

SIERRA METALS INC.

AUDIT COMMITTEE CHARTER

I PURPOSE

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

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

II COMPOSITION

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

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

III DUTIES AND RESPONSIBILITIES

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

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

- (a) ensure to its satisfaction that adequate internal controls and procedures are in place to allow the Chief Executive Officer and the Chief Financial Officer of the Corporation to certify financial statements and other disclosure documents as required under securities laws;
- (b) ensure to its satisfaction that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, MD&A and annual and interim earnings press releases, and periodically assess the adequacy of those procedures;
- (c) recommend to the Board the selection of the external auditors, consider their independence and effectiveness, and approve the fees and other compensation to be paid to the external auditors;
- (d) monitor the relationship between management and the external auditors, including reviewing any management letters or other reports of the external auditors, and discussing and resolving any material differences of opinion or disagreements between management and the external auditors;
- (e) review the performance of the external auditors and approve any proposed discharge and replacement of the external auditors when circumstances warrant. Consider, with management, the rationale for employing accounting/auditing firms other than the principal external auditors;
- (f) periodically consult with the external auditors out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the Corporation's financial statements. Particular emphasis should be given to the adequacy of internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper;
- (g) arrange for the external auditors to be available to the Committee and the Board as needed. Ensure that the external auditors report directly to the Committee and are made accountable to the Board and the Committee, as representatives of the shareholders to whom the auditors are ultimately responsible;
- (h) review and approve the Corporation's hiring policies regarding employees or former employees of the current and former external auditors;
- (i) review the scope of the external audit, including the fees involved;
- (j) review the external auditors' report on the annual audited consolidated financial statements;
- (k) review problems found in performing the audit, such as limitations or restrictions imposed by management or situations where management seeks a second opinion on a significant accounting issue;
- (l) review major positive and negative observations of the external auditors during the course of the audit;
- (m) review with management and the external auditors the Corporation's major accounting policies, including the impact of alternative accounting policies and key management estimates and judgments that can materially affect the financial results;
- (n) review emerging accounting issues and their potential impact on the Corporation's financial reporting;
- (o) review and approve requests for any management consulting engagement to be performed by the external auditors and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter and related fees;
- (p) review with management, the external auditors and legal counsel, any litigation, claims or other contingency, including tax assessments, which could have a material impact upon the financial position or operating results of the Corporation, and whether these matters have been appropriately disclosed in the financial statements;

- (q) review the conclusions reached in the evaluation of management's internal control systems by the external auditors, and management's responses to any identified weaknesses;
 - (r) review with management their approach to controlling and securing corporate assets (including intellectual property) and information systems, the adequacy of staffing of key functions and their plans for improvements;
 - (s) review with management their approach with respect to business ethics and corporate conduct;
 - (t) review annually the legal and regulatory requirements that, if breached, could have a significant impact on the Corporation's published financial reports or reputation;
 - (u) receive periodic reports on the nature and extent of compliance with security policies. The nature and extent of non-compliance together with the reasons therefore, with the plan and timetable to correct such non-compliance will be reported to the Board, if material;
 - (v) review with management the accuracy and timeliness of filing with regulatory authorities;
 - (w) review periodically the business continuity plans for the Corporation;
 - (x) review annually general insurance coverage of the Corporation to ensure adequate protection of major corporate assets including, but not limited to, D&O (Directors and Officers) and "Key Person" coverage;
 - (y) perform such other duties as required by the Corporation's incorporating statute and applicable securities legislation and policies; and
 - (z) establish procedures for:
 - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls, or auditing matters; and
 - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or audit matters.
3. The Committee may engage and communicate directly and independently with outside legal and other advisors for the Committee as required and set and pay the compensation of such advisors.
4. On an annual basis, the Committee will review the Audit Committee Charter and, where appropriate, recommend changes to the Board.

IV SECRETARY

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

V MEETINGS

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

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

VI QUORUM

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