information using current, aggressive Quality Assurance / Quality Control (QA/QC) methods and more modern practices for drilling and sampling. SRK notes that most of the remaining resources in areas such as Mina Central and Cachi-Cachi (Figure 1-1) are supported by modern data validation and QA/QC, and that new areas like Esperanza feature extensive QA/QC and third-party analysis.

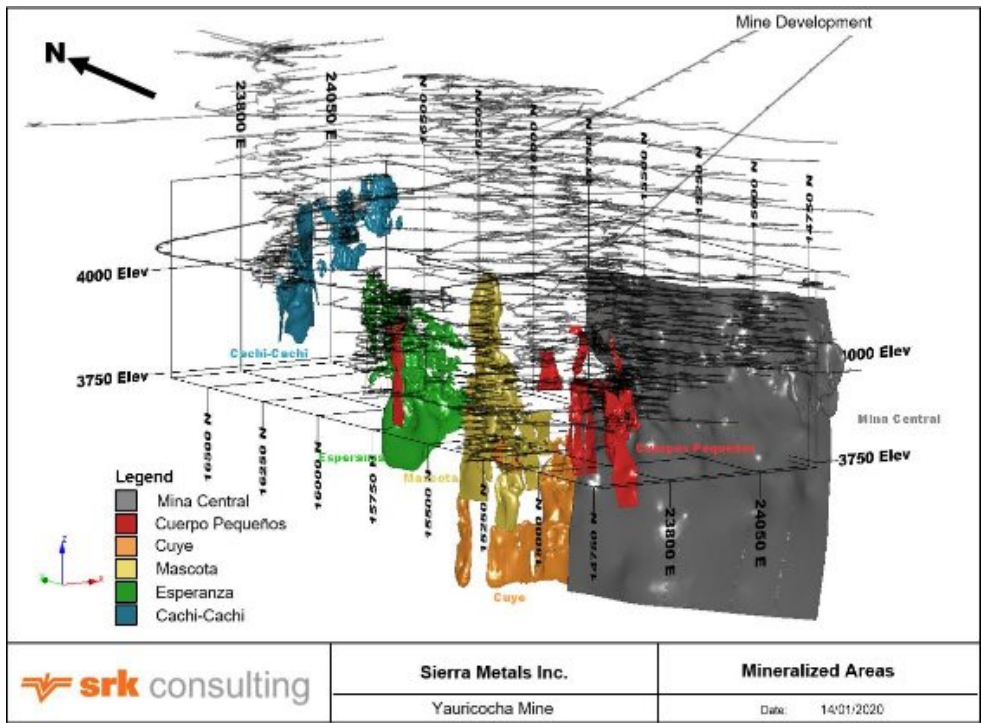


Figure 1-1: Modelled Mineralized areas Estimated at Yauricocha Mine

SRK notes that the geological modeling procedures currently implemented by the Yauricocha geologists are significantly different than that used in previous years and are now based on implicit modeling through Seequent Leapfrog® Geo 3D geology modeling software. This is consistent with industry best practice, and SRK notes that there have been advances in the detail and extent of geological modeling for most of the orebodies.

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

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

The October 31, 2019 consolidated audited Mineral Resource statement for the Yauricocha Mine is presented in Table 1.1. The detailed and individual tables for the Yauricocha areas are presented in Section 14 of this report.

Table 1-1: Consolidated Yauricocha Mine Mineral Resource Statement as of October 31, 2019

SRK Consulting (Canada), Inc. (1) (2) (3) (4) (5) (6) (7) (8) (9)

Classification	Volume (m ³) '000	Tonnes (kt)	Density (kg/m ³)	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)	As (%)	Fe (%)	NSR (USD/t)	Ag (M oz)	Au (K oz)	Cu (M lb)	Pb (M lb)	Zn (M lb)	As (kt)	Fe (M t)
Measured	1,075	3,662	3.41	66.25	0.69	1.33	1.20	3.47	0.20	24.58	151	7.8	81.0	107.0	97.2	280.5	7.3	0.9
Indicated	2,603	8,989	3.45	45.67	0.56	1.27	0.72	2.81	0.14	25.59	125	13.2	160.5	251.8	142.3	557.5	13.0	2.3
Measured+ Indicated	3,678	12,651	3.44	51.63	0.59	1.29	0.86	3.00	0.16	25.29	132	21.0	241.5	358.8	239.5	838.0	20.3	3.2
Inferred	1,870	6,501	3.48	39.23	0.51	1.50	0.62	1.66	0.09	26.15	113	8.2	106.6	214.9	88.9	237.6	5.7	1.7

Notes

- (1) Mineral Resources have been classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Definition Standards on Mineral Resources and Mineral Reserves, whose definitions are incorporated by reference into NI 43-101.
- (2) Mineral Resources are reported inclusive of Mineral Reserves. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimates. Silver, gold, silver, copper, lead, zinc, arsenic (deleterious) and iron assays were capped / cut where appropriate.
- (3) The consolidated Yauricocha Resource Estimate is comprised of Measured, Indicated and inferred material in the Mina Central, Cuerpos Pequeños, Cuye, Mascota, Esperanza and Cachi-Cachi mining areas.
- (4) Polymetallic Mineral Resources are reported at Cut-Off values (COV)'s based on 2018 actual metallurgical recoveries and 2019 smelter contracts.
- (5) Metal price assumptions used for polymetallic feed considered 2019 consensus pricing (Gold (US\$1,303/oz), Silver (US\$15.95/oz), Copper (US\$2.94/lb), Lead (US\$0.95/lb), and Zinc (US\$1.24/lb).
- (6) Lead Oxide Mineral Resources are reported at COV's based on 2016 actual metallurgical recoveries and 2016/2017 smelter contracts.
- (7) Metal price assumptions used for lead oxide feed considered Long Term consensus pricing (Gold (US\$1,314/oz), Silver (US\$17.55/oz), Copper (US\$3.11/lb), Lead (US\$0.95/lb), and Zinc (US\$1.08/lb).
- (8) The mining costs are based on 2018 actual costs and are variable by mining method.
- (9) The unit value COV's are variable by mining area and proposed mining method. The marginal COV ranges from US\$46 to US\$55.

1.5 Mineral Reserve Estimate (effective October 31st, 2019)

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

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

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

SRK notes that the reserve estimation procedures currently implemented by the Yauricocha mine planning personnel is evolving when compared to those used in previous years. These procedures are consistent with industry best practice though not fully compliant with latest industry best practice guidelines published by CIM on November 29th, 2019. The reserve estimation is now based on stope designs using the geology block models and stope optimization software, Mineable Shape Optimizer (MSO). The development design and schedule are based on the mine design tools in the Datamine Studio 5DP™ and scheduling software Datamine EPS™.

The Yauricocha Mineral Reserve Estimate is comprised of the Proven and Probable material in the Mina Central, Esperanza, Cachi-Cachi, Mascota, Cuye, and Cuerpos Pequeños mining areas.

The October 31, 2019 consolidated Mineral Reserve Statement for the Yauricocha Mine is presented in Table 1.2. The detailed and individual tables for the Yauricocha mining areas are presented in Section 15 of this report.

Table 1-2: Yauricocha Mine Consolidated Mineral Reserve Statement as of October 31, 2019

SRK Consulting (Canada), Inc. (1) (2) (3) (4) (5) (6)(7)

Mineral Type	Classification	Mineral Reserves						Contained Metal				
		Tonnes (kt)	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)	Ag (M oz)	Au (K oz)	Cu (M lb)	Pb (M lb)	Zn (M lb)
Consolidated Feed	Proven	2,665	52.57	0.58	1.26	0.95	3.23	4.5	49.6	73.8	55.9	189.8
	Probable	5,775	43.69	0.47	1.07	0.70	3.00	8.1	86.4	136.0	88.6	382.2
Total Proven and Probable		8,439	46.49	0.50	1.13	0.78	3.07	12.6	136.0	209.8	144.5	572.0

(1) Mineral Reserves have been classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Definition Standards on Mineral Resources and Mineral Reserves, whose definitions are incorporated by reference into NI 43-101

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

(3) The consolidated Yauricocha Reserve Estimate is comprised of Proven and Probable material in the Mina Central, Esperanza, Cachi-Cachi, Mascota, Cuye, and Cuerpos Pequeños mining areas.

(4) Mineral reserves are reported at unit value cut-offs values (COV) based on metal price assumptions*, variable metallurgical recovery assumptions**, and variable modifying factors***.

* Metal price assumptions considered are based on 2019 consensus pricing: Gold (US\$/oz 1,354.00), Silver (US\$/oz 17.82), Copper (US\$/lb 3.08), Lead (US\$/lb 0.93), and Zinc (US\$/lb 1.08).

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

*** Modifying factors such as dilution and mining recovery are based on historical mine to mill reconciliation and are variable by mining method and area.

(5) The mining costs are variable by mining method.

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

(7) The unit value COV's are variable by mining area and proposed mining method. The economic COV ranges from an NSR of US\$71 to US\$80.

1.6 Mining Methods

1.6.1 Mining

The primary mining method at Yauricocha is sub-level caving which accounts for 84% of production supplemented by a minor amount of overhand mechanized cut and fill. The mine production areas are grouped into six mining areas: Mina Central, Esperanza, Mascota, Cuye, Cachi-Cachi, and Cuerpos Pequeños.

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

The mine is accessed by two shafts, Central Shaft and Mascota Shaft, and the Klepetko and Yauricocha tunnels. Ore and waste are transported via the Klepetko Tunnel at the 720 level (elevation 4,165 masl) which runs east-northeast from the mine towards the mill and concentrator, and the 4.7 km Yauricocha Tunnel, commissioned in 2018, that also accesses the mine at the 720 level. The Yauricocha Tunnel was added to increase haulage capacity and serves as a ventilation conduit. Refer to Figure 1.1.

The Yauricocha Shaft, currently under construction, will provide access down to 1370 level and is expected to be in operational in 2022.

Mine production at Yauricocha is currently an average of 3,300 t/d with planned annual production of 1.2 million tonnes per year (Mt/y) for 6 years.

1.6.2 Geotechnical

Geotechnical investigations have been conducted at the Yauricocha Mine to prepare a geotechnical model of ground conditions. The investigations involved preparing a major fault model, rock mass model, rock mass strength model, rock mass characterization, granular material (ore) classifications; underground traverse mapping, core logging, laboratory tests, shafts inspections, subsidence studies, preparation of a geotechnical database, and the implementation of a data collection process. In 2017, SRK confirmed that these activities complied with international standards and industry best practices.

Sierra Metals informed SRK that there have not been material changes to the geotechnical characterization and understanding since the last technical report. Three dimensional geotechnical models were developed in conjunction with SRK in 2015. SRK understands that these have not been maintained and there are no current three-dimensional geotechnical models for the mining areas. Using a central database and developing/maintaining integrated litho-structural and rock mass models is industry standard and best practice. Sierra Metals geotechnical department instead produces and uses two-dimensional plans which SRK notes are of good quality, illustrative and functional.

Mudflows are encountered at Yauricocha. At present, lower mined levels where mudflows are occurring are at the 820 level (elevation of 4,040 masl to 4,057 masl in the Antacaca and Catas ore bodies) and the 870 level (elevation of 4,010 masl to 4,093 masl in the Rosaura and Antacaca Sur ore bodies). All of the recorded mudflows have been located within ore bodies near the contact with the Jumasha limestone and the adjacent granodiorite and Celendín formation. The current understanding of mudflow conditions is sufficient to support the drawpoint design adjustments implemented by Yauricocha, mucking operations, and dewatering programs.

The ground control management level plans reviewed present a rock mass quality regime that is consistent with the conceptual geotechnical rock mass model, as well as the description of the domains and sub-domains from the 2015 technical report. The level plans and accompanying development profile and installation procedures are well developed and appropriate for operational application. The ground support designs were not reviewed in detail as part of this study, but an observation was made that the ground support type for good ground did not include any surface support. Unless there is a thorough and regimented check-scaling procedure ensured, industry standard is to have surface of mesh and/or shotcrete even in good ground.

SRK is of the opinion that the current understanding of subsidence and its effects is reasonable. The current understanding of in-situ and induced stress for the current mining areas is satisfactory, but for the deeper planned mining areas, site specific stress measurements and stress modelling are needed. The current understanding of the conditions leading to mudflow and the mitigation measures and practices put in place are reasonable; however, the potential occurrence of a mud rush event is an ever-present risk to be managed, particularly when entering new/deeper mining areas. Dewatering practices need to be maintained, existing drawpoints monitored, and new areas investigated prior to being developed.

1.6.3 Hydrogeology

Hydrogeological and hydrological information is available from multiple sources, including mine records and a large number of investigations or data compilations by external consultants. Mine operations have compiled significant information on flow rates and field water quality parameters (e.g., color, pH, conductivity, temperature) across much of the mine and developed maps

summarizing locations and data. Numerous hydrogeological and hydrological studies have also been completed by external consultants (Geologic, 2014, 2015; Hydro-Geo Consultores, 2010, 2012, 2016; Geoservice Ingenieria 2008, 2014, 2016; Helium, 2018). Data has been collected from underground observations, pump tests, tracer tests, and surface water features.

Cumulative inflow into the mine was on the order of 100 L/s in 2017 (Helium, 2018). Inflow measurements have been collected at many locations (drainage drill holes and discrete inflows) and at different times, but data is somewhat inconsistent. Water enters the mine in widely distributed areas and drainage drill holes located on various levels.

Current observations and analyses suggest that inflow to both the subsidence (caving) zone and the mine will increase as the mine expands. Mitigation and management efforts should continue to understand the distribution of water and value in efforts to control or reduce inflow. One risk is mud rush, as described in Section 16.5.1.

Historically, the mine has been able to manage water sufficiently to allow mining to proceed. There is no reason to believe that this will change, but as the mine expands, water inflows should be expected to increase, and risks exist that could influence factors such as production rate (delays due to inflows) or safety (mud rush risk). Further work is required to improve understanding of the hydrogeological system and the magnitude of potential risk for new mining areas. Inflow reduction or management mitigation efforts should continue to be assessed, tested and implemented to reduce these risks.

1.7 Recovery Methods

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

Yauricocha polymetallic circuit has a nominal capacity of 3,000 t/d. The polymetallic plant is showing a consistent upward trend in throughput capacity. During the January to October 2019 period, the polymetallic circuit operated on average at 2,926 t/d of fresh feed. Silver is preferentially deported to the lead sulfide concentrate in an increasing proportion, starting in 2013 at 34.7%, and averaging 43.1% in the January to October 2019 period.

In the January to October 2019 period, the copper concentrate recovered 26.4% of the silver metals that translated in payable grade of 613.4 g/t Ag. Zinc concentrate recovered 8.9% of the silver metal. Zinc Concentrate accounts for the largest output of the concentrate streams. Zinc concentrate production ranged from 45,000 t/y to 56,000 t/y, or approximately 60% of the total tonnage produce from the polymetallic circuit.

In the first ten months of 2019 there was no treatment of oxide ore.

Approximately 11.52% of the mill feed tonnage leaves the site as concentrate (Table 1.3 Yauricocha Ore Processing and Concentrate Production for January to October 2019).

All concentrates are trucked off site.

Table 1-3: Yauricocha Ore Processing and Concentrate Production for January to October 2019

Processing Circuit	Stream	Tonnes	Throughput t/d (@ 365days/year)
Polymetallic	Fresh Ore	889,472	2,926
	Cu Concentrate	24,838	82
	Pb Concentrate	21,698	71
	Zn Concentrate	55,966	184
Oxide	Fresh Ore		
	Pb Concentrate		
	Pb Oxide Concentrate		
	Fresh Ore		
	Cu Oxide Concentrate		
	Fresh Ore		
	Cu Concentrate		

Source: Sierra Metals, 2019

1.8 Project Infrastructure

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

The on-site facilities include the processing plant, mine surface facilities, underground mine facilities, tailings storage facility (TSF), and support facilities. The processing facility includes crushing, grinding, flotation; dewatering and concentrate separation, concentrate storage, and thickening and tailings discharge lines to the TSF.

The underground mine and surface facilities include headframes, hoist houses, shafts and winzes, ventilation structures, mine access tunnels, waste storage facilities, high explosives and detonator magazines, underground shops, and diesel and lubrications storage.

The support facilities include four camps where personnel live while on-site, a laboratory, change houses and showers, cafeterias, school, medical facility, engineering and administrative buildings, and miscellaneous equipment and electrical shops to support the operations.

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

Energy for the site is available through electric power, compressed air, and diesel. The electric power is supplied by contract over an existing 69 kV line to the site substation. The power is distributed for use in the underground or at the processing facility. The current power load is 10.5

MVA with approximately 70% of this being used at the mine and the remainder at the mill and other facilities. The power system is planned to be expanded to approximately 14 MVA in 2020/2021. A compressed air system is used underground with an additional 149 KW compressor system being added, and diesel fuel is used in the mobile equipment and in the 895 kW backup electrical generator.

The site has permitted systems for the handling of waste including a TSF, waste rock storage facility, and systems to handle other miscellaneous wastes. The TSF has a capacity for 12 months at the current production levels. The TSF is being expanded with another lift in 2019/2020 to provide three more years of capacity. The three additional lift stages in total will provide the Project with approximately nine years of additional capacity. An on-site industrial landfill is used to dispose of the Project's solid and domestic waste. The Project collects waste oil, scrap metal, plastic, and paper which are recycled at off-site licensed facilities.

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

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

1.9 Environmental Studies and Permitting

SMCSA has all relevant permits required for the current mining and metallurgical operations to support a mining rate of 3,300 t/d. These permits include operating licenses, mining and process concessions, capacity extension permits, exploration permits and their extensions, water use license, discharge permits, sanitary treatment plants permit, and environmental management instruments among others.

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

Among the relevant permits, the following are highlighted:

Land ownership titles;

Public registrations (SUNARP) of:

- Process concession,
- Mining concession,
- Constitution of "*Acumulación Yauricocha*", and
- Land ownership and Records owned property (land surface) and lease; and

2016 water use right proof of payment.

On January 17, 2019, the bank (Santander) guarantee for the compliance of the Mine Closure Plan regarding Yauricocha Mine Unit Closure Plan Update (approved by Directorate Resolution N° 002-2016-MINEM-DGAAM) was renewed for US\$13,693,757.

The Second Amendment of the Closure Plan (approved by Directorate Resolution N°063-2017-MEM-DGAAM, 02/28/2017) designates that the mining operator shall record the guarantee by varying annuities the first days of each year, so that the total amount required for final and post closure is recorded by January 2022 as shown in Table 1.4.

Table 1-4: Closure Plan - Annual Calendar for Guarantee Payment

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

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

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

Closure Plan costs are presented in Table 1.5.

Table 1-5: Closure Plan - Results of the Updated Cost Analysis (US\$)

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

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

1.10 Capital and Operating Costs

Based on average mining/processing rate of 3,300 t/d, the Yauricocha reserves will support production until the end of 2026. The yearly capital expenditure for each of the main areas is summarized in Table 1.6.

Table 1-6: Capital Summary (US\$000's)

Description	Total (2019-2023)	2019	2020	2021	2022	2023
Sustaining Capital	74,900	19,850	21,950	14,800	10,500	7,800
Mine Development	19,000	3,500	7,000	5,000	2,800	700
Equipment Sustaining	21,800	7,100	4,300	3,900	3,500	3,000
Concentrator Plant	4,200	1,600	800	700	600	500
Tailings Dam	5,100	1,600	1,900	1,600	-	-
Pumping System	700	700	-	-	-	-
Mine Camp	6,000	900	2,700	800	800	800
Ventilation	13,600	3,100	5,100	1,800	1,800	1,800
Environmental	500	350	150	-	-	-
Other	4,000	1,000	-	1,000	1,000	1,000
Expansionary Capital	40,400	9,200	11,900	10,400	6,800	2,100
Exploration	12,700	2,500	3,000	2,700	2,400	2,100
Yauricocha Tunnel	300	300	-	-	-	-
Yauricocha Shaft	27,400	6,400	8,900	7,700	4,400	-
Total Capital	115,300	29,050	33,850	25,200	17,300	9,900

Source: Sierra Metals, 2019

The Mine's operating costs were estimated based on 2018 actual costs provided by Sierra Metals. Table 1.7 and Table 1.8 present the summary of total operating costs and the summary of unit operating costs.

Table 1-7: Operating Cost Summary (US\$000,000's)

Area	Total	2019	2020	2021	2022	2023	2024	2025	2026
Mine	390	63	66	69	66	53	42	27	3
Plant	77	12	13	14	13	11	8	5	1
G&A	84	13	14	14	13	11	10	78	11
Total	\$551	\$89	\$93	\$97	\$92	\$75	\$60	\$40	\$5

Source: Sierra Metals, 2019

Table 1-8: Unit Operating Cost Summary (US\$/t)

Area	Average	2019	2020	2021	2022	2023	2024	2025	2026
Mine	50.89	57.21	54.73	53.54	54.97	54.79	50.91	45.47	35.54
Plant	10.05	11.09	10.84	10.6	10.89	10.85	10.08	9.01	7.04
G&A	11.77	12.2	11.47	10.63	10.94	11.14	11.95	12.96	12.83
Total	\$72.71	\$80.50	\$77.04	\$74.77	\$76.80	\$76.79	\$72.94	\$67.43	\$55.41

Source: Sierra Metals, 2019

1.11 Economic Analysis

Under NI 43-101 rules, producing issuers may exclude the information required for Economic Analysis on properties currently in production if the technical report does not include a material expansion of current production. Sierra Metals is a producing issuer, and the Yauricocha Mine is currently in production. In addition, no material expansion of current production is planned. Sierra Metals has performed an economic analysis of the Yauricocha Mine’s life-of-mine plan using the estimates presented in this report and confirms that the outcome is positive cash flow that supports the statement of Mineral Reserves.

