



**ANNUAL GENERAL MEETING OF SHAREHOLDERS**

**NOTICE OF ANNUAL GENERAL MEETING**

**TO BE HELD ON JUNE 17, 2016**

**AND**

**MANAGEMENT INFORMATION CIRCULAR**

**DATED AS OF MAY 13, 2016**

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting (the “Meeting”) of the shareholders of **Sierra Metals Inc.** (the “Corporation”) will be held on Friday, June 17, 2016, at 79 Wellington Street West, Suite 2100, Toronto, Ontario, M5K 1H1, Canada, at the hour of 1:30 p.m. (local time in Toronto) for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Corporation for the fiscal years ended December 31, 2015 and 2014, together with the auditors’ reports thereon;
2. To elect the directors of the Corporation for the ensuing year;
3. To reappoint PricewaterhouseCoopers, Chartered Accountants, as the Corporation’s auditors for the ensuing year and to authorize the directors to fix the remuneration to be paid to the auditors;
4. To transact such other business as may properly be put before the Meeting or any adjournment or adjournments thereof.

**If you are a registered shareholder of the Corporation**, you are entitled to attend and vote at the Meeting in person or by proxy. The board of directors of the Corporation requests that all such shareholders who will not be attending the Meeting in person to read, date and sign the accompanying Form of Proxy and deliver it to Computershare Investor Services Inc. (“Computershare”) (Attention: Proxy Department), 100 University Ave., 8th Floor, Toronto, Ontario, M5J 2Y1 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting, or adjournment or postponement thereof. If a shareholder does not deliver a Form of Proxy to Computershare by the close of business on Wednesday, June 15, 2016 (or before 48 hours, excluding Saturdays, Sundays and holidays before any adjournment of the Meeting at which the proxy is to be used) then the shareholder will not be entitled to vote at the Meeting by proxy. Only shareholders of record at the close of business on May 13, 2016 will be entitled to vote at the Meeting.

**If you are not a registered shareholder of the Corporation**, a Voting Instruction Form, instead of a Form of Proxy, may be enclosed. You must follow the instructions, including deadlines for submission, on such from to vote your shares.

A Management Information Circular and a Form of Proxy accompany this Notice.

DATED at Toronto, Ontario this 13<sup>th</sup> day of May, 2016.

**BY ORDER OF THE BOARD OF DIRECTORS**

*(signed) Mark Brennan* \_\_\_\_\_

MARK BRENNAN  
PRESIDENT & CEO

# **SIERRA METALS INC.**

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

## **MANAGEMENT INFORMATION CIRCULAR**

(all information as at May 13, 2016 unless otherwise indicated)

### **FORWARD-LOOKING INFORMATION**

This management information circular (the “Circular”) contains “forward-looking information” within the meaning of applicable Canadian securities legislation. Forward-looking information may include, but is not limited to, statements with respect to the future management of Sierra Metals Inc. (the “Corporation”), the future business of the Corporation, and activities, events or developments that management expects or anticipates will occur or may occur in the future. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “believes”, or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking information involves known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is made as of the date of this Circular and, other than as required by securities law, the Corporation disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise unless so required by applicable securities laws. There can be no assurance that the forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

### **SOLICITATION OF PROXIES**

**This Circular is provided in connection with the solicitation of proxies by the management of the Corporation for use at the annual general meeting of shareholders of the Corporation (the “Meeting”) to be held on June 17, 2016, at the time and place and for the purposes set forth in the accompanying notice of meeting (the “Notice of Meeting”), or at any adjournments or postponements thereof.** It is expected that the solicitation will be primarily by mail, but proxies may also be solicited in person or by telephone or facsimile by employees of the Corporation. The cost of solicitation will be borne by the Corporation.

### **APPOINTMENT AND REVOCATION OF PROXIES**

The persons named in the enclosed Form of Proxy are officers of the Corporation. **A shareholder of the Corporation wishing to appoint some other person (who need not be a shareholder) to represent him or her at the Meeting may do so by inserting such person’s name in the blank space provided in the Form of Proxy and depositing the duly completed Form of Proxy at the registered office of the Corporation or the Corporation’s transfer agent indicated on the enclosed envelope not less than 48 hours prior to the Meeting or adjournment thereof (exclusive of Saturdays, Sundays and holidays).**

**Any proxy given may be revoked by instrument in writing**, including another proxy bearing a later date, executed by the shareholder or by his or her attorney authorized in writing, and deposited either at the registered office of the Corporation or its transfer agent at any time prior to the close of business on the second business day preceding the date of the Meeting or any adjournment thereof or in any other manner permitted by law. The shareholder may choose to attend the Meeting or any adjournment thereof in person and exercise his or her voting rights.

The Form of Proxy must be signed and dated by the shareholder or by his or her attorney in writing, or, if the shareholder is a corporation, it must either be under its common seal or signed by a duly authorized officer. Persons signing as executors, administrators, trustees or in any other representative capacity should so indicate and give their full title as such. If a shareholder does not deliver a Form of Proxy to the Corporation's transfer agent by the close of business on Wednesday, June 15, 2016 (or before 48 hours, excluding Saturdays, Sundays and holidays before any adjournment of the Meeting at which the proxy is to be used) then the shareholder will not be entitled to vote at the Meeting by proxy.

In this Circular, unless otherwise indicated, all dollar amounts "\$" are expressed in US dollars. Unless otherwise stated, the information contained in this Circular is as of May 13, 2016.

### **EXERCISE OF DISCRETION BY PROXY**

A shareholder forwarding the enclosed Form of Proxy may indicate the manner in which the appointee is to vote with respect to any specific item by checking the appropriate space. The persons named in the enclosed Form of Proxy will vote the shares in respect of which they are appointed in accordance with the directions, if any, of the shareholders appointing them. **In the absence of such directions, such shares will be voted in favour of the motions proposed to be made at the Meeting as stated under the headings in the Circular. The enclosed Form of Proxy confers discretionary authority upon the persons named therein with respect to any amendment or variation to matters identified in the Notice of Meeting and to any other matter which may properly come before the Meeting.** At the time of printing the Circular, management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting. However, in either case, the persons named in the Form of Proxy will vote according to their best judgment.

### **NON-REGISTERED SHAREHOLDERS**

**The information set forth in this section is of significant importance to many shareholders as a substantial number of shareholders do not hold common shares of the Corporation ("Common Shares") in their own name.** Only registered shareholders or the persons they appoint as their proxies are permitted to vote at the Meeting. However, in many cases, shares beneficially owned by a person (a "Non-Registered Holder") are registered either: (i) in the name of an intermediary (an "Intermediary") that the Non-Registered Holder deals with in respect of the Common Shares, such as securities dealers or brokers, banks, trust companies, and trusts or other financial institutions; or (ii) in the name of a clearing agency of which the Intermediary is a participant. In accordance with National Instrument 54-101 of the Canadian Securities Administrators, entitled "*Communication with Beneficial Owners of Securities of a Reporting Issuer*" ("NI 54-101"), the Corporation has distributed copies of the Notice of Meeting and Circular (collectively, the "Meeting Materials") to the clearing agencies and Intermediaries for distribution to Non-Registered Holders. Intermediaries are required to forward the Meeting Materials to Non-Registered Holders, unless a Non-Registered Holder has waived the right to receive them, and often use a service corporation for this purpose. Non-Registered Holders will either:

- (a) be provided with a computerized form (often called a "voting instruction form") which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Holder and returned to the Intermediary or its service corporation, will constitute voting instructions which the Intermediary must follow. In order for the applicable computerized form to validly constitute a voting instruction form, the Non-Registered Holder must properly complete and sign the form and submit it to the Intermediary or its service corporation in accordance with the instructions of the Intermediary or service corporation. In certain cases, the Non-Registered Holder may provide such voting instructions

to the Intermediary or its service corporation through the Internet or through a toll-free telephone number; or

- (b) be given a proxy form which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise not completed. In this case, the Non-Registered Holder who wishes to submit a proxy should properly complete the proxy form and submit it to Computershare Investor Services Inc. (Attention: Proxy Department), 100 University Ave., 8th Floor, Toronto, Ontario, M5J 2Y1.

In either case, the purpose of these procedures is to permit Non-Registered Holders to direct the voting of the Common Shares which they beneficially own. Should a Non-Registered Holder who receives a voting instruction form wish to vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should print his or her own name, or that of such other person, on the voting instruction form and return it to the Intermediary or its service corporation. Should a Non-Registered Holder who receives a proxy form wish to vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons set out in the proxy form and insert the name of the Non-Registered Holder or such other person in the blank space provided and submit it to Computershare Investor Services Inc. at the address set out above. **In all cases, Non-Registered Holders should carefully follow the instructions of their Intermediary, including those regarding when, where and by what means the voting instruction form or proxy form must be delivered.** A Non-Registered Holder may revoke voting instructions which have been given to an Intermediary at any time by written notice to the Intermediary.

The Corporation will not pay for an intermediary to deliver Meeting Materials and voting instruction forms to objecting beneficial owners ("OBOs"). OBOs have objected to their intermediary disclosing ownership information about themselves to the Corporation. Accordingly, OBOs will not receive the Meeting Materials unless their intermediary assumes the costs of delivery. The Corporation is not relying on the "notice-and-access" delivery procedures outlined in NI 54-101 to distribute copies of the Meeting Materials.

#### **APPROVAL OF MATTERS**

The Form of Proxy forwarded to holders of Common Shares affords the shareholder the opportunity to specify the manner in which the proxy nominees are to vote with respect to any specific item by checking the appropriate space in order to indicate whether the Common Shares registered in the shareholder's name shall be: (i) voted for or withheld from voting for the directors named in this Circular; and (ii) voted for or withheld from voting for the appointment of auditors and authorizing the Board of Directors of the Corporation (the "Board") to fix their remuneration. In order to approve a motion proposed at the Meeting, a majority of greater than one-half of the votes cast will be required for the ordinary resolution unless the motion requires a special resolution, in which case a majority of not less than two thirds of the votes cast will be required. In the event a motion proposed at the Meeting (of which management is not currently aware) requires disinterested shareholder approval, Common Shares held by shareholders of the Corporation who are interested parties will be excluded from the count of votes cast on such motion.

#### **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON**

Except as disclosed herein, the Corporation is not aware of any of the directors, nominees, officers or other insiders of the Corporation or any associate or affiliate of any of these persons, having any material interest in the matters to be acted upon at the Meeting, by way of beneficial ownership of securities or otherwise.

#### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as disclosed in this Circular, to the best of the Corporation's knowledge, since the commencement of the Corporation's most recently completed financial year, no informed person of the Corporation, proposed nominee for director or any associate or affiliate of an informed person or proposed nominee, had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or

would materially affect the Corporation or any of its subsidiaries. For the purposes of this Circular, an “informed person” of the Corporation means: (a) a director or executive officer of the Corporation; (b) a director or executive officer of a person or Corporation that is itself an informed person or subsidiary of the Corporation; (c) any person or Corporation who beneficially owns, directly or indirectly, voting securities of the Corporation or who exercises control or direction over voting securities of the Corporation or a combination of both carrying more than 10% of the voting rights other than voting securities held by the person or Corporation as underwriter in the course of a distribution; and (d) the Corporation itself, if and for so long as it has purchased, redeemed or otherwise acquired any of its Common Shares.

### VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The directors of the Corporation have fixed May 13, 2016, at the close of business, as the record date for the determination of the shareholders entitled to receive notice of the Meeting and to vote thereat. All holders of at least one Common Share of the Corporation as of that date will have the right to vote at the Meeting.

As of May 13, 2016, 161,939,959 Common Shares were issued and outstanding, each giving the right to one vote on all matters to be acted upon at the Meeting. All such holders of record of Common Shares on the record date are entitled either to attend and vote thereat in person the Common Shares held by them or, provided a completed and executed proxy shall have been delivered to the Corporation’s transfer agent, Computershare Investor Services Inc., within the time specified in the attached Notice of Meeting, to attend and to vote thereat by proxy the Common Shares held by them.

