



Fortuna Silver Mines Inc.

September 30, 2014

Condensed Interim Consolidated Financial Statements

November 10, 2014

(Unaudited - All amounts in US\$'000's unless otherwise stated)

FORTUNA SILVER MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME (LOSS)
(Unaudited - Expressed in thousands of US Dollars, except for share and per share amounts)

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2014	2013	2014	2013
Sales	14	\$ 46,384	\$ 30,203	\$ 136,183	\$ 101,017
Cost of sales		29,664	22,063	85,982	69,615
Mine operating earnings		16,720	8,140	50,201	31,402
Other expenses					
Selling, general and administrative expenses	7 a), 7 b)	3,467	4,951	20,016	16,215
Exploration and evaluation costs		-	146	-	417
Loss on disposal of mineral properties, plant and equipment		52	73	88	87
Restructuring costs		-	499	-	499
Write-off of mineral properties, plant and equipment	5 b)	-	125	-	501
Impairment of mineral properties, plant and equipment	5 d)	-	-	-	15,000
Operating income (loss)		13,201	2,346	30,097	(1,317)
Finance items					
Interest income		71	100	196	519
Interest expense		(310)	(247)	(842)	(685)
Net finance expense		(239)	(147)	(646)	(166)
Income (loss) before tax		12,962	2,199	29,451	(1,483)
Income taxes		5,138	2,463	13,906	2,687
Net income (loss) for the period		\$ 7,824	\$ (264)	\$ 15,545	\$ (4,170)
Earnings (loss) per share - Basic	10 e)i	\$ 0.06	\$ -	\$ 0.12	\$ (0.03)
Earnings (loss) per share - Diluted	10 e)ii	\$ 0.06	\$ -	\$ 0.12	\$ (0.03)
Weighted average number of shares outstanding - Basic	10 e)i	127,097,274	125,637,140	126,479,083	125,410,598
Weighted average number of shares outstanding - Diluted	10 e)ii	128,730,609	126,710,639	127,798,081	126,551,067

FORTUNA SILVER MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited - Expressed in thousands of US Dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Net income (loss) for the period	\$	7,824	\$ (264)	\$ 15,545	\$ (4,170)
Other comprehensive income (loss)					
Items that may be classified subsequently to net income					
Unrealized loss on translation of net investment		(123)	(47)	(1,821)	(1,379)
Unrealized gain (loss) on translation to presentation currency on foreign operations		(332)	184	1,176	975
		(456)	137	(646)	(404)
Total comprehensive income (loss) for the period	\$	7,368	\$ (127)	\$ 14,899	\$ (4,574)

FORTUNA SILVER MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in thousands of US Dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
OPERATING ACTIVITIES					
Net income (loss) for the period	\$	7,824	\$ (264)	\$ 15,545	\$ (4,170)
Items not involving cash					
Depletion and depreciation		6,236	4,802	17,938	14,653
Accretion of provisions		207	142	537	397
Income taxes		5,138	2,463	13,906	2,687
Share-based payments		(799)	1,292	4,128	3,116
Write-off of mineral properties		-	125	-	501
Impairment of mineral properties, plant and equipment		-	-	-	15,000
Loss on disposal of mineral properties, plant and equipment		52	73	88	87
Accrued interest on long term loans receivable and payable		(6)	(15)	(23)	(49)
Other		3	(1)	11	4
		18,655	8,617	52,130	32,226
Changes in non-cash working capital items					
Accounts receivable and other assets		703	(821)	(5,632)	2,583
Prepaid expenses		578	437	748	552
Due from related parties		(4)	38	(41)	(8)
Inventories		113	(735)	400	(1,823)
Trade and other payables		657	(2,139)	5,800	(2,794)
Due to related parties		-	9	(9)	(21)
Provisions		(88)	(11)	(164)	(32)
Cash provided by operating activities before interest and income taxes		20,614	5,395	53,232	30,683
Income taxes paid		(929)	(1,152)	(2,527)	(3,022)
Interest expense paid		-	(5)	(4)	(17)
Interest income received		58	109	188	538
Net cash provided by operating activities		19,743	4,347	50,889	28,182
INVESTING ACTIVITIES					
Purchase of short term investments		(15,461)	(9,467)	(43,258)	(14,389)
Redemptions of short term investments		12,882	3,861	28,428	9,768
Expenditures on mineral properties, plant and equipment	14	(8,393)	(11,817)	(31,452)	(51,322)
Advances of deposits on long term assets		(1,091)	(903)	(4,489)	(6,238)
Receipts of deposits on long term assets		1,505	1,067	5,497	6,525
Proceeds on disposal of mineral properties, plant and equipment		14	-	31	20
Net cash used in investing activities		(10,544)	(17,259)	(45,243)	(55,636)
FINANCING ACTIVITIES					
Net proceeds on issuance of common shares		1,035	676	3,627	707
Repayment of finance lease obligations		(42)	(84)	(204)	(367)
Net cash provided by (used in) financing activities		993	592	3,423	340
Effect of exchange rate changes on cash and cash equivalents		(295)	(25)	(271)	(258)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		10,192	(12,320)	9,069	(27,114)
Cash and cash equivalents - beginning of period		30,605	43,693	31,704	58,720
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$	40,502	\$ 31,348	\$ 40,502	\$ 31,348

Supplemental cash flow information

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The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements
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FORTUNA SILVER MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in thousands of US Dollars)