1.12 Conclusions and Recommendations

1.12.1 Geology and Mineral Resources

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

The current QA/QC program is aggressive and will be providing increased confidence in the quality of the analytical data for future mineral resource estimates.

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

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

1.12.2 Mineral Processing and Metallurgical Testing

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

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

1.12.3 Mineral Reserve Estimation and Mining Methods

The Yauricocha Mine is a producing operation with a long production history. SRK is of the opinion that the reserve estimations are suitable for public reporting and are a fair representation of the expected mill feed for the Yauricocha deposit. Continuous improvement processes are in place to regularly ensure that executed plans reflect good mine planning practices

SRK recommends the following:

- Effort be made to streamline and automate the mineral reserve estimation process to facilitate future mineral reserve estimates, reviews and audits.
- The mine planning group needs to review the latest version of the MRMR Best Practice Guidelines published by CIM on November 29th, 2019 and work towards implementing the best practices related to the mineral reserve estimation process. In particular, the MSO runs to be used for mineral reserve estimation should be based on a block model with the grades of the inferred mineral resource set to zero so that the inferred mineral resources are treated as waste.
- Reserve estimation runs in MSO should use a block model with inferred mineral resource grades set to zero, i.e. treat inferred mineral resources as waste.
- A robust mineral reserve to mine to mill reconciliation process needs to be established in order to provide proper backup for the dilution and mining recovery assumptions.
- An appropriate data collection system needs to be implemented to collect the required data to establish the above reconciliation process in a usable format. This is fairly easy to do for cut and fill, but much harder to do for sub-level caving areas.
- The Yauricocha Shaft project should be monitored closely in order to ensure timely access to reserves below 1070 level.
- A consolidated 3D LoM design should be completed to improve communication of the LoM plan, infill drilling requirements, and general mine planning and execution.
- The Base Case LoM plan based on mineral reserves only that was generated for this update should be maintained and used by Yauricocha to provide the medium and short-term mine production forecasts.
- The mine planning group should prepare one or more LoM plans which are more optimistic than the Base Case for use in strategic planning. Typically, the optimistic LoM plan includes inferred mineral resources designed to a conceptual level of detail and updated as the resource is moved to an Indicated or Measured category.

1.12.4 Geotechnical

SRK's recommendations are:

- Continue collecting geotechnical characterization data from mined drifts and exploration drillholes
- Maintain a central geotechnical database
- Develop and maintain geotechnical models, including structures and rock mass wireframes

- Conduct a program of stress measurement in the deeper planned mining areas
- Conduct numerical stress analyses of mining-induced stress effects on planned mining
- Continue a short-term to long-term dewatering programs with drainage systems
- Examine the current mine sequence and simulate the optimal mine sequence to reduce safety risks and the risk of sterilizing ore reserves due to unexpected ground problems
- Revisit the current ground control management plans to check that they are appropriate for the deeper mining areas

1.12.5 Recovery Methods

Yauricocha operates a conventional processing plant that has been subject to continuous improvements in the last several years of operation, most recently including improvements to the flotation unit process, installation of an x-ray slurry analyzer, and the addition of a mechanical rod feeder, for primary rod mill grinding, for improved safety and production. Overhaul of its concentrate thickener with torque monitoring and rake positioning system is planned in 2020 to improve underflow slurry density and increase concentrate filtration capacity. Work continues to debottleneck the plant to maximize capacity.

1.12.6 Environmental Studies and Permitting

SMCSA has all relevant permits required for the current mining and metallurgical operations to support a capacity of 3,300 t/d. SMCSA also has a Community Relations Plan including annual assessment, records, minutes, contracts and agreements.

The Environmental Adjustment and Management Program (PAMA), as established by the Supreme Decree N° 016-93-EM, was the first environmental management tool that was created for mines and metallurgical operations existing before 1994 to adopt technological advances and / or alternative measures to comply maximum permissible limits for effluent discharge and emissions of mining-metallurgical activities. Since then, many environmental regulations have been enacted updating and/or replacing older regulations. The environmental certification for mining activities was transferred from the Ministry of Mining and Energy to the Ministry of Environment; specifically, to the National Service for Environmental Certification (SENACE) effective December 28, 2015.

Though SMCSA has updated its environmental baseline and adjusted its monitoring program by its Supporting Technical Report to the PAMA "Expanding the capacity of the Processing Plant Chumpe of the Accumulated Yauricocha Unit from 2500 to 3000 TMD" (Geoservice Ambiental S.A.C., ITS approved by Directorate Resolution N° 242-2015-MINEM-DGAAM), an important gap exists with reference to environmental and social impact assessment as referred to by the actual environmental protection and management regulation for operating, profit, general labor and mining storage activities (Supreme Decree N° 040-2014-EM, 11/12/2014), this was covered by the approval of the EIA on February 11, 2019.

In addition, SMCSA has two Supporting Technical Reports which authorize the construction of the technological improvement of the domestic waste water treatment system and the addition of new equipment and infrastructure in the Chumpe concentrator plant process. This last Supporting Technical Report (ITS) was approved in 2017 by Directorate Resolution N° 176-2017-MINEM-DGAAM.

SMCSA applied to SENACE to start the evaluation process of the "Environmental Impact Study of the Metallurgical Mining Components Update Project" (Geoservice Ambiental S.A.C., 2017) within the framework of the Supreme Decree N° 016-1993-EM, as this study was initiated before the enforcement of the D.S N° 040-2014-EM and in application of an exceptional procedure established by it. The EIA was obtained on February 11, 2019.

SMCSA also has a closure plan, which has been updated by three amendments. Table 1.10 through Table 1-11 summarize the results of the updated cost analysis, the annual investment plan and annual calendar for guarantee payment.

Table 1-9: Closure Plan - Results of the Updated Cost Analysis (US\$)

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

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

Table 1-10: Closure Plan – Summary of Investment per Year (US\$)

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

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

Table 1-11: Closure Plan - Annual Calendar for Guarantee Payment

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

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

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

1.13 Capital and Operating Costs

SRK is of the opinion that the operating and capital cost estimates are reasonable estimates of the cost to extract the current Mineral Reserves based on current knowledge.”

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), Giovanni 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.

“1 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 Giovanni 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 bodies 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	Unit	Value
Base case of \$1,291/oz Gold, \$18.25/oz Silver, \$3.00/lb. Copper		
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 PEA

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), Giovanni 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.

“1 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 Cusihuarechi 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	Unit	Value
Base case of \$1,283/oz Gold, \$18.30/oz Silver, \$0.93/lb. Lead, \$1.15/lb. Zinc		
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, 2019 which is set out in the chart below:

Yauricocha Mine Consolidated Mineral Resource Estimate as of December 31, 2019

Resources	T (000)	Ag/g-t	Au/g-t	% Cu	%Pb	%Zn	Ag (Koz)	Au (Koz)	Cu (t)	Pb (t)	Zn (t)
Measured	3,455	66.39	0.71	1.31	1.17	3.46	7,374	78	45,186	40,507	119,656
Indicated	8,989	45.60	0.60	1.30	0.70	2.80	13,179	173	116,857	62,923	251,692
Measured + Indicated	12,444	51.37	0.63	1.30	0.83	2.98	20,553	252	162,043	103,430	371,348

	T (000)	Ag/g-t	Au/g-t	% Cu	%Pb	%Zn	Ag (Koz)	Au (Koz)	Cu (t)	Pb (t)	Zn (t)
Inferred	6,632	43.03	0.58	1.19	0.47	2.16	9,175	123	79,175	31,165	143,122

- (1) Mineral Resources have been classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Definition Standards on Mineral Resources and Mineral Reserves, whose definitions are incorporated by reference into NI 43-101.
- (2) Mineral Resources are reported inclusive of Mineral Reserves. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimates. Silver, gold, silver, copper, lead, zinc, arsenic (deleterious) and iron assays were capped / cut where appropriate.
- (3) The consolidated Yauricocha Resource Estimate is comprised of Measured, Indicated and inferred material in the Mina Central, Cuerpos Pequeños, Cuye, Mascota, Esperanza and Cachi-Cachi mining areas.
- (4) Polymetallic Mineral Resources are reported at Cut-Off values (COV)'s based on 2018 actual metallurgical recoveries and 2019 smelter contracts.
- (5) Metal price assumptions used for polymetallic feed considered 2019 consensus pricing (Gold (US\$1,303/oz), Silver (US\$15.95/oz), Copper (US\$2.94/lb), Lead (US\$0.95/lb), and Zinc (US\$1.24/lb).
- (6) Lead Oxide Mineral Resources are reported at COV's based on 2016 actual metallurgical recoveries and 2016/2017 smelter contracts.
- (7) Metal price assumptions used for lead oxide feed considered Long Term consensus pricing (Gold (US\$1,314/oz), Silver (US\$17.55/oz), Copper (US\$3.11/lb), Lead (US\$0.95/lb), and Zinc (US\$1.08/lb).
- (8) The mining costs are based on 2018 actual costs and are variable by mining method.
- (9) The unit value COV's are variable by mining area and proposed mining method. The marginal COV ranges from US\$46 to US\$55.

The Company prepared an updated mineral reserve estimate for the Yauricocha Mine (on a consolidated basis) as at December 31, 2019 which is set out in the chart below:

Yauricocha Mine Consolidated Mineral Reserve Estimate as of December 31, 2019

	T (000)	Ag/g-t	Au/g-t	% Cu	%Pb	%Zn	Ag (Koz)	Au (Koz)	Cu (t)	Pb (t)	Zn (t)
Proven	2,458	52.28	0.58	1.27	0.89	3.16	4,132	46	31,159	21,880	77,565
Probable	5,775	43.69	0.47	1.07	0.70	3.00	8,112	87	61,793	40,425	173,250
Proven + Probable	8,233	46.26	0.50	1.13	0.76	3.05	12,244	133	92,952	62,305	250,815

(1) Mineral Reserves have been classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Definition Standards on Mineral Resources and Mineral Reserves, whose definitions are incorporated by reference into NI 43-101

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

(3) The consolidated Yauricocha Reserve Estimate is comprised of Proven and Probable material in the Mina Central, Esperanza, Cachi-Cachi, Mascota, Cuye, and Cuerpos Pequeños mining areas.

(4) Mineral reserves are reported at unit value cut-offs values (COV) based on metal price assumptions*, variable metallurgical recovery assumptions**, and variable modifying factors***.

* Metal price assumptions considered are based on 2019 consensus pricing: Gold (US\$/oz 1,354.00), Silver (US\$/oz 17.82), Copper (US\$/lb 3.08), Lead (US\$/lb 0.93), and Zinc (US\$/lb 1.08).

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

*** Modifying factors such as dilution and mining recovery are based on historical mine to mill reconciliation and are variable by mining method and area.

(5) The mining costs are variable by mining method.

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

(7) The unit value COV's are variable by mining area and proposed mining method. The economic COV ranges from an NSR of US\$71 to US\$80.

The above mineral reserve and resource estimate has been prepared by Americo Zuzunaga FAusIMM CP (Mining Engineer), Vice-President Corporate 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 is based on the Yauricocha Mine consolidated mineral resource and reserve estimate with an effective date of October 31, 2019, 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, 2019. 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, 2019 which is set out in the chart below:

Bolivar Mine Consolidated Mineral Resource Estimate as of December 31, 2019

Resources	T (000)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (Koz)	Au (Koz)	Cu (t)
Measured	0	0.00	0.00	0.00	0	0	0
Indicated	10,902	23.34	0.30	1.07	8,181	107	116,649
Inferred	8,012	22.40	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, 2019 which is set out in the chart below:

Bolivar Mine Consolidated Mineral Reserve Estimate as of December 31, 2019

Reserve	T (000)	Ag (g/t)	Au (g/t)	Cu (%)	Ag (Koz)	Au (Koz)	Cu (t)
Proven	0	0.00	0.00	0.00	0	0	0
Probable	5,560	19.03	0.26	0.84	3,403	47	46,841

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:
 - US\$30.80 = Room and Pillar.
 - US\$33.10 = Longhole Stopping.
 - The marginal NSR cut-off value is:
 - US\$26.50 = Room and Pillar.
 - US\$28.70 = Longhole Stopping.
- (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 Corporate Planning of the Company, a Qualified Person and chartered professional qualifying as a Competent Person under the JORC Australasian Code for Reporting of Exploration Results, Mineral Resources, and Ore Reserves.

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, 2019. 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, 2019 which is set out in the chart below:

Cusi Mine Consolidated Mineral Resource Estimate as of December 31, 2019

Resources	T (000)	Ag/g-t	Au/g-t	%Pb	%Zn	Ag (Koz)	Au (Koz)	Pb (t)	Zn (t)
Measured	362	224.69	0.13	0.55	0.68	2,615	2	1,991	2,462
Indicated	3,682	223.84	0.22	0.67	0.69	26,497	26	24,781	25,467
Measured + Indicated	4,044	223.91	0.21	0.66	0.69	29,111	28	26,801	27,932

Resources	T (000)	Ag/g-t	Au/g-t	%Pb	%Zn	Ag (Koz)	Au (Koz)	Pb (t)	Zn (t)
Inferred	1,633	157.80	0.16	0.54	0.84	8,285	8	8,898	13,790

(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 Corporate Planning of the Company, a Qualified Person and chartered professional qualifying as a Competent Person under the JORC Australasian Code for Reporting of Exploration Results, Mineral Resources, and Ore Reserves.

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, 2019. 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 NPV 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 Yauricocha Mine and Bolivar Mine, none of the Company's properties have any orebodies 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.

Uncertainty of 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 changes 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.

Risk of 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 in those countries 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.

Burden of 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.

Uncertainty of 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 risks

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**" or "**ARCM**") 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 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 ("RSUs") issued by the Company and the issuance of other additional equity securities in the future could result in dilution in the value of the 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 mining and exploration industry is cyclical in nature. The mining industry is subject to commodity pricing, which is in turn affected by other economic indicators and worldwide cycles. The pricing cycles that the mining industry experiences affect the overall environment in which the Company conducts its business. For example, if commodity pricing is low, Sierra's access to capital may be restricted. Continuing periods of low commodity prices or economic stalls could also affect the economic potential of the Company's current properties and may affect its ability to, among other things: (i) capitalize on financing, including equity financing, to fund its ongoing operations and exploration and development activities; and (ii) continue exploration or development activities on its properties.

Furthermore, weather cycles may affect the Company's ability to conduct exploration activities at its mines, including the Yauricocha Mine, Bolivar Mine and Cusi Mine. More specifically, drilling and other exploration activities may be restricted during periods of adverse weather conditions or winter seasons as a result of weather related factors, including inclement weather, snow covering the ground, frozen ground and restricted access due to snow, ice, or other weather related factors.

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, 2019 was \$9.2 million (December 31, 2018 - \$5.8 million).

Climate Change

There is significant evidence of the effects of climate change on our planet and an intensifying focus on addressing these issues. Governments are introducing climate change legislation and treaties at the international, national, and local levels, and regulations relating to emission levels and energy efficiency are evolving and becoming more rigorous. However, the laws and regulatory requirements are not consistent across the jurisdictions in which we operate, and regulatory uncertainty is likely to result in additional complexity and cost in our compliance efforts. Public perception of mining is, in some respects, negative and there is increasing pressure to curtail mining in many jurisdictions as a result, in part, of perceived adverse effects of mining on the environment. Concerns around climate change may also affect the market price of our shares as institutional investors and others may divest interests in industries that are thought to have more environmental impacts. While we are committed to operating responsibly and reducing the negative effects of our operations on the environment, our ability to reduce emissions, energy and water usage by increasing efficiency and by adopting new innovation is constrained by technological advancement, operational factors and economics. Adoption of new technologies, the use of renewable energy, and infrastructure and operational changes necessary to reduce water usage may also increase our costs significantly. Concerns over climate change, and our ability to respond to regulatory requirements and societal pressures, may have significant impacts on our operations and on our reputation, and may even result in reduced demand for our products. The physical risks of climate change could also adversely impact our operations. These risks include, among other things, extreme weather events, resource shortages, changes in rainfall and in storm patterns and intensities, water shortages, changing sea levels and extreme temperatures. Climate-related events such as mudslides, floods, droughts and fires can have significant impacts, directly and indirectly, on our operations and could result in damage to our facilities, disruptions in accessing our sites with labour and essential materials or in shipping products from our mines, risks to the safety and security of our personnel and to communities, shortages of required supplies such as fuel and chemicals, inability to source enough water to supply our operations, and the temporary or permanent cessation of one or more of our operations. There is no assurance that we will be able to anticipate, respond to, or manage the risks associated with physical climate change events and impacts, and this may result in material adverse consequences to our business and to our financial results.

COVID-19

The Company faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions. The Company's business could be adversely impacted by the effects of COVID-19 or other epidemics. In December 2019, the COVID-19 virus emerged in China and has now spread to several other countries, including Canada, Mexico and Peru, and infections have been reported globally. The extent to which COVID-19 impacts the Company's business, including its operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken to contain or treat the COVID-19 outbreak. In particular, the continued spread of COVID-19 globally could materially and adversely impact the Company's business including without limitation, employee health, workforce productivity, increased insurance premiums, limitations on travel, the availability of industry experts and personnel, restrictions to its drill program and/or the timing to process drill and other metallurgical testing, and other factors that will depend on future developments beyond the Company's control, which may have a material and adverse effect on the its business, financial condition and results of operations. There can be no assurance that the Company's personnel will not be impacted by these pandemic diseases and ultimately see its workforce productivity reduced or incur increased medical costs / insurance premiums as a result of these health risks. In addition, a significant outbreak of COVID-19 could result in a widespread global health crisis that could adversely affect global economies and financial markets resulting in an economic downturn that could have an adverse effect on the demand for precious metals and our future prospects.

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, satisfaction of solvency tests imposed by applicable law for the declaration and payment of dividends and other relevant factors.

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 162,115,379 Common Shares issued and outstanding.

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 Common Shares are currently listed for trading on the TSX and the Lima Stock Exchange under the symbol SMT. The Common Shares are also listed for trading on the NYSE American 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, 2019.

Period	High (C\$)	Low (C\$)	Volume
January 2019	2.76	2.33	644,901
February 2019	2.35	2.25	342,093
March 2019	2.31	2.08	376,329
April 2019	2.20	1.90	931,153
May 2019	1.92	1.76	101,025
June 2019	1.82	1.63	366,751
July 2019	2.00	1.56	472,459
August 2019	2.00	1.54	424,211
September 2019	1.96	1.56	345,219
October 2019	1.90	1.35	410,737
November 2019	1.74	1.98	161,403
December 2019	2.18	1.78	1,623,556

Prior Sales

During the fiscal year ended December 31, 2019, 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
May 6, 2019	RSUs	944,585 (1)
May 10, 2019	RSUs	370,570
July 31, 2019	RSUs	33,263

(1) 204,657 of these RSUs have since been cancelled

ESCROWED SECURITIES

To the Company's knowledge, as at December 31, 2019, 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, the Board consists of eight 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 officer 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 ⁽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 (<i>a mining company</i>)	-President & CEO since May 1, 2017 -Director since September 19, 2013
J. ALBERTO ARIAS ⁽²⁾⁽⁴⁾⁽⁵⁾ Chairman of the Board and Director (Miami, USA)	President and CEO, ARCM (<i>a private fund manager</i>)	November 26, 2008
DOUGLAS F. CATER ⁽¹⁾⁽³⁾⁽⁶⁾ Director (Ontario, Canada)	-January 2019 to present: Independent Consultant -January 2016 to January 2019: VP Exploration (Canada), Kirkland Lake Gold Inc. (<i>a mining company</i>) -June 2012 to January 2016: VP Exploration, St. Andrew Goldfields Inc. (<i>a mining company</i>)	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⁾⁽²⁾⁽⁴⁾ Director (Ontario, Canada)	-November 2019 to present: President & CEO of O3 Mining Inc. (<i>a mining company</i>) -June 2016 to November 2019: Executive VP of Strategic Development at Osisko Mining Inc. (<i>a mining company</i>) -July 2015 to June 2016: COO and Senior VP Corporate Development at Osisko Mining Inc. -April 2014 to July 2015: President and CEO Oban Mining Corporation (<i>a mining company</i>)	November 9, 2017
RICARDO ARRARTE ⁽⁶⁾ Director (Lima, Peru)	-July 2016 to present: Director with an affiliate of ARCM (<i>a private fund manager</i>) -July 2017 to February 2020: Chief Executive Officer of Cautivo Mining Inc. (<i>a mining company</i>) -January 2014 to June 2016: Central Mine Manager of Cementos Pascasmayo and Fosfatos del Pacifico (<i>a mining company</i>)	April 5, 2019
KOKO YAMAMOTO ⁽¹⁾⁽³⁾⁽⁴⁾ Director (Ontario, Canada)	Partner and Accountant at McGovern, Hurley LLP (<i>a public accounting firm</i>)	July 15, 2019
ED GUIMARAES Chief Financial Officer (Ontario, Canada)	-November 2014 to present: CFO of the Company	November 17, 2014

ALONSO LUJAN Vice President, Exploration and Country Manager, Mexico (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) (<i>a mining operations manager</i>)	September 14, 2016
MICHAEL MCALLISTER Vice President, Investor Relations (Ontario, Canada)	-May 2019 to present: VP Investor Relations of the Company -July 2016 to May 2019: 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 (<i>an investor relations consulting firm</i>)	July 15, 2016
RAJESH VYAS Corporate Controller (Ontario, Canada)	-December 2019 to present: Corporate Controller of the Company -November 2017 to November 2019: Director of Finance of Alamos Gold Inc. (<i>a mining company</i>) -April 2016 to November 2017: Operations Controller of Richmond Mines Inc. (<i>a mining company</i>) -June 2003 to July 2015: Controller/Projects Controller of Iamgold Corp. (<i>a mining company</i>)	December 18, 2019
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, 2019, the directors and executive officers of the Company as a group beneficially owned, directly and indirectly, or exercised control or direction over, an aggregate of 86,995,636 Common Shares, representing approximately 53.7% of the then outstanding Common Shares. This includes an aggregate of 85,008,027 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

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.