To the knowledge of the directors and officers of the Corporation, the only persons, firms or corporations who own, as of May 13, 2016, directly or indirectly, or exercise control or direction over voting securities of the Corporation carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation, are as follows:

Shareholder Name	Number of Common Shares	Percentage of Issued and Outstanding Shares
Arias Resource Capital Fund L.P.*	52,721,964	32.6%
Arias Resource Capital Fund II L.P.*	27,840,324	17.2%
Arias Resource Capital Fund II (Mexico) L.P.*	1,579,827	1%
(the above funds are collectively referred to as the “ARC Funds”)		
Arias Resource Capital Management LP (“ARCM”)	357,766	0.2%

\* Mr. J. Alberto Arias (Chairman and a director of the Corporation) is the President and Chief Executive Officer of ARCM, investment manager to the ARC Funds. Mr. Arias is also the sole director of each of the general partners of the ARC Funds. Please see “Annual Meeting Business - Election of Directors – J. Alberto Arias”, below.

### ANNUAL MEETING BUSINESS

#### Election of Directors

The articles of the Corporation provide that the Board shall consist of a minimum of one and a maximum of 15 directors. Pursuant to By-Law No. 1 of the Corporation, the number of directors, within such limits, shall be determined from time to time by the Board. The Board has resolved to fix the number of directors to be elected at the Meeting at seven, and the shareholders of the Corporation will be called upon to elect such seven directors, all of whom currently serve on the Board. Subject to the by-laws of the Corporation, directors who are elected will remain in office until the next annual meeting of shareholders or until a successor has been duly elected or appointed.

The TSX requires listed companies to adopt a majority voting policy with respect to uncontested elections of

directors unless it is otherwise exempt. A majority voting policy generally provides that a director who has received a majority of withhold votes must tender his or her resignation immediately after the meeting, to be effective upon acceptance of the Board. Listed companies that are “majority controlled” are exempt from this policy. The Corporation is majority controlled since ARCM is the investment manager to the ARC Funds that collectively own, together with ARCM, the majority of the issued and outstanding shares of the Corporation. Furthermore, the Corporation’s Chairman, J. Alberto Arias, is the President and Chief Executive Officer of ARCM. The Corporation is relying on this majority controlled exemption and has not adopted a majority voting policy for the 2016 financial year.

The following table sets forth certain information pertaining to the persons proposed to be nominated for election as directors and furnished by the individual nominees:

<p><b>J. ALBERTO ARIAS</b></p> <p>Chairman and Director</p> <p><i>New York, USA</i></p>	<p>Mr. Alberto Arias is the founder and President of ARCM, Mr. Arias has over 23 years of experience in the field of international mining finance, and is widely recognized as an industry expert, having been ranked for five consecutive years as the #1 equity research analyst for the metals and mining industry in Latin America by leading polls such as Institutional Investor. Prior to founding ARCM, Mr. Arias worked for 8 years at Goldman, Sachs &amp; Co., most recently acting as Managing Director and Head of Equity Research for metals and mining in the U.S., Canada and Latin America. Prior to Goldman Sachs, Mr. Arias worked for 4 years at UBS as Executive Director and Analyst covering the Latin American metals and mining sector. Mr. Arias has engineering degrees in mining and metallurgy and an MBA (B.Sc. from the Colorado School of Mines and three Masters degrees from Columbia University), mining industry operational experience, and holds a patent for a gold mineral processing technology. He was raised in a family with a three-generation tradition of founding and managing private and public mining companies in Peru.</p> <p><b>Current Principal Occupation:</b> President &amp; Chief Executive Officer of ARCM (Private Fund Manager)</p>	
<p><b>Director of the Corporation since</b></p>	<p><b>Committee memberships</b></p>	<p><b>Number of Common Shares beneficially owned or over which control or direction is exercised <sup>(1)</sup></b></p>
<p>November 26, 2008</p>	<p>Nomination Committee (Chair); Corporate Strategy Committee (Chair); Health, Safety, Environmental and Technical Committee (Chair)</p>	<p>82,499,881 <sup>(2)</sup></p>
<p><b>MARK BRENNAN</b></p> <p>President, Chief Executive Officer and Director</p> <p><i>Ontario, Canada</i></p>	<p>Mr. Brennan has 30 years of financing and operating experience in North America and Europe. He most recently served as President and CEO at Largo Resources Ltd. (“Largo”). Mr. Brennan joined Largo in 2005 and facilitated the acquisition of its flagship Maracas Vanadium Project in 2006. He led Largo’s team in advancing the Maracas Vanadium Project through the completion of its maiden resource and definitive feasibility in 2008, and played an integral role in the successful completion of approximately \$300 million in financing for the project in 2012. During his tenure as President and CEO of Largo, the Maracas Project was constructed and commenced production in 2014. Prior to Largo, Mr. Brennan served in various senior management roles for resource companies, including as a Founding Member of Desert Sun Mining; Founder and Principal of Linear Capital, Brasoil Corporation, James Bay Resources, Morumbi Oil and Gas; and former President, CEO and Chairman of Admiral Bay Resources. Mr. Brennan spent his early career as an investment banker in London, where he focused largely on Canadian equities and covered both London and continental Europe.</p> <p><b>Current Principal Occupation:</b> President and Chief Executive Officer of the Corporation</p>	
<p><b>Director of the Corporation since</b></p>	<p><b>Committee memberships</b></p>	<p><b>Number of Common Shares beneficially owned or over which control or direction is exercised <sup>(1)</sup></b></p>
<p>April 13, 2015</p>	<p>Health, Safety, Environmental and Technical Committee</p>	<p>130,800</p>

<b>DOUGLAS CATER</b>  Director  <i>Ontario, Canada</i>	Mr. Cater is a professional geologist with more than 30 years of experience in the gold mining and exploration business gained while working with senior-tier Canadian-based mining and exploration companies. Currently, Mr. Cater is the Vice President of Exploration with Kirkland Lake Gold, an operating and exploration gold company in Kirkland Lake (northeastern Ontario). Mr. Cater is a Council member of the Association of Professional Geoscientists of Ontario (APGO).  <b>Current Principal Occupation:</b> Vice-President, Exploration of Kirkland Lake Gold Inc. (Mining Company)	
<b>Director of the Corporation since</b>	<b>Committee memberships</b>	<b>Number of Common Shares beneficially owned or over which control or direction is exercised <sup>(1)</sup></b>
June 10, 2009	Audit Committee (Chair)	231,904

<b>STEVEN DEAN</b>  Director  <i>British Columbia, Canada</i>	Mr. Dean is a Fellow of the Australian Institute of Mining and Metallurgy, a Member of the Canadian Institute of Mining, Metallurgy and Petroleum, and a Fellow of the Institute of Chartered Accountants of Australia. He has extensive experience internationally in mining, most recently as President of Teck Cominco Limited (now Teck Resources Ltd.). Prior to joining Teck, Mr. Dean was a founding director of Normandy Poseidon Group, (which became Normandy Mining), the largest Australian gold producer until its sale to Newmont Mining in 2002, as well as co-founder of PacMin Mining, a gold producer that became a subsidiary of Teck Corporation in 1999. He was also a co-founder and former Chairman of copper producer Amerigo Resources Ltd. Mr. Dean is Chairman and a Director of Atlantic Gold Corporation and Oceanic Iron Ore Corporation.  <b>Current Principal Occupation:</b> Independent Businessman	
<b>Director of the Corporation since</b>	<b>Committee memberships</b>	<b>Number of Common Shares beneficially owned or over which control or direction is exercised <sup>(1)</sup></b>
October 4, 2011	Compensation Committee; Corporate Governance Committee (Chair); Corporate Strategy Committee	213,387

<b>IGOR GONZALES</b>  Director  <i>Lima, Peru</i>	Mr. Gonzales is from Cusco, Peru and has more than 30 years of experience in the mining industry. He was with Barrick Gold Corporation from 1998 to 2013, most recently as Executive Vice President and Chief Operating Officer. Between 1980 and 1996, Mr. Gonzales served in various roles with Southern Peru Copper Corporation. Mr. Gonzales has a Bachelor of Science degree in Chemical Engineering from the University of San Antonio Abad in Cusco, Peru, and was a Fulbright Scholar at the New Mexico Institute of Mining and Technology, where he earned a Master of Science degree in Extractive Metallurgy.  <b>Current Principal Occupation:</b> Managing Partner of Magris Resources Inc. (Mining Company)	
<b>Director of the Corporation since</b>	<b>Committee memberships</b>	<b>Number of Common Shares beneficially owned or over which control or direction is exercised <sup>(1)</sup></b>
September 19, 2013	Audit Committee; Nomination Committee; Health, Safety, Environmental and Technical Committee	90,443

<b>PHILIP RENAUD</b>  Director  <i>London, United Kingdom</i>	Mr. Renaud is the Managing Director of Church Advisors, a European investment advisory firm involved in private financings. A graduate of Franklin College of Switzerland with a Bachelor of Arts in international financial management, Mr. Renaud has been instrumental in securing many private equity financings and has an extensive European and North American network. Prior to his involvement with Church Advisors, Mr. Renaud was a founding partner of Change Capital Partners, a 300 million Euro private equity fund. He is also director of Yorbeau Resources Inc., a public mineral exploration company.  <b>Current Principal Occupation:</b> Managing Director of Church Advisors (Investment Advisory Corporation)	
<b>Director of the Corporation since</b>	<b>Committee memberships</b>	<b>Number of Common Shares beneficially owned or over which control or direction is exercised <sup>(1)</sup></b>
October 1, 2003	Compensation Committee; Corporate Governance Committee	3,701,640

<b>DIONISIO ROMERO</b>  Director  <i>Lima, Peru</i>	Mr. Romero is the Chairman of the Board of Directors of CrediCorp and Banco de Credito (BCP), and the Chief Executive Officer of CrediCorp since 2009. Mr. Romero has served as a board member of BCP since 2003 and was appointed Vice Chairman in 2008 and Chairman in 2009. He is also the Chairman of Banco de Crédito de Bolivia, El Pacifico Peruano Suiza Cia. de Seguros y Reaseguros S.A., El Pacifico Vida Cia. de Seguros y Reaseguros S.A., Alicorp S.A.A., Ransa Comercial S.A., Industrias del Espino S.A., Palmas del Espino S.A., Agricola del Chira S.A., among others. Furthermore, Mr. Romero is the Vice Chairman of the Board of Directors of Inversiones Centenario and Director of Banco de Credito e Inversiones – BCI, Cementos Pacasmayo S.A.A. and Hermes Transportes Blindados S.A. Mr. Romero is an economist from Brown University, USA with an MBA from Stanford University, USA.  <b>Current Principal Occupation:</b> Chief Executive Officer, CrediCorp Ltd. (Financial Services Holding Company)	
<b>Director of the Corporation since</b>	<b>Committee memberships</b>	<b>Number of Common Shares beneficially owned or over which control or direction is exercised <sup>(1)</sup></b>
November 16, 2015	N/A	Nil

**Notes:**

- (1) Each nominee has supplied the information concerning the number of Common Shares over which he exercises control or direction.
- (2) Held by the ARC Funds and ARCM. Mr. Arias is President and Chief Executive Officer of ARCM, investment manager to the ARC Funds, and he is also the sole director of each of the general partners of the ARC Funds. Please see “*Voting Securities and Principal Holders of Voting Securities*”, above.

With the exception of Dionisio Romero, who was appointed by the Board on November 16, 2015, all of the persons whose names are mentioned above have previously been elected directors of the Corporation at a shareholders’ meeting for which a proxy circular was issued.