	Notes	September 30, 2014	December 31, 2013
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 40,502	\$ 31,704
Short term investments		31,788	17,411
Accounts receivable and other assets	3	21,389	17,040
Prepaid expenses		814	1,578
Due from related parties	7 c)	41	-
Inventories	4	14,914	15,488
Total current assets		109,448	83,221
NON-CURRENT ASSETS			
Deposits on long term assets	3	887	1,882
Deferred income tax assets		180	151
Mineral properties, plant and equipment	5	231,898	216,961
Total assets		\$ 342,413	\$ 302,215
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	6	\$ 22,200	\$ 15,897
Due to related parties	7 c)	10	20
Provisions	9	726	622
Income tax payable		8,025	50
Current portion of other liabilities	8	22	227
Total current liabilities		30,983	16,816
NON-CURRENT LIABILITIES			
Other liabilities	8	4,076	2,343
Provisions	9	11,662	10,112
Deferred income tax liabilities		27,825	25,284
Total liabilities		74,546	54,555
EQUITY			
Share capital		194,318	189,092
Share option and warrant reserve		15,282	15,200
Retained earnings		55,789	40,244
Accumulated other comprehensive income		2,478	3,124
Total equity		267,867	247,660
Total liabilities and equity		\$ 342,413	\$ 302,215
Contingencies and capital commitments	15		
Subsequent event	16		

APPROVED BY THE DIRECTORS:

"Jorge Ganoza Durant", Director
Jorge Ganoza Durant

"Robert R. Gilmore", Director
Robert R. Gilmore

FORTUNA SILVER MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in thousands of US Dollars, except for share amounts)

Attributable to equity holders of the Company							
	Notes	Share Capital		Share Option and Warrant Reserve	Retained Earnings	Accumulated Other Comprehensive Income ("AOCI")	Total Equity
		Number of Shares	Amount				
Balance - December 31, 2013		125,973,966	\$ 189,092	\$ 15,200	\$ 40,244	\$ 3,124	247,660
Exercise of options		1,180,877	3,627	-	-	-	3,627
Transfer of share option and warrant reserve on exercise of options		-	1,599	(1,599)	-	-	-
Share-based payments expense		-	-	1,681	-	-	1,681
Net income for the period		-	-	-	15,545	-	15,545
Unrealized loss on translation of net investment		-	-	-	-	(1,821)	(1,821)
Unrealized gain on translation to presentation currency on foreign operations		-	-	-	-	1,176	1,176
Total comprehensive (loss) for the period					15,545	(646)	14,899
Balance - September 30, 2014		127,154,843	\$194,318	\$ 15,282	\$55,789	\$ 2,478	\$ 267,867
Balance - December 31, 2012		125,268,751	\$ 187,807	\$ 12,994	\$ 59,344	\$ 4,348	\$ 264,493
Exercise of options		693,800	707	-	-	-	707
Issuance of shares for property	10 a)	11,415	49	-	-	-	49
Transfer of share option and warrant reserve on exercise of options		-	529	(529)	-	-	-
Share-based payments expense		-	-	2,169	-	-	2,169
Net loss for the period		-	-	-	(4,170)	-	(4,170)
Unrealized loss on translation of net investment		-	-	-	-	(1,379)	(1,379)
Unrealized gain on translation to presentation currency on foreign operations		-	-	-	-	975	975
Total comprehensive (loss) for the period					(4,170)	(404)	(4,574)
Balance - September 30, 2013		125,973,966	189,092	14,634	55,174	3,944	262,844

FORTUNA SILVER MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

(All amounts in US\$'000's unless otherwise stated)

1. Corporate Information

Fortuna Silver Mines Inc. ("Fortuna" or the "Company") is engaged in silver mining and related activities in Latin America, including exploration, extraction, and processing. The Company operates the Caylloma silver, lead, and zinc mine ("Caylloma") in southern Peru and the San Jose silver and gold mine ("San Jose") in southern Mexico.

Fortuna is a publicly traded company incorporated and domiciled in Canada. Its common shares are listed on the New York Stock Exchange under the trading symbol FSM; on the Toronto Stock Exchange and Lima Stock Exchange, both under the trading symbol FVI; and on the Frankfurt Stock Exchange under the trading symbol F4S.F.

The Company's registered office is located at Suite 650, 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6.

2. Basis of Consolidation and Summary of Significant Accounting Policies

a) Statement of Compliance

These unaudited condensed interim consolidated financial statements ("Financial Statements") have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these Financial Statements are based on International Financial Reporting Standards ("IFRS") issued and effective as at September 30, 2014. The Board of Directors approved these financial statements for issue on November 10, 2014.

The Financial Statements of the Company for the three and nine month periods ended September 30, 2014 have been prepared by management. The Financial Statements do not include all of the information required for full annual financial statements. The Financial Statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013, which includes information necessary or useful to understanding the Company's business and financial presentation. In particular, the Company's significant accounting policies were presented in Note 2 of the consolidated financial statements for the year ended December 31, 2013, and have been consistently applied in the preparation of these Financial Statements, except for adoption of IAS 32, IFRIC 21, IAS 36, IFRS 2, and IFRS 3 described below in Note 2 g).

b) Basis of Consolidation

These Financial Statements include the accounts of the Company and its subsidiaries. All significant inter-company transactions, balances, revenues, and expenses have been eliminated upon consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. Control is normally achieved through ownership, directly or indirectly, of more than 50% of the voting power. Control can also be achieved through power over more than half the voting rights by virtue of an agreement with other investors or through the exercise of de facto control.

FORTUNA SILVER MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**

(All amounts in US\$'000's unless otherwise stated)

2. Basis of Consolidation and Summary of Significant Accounting Policies (continued)**b) Basis of Consolidation (continued)**

For non-wholly owned subsidiaries, the net assets attributable to outside equity shareholders are presented as "non-controlling interests" in the equity section of the consolidated statements of financial position. Net income for the period that is attributable to non-controlling interests is calculated based on the ownership of the minority shareholders in the subsidiary.

Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. The principal subsidiaries of the Company and their geographic locations at September 30, 2014 were as follows:

Name	Entity Type at September 30, 2014	Location	Economic Interest at September 30, 2014	Principal Activity	Method
Minera Bateas S.A.C. ("Bateas")	Subsidiary	Peru	100%	Caylloma Mine	Consolidation
Fortuna Silver Mines Peru S.A.C. ("FSM Peru")	Subsidiary	Peru	100%	Service company	Consolidation
Compania Minera Cuzcatlan SA ("Cuzcatlan")	Subsidiary	Mexico	100%	San Jose Mine	Consolidation
Fortuna Silver Mexico, S.A. de CV. ("FS Mexico")	Subsidiary	Mexico	100%	Exploration company	Consolidation
Fortuna Silver (Barbados) Inc. ("Barbados")	Subsidiary	Barbados	100%	Holding company	Consolidation
Continuum Resources Ltd. ("Continuum")	Subsidiary	Canada	100%	Holding company	Consolidation

As at September 30, 2014, the Company has no joint arrangements or associates.

c) Revenue Recognition

Revenue arising from the sale of metal concentrates is recognized when title or the significant risks and rewards of ownership of the concentrates have been transferred to the buyer. The passing of title to the customer is based on the terms of the sales contract. Final commodity prices are set in a period subsequent to the date of sale based on a specified quotational period, either one, two, or three months after delivery. The Company's metal concentrates are provisionally priced at the time of sale based on the prevailing market price.

Variations between the price recorded at the delivery date and the final price set under the sales contracts are caused by changes in market prices, and result in an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as provisional price adjustments and included in sales in the consolidated statement of income. Sales of metal concentrates are net of refining and treatment charges.

Revenues from metal concentrate sales are subject to adjustment upon final settlement of metals prices, weights, and assays as of a date that is typically one, two, or three months after the delivery date. Typically, the adjustment is based on an inspection of the concentrate by the customer and in certain cases an inspection by a third party. The Company records adjustments to revenues monthly based on quoted spot prices for the expected settlement period. Adjustments for weights and assays are recorded when results are determinable or on final settlement.

FORTUNA SILVER MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**(All amounts in US\$'000's unless otherwise stated)

2. Basis of Consolidation and Summary of Significant Accounting Policies (continued)**d) Asset Impairment**

Assets are reviewed and tested for impairment when an indicator of impairment is considered to exist. An assessment of impairment indicators is performed at each reporting period or whenever indicators arise. Even with no indicators present, the Company will test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment at least annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell ("FVLCTS") and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows or cash generating units. These are typically individual mines or development projects. Brownfields exploration projects, located close to existing mine infrastructure, are assessed for impairment as part of the associated mine cash generating unit.

Fair value models are used to determine the recoverable amount of cash generating units. When the recoverable amount is assessed using pre-tax discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans. For value in use, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business. The cash flow forecasts are based on best estimates of expected future revenues and costs, including the future cash costs of production, sustaining capital expenditure and reclamation and closures costs.

Where a fair value less cost to sell model is used the cash flow forecast includes net cash flows expected to be realized from extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proven or probable reserves and the portion of resources expected to be extracted economically.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of recoverable amount, but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized into earnings immediately.

e) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Refer to Note 13. a).

FORTUNA SILVER MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**(All amounts in US\$'000's unless otherwise stated)

2. Basis of Consolidation and Summary of Significant Accounting Policies (continued)**f) Significant Accounting Judgments and Estimates**

The preparation of these Financial Statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The Financial Statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i. Critical Judgments

- The analysis of the functional currency for each entity of the Company. In concluding that the United States dollar functional currency for its Peruvian and Mexican entities and the Canadian and Barbados entities have a Canadian dollar functional currency, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- In concluding when commercial production has been achieved, the Company considered the following factors:
 - all major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed;
 - the mine or mill is operating as per design capacity and metallurgical recoveries were achieved; and,
 - the ability to sustain ongoing production of ore at a steady or increasing level.
- The identification of reportable segments, basis for measurement and disclosure of the segmented information.
- The determination of estimated useful lives and residual values of tangible and long lived assets and the measurement of depreciation expense.
- The identification of impairment indicators, cash generating units and determination of carrying value or fair value less cost to sell and the write down of tangible and long lived assets.
- Measurement of financial instruments involve significant judgments related to interpretation of the terms of the instrument, identification, classification, impairment and the overall measurement to approximate fair values.

FORTUNA SILVER MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

(All amounts in US\$'000's unless otherwise stated)

2. Basis of Consolidation and Summary of Significant Accounting Policies (continued)

f) Significant Accounting Judgments and Estimates (continued)

ii. Estimates

- the recoverability of amounts receivable which are included in the consolidated statements of financial position;
- the estimation of assay grades of metal concentrates sold in the determination of the carrying value of accounts receivable which are included in the consolidated statements of financial position and included as sales in the consolidated statements of income;
- the determination of net realizable value of inventories on the consolidated statements of financial position;
- the estimated useful lives of property, plant and equipment which are included in the consolidated statements of financial position and the related depreciation included in the consolidated statements of income;
- the determination of mineral reserves and the portion of mineral resources expected to be extracted economically, carrying amount of mineral properties, and depletion of mineral properties included in the consolidated statements of financial position and the related depletion included in the consolidated statements of income;
- the review of tangible and intangible assets carrying value, the determination of whether these assets are impaired and the measurement of impairment charges or reversals which are included in the consolidated statements of income;
- the assessment of indications of impairment of each mineral property and related determination of the net realizable value and write-down of those properties where applicable;
- the determination of the fair value of financial instruments and derivatives included in the consolidated statements of financial position;
- the fair value estimation of share-based awards included in the consolidated statements of financial position and the inputs used in accounting for share-based compensation expense in the consolidated statements of income;
- the provision for income taxes which is included in the consolidated statements of income and composition of deferred income tax asset and liabilities included in the consolidated statement of financial position;
- the recognition of deferred income tax assets, amounts recorded for uncertain tax positions, the measurement of income tax expense and indirect taxes included in the consolidated statement of financial position;
- the inputs used in determining the net present value of the liability for provisions related to decommissioning and restoration included in the consolidated statements of financial position; and,
- the inputs used in determining the various commitments and contingencies accrued in the consolidated statements of financial position.

FORTUNA SILVER MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

(All amounts in US\$'000's unless otherwise stated)

2. Basis of Consolidation and Summary of Significant Accounting Policies (continued)

g) Significant Changes Including Initial Adoption of Accounting Standards

The Company has adopted the following accounting standards along with any consequential amendments, effective January 1, 2014:

IAS 32 Financial Instruments - Presentation in Respect of Offsetting (Amendment); IFRIC 21 - Levies; and, IAS 36 - Impairment of Assets - Amendments for Recoverable Amount Disclosures for Non-Financial Asset.