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 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 the Audit Committee comprised of Koko Yamamoto (Chair), Douglas F. Cater 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”.

Koko Yamamoto

Ms. Yamamoto is a chartered professional accountant with over 19 years' experience. She is a partner at McGovern, Hurley LLP, a CPAB registered firm, since 2003, and her practice includes a focus on assurance engagements for reporting issuers in the resource sector. Ms. Yamamoto is involved in initial public offerings and private placements, mergers and acquisitions. She is currently a director for Largo Resources Inc. as well as Chair of the Largo Resources Audit Committee. Ms. Yamamoto is registered as a panel auditor with the Investment Industry Regulatory Organization of Canada (IIROC), which enables her to conduct audits of investment dealers. Ms. Yamamoto obtained her CPA CA designation in 2001 and holds a Bachelor of Commerce from the University of British Columbia.

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 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.

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, 2019 has a recommendation of the Audit Committee to nominate or compensate an external auditor 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, 2019 and December 31, 2018, the fees billed by PWC are summarized below for each category:

Service	Fees billed in 2019	Fees billed 2018
Audit Fees	\$327,465	\$336,080
Audit-Related Fees ⁽¹⁾	\$56,334	\$55,184
Tax Fees	\$nil	\$nil
All Other Fees	\$nil	\$nil
Total Fees Paid	\$383,799	\$391,264

(1) For the year ended December 31, 2019, the \$56,334 in “Audit-Related Fees” relates to PWC’s quarterly reviews.

(2) For the year ended December 31, 2018, the \$55,184 in “Audit-Related Fees” relates to PWC’s quarterly reviews.

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 following is a description of the legal proceedings the Company is or was a party to, or that any of its property is or was the subject of, during the fiscal year ended December 31, 2019:

In October 2009, P&R sued the Company and one of its subsidiaries, Dia Bras Mexicana (the “**P&R Litigation**”). 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 Dia Bras Mexicana currently operates, nor are these properties included in any resource estimates of the Company. 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 Fifth Civil Hall of the Superior Court of Justice of the State of Chihuahua (the “**State Court**”), which overruled the previous resolution and ordered the Company to: (i) transfer to P&R 17 mining concessions from the Bolivar Mine, 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, the Second Federal Collegiate Court on Civil and Labor Matters of the Seventeenth circuit in the State of Chihuahua (the “**Federal Court**”) granted the Company a temporary suspension of the adverse resolution issued by the State Court. In July 2014, the Federal Court ordered that the Company was entitled to receive proper notice of the adverse resolution previously issued by the State Court. 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 the 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. On February 6, 2020, the Company announced the settlement of the P&R Litigation. See “*General Development of the Business – Three-Year History and Recent Developments – 2020*”.

In 2009, a personal action was filed in Mexico against Dia Bras Mexicana 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 Dia Bras Mexicana 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, 2019, 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; or (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:

- (i) a director or executive officer of the Company;
- (ii) 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
- (iii) an associate or affiliate of any of the persons or companies referred to in (i) or (ii) above.

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 (including the Corporate Facility, as amended) 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, 2019 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 Andre M. Deiss, B.Sc., (Hons), Pri.Nat.Sci., MSAIMM, SRK Principal Consultant (Resource Geology); Carl Kottmeier, B.Sc., P. Eng., MBA, SRK Principal Consultant (Mining); Daniel H. Sepulveda, B.Sc., SME-RM, SRK Associate Consultant (Metallurgy); Daniel Mackie, M.Sc., B.Sc., P.Geo., SRK Practice Leader/Principal Consultant (Hydrogeologist); and Jarek Jakubec, C.Eng., FIMMM, SRK Practice Leader/Corporate Consultant (Mining and Geology).

The Qualified Persons responsible for reviewing the Bolivar Technical Report are Enrique Rubio, Ph.D. (of Redco); Giovanni 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); Giovanni 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, 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, 2019, the Bolivar Mine consolidated mineral reserve and resource estimate as at December 31, 2019, and the Cusi Mine consolidated mineral resource estimate as at December 31, 2019, under the heading "Updated Mineral Resource and Mineral Reserve Information". As of the date hereof, Americo Zuzunaga holds 50,735 RSUs of the Company.

PWC are the auditors of the Company who have prepared the auditors' report in respect of Sierra's annual financial statements for the fiscal year ended December 31, 2019. 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. Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company's 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 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 SECRETARY

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

V MEETINGS

1. The Committee shall meet at such times and places as the Committee may determine, but no less than four times per year. At least annually, the Committee shall meet separately with management and with the external auditors.

2. Meetings may be conducted with members present in person, by telephone or by video conference.

3. A resolution in writing signed by all the members of the Committee is valid as if it had been passed at a meeting of the Committee.

4. Notice must be given to each Committee member not less than 48 hours before the time when a meeting is to be held. The notice period may be waived by a quorum of the Committee.

5. The external auditors or any member of the Committee may also call a meeting of the Committee. The external auditors of the Corporation will receive notice of every meeting of the Committee.

6. The Board shall be kept informed of the Committee’s activities by a report, including copies of minutes, at the next Board meeting following each Committee meeting.

VI QUORUM

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



SIERRA METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Corporate Office

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

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Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

*(In thousands of United States dollars, unless otherwise stated)***1. INTRODUCTION**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with Sierra Metals Inc.'s (the "Company" or "Sierra" or "Sierra Metals") consolidated financial statements for the year ended December 31, 2019 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, 2020 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

Americo Zuzunaga, FAusIMM 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 diversified Canadian 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.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

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

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. 2019 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, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Operating				
Ore Processed / Tonnes Milled	731,500	599,297	2,671,853	2,325,288
Silver Ounces Produced (000's)	871	701	3,375	2,716
Copper Pounds Produced (000's)	11,308	8,932	39,890	33,968
Lead Pounds Produced (000's)	9,924	7,948	35,454	27,714
Zinc Pounds Produced (000's)	25,590	17,545	81,083	76,831
Gold Ounces Produced	3,615	2,137	11,632	7,743
Copper Equivalent Pounds Produced (000's) ¹	32,510	23,447	111,678	95,184
Zinc Equivalent Pounds Produced (000's) ¹	81,919	56,287	267,658	215,053
Silver Equivalent Ounces Produced (000's) ¹	5,016	4,445	18,721	17,988
Cash Cost per Tonne Processed	\$ 53.91	\$ 50.44	\$ 50.37	\$ 47.55
Cost of sales per AgEqOz	\$ 9.61	\$ 7.99	\$ 8.53	\$ 7.35
Cash Cost per AgEqOz ²	\$ 9.94	\$ 7.68	\$ 8.33	\$ 7.03
AISC per AgEqOz ²	\$ 16.18	\$ 10.59	\$ 13.82	\$ 10.04
Cost of sales per CuEqLb ²	\$ 1.48	\$ 1.51	\$ 1.42	\$ 1.39
Cash Cost per CuEqLb ²	\$ 1.54	\$ 1.45	\$ 1.39	\$ 1.33
AISC per CuEqLb ²	\$ 2.50	\$ 2.00	\$ 2.30	\$ 1.90
Cost of sales per ZnEqLb ²	\$ 0.59	\$ 0.63	\$ 0.59	\$ 0.61
Cash Cost per ZnEqLb ²	\$ 0.61	\$ 0.61	\$ 0.58	\$ 0.58
AISC per ZnEqLb ²	\$ 0.99	\$ 0.84	\$ 0.95	\$ 0.83
Cash Cost per ZnEqLb (Yauricocha) ²	\$ 0.46	\$ 0.52	\$ 0.46	\$ 0.52
AISC per ZnEqLb (Yauricocha) ²	\$ 0.83	\$ 0.73	\$ 0.79	\$ 0.73
Cash Cost per CuEqLb (Bolivar) ²	\$ 2.06	\$ 1.67	\$ 1.73	\$ 1.44
AISC per CuEqLb (Bolivar) ²	\$ 2.92	\$ 2.37	\$ 2.86	\$ 2.13
Cash Cost per AgEqOz (Cusi) ²	\$ 42.12	\$ 18.96	\$ 21.38	\$ 15.71
AISC per AgEqOz (Cusi) ²	\$ 56.64	\$ 23.27	\$ 30.89	\$ 22.09
Financial				
Revenues	\$ 64,634	\$ 55,019	\$ 229,038	\$ 232,371
Adjusted EBITDA ²	\$ 19,104	\$ 15,263	\$ 65,257	\$ 89,756
Operating cash flows before movements in working capital	\$ 19,951	\$ 15,167	\$ 66,359	\$ 90,148
Adjusted net income attributable to shareholders ²	\$ 12,214	\$ 783	\$ 18,860	\$ 29,009
Non-cash depletion charge on Corona's acquisition				
Gross profit (loss)				
Income tax recovery (expense)				
Net income (loss) attributable to shareholders	\$ 4,534	\$ (2,654)	\$ 4,431	\$ 18,814
Cash and cash equivalents	\$ 42,980	\$ 21,832	\$ 42,980	\$ 21,832
Restricted cash				
Working capital	\$ 49,922	\$ (8,290)	\$ 49,922	\$ (8,290)

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2019 were calculated using the following realized prices: \$17.42/oz Ag, \$2.69/lb Cu, \$0.92/lb Pb, \$1.07/lb Zn, \$1,506/oz Au. 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 12M 2019 were calculated using the following realized prices: \$16.29/oz Ag, \$2.73/lb Cu, \$0.91/lb Pb, \$1.14/lb Zn, \$1,404/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.

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

Q4 2019 Production Highlights

- Silver production of 0.9 million ounces; a 24% increase from Q4 2018
- Copper production of 11.3 million pounds; a 27% increase from Q4 2018
- Zinc production of 25.6 million pounds; a 46% increase from Q4 2018
- Lead production of 9.9 million pounds; a 25% increase from Q4 2018
- Gold production of 3,615 ounces; a 69% increase from Q4 2018

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*(In thousands of United States dollars, unless otherwise stated)***2019 Consolidated Production Highlights**

- Silver production of 3.4 million ounces; a 24% increase from 2018
- Copper production of 39.9 million pounds; a 17% increase from 2018
- Zinc production of 81.1 million pounds; a 6% increase from 2018
- Lead production of 35.5 million pounds; a 28% increase from 2018
- Gold production of 11,632 ounces; a 50% increase from 2018
- Total of 2.7 million tonnes processed; a 15% increase from 2018

2019 Operational Highlights and Growth Initiatives

During 2019, the annual consolidated production of silver, copper, zinc, lead and gold increased 24%, 17%, 6%, 28% and 50% respectively. During Q4 2019, the Company achieved record consolidated quarterly ore throughput, driven by 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 2019, which resulted in strong annual consolidated production figures.

Metal production at Yauricocha increased 43% in Q4 2019 compared to Q4 2018 due to 20% higher ore throughput, 19% higher zinc head grade, and higher recoveries for all metals. At Bolivar, 28% higher ore throughput, and higher silver and gold head grades resulted in a 49% increase in copper equivalent pounds produced in Q4 2019 compared to Q4 2018. The Cusi Mine realized a 5% increase in throughput, 8% higher silver head grade offset by lower lead and gold head grades which resulted in silver equivalent ounces production that was in line with Q4 2018.

2019 Consolidated Financial Highlights

- Revenue from metals payable of \$229.0 million in 2019 decreased by 1% from \$232.4 million in 2018. Revenues were lower due to the impact of lower realized metal prices and higher treatment costs related to zinc.
- Yauricocha's cost of sales per zinc equivalent payable pound was \$0.48 (2018 - \$0.55), cash cost per zinc equivalent payable pound was \$0.46 (2018 - \$0.52), and AISC per zinc equivalent payable pound of \$0.79 (2018 - \$0.73). Lower cost of sales and cash costs resulted from higher production and consequent 21% higher sale of zinc equivalent pounds as compared to 2018. Sustaining capital costs for the year were 79% higher than those in 2018, resulting in higher AISC per zinc equivalent payable pound compared to 2018.
- Bolivar's cost of sales per copper equivalent payable pound was \$2.03 (2018 - \$1.73), cash cost per copper equivalent payable pound was \$1.73 (2018 - \$1.44), and AISC per copper equivalent payable pound was \$2.86 (2018 - \$2.13). The increase in cost of sales and cash cost per copper equivalent pound resulted mainly from higher operating costs during the year. The increase in AISC per copper equivalent payable pound during 2019 compared to 2018 was due to higher cash costs and higher sustaining costs during the year;

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- Cusi's cost of sales per silver equivalent payable ounce was \$13.35 (2018 - \$8.97), cash cost per silver equivalent payable ounce was \$21.38 (2018 - \$15.71), and AISC per silver equivalent payable ounce was \$30.89 (2018 - \$22.09). Unit costs for 2019 were higher at Cusi compared to 2018, as the slight increase in silver equivalent payable ounces could not offset the increase in cost of sales and sustaining costs during the year;
- Adjusted EBITDA⁽¹⁾ of \$65.3 million for 2019, which is a 27% decrease from the adjusted EBITDA of \$89.8 million for 2018. This decrease was a combined result of the lower consolidated revenue and higher operating costs;
- Net income attributable to shareholders for 2019 was \$4.4 million (2018: \$18.8 million) or \$0.03 per share (basic and diluted) (2018: \$0.12);
- Adjusted net income attributable to shareholders ⁽¹⁾ of \$18.9 million, or \$0.12 per share, for 2019 was lower than the adjusted net income of \$29.0 million, or \$0.17 per share for 2018;
- A large component of the net income for every period is the non-cash depletion charge in Peru, which was \$10.3 million for 2019 (2018: \$10.5 million). The non-cash depletion charge is based on the aggregate fair value of the Yauricocha mineral property at the date of acquisition of Sociedad Minera Corona S.A. de C.V. ("Corona") of \$371.0 million amortized over the total proven and probable reserves of the mine;
- Cash flow generated from operations before movements in working capital of \$66.4 million for 2019 decreased compared to \$90.1 million in 2018. The decrease in operating cash flow is mainly the result of lower revenues generated and lower gross margins realized; and
- Cash and cash equivalents of \$43.0 million and working capital of \$49.9 million as at December 31, 2019 compared to \$21.8 million and \$(8.3) million, respectively, at the end of 2018. Cash and cash equivalents increased by \$21.1 million during 2019 due to \$39.6 million of operating cash flows after taxes and changes in working capital, and \$99.8 million drawn down from a secured corporate credit facility from Banco de Credito del Peru ("BCP"), being offset by capital expenditures incurred in Mexico and Peru of \$54.6 million, repayment of loans, credit facilities and interest of \$60.9 million and share repurchased during the year for \$2.8 million.

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

Project Development

- The Company received its permit to construct the expansion of the tailings dam facility as well as its permit for the surface drilling program at its Yauricocha Mine in Peru.
- The Company repurchased the royalty on its Cusi Silver Mine in Mexico for \$4.0 million.

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- In December, the Company provided an update on the Mineral Reserve and Resource Estimate for its Yauricocha Mine, which was a result of drilling programs representing 76,338 metres of drilling and mine exploration development work completed between August 2017 and October 2019. As per this update, Mineral Reserve tonnage decreased 5%, which included mine depletion. Mineral classification improved as the Proven Reserves increased 45%, and the Probable Reserves decreased 18%. A National Instrument 43-101 ("NI 43-101") technical report was filed on SEDAR and with the U.S. Securities and Exchange Commission on February 3, 2020.
- In December, the Company also provided an update on the Mineral Resource Estimate for its Bolivar Mine, which was a result of drilling programs completed between November 2017 and September 2019 at the Bolivar West, Bolivar Northwest and El Gallo Inferior zones. The Company is planning to release another Mineral Reserve and Resource update, which will include additional drilling and information from a litho-structural model, before March 31, 2020, followed by a NI 43-101 technical report to be filed within 45 days of this update.
- Mine development at Bolivar during Q4 2019 totaled 2,782 meters. Most of these meters (1,780 m) were developed to prepare stopes for mine production. The remainder of the meters (1,002 m) were related to the deepening of ramps and developing service ramps to be used for ventilation and pumping in the El Gallo Inferior and Bolivar West zones; and
- During Q4 2019, at the Cusi Property, mine development totaled 1,515 meters, which included 140 meters of ramp development at Santa Rosa de Lima Zone, the rest of the development related to stope preparation in various zones within the mine;

Exploration Highlights**Peru:**

- A drilling program was carried out in the area called *Esperanza Norte*, with the objective of defining the continuity of mineralization between the *Esperanza* and *Cachi Cachi* orebody. Two drills have intercepted Polymetallic mineralization;
- The continuity of depths of *Cuerpo Chicos* was confirmed in *Contacto Oriental*, *Contacto Occidental* and *Mascota Norte*;
- Brownfield drilling program started at *Doña Leona* and *El Paso*. Approximately 12,705 meters of drilling was complete, including 4,040 meters at *Doña Leona* and 8,665 meters at *El Paso*, with the aim of exploring the anomalies of the geophysics performed in 2017 with the Titan method;
- Intersections of Mineralization were identified which open the potential of the Yauricocha mine to the south;

Mexico:***Bolivar***

- The significant increase in mineral resources is the result of the drilling program at *El Gallo* and *Bolivar West*;

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- Infill drilling is being conducted at the Cusi Mine with the aim to convert resources to reserves. The Company is aiming to file a NI 43-101 technical report by the end of Q2 2020;

Batopilas

- The drilling in the *Batopilas* project began with the aim of investigating the potential of the *La Verde* vein.

Corporate Development Highlights**Closing of Senior Secured \$100 Million Corporate Credit Facility**

The Company, together with its wholly-owned subsidiaries Dia Bras Peru S.A.C. ("Dia Bras Peru") and Dia Bras Mexicana S.A. de C.V. ("Dia Bras Mexicana"), as co-obligors, entered into a six-year senior secured corporate credit facility ("Corporate Facility"), dated March 8, 2019, as amended on July 11, 2019, with Banco de Credito del Peru ("BCP") that provides funding of up to \$100 million. The Corporate Facility provides the Company with additional liquidity and the financial flexibility to fund future capital projects in Mexico as well as corporate working capital requirements. The Company also used a portion of the proceeds of the Corporate Facility to repay old debt balances.

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% + 3-month LIBOR

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

Repayment of FIFOMI Loan in Mexico

During February 2019, the Company repaid the remaining \$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.

Automatic Share Purchase Plan and Amendment to Normal Course Issuer Bid

On April 15, 2019, the Company announced that, in connection with its normal course issuer bid ("NCIB"), it had entered into an automatic share purchase plan ("ASPP") with CIBC Capital Markets ("CIBC"), the Company's designated broker for the NCIB.

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The ASPP permitted CIBC to purchase Common Shares at times when the Company ordinarily would not be active in the market due to insider trading rules and its own internal trading blackout periods. Purchases were only to be made by CIBC based upon parameters set out by the Company prior to the commencement of any such blackout period and in accordance with the terms of the ASPP. Outside of these blackout periods, Common Shares would continue to be purchased at the Company's discretion, subject to the rules of the TSX and applicable securities laws. The Company's NCIB commenced on December 17, 2018 and remained active until December 16, 2019.

On September 18, 2019, the Company announced its intention to amend the NCIB to increase the number of Common Shares which the Company was permitted to repurchase for cancellation thereunder from 1,500,000 Common Shares to 2,500,000 Common Shares. Other than the increase to the maximum number of Common Shares purchasable by the Company pursuant to the NCIB, no other amendments had been made to the NCIB. The Company purchased a total of 2,012,654 Common Shares under the NCIB.

Changes to the Board

On April 4, 2019, the Company announced the appointment of Ricardo Arrarte to the Board. Mr. Arrarte filled the vacancy created by the resignation of Philip Renaud.

On July 15, 2019, the Company announced the appointment of Koko Yamamoto to the Board. Ms. Yamamoto was also appointed to the Audit Committee of the Board and would serve as its Chair.

Management Changes

On August 1, 2019, the Company announced the mutually agreed upon departure of Gordon Babcock, its Chief Operating Officer. Mr. Babcock's responsibilities were taken over by Alonso Lujan, Vice President Exploration and Country Manager Mexico, and James Leon, Country Manager Peru.