**Except where authority to vote on the election of directors is withheld, the persons named in the Form of Proxy accompanying this Circular intend to vote FOR the election of the nominees whose names are set forth above.**

**Management is not presently aware, and has no reason to believe, that any of the nominees will be unwilling to serve as a director if elected, but in the event that, prior to the Meeting, any vacancies occur in the slate of nominees submitted herewith, the enclosed Form of Proxy confers discretionary authority upon the persons named therein to vote for the election of any other eligible person designated by the Board, unless instructions have been given to refrain from voting with respect to the election of directors.**

***Orders, Penalties and Bankruptcies***

Except as disclosed hereunder, to the knowledge of the Corporation, none of the foregoing nominees for election as a director:

- (a) is, or within the last ten years has been, a director, chief executive officer or chief financial officer of any corporation that:
  - (i) was the subject of a cease trade or similar order, or an order that denied such corporation access to any exemption under applicable securities legislation for a period of more than 30 consecutive days (an “Order”), while that person was acting in that capacity;
  - (ii) was subject to an Order that was issued, after the nominee ceased to be a director, chief executive officer or chief financial officer, and which occurred while that person was acting in the capacity as a director, chief executive officer or chief financial officer; or
- (b) is, or within the last ten years has been, a director or executive officer of any 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
- (c) has, within the last ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his assets.

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

Philip Renaud was a director of Diagem Inc. (“Diagem”), which was subject to a cease trade order resulting from Diagem’s failure to meet regulatory requirements as a result of insolvency. Diagem was delisted from the TSX Venture Exchange (the “TSX-V”) in July of 2009.

In May 2009 and May 2011, management cease trade orders applicable to the directors and officers of the Corporation and related companies were issued for late filing of the financial statements.

To the knowledge of the Corporation, none of the foregoing nominees for election as director 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 shareholder in deciding whether to vote for a proposed director.

**Appointment of Auditors**

Management proposes the appointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the Corporation. Their mandate will continue until the close of the next annual meeting or until their successors are appointed. The directors will be authorized to fix the remuneration of the auditors.

**Unless instructions are given to withhold from voting with regard to the appointment of the auditors, the persons named in the Form of Proxy accompanying this Circular intend to vote FOR the**

**appointment of PricewaterhouseCoopers LLP as auditors of the Corporation and to authorize the Board to fix their remuneration.**

## **EXECUTIVE COMPENSATION**

### ***Named Executive Officers***

For the purposes of this Circular, “Named Executive Officers” or “NEOs” means:

- (a) an individual who acted as chief executive officer of the Corporation (“CEO”) for any part of the most recently completed fiscal year;
- (b) an individual who acted as chief financial officer of the Corporation (“CFO”) for any part of the most recently completed fiscal year;
- (c) each of the Corporation’s (including any of its subsidiaries) three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed fiscal year whose total compensation was, individually, more than C\$150,000, as determined in accordance with subsection 1.3(6) of Form 51-102F6 *Statement of Executive Compensation*, (“Form 51-102F6”) for that fiscal year; and
- (d) each individual who would be a Named Executive Officer under paragraph (c) but for the fact that the individual was neither an executive officer of the Corporation or its subsidiaries, nor acting in a similar capacity, at the end of that fiscal year.

For the fiscal year ended December 31, 2015, the Corporation had six Named Executive Officers, as follows:

1. Mark Brennan, President and CEO of the Corporation (from April 13, 2015 onwards);
2. Audra Walsh, former President and CEO of the Corporation (from July 28, 2014 until April 12, 2015);
3. Ed Guimaraes, CFO of the Corporation;
4. Carlos Villanueva, General Manager of Sociedad Minera Corona S.A. (majority-owned subsidiary of the Corporation) (“Minera Corona”);
5. Herbert Fiedler, Chief Commercial Officer of the Corporation; and
6. Sergio Ramirez, General Manager of Dia Bras Mexicana S.A. de C.V. (wholly-owned subsidiary of the Corporation) (“Dia Bras Mexicana”).

As required by Form 51-102F6, the following includes disclosure regarding the compensation paid or payable by the Corporation to these individuals.

### ***Executive Compensation Discussion and Analysis***

#### **Compensation Philosophy and Objectives**

The fundamental goal of the Corporation is to create value for its shareholders and foster well-managed growth of the Corporation. Compensation plays an important role in achieving short and long-term business objectives and in serving this goal. The Corporation’s compensation program is designed to:

- (a) align the interests of executive officers with those of the shareholders in order to maximize long-term shareholder value;
- (b) link executive compensation to the performance of the Corporation and its strategic plan;

- (c) compensate executive officers at a level that ensures the Corporation is able to attract, motivate and retain highly qualified individuals with exceptional skills; and
- (d) evaluate executive performance on the basis of the Corporation's overall performance, achievements and success in building long-term shareholder value.

To attain these goals, the Board has established a Compensation Committee (the "Compensation Committee"), which is responsible for ensuring that the Corporation has an appropriate plan for executive compensation and for making recommendations to the Board with respect to the compensation of the Corporation's executive officers. More specifically, the responsibilities of the Compensation Committee, as set out in its mandate, include:

- (a) review and approve compensation packages, including goals and objectives against which bonuses are assessed, of the Corporation's CEO and his direct reports;
- (b) review and recommend to the Board for approval all annual cash bonuses and restricted share unit ("RSU") allocations;
- (c) review the compensation practices and policies of the Corporation to ensure that they are competitive and that they provide appropriate motivation for corporate performance and increased shareholder value and make recommendations to the Board regarding same;
- (d) periodically survey the executive compensation practices of other comparable companies and report back to the Board;
- (e) annually review and evaluate the implications of the risks associated with the Corporation's compensation policies and practices and, if necessary, identify practices that can be used to identify and mitigate such policies and practices that could encourage inappropriate or excessive risk taking;
- (f) oversee the administration of the Corporation's compensation programs, including any incentive compensation plans and equity-based plans, and the nature of the compensation provided under such programs to ensure that all management compensation programs are linked to meaningful and measurable performance targets;
- (g) make recommendations to the Board regarding the adoption, amendment or termination of compensation programs and the formal approval of the adoption, amendment and termination of compensation programs of the Corporation, including for greater certainty, ensuring that if any equity-based compensation plan is subject to shareholder approval, that such approval is sought;
- (h) establish, if deemed necessary by the Compensation Committee, and recommend to the Board share ownership guidelines for senior executives of the Corporation and policies (including pre-approval requirements) for the number and type of boards of directors that senior executives may join (except for boards of directors that senior executives are asked by the Corporation to join in connection with their employment);
- (i) at least annually, review and make recommendations to the Board with respect to compensation of directors, the Chairman and those acting as committee chairs to, among other things, ensure their compensation appropriately reflects the responsibilities they are assuming;
- (j) annually review and make recommendations to the Board regarding the Corporation's director's and officer's liability insurance policies;

- (k) review and recommend to the Board for approval the annual report on executive compensation required to be prepared under applicable corporate and securities legislation, regulation and rules including the disclosure concerning members of the Compensation Committee and settle the reports required to be made by the Compensation Committee in any document required to be filed with a regulatory authority and/or distributed to shareholders; and
- (l) at the request of the Board, investigate and report on such other matters as it considers necessary or appropriate in the circumstances.

#### Composition of the Compensation Committee

The Compensation Committee is currently composed of the following members of the Board: Diego Miranda (Chair), Steven Dean and Philip Renaud. Both Mr. Dean and Mr. Renaud are considered independent for the purposes of National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“NI 58-101”). Mr. Miranda has determined not to stand for reelection. Accordingly, the Compensation Committee will be reconstituted immediately following the Meeting.

All of the current members of the Compensation Committee have significant experience with public companies and ongoing resource sector involvement. Each member of the Compensation Committee has extensive experience and managerial skills that enable them to make decisions on the suitability of the Corporation’s compensation philosophy and practices. The Board is satisfied that the composition of the Compensation Committee ensures an objective process for determining compensation.

When the Compensation Committee considers it necessary or advisable, it may retain, at the Corporation’s expense, outside consultants or advisors to assist or advise the Compensation Committee on any matter within its mandate. The Compensation Committee has the sole authority to retain and to terminate such consultants or advisors. During the financial year ended December 31, 2015, no third party advisors were engaged by the Corporation.

#### How We Make Compensation Decisions

The Compensation Committee does not have a formal compensation policy. Executive officers are compensated in a manner consistent with their respective contributions to the overall benefit of the Corporation. The Compensation Committee assesses individual performance of the Corporation’s executive officers and makes recommendations regarding their compensation to the Board. Based on these recommendations, the Board makes decisions concerning the nature and scope of the compensation to be paid to the Corporation’s executive officers. The Compensation Committee bases its recommendations to the Board on its compensation philosophy, market analysis of compensation paid for similar positions by similar companies, and the Committee’s assessment of individual performance based on an objective set of performance goals.

The Corporation’s total compensation package is made up of three main elements: (1) base salary or consulting fees, (2) cash bonuses and (3) equity incentives, thereby balancing short term incentives, such as cash bonuses, with long-term incentives, such as RSU grants with staggered vesting periods. The base salary or consulting fees are competitive and not subject to performance risk. The Board has determined that there are no identified risks arising from the Corporation’s compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation.

The Compensation Committee generally meets annually to deal with compensation issues, or more frequently as needed to address specific issues in respect of executive compensation. The Compensation Committee works with the CEO to evaluate the performance and set the compensation for the other NEOs, including proposed salary adjustments, cash bonuses and equity incentive awards.

Although the Board has delegated certain oversight responsibilities to the Compensation Committee, it retains final authority over the compensation program and process including approval of material amendments to, or

adoption of, new equity-based compensation plans and the review and approval of the Compensation Committee's recommendations regarding executive compensation.

The Corporation has not instituted any policies related to the purchase of, and its directors and NEOs have not purchased, financial instruments such as prepared variable forward contracts, equity swaps, collars or units of exchange funds, which are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the directors and NEOs.

### ***Elements of Total Compensation***

#### ***Base Salary or Consulting Fees***

Base salaries or consulting fees are paid in cash as a fixed amount of compensation for performing day-to-day responsibilities. The base salaries or consulting fees of the Corporation's executive officers are determined through negotiation of each executive officer's employment/consulting agreement, with future increases set after considering the target median of the market, prevailing industry demand and performance factors.

For more information on NEOs base salaries or consulting fees, please see the section in this Circular entitled "*Employment / Consulting Agreements of NEOs*".

#### ***Cash Bonuses***

Cash bonus awards are earned for achieving short-term goals and other strategic objectives based on a variety of factors, including the individual's performance and contributions, improvements in job proficiency, retention risks and concerns, succession requirements and compensation changes in the market.

For more information regarding cash bonus awards issued to NEOs during the fiscal year ended December 31, 2015, please see "*Summary Compensation Table*", below.

#### ***Equity Incentives***

##### ***RSU Plan***

The Corporation's Restricted Share Unit Plan (the "RSU Plan"), adopted on June 29, 2012, and amended and restated on June 12, 2014 and June 10, 2015, was designed to enhance the ability of the Corporation to attract and retain qualified individuals to serve as executives, key employees, consultants and directors (collectively, the "Eligible Participants") and to promote the alignment of interests between such Eligible Participants on the one hand, and the shareholders of the Corporation on the other hand.

As of May 13, 2016, the Corporation has 654,121 outstanding RSUs under the RSU Plan, which represents approximately 0.4% of the issued and outstanding Common Shares as of May 13, 2016.

Long-term incentives in the form of RSUs are intended to align the interests of Eligible Participants with those of the Corporation's shareholders, to provide a long-term incentive that rewards these parties for their contribution to the creation of shareholder value, and to reduce the cash compensation the Corporation would otherwise have to pay. Generally, grants of RSUs will be made on an annual basis. In granting RSUs, the Compensation Committee considers a number of factors, including the dilutive effect of RSUs on existing shareholders, individual and corporate performance factors, the Compensation Committee's evaluation of each executive officer's ability to influence the long-term success of the Corporation, retention considerations and performance motivation. The Compensation Committee also considers each executive officer's existing stock option / RSU position when granting additional RSUs.