The Company has adopted the following amendments, effective July 1, 2014:

IFRS 2 Share-based Payment - Definition of vesting condition (Amendment)

The amendment to IFRS 2 provides the definitions of vesting condition and market condition and adds definitions for performance condition and service condition. The amendment is effective for transactions with a grant date on or after July 1, 2014.

IFRS 3 Business Combinations – Contingent consideration (Amendment)

The amendment to IFRS 3 requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date. The amendment is effective for transactions with acquisition dates on or after July 1, 2014.

The Company has adopted the above amendments which did not have a significant impact on the Company's Financial Statements.

h) New Accounting Standards

The Company is currently assessing the impact of adopting the following new accounting standards, noted below, on the Company's Financial Statements.

IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures (2011)(Amendment)

On September 11, 2014, the IASB issued narrow-scope amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective from annual periods commencing on or after January 1, 2016.

FORTUNA SILVER MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

(All amounts in US\$'000's unless otherwise stated)

2. Basis of Consolidation and Summary of Significant Accounting Policies (continued)

h) New Accounting Standards (continued)

IFRS 11 Joint Arrangements (Amendment)

The amendment to IFRS 11 *Joint Arrangements* adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. Transactions before the adoption date are grandfathered.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment)

The amendment to IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* on depreciation and amortisation clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendment is effective for annual period starting on or after January 1, 2016, with earlier application permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers* specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 is effective for annual periods starting on or after January 1, 2017, with earlier application permitted.

IFRS 9 Financial Instruments - Classification and Measurement

IFRS 9, *Financial Instruments*: IFRS 9 introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (Amendment)

The amendment to IFRS 9 *Financial Instruments* which includes the new hedge accounting requirements and some related amendments to IAS 39 *Financial Instruments; Recognition and Measurement* and IFRS 7 *Financial Instruments; Disclosures*. IFRS 9 (2013) also replicates the amendments in IAS 39 in respect of novations. The amendments allow for early adoption of the requirement to present fair value changes due to own credit on liabilities designated as at fair value through profit or loss to be presented in other comprehensive income. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

FORTUNA SILVER MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**

(All amounts in US\$'000's unless otherwise stated)

2. Basis of Consolidation and Summary of Significant Accounting Policies (continued)**h) New Accounting Standards (continued)*****IFRS 9 Financial Instruments - Expected Credit Losses***

On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The amendments are effective for annual periods beginning on or after January 1, 2018. Entities will also have the option to early apply the accounting for own credit risk-related fair value gains and losses arising on financial liabilities designated at fair value through profit or loss without applying the other requirements of IFRS 9.

3. Accounts Receivable and Other Assets and Deposits on Long Term Assets

The current accounts receivables and other assets are comprised of the following:

	September 30, 2014	December 31, 2013
Trade receivables from concentrate sales	\$ 18,669	\$ 9,797
Current portion of long term receivables	288	488
Current portion of borrowing costs	254	265
Advances and other receivables	2,051	3,883
GST/HST and value added tax receivable	127	2,607
Accounts receivable and other assets	\$ 21,389	\$ 17,040

Deposits on long term assets include non-current accounts receivable and other assets are comprised of the following:

	September 30, 2014	December 31, 2013
Long term receivables and borrowing costs	\$ 727	\$ 1,322
Less: current portion of long term receivables	(288)	(488)
Less: current portion of long term borrowing costs	(254)	(265)
Non-current portion of long term receivables	58	237
Non-current portion of borrowing costs	127	332
Deposits on equipment	352	700
Deposits paid to contractors	350	411
Other	-	202
Deposits on long term assets	\$ 887	\$ 1,882

As at September 30, 2014, the Company had \$nil trade receivables (2013: \$245) which were over 90 days with no impairment. The Company's allowance for doubtful accounts is \$nil for all reporting periods.

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3. Accounts Receivable and Other Assets and Deposits on Long Term Assets (continued)

As at September 30, 2014, the Company has capitalized \$nil (2013: \$796) of borrowing costs comprised of legal fees and upfront commitment fee in connection with the amended and restated credit agreement with the Bank of Nova Scotia. The borrowing costs are amortized over a period of 36 months. Refer to Note 13.d).

The aging analysis of these trade receivables from concentrate sales is as follows:

	September 30, 2014	December 31, 2013
0-30 days	\$ 18,669	\$ 9,552
31-60 days	-	-
61-90 days	-	-
over 90 days	-	245
	\$ 18,669	\$ 9,797

4. Inventories

	September 30, 2014	December 31, 2013
Concentrate stock piles	\$ 1,339	\$ 2,475
Ore stock piles	5,067	4,756
Materials and supplies	8,508	8,257
Total inventories	\$ 14,914	\$ 15,488

For the three and nine months ended September 30, 2014, \$19,337 and \$56,857 (2013: \$14,750 and \$46,554), respectively, of inventory was expensed in cost of sales and there were no write downs of materials to net realizable value nor an impairment in inventories.

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5. Mineral Properties, Plant and Equipment

	Mineral Properties									
	Mineral Properties		Depletable		Land,		Equipment			
	Non-Depletable		(Caylloma, San		Buildings, and		under		Capital	
	(Tlacolula)		Jose, Taviche,		Leasehold		Finance		Work in	
			Taviche Oeste)		Improvements		Lease		Progress	
					Equipment		Units		Total	
Period ended September 30, 2014										
Opening carrying amount	\$	1,277	\$	127,141	\$	14,301	\$	55,574	\$	5,215
Additions		71		16,641		1,090		219		873
Disposals		-		-		(63)		(28)		-
Depletion and depreciation		-		(10,461)		(1,955)		(4,049)		(646)
Reclassification		-		4,623		151		6,786		1,331
Adjustment on currency translation		-		(105)		-		(4)		(1)
Closing carrying amount	\$	1,348	\$	137,839	\$	13,524	\$	58,498	\$	6,772
As at September 30, 2014										
Cost	\$	1,348	\$	191,945	\$	26,028	\$	75,198	\$	9,888
Accumulated depletion and depreciation		-		(54,106)		(12,504)		(16,700)		(3,116)
Closing carrying amount	\$	1,348	\$	137,839	\$	13,524	\$	58,498	\$	6,772

As at September 30, 2014, the non-depletable mineral property includes the Tlacolula property (2013: Tlacolula and San Luisito properties).