4. OUTLOOK

2019 was a pivotal year for the Company, as it achieved some key milestones towards its future expansion in Mexico and Peru.

The Yauricocha Mine operated at a rate of 3,600 tpd in the last quarter of 2019 to compensate for the loss of 24-day production due to the illegal strike in the first half of the year. Studies are already underway to provide further clarity and confidence for further operational production increases, thereby achieving economies of scales and offset the impact of soft metal prices and high treatment charges. The receipt of the Environmental Impact Assessment ("EIA") in 2019 is an important step in the future throughput expansion at Yauricocha. During the first half of 2020, the Company expects to receive the permit for the next phase of the tailings deposition facility and the expanded waste rock facility.

The Bolivar Mine achieved approximately 3,600 tpd of mill throughput in 2019 due to the successful completion of plant expansions earlier during the year. Additional improvements such as installation of three flash floatation cells and parallel configuration of the mill allowed for approximately 4,000 tpd during the last quarter of 2019. In 2020, the Bolivar Mine is expected to average 4,250 tpd during the first half of the year and reach an average of 5,000 tpd by the fourth quarter. Further, the Company is expecting to press release the NI 43-101 Reserve and Resource update before 31 March 2020, followed by a PEA in the second half of 2020, with the expectation to increase the Bolivar Plant capacity beyond the 5,000 tpd throughput rate.

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Milling capacity at the Cusi Mine has been expanded to 1,200 tpd. However, mine development was delayed in 2019 due to a subsidence event, triggered by excessive and water inflows, thus limiting mill feed during the year. For 2020, the focus at the Cusi Mine is on the optimization of the underground mine for consistent mill feed of about 1,200 tpd.

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. The \$100 million Corporate Credit Facility, finalized in 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 terms of this credit facility allow a grace period of two years, which implies no principal repayments until June 2021. Further, the interest rate on this credit facility is 3-month LIBOR plus 3.15 %.

On January 23, 2020, the Company issued the following guidance to the market:

Production, costs and EBITDA

Mine		Guidance range ⁽²⁾		Cash Costs per ZnEqLb or CuEqLb or AqEqLb	AISC ⁽¹⁾ Costs per ZnEqLb or CuEqLb or AqEqLb
		Low	High		
Yauricocha	Zinc Eq Lbs (000's)	208,328	231,476	\$ 0.46	\$ 0.77
	EBITDA (US\$000)	\$ 67,925	\$ 75,968		
Bolivar	Copper Eq Lbs (000's)	36,161	40,179	\$ 1.30	\$ 1.75
	EBITDA (US\$000)	\$ 42,703	\$ 47,884		
Cusi	Silver Eq Lbs (000's)	1,732	2,126	\$ 11.90	\$ 15.18
	EBITDA (US\$000)	\$ 5,192	\$ 9,100		
Consolidated	Silver Eq Lbs (000's)	20,115	22,551		
	Copper Eq Lbs (000's)	127,062	142,450		
	Zinc Eq Lbs (000's)	331,061	371,153		
	EBITDA (US\$000)	\$ 109,191	\$ 126,192		

⁽¹⁾ AISC includes treatment and refining charges, selling costs, G&A costs and sustaining capex

⁽²⁾ 2020 Silver equivalent ounces, copper equivalent pounds, zinc equivalent pounds, were calculated using the following metal prices:

\$17.94 /oz Ag, \$2.84/lb Cu, \$1.09/lb Zn, \$0.92/lb Pb, \$1,484/oz Au.

Capital expenditures:

Mine	Sustaining	Growth	Total
Yauricocha	\$ 12,500	\$ 20,600	\$ 33,100
Bolivar	\$ 6,800	\$ 5,900	\$ 12,700
Cusi	\$ 3,700	\$ 2,100	\$ 5,800
Consolidated	\$ 23,000	\$ 28,600	\$ 51,600

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Due to the increasing number of coronavirus (COVID-19) infections in the country, the Peruvian Government declared a state of emergency on March 17, 2020 for a period of 15 days to contain the advancement of the virus, which restricts travel within the country and requires citizens to remain at home with the exception of some essential services. On March 26, 2020, the Peruvian Government extended the state of emergency for an additional 13 days until April 12, 2020. As such, all mining activities and permitting submissions in Peru have also been halted. This will result in a delay in all permits being issued. Pursuant to this declaration, the Company has also ceased its mining operations at the Yauricocha Mine, with the exception of emergency staff, as permitted by the Government. Due to the uncertainty of the effect that the COVID-19 Pandemic could have on the Company's operations and financial condition, and due to rapidly changing developments, the Company is currently implementing proactive and reactive mitigation measures to minimize any potential impacts COVID-19 may have on its employees, communities, operations, supply chain, and finances. This also includes preserving capital and deferring capital programs, where appropriate, to improve liquidity. The Company is maintaining its guidance due to the operating flexibility at the Yauricocha Mine and the current normal operations of its Mexican mines. Should any material changes occur, the Company would update its guidance promptly, and expects to provide a more comprehensive update with more data points on metal prices and operating developments as part of the Q1 2020 reporting process.

Further, as noted in a previous press release dated January 8, 2020, in anticipation of free cash flows during the year, the Company was contemplating returning capital to its shareholders, for which the Company's board of directors (the "Board") had approved a plan to return up to \$30 million to shareholders in the 2020, which represented a portion of the EBITDA guidance noted above. Due to the highly uncertain economic situation as a result of COVID-19 and its impact on the Company's operations and metal prices, the Company has also decided to postpone its contemplated share repurchase program.

Market Review and Trends***Metal Prices***

One of the primary drivers of Sierra's earnings and ability to generate operating cash flows are the metal market prices. In 2019, while silver and gold prices averaged 4% and 11% over their 2018 averages, prices for copper, lead and zinc averaged 8%, 11% and 14% lower than the prices in 2018. Metal prices have been impacted by the market uncertainty stemming from the U.S-China trade war and weakening growth in China — the world's largest consumer of metals.

<i>LME Average Prices</i> <i>(In US dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Silver (oz)	\$ 17.31	\$ 14.55	\$ 16.20	\$ 15.71
Copper (lb)	\$ 2.67	\$ 2.80	\$ 2.72	\$ 2.96
Lead (lb)	\$ 0.92	\$ 0.89	\$ 0.91	\$ 1.02
Zinc (lb)	\$ 1.06	\$ 1.19	\$ 1.15	\$ 1.33
Gold (oz)	\$ 1,482	\$ 1,229	\$ 1,392	\$ 1,270

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Gold and silver had a stellar year, as the prices continued to grow throughout the year, except a slight decline in Q2 2019. Macro-environment and geo-political concerns, as always, have been the key drivers for gold and silver. After raising the interest rates four times in 2018, the Federal Reserve took a pause and gradually decreased interest rates three times in 2019, which impacted precious metals such as gold and silver positively. Sierra's average realized silver price for 2019 was \$16.29 per ounce compared to \$15.65 per ounce in 2018. Sierra's average realized gold price for 2019 was \$1,404 per ounce compared to \$1,269 per ounce in 2018.

Copper prices have been at the mercy of the US-China trade war during 2019, which pulled and pushed the metal price throughout the year. Q1 2019 was riddled with the concerns over potential copper supply shortage, helping prices to rise marginally over Q4 2018. This trend continued for part of Q2 2019, but the trade tensions between US and China started pressurizing the prices lower. The introduction of significant tariffs over Chinese goods added further pressure on an already slowing global macroeconomic outlook for the year. Copper had a turbulent third quarter, with prices heating up during July, as both US and Chinese manufacturers reported lower-than-projected numbers, only to fall dramatically by September, as the US-China trade talks continued to stall. Copper was the best-performing base metal in Q4 2019, as a tentative trade deal and easing of tariffs helped prices. London Metal Exchange (LME) copper prices in the fourth quarter of 2019 averaged \$2.69 per pound, up 2% from the third quarter, yet below the annual average price of \$2.96 per pound in 2018. Annual prices in 2019 averaged \$2.73 per pound, down 8% from 2018 averages. Sierra's average realized copper price for 2019 was \$2.73 per pound compared to \$2.96 per pound in 2018.

Zinc prices trended upwards in the first quarter of 2019 mainly as a result of supply constraints. Stockpiles of the base metal at LME warehouses fell to their lowest levels in over two decades during this period. Furthermore, Chinese production remained subdued, largely reflecting stricter environmental regulations faced by smelters, thus accentuating the supply shortage in the market. However, zinc prices slipped after April, partly due to signs of slowing global growth, along with the perpetually turbulent relationship between China and the United States. Sierra's realized zinc price for 2019 was \$1.14 per pound compared to \$1.31 per pound in 2018.

Lead prices traded in a range of \$0.85 to \$0.94 per pound in 2019. Sierra's realized lead price during 2019 was \$0.91 per pound compared to \$1.02 per pound in 2018.

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, 2019 the US dollar/Peruvian Nuevo Sol exchange rate was 3.32 (December 31, 2018: 3.38) and the US dollar/Mexican Peso exchange rate was 18.87 (December 31, 2018: 19.64). A 10% change in the value of the Nuevo Sol and Peso against the US dollar would have resulted in a change of \$1.0 million and \$1.1 million in the Company's net profit, respectively, assuming that our operational performance during 2019 was consistent with 2018.

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

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5. RESULTS OF OPERATIONS

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

Production Highlights	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Ore Processed/tonnes milled								
Yauricocha	321,701	307,239	254,165	233,814	268,363	283,446	283,450	271,389
Bolivar	348,434	331,818	326,208	263,238	272,645	227,690	272,040	259,375
Cusi	61,365	70,405	82,117	71,349	58,289	55,058	46,597	26,946
Consolidated	731,500	709,462	662,490	568,401	599,297	566,194	602,087	557,710
Cash cost per tonne processed								
Yauricocha	\$ 75.58	\$ 67.86	\$ 66.01	\$ 73.63	\$ 69.37	\$ 60.34	\$ 60.51	\$ 63.04
Bolivar	\$ 28.67	\$ 29.37	\$ 28.61	\$ 31.47	\$ 30.25	\$ 31.06	\$ 24.31	\$ 25.68
Cusi	\$ 83.64	\$ 66.06	\$ 54.04	\$ 54.99	\$ 57.74	\$ 59.00	\$ 66.56	\$ 83.57
Consolidated	\$ 53.91	\$ 49.68	\$ 46.11	\$ 51.77	\$ 50.44	\$ 48.43	\$ 44.62	\$ 46.66
Silver ounces produced (000's)								
Yauricocha	496	532	401	369	402	404	392	366
Bolivar	185	173	152	130	128	94	110	120
Cusi	190	271	283	192	171	230	190	108
Consolidated	871	976	836	691	701	728	692	594
Copper pounds produced (000's)								
Yauricocha	5,648	6,012	4,536	3,863	4,702	4,428	3,884	3,727
Bolivar	5,660	5,115	5,187	3,869	4,230	3,898	4,737	4,363
Cusi	—	—	—	—	—	—	—	—
Consolidated	11,308	11,127	9,723	7,732	8,932	8,326	8,621	8,090
Lead pounds produced (000's)								
Yauricocha	9,691	10,340	7,911	6,605	7,528	6,114	6,809	6,069
Bolivar	—	—	—	—	—	—	—	—
Cusi	233	168	154	349	421	244	287	243
Consolidated	9,924	10,508	8,065	6,954	7,949	6,358	7,096	6,312
Zinc pounds produced (000's)								
Yauricocha	25,590	22,480	16,593	16,421	17,545	20,772	20,300	18,144
Bolivar	—	—	—	—	—	—	—	—
Cusi	—	—	—	—	—	—	—	70
Consolidated	25,590	22,480	16,593	16,421	17,545	20,772	20,300	18,214
Gold ounces produced								
Yauricocha	1,322	1,282	809	753	850	911	807	835
Bolivar	2,216	2,073	1,586	1,100	1,163	911	911	1,048
Cusi	77	135	146	133	124	84	96	69
Consolidated	3,615	3,490	2,541	1,986	2,137	1,906	1,814	1,952

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Consolidated Production	Three Months Ended			Twelve Months Ended		
	December 31, 2019	December 31, 2018	% Var	December 31, 2019	December 31, 2018	% Var
Tonnes processed	731,500	599,297	22%	2,671,853	2,325,288	15%
Daily throughput	8,360	6,849	22%	7,634	6,644	15%
Silver ounces (000's)	871	701	24%	3,375	2,716	24%
Copper pounds (000's)	11,308	8,932	27%	39,890	33,968	17%
Lead pounds (000's)	9,924	7,949	25%	35,454	27,714	28%
Zinc pounds (000's)	25,590	17,545	46%	81,083	76,831	6%
Gold ounces	3,615	2,137	69%	11,632	7,743	50%
Silver equivalent ounces (000's) ⁽¹⁾	5,016	4,445	13%	18,721	17,988	4%
Copper equivalent pounds (000's) ⁽¹⁾	32,510	23,447	39%	111,678	95,184	17%
Zinc equivalent pounds (000's) ⁽¹⁾	81,919	56,287	46%	267,658	215,053	24%
Metals payable in concentrates						
Silver ounces (000's)	609	573	6%	2,742	2,222	23%
Copper pounds (000's)	9,094	8,293	10%	35,098	31,255	12%
Lead pounds (000's)	8,569	7,161	20%	32,713	26,506	23%
Zinc pounds (000's)	19,986	14,918	34%	67,004	64,872	3%
Gold ounces	2,506	1,370	83%	8,795	5,176	70%
Silver equivalent ounces (000's) ⁽¹⁾	3,910	3,878	1%	15,841	15,673	1%
Copper equivalent pounds (000's) ⁽¹⁾	25,320	20,480	24%	95,088	82,992	15%
Zinc equivalent pounds (000's) ⁽¹⁾	63,655	48,904	30%	229,429	188,750	22%

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2019 were calculated using the following realized prices: \$17.42/oz Ag, \$2.69/lb Cu, \$0.92/lb Pb, \$1.07/lb Zn, \$1,506/oz Au. 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 12M 2019 were calculated using the following realized prices: \$16.29/oz Ag, \$2.73/lb Cu, \$0.91/lb Pb, \$1.14/lb Zn, \$1,404/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.

The Peruvian Operation**Yauricocha Mine, Yauyos Province**

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 2020 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:

- 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

During 2019, the Company continued to explore the copper-molybdenum porphyry, starting at the 720 level of the Klepetco tunnel using 3 diamond drills. Drill core returned from the holes intercepted zones of porphyry style mineralization.

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Previous evidence of porphyritic copper-molybdenum mineralization had already been observed within the intrusive monzonite and had already been examined by Rio Tinto, performing geochemical sampling in the Klepetco tunnel. The results of diamond drilling are quite encouraging and demonstrate the presence of the porphyry copper-molybdenum. The areas of the anomalies of the Titan-24 geophysics are demonstrating a strong correlation between conductivity response with the mineralized bodies, which helps in understanding the magnitude of mineralization and helps relate the discoveries of mineralized bodies in Yauricocha, thus making the exploration objectives clearer.

Yauricocha Production

A summary of contained metal production from the Yauricocha Mine for the three months and year ended December 31, 2019 has been provided below:

Yauricocha Production	Three Months Ended			Twelve Months Ended		
	December 31, 2019	December 31, 2018	% Var.	December 31, 2019	December 31, 2018	% Var.
Tonnes processed	321,701	268,363	20%	1,116,919	1,106,648	1%
Daily throughput ⁽¹⁾	3,677	3,067	20%	3,191	3,162	1%
Silver grade (g/t)	60.14	64.06	-6%	63.24	60.32	5%
Copper grade	1.05%	1.06%	-1%	1.06%	0.97%	9%
Lead grade	1.55%	1.51%	3%	1.57%	1.30%	21%
Zinc grade	4.05%	3.41%	19%	3.72%	3.55%	5%
Gold Grade (g/t)	0.60	0.57	5%	0.59	0.58	2%
Silver recovery	79.75%	72.66%	10%	79.20%	72.85%	9%
Copper recovery	75.49%	74.89%	1%	77.05%	70.84%	9%
Lead recovery	88.39%	84.42%	5%	89.33%	83.75%	7%
Zinc recovery	89.11%	87.07%	2%	88.52%	88.74%	0%
Gold Recovery	21.22%	17.20%	23%	19.74%	16.63%	19%
Silver (000 oz)	496	402	23%	1,799	1,563	15%
Copper (000 lb)	5,648	4,702	20%	20,059	16,741	20%
Lead (000 lb)	9,691	7,528	29%	34,548	26,520	30%
Zinc (000 lb)	25,590	17,545	46%	81,083	76,761	6%
Gold (oz)	1,322	850	56%	4,165	3,403	22%
Zinc equivalent pounds (000's)⁽²⁾	58,102	40,640	43%	187,672	157,151	19%

(1) Average daily throughput for 2019 and 2018 has been calculated using 350 operating days. Actual average for 365 days is within the permitted rate of 3,150 tpd.

(2) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2019 were calculated using the following realized prices: \$17.42/oz Ag, \$2.69/lb Cu, \$0.92/lb Pb, \$1.07/lb Zn, \$1,506/oz Au. 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 12M 2019 were calculated using the following realized prices: \$16.29/oz Ag, \$2.73/lb Cu, \$0.91/lb Pb, \$1.14/lb Zn, \$1,404/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.

The Yauricocha Mine production increased despite the negative impact of the 28-day illegal strike in the first half of 2019. The Mine processed a total of 1,116,919 tonnes during 2019, representing an 1% increase from 2018, and 321,701 tonnes in Q4 2019, representing a 20% increase compared to Q4 2018. Zinc equivalent metal production in Q4 2019 increased by 43% due to higher ore throughput, higher head grades for zinc (19%), lead and gold, and higher recoveries for all metals. The higher zinc head grade and zinc production realized during Q4 2019 was the result of increased production from the high-grade small ore bodies ("cuerpos chicos").

Year over year zinc equivalent production was 19% higher in 2019 compared to the prior year. During 2019, the annual production of silver, copper, zinc, lead and gold increased 15%, 20%, 6%, 30% and 22% respective to 2018.

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*(In thousands of United States dollars, unless otherwise stated)***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. The expansion of the plant, which included installation of a refurbished mill, an electrical substation with 1250 KVA of capacity, a secondary crusher and a hydrocyclone cluster was completed in the first quarter of 2019. This helped grind size optionality and consequent improved copper recoveries at the plant. Mill throughput during the fourth quarter of 2019 averaged almost 4,000 tpd, resulting in planned annual production of 3,600 tpd for the year.

In Bolívar during the fourth quarter of 2019, 5,526 meters were drilled from the surface, as well as diamond drilling inside the mine. 159 meters were drilled inside the mine in the Lower Gallo area. On the surface, 4,149 meters were drilled in Bolívar West to explore the extent of the deposit, exploring the skarn deposit with semi-massive magnetite and scattered chalcopyrite nodules. 1,218 meters were also drilled from inside the West Bolivar Mine looking for evidence of the Cu-Mo Porphyry.

Bolivar Mineral Resource Update

On December 31, 2019, the Company provided an update to its Mineral Resource Estimate for the Bolivar Mine. This update was a result of drilling programs completed between November 2017 and September 2019, as well as production data up to September 2019; this Mineral Resource update includes 13,698 metres of infill drilling and 41,553 metres of exploration drilling.

Mineral Resource Estimations have been conducted by Cliff Revering, P.Eng of SRK Consulting (Canada.) Inc., a Qualified Person under NI 43-101, using Maptek Vulcan™ and Leapfrog Geo™ software.

The September 30, 2019, consolidated mineral resource statement for the Bolivar Mine area is presented in Table 1. These resources have been stated in unmined areas of the deposits.

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Table 1: Consolidated Bolivar Mineral Resource Estimate as of September 30, 2019 – SRK Consulting (Canada), Inc.

Resources - Indicated		Tonnes (Mt)	Ag g/t	Cu %	Au g/t	CuEq %	Contained Metal			
							Ag M oz	Cu M lb	Au K oz	CuEq M lb
Bolivar	Measured	0								
	Indicated	11.63	18.1	0.95	0.24	1.17	6.8	244.3	90.4	300.1

Resources - Inferred		Tonnes (Mt)	Ag g/t	Cu %	Au g/t	CuEq %	Contained Metal			
							Ag M oz	Cu M lb	Au K oz	CuEq M lb
Bolivar	Inferred	16.69	16.8	0.93	0.30	1.16	9.0	342.1	162.7	428.1

(1) Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Copper, gold, and silver assays were capped where appropriate.

(2) Mineral resources are reported at variable metal value cut-off grades based on metal price assumptions*, metallurgical recovery assumptions**, mining/transport costs (\$15.27/t), processing costs (\$8.35/t), and general and administrative costs (\$0.63/t).

(3) CuEq figures do not include Cu recovery, but include Ag and Au recoveries

* Metal price assumptions considered for the calculation of metal value are: Copper (Cu): \$/lb 3.08, Silver (Ag): \$/oz 17.82, and Gold (Au): \$/oz 1,354.00.