Set out below is a summary of the principal terms and conditions of the Corporation's RSU Plan:

1. The RSU Plan is administered by the Compensation Committee. Subject to the terms of the RSU Plan, the Compensation Committee may recommend Eligible Participants to receive awards, the types of awards, the terms and conditions of awards and may interpret the provisions of the RSU Plan
2. The RSUs are non-transferable and non-assignable other than by will or the laws of succession.
3. The RSU Plan enables the Board to grant awards of RSUs to Eligible Participants (an Eligible Participant who is granted RSUs pursuant to the RSU Plan is referred to as a "Participant"). RSUs are akin to "phantom stock" that tracks the value of the underlying shares of the Corporation but does not entitle the Participant to the actual underlying Common Shares until such RSUs vest. Upon vesting, the RSUs are converted on a one-for-one basis into Common Shares. The Board, after considering the recommendation of the Compensation Committee, also has the discretion to stipulate the length of time for vesting and to determine various performance objectives based on certain business criteria as a pre-condition to an RSU vesting.
4. RSUs shall be granted to Participants at no cost in consideration for past service or as a performance reward. Upon vesting of the RSUs and upon all the conditions of the grant of RSUs being satisfied, the Corporation shall issue Common Shares to the Participant. A Participant is not required to pay any fee to receive Common Shares upon vesting.
5. Under the RSU Plan, the maximum number of Common Shares available for issuance upon the vesting of RSUs is 8,000,000 Common Shares. The maximum number of shares issuable under all security-based compensation arrangements, including the RSU Plan and the Option Plan (as defined herein), shall, in no circumstances, exceed 10% of the issued and outstanding Common Shares, and the maximum number of shares issuable to any one Participant under all security-based compensation arrangements, shall not exceed 5% of the issued and outstanding Common Shares of the Corporation at the date of the grant.
6. The following insider participation limits shall apply:
  - (a) the number of Common Shares issuable to Insiders, at any time, pursuant to the RSU Plan and other share compensation arrangements shall not exceed 10% of the issued and outstanding Common Shares (on a non-diluted basis); and
  - (b) the number of Common Shares issued to Insiders, within a one-year period, pursuant to the RSU Plan and other share compensation arrangements shall not exceed 10% of the issued and outstanding Common Shares (on a non-diluted basis).
7. For the settlement of RSUs which are not subject to vesting conditions, each Participant who continues to be a Participant on a vesting date shall receive within five trading days following the vesting date (each, a "Payout Date") from the Corporation either: (i) one Common Share for each such vested RSU; or (ii) a lump-sum cash amount equal to the number of such vested RSUs multiplied by the volume weighted average trading price for the Common Shares on the TSX for the five trading days on which the Common Shares traded (the "RSU Share Market Price") immediately preceding the Payout Date, in both cases net of any applicable withholdings in a manner determined by the Corporation. Subject to the foregoing, the decision as to mode of payment shall be made by the Board in its sole discretion, and a payment of Common Shares or cash, as the case may be, shall not create any obligation for the Board to make a similar payment to any other Participant.
8. RSUs subject to vesting conditions shall be settled as follows: following the end of a financial year, the "Settlement Date" shall be the date on which the Board approves the audited annual financial statements of the Corporation for such financial year. No later than 60 days after the Settlement Date, the Corporation shall pay to a Participant, provided that a termination, other than by reason of death or long-term disability, of such Participant has not occurred prior to the Settlement Date, for all RSUs held by such Participant which have vested at the end of such financial year, either: (i) one Common Share for each such vested RSU, or (ii) a lump-sum cash amount equal to the number of

such vested RSUs multiplied by the RSU Share Market Price immediately preceding the Settlement Date, in both cases net of any applicable withholdings in a manner determined by the Corporation. Subject to the foregoing, the decision as to mode of payment shall be made by the Board in its sole discretion, and a payment of Common Shares or cash, as the case may be, shall not create any obligation for the Board to make a similar payment to any other Participant.

9. Upon the termination of a Participant's employment or service with the Corporation (other than due to death or long-term disability), any RSUs held by such Participant that have not vested, shall lapse and be cancelled. Upon such cancellation of the RSUs, the Participant shall have no further rights with respect to such an award. In the event of a Participant's death or long-term disability, all outstanding unvested RSUs of such Participant shall immediately vest.
10. The Board may, subject to applicable legislation and regulatory requirements, amend certain provisions of the RSU Plan without shareholder approval. For example, the Board may make: (a) amendments of a "housekeeping" nature such as amending for the purpose of addressing any ambiguity, error or omission in the RSU Plan, or to correct or supplement any provision of the RSU Plan that is inconsistent with any other provision of the RSU Plan; (b) amendments necessary to comply with the provisions of applicable laws; (c) amendments necessary in order for RSUs to qualify for favourable treatment under applicable taxation laws; (d) amendments respecting administration of the RSU Plan; (e) amendments to the vesting provisions of the RSU Plan or any RSU; (f) amendments to defined terms in the RSU Plan; (g) amendments to the settlement provisions of the RSU Plan or relating to any RSU; (h) amendments necessary to suspend or terminate the RSU Plan; and (i) any other amendment, whether fundamental or otherwise, not requiring shareholder approval under applicable law.
11. Shareholder approval will be required for the following types of amendments: (a) amendments to the number of Common Shares issuable under the RSU Plan, including an increase to a maximum percentage or number of Common Shares; (b) any amendment which increases the number of RSUs that may be issued, or the number of Shares that may be issued or paid upon settlement of RSUs to a Participant who is an Insider; and (c) amendments required to be approved by shareholders under applicable law (including, without limitation, the rules, regulations and policies of the TSX).

#### Stock Option Plan

The Corporation's Stock Option Plan (the "Option Plan") is intended to attract, retain and motivate key service providers of the Corporation and its subsidiaries. The Board may from time to time grant to employees, officers, directors and consultants of the Corporation, or any subsidiary thereof, stock options to acquire Common Shares. The options are not assignable or transferable. At no time shall the period during which an option is exercisable exceed five years. Subject to provisions in the Option Plan, which govern the issuance of options to persons performing investor relations activities, the options granted pursuant to the Option Plan have a vesting period of two years as follows: (a) one-third on the day of the grant; (b) an additional one third after one year; and (c) the balance after two years. In no circumstances shall the exercise price of the options granted pursuant to the Option Plan be lower than the Market Price (as defined hereinafter) of the Common Shares at the date of the grant of the options. The aggregate number of Common Shares that may be issued by the Corporation under the Option Plan and the RSU Plan shall, in no circumstances, exceed 10% of the issued and outstanding Common Shares. As of May 13, 2016, the Corporation has outstanding options exercisable for 7,116 Common Shares under the Option Plan, which represents approximately 0% of the issued and outstanding Common Shares as of May 13, 2016.

Set out below is a summary of the principal terms and conditions of the Corporation's Option Plan:

1. The Option Plan is administered by the Board. Subject to the terms of the Option Plan, the Board may grant options, determine the number of Common Shares covered by each option, determine the exercise price of each option, determine the time(s) when options will be granted or exercisable, determine if the Common Shares which are issuable on the exercise of an option will be subject to any restrictions upon

the exercise of such option, and prescribe the form of the instruments relating to the grant, exercise and other terms of the options. If no specific determination is made by the Board, the option term shall be five years and the option may be exercisable at any time(s) during the term of the option.

2. The options granted under the Option Plan are not assignable except to certain permitted assigns, including a spouse, trustee acting on behalf of the optionee or a holding entity. The options may be exercised on a cumulative basis over their option term, vesting according to the vesting schedule set out in the option agreement pursuant to which the options were granted. In the event that the expiry of an option occurs during a blackout period imposed by management or the Board in accordance with the Corporation's insider trading policy, the expiry date of such option shall be deemed to be amended to that date which is ten business days following the end of such blackout period (the "Blackout Period Extension").
3. The aggregate number of Common Shares issuable upon the exercise of all options granted under the Option Plan and under all other share compensation arrangements shall not exceed 10% of the issued and outstanding Common Shares as at the date of grant of each option under the Option Plan. If any option granted hereunder shall expire, terminate for any reason in accordance with the terms of the Option Plan or be exercised, Common Shares subject thereto shall again be available for the purpose of the Option Plan.
4. The option price of any option shall be in no circumstances lower than the Market Price on the date of which the grant of the option is approved by the Board. For clarity, the "Market Price" is defined in the Option Plan as the closing sale price of the Common Shares on the TSX on the trading day prior to the applicable date.
5. Any optionee under the Option Plan may elect to effect a cashless exercise of any or all of such optionee's right under an option. In connection with any such cashless exercise, the optionee shall be entitled to receive, without any cash payment (other than the taxes) a number of Common Shares based on a specified formula tied to the market price as at the last trading day immediately prior to the date of the cashless exercise. In connection with any such cashless exercise, the full number of Common Shares otherwise issuable shall be considered to have been issued for the purposes of the reduction in the number of Common Shares which may be issued under the Option Plan.
6. No options shall be granted to any optionee if the total number of Common Shares issuable to such optionee under the Option Plan, together with any Common Shares issuable to such optionee under any other share compensation arrangement, would exceed 5% of the issued and outstanding Common Shares at the date of grant.
7. No options shall be granted to any optionee that is a non-employee director if such grant could result, at any time, in (i) the aggregate number of Common Shares issuable to non-employee directors under the Option Plan, or any other security based compensation arrangement of the Corporation, exceeding 1% of the issued and outstanding Common Shares; or (ii) an annual grant per non-employee director exceeding a grant value of \$100,000, which value shall be reasonably determined by the Board.
8. The following insider participation limits shall apply:
  - (a) the number of Common Shares issuable to insiders, at any time, pursuant to the Option Plan and other share compensation arrangements shall not exceed 10% of the issued and outstanding Common Shares (on a non-diluted basis); and
  - (b) the number of Common Shares issued to insiders, within a one-year period, pursuant to the Option Plan and other share compensation arrangements shall not exceed 10% of the issued and outstanding Common Shares (on a non-diluted basis).
9. Subject to certain sections of the Option Plan and to any express resolution passed by the Board with respect to an option, an option and all rights to purchase Common Shares pursuant thereto shall expire

and terminate immediately upon the optionee who holds such option ceasing to be an Eligible Participant. However, if, before the expiry of an option, an optionee ceases to be an Eligible Participant for any reason other than resignation or termination for “cause” of employment, or resignation or failure to be re-elected as a director or if the optionee dies (each being an “Event of Termination”), options that are entitled to be exercised may generally be exercised until the earlier of (i) six months (or one year in the event of death) from the date of the applicable Event of Termination, or (ii) the expiry date of the option (and, subject to the Board’s sole discretion, a further option may be exercised to purchase up to the number of Common Shares that could otherwise have been purchased had the Event of Termination not occurred).

10. Subject to applicable regulatory requirements and except as provided herein, the Board may, in its sole and absolute discretion and without shareholder approval, amend, suspend, terminate or discontinue the Option Plan and may amend the terms and conditions of options granted pursuant to the Option Plan. Provided, however, that if the Board wishes to increase the maximum percentage or extend the term of the option, or reduce the option price of options granted under the Option Plan, shareholder approval will be required.
11. Without limiting the generality of the foregoing, the Board may make the following amendments to the Option Plan, without obtaining shareholder approval: (a) amendments to the terms and conditions of the Option Plan necessary to ensure that the Option Plan complies with the applicable regulatory requirements; (b) amendments to the provisions of the Option Plan respecting administration of the Option Plan and eligibility for participation under the Option Plan; (c) amendments to the provisions of the Option Plan respecting the terms and conditions on which options may be granted pursuant to the Option Plan, including the provisions relating to the term of the option and the vesting schedule; and (d) amendments to the Option Plan that are of a “housekeeping” nature.
12. However, the Board may not, without the approval of the Corporation’s shareholders, make amendments with respect to the following: (a) an increase to the Option Plan maximum or the number of securities issuable under the Option Plan; (b) amendment provisions granting additional powers to the Board to amend the Option Plan or entitlements thereunder; (c) an amendment to the option price of an option (if such shareholder approval is required by the stock exchange on which the Common Shares are listed); (d) reduction in the option price of an option or cancellation and reissue of options or other entitlements; (e) extension to the term of options (other than in connection with a Blackout Period Extension); (f) amendments to Eligible Participants that may permit the introduction or re-introduction of non-employee directors on a discretionary basis or amendments that increase limits previously imposed on non-employee director participation; (g) any amendment which would permit options granted under the Option Plan to be transferable or assignable other than current permitted assigns and for normal estate settlement purposes; (h) changes to Insider participation limits; and (i) amendments to the Option Plan amendment provisions.