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5. Mineral Properties, Plant and Equipment (continued)

	Mineral Properties									
	Mineral Properties	Depletable						Equipment		
	Non-Depletable	(Caylloma, San Jose,	Machinery	Land, Buildings,	Furniture			under	Capital	
	(Tlacolula, San	Taviche, Taviche	and	and Leasehold	and Other	Transport	Finance	Lease	Work in	
	Luisito)	Oeste)	Equipment	Improvements	Equipment	Units			Progress	Total
Year ended December 31, 2013										
Opening carrying amount	\$ 960	\$ 124,173	\$ 19,047	\$ 35,796	\$ 3,984	\$ 186	\$ 2,468	\$ 20,889	\$ 207,503	
Additions	887	31,430	(242)	1,236	1,192	102	-	25,858	60,463	
Disposals	-	-	(20)	(2)	(53)	-	-	-	(75)	
Write-off of mineral properties	(570)	-	-	-	-	-	-	-	(570)	
Depletion and depreciation	-	(11,158)	(2,825)	(4,454)	(871)	(90)	(733)	-	(20,131)	
Impairment charge	-	(16,868)	(2,264)	(8,180)	(2,358)	(1)	(329)	-	(30,000)	
Reclassification	-	(217)	605	31,186	3,323	-	-	(34,897)	-	
Adjustment on currency translation	-	(219)	-	(8)	(2)	-	-	-	(229)	
Closing carrying amount	\$ 1,277	\$ 127,141	\$ 14,301	\$ 55,574	\$ 5,215	\$ 197	\$ 1,406	\$ 11,850	\$ 216,961	
As at December 31, 2013										
Cost	\$ 1,277	\$ 170,934	\$ 25,167	\$ 68,234	\$ 7,685	\$ 574	\$ 4,795	\$ 11,850	\$ 290,516	
Accumulated depletion and depreciation	-	(43,793)	(10,866)	(12,660)	(2,470)	(377)	(3,389)	-	(73,555)	
Closing carrying amount	\$ 1,277	\$ 127,141	\$ 14,301	\$ 55,574	\$ 5,215	\$ 197	\$ 1,406	\$ 11,850	\$ 216,961	

a) Tlacolula Property

Pursuant to an agreement dated September 14, 2009, as amended December 18, 2012, the Company, through its wholly owned subsidiary, Cuzcatlan, was granted an option (the "Option") to acquire a 60% interest (the "Interest") in the Tlacolula silver project ("property") located in the State of Oaxaca, Mexico, from Radius Gold Inc.'s wholly owned subsidiary, Radius (Cayman) Inc. ("Radius") (a related party by way of directors in common with the Company described further in Note 7. a)).

The Company can earn the Interest by spending \$2,000, which includes a commitment to drill 1,500 meters within 12 months after Cuzcatlan has received a permit to drill the property, and by making staged annual payments totalling \$250 cash and providing \$250 in common shares of the Company to Radius according to the following schedule:

- \$20 cash and \$20 cash equivalent in shares upon stock exchange approval;
- \$30 cash and \$30 cash equivalent in shares by January 15, 2011;
- \$50 cash and \$50 cash equivalent in shares by January 15, 2012;
- \$50 cash and \$50 cash equivalent in shares by January 15, 2013; and,
- \$100 cash and \$100 cash equivalent in shares within 90 days after Cuzcatlan has completed the first 1,500 meters of drilling on the property.

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5. Mineral Properties, Plant and Equipment (continued)**a) Tlacolula Property (continued)**

Upon completion of the cash payments and share issuances and incurring the exploration expenditures as set forth above, the Company will be deemed to have exercised the Option and to have acquired a 60% interest in the property, whereupon a joint venture will be formed to further develop the property on the basis of the Company owning 60% and Radius 40%.

As at September 30, 2014, the Company had issued an aggregate of 34,589 (2013: 34,589) common shares of the Company, with a fair market value of \$150 (2013: \$150), and paid \$150 (2013: \$150) cash according to the terms of the option agreement.

b) San Luisito Concessions

On February 26, 2013, the Company through its wholly owned subsidiary, Cuzcatlan, was granted an option with a third party on concessions in the San Luisito Project, Sonora, Mexico and made a cash payment of \$50. During the second quarter of 2013, upon completion of the exploration program and given the current economic environment, the Company abandoned its interest in the option agreement resulting in a write-off of \$376. Additional costs of \$125 and \$69 were written off in Q3 2013 and Q4 2013, respectively for a total write-off of \$570.

c) Taviche Oeste Concession

On February 4, 2013, the Company, through its wholly owned subsidiary, Cuzcatlan, acquired, through an option agreement with Plata Pan American S.A. de C.V. ("Plata", a wholly owned subsidiary of Pan American Silver Corp.), a 55% undivided interest in the 6,254-hectare Taviche Oeste Concession ("concession") immediately surrounding the San Jose Mine in Oaxaca, Mexico. The Company made a cash payment of \$4.0 million. On June 19, 2013, the Company made the final \$6.0 million cash payment to purchase the remaining 45% undivided interest in the concession.

The concession is subject to a 2.5% net smelter royalty on ore production from this property.

d) Caylloma Property

Assets are reviewed and tested for impairment when events or changes in circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Assets are grouped at the lowest level for which there are separately identifiable cash flows or cash generating units. The Company has determined that the Caylloma property represents a cash generating unit within the Peru geographic region.