** Metallurgical recovery assumptions are 88% Cu, 78.6% Ag, and 62.9% Au.

Table 2: 2019 Mineral Resource Estimate % differences from the Prior Estimate (October 2017):

Resources - Indicated		Tonnes (Mt)	Ag g/t	Cu %	Au g/t	CuEq %	Contained Metal			
							Ag M oz	Cu M lb	Au K oz	CuEq M lb
Bolivar	Measured									
	Indicated	-12%	-20%	-9%	-17%	-11%	-29%	-19%	-27%	-22%

Resources - Inferred		Tonnes (Mt)	Ag g/t	Cu %	Au g/t	CuEq %	Contained Metal			
							Ag M oz	Cu M lb	Au K oz	CuEq M lb
Bolivar	Inferred	108%	-25%	-3%	-29%	-9%	56%	102%	50%	89%

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Management's Discussion and Analysis

For the year ended December 31, 2019

*(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, 2019 has been provided below:

Bolivar Production	Three Months Ended			Twelve Months Ended		
	December 31, 2019	December 31, 2018	% Var.	December 31, 2019	December 31, 2018	% Var.
Tonnes processed (t)	348,434	272,645	28%	1,269,698	1,031,750	23%
Daily throughput	3,982	3,116	28%	3,628	2,948	23%
Copper grade	0.87%	0.89%	-2%	0.85%	0.95%	-11%
Silver grade (g/t)	20.98	19.00	10%	19.81	17.69	12%
Gold grade (g/t)	0.32	0.21	52%	0.27	0.17	59%
Copper recovery	84.76%	79.27%	7%	83.02%	79.95%	4%
Silver recovery	78.69%	77.14%	2%	79.18%	77.08%	3%
Gold recovery	62.28%	64.29%	-3%	63.54%	68.55%	-7%
Copper production (000 lb)	5,660	4,230	34%	19,830	17,227	15%
Silver production (000 oz)	185	128	45%	640	452	42%
Gold production (oz)	2,216	1,163	91%	6,974	3,968	76%
Copper equivalent pounds (000's)⁽¹⁾	8,099	5,426	49%	27,236	21,323	28%

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2019 were calculated using the following realized prices: \$17.42/oz Ag, \$2.69/lb Cu, \$0.92/lb Pb, \$1.07/lb Zn, \$1,506/oz Au. 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 12M 2019 were calculated using the following realized prices: \$16.29/oz Ag, \$2.73/lb Cu, \$0.91/lb Pb, \$1.14/lb Zn, \$1,404/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.

The Bolivar Mine processed 1,269,697 tonnes in 2019, representing a 23% increase over 2018. The average daily ore throughput realized during the fourth quarter was approximately 4,000 tpd, reaching 4,682 tpd for the month of December 2019, exceeding the 4,250 tpd target. Q4 2019 record throughput was 348,434 tonnes, which was 28% higher when compared to Q4 2018. The higher throughput and higher gold and silver head grades resulted in a 49% increase in copper equivalent production in Q4 2019 compared to Q4 2018, despite the 2% reduction in copper grades. The development work performed during the year by increasing the ramps and access drives 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 production expected to increase steadily in 2020, reaching approximately 5,000 tpd by Q4 2020. The Bolivar West zone is now contributing to approximately 40% of ore production and is expected to increase to 50% during 2020.

Copper equivalent production at the Bolivar Mine increased 28% in 2019 compared to 2018, with copper production 15% higher, silver production 42% higher, and gold production 76% higher. In Q4 2019, copper production increased by 34% to 5,659,000 pounds, silver production increased 44% to 185,000 ounces, and gold production increased 91% to 2,216 ounces compared to Q4 2018. The significantly higher silver and gold production is due to higher silver and gold head grades in the Bolivar West zone, as compared to the El Gallo zone. The 49% increase in copper equivalent production was driven by higher throughput, and higher silver and gold head grades.

Cusi Mine, Chihuahua State

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.

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At Cusi, 4,920.35 meters were drilled during Q4 2019 to support the development of the Santa Rosa de Lima vein and Promontorio to further verify the size and continuity of the ore zone.

Cusi Production

A summary of contained metal production from the Cusi Mine for the three months and year ended December 31, 2019 has been provided below:

Cusi Production	Three Months Ended			Twelve Months Ended		
	December 31, 2019	December 31, 2018	% Var.	December 31, 2019	December 31, 2018	% Var.
Tonnes processed (t)	61,365	58,289	5%	285,236	186,889	53%
Daily throughput	701	666	5%	815	534	53%
Silver grade (g/t)	120.51	111.10	8%	129.05	140.17	-8%
Gold grade (g/t)	0.14	0.16	-13%	0.15	0.16	-6%
Lead grade	0.23%	0.41%	-44%	0.19%	0.36%	-47%
Zinc grade	0.00%	0.00%	N.R.	0.19%	0.40%	-53%
Silver recovery	79.82%	82.06%	-3%	79.10%	83.10%	-5%
Gold recovery	28.36%	40.72%	-30%	36.14%	39.14%	-8%
Lead recovery	74.00%	80.61%	-8%	75.40%	79.92%	-6%
Zinc recovery	0.00%	0.00%	N.R.	0.00%	4.26%	-100%
Silver production (000 oz)	190	171	11%	936	700	34%
Gold production (oz)	77	124	-38%	492	372	32%
Lead production (000 lb)	233	421	-45%	906	1,194	-24%
Zinc production (000 lb)	—	—	N.R.	—	71	-100%
Silver equivalent ounces (000's)⁽¹⁾	209	207	1%	1,029	813	27%

(1) Silver equivalent ounces and copper and zinc equivalent pounds for Q4 2019 were calculated using the following realized prices: \$17.42/oz Ag, \$2.69/lb Cu, \$0.92/lb Pb, \$1.07/lb Zn, \$1,506/oz Au. 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 12M 2019 were calculated using the following realized prices: \$16.29/oz Ag, \$2.73/lb Cu, \$0.91/lb Pb, \$1.14/lb Zn, \$1,404/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.

Annual production at the Cusi Mine was 285,236 tonnes in 2019, which was 53% higher than 2018. Total ore processed increased by 5% to 61,365 tonnes during Q4 2019 compared to Q4 2018. The higher throughput was partially offset by lower head grades and recoveries for all metals, which resulted in a 1% increase in silver equivalent production in Q4 2019 compared to Q4 2018.

Silver equivalent production increased 27% during 2019 compared to 2018, as silver production increased 34% to 936,000 ounces, gold production increased 32% to 493 ounces and lead production decreased 24% to 904,000 pounds. There was no zinc production during the year compared to 71,000 pounds in 2018. However, during Q4 2019, silver production was 11% higher while gold and lead production were 38% and 45% lower than Q4 2018, respectively.

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

CONSOLIDATED MINERAL RESERVES AND RESOURCES



Consolidated Reserves and Resources

Reserves - Proven and Probable

										Contained Metal							
	Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	ZnEq (%)	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	2,665	53	1.26	0.95	3.23	0.58	—	7.65	5	74	56	190	50	—	—	450
	Probable	5,775	44	1.07	0.70	3.00	0.47	—	6.66	8	136	89	382	86	—	—	847
Proven & Probable		8,439	46	1.13	0.78	3.07	0.50	—	6.97	13	210	144	572	136	—	—	1,297
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	16,364	33	1.00	0.40	1.59	0.38			17	360	144	572	200			

Resources - Measured and Indicated

										Contained Metal							
	Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	ZnEq (%)	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	3,662	66	1.32	1.20	3.47	0.69	—	8.48	8	107	97	280	81	—	—	685
	Indicated	8,989	46	1.27	0.72	2.81	0.56	—	6.97	13	252	142	557	160	—	—	1,382
Measured & Indicated		12,651	51	1.29	0.86	3.00	0.59	—	7.41	21	359	239	838	242	—	—	2,067
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	30,475	64	0.99	0.45	1.35	0.41			62	663	303	904	399			

Resources - Inferred

										Contained Metal							
	Tonnes (x1000)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)	Au (g/t)	AgEq (g/t)	CuEq (%)	ZnEq (%)	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	6,501	39	1.50	0.62	1.66	0.51	—	—	6.11	8	215	89	238	107	—	—	876
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	16,146	43	1.08	0.30	0.75	0.43			22	384	108	268	223			

Notes:

- The effective date of the Yauricocha mineral reserve and resource estimate is October 31, 2019. Details of the estimate will be provided in a NI 43-101 technical report to be filed on SEDAR by January 2020. Zinc equivalency is based on the following metal price assumptions: \$15.95/oz Ag, \$2.94/lb Cu, \$0.95/lb Pb, \$1.24/lb Zn and \$1,303/oz Au. Metallurgical recovery assumptions are variable between mineralization types and are based on actual plant data for 2019. The average is (where recovered) 76.4% Ag, 80.4% Cu, 88.6% Pb, 89.2% Zn, 17.2% 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$*Znrec)$.
- 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: \$18.25/oz Ag, \$3.00/lb Cu and \$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$*Curec)$.
- 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: \$18.30/oz Ag, \$0.93/lb Pb, \$1.15/lb Zn and \$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)$.

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*(In thousands of United States dollars, unless otherwise stated)***6. SUMMARIZED FINANCIAL RESULTS****Year ended December 31, 2019 (compared to the year ended December 31, 2018)**

(In thousands of United States dollars, except cash costs)

	Dec 31, 2019	Year ended Dec 31, 2018	Dec 31, 2017
Revenue	\$ 229,038	\$ 232,371	\$ 205,118
Adjusted EBITDA ¹	65,257	89,756	81,034
Cash flow from operations before movements in working capital	66,359	90,148	79,785
Adjusted net income attributable to shareholders	18,860	29,009	23,482
Non-cash charge on the acquisition of Corona	10,344	10,534	31,448
Gross profit	57,762	85,782	45,964
Income tax expense	(12,528)	(26,340)	(10,348)
Net income (loss) attributable to shareholders	4,431	18,814	(4,645)

(In thousands of United States dollars)

	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017
Cash and cash equivalents	\$ 42,980	\$ 21,832	\$ 23,878
Assets	411,447	356,441	340,601
Liabilities	199,428	152,836	159,923
Net Debt ²	56,834	34,421	40,982
Equity	212,019	203,605	180,678

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

² Loans payable minus cash and cash equivalents.

Net income attributable to shareholders for 2019 was \$4.4 million (2018: \$18.8 million) or \$0.03 per share (basic and diluted) (2018: \$0.12). The other major differences between these periods are explained below.

Revenues

Net revenue from metals payable at the Yauricocha Mine in Peru of \$156.0 million for 2019 decreased by 8% compared to \$168.7 million of revenues in 2018 primarily due to the increase of zinc treatment and refining costs. During 2019, the annual sales quantities of silver, copper, zinc, lead and gold increased 19%, 19%, 4%, 31% and 107% respective to 2018. Average realized sale price for silver and gold increased by 2% and 9%, while those for copper, lead and zinc decreased by 7%, 7% and 14% respectively, as compared to 2018.

Net revenue from metals payable in Mexico increased to \$73.1 million for 2019 from \$63.7 million in 2018, driven mainly by the increase in silver sales quantity by 20% at Bolivar and 19% at Cusi, as compared to 2018. Average realized sale price per ounce for silver also increased by 18% and 19% at Bolivar and Cusi respectively.

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The following table shows the Company's realized selling prices for each quarter in 2019 and 2018:

Realized Metal Prices (In US dollars)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Silver (per oz)	\$ 17.42	\$ 17.28	\$ 14.88	\$ 15.57	\$ 14.63	\$ 14.85	\$ 16.36	\$ 16.75
Copper (per lb)	\$ 2.69	\$ 2.63	\$ 2.75	\$ 2.85	\$ 2.77	\$ 2.79	\$ 3.12	\$ 3.14
Lead (per lb)	\$ 0.92	\$ 0.94	\$ 0.85	\$ 0.94	\$ 0.89	\$ 0.94	\$ 1.09	\$ 1.15
Zinc (per lb)	\$ 1.07	\$ 1.06	\$ 1.20	\$ 1.23	\$ 1.16	\$ 1.14	\$ 1.38	\$ 1.56
Gold (per oz)	\$ 1,506	\$ 1,481	\$ 1,323	\$ 1,305	\$ 1,238	\$ 1,206	\$ 1,296	\$ 1,334

Yauricocha's cost of sales per zinc equivalent payable pound was \$0.49 (2018 - \$0.55), cash cost per zinc equivalent payable pound was \$0.47 (2018 - \$0.52), and AISC per zinc equivalent payable pound of \$0.80 (2018 - \$0.73). Lower cash costs resulted from 43% higher equivalent zinc pounds. Cash costs for the year included \$1.6 million of charges related to the illegal strike in Q1 2019. The increase in the AISC per zinc equivalent payable pound for 2019 compared to 2018 was a result of higher sustaining capital expenditures offset by the impact of higher zinc equivalent payable pounds. Sustaining costs of \$12.9 million were higher than \$7.3 million spent in 2018 and comprised mainly of \$5.3 million of development costs, \$3.9 million of mining equipment, \$2.2 million for ventilation and \$1.5 million for other mine and mill improvements.

Bolivar's cost of sales per copper equivalent payable pound was \$2.03 (2018 - \$1.73), cash cost per copper equivalent payable pound was \$1.73 (2018 - \$1.44), and AISC per copper equivalent payable pound was \$2.86 (2018 - \$2.13) for 2019. Increase in cash costs at Bolivar was a result of high-cost development using contractors. The increase in AISC per copper equivalent payable pound during 2019 compared to 2018 resulted from higher cash costs and higher sustaining costs. Sustaining capital for the year was \$10.3 million, which included development costs of \$4.1 million, mine improvements and equipment of \$2.0 million, milling equipment of \$3.8 million and \$0.4 million of sustaining exploration costs.

Cusi's cost of sales per silver equivalent payable ounce was \$13.35 (2018 - \$8.97), cash cost per silver equivalent payable ounce was \$21.39 (2018 - \$15.71), and AISC per silver equivalent payable ounce was \$30.89 (2018 - \$22.09) for 2018. Total cost of sales and sustaining costs at Cusi increased during the year, while equivalent silver ounces almost in line with 2018. Sustaining costs at Cusi were \$4.3 million, which included mine and mill equipment \$2.5 million, tailings dam costs of \$0.9 million and \$0.9 million of sustaining exploration costs.

Non-Cash Depletion, Depreciation and Amortization

The Company recorded total non-cash depletion, depreciation and amortization expense for 2019 of \$36.1 million compared to \$31.4 million for the same period in 2018.

A large component of the net income for every period is the non-cash depletion charge in Peru, which was \$10.3 million for 2019 (2018: \$10.5 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.

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*(In thousands of United States dollars, unless otherwise stated)*General and Administrative Expenses

The Company incurred general and administrative expenses of \$19.5 million in 2019 compared to \$18.9 million in 2018. The 3% increase in general and administrative costs in 2019 compared to 2018 resulted mainly from increase in salaries and benefits offset by a decrease in consultancy and professional fees.

Adjusted EBITDA ⁽¹⁾

The Company recorded adjusted EBITDA of \$65.3 million during 2019 (2018: \$89.8 million) which includes \$60.2 million (2018: \$79.5 million) from the Peruvian operations and \$9.2 million (2018: \$13.8 million) from the operations in Mexico. The decrease in adjusted EBITDA is due to the decrease in net revenues and higher costs at the Mexican operations. 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.

The following tables display selected annual financial results detailed by operating segment:

Year ended December 31, 2019	Peru Yauricocha Mine \$	Mexico Bolivar Mine \$	Mexico Cusi Mine \$	Canada Corporate \$	Total \$
Revenue	155,983	60,402	12,653	—	229,038
Production cost of sales	(79,339)	(45,491)	(10,362)	—	(135,192)
Depletion of mineral property	(10,631)	(2,177)	(2,314)	—	(15,122)
Depreciation and amortization of property, plant and equipment	(10,346)	(8,147)	(2,469)	—	(20,962)
Cost of sales	(100,316)	(55,815)	(15,145)	—	(171,276)
Gross profit from mining operations	55,667	4,587	(2,492)	—	57,762
Net income (loss) from operations	20,151	(3,417)	(748)	(6,569)	9,417
Adjusted EBITDA	60,219	5,511	3,729	(4,202)	65,257

Income Taxes

The Company recorded current tax expense of \$17.4 million for 2019 compared to \$24.4 million in 2018. The decrease was the result of the lower taxable income generated at both sites during 2019 compared to 2018.

During 2019, the Company recorded a deferred tax recovery of \$4.9 million compared to \$0.9 million deferred tax expense in 2018. 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.

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*(In thousands of United States dollars, unless otherwise stated)*Adjusted Net Income Attributable to Shareholders ⁽¹⁾

Adjusted net income attributable to shareholders ⁽¹⁾ of \$18.9 million, or \$0.12 per share, for 2019 was lower than the adjusted net income of \$29.0 million, or \$0.18 per share for 2018. 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 2019 was \$10.0 million compared to OCL of \$24.3 million in 2018. OCI includes a foreign currency gain of \$0.7 million for 2019 (2018: \$(1.6) million). The unrealized foreign currency translation gain was caused by the strengthening of the Canadian dollar relative to the US dollar during the period which resulted in a foreign exchange gain on the translation of the Canadian dollar net assets into the Company's US dollar presentation currency.

⁽¹⁾ This is a non-IFRS performance measure, see non-IFRS Performance Measures section of this MD&A.

Cash Flows

Cash flow generated from operations before movements in working capital of \$66.4 million for 2019 decreased compared to \$90.1 million in 2018. The decrease in operating cash flow is mainly the result of lower revenues generated and lower gross margins realized, attributable higher operating costs.

Net cash flow of \$(54.6) million (2018: \$(49.3) million) used in investing activities during 2019 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 \$54.6 million during the year ended December 31, 2019 is presented below:

(\$ Millions)	2019 Capital Expenditures by Mine			
	Yauricocha	Bolivar	Cusi	Total
Expenditure				
Mascota Shaft Refurbishing	\$ 0.33	\$ —	\$ —	\$ 0.33
Concentrator Plant Improvements	\$ 0.76	\$ —	\$ —	\$ 0.76
Investment in Equipment	\$ 6.11	\$ 3.50	\$ 4.21	\$ 13.82
Exploration Drilling	\$ 2.02	\$ 2.03	\$ 0.84	\$ 4.89
Mine Development	\$ 5.26	\$ 4.37	\$ 2.04	\$ 11.67
Plant Improvements	\$ 1.30	\$ 2.22	\$ 1.39	\$ 4.91
Camp improvements	\$ 1.47	\$ —	\$ —	\$ —
Ventilation	\$ 2.28	\$ —	\$ —	\$ 2.28
Yauricocha Tunnel	\$ 0.17	\$ —	\$ —	\$ 0.17
Yauricocha Shaft	\$ 6.42	\$ —	\$ —	\$ 6.42
Tailings Dam	\$ 1.90	\$ 1.50	\$ 0.90	\$ 4.30
Mining Concession Fees	\$ —	\$ 1.05	\$ 4.02	\$ 5.07
	<u>\$ 28.02</u>	<u>\$ 14.66</u>	<u>\$ 13.40</u>	<u>\$ 54.62</u>

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Net cash flow of \$21.1 million during 2019 due to \$39.6 million of operating cash flows, and \$99.8 million drawn down from a secured corporate credit facility from BCP, being offset by capital expenditures incurred in Mexico and Peru of \$54.6 million, repayment of loans, credit facilities and interest of \$60.9 million and share repurchased during the year for \$2.8 million

7. QUARTERLY FINANCIAL REVIEW

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

<i>(In thousands of United States dollars, except per share amounts)</i>	2019				2018			
	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31
Revenues	64,634	64,551	50,673	49,180	55,019	52,956	62,721	61,675
Adjusted EBITDA	19,104	21,554	12,558	12,041	15,263	18,212	28,878	27,403
Adjusted net income attributable to shareholders	12,214	4,115	1,645	886	783	4,482	12,557	11,187
Net income (loss) attributable to shareholders	4,534	1,779	(158)	(1,724)	(2,654)	1,922	10,843	8,703
Basic and diluted earnings (loss) per share (\$)	0.03	0.01	—	(0.01)	(0.01)	0.01	0.07	0.05

Three months ended December 31, 2019 (compared to the three months ended December 31, 2018)

Net income attributable to shareholders for Q4 2019 was \$4.5 million, or \$0.03 per share (basic and diluted), compared to net income of \$(2.7) million, or \$(0.01) per share (basic and diluted) for the same period in 2018. The major differences between these periods are explained below.

Revenues

Revenues from metals payable from the Yauricocha Mine in Peru were \$42.2 million for Q4 2019 compared to \$39.2 million in Q4 2018. The increase in revenues for Q4 2019 compared to Q4 2018 was due to a 20% increase in tonnes processed, higher head grades for all metals, except silver, and higher recoveries for all metals. Increased revenues were realized due to the higher metal production, despite decreases in the prices of zinc (8%) and copper (3%), and despite approximately 4,160 tonnes of unsold concentrate at year end.

Revenue from metals payable in Bolivar was \$20.0 million for Q4 2019, compared to \$12.0 million for the same period in 2018, driven higher by 28% increase in throughput and higher silver prices, offset by the impact of lower copper prices.

Revenues generated at the Cusi Mine for Q4 2019 were \$2.8 million compared to \$3.8 million for Q4 2018. Although throughput was 5% higher in Q4 2019 as compared to Q4 2018, grades were lower (except silver) and recoveries were lower for all metals. Grades continued to be affected by the delayed development resulting from heavy rains and subsidence during the previous quarter.