For more information regarding equity incentive awards granted to NEOs during the fiscal year ended December 31, 2015, please see the “*Summary Compensation Table*” in this Circular.

#### ***Termination and Change of Control Benefits of NEOs***

1. On April 13, 2015, the Corporation entered into an Executive Agreement with Mark Brennan (the “Brennan Agreement”) providing for annual compensation of CAD\$500,000 (the “Brennan Annual Compensation”) as President and CEO of the Corporation. The Brennan Agreement also provides for a target annual bonus valued at an amount equal to 100% of the Brennan Annual Compensation (the “Brennan Annual Bonus”). The Corporation may terminate the Brennan Agreement without cause by paying to Mr. Brennan the amount set out in the chart below based on his period of service as of the Termination Date:

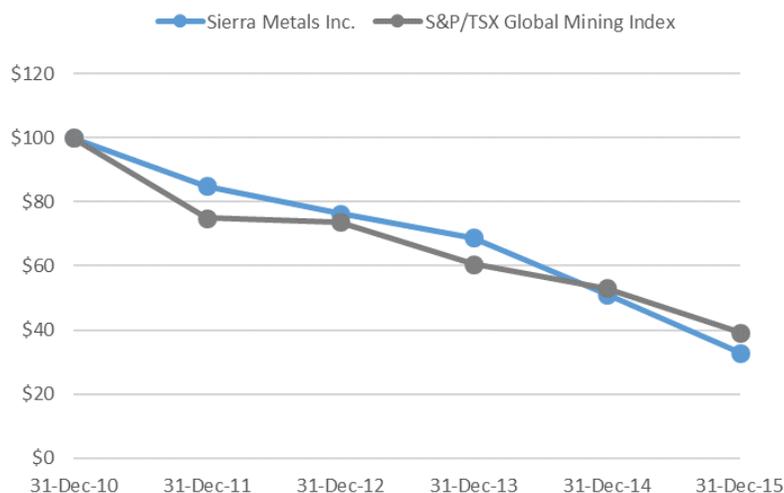
<b>Period of Service</b>	<b>Termination Entitlements</b>
3 months or less	25% of Brennan Annual Compensation
more than 3 months but less than 12 months	50% of Brennan Annual Compensation
12 months or more, but less than 24 months	Brennan Annual Compensation + Brennan Annual Bonus (calculated on the basis of the bonus paid to Mr. Brennan in the FY prior to the Termination Date);
24 months or more	(A) Brennan Annual Compensation + Brennan Annual Bonus (calculated on the basis of the bonus paid to Mr. Brennan in the FY prior to the Termination Date);  plus, for each fully completed year of service after the first 24 months:  (B) an additional 25% of Brennan Annual Compensation + 25% of Brennan Annual Bonus (calculated on the basis of the bonus paid to Mr. Brennan in the FY prior to the Termination Date);  with the combined amounts in subparagraph (A) and subparagraph (B) above capped once they reach 24 months of notice or pay in lieu and twenty-four 24 months of bonus.

In the case of termination without cause within 12 months of a change of control, the Brennan Agreement provides for a severance equal to twice the Brennan Annual Compensation and twice the Brennan Annual Bonus (calculated on the basis of the bonus paid the financial year prior to the Termination Date).

2. On July 28, 2014, the Corporation entered into an Executive Agreement with Audra Walsh (the “Walsh Agreement”) providing for annual compensation of \$400,000 (the “Walsh Annual Compensation”) as President and CEO of the Corporation. Ms. Walsh resigned as an officer and a director of the Corporation effective April 12, 2015. Pursuant to the Walsh Agreement, Ms. Walsh was paid a termination payment of \$210,000 on the date of her resignation.
3. The Corporation entered into an Executive Agreement with Ed Guimaraes (the “Guimaraes Agreement”) dated November 9, 2014, as amended on April 13, 2015, providing for annual compensation of CAD\$380,000 (the “Guimaraes Annual Compensation”) as CFO of the Corporation. The Corporation may terminate the Guimaraes Agreement without cause by paying the following to Mr. Guimaraes: (a) 25% of the Guimaraes Annual Compensation if Mr. Guimaraes has been employed for 3 months or less; (b) 50% of the Guimaraes Annual Compensation if Mr. Guimaraes has been employed for more than 3 months but less than 12 months; or (c) 100% of the Guimaraes Annual Compensation if Mr. Guimaraes has been employed for 12 months or more. In the case of termination without cause within 12 months of a change of control, the Guimaraes Agreement provides for a severance equal to twice the Guimaraes Annual Compensation. Mr. Guimaraes is also entitled to receive any earned, but unpaid, discretionary bonus for the fiscal year prior to the termination date, if, any, to be paid at the same time as such amount is paid to other participants in the bonus plan.
4. On December 14, 2012, Dia Bras Mexicana entered into a Management and Consulting Agreement with Sergio Ramirez (the “Ramirez Agreement”) providing for an annual salary of \$300,000 (the “Ramirez Annual Salary”) as General Manager of Dia Bras Mexicana. Dia Bras Mexicana may terminate the Ramirez Agreement upon a written notice of termination of 12 months or payment of the Ramirez Annual Salary. In the case of termination without cause within 12 months of a change of control, the Ramirez Agreement provides for a severance equal to twice the Ramirez Annual Salary.

### Performance Graph

The following graph compares the total cumulative shareholder return over the past five fiscal years for \$100 invested in Common Shares of the Corporation on December 31, 2010 with the cumulative total return of the S&P / TSX Global Mining Index, assuming where relevant the reinvestment of dividends. The performance of the Corporation's Common Shares set out below does not necessarily reflect future price performance.



	Dec.31, 2010	Dec.31, 2011	Dec.31, 2012	Dec.31, 2013	Dec.31, 2014	Dec.31, 2015
<b>Sierra Metals Inc.</b>	100.00	85.02	76.45	68.78	51.17	32.85
<b>S&amp;P/TSX Global Mining Index</b>	100.00	75.05	73.69	60.63	53.03	39.29

Global economic downturns in 2012 have had a dramatic negative impact on the financial markets and commodity prices, resulting in a significant drop in share prices for exploration companies and precious metal producers such as the Corporation. Accordingly, in many cases, share price performance is not a true indicator of performance and growth. The Corporation has experienced significant and steady growth in its business and operations over the past five years, evolving from an exploration company to its current position as a polymetallic producer with three operating mines.

As noted above, a number of factors and performance elements are taken into account when determining compensation for the Named Executive Officers, including the development and growth of the Corporation's operations. Although total cumulative shareholder return is one performance measure that is reviewed, it is not a significant consideration in executive compensation deliberations. As a result, a direct correlation between total cumulative shareholder return over a given period and executive compensation levels is not anticipated.

### Summary Compensation Table

The following table (presented in accordance with National Instrument Form 45-106F6) sets forth all direct and indirect compensation provided to the Corporation's NEOs for the fiscal year ended December 31, 2015:

Name and Position	Fiscal period	Salary (\$)	Share-based awards (\$) <sup>(9)</sup>	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	Other annual compensation (\$)	Total compensation (\$)
					Annual	Long term			
MARK BRENNAN <sup>(1)</sup> President and Chief Executive Officer	2015	281,200	Nil	Nil	215,089	Nil	Nil	Nil	496,289
AUDRA WALSH <sup>(2)</sup> Former President and Chief Executive Officer	2015	116,667	150,212	Nil	Nil	Nil	Nil	210,000 <sup>(3)</sup>	476,879
	2014	172,821	650,662	Nil	120,000	Nil	Nil	300,000 <sup>(4)</sup>	1,243,483
ED GUIMARAES <sup>(5)</sup> Chief Financial Officer	2015	282,064	503,065	Nil	132,716	Nil	Nil	Nil	917,845
	2014	34,878	22,465	Nil	24,341	Nil	Nil	Nil	81,684
CARLOS VILLANUEVA General Manager, Minera Corona <sup>(6)</sup>	2015	295,408	70,855	Nil	Nil	Nil	Nil	40,319	406,582
	2014	309,410	93,679	Nil	160,000	Nil	Nil	248,019	811,108
	2013	291,441	Nil	Nil	193,592	Nil	Nil	253,429	738,462
HERBERT FIEDLER Chief Commercial Officer <sup>(7)</sup>	2015	Nil	49,300	Nil	116,000	Nil	Nil	290,000	455,300
	2014	Nil	59,907	Nil	214,338	Nil	Nil	290,000	564,245
	2013	Nil	Nil	Nil	425,219	Nil	Nil	203,628	628,847
SERGIO RAMIREZ General Manager, Dia Bras Mexicana <sup>(8)</sup>	2015	300,000	52,500	Nil	120,000	Nil	Nil	Nil	472,500
	2014	300,000	94,200	Nil	231,000	Nil	Nil	Nil	625,200
	2013	300,000	247,597	Nil	120,000	Nil	Nil	Nil	667,597

**Notes:**

- (1) Mark Brennan was appointed President and CEO on April 13, 2015. His compensation was paid by the Corporation in Canadian dollars. The conversion from Canadian dollars to US dollars was made at the Bank of Canada average exchange rate of C\$1.28 = US\$1.00 for 2015.
- (2) Audra Walsh served as President and CEO on from July 28, 2014 until April 12, 2015. Her compensation was paid by the Corporation in US dollars.
- (3) Severance payment for Audra Walsh.
- (4) Signing bonus for Audra Walsh.
- (5) Ed Guimaraes was appointed CFO on November 17, 2014. His compensation is paid by the Corporation in Canadian dollars. The conversion from Canadian dollars to US dollars was made at the Bank of Canada average exchange rate of C\$1.28 = US\$1.00 for

- 2015.
- (6) Carlos Villanueva's affiliation with the Corporation began when the Corporation acquired the majority of Minera Corona on May 26, 2011. His compensation is paid by Minera Corona in Peruvian Nuevos Soles. Other annual compensation received by Carlos Villanueva is as a result of the profit sharing pay outs made by Minera Corona. The conversion for all payments is made at the average exchange rate of US\$1.00 = S/.3.14 for 2015, C\$1.00 = S/.2.80 for 2014, and C\$1.00 = S/.2.701 for 2013. As previously stated in this Circular, the Corporation owns approximately 82% of Minera Corona and as such pays 82% of the compensation stated in the above Summary Compensation Table.
- (7) Herbert Fiedler's affiliation with the Corporation began when the Corporation acquired the majority of Minera Corona on May 26, 2011. In 2015, his compensation was paid by Dia Bras Peru in US dollars. Prior to 2015, Mr. Fiedler's compensation was paid by Dia Bras Peru in Peruvian Nuevos Soles. The conversion was made at the average exchange rate of C\$1.00 = S/.2.80 for 2014, and C\$1.00 = S/.2.701 for 2013.
- (8) Sergio Ramirez was appointed General Manager of Dia Bras Mexicana on December 14, 2012. His compensation is paid by Bolivar Administradores S.A de C.V. (subsidiary of Dia Bras Mexicana) in US dollars.
- (9) Share-based awards in the form of RSUs were granted on January 31, 2013; April 1, 2014; July 28, 2014; February 12, 2015; April 12, 2015 and April 20, 2015. The value is calculated based on the closing market price of the securities underlying the RSUs on the date of grant, as follows:
- January 31, 2013 grant of RSUs: C\$2.55
  - April 1, 2014 grant of RSUs: C\$1.69
  - July 28, 2014 grant of RSUs: C\$1.67
  - February 12, 2015 grant of RSUs: C\$1.52
  - April 12, 2015 grant of RSUs: C\$1.53
  - April 20, 2015 grant of RSUs: C\$1.55

\*All amounts in this column are converted to US dollars using the Bank of Canada US dollar/Canadian average exchange rate of C\$1.28 = US\$1.00 for 2015, C\$1.10 = US\$1.00 for 2014 and C\$1.0299 = US\$1.00 for 2013.