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5. Mineral Properties, Plant and Equipment (continued)**d) Caylloma Property (continued)**

The recoverable amounts of the Company's cash generating units ("CGUs"), which include mineral properties, plant and equipment are determined on an annual basis, or where facts and circumstances provide impairment indicators. The recoverable amounts are based on each CGUs future after-tax cash flows expected to be derived from the Company's mineral properties and represent each CGUs FVLCTS. The after-tax cash flows are determined based on life-of-mine ("LOM") after-tax cash flow projections which incorporate management's best estimates of future metal prices, production based on current estimates of recoverable reserves and resources, exploration potential, future operating costs and non-expansary capital expenditures. Projected cash flow are discounted using a weighted average cost of capital. Management's estimate of the FVLCTS of its CGUs is classified as level 3 in the fair value hierarchy.

For the year ended December 31, 2013, the Company performed an annual review of the recoverable amounts of its CGUs and recognized a \$20,400, net of tax (\$30,000, before tax) impairment charge, on the carrying value of net assets of \$78,064, in respect to the Company's investment in Caylloma, which was driven by a reduction in silver prices. The impairment charge was allocated on a pro rata basis against the net book value of the mineral properties, plant and equipment of \$79,413.

For December 31, 2013 the key assumptions used for fair value less cost to sell calculations were as follows:

December 31, 2013						
Metal Price Assumptions	2014	2015	2016	2017	2018	2019-2026
Gold price \$ per ounce	\$1,361.50	\$1,362.50	\$1,392.50	\$1,336.50	\$1,336.50	\$ 1,336.50
Silver price \$ per ounce	\$ 21.35	\$ 22.66	\$ 23.00	\$ 22.40	\$ 22.40	\$ 22.40
Lead price \$ per tonne	\$2,212.49	\$2,290.89	\$2,340.63	\$2,355.65	\$2,373.00	\$ 2,068.21
Zinc price \$ per tonne	\$2,028.25	\$2,204.62	\$2,385.50	\$2,149.00	\$2,149.00	\$ 2,149.00
Weighted average cost of capital	7.42%	7.42%	7.42%	7.42%	7.42%	7.42%

Expected future cash flows to determine the FVLCTS in the impairment testing of non-current assets are inherently uncertain and could materially change over time. The cash flows are significantly affected by a number of factors including estimates of production levels, operating costs, and capital expenditures reflected in the Company's life of mine plans, as well as economic factors beyond management's control, such as silver and gold prices, discount rates, and observable net asset valuation multiples. Should management's estimate of the future not reflect actual events, further impairments or reversals of impairments may be identified.

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6. Trade and Other Payables

	September 30, 2014	December 31, 2013
Trade accounts payable	\$ 10,766	\$ 9,928
Payroll payable	8,617	4,216
Restricted share unit payable	1,179	625
Other payables	1,638	1,128
	\$ 22,200	\$ 15,897

7. Related Party Transactions**a) Purchase of Goods and Services**

The Company entered into the following related party transactions:

Transactions with related parties	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Salaries and wages ^{1,2}	\$ 17	\$ 16	\$ 68	\$ 71
Other general and administrative expenses ²	15	18	92	109
	\$ 32	\$ 34	\$ 160	\$ 180

¹ Salaries and wages includes employees' salaries and benefits charged to the Company based on a percentage of the estimated hours worked for the Company.

² Radius Gold Inc. ("Radius") has directors in common with the Company and shares office space, and is reimbursed for general overhead costs incurred on behalf of the Company. Gold Group Management Inc. ("Gold Group"), which is owned by a director in common with the Company, provides various administrative, management, and other related services.

In 2013, the Company issued 11,415 common shares of the Company, at a fair market value of \$4.38 per share and paid \$50 cash to Radius, under the option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico.

b) Key Management Compensation

Key management includes all persons named or performing the duties of Vice-President, Chief Financial Officer, President, Chief Executive Officer, and non-executive Directors of the Company. The compensation paid and payable to key management for services is shown below:

	Three months ended September 30,		Nine month ended September 30,	
	2014	2013	2014	2013
Salaries and other short term employee benefits	\$ 765	\$ 626	\$ 3,536	\$ 1,965
Directors fees	89	108	293	303
Consulting fees	41	43	123	132
Share-based payments	(854)	1,150	4,741	2,697
	\$ 41	\$ 1,927	\$ 8,693	\$ 5,097

Consulting fees includes fees paid to two non-executive directors in both 2014 and 2013.

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7. Related Party Transactions (continued)**c) Period End Balances Arising From Purchases of Goods/Services**

Amounts due from related parties	September 30, 2014	December 31, 2013
Owing from a director and officer ³	\$ 4	\$ -
Owing from a company with common directors and officers ⁴	\$ 37	\$ -
	\$ 41	\$ -

³ Owing from a director and officer of the Company related to a payroll advance.

⁴ Owing from a company with directors and officers in common with the Company at September 30, 2014. As at September 30, 2014, the bill of exchange that guarantees the payment of the sales transaction expired. Subsequently, on October 2014 new bill of exchange was received with a due date of October 31, 2014.

Amounts due to related parties	September 30, 2014	December 31, 2013
Owing to company(ies) with common directors ⁵	\$ 10	\$ 20

⁵ Owing to Gold Group Management Inc. ("Gold Group") who has a director in common with the Company.

On October 10, 2012, the Company paid Gold Group Management Inc., which is owned by a director in common with the Company, a retainer of \$61 representing three months deposit under a services agreement effective July 1, 2012.

8. Other Liabilities

Other liabilities are comprised of the following:

	September 30, 2014	December 31, 2013
Obligations under finance lease (a)	\$ 22	\$ 227
Long term liabilities (b)	37	27
Deferred share units (Note 10. c))	3,356	2,030
Restricted share units (Note 10. d))	683	286
	4,098	2,570
Less: current portion		
Obligations under finance lease (a)	22	227
Other liabilities, non-current	\$ 4,076	\$ 2,343

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8. Other Liabilities (continued)**a) Obligations under Finance Lease**

The following is a schedule of the Company's future minimum lease payments. These are related to the acquisition of mining equipment, vehicles, and buildings.