Yauricocha's cost of sales per zinc equivalent payable pound was \$0.44 (Q4 2018 - \$0.54), cash cost per zinc equivalent payable pound was \$0.46 (Q4 2018 - \$0.52), and AISC per zinc equivalent payable pound of \$0.83 (Q4 2018 - \$0.73). Lower cost of sales per pound and cash costs per pound resulted from a 37% increase in the number of zinc equivalent pound sold during the quarter as compared to the same quarter of 2018. Sustaining costs were higher during the quarter mainly due to timing of expenditures and included \$2.5 million of development costs, \$2.3 million of mine equipment and \$0.8 million of other mine and mill improvements.

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Bolivar's cost of sales per copper equivalent payable pound was \$2.44 (Q4 2018 - \$2.11), cash cost per copper equivalent payable pound was \$2.06 (Q4 2018 - \$1.67), and AISC per copper equivalent payable pound was \$2.92 (Q4 2018 - \$2.37) for Q4 2018. The increase in the AISC per copper equivalent payable pound during Q4 2019 compared to Q4 2018 was due to higher cash costs and treatment and refining costs offset partially by higher number of copper equivalent ounces sold.

Cusi's cost of sales per silver equivalent payable ounce was \$25.29 (Q4 2018 - \$11.04), cash cost per silver equivalent payable ounce was \$42.12 (Q4 2018 - \$18.96), and AISC per silver equivalent payable ounce was \$56.84 (Q4 2018 - \$23.27) for Q4 2019. Higher costs at Cusi resulted from higher cost of operations per tonnes mill and lower silver equivalent payable ounce. Sustaining costs were also higher during the quarter as compared to the same quarter of 2018.

Non-Cash Depletion, Depreciation and Amortization

The Company recorded total non-cash depletion, depreciation and amortization expense for Q4 2019 of \$9.2 million compared to \$8.0 million for the same period in 2018.

A large component of the non-cash depletion, depreciation and amortization expense is the depletion charge on the acquisition of Corona of \$2.7 million for Q4 2019 compared to \$2.5 million for the same period in 2018. 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 \$5.2 million for Q4 2019, slightly higher than \$5.0 million for Q4 2018.

Adjusted EBITDA

Adjusted EBITDA⁽¹⁾ for Q4 2019 was \$19.1 million, an increase of 25% compared to \$15.3 million in Q4 2018. The increase in adjusted EBITDA was a result of higher revenues during the quarter, as higher quantities of silver (6%), copper (10%), lead (20%), zinc (34%), and gold (83%) were sold during as compared to Q4 2018.

Income Taxes

The Company recorded current tax expense of \$5.2 million for Q4 2019 compared to \$5.3 million in Q4 2018. Current taxes were almost in-line with Q4 2018 as a result of the similar taxable income generated during the quarter.

During Q4 2019, the Company recorded a deferred tax recovery of \$3.4 million compared to a deferred tax expense of \$1.3 million in Q4 2018. 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.

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*(In thousands of United States dollars, unless otherwise stated)*Adjusted Net Income Attributable to Shareholders

The Company recorded an adjusted net income of \$12.2 million for Q4 2019 compared to \$0.8 million for Q4 2018. Adjusted net income is defined by management as the net income attributable to shareholders shown in the condensed interim consolidated statements of income excluding the non-cash depletion charge due to the acquisition of Corona, the corresponding deferred income tax recovery, and certain non-recurring or non-cash items. Accordingly, management considers this metric to be more meaningful to measure the Company's profitability than net income as it adjusts for specific non-cash items.

Other Comprehensive Income (Loss)

OCI for Q4 2019 was \$5.4 million compared to OCI of \$(2.8) million for the same period in 2018. OCI includes a foreign currency gain of \$0.5 million in Q4 2019 (Q4 2018: \$(1.1) million). The unrealized foreign currency translation gain was caused by the strengthening of the Canadian dollar relative to the US dollar during the quarter, which resulted in a foreign exchange gain on the translation of the Canadian dollar net assets into the Company's US dollar presentation currency.

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, 2019 and December 31, 2018:

(000's)	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 42,980	\$ 21,832
Restricted cash	\$ —	\$ —
Working capital	\$ 49,922	\$ (8,290)
Total assets	\$ 411,447	\$ 356,441
Debt (net of financing fees)	\$ 99,814	\$ 56,253
Total liabilities	\$ 199,428	\$ 152,836
Equity attributable to owners of the Company	\$ 176,783	\$ 173,355

Cash and cash equivalents of \$43.0 million and working capital of \$49.9 million as at December 31, 2019 compared to \$21.8 million and \$(8.3) million, respectively, at the end of 2018. Cash and cash equivalents increased by \$21.1 million during 2019 due to \$39.6 million of operating cash flows after taxes and changes in working capital, and \$99.8 million drawn down from a secured corporate credit facility from BCP, being offset by capital expenditures incurred in Mexico and Peru of \$54.6 million, repayment of loans, credit facilities and interest of \$60.9 million and share repurchased during the year for \$2.8 million.

Trade and other receivables include \$9.2 million (December 31, 2018 - \$5.8 million) of Mexican value-added tax ("VAT") receivables. The increase in VAT receivables is largely due to the process to recover taxes being slowed down by the Government. 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, 2019.

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

(000's)	Balance Outstanding		
	Limit	December 31, 2019	December 31, 2018
Dia Bras Peru loan with BCP (Corona Acquisition) ⁽¹⁾	\$ —	\$ —	\$ 34,596
Dia Bras Peru loan with BCP ⁽²⁾	\$ 100,000	\$ 99,814	\$ —
DBP revolving credit facility with BCP ⁽³⁾	\$ —	\$ —	\$ 15,000
Corona Notes payable to BBVA Banco Continental ⁽⁴⁾	\$ —	\$ —	\$ 5,000
Pre-export finance facility with Metagri S.A. de C.V. ⁽⁵⁾	\$ —	\$ —	\$ —
FIFOMI working capital facility	\$ —	\$ —	\$ 1,657
Total Debt		\$ 99,814	\$ 56,253
Less cash balances		\$ 42,980	\$ 21,832
Net Debt		\$ 56,834	\$ 34,421

^(1 - 4) See consolidated financial statements as at December 31, 2019 for details of each loan and credit facility.**Outstanding Shares**

The authorized share capital at December 31, 2019 was an unlimited number of common shares without par value. As at March 27, 2020, the Company had 162.1 million shares issued and outstanding (December 31, 2018 – 163.4 million shares issued and outstanding).

As at December 31, 2019, there were 1,630,423 RSUs outstanding at a weighted average fair value of C\$2.34.

As at March 27, 2020 there are 1,630,423 RSU's outstanding at a weighted average fair value of C\$2.34.

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.

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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.

(a) Market Risk**(i) 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, accounts payable and other liabilities that are subject to currency risk.

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

	December 31, 2019			
	CAN dollar	Mexican	Peruvian	Total
	\$	\$	\$	\$
Cash and cash equivalents	113	73	2,473	2,659
Income tax and other receivables	45	13,262	1,683	14,990
	<u>158</u>	<u>13,335</u>	<u>4,156</u>	<u>17,649</u>
Accounts payable and other liabilities	(724)	(30,208)	(15,357)	(46,289)
Total	(566)	(16,873)	(11,201)	(28,640)

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	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)

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, 2019, 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, 2019, with all the other variables held constant, would have resulted in an increase to the Company's net income of \$2,053 (increase in income in 2018 of \$1,992).

A 10% appreciation in the Canadian dollar exchange rate against the US dollar based on the financial assets and liabilities held at December 31, 2019 and 2018, with all the other variables held constant, would have resulted in a negligible impact to the Company's net income (loss).

(ii) 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, 2019 on its loans and notes payable in Peru was 5.58% (2018 – 4.26%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net loss by \$690 (2018 - \$486).

(iii) 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.

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As at December 31, 2019 and 2018, 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	2019 \$	2018 \$
10% decrease in silver prices	(97)	(27)
10% decrease in copper prices ⁽¹⁾	—	(456)
10% decrease in lead prices	—	(1)
10% decrease in gold prices	(323)	(87)

As at December 31, 2019 and 2018, the Company did not have any forward contracts outstanding.

(b) 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, 2019 of the Company's financial liabilities and operating and capital commitments:

	Within 1 year \$	1-2 years \$	2-5 years \$	After 5 years \$	As at December 31, 2019 \$
Accounts payable and accrued liabilities	44,910	—	—	—	44,910
Loans payable	—	18,750	81,064	—	99,814
Interest on loans payable	5,192	4,977	7,429	—	17,598
Other liabilities	7,248	1,554	—	—	8,802
Total Commitments	57,350	25,281	88,493	—	171,124

In the opinion of management, the working capital at December 31, 2019, together with future cash flows from operations and available loan facilities, is sufficient to support the Company's commitments through 2020.

(c) 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, 2019 and 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.

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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.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

*(In thousands of United States dollars, unless otherwise stated)***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, mud-rushes 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 for operations, including 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.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

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

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

Sierra Metals Inc.

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

Coronavirus (COVID-19)

The Company faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions. The Company's business could be adversely impacted by the effects of the coronavirus or other epidemics. In December 2019, a novel strain of the coronavirus emerged in China and the virus has now spread to several other countries, including Canada, Mexico and Peru, and infections have been reported globally. The extent to which the coronavirus impacts the Company's business, including its operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken to contain or treat the coronavirus outbreak. In particular, the continued spread of the coronavirus globally could materially and adversely impact the Company's business including without limitation, employee health, workforce productivity, increased insurance premiums, limitations on travel, the availability of industry experts and personnel, restrictions to its drill program and/or the timing to process drill and other metallurgical testing, and other factors that will depend on future developments beyond the Company's control, which may have a material and adverse effect on the its business, financial condition and results of operations. There can be no assurance that the Company's personnel will not be impacted by these pandemic diseases and ultimately see its workforce productivity reduced or incur increased medical costs / insurance premiums as a result of these health risks. In addition, a significant outbreak of coronavirus could result in a widespread global health crisis that could adversely affect global economies and financial markets resulting in an economic downturn that could have an adverse effect on the demand for precious metals and our future prospects.

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.

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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 Dia Bras Mexicana (the "P&R Litigation"). 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 Dia Bras Mexicana currently operates, nor are these properties included in any resource estimates of the Company. 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 Fifth Civil Hall of the Superior Court of Justice of the State of Chihuahua (the "State Court"), which overruled the previous resolution and ordered the Company to: (i) transfer to P&R 17 mining concessions from the Bolivar Mine, 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, the Second Federal Collegiate Court on Civil and Labor Matters of the Seventeenth circuit in the State of Chihuahua (the "Federal Court") granted the Company a temporary suspension of the adverse resolution issued by the State Court. In July 2014, the Federal Court ordered that the Company was entitled to receive proper notice of the adverse resolution previously issued by the State Court. 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 the 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. On February 6, 2020, the Company announced the settlement of the P&R Litigation.
- (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.

Sierra Metals Inc.

Management's Discussion and Analysis

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*(In thousands of United States dollars, unless otherwise stated)***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 years ended December 31, 2019 and 2018:

<i>(In thousands of United States dollars)</i>	Three Months Ended		Twelve Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net income (loss)	\$ 6,016	\$ (1,616)	\$ 9,417	\$ 25,840
<i>Adjusted for:</i>				
Depletion and depreciation	9,177	7,959	36,084	31,349
Interest expense and other finance costs	1,671	1,005	5,078	3,375
Share-based payments	353	346	1,174	1,542
Foreign currency exchange and other provisions	59	959	976	1,210
Income taxes	1,827	6,610	12,528	26,340
Adjusted EBITDA	\$ 19,103	\$ 15,263	\$ 65,257	\$ 89,656

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.

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Management's Discussion and Analysis

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

The following table provides a reconciliation of adjusted net income to the consolidated financial statements for the three months and years ended December 31, 2019 and 2018:

(In thousands of United States dollars)

	Three Months Ended		Twelve Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net income (loss) attributable to shareholders	\$ 9,520	\$ (2,654)	\$ 9,417	\$ 18,814
Non-cash depletion charge on Corona's acquisition	\$ 2,655	2,497	10,344	10,534
Deferred tax recovery on Corona's acquisition depletion charge	\$ (373)	(365)	(3,051)	(3,091)
Share-based compensation	\$ 353	346	1,174	1,542
Foreign currency exchange gain	\$ 59	959	976	1,210
Adjusted net income attributable to shareholders	\$ 12,214	\$ 783	\$ 18,860	\$ 29,009

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."

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.

Sierra Metals Inc.

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

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 years ended December 31, 2019 and 2018:

<i>(In thousand of US dollars, unless stated)</i>	Three months ended December 31, 2019				Three months ended December 31, 2018			
	Yauricocha	Bolivar	Cusi	Consolidated	Yauricocha	Bolivar	Cusi	Consolidated
Cash Cost per Tonne of Processed Ore								
Cost of Sales	26,873	13,525	6,595	46,993	23,785	10,230	4,948	38,962
Reverse: Workers Profit Sharing	(755)	—	—	(755)	(1,206)	—	—	(1,206)
Reverse: D&A/Other adjustments	(3,753)	(2,430)	(1,182)	(7,365)	(4,195)	(2,520)	(1,269)	(7,984)
Reverse: Variation in Finished Inventory	1,949	(1,106)	(280)	563	231	537	(313)	455
Total Cash Cost	24,314	9,989	5,133	39,436	18,615	8,246	3,366	30,227
Tonnes Processed	321,701	348,434	61,365	731,500	268,363	272,644	58,289	599,297
Cash Cost per Tonne Processed	US\$ 75.58	28.67	83.64	53.91	69.37	30.25	57.74	50.44

<i>(In thousand of US dollars, unless stated)</i>	Twelve months ended December 31, 2019				Twelve months ended December 31, 2018			
	Yauricocha	Bolivar	Cusi	Consolidated	Yauricocha	Bolivar	Cusi	Consolidated
Cash Cost per Tonne of Processed Ore								
Cost of Sales	100,317	48,340	22,619	171,276	92,586	37,499	16,505	146,589
Reverse: Workers Profit Sharing	(3,170)	—	—	(3,170)	(4,938)	—	—	(4,938)
Reverse: D&A/Other adjustments	(21,026)	(10,274)	(4,784)	(36,084)	(17,726)	(9,931)	(3,752)	(31,409)
Reverse: Variation in Finished Inventory	3,034	(713)	309	2,630	54	1,026	(745)	335
Total Cash Cost	79,155	37,353	18,144	134,652	69,976	28,593	12,008	110,577
Tonnes Processed	1,116,919	1,269,697	285,236	2,671,853	1,106,649	1,031,750	186,889	2,325,289
Cash Cost per Tonne Processed	US\$ 70.87	29.42	63.61	50.40	63.23	27.71	64.25	47.55

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 years ended December 31, 2019 and 2018:

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Yauricocha:

YAUICOCHA	Three months ended		Twelve months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<i>(In thousand of US dollars, unless stated)</i>				
Cash Cost per zinc equivalent payable pound				
Total Cash Cost	24,314	18,615	79,155	69,976
Variation in Finished inventory	(1,949)	(231)	(3,034)	(54)
Total Cash Cost of Sales	22,365	18,384	76,121	69,922
Treatment and Refining Charges	8,209	2,371	27,574	9,909
Selling Costs	1,508	1,167	4,746	4,382
G&A Costs	2,554	1,648	8,817	7,203
Sustaining Capital Expenditures	5,618	2,043	12,892	7,186
All-In Sustaining Cash Costs	40,254	25,613	130,150	98,602
Silver Equivalent Payable Ounces (000's)	2,948	2,810	11,305	11,238
Cost of Sales	21,129	19,085	79,339	74,731
Cost of Sales per Silver Equivalent Payable Ounce (US\$)	7.17	6.79	7.02	6.65
Cash Cost per Silver Equivalent Payable Ounce (US\$)	7.59	6.54	6.73	6.22
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce (US\$)	13.65	9.12	11.51	8.77
Copper Equivalent Payable Pounds (000's)	19,089	14,838	67,975	59,508
Cost of Sales per Copper Equivalent Payable Pound (US\$)	1.11	1.29	1.17	1.26
Cash Cost per Copper Equivalent Payable Pound (US\$)	1.17	1.24	1.12	1.18
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound (US\$)	2.11	1.73	1.91	1.66
Zinc Equivalent Payable Pounds (000's)	48,213	35,288	164,390	135,505
Cost of Sales per Zinc Equivalent Payable Pound (US\$)	0.44	0.54	0.48	0.55
Cash Cost per Zinc Equivalent Payable Pound (US\$)	0.46	0.52	0.46	0.52
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound (US\$)	0.83	0.73	0.79	0.73

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 years ended December 31, 2019 and 2018:

Bolivar:

BOLIVAR	Three months ended		Twelve months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<i>(In thousand of US dollars, unless stated)</i>				
Cash Cost per copper equivalent payable pound				
Total Cash Cost	9,989	8,246	37,353	28,593
Variation in Finished inventory	1,106	(537)	713	(1,026)
Total Cash Cost of Sales	11,095	7,710	38,066	27,568
Treatment and Refining Charges	1,999	1,007	6,603	4,233
Selling Costs	1,093	938	4,007	3,419
G&A Costs	1,370	1,015	4,035	3,651
Sustaining Capital Expenditures	190	256	10,288	2,011
All-In Sustaining Cash Costs	15,747	10,926	62,999	40,882
Silver Equivalent Payable Ounces (000's)	834	873	3,702	3,623
Cost of Sales	13,191	9,751	44,721	33,168
Cost of Sales per Silver Equivalent Payable Ounce (US\$)	15.82	11.17	12.08	9.15
Cash Cost per Silver Equivalent Payable Ounce (US\$)	13.30	8.83	10.28	7.61
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce (US\$)	18.88	12.52	17.02	11.28
Copper Equivalent Payable Pounds (000's)	5,398	4,614	22,054	19,183
Cost of Sales per Copper Equivalent Payable Pound (US\$)	2.44	2.11	2.03	1.73
Cash Cost per Copper Equivalent Payable Pound (US\$)	2.06	1.67	1.73	1.44
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound (US\$)	2.92	2.37	2.86	2.13
Zinc Equivalent Payable Pounds (000's)	13,347	11,018	52,810	43,644
Cost of Sales per Zinc Equivalent Payable Pound (US\$)	0.99	0.89	0.85	0.76
Cash Cost per Zinc Equivalent Payable Pound (US\$)	0.83	0.70	0.72	0.63
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound (US\$)	1.18	0.99	1.19	0.94

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 years ended December 31, 2019 and 2018:

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Cusi:

CUSI <i>(In thousand of US dollars, unless stated)</i>	Three months ended		Twelve months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cash Cost per silver equivalent payable ounce				
Total Cash Cost	5,133	3,366	18,144	12,008
Variation in Finished inventory	280	313	(309)	745
Total Cash Cost of Sales	5,413	3,679	17,835	12,753
Treatment and Refining Charges	448	250	1,775	1,498
Selling Costs	347	205	987	750
G&A Costs	301	223	886	802
Sustaining Capital Expenditures	770	157	4,282	2,132
All-In Sustaining Cash Costs	7,279	4,513	25,765	17,934
Silver Equivalent Payable Ounces (000's)	129	194	834	812
Cost of Sales	3,250	2,141	11,132	7,281
Cost of Sales per Silver Equivalent Payable Ounce (US\$)	25.29	11.04	13.35	8.97
Cash Cost per Silver Equivalent Payable Ounce (US\$)	42.12	18.96	21.38	15.71
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce (US\$)	56.64	23.27	30.89	22.09
Copper Equivalent Payable Pounds (000's)	832	1,028	5,058	4,301
Cost of Sales per Copper Equivalent Payable Pound (US\$)	3.91	2.08	2.20	1.69
Cash Cost per Copper Equivalent Payable Pound (US\$)	6.51	3.58	3.53	2.97
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound (US\$)	8.75	4.39	5.09	4.17
Zinc Equivalent Payable Pounds (000's)	2,092	2,598	12,229	9,601
Cost of Sales per Zinc Equivalent Payable Pound (US\$)	1.55	0.82	0.91	0.76
Cash Cost per Zinc Equivalent Payable Pound (US\$)	2.59	1.42	1.46	1.33
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound (US\$)	3.48	1.74	2.11	1.87

Consolidated:

CONSOLIDATED <i>(In thousand of US dollars, unless stated)</i>	Three months ended		Twelve months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Total Cash Cost of Sales	38,873	29,772	132,022	110,242
All-In Sustaining Cash Costs	63,280	41,052	218,914	157,418
Silver Equivalent Payable Ounces (000's)	3,911	3,877	15,841	15,673
Cost of Sales	37,570	30,977	135,192	115,180
Cost of Sales per Silver Equivalent Payable Ounce (US\$)	9.61	7.99	8.53	7.35
Cash Cost per Silver Equivalent Payable Ounce (US\$)	9.94	7.68	8.33	7.03
All-In Sustaining Cash Cost per Silver Equivalent Payable Ounce (US\$)	16.18	10.59	13.82	10.04
Copper Equivalent Payable Pounds (000's)	25,319	20,480	95,087	82,992
Cost of Sales per Copper Equivalent Payable Pound (US\$)	1.48	1.51	1.42	1.39
Cash Cost per Copper Equivalent Payable Pound (US\$)	1.54	1.45	1.39	1.33
All-In Sustaining Cash Cost per Copper Equivalent Payable Pound (US\$)	2.50	2.00	2.30	1.90
Zinc Equivalent Payable Pounds (000's)	63,652	48,904	229,429	188,750
Cost of Sales per Zinc Equivalent Payable Pound (US\$)	0.59	0.63	0.59	0.61
Cash Cost per Zinc Equivalent Payable Pound (US\$)	0.61	0.61	0.58	0.58
All-In Sustaining Cash Cost per Zinc Equivalent Payable Pound (US\$)	0.99	0.84	0.95	0.83

Additional Non-IFRS Measures

The Company uses other financial measures, the presentation of which is not meant to be a substitute for other subtotals or totals presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measures. The following other financial measures are used:

- Operating cash flows before movements in working capital - excludes the movement from period-to-period in working capital items including trade and other receivables, prepaid expenses, deposits, inventories, trade and other payables and the effects of foreign exchange rates on these items.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

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

The terms described above do not have a standardized meaning prescribed by IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies. The Company's management believes that their presentation provides useful information to investors because cash flows generated from operations before changes in working capital excludes the movement in working capital items. This, in management's view, provides useful information of the Company's cash flows from operations and are considered to be meaningful in evaluating the Company's past financial performance or its future prospects. The most comparable IFRS measure is cash flows from operating activities.