#### ***Incentive Plan Awards – Outstanding Share- and Option-Based Awards***

The following table sets forth all awards outstanding under incentive plans of the Corporation as at December 31, 2015 for each of the Named Executive Officers:

<b>Option-Based Awards</b>					<b>Share-Based Awards</b>		
<b>Named Executive Officer</b>	<b>Number of securities underlying unexercised options (#)</b>	<b>Option exercise price (\$)</b>	<b>Option expiration date</b>	<b>Value of unexercised in-the-money options (\$)</b>	<b>Number of shares or units of shares that have not vested (#)</b>	<b>Market or payout value of share-based awards that have not vested (\$) <sup>(1)</sup></b>	<b>Market or payout value of vested share-based awards not paid out or distributed (\$)</b>
MARK BRENNAN President and CEO	Nil	N/A	N/A	Nil	Nil	N/A	Nil
AUDRA WALSH Former President and CEO	Nil	N/A	N/A	Nil	Nil	N/A	Nil
ED GUIMARAES CFO	Nil	N/A	N/A	Nil	282,487	\$212,888	Nil

Option-Based Awards					Share-Based Awards		
Named Executive Officer	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$) <sup>(1)</sup>	Market or payout value of vested share-based awards not paid out or distributed (\$)
CARLOS VILLANUEVA General Manager, Minera Corona	Nil	N/A	N/A	Nil	59,668	\$44,967	Nil
HERBERT FIEDLER Chief Commercial Officer	Nil	N/A	N/A	Nil	41,495	\$31,271	Nil
SERGIO RAMIREZ General Manager, Dia Bras Mexicana	Nil	N/A	N/A	Nil	60,000	\$45,217	Nil

**Notes:**

(1) This value is calculated based on the closing market price of the securities underlying the RSUs at the end of the most recently completed financial year, which is C\$1.04 as at December 31, 2015.

\* Amounts in this table are converted to US dollars using the Bank of Canada US dollar/Canadian noon exchange rate of C\$1.38 - US\$1.00 at December 31, 2015.

***Incentive Plan Awards – Value Vested or Earned During the Year***

The following table sets out the value of all incentive plan awards that vested or were earned during the financial year ended December 31, 2015 for each of the Named Executive Officers:

Named Executive Officers	Option-based awards Value vested during the year (\$)	Share-based awards Value vested during the year (\$)	Non-equity incentive plan compensation - Value earned during the year (\$) <sup>(6)</sup>
MARK BRENNAN President and CEO	Nil	Nil	215,089
AUDRA WALSH Former President and CEO	Nil	615,104 <sup>(1)</sup>	Nil
ED GUIMARAES CFO	Nil	108,333 <sup>(2)</sup>	132,716

Named Executive Officers	Option-based awards Value vested during the year (\$)	Share-based awards Value vested during the year (\$)	Non-equity incentive plan compensation - Value earned during the year (\$) <sup>(6)</sup>
CARLOS VILLANUEVA General Manager, Minera Corona	Nil	136,039 <sup>(3)</sup>	Nil
HERBERT FIEDLER Chief Commercial Officer	Nil	60,270 <sup>(4)</sup>	116,000
SERGIO RAMIREZ General Manager, Dia Bras Mexicana	Nil	85,429 <sup>(5)</sup>	120,000

**Notes:**

- (1) This value is calculated based on the closing market price of the securities underlying the RSUs as at the date of vesting, which is C\$1.55 on April 20, 2015.
  - (2) This value is calculated based on the closing market price of the securities underlying the RSUs as at the date of vesting, which is C\$1.04 on December 31, 2015.
  - (3) This value is calculated based on the closing market prices of the securities underlying the RSUs as at the dates of vesting, which are C\$1.41 on March 1, 2015; C\$1.52 on June 29, 2015 and C\$0.99 on December 1, 2015.
  - (4) This value is calculated based on the closing market prices of the securities underlying the RSUs as at the dates of vesting, which are C\$1.41 on March 1, 2015; C\$1.52 on June 29, 2015 and C\$0.99 on December 1, 2015.
  - (5) This value is calculated based on the closing market prices of the securities underlying the RSUs as at the dates of vesting, which are C\$1.41 on March 1, 2015 and C\$0.99 on December 1, 2015.
  - (6) Represents bonuses paid during 2015.
- \* Amounts in this table are converted to US dollars using the Bank of Canada US dollar/Canadian average exchange rate of C\$1.28 = US\$1.00 for 2015.

***Pension Plan Benefits***

The Corporation does not have any form of pension plan that provides for payments or benefits to the Named Executive Officers at, following, or in connection with, retirement. The Corporation does not have any form of deferred compensation plan.

***Termination and Change of Control Benefits / Termination of Employment, Change in Responsibilities and Employment Contracts***

Other than as disclosed above under the heading “Employment / Consulting Agreements of NEOs”, the Corporation and its subsidiaries have no contracts, agreements, plans or arrangements that provide for payments to a Named Executive Officer at, following, or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, change in control of the Corporation, or change in a Named Executive Officer’s responsibilities.

**DIRECTOR COMPENSATION**

The Compensation Committee is responsible for developing the directors’ compensation plan, which is approved by the Board. The objectives of the directors’ compensation plan are to compensate the directors in a manner that is cost effective for the Corporation and competitive with other comparable companies, and to align the interests of the directors with those of the shareholders.

***Director Compensation Table***

The following table sets forth all amounts of compensation provided to the directors of the Corporation during the most recently completed financial year, with the exception of Mark Brennan, who is a Named Executive Officer:

Director Name	Fees earned (\$)	Share-based awards (\$) <sup>(5)</sup>	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
J. ALBERTO ARIAS <sup>(4)</sup>	50,000	87,500	Nil	Nil	Nil	Nil	137,500
DOUGLAS CATER	50,000	87,500	Nil	Nil	Nil	Nil	137,500
STEVEN DEAN	150,000 <sup>(1)</sup>	48,436	Nil	Nil	Nil	Nil	198,436
IGOR GONZALES	50,000	87,500	Nil	Nil	Nil	Nil	137,500
DIEGO MIRANDA <sup>(2)(4)</sup>	29,167	Nil	Nil	Nil	Nil	Nil	29,167
PHILIP RENAUD	150,000	48,436	Nil	Nil	Nil	Nil	198,436
DIONISIO ROMERO <sup>(3)</sup>	8,332	Nil	Nil	Nil	Nil	Nil	8,332

**Notes:**

- (1) Representing fees paid to Sirocco Advisory Services Ltd.
  - (2) Mr. Miranda was elected as a director on June 10, 2015. Mr. Miranda will not be standing for re-election as a member of the Board.
  - (3) Mr. Romero was appointed as director on November 16, 2015.
  - (4) Representing fees paid directly to ARCM.
  - (5) Share-based awards in the form of RSUs were granted on February 12, 2015. The value is calculated based on the closing market price of the securities underlying the RSUs on the date of grant, which is C\$1.52.
- \* Amounts in this table are converted to US dollars using the Bank of Canada US dollar/Canadian average exchange rate of C\$1.28 = US\$1.00 for 2015.

**Director Incentive Plan Awards – Outstanding Share- and Option-Based Awards**

The following table sets forth all directors' share- and option-based awards outstanding as at December 31, 2015, with the exception of Mark Brennan, who is a Named Executive Officer:

Option-Based Awards					Share-Based Awards		
Named Executive Officers	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$) <sup>(1)</sup>	Market or payout value of vested share-based awards not paid out or distributed (\$)
J. ALBERTO ARIAS	Nil	N/A	N/A	Nil	73,684	55,529	Nil
DOUGLAS CATER	Nil	N/A	N/A	Nil	73,684	55,529	Nil

Option-Based Awards					Share-Based Awards		
Named Executive Officers	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$) <sup>(1)</sup>	Market or payout value of vested share-based awards not paid out or distributed (\$)
STEVEN DEAN	Nil	N/A	N/A	Nil	40,789	30,739	Nil
IGOR GONZALES	Nil	N/A	N/A	Nil	73,684	55,529	Nil
DIEGO MIRANDA <sup>(2)</sup>	Nil	N/A	N/A	Nil	Nil	Nil	Nil
PHILIP RENAUD	Nil	N/A	N/A	Nil	40,789	30,739	Nil
DIONISIO ROMERO <sup>(3)</sup>	Nil	N/A	N/A	Nil	Nil	Nil	Nil

**Notes:**

(1) This value is calculated based on the closing market price of the securities underlying the RSUs at the end of the most recently completed financial year, which is \$1.04 as at December 31, 2015.

(2) Mr. Miranda was elected as a director on June 10, 2015. Mr. Miranda will not be standing for re-election as a member of the Board.

(3) Mr. Romero was appointed as director on November 16, 2015.

\* Amounts in this table are converted to US dollars using the Bank of Canada US dollar/Canadian exchange rate of C\$1.38 = US\$1.00 at December 31, 2015.

**Director Incentive Plan Awards – Value Vested or Earned During the Year**

The following table sets out the value of all option- and share-based awards that vested during the financial year ended December 31, 2015 for each of the directors, with the exception of Mark Brennan, who is a Named Executive Officer:

Named Executive Officers	Option-based awards Value vested during the year (\$)	Share-based awards Value vested during the year (\$) <sup>(1)</sup>	Non-equity incentive plan compensation - Value earned during the year (US\$*)
J. ALBERTO ARIAS	Nil	101,844	Nil
DOUGLAS CATER	Nil	101,844	Nil
STEVEN DEAN	Nil	84,678	Nil
IGOR GONZALES	Nil	72,572	Nil

DIEGO MIRANDA <sup>(2)</sup>	Nil	Nil	Nil
PHILIP RENAUD	Nil	59,542	Nil
DIONISIO ROMERO <sup>(3)</sup>	Nil	Nil	Nil

**Notes:**

- (1) This value is calculated based on the closing market prices of the securities underlying the RSUs as at the dates of vesting, which are C\$1.41 on March 1, 2015; C\$1.50 on June 1, 2015; and C\$0.99 on December 1, 2015.
  - (2) Mr. Miranda was elected as a director on June 10, 2015. Mr. Miranda will not be standing for re-election as a member of the Board.
  - (3) Mr. Romero was appointed to the Corporation's Board on November 16, 2015.
- \* Amounts in this table are converted to US dollars using the Bank of Canada US dollar/Canada average exchange rate of C\$1.28 = US\$1.00 for 2015.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table sets out information as of the end of the Corporation's most recently completed financial year with respect to compensation plans under which equity securities of the Corporation are authorized for issuance:

<b>Plan category</b>	<b>Number of Securities to be issued upon exercise of outstanding options (Common Shares)</b> <b>(a)</b>	<b>Weighted average exercise price of outstanding options</b> <b>(b)</b>	<b>Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b> <b>(c)</b>
Equity compensation plans approved by security holders (RSUs)	857,618	N/A	3,197,609 <sup>(1)</sup>
Equity compensation plans approved by security holders (Options)	7,116	C\$3.40	11,365,117 <sup>(2)</sup>
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>864,734</b>	<b>N/A</b>	<b>11,365,117 <sup>(3)</sup></b>

**Notes:**

- (1) The maximum number of Common Shares to be reserved for issuance under the RSU Plan is 8,000,000. This number reflects the maximum number of RSUs available for issuance under the RSU Plan (after deducting (i) 3,944,773 RSUs exercised to date and (ii) 857,618 RSUs currently outstanding).
- (2) The maximum number of Common Shares to be reserved for issuance under the Stock Option Plan and the RSU Plan combined will in no event exceed 10% of the issued and outstanding number of Common Shares (the "Compensation Security Cap"). This number reflects the maximum number of Common Shares available for issuance under the Stock Option Plan (after deducting (i) 7,116 Options currently outstanding and (ii) an aggregate of 4,802,391 RSUs either previously exercised or currently outstanding under RSU Plan), subject to the Compensation Security Cap and assuming no further RSU issuances.
- (3) Calculated with reference to the Compensation Security Cap.

