

NYSE MKT LLC Corporate Governance

The common shares of Sierra Metals Inc. (the “Company”) are listed on the NYSE MKT LLC (“NYSE MKT”). Section 110 of the NYSE MKT Company Guide permits the NYSE MKT to consider the laws, customs and practices of foreign issuers in relaxing certain NYSE MKT listing criteria, and to grant exemptions from NYSE MKT listing criteria based on these considerations. Below is a description of the ways in which the Company’s governance practices differ from those followed by U.S. domestic companies pursuant to NYSE MKT standards:

Board of Directors

Section 802(c) of the NYSE MKT LLC Company Guide (the “Company Guide”) requires a listed company to hold meetings of its Board of Directors on at least a quarterly basis and to provide for the independent directors of the registrant to meet on a regular basis as often as necessary to fulfill their responsibilities, including at least annually in an executive session without the presence of non-independent directors and management.

While applicable Canadian law does not require the Company to hold Board of Directors meetings on at least a quarterly basis, National Instrument 51-102 - Continuous Disclosure Obligations (“NI 51-102”) of the Canadian Securities Administrators requires the Company to prepare annual audited financial statements and unaudited interim financial statements in respect of the Company’s three, six and nine month interim periods. NI 51-102 requires that such financial statements be approved by the Company’s Board of Directors, which may delegate such responsibility to the Company’s Audit Committee. In practice, each of the Audit Committee and the Board of Directors meets on at least a quarterly basis with the Audit Committee reviewing the applicable financial statements and providing a recommendation to the Board of Directors to approve such financial statements. Applicable Canadian law does not require that the Company’s independent directors meet in executive session without the presence of non-independent directors or management.

Quorum

Section 123 of the Company Guide recommends a quorum of not less than one-third of a listed company’s shares issued and outstanding and entitled to vote at a meeting of shareholders. In addition, a listed company is required to state its quorum requirement in its by-laws.

The Company’s quorum requirement is set forth in its Amended and Restated By-Laws (the “By-laws”). According to section 34 of the By-laws, a quorum for a meeting of shareholders of the Company is “*persons present and holding or representing ten per cent (10%) of the shares entitled to vote at such meeting*”.

The Company’s quorum requirement is permitted under applicable Canadian law.

Proxy Delivery Requirement

Section 705 of the Company Guide requires the solicitation of proxies and delivery of proxy statements for all shareholder meetings, and requires that these proxies shall be solicited pursuant to a proxy statement that conforms to SEC proxy rules.

The Company is a “foreign private issuer” as defined in Rule 3b-4 under the U.S. Exchange Act, and the equity securities of the Company are accordingly exempt from the proxy rules set forth in Sections 14(a), 14(b), 14(c) and 14(f) of the U.S. Exchange Act. The Company will continue to solicit proxies in accordance with applicable rules and regulations in Canada applicable to Toronto Stock Exchange (“TSX”) listed companies. These rules are set out in the Company’s governing statute as well as in NI 51-102. In addition, certain requirements regarding the content of proxy circulars are contained in the TSX Company Manual.

Audit Committee Requirements

(1) General – Section 803B(1) of the Company Guide requires that each listed issuer certify that it has adopted a formal written audit committee charter and that the audit committee has reviewed and reassessed the adequacy of the formal written charter on an annual basis, which charter must specify the following:

- (a) the scope of the audit committee's responsibilities, and how it carries out those responsibilities, including structure, processes, and membership requirements;
- (b) the audit committee's responsibility for ensuring its receipt from the outside auditors of a formal written statement delineating all relationships between the auditor and the issuer, consistent with PCAOB rules, and the audit committee's responsibility for actively engaging in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor and for taking, or recommending that the full board take, appropriate action to oversee the independence of the outside auditor;
- (c) the audit committee's purpose of overseeing the accounting and financial reporting processes of the issuer and the audits of the financial statements of the issuer; and
- (d) the specific audit committee responsibilities and authority set forth in the NYSE MKT rules.

(2) Composition - Section 803B(2) of the Company Guide requires that:

- (a) Each issuer must have, and certify that it has and will continue to have, an audit committee of at least three members, each of whom:
 - (i) satisfies the independence standards specified in Section 803A and Rule 10A-3 under the Securities Exchange Act of 1934;
 - (ii) must not have participated in the preparation of the financial statements of the issuer or any current subsidiary of the issuer at any time during the past three years; and
 - (iii) is able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. Additionally, each issuer must certify that it has, and will continue to have, at least one member of the audit committee who is financially sophisticated, in that he or she has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including but not limited to being or having been a chief executive officer, chief financial officer, other senior officer with financial oversight responsibilities.

(3) Meeting Requirements - Section 803B(3) of the Company Guide requires that the audit committee of each issuer must meet on at least a quarterly basis.

(4) Audit Committee Responsibilities and Authority - Section 803B(4) of the Company Guide provides that the audit committee of each issuer must have the specific audit committee responsibilities, authority and procedures necessary to comply with Rule 10A-3(b)(2), (3), (4) and (5) under the Securities Exchange Act of 1934 (subject to the exemptions provided in Rule 10A-3(c) under the Securities Exchange Act of 1934), concerning responsibilities relating to: (a) registered public accounting firms, (b) complaints relating to accounting, internal accounting controls or auditing matters, (c) authority to engage advisors, and (d) funding as determined by the audit committee.

The Company will continue to follow the requirements of the Canadian Securities Administrators applicable to companies listed on the TSX relating to the composition, independence and qualifications of members of the Audit

Committee as well as the content of its Audit Committee charter. These matters are governed by National Instrument 52-110 – Audit Committees of the CSA (“NI 52-110”). NI 52-110 requires that each issuer have an audit committee that consists of a minimum of three directors. Subject to certain exceptions provided for in NI 52-110, each member of an issuer’s audit committee must be “independent” and “financially literate” as such terms are defined in NI 52-110. Each audit committee must have a written charter that sets out its mandate and responsibilities. In addition, each issuer must require that its external auditor report directly to the issuer’s audit committee. As the audit committee is required to review an issuer’s financial statements and MD&A before their release, each audit committee must necessarily meet at least quarterly. A copy of the Company’s Audit Committee charter may be found as Appendix “A” to the Company’s Amended and Restated Annual Information Form for the year ended December 31, 2016, dated June 29, 2017, which is available on the SEC’s website at www.sec.gov. The Company will adhere to the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 with respect to its Audit Committee.

The Company notes that its Audit Committee currently consists of three members, only two of whom are independent for purposes of Rule 10A-3, as a result of Mr. Gonzales stepping into the role of CEO on May 1, 2017. The Company intends to rely on the exemption set out in Rule 10A-3(b)(iv) which provides that a minority of members of the listed issuer's audit committee may be exempt from the independence requirement for one year from the date of effectiveness of its initial registration statement under the 1933 Act. The Company expects to find a replacement on the audit committee as soon as possible, and in any event prior to the expiry of this grace period.