Obligations under Finance Lease	September 30, 2014	December 31, 2013
Not later than 1 year	\$ 22	\$ 231
Less: future finance charges on finance lease	-	(4)
Present value of finance lease payments	\$ 22	\$ 227

b) Long Term Liabilities

The Company's Mexican operation is required to provide a seniority premium to all employees as required under Mexican labor law. This liability is calculated using actuarial techniques and discounting the benefit using the Projected Unit Credit Method with the following assumptions: a discount rate of 7.50%, wage increases ranging from 4.5% to 5.0%, minimum wage increase of 4.0%, and a long term inflation rate of 4.0%. During the three month and nine months ended September 30, 2014, \$5 and \$14 (2013: \$5 and \$11) has been recognized as an expense, respectively.

FORTUNA SILVER MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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9. Provisions

A summary of the Company's provisions for decommissioning and restoration liabilities are presented below:

	Decommissioning and Restoration Liabilities		
	Caylloma Mine	San Jose Mine	Total
At September 30, 2014			
Anticipated settlement date to	2028	2026	
Undiscounted value of estimated cash flow	\$ 7,601	\$ 6,677	\$ 14,278
Estimated mine life (years)	10	10	
Discount rate	5.63%	6.11%	
Inflation rate	3.30%	4.15%	
Total provisions - December 31, 2012	\$ 7,059	\$ 3,368	\$ 10,427
Increase to existing provisions	103	424	527
Accretion of provisions	291	247	538
Foreign exchange differences	(600)	(19)	(619)
Cash payments	(95)	(44)	(139)
Total provisions - December 31, 2013	\$ 6,758	\$ 3,976	\$ 10,734
Less: current portion	(125)	(497)	(622)
Non current - December 31, 2013	\$ 6,633	\$ 3,479	\$ 10,112
Total provisions - December 31, 2013	\$ 6,758	\$ 3,976	\$ 10,734
Increase to existing provisions	337	1,437	1,774
Accretion of provisions	280	257	537
Foreign exchange differences	(351)	(142)	(493)
Cash payments	(123)	(41)	(164)
Total provisions - September 30, 2014	\$ 6,901	\$ 5,487	\$ 12,388
Less: current portion	(209)	(517)	(726)
Non current - September 30, 2014	\$ 6,692	\$ 4,970	\$ 11,662

In view of the uncertainties concerning environmental reclamation, the ultimate cost of reclamation activities could differ materially from the estimated amount recorded. The estimate of the Company's decommissioning and restoration liability relating to the Caylloma and San Jose mine is subject to change based on amendments to laws and regulations and as new information regarding the Company's operations becomes available.

Future changes, if any, to the estimated liability as a result of amended requirements, laws, regulations, operating assumptions, estimated timing and amount of obligations may be significant and would be recognized prospectively as a change in accounting estimate. Any such change would result in an increase or decrease to the liability and a corresponding increase or decrease to the mineral properties, plant and equipment balance. Adjustments to the carrying amounts of the related mineral properties, plant and equipment balance can result in a change to the future depletion expense.

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10. Share Capital**a) Unlimited Common Shares Without Par Value**

During the nine months ended September 30, 2014, the Company issued nil (2013: 11,415) common shares of the Company, at a fair market value of \$nil (2013: \$4.38) per share and paid \$nil (2013: \$50) cash to Radius, under the option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico. (Refer to Note 5. a)).

b) Share Options

Shareholder approval of the Company's Stock Option Plan (the "Plan"), dated April 11, 2011, was obtained at the Company's annual general meeting held on May 26, 2011. The Plan provides that the number of common shares of the Company issuable under the Plan, together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 12,200,000 shares, which equals 9.92% of the current total number of issued and outstanding common shares of the Company, as at April 11, 2011.

Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility, risk-free interest rate and expected life of the options. Changes in the subjective input assumptions can materially affect the fair value estimate. The following is a summary of share option transactions:

	September 30, 2014		December 31, 2013	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
	(in 000's)	(CAD\$)	(in 000's)	(CAD\$)
Outstanding at beginning of the period	6,437	\$ 3.42	6,117	\$ 3.42
Granted	828	4.30	1,153	3.38
Exercised	(1,181)	3.35	(694)	1.01
Forfeited	(70)	5.26	(84)	4.69
Expired	(1,687)	4.55	(55)	2.27
Outstanding at end of the period	4,327	\$ 3.48	6,437	\$ 3.42
Vested and exercisable at end of the period	2,888	\$ 3.25	3,949	\$ 3.55

During the nine months ended September 30, 2014, 828,242 share purchase options with a term of three years were granted with an exercise price of CAD\$4.30, vesting 50% after one year and 100% after two years from the grant date.

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10. Share Capital (continued)**b) Share Options (continued)**

During the nine months ended September 30, 2014, 1,180,877 share purchase options with exercise prices ranging from CAD\$1.55 to CAD\$4.46 per share were exercised, 70,255 share purchase options with exercise prices ranging from CAD\$4.03 to CAD\$6.67 per share were forfeited, 1,686,654 share purchase options with an exercise prices ranging from CAD\$4.46 to CAD\$6.67 per share expired, and 412,355 share purchase options were accelerated to expire as follows:

	Exercise price		Original Expiry Date	Accelerated Expiry Date
Shares		(CAD\$)		
170,000	\$	4.03	May 29, 2015	July 13, 2014
79,038		3.38	May 29, 2016	July 13, 2014
60,307		4.30	March 23, 2017	July 13, 2014
37,500		4.03	May 29, 2015	July 27, 2014
65,510		6.67	February 20, 2017	August 29, 2014
412,355	Total			

During the nine months ended September 30, 2014, the Company recorded a share-based payment charge of \$1,681 (2013: \$2,169) in respect to options granted and vested.