Please see "Executive Compensation - Equity Incentives" for a description of the Option Plan and RSU Plan.

## INDEBTEDNESS TO CORPORATION OF DIRECTORS AND OFFICERS

None of the directors or executive officers of the Corporation, or proposed nominees for election as a director, or their associates have been indebted to the Corporation.

## MANAGEMENT CONTRACTS

There are no management functions of the Corporation which are to any substantial degree performed by a person other than the directors or executive officers of the Corporation.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Board and senior management of the Corporation consider good corporate governance to be central to the effective and efficient operation of the Corporation.

The fundamental responsibility of the Board is to appoint a competent executive team and to oversee the management of the business, with a view to maximizing shareholder value and ensuring corporate conduct in an ethical and legal manner via an appropriate system of corporate governance and internal controls.

The Board believes that good corporate governance improves corporate performance and benefits all shareholders. National Policy 58-201 - *Corporate Governance Guidelines* provides non-prescriptive guidelines on corporate governance practices for reporting issuers such as the Corporation. In addition, NI 58-101 prescribes certain disclosure by the Corporation of its corporate governance practices.

The following report by the Board describes the analysis and disclosure of corporate governance practices of the Corporation.

## CORPORATE GOVERNANCE DISCLOSURE

The following information regarding the Corporation's corporate governance disclosure is given in accordance with NI 58-101.

### *Board of Directors*

The Board consists of a majority of independent directors. The Board is currently comprised of eight directors, five of whom are independent for the purposes of NI 58-101. Those directors are: Philip Renaud, Douglas Cater, Igor Gonzales, Steven Dean and Dionisio Romero.

Mark Brennan is not independent as he serves as President and CEO of the Corporation. J. Alberto Arias and Diego Miranda are deemed not to be independent as they are executive officers and/or directors of ARCM, the investment manager to the ARC Funds, the principal and majority shareholders of the Corporation. Messrs. Arias and Miranda have no relationship with the Corporation other than as directors.

Mr. Miranda will not be standing for re-election as a member of the Board. Accordingly, assuming all of the proposed director nominees are elected at the Meeting, the Board will be comprised of seven directors, a majority of whom are independent for the purposes of NI 58-101.

The Board has a written Board Mandate, the full text of which is set out in Schedule A to this Circular. The Board is responsible for the stewardship of the business and affairs of the Corporation and has a duty to act honestly and in good faith with a view to the best interests of the Corporation. The Board seeks to discharge this responsibility by delegating to senior management the responsibility for day to day management of the Corporation and acts directly and indirectly through its committees: Nomination Committee; Compensation Committee; Corporate Governance Committee; Health, Safety, Environmental and Technical Committee; Corporate Strategy Committee; and Audit Committee. The Board's primary responsibilities include:

- adopting of a strategic planning process for the Corporation, which includes the annual review of a business plan and budget presented by senior management;
- identifying the principal risks of the Corporation's business and ensuring the implementation of appropriate systems and management of these risks;
- succession planning including the appointment, training and monitoring of senior management;
- ensuring appropriate communications policies for communications with shareholders and others; and
- maintaining the integrity of the Corporation's internal control and management information systems.

### **Directorships**

The following directors are presently directors of other reporting issuers:

<b>Director</b>	<b>Issuer</b>
Mark Brennan	James Bay Resources Ltd. (TSX-V) Morumbi Resources Inc. (TSX-V) Sociedad Minera Corona S.A. (Lima Stock Exchange)
J. Alberto Arias	Largo Resources Ltd. (TSX-V) Sociedad Minera El Brocal SAA (Lima Stock Exchange)
Steven Dean	Atlantic Gold Corp. (TSX-V) Oceanic Iron Ore Corp. (TSX-V)
Igor Gonzales	Hudbay Minerals Inc. (TSX) Sociedad Minera Corona S.A. (Lima Stock Exchange) Compania de Minas Buenaventura S.A. (New York Stock Exchange; Lima Stock Exchange) Sociedad Minera el Brocal S.A.A. (Lima Stock Exchange)
Diego Miranda <sup>(1)</sup>	Sociedad Minera Corona S.A. (Lima Stock Exchange)
Philip Renaud	Diagnos Inc. (TSX-V) Kane Biotech Inc. (TSX-V) Yorbeau Resources Inc. (TSX)
Dionisio Romero	Credicorp Ltd. (New York Stock Exchange; Lima Stock Exchange) Banco de Credito del Peru (Lima Stock Exchange) Banco de Credito de Bolivia (Bolivia Stock Exchange) El Pacifico Vida Compañía de Seguros y Reaseguros S.A. (Lima Stock Exchange) Banco Credito e Inversiones (Santiago Stock Exchange) Alicorp S.A.A. (Lima Stock Exchange) Compañía Universal Textil S.A. (Lima Stock Exchange) Industrial Textil Piura S.A. (Lima Stock Exchange) Inversiones Centenario S.A.A. (Lima Stock Exchange) Cementos Pacasmayo S.A.A. (Lima Stock Exchange)

#### **Notes:**

(1) Mr. Miranda will not be standing for re-election as a member of the Board.

### ***Board Meetings***

The independent directors do not, at this time, hold separate meetings at which management is not in attendance. The Board facilitates open and candid discussion among its independent directors by encouraging such members to have discussions with the Board members who are not independent directors.

The Corporation held nine Board meetings and four Audit Committee meetings during the year ended December 31, 2015. Due to the various global locations of the Corporation's directors, Board members often attend via telephone conference call. Due to travel and business conflicts, Douglas Cater, Igor Gonzales, Philip Renaud, Steven Dean and Audra Walsh (former director and President and CEO of the Corporation) were each unable to attend one Board meeting. Diego Miranda, who joined the Board on June 10, 2015, and Dionisio Romero, who joined the Board on November 16, 2015, attended all meetings subsequent to their appointment dates. All other directors attended all of the meetings referenced above.

### ***Position Descriptions***

The Board has not adopted written position descriptions for the Chairman of the Board or the Chairman of each Board committee, on the basis that the role of the Chairman of the Board, J. Alberto Arias, and the role of the Chairman of each Committee, is well understood by all of the directors. The Board also has not adopted a written position description for the President and CEO, Mark Brennan, on the basis that his role and responsibilities are well understood by Mr. Brennan and by the other directors.

### ***Orientation and Continuing Education***

The Board does not have a formal orientation and education program for new directors. New Board members are invited to visit the sites of the Corporation's operations in order to enhance their understanding of the Corporation. In addition, Management ensures that new Board members receive the appropriate written materials to fully apprise him or her of the duties and responsibilities of a director pursuant to applicable law and policy. Each new director brings a different skill set and professional background, and with this information, the Board is able to determine what orientation to the nature and operations of the Corporation's business will be necessary and relevant to each new director.

### ***Ethical Business Conduct***

The Board expects management to operate the business of the Corporation in a manner that enhances shareholder value and is consistent with the highest level of integrity. Accordingly, the Board has adopted a Code of Business Conduct & Ethics to assist all employees, officers, directors, agents and contractors of the Corporation to maintain the highest standards of ethical conduct in corporate affairs. In addition, the Board must comply with conflict of interest provisions in Canadian corporate law, including relevant securities regulatory instruments, in order to ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest. A copy of the Code of Business Conduct & Ethics is available on the Corporation's website at [www.sierrametals.com](http://www.sierrametals.com).

### ***Nomination of Directors***

The Board has a Nomination Committee chaired by J. Alberto Arias, which also currently includes Diego Miranda and Igor Gonzales. The overall purpose of the Nomination Committee is to assist the Board in establishing the process for identifying, recruiting and/or providing ongoing development for directors and senior management of the Corporation. The Nomination Committee considers the size of the Board each year when it determines the number of directors to recommend to shareholders for election at the annual meeting of shareholders, taking into account the number of directors required to carry out the Board's duties effectively and to maintain a diversity of view and experience. In that regard, the Nomination Committee considers what competencies and skills the directors as a group should possess when assessing the competencies and skills of the existing and any proposed directors, and when considering the appropriate size of the Board.

### ***Compensation Committee***

The Compensation Committee is currently composed of three Board members: Diego Miranda (Chair), Steven Dean and Philip Renaud, the majority of whom are independent directors. The overall purpose of the Compensation Committee is to assist the Board in fulfilling its oversight responsibilities in relation to compensation by developing, monitoring and assessing the Corporation's approach to the compensation of its directors, senior management and employees. For more detailed information regarding the Compensation Committee and its responsibilities, please see the section entitled "Executive Compensation Discussion and Analysis", above.

### ***Corporate Governance Committee***

The Corporation's Corporate Governance Committee is composed of Steven Dean (Chair), Philip Renaud and Diego Miranda, the majority of whom are independent directors. The overall purpose of the Corporate Governance Committee is to assist the Board in maintaining high standards of corporate governance by developing, recommending and monitoring effective guidelines and procedures applicable to the Corporation, including keeping informed of legal requirements and trends regarding corporate governance, monitoring and assessing the functioning of the Board and the committees of the Board, and developing, implementing and monitoring good corporate governance policies and practices.

### ***Health, Safety, Environmental and Technical Committee***

The Health, Safety, Environmental and Technical Committee ("HSET Committee") is composed of J. Alberto Arias (Chair), Mark Brennan and Igor Gonzales. The overall purpose of the HSET Committee is to assist the Board in its oversight responsibilities relating to the Corporation's establishment of health, safety and environmental policies for its mining operations and to review their appropriateness on an ongoing basis to reflect the Corporation's commitment to the health and safety of workers at its sites; and the Corporation's commitment to environmental stewardship, public responsibility, social progress and economic growth. The HSET Committee also is charged with the responsibility for reviewing the technical aspects of the Corporation's exploration, development, permitting, construction and mining programs and, in the HSET Committee's discretion, make recommendations to the Board for consideration.

### ***Corporate Strategy Committee***

The Corporate Strategy Committee is currently composed of J. Alberto Arias (Chair), Steven Dean and Diego Miranda, and is responsible for the establishment of formal procedures and routines to facilitate Board involvement in strategic matters. Mr. Miranda will not be standing for re-election as a member of the Board. Accordingly, the Corporate Strategy Committee will be reconstituted immediately following the Meeting.

### ***Audit Committee***

The Audit Committee is currently composed of three Board members: Douglas Cater (Chair), Igor Gonzales and Diego Miranda, the majority of whom are independent directors. All members of the Audit Committee meet the financial literacy requirements of National Instrument 52-110 – *Audit Committees* ("NI 52-110").

Diego Miranda is not considered independent for the purposes of the Audit Committee because he is the Vice President of Arias Resource Capital Latin America S.R.L., a subsidiary of ARCM, the investment manager to the ARC Funds, the Corporation's principal shareholders. However, the Corporation is relying on the exemption set out in Section 3.3(2)(b) of NI 52-110, which states that as long as the audit committee is composed of a majority of independent directors, an audit committee member is exempt from the independence requirement if, among other things, the member is not an executive officer, general partner or managing member of a person or company that (i) is an affiliated entity of the issuer, and (ii) has its securities trading on a marketplace. ARCM, does not have its securities trading on a marketplace. The Board has determined the reliance on this exemption will not materially adversely affect the ability of the Audit Committee to act independently and to satisfy the other requirements of NI 52-110.