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2019, the Company recorded consulting fees of \$200 (2018 - \$200) to companies related by common directors or officers. At December 31, 2019, accounts payable and accrued liabilities include \$Nil (2018 - \$Nil) with these related parties. Related party transactions occurred in the normal course of business. As at December 31, 2019, the Company has accounts receivable outstanding from these related parties of \$Nil (2018 - \$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, 2019 and 2018 are as follows:

	2019	2018
	\$	\$
Salaries and other short term employment benefits	3,304	2,816
Share-based payments ⁽¹⁾	1,581	1,500
Total compensation	4,885	4,316

⁽¹⁾ calculated at fair value on day of the grant

(b) Principal Subsidiaries

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

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

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

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

The principal subsidiaries of the Company and their geographical locations as at December 31, 2019 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
EXMIN, S. A. de C. V.	100%	México
Servicios de Produccion Y Extraccion de Chihuahua, S.A. de C.V	100%	México
Aseores Administrativos Y de Recursos Humanos, S.A. de C.V	100%	México

¹The 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, 2019 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:

(a) 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, 2019, management assessed its mining property assets and exploration and evaluation expenditures for impairment and determined that no impairment was required.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

*(In thousands of United States dollars, unless otherwise stated)***(b) Mineral Reserves and Resources**

The Company estimates mineral reserves and resources based on information prepared by qualified persons as defined in accordance with 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.

(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 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.

(d) Decommissioning and Restoration Liabilities Costs

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

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

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

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

(e) 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.

15. OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at December 31, 2019.

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

Disclosure Controls and Procedures

The Company's management is responsible for designing and maintaining adequate internal controls over financial reporting and disclosure controls and procedures, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS.

Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at December 31, 2019, 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 2019. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at December 31, 2019 and provided a reasonable assurance of the reliability of our financial reporting and preparation of the financial statements.

No matter how well designed any system of internal control has inherent limitations. Even systems determined to be effective can provide only reasonable assurance of the reliability of financial statement preparation and presentation.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

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

Changes in Internal Controls Over Financial Reporting

There have been no changes in ICFR during the three months ended December 31, 2019 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 27, 2020 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.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

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

Risks and uncertainties relating to foreign currency fluctuations; risks inherent in the mining industry including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems, flooding and mud rushes; risks associated with the estimation of mineral resources and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties or shortages of labour or interruptions in production; actual material mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of pilot-mining activities and cost estimates, including the potential for unexpected costs/expenses and commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential" or variations thereof, or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking information. Forward-looking information is subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking information, including, without limitation: uncertainty of production and cost estimates for the Yauricocha Mine (as hereinafter defined), the Bolivar Mine (as hereinafter defined) and the Cusi Mine (as hereinafter defined); uncertainty of production at the Company's exploration and development properties; risks and uncertainties associated with developing and exploring new mines including start-up delays; risks and hazards associated with the business of mineral exploration, development and mining (including operating in foreign jurisdictions, environmental hazards, industrial accidents, unusual or unexpected geological or structure formations, pressures, cave-ins and flooding); risks and uncertainties relating to the interpretation of drill results and the geology, grade and continuity of the Company's mineral deposits; risks related to the Company's ability to obtain adequate financing for the Company's planned development activities and to complete further exploration programs; fluctuations in spot and forward markets for the metals and certain other commodities; risks related to obtaining long-term sales contracts or completing spot sales for the Company's products; the Company's history of losses and the potential for future losses; risks related to general economic conditions, including recent market and world events and conditions; inadequate insurance, or inability to obtain insurance, to cover these risks and hazards; relationships with and claims by local communities and indigenous populations; diminishing quantities or grades of mineral reserves as properties are mined; challenges to, or difficulty maintaining, the Company's title to properties and continued ownership thereof; risks related to the Company's covenants with respect to the 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.

Sierra Metals Inc.

Management's Discussion and Analysis

For the year ended December 31, 2019

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

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

Cautionary Note to U.S. Investors Concerning Estimates of Inferred Resources

This document uses the term "Inferred Mineral Resources". U.S. investors are advised that while this term is recognized and required by Canadian regulations, the Securities and Exchange Commission ("SEC") does not recognize it. Inferred Mineral Resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of economic studies other than a Preliminary Economic Assessment (PEA).

This document also uses the terms "Measured and Indicated Mineral Resources". The Company advises U.S. investors that while these terms are recognized by Canadian regulations, the SEC does not recognize them. U.S. investors are cautioned not to assume that any part or all of mineral deposits included in these categories will ever be converted into mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Disclosure of "contained ounces" is permitted under Canadian regulations; however, the SEC normally only permits the reporting of non-reserve mineralization as in-place tonnage and grade.

SIERRA METALS INC.

Consolidated Financial Statements

Years ended December 31, 2019 and 2018

March 27, 2020

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 Financial Reporting Standards ("IFRS") and reflect management's best estimates and judgments based on information currently available.

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

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

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

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

"Igor Gonzales"

Igor Gonzales
President and Chief Executive Officer

"Ed Guimaraes"

Ed Guimaraes
Chief Financial Officer



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, 2019 and 2018, and the related consolidated statements of income, comprehensive income, 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, 2019 and 2018, and its financial performance and its 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, 2020

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*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Sierra Metals Inc.
Consolidated Statements of Financial Position
December 31, 2019 and 2018
(In thousands of United States dollars)

	Note	December 31, 2019 \$	December 31, 2018 \$
ASSETS			
Current assets:			
Cash and cash equivalents		42,980	21,832
Trade and other receivables	5	31,892	26,007
Income tax receivable		1,471	142
Prepaid expenses		1,904	1,531
Inventories	6	26,053	21,986
		<u>104,300</u>	<u>71,498</u>
Non-current assets:			
Property, plant and equipment	7	305,115	283,513
Deferred income tax	9	2,032	1,430
Total assets		<u>411,447</u>	<u>356,441</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	8	44,910	36,091
Income tax payable		1,355	5,032
Loans payable	10	—	27,718
Decommissioning liability	11	865	2,038
Other liabilities	12	7,248	8,908
		<u>54,378</u>	<u>79,787</u>
Non-current liabilities:			
Loans payable	10	99,814	28,535
Deferred income tax	9	27,653	32,167
Decommissioning liability	11	16,029	11,266
Other liabilities	12	1,554	1,081
Total liabilities		<u>199,428</u>	<u>152,836</u>
EQUITY			
Share capital	13	230,456	231,792
Accumulated deficit		(65,239)	(69,307)
Other reserves		11,566	10,870
Equity attributable to owners of the Company		<u>176,783</u>	<u>173,355</u>
Non-controlling interest	14	35,236	30,250
Total equity		<u>212,019</u>	<u>203,605</u>
Total liabilities and equity		<u>411,447</u>	<u>356,441</u>

Contingencies (notes 10 and 24) and Subsequent Events (note 25)

Approved on behalf of the Board and authorized for issue on March 27, 2020:

“Alberto Arias”
Alberto Arias
Chairman of the Board

“Koko Yamamoto”
Koko Yamamoto
Chairman Audit Committee

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

Sierra Metals Inc.

Consolidated Statements of Income

December 31, 2019 and 2018

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

	Note	Year Ended December 31, 2019 \$	2018 \$
Revenue	23	<u>229,038</u>	<u>232,371</u>
Cost of sales			
Mining costs	15	(135,192)	(115,180)
Depletion, depreciation and amortization	15	<u>(36,084)</u>	<u>(31,409)</u>
		<u>(171,276)</u>	<u>(146,589)</u>
Gross profit from mining operations		<u>57,762</u>	<u>85,782</u>
General and administrative expenses	15	(19,515)	(18,919)
Selling expenses		<u>(9,741)</u>	<u>(8,551)</u>
Income from operations		<u>28,506</u>	<u>58,312</u>
Other income (loss)	16	(507)	(1,288)
Foreign currency exchange loss		<u>(976)</u>	<u>(1,210)</u>
Interest expense and other finance costs	17	<u>(5,078)</u>	<u>(3,634)</u>
Income before income tax		<u>21,945</u>	<u>52,180</u>
Income taxes (expense) recovery:			
Current tax expense	9	(17,416)	(25,432)
Deferred tax recovery (expense)	9	<u>4,888</u>	<u>(908)</u>
		<u>(12,528)</u>	<u>(26,340)</u>
		—	
Net income (loss)		<u>9,417</u>	<u>25,840</u>
Net income (loss) attributable to:			
Shareholders of the Company		4,431	18,814
Non-controlling interests	14	<u>4,986</u>	<u>7,026</u>
		<u>9,417</u>	<u>25,840</u>
Weighted average shares outstanding (000s)			
Basic		163,075	163,296
Diluted		164,705	164,676
Basic earnings (loss) per share		0.03	0.12
Diluted earnings (loss) per share		0.03	0.12

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

Sierra Metals Inc.
Consolidated Statements of Comprehensive Income
December 31, 2019 and 2018
(In thousands of United States dollars)

	Year ended December 31,	
	2019	2018
	\$	\$
Net income (loss)	9,417	25,840
Other comprehensive income (loss)		
Items that may be subsequently classified to net income (loss):		
Currency translation adjustments on foreign operations	667	(1,572)
Total comprehensive income (loss)	<u>10,084</u>	<u>24,268</u>
Total comprehensive income (loss) attributable to shareholders	5,098	17,242
Non-controlling interests	4,986	7,026
Total comprehensive income (loss) attributable to shareholders	<u>10,084</u>	<u>24,268</u>

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

Sierra Metals Inc.

Consolidated Statements of Changes in Equity

December 31, 2019 and 2018

(In thousands of United States dollars)

	Common Shares		Other reserves	Retained earnings accumulated (deficit)	Total attributable to shareholders	Non-controlling Interest	Total shareholders' equity
	Shares	Amounts					
		\$	\$	\$	\$	\$	\$
Balance at January 1, 2019	163,427,336	231,792	10,870	(69,307)	173,355	30,250	203,605
	0	0	0	0	0	0	0
Exercise of RSUs	700,698	1,145	(1,145)	—	—	—	—
Share-based compensation expense	—	—	1,174	—	1,174	—	1,174
Shares repurchased and cancelled (note 9)	(2,012,654)	(2,481)	—	(363)	(2,844)	—	(2,844)
Total comprehensive income (loss)	—	—	667	4,431	5,098	4,986	10,084
Balance at December 31, 2019	162,115,380	230,456	11,566	(65,239)	176,783	35,236	212,019

	Common Shares		Other reserves	Retained earnings accumulated (deficit)	Total attributable to shareholders	Non-controlling Interest	Total shareholders' equity
	Shares	Amounts					
		\$	\$	\$	\$	\$	\$
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

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

Sierra Metals Inc.
Consolidated Statements of Cash Flows
December 31, 2019 and 2018
(In thousands of United States dollars)

	Note	Year Ended December 31, 2019 \$	2018 \$
Cash flows from operating activities			
Net income from operations		9,417	25,840
Adjustments for:			
Items not affecting cash:			
Depletion, depreciation and amortization		36,084	31,349
Share-based compensation		1,174	1,542
Loss on disposals and write-offs		1,072	—
Change in supplies inventory reserve		238	1,730
Revisions in estimates of decommissioning liability at closed mine		144	—
Interest expense and other finance costs		5,055	3,634
NRV adjustment to inventory		—	1,110
Current income tax expense		17,416	25,432
Deferred income taxes recovery		(4,888)	908
Unrealized foreign currency exchange (gain) loss		647	(1,397)
Operating cash flows before movements in working capital		66,359	90,148
Net changes in non-cash working capital items	22	(3,680)	2,447
Decommissioning liabilities settled	11	(914)	(1,163)
Income tax paid		(22,178)	(29,529)
Cash generated from operating activities		39,587	61,903
Cash used in investing activities			
Capital expenditures		(54,621)	(49,315)
Net income attributable to:		(54,621)	(49,315)
Cash (used in) financing activities			
Proceeds from issuance of notes payable	10	—	10,000
Proceeds from issuance of loans and credit facilities	10	99,814	15,000
Repayment of loans and credit facilities	10	(56,193)	(33,810)
Loans interest paid	10	(4,615)	(2,766)
Dividends paid to non-controlling interest		—	(2,883)
Cash paid to repurchase shares	13	(2,844)	—
Cash (used in) financing activities		36,162	(14,459)
Effect of foreign exchange rate changes on cash and cash equivalents		20	(175)
Increase (decrease) in cash and cash equivalents		21,148	(2,046)
Cash and cash equivalents, beginning of year		21,832	23,878
Cash and cash equivalents, end of year		42,980	21,832
Supplemental cash flow information	22		

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

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***1 Description of business and nature of operations**

Sierra Metals Inc. (“Sierra Metals” or the “Company”) was incorporated under the Canada Business Corporations Act on April 11, 1996, and is a diversified Canadian 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, 2020.

(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.

The principal subsidiaries of the Company and their geographical locations as at December 31, 2019 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
EXMIN, S. A. de C. V.	100%	México
Servicios de Produccion Y Extraccion de Chihuahua, S.A. de C.V	100%	México
Asesores Administrativos Y de Recursos Humanos, 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.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

2 Significant accounting policies (continued)

(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 presentation currency of the financial statements is United States dollar ("\$"). 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.

(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's financial assets and liabilities (financial instruments) include cash and cash equivalents, trade receivables, accounts payable and accrued liabilities and long-term debt. The Company recognizes financial assets and financial liabilities on the date the Company becomes a party to the contractual provisions of the instruments. A financial asset is derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset or when cash flows expire. A financial liability is derecognized when the obligation specified in the contract is discharged, canceled or expired.

Financial Assets

Cash and cash equivalents are recorded at amortized cost using the effective interest method.

Trade and other receivables are classified as financial assets at fair value through profit or loss and measured at fair value.

Financial Liabilities

Financial liabilities, including accounts payable and accrued liabilities, as well as debt and financing obligations are accounted for at amortized cost.

2 Significant accounting policies (continued)

(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 are 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.

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.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

2 Significant accounting policies (continued)

(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:

Asset class	Useful lives (years)
Vehicle, furniture and other assets	3 to 10
Machinery and equipment	5 to 20
Buildings and other constructions	5 to 50

Mining 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

Revenues include sales of metal concentrates net of treatment and refining charges.

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 right 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.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

2 Significant accounting policies (continued)

(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.

(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 and RSUs 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.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

2 Significant accounting policies (continued)

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.

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.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

3 Significant accounting estimates and judgments (continued)

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, 2019 and 2018, the Company assessed the carrying value of its long-lived assets and exploration and evaluation expenditures and determined that no impairment was required.

(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.

3 Significant accounting estimates and judgments (continued)

(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.

4 Adoption of new accounting standards and future accounting changes

The following significant accounting policy was amended as a result of the adoption of IFRS 16, Leases (IFRS 16). All other significant accounting policies are consistent with those reported in the Company's 2018 annual financial statements.

IFRS 16, Leases ("IFRS 16")

The following leases accounting policies have been applied as of January 1, 2019 on adoption of IFRS 16 using the modified retrospective approach. For comparative periods prior to 2019, the Company applied leases policies in accordance with IAS 17, Leases (IAS 17) and IFRIC 4, determining whether an arrangement contains a lease (IFRIC 4). The Company did not have any material effect by adopting the IFRS 16 requirements on January 1, 2019.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, we recognize a right-of-use asset, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***4 Adoption of new accounting standards and future accounting changes** (continued)

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

The transition to IFRS 16 did not result in any material impact or adjustments on adoption and the Company's financial commitments as at January 1, 2019 are the same as December 31, 2018, and thus, no reconciliation is required.

5 Trade and other receivables

	December 31, 2019	December 31, 2018
	\$	\$
Trade receivables	20,549	19,199
Sales tax receivables	11,343	6,718
Other receivables	—	90
	31,892	26,007

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

6 Inventories

	December 31, 2019	December 31, 2018
	\$	\$
Stockpiles	4,096	1,074
Concentrates	4,376	4,476
Supplies and spare parts	17,581	16,436
	<u>26,053</u>	<u>21,986</u>

Cost of sales are comprised of production costs of sales and depletion, depreciation and amortization, and represent the cost of inventories recognized as an expense for the years ended December 31, 2019 and 2018 of \$171,276 and \$146,589, respectively. Supplies and spare parts inventory as at December 31, 2019 is stated net of a provision of \$3,632 (2018 - \$3,331) to write inventories down due to obsolescence or infrequent use. During the year ended December 31, 2019, the Company wrote down stockpiles and concentrates inventory to its NRV, recording a charge of \$804 (2018 - \$1,110). Stockpiles and concentrates inventory held at NRV as at December 31, 2019 was \$468 (2018 - \$168).

7 Property, plant and equipment

Cost	Plant and equipment	Mining properties	Assets under construction	Exploration and evaluation expenditure	Total \$
Balance as of January 1, 2018	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 decommissioning liability	512	—	—	—	512
Disposals	(1,115)	—	—	—	(1,115)
Transfers	7,152	—	(7,152)	—	—
Balance as of December 31, 2018	<u>239,921</u>	<u>436,810</u>	<u>47,482</u>	<u>64,524</u>	<u>788,737</u>
Additions	14,455	6,249	26,046	8,751	55,501
Change in estimate of decommissioning liability	3,713	—	—	—	3,713
Disposals	(11,768)	—	(28)	—	(11,796)
Transfers	23,348	4,016	(23,348)	(4,016)	—
Balance as of December 31, 2019	<u>269,669</u>	<u>447,075</u>	<u>50,152</u>	<u>69,259</u>	<u>836,155</u>

Accumulated depreciation	Plant and equipment	Mining properties	Assets under construction	Exploration and evaluation expenditure	Total \$
Balance as of January 1, 2018	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	<u>156,223</u>	<u>335,960</u>	<u>—</u>	<u>13,041</u>	<u>505,224</u>
Depletion, depreciation and amortization	21,447	15,093	—	—	36,540
Disposals	(10,724)	—	—	—	(10,724)
Balance as of December 31, 2019	<u>166,946</u>	<u>351,053</u>	<u>—</u>	<u>13,041</u>	<u>531,040</u>

Net Book Value - December 31, 2019	<u>102,723</u>	<u>96,022</u>	<u>50,152</u>	<u>56,218</u>	<u>305,115</u>
Net Book Value - December 31, 2018	<u>83,698</u>	<u>100,850</u>	<u>47,482</u>	<u>51,483</u>	<u>283,513</u>

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***7 Property, plant and equipment (continued)**

For the year ended December 31, 2019, depletion and depreciation expense of \$36,084 (2018: \$31,349) has been charged to depletion, depreciation and amortization in property, plant, and equipment. Additionally, depletion and depreciation expense of \$1,390 (2018: \$887) has been capitalized to inventory.

During the year ended December 31, 2019, the Company has capitalized borrowing costs amounting to \$0 (2018 – \$116) on qualifying assets. Borrowing costs for 2018 were capitalized at the weighted average rate of 5.25%.

8 Accounts payable and accrued liabilities

	December 31, 2019	December 31, 2018
	\$	\$
Trade payables	30,422	24,662
Other payables and accrued liabilities	14,488	11,429
	44,910	36,091

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**

	2019	2018
	\$	\$
Current Tax Expense		
Current income tax	17,416	25,432
	17,416	25,432
Deferred Tax Recovery		
Deferred tax expense (recovery)	(4,888)	908
	(4,888)	908
Total tax expense	12,528	10,348

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

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

	2019 \$	2018 \$
Income before income taxes	21,945	52,180
Expected Tax Rate @ 26.50% (2018 - 26.50%)	5,776	13,828
Effect of tax rate differences	567	1,672
Stock based compensation costs	291	395
Other non-deductible expenses	616	84
Unrealized foreign exchange income	412	347
Inflation adjustment for Mexico tax purposes	(224)	(321)
Expired losses	720	381
Change in benefit of other temporary differences not recognized	1,925	572
Foreign exchange and other	(1,391)	2,555
Mining royalties and other	3,836	6,827
	12,528	26,340

(c) Deferred tax asset and liability

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

	Balance January 1, 2018 \$	Change in 2018 \$	Balance December 31, 2018 \$	Change in 2019 \$	Balance December 31, 2019 \$
Property, Plant, and equipment	(1,796)	130	(1,666)	850	(816)
Inventory	(1,462)	(636)	(2,098)	920	(1,178)
Provisions	667	2,089	2,756	970	3,726
Decommissioning liabilities	3,928	(24)	3,904	1,098	5,002
Mining royalties	1,241	223	1,464	151	1,615
Mining assets	(42,041)	76	(41,965)	(589)	(42,554)
Deferred revenue	—	—	—	—	—
Other items	1,532	(1,216)	316	1,982	2,298
Non-capital losses	8,048	(1,496)	6,552	(266)	6,286
	(29,883)	(854)	(30,737)	5,116	(25,621)

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

	2019 \$	2018 \$
Non-capital and capital losses	46,364	37,696
Property, plant and equipment	49	9
Mineral properties	2,236	2,128
Other	(56)	(53)
	48,593	39,780

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and 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 \$30,517 (December 31, 2018 – \$25,605) expiring in periods from 2026 to 2039. 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 \$1,403 of capital losses in Canada that are without expiry as at December 31, 2019 (December 31, 2018 - \$8,578).

(e) Unrecognized deferred tax liabilities

As at December 31, 2019, the Company has taxable temporary difference of \$77,703 (2018 - \$52,396) 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 and notes payable

	December 31, 2019	December 31, 2018
	\$	\$
Current		
Acquisition loan with Banco de Credito del Peru (a)	—	6,188
Revolving credit facility with Banco de Credito del Peru (b)	—	15,000
Notes payable to BBVA Banco Continental (c)	—	5,000
Loan with FIFOMI (d)	—	1,530
	<u>—</u>	<u>27,718</u>
Non-current		
Acquisition loan with Banco de Credito del Peru (a)	—	28,408
Senior Secured Corporate Credit Facility with Banco de Credito del Peru (e)	99,814	—
Loan with FIFOMI (d)	—	127
	<u>99,814</u>	<u>28,535</u>
Total loans payable	<u>99,814</u>	<u>56,253</u>

(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

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

10 Loans payable and notes payable (continued)

- Tranche 1, in the amount of \$24M had quarterly principal repayments of \$1.5M beginning in November 2016 and ending in August 2020
- Tranche 2, in the amount of \$24M had no quarterly principal repayments and was 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 \$34,500 were made during the twelve months ended December 31, 2019 (2018 - \$6,000), as the Company elected to repay the amount owed on the Corona Acquisition Loan in full during May 2019. The loan was recorded at amortized cost and was 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 \$218 was recorded for the twelve months ended December 31, 2019 (2018 - \$200). Interest payments totalling \$868 were made during the twelve months ended December 31, 2019 (2018 - \$2,177).

(b) Dia Bras Peru (“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 was for a one-year term and was 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 one-year term to be used to fund short term working capital requirements. The new facility had an interest rate of 3M LIBOR plus 1.04%, with interest payments due quarterly. The credit facility was guaranteed by the common shares of DBP’s subsidiary, Sociedad Minera Corona.

The Company repaid the \$15,000 owed on this credit facility on May 9, 2019.

(c) 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%.
- 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 the facility was repaid in full on December 24, 2018.
- On December 24, 2018, the Company renewed the revolving credit facility with BBVA Banco Continental, and drew \$5,000 at an interest rate of 2.80%, with a term of 30 days. The Company repaid the \$5,000 owing on the revolving credit facility during January 2019.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

10 Loans payable and notes payable (continued)

(d) FIFOMI loan

- During January 2015, the Company's Mexican Subsidiary, Dia Bras Mexicana S.A. de C.V. ("DBM") 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 (\$7,995). After deducting transaction costs of \$124, net proceeds were \$7,871.

Monthly principal repayments took place over four years beginning in January 2016 at an interest rate of THIE + 3%. Interest payments began in February 2015 and during the twelve months ended December 31, 2019, DBM made interest payments of \$24 (MXP\$456) (2018 - \$248 (MXP\$4,772)). Principal payments of \$1,693 (MXP\$32,500) (2018 - \$1,560 (MXP\$30,000)) have been made during the twelve months ended December 31, 2019 as the Company elected to repay the loan in full during the first quarter of 2019.

(e) Senior Secured Corporate Credit Facility with BCP

On March 11, 2019, the Company entered into a six-year senior secured corporate credit facility ("Corporate Facility") with BCP that provides funding of up to \$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 also used the proceeds of the new facility to repay existing debt balances. The most significant terms of the agreement were:

- 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. The Company is in compliance with all covenants as at December 31, 2019.

On March 11, 2019, DBP drew down \$21.4 million from this facility. On May 8, 2019, DBP drew down another \$48.6 million from this facility, and on June 29, 2019, DBP drew down the remaining \$30 million available from this facility. Interest is payable quarterly and interest payments began on the drawn and undrawn portions of the facility starting in June 2019. During the twelve months ended December 31, 2019, DBP made interest payments of \$2,910 (2018 - \$nil).

Principal payments on the amount drawn from the facility will begin in March 2021. The Company repaid the amount owed on the Corona Acquisition Loan on May 11, 2019 using funds drawn from the new facility. The loan is recorded at amortized cost and is being accreted to face value over 6 years using an effective interest rate of 5.75%.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

11 Decommissioning liability

	December 31, 2019	December 31, 2018
	\$	\$
Balance, beginning of year	13,304	13,271
Liabilities settled during the year	(914)	(1,293)
Interest cost	647	684
Revisions and new estimated cash flows ⁽¹⁾	3,857	642
Balance, end of year	16,894	13,304
Less: current portion	(865)	(2,038)
Long-term decommissioning liability	16,029	11,266

(1) Revision to decommissioning liability includes mainly \$3.9 million of increase in asset retirement obligation at Yauricocha resulting from a revised mine-closure plan that includes activities related to the expanded tailings disposition facility.

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 2019 and 2018, the decommissioning liability was calculated based on the following key assumptions:

	2019		2018	
	Mexico	Peru	Mexico	Peru
Estimated undiscounted cash flows (\$)	949	20,249	965	15,580
Discount rate (%)	7.0	5.0	10.0	7.0
Settlement period (years)	4	4-15	6	5-11
Inflation (%)	4.0	2.0	4.0	2.5

12 Other liabilities

	December 31, 2019	December 31, 2018
	\$	\$
Current		
Profit-sharing and other employee related obligations (a)	7,248	8,908
Non-current		
Other employee related obligations	1,297	1,081
Lease liabilities	257	—
	1,554	1,081

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***12 Other liabilities** (continued)**(a) Profit sharing and other employee related obligations**

As at December 31, 2019, there is a provision amounting to \$4,118 for employee profit sharing in Peru and \$3,130 for wages, salaries and other employee benefits outstanding (December 31, 2018 - \$5,965 and \$2,943, 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, 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018
	\$	\$
Outstanding, beginning of period	1,380,085	1,316,314
Granted	1,356,418	679,627
Exercised	(700,698)	(614,572)
Forfeited	(405,382)	(1,284)
Outstanding, end of period	1,630,423	1,380,085

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, 2019, the Company granted RSU's totalling 1,356,418 which had a fair value of C\$1.91 based on the closing share price at grant date. RSUs exercised during the year ended December 31, 2019 had a weighted average fair value of C\$2.62 and the RSUs forfeited had a weighted average fair value of C\$2.68 (2018 - C\$1.52). As at December 31, 2019, the weighted average fair value of the RSUs outstanding is C\$2.34 (2018 - C\$3.01).

The total RSU expense recognized during the year ended December 31, 2019 was \$1,174 with a corresponding credit to other reserves (2018 - \$1,542).

(c) Share Re-purchase

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 which represented approximately 0.92% of the issued and outstanding common shares as at December 11, 2018.

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***13 Share capital and share-based payments (continued)**

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 based on the automatic share purchase plan signed on April 15, 2019. 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. On September 18, 2019, the Company received approval from the TSX to increase the number of common shares which the Company may repurchase for cancellation under the NCIB from 1,500,000 shares to 2,500,000 shares. On October 10, 2019, the Company executed an addendum to their automatic share purchase plan with CIBC to include a maximum price per share of CAD\$2.50 and a maximum of 250,000 common shares in total for block purchases. Other than the increase to the maximum number of Shares which may be purchased by the Company pursuant to the NCIB, no further amendments were made to the NCIB, and the NCIB terminated on December 16, 2019.

During the twelve months ended December 31, 2019, the Company purchased 2,012,654 shares under the NCIB for total consideration of \$2,844 and a book value of \$2,481.

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, 2019	December 31, 2018
	\$	\$
Current		
Assets	90,438	78,207
Liabilities	(27,863)	(36,622)
Total current net assets	62,575	41,585
Non-current		
Assets	171,884	162,733
Liabilities	(39,915)	(37,519)
Total non-current net assets	131,969	125,214
Net assets	194,544	166,799

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***14 Non-controlling interest (continued)****Summarized income statement**

	For the year ended December 31,	
	2019	2018
	\$	\$
Revenue	155,983	168,657
Income before income tax	41,796	62,735
Income tax expense	(14,338)	(24,047)
Total income	27,458	38,688
Total income attributable to non-controlling interests	4,986	7,026
Dividends paid to non-controlling interests	—	(2,883)

Summarized cash flows

	For the year ended December 31,	
	2019	2018
	\$	\$
Cash flows from operating activities		
Cash generated from operating activities	63,887	83,178
Net changes in non cash working capital items	(2,895)	875
Decommissioning liabilities settled	(915)	(1,293)
Income taxes paid	(21,885)	(29,529)
Net income	38,192	53,231
Net cash used in investing activities	(25,882)	(25,243)
Net cash from/(used in) financing activities	4,775	(29,963)
Effect of foreign exchange rate changes on cash and cash equivalents	21	(35)
Increase (decrease) in cash and cash equivalents	17,106	(2,010)
Cash and cash equivalents, beginning of period	17,898	19,908
Cash and cash equivalents, end of period	35,004	17,898

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, 2019 and 2018 relate to the Yauricocha, Bolivar and Cusi Mines.

(a) Mining costs

	Year ended December 31,	
	2019	2018
	\$	\$
Employee compensation and benefits	28,986	27,458
Third party and contractors costs	60,905	46,599
Depreciation	36,084	31,409
Consumables	39,515	34,655
Changes in inventory and other	5,786	6,468
	171,276	146,589

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***15 Expenses by nature (continued)****(b) General and administrative expenses**

	Year ended December 31,	
	2019	2018
	\$	\$
Salaries and benefits	9,763	7,333
Consulting and professional fees	2,705	3,987
Office expenses	1,539	1,507
Marketing and communication expenses	807	805
Share based compensation expense	1,174	1,542
Listing and filing fees	318	344
Director expenses	1,282	1,312
Travelling expense	596	627
Other	1,331	1,462
	<u>19,515</u>	<u>18,919</u>

16 Other income (expenses)

	2019	2018
	\$	\$
Gain/(loss) on sale of supplies and fixed assets	(162)	85
Interest income	203	36
Allowance for inventory obsolescence	(238)	(1,739)
Miscellaneous income (expenses)	(310)	330
	<u>(507)</u>	<u>(1,288)</u>

17 Interest expense and other finance costs

	2019	2018
	\$	\$
Interest expense on loans	4,431	2,913
Amortization of loan transaction costs	—	37
Interest cost on decommissioning liability	647	684
	<u>5,078</u>	<u>3,634</u>

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."

Sierra Metals Inc.
Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)
18 Segment reporting (continued)

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:

Year ended December 31, 2019	Peru Yauricocha Mine \$	Mexico Bolivar Mine \$	Mexico Cusi Mine \$	Canada Corporate \$	Total \$
Revenue ⁽¹⁾	155,983	60,402	12,653	—	229,038
Production cost of sales	(79,339)	(45,491)	(10,362)	—	(135,192)
Depletion of mineral property	(10,631)	(2,177)	(2,314)	—	(15,122)
Depreciation and amortization of property, plant and equipment	(10,346)	(8,147)	(2,469)	—	(20,962)
Cost of sales	(100,316)	(55,815)	(15,145)	—	(171,276)
Gross profit from mining operations	55,667	4,587	(2,492)	—	57,762
Income (loss) from operations	39,879	(4,918)	(1,079)	(5,376)	28,506
Interest expense and other finance costs	(4,624)	(34)	(8)	(412)	(5,078)
Other income (expense)	(637)	105	25	—	(507)
Foreign currency exchange loss	(170)	(21)	(5)	(780)	(976)
Income (loss) before income tax	34,448	(4,868)	(1,067)	(6,568)	21,945
Income tax expense	(14,297)	1,450	319	—	(12,528)
Net income (loss) from operations	20,151	(3,418)	(748)	(6,568)	9,417

December 31, 2019	Peru \$	Mexico \$	Canada \$	Total \$
Total assets	241,839	162,657	6,951	411,447
Non-current assets	175,244	131,810	91	307,147
Total liabilities	137,146	31,130	31,152	199,428

(1) Includes provisional pricing adjustments of: \$216 for Bolivar

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)	—	(997)	—	(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 \$
Total assets	209,159	145,775	1,507	356,441
Non-current assets	163,222	121,654	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.

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***18 Segment reporting** (continued)

For the year ended December 31, 2019, 68% of the revenues (\$155,983) were from two customers based in Peru and the remaining 32% of the revenues (\$73,055) were from two customers based in Mexico. In Peru, the two customers accounted for 53% and 47% of the revenues. In Mexico, the two customers accounted for 82% and 18% of the revenues.

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.

As at December 31, 2019, the trade receivable balance of \$20,549 includes amounts outstanding of \$4,354 and \$16,195 from two customers in Mexico and two customers in Peru, respectively.

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 and notes payable.

(a) Financial assets and liabilities by category

At December 31, 2019	Amortized Cost \$	FVTPL \$	Total \$
Financial assets			
Cash and cash equivalents	42,980	—	42,980
Trade receivables ⁽¹⁾	—	20,549	20,549
Total Financial assets	42,980	20,549	63,529
Financial liabilities			
Accounts payable	30,422	—	30,422
Loans payable	99,814	—	99,814
Total Financial liabilities	130,236	—	130,236
At December 31, 2018	Loans and receivables \$	FVTPL \$	Total \$
Financial assets			
Cash and cash equivalents	21,832	—	21,832
Trade receivables ⁽¹⁾	—	19,199	19,199
Financial assets	—	—	—
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

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

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***19 Financial instruments and financial risk management** (continued)**(b) Fair value of financial instruments**

As at December 31, 2019 and 2018, 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)

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, 2019 and 2018, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the Consolidated Statement of Financial Position are categorized as follows:

Recurring measurements	December 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Trade receivables ⁽¹⁾	—	20,549	—	20,549	—	19,199	—	19,199
	—	20,549	—	20,549	—	19,199	—	19,199

(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, 2019 and 2018.

(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.

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 and other liabilities that are subject to currency risk.

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***19 Financial instruments and financial risk management** (continued)

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

	December 31, 2019			
	CAN dollar	Mexican	Peruvian	Total
	\$	Peso	Nuevo Soles	\$
Cash and cash equivalents	113	73	2,473	2,659
Income tax and other receivables	45	13,262	1,683	14,990
	<u>158</u>	<u>13,335</u>	<u>4,156</u>	<u>17,649</u>
Accounts payable and other liabilities	(724)	(30,208)	(15,357)	(46,289)
Total	(566)	(16,873)	(11,201)	(28,640)

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

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, 2019, 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, 2019, with all the other variables held constant, would have resulted in an increase to the Company's net income of \$2,053 (increase in income in 2018 of \$1,992).

A 10% appreciation in the Canadian dollar exchange rate against the US dollar based on the financial assets and liabilities held at December 31, 2019 and 2018, with all the other variables held constant, would have resulted in a negligible impact to the Company's net income (loss).

19 Financial instruments and financial risk management (continued)**(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, 2019 on its loans and notes payable in Peru was 5.58% (2018 – 4.26%). With all other variables unchanged a 1% increase in the interest rate would have increased the Company's net loss by \$690 (2018 - \$486).

(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, 2019 and 2018, 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	2019 \$	2018 \$
10% decrease in silver prices	(97)	(27)
10% decrease in copper prices ⁽¹⁾	—	(456)
10% decrease in lead prices	—	(1)
10% decrease in gold prices	(323)	(87)

⁽¹⁾ For 2019, price was fixed for 100% of copper concentrate

As at December 31, 2019 and 2018, 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, 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, 2019 of the Company's financial liabilities and operating and capital commitments:

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***19 Financial instruments and financial risk management** (continued)

	Within 1 year	1-2 years	2-5 years	After 5 years	As at December 31, 2019
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	44,910	—	—	—	44,910
Loans payable	—	18,750	81,064	—	99,814
Interest on loans payable	5,192	4,977	7,429	—	17,598
Other liabilities	7,248	1,554	—	—	8,802
Total Commitments	57,350	25,281	88,493	—	171,124

In the opinion of management, the working capital at December 31, 2019, together with future cash flows from operations and available loan facilities, is sufficient to support the Company's commitments through 2020.

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, 2019 and 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.

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

	December 31, 2019	December 31, 2018
	\$	\$
Cash and cash equivalents	42,980	21,832
Trade receivables	20,549	19,199
	63,529	41,031

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.

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***20 Capital management** (continued)

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, 2019	December 31, 2018
	\$	\$
Equity attributable to owners of the Company	176,783	173,355
Loans payable	99,814	56,253
	276,597	229,608
Less: Cash and cash equivalents	(42,980)	(21,832)
	233,617	207,776

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, 2019, 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, 2019, the Company was in compliance with the external capital requirements.

21 Related party transactions**(a) Related party transactions**

During the year ended December 31, 2019, the Company recorded consulting fees of \$200 (2018 - \$200) to companies related by common directors or officers. At December 31, 2019, accounts payable and accrued liabilities include \$Nil (2018 - \$Nil) with these related parties. Related party transactions occurred in the normal course of business. As at December 31, 2019, the Company has accounts receivable outstanding from these related parties of \$Nil (2018 - \$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, 2019 and 2018 are as follows:

	2019	2018
	\$	\$
Salaries and other short term employment benefits	3,304	2,816
Share-based payments ⁽¹⁾	1,581	1,500
Total compensation	4,885	4,316

(1) calculated at fair value on day of the grant

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

December 31, 2019 and 2018

*(In thousands of United States dollars, except per share amounts and unless otherwise stated)***22 Supplemental cash flow information****Changes in working capital**

	2019	2018
	\$	\$
Trade and other receivables	(5,885)	1,869
Financial and other assets	(563)	(401)
Income tax receivable	(282)	78
Inventories	(3,849)	(2,917)
Accounts payable and accrued liabilities	6,752	4,201
Income tax payable	—	(311)
Other liabilities	147	(72)
	<u>(3,680)</u>	<u>2,447</u>

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, 2019
Revenues from contracts with customers	228,822
Provisional pricing adjustments on concentrate sales	216
Total revenues	<u>229,038</u>

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

	Year Ended
	December 31, 2019
Revenues from contracts with customers:	
Silver	42,450
Copper	88,128
Lead	28,073
Zinc	58,163
Gold	12,224
Total revenues from contracts with customers	<u>229,038</u>

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.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

24 Contingencies (continued)

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. 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. This litigation was eventually settled in February 2020, as per note 25(a).
- (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 Subsequent Events

(a) Settlement of outstanding P&R litigation

On February 6, 2020, the Company settled the outstanding litigation with P&R pertaining to mining concessions from the Company’s Bolivar Mine, including the mining concessions where mine operations and mineral reserve estimates are located. The accord was executed in The Second District Court in the state of Chihuahua, Mexico. This settlement ends all claims against and litigation against the Company and Dia Bras Mexicana. The impact of the settlement amount paid on Sierra Metals’ financial condition and operating results was not significant.

(b) Coronavirus (COVID-19)

Subsequent to year end, the COVID-19 pandemic began causing significant financial market declines and social dislocation. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. Due to the increasing number of coronavirus (COVID-19) infections in the country, the Peruvian Government declared a state of emergency on March 17, 2020 for a period of 15 days to contain the advancement of the virus, which restricts travel within the country and requires citizens to remain at home with the exception of some essential services. On March 26, the Peruvian Government extended the state of emergency for an additional 13 days until April 12. As such, all mining activities and permitting submissions in Peru have also been halted. This will result in a delay in all permits being issued. Subject to this declaration, the Company has also ceased its mining operations at the Yauricocha Mine except for emergency staff as permitted by the Government.

Sierra Metals Inc.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In thousands of United States dollars, except per share amounts and unless otherwise stated)

25 Subsequent Events (continued)

The extent of the effect of the COVID-19 pandemic on the Company's business activities is uncertain. The Company's 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 (assessment for indicators of impairment). Accordingly, as required by IFRS we have not reflected these subsequent conditions in the assessment for indicators of impairment of these assets at December 31, 2019. Impairment indicators for the Company's assets could exist at March 31, 2020 if current conditions persist. The Company continues to work on revisions to the forecasts and development plans in light of the current conditions and will use these updated assumptions/ forecasts in impairment indicator analysis and for impairment tests, if such tests are required.