The primary function of the Audit 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 Audit Committee. The Audit 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.

For further information regarding the Audit Committee, please see "*Audit Committee Information*" in the Corporation's Annual Information Form for the financial year ended December 31, 2015 (the "AIF"), which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Mr. Miranda will not be standing for re-election as a member of the Board. Accordingly, each committee on which Mr. Miranda currently serves will be reconstituted immediately following the Meeting.

#### ***Other Board Committees***

The Board does not have any standing committees other than those disclosed above.

#### ***Assessments***

The mandate of the Chairman of the Board, in consultation with the independent directors, includes overseeing the effective functioning of the Board, which includes a periodic review of the effectiveness of the Board as a whole and of the composition of the Board. To date, given the small size of the Board and the frequency at which its meetings are held, the Board has not found it necessary to institute any formal process in order to satisfy itself that the Board, its committees and its individual directors are performing effectively.

#### ***Director Term Limited and Other Mechanisms of Term Renewal***

The Corporation has not adopted director term limits for directors on the Board, as it may arbitrarily require the premature retirement of skilled and valuable directors. The Board believes that it can achieve the desired goal of Board renewal through its current processes of annually reviewing, the appropriate experience, skills and characteristics of the existing and any proposed directors, with regard to the appropriate size of the Board and diversity, gender, age, expertise and experience (industry, professional and public service), on the recommendation of the Nominating Committee. The Chairman, along with the independent directors, have been tasked with overseeing the effective functioning of the Board, which includes a periodic review of the effectiveness of the Board as a whole and of the composition of the Board. As a result, the Board has added four new directors since 2012.

### ***Representation of Women on Board and Executive Officer Positions***

The following is a summary of the Corporation's approach to the representation of women on the Board and in executive officer positions as required by NI 58-101 and as guided by CSA Multilateral Staff Notice 58-307 Staff Review of Women on Boards and in Executive Officer Positions.

The Board does not have a written policy on the identification and nomination of female candidates for the Board or for appointment of officers, nor does it have a target for the number of women in these roles.

Currently, none (0%) of the directors on the Board are female. Prior to her resignation effective April 12, 2015, Audra Walsh was President, CEO and a director of the Corporation from July 2014. The Board will consider the level of female representation when determining candidates for nomination to the Board. However, the Board does not believe that specific targets or quotas for female candidates are necessary or practical as it strives to ensure that Board members, regardless of gender, possess the appropriate talents, skills, character and experience, including financial and risk management experience to oversee the Corporation's business.

Currently, female representation in management of the Corporation includes the Corporate Secretary, which represents approximately 13% of the management team. Assessments of candidates for executive and senior management positions include education, experience and qualifications to seek the most qualified individuals, regardless of gender. However, consistent with past practice, the Board will continue to consider diversification, including female representation, as it reviews future Board and management changes.

### **OTHER BUSINESS**

Management is not aware of any matters to come before the Meeting other than those set forth in this Circular. If any other matter properly comes before the Meeting, the persons named in the Form of Proxy will vote the shares represented thereby in accordance with their best judgment on such matter.

### **REGISTRAR AND TRANSFER AGENT**

Computershare Investor Services Inc., at 100 University Ave., 8th Floor, Toronto, Ontario, M5J 2Y1, is the registrar and transfer agent for the Corporation's Common Shares.

### **SHAREHOLDER PROPOSALS FOR NEXT MEETING**

In accordance with the *Canada Business Corporations Act*, which governs the Corporation, shareholder proposals must be received by January 31, 2017 to be considered for inclusion in the proxy statement and the form of proxy for the 2017 annual meeting of shareholders.

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [WWW.SEDAR.COM](http://WWW.SEDAR.COM).

Financial information relating to the Corporation is provided in the Corporation's audited consolidated financial statements for the fiscal year ended December 31, 2015 and the related management's discussion and analysis (the "MD&A"). Shareholders who wish to obtain a copy of the financial statements and MD&A of the Corporation may contact the Corporation as follows:

By phone:	416-366-7777
By e-mail:	info@sierrametals.com
By mail:	<b>SIERRA METALS INC.</b> 79 Wellington Street West, Suite 2100 P.O. Box 157 Toronto, ON M5K 1H1

**BOARD APPROVAL**

The Board has approved the content and distribution of this Circular.

**BY ORDER OF THE BOARD OF DIRECTORS**

*(signed) Mark Brennan* \_\_\_\_\_  
MARK BRENNAN  
PRESIDENT & CEO  
May 13, 2016

## **SCHEDULE A**

### **BOARD MANDATE**

It is the responsibility of the Board of Directors (the “Board”) of Sierra Metals Inc. (the “Company”) to oversee the management of the business and affairs of the Company. The management of the day-to-day operations of the Company is delegated to the Chief Executive Officer (“CEO”) and the other senior executives of the Company (collectively, “Management”) under the stewardship of the Board.

In carrying out its duties, Board members shall: (1) provide Management with sound business guidance, calling upon the varied experiences and expertise of its members; (2) act honestly and in good faith with a view to the best interests of the Company; and (3) exercise the level of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

#### **Chairman, Composition and Quorum**

The Board shall be comprised of a minimum of one member and a maximum of 15 members, the majority of which shall be, in the determination of the Board, “independent” for the purposes of National Instrument 58-101 *Disclosure of Corporate Governance Practices*. Each Board member shall satisfy the independence and experience requirements, if any, imposed by applicable securities laws, rules or guidelines, any applicable stock exchange requirements or guidelines and any other applicable regulatory rules.

The Chairman of the Board shall be elected by vote of a majority of the full Board, on the recommendation of the Nomination Committee. The Chairman of the Board, with the assistance of the Lead Director (who shall be an independent director), if any, shall chair Board meetings and be responsible for overseeing the performance by the Board of its duties, for setting the agenda of each Board meeting (in consultation with the CEO), for communicating periodically with committee chairs regarding the activities of their respective committees, for assessing the effectiveness of the Board as a whole as well as individual Board members and for ensuring the Board works as a cohesive team and providing the leadership essential to achieve that.

#### **Meetings**

Meetings will be scheduled to facilitate the Board carrying out its responsibilities. Additional meetings will be held as deemed necessary by the Chairman of the Board. The time and place of the meetings, the calling of the meetings and the procedure of all things at such meetings shall be determined by the Board in accordance with the Company’s articles, by-laws and applicable laws. The independent directors of the Board shall hold regularly scheduled meetings at which non-independent directors and Management are not in attendance. Any director of the Company may request the Chairman of the Board to call a meeting of the Board.

Meetings of the Board shall be validly constituted if a majority of the members of the Board is present in person or by tele- or video-conference. A resolution in writing signed by all members of the Board entitled to vote on that resolution at a meeting of the Board is as valid as if it had been passed at a meeting of the Board duly called and held.

To fulfil its responsibilities and duties, the Board shall be responsible for, amongst other things, the following:

#### **Providing Guidance, Direction and Governance**

- Ensuring that professional, technical, financial input and business know-how is forthcoming from members of the Board who have extensive and successful experience in their business or professional careers;
- Ensuring that professional, technical, financial input and industry know-how is forthcoming from members of the Board who have established experience in one or more natural resource or extractive industries;
- Providing community and corporate governance input commensurate with contemporary corporate practice to assist the Board and Management when making decisions;

- Providing guidance and direction to Management in pursuit of the Company’s goals and strategic plans;
- Setting the tone for a culture of integrity and sound business decisions throughout the Company.

### **Appointing and Evaluating Management, Compensation and Succession Planning**

- Selecting, setting goals for, monitoring the performance and competence of, and planning for the succession of the CEO;
- Ensuring that appropriate succession planning, training and monitoring is in place for Management generally;
- Approving the corporate objectives which form the basis for Management’s incentive compensation;
- With the advice of the Compensation Committee, approving the compensation of the Management team and approving an appropriate compensation program for the Company’s personnel.

### **Strategic Planning**

- Adopting and implementing a strategic planning process which takes into account, amongst other things, the opportunities and risks of the business;
- Assessing the principal risks of the Company’s business and ensuring the implementation of appropriate systems to identify and manage those risks.

### **Ethics and Social Responsibility**

- Satisfying itself as to the integrity of the CEO and the other senior officers and satisfying itself that they create and maintain a culture of integrity throughout the Company;
- Approving the Company’s Code of Business Conduct and Ethics (the “Code”) and monitoring compliance with the Code and the resolution of complaints related to the Code;
- Approving the Company’s major policies and practices relating to social responsibility.

### **Disclosure and Financial Reporting**

- Approving annual and quarterly reports, including the financial statements and related regulatory filings of the Company prior to their filing with applicable regulatory agencies and their release to the public;
- Adopting a Disclosure of Information Policy for the Company and monitoring its implementation;
- Overseeing the policies and procedures implemented by Management to ensure the integrity of the Company’s internal controls, financial reporting and Management information systems;
- Ensuring that mechanisms are in place for the Board to receive feedback from stakeholders.

### **Governance**

- Developing the Company’s approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the Company;
- Monitoring the composition of the Board and identifying the competencies and skills required by the Board as a whole;
- Meeting regularly in the absence of Management and taking other reasonable steps to maintain the independence of the Board from Management;
- Adopting an appropriate, formal orientation program for new directors and ongoing education sessions on the various business units and strategies of the Company for all directors;

- Establishing and appointing Board committees, however designated, and delegating to any such Board committees any of the powers of the Board except those pertaining to items which, under the *Canada Business Corporations Act*, a Board committee has no authority to exercise;
- Determining whether or not individual directors meet the requirements for independence set out in the rules of the stock exchange and securities regulatory authorities to which the Company is subject, and making such disclosures as are required with respect to that determination.

In carrying out its responsibilities, the Board will conform to the following policies:

### **Decisions Requiring Board Approval**

The Board may delegate to the CEO or other officers the authority to approve individual commitments and expenditures for any corporate purpose on such terms as the Board considers appropriate. The Board retains responsibility for approving expenditures beyond those delegated limits, significant changes in the Company's affairs such as approval of major capital expenditures, new debt financing arrangements and significant investments, acquisitions and divestitures. No securities can be issued without the authorization of the Board and the Board must specifically authorize the purchase, redemption or other acquisition of shares issued by the Company.

### **Measures for Receiving Feedback from Security Holders**

The Company has an investor relations department which is responsible for communications with investors. Investors have the opportunity to provide feedback to the Company via the investor relations group through email at the Company's website, through direct or telephone contact with the investor relations officer (a contact person is identified in each press release) and through regular mail service. In addition, the Company regularly has face-to-face meetings with investment analysts and institutional investors where feedback is provided directly to the investor relations officer and Management present at the meeting. The investor relations department responds to all investor enquiries in a timely manner either directly, or by passing the request along to the appropriate department in the Company for their response. Investor feedback is evaluated by the Vice-President of Investor Relations and summarized for Management. This evaluation takes into account the nature and frequency of the feedback and the sensitivity of the subject under discussion. Significant shareholder comments and analysts' reports on the Company are reported to the Board.

### **Expectations of Management**

The day-to-day management of the Company and its operations is the responsibility of Management under the direction of the CEO. The Board expects Management to manage and maintain the Company's operations efficiently and safely. The Board has adopted a Code of Business Conduct and Ethics that requires each staff employee to maintain the highest ethical standards of behaviour while conducting the Company's business.

### **Director Orientation and Education**

The Board will ensure that all new directors receive a comprehensive orientation. New directors will be provided with a copy of the Company's key policies, codes and mandates. The Board will encourage and provide continuing education opportunities to directors including regularly scheduled briefings on the Company's operations, business and key issues.

This Board Mandate was approved by the Board of Directors of Sierra Metals Inc. on October 24, 2014.