The assumptions used to estimate the fair value of the share purchase options granted during the nine months ended September 30, 2014 and 2013 were:

	Nine months ended September 30,	
	2014	2013
Risk-free interest rate	1.19%	1.18%
Expected stock price volatility	59.29%	57.81%
Expected term in years	3	3
Expected dividend yield	0%	0%
Expected forfeiture rate	4.15%	4.15%

The expected volatility assumption is based on the historical volatility of the Company's Canadian dollar common share price on the Toronto Stock Exchange. The weighted average fair value per share purchase option was CAD\$4.30 (2013: CAD\$3.68).

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10. Share Capital (continued)**b) Share Options (continued)**

The following table summarizes information related to stock options outstanding and exercisable at September 30, 2014:

Exercise price in CAD\$	Number of outstanding share purchase options (in 000's)	Weighted average remaining contractual life of outstanding share purchase options (years)	Weighted average exercise price on outstanding share purchase options CAD\$	Exercisable share purchase options (in 000's)	Weighted average exercise price on exercisable share purchase options CAD\$
\$0.85 to \$0.99	270	4.0	\$ 0.85	270	\$ 0.85
\$1.00 to \$1.99	274	1.5	1.44	274	1.44
\$2.00 to \$2.99	250	2.3	2.22	250	2.22
\$3.00 to \$3.99	1,226	1.9	3.46	571	3.47
\$4.00 to \$4.99	2,258	1.3	4.12	1,490	4.03
\$6.00 to \$6.67	49	2.4	6.67	33	6.67
\$0.85 to \$6.67	4,327	1.7	\$ 3.48	2,888	\$ 3.25

The weighted average remaining life of vested share purchase options at September 30, 2014 was 1.5 years (December 31, 2013: 1.6 years).

Subsequent to September 30, 2014, 328,987 share purchase options with exercise prices ranging from CAD\$3.38 to CAD\$3.79 were exercised resulting in issued and outstanding shares of 127,483,830. In addition, 453,540 share purchase options were accelerated to expire as follows:

Shares	Exercise price (CAD\$)	Original Expiry Date	Accelerated Expiry Date
71,134	\$ 3.38	May 29, 2016	January 20, 2015
108,553	4.30	March 23, 2017	January 20, 2015
253,853	3.79	July 31, 2017	January 20, 2015
20,000	4.03	May 29, 2015	February 8, 2015
453,540	Total		

c) Deferred Share Units ("DSU") Cost

During 2010, the Company implemented a DSU plan which allows for up to 1% of the number of shares outstanding from time to time to be granted to eligible directors. All grants under the plan are fully vested upon credit to an eligible directors' account.

During the nine months ended September 30, 2014, the Company granted 244,188 (2013: 230,479) DSU with a market value of CAD\$1,050 (2013: CAD\$782), at the date of grants, to non-executive directors.

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(All amounts in US\$'000's unless otherwise stated)

10. Share Capital (continued)**c) Deferred Share Units ("DSU") Cost (continued)**

During the nine months ended September 30, 2014, the Company paid \$514 (2013: \$nil) on 127,063 (2013: nil) DSU to a former director of the Company.

As at September 30, 2014, there are 828,529 (2013: 711,944) DSU outstanding with a fair value of \$3,356 (2013: \$2,030). Refer to Note 8.

d) Restricted Share Units ("RSU") Cost

During 2010, the Company implemented a RSU plan for certain employees or officers. The RSU entitle employees or officers to a cash payment after the end of a performance period of up to three years following the date of the award. The RSU payment will be an amount equal to the fair market value of the Company's common share on the five trading days immediately prior to the end of the performance period multiplied by the number of RSU held by the employee.

During the nine months ended September 30, 2014, the Company granted 424,425 (2013: 582,846) RSU with a market value of CAD\$1,825 (2013: CAD\$1,970), at the date of grant, to an executive director and officer (103,721), officers (204,192), and employees (116,512), payable 20% after one year, 30% after two years, and the remaining 50% after three years from the date of grant.

During the nine months ended September 30, 2014, the Company cancelled 42,232 (2013: 39,201) RSU and paid \$205 (2013: \$nil) on 52,842 (2013: nil) RSU to a former officer of the Company, and \$404 (2013: \$nil) on 102,813 (2013: nil) RSU to an executive director and officer, and officers and employees.

As at September 30, 2014, there were 925,857 (2013: 699,319) RSU outstanding with a fair value of \$1,862 (2013: \$911). Refer to Note 6 and Note 8.

e) Earnings per Share**i. Basic**

Basic earnings per share is calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period.

The following table sets forth the computation of basic earnings per share:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Income (loss) available to equity owners	\$ 7,824	\$ (264)	\$ 15,545	\$ (4,170)
Weighted average number of shares (in '000's)	127,097	125,637	126,479	125,411
Earnings (loss) per share - basic	\$ 0.06	\$ -	\$ 0.12	\$ (0.03)

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10. Share Capital (continued)**e) Earnings per Share (continued)****ii. Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares. The following table sets forth the computation of diluted earnings per share:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Income (loss) available to equity owners	\$ 7,824	\$ (264)	\$ 15,545	\$ (4,170)
Weighted average number of shares ('000's)	127,097	125,637	126,479	125,411
Incremental shares from share options	1,634	1,074	1,319	1,140
Weighted average diluted shares outstanding ('000's)	128,731	126,711	127,798	126,551
Earnings (loss) per share - diluted	\$ 0.06	\$ -	\$ 0.12	\$ (0.03)

For the three and nine months ended September 30, 2014, excluded from the calculation were 49,084 and 49,084 (2013: 3,821,493 and 3,821,493), respectively, anti-dilutive options with exercise price of CAD\$6.67 (2013: ranging from CAD\$4.03 to CAD\$6.67).

11. Supplemental Cash Flow Information

	Note	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Non-cash Investing and Financing Activities:					
Issuance of shares on purchase of mineral properties, plant and equipment	5 a)	\$ -	\$ -	\$ -	\$ 50

12. Capital Disclosure

The Company's objectives when managing capital are to provide shareholder returns through maximization of the profitable growth of the business and to maintain a degree of financial flexibility relevant to the underlying operating and metal price risks while safeguarding the Company's ability to continue as a going concern.

The capital of the Company consists of equity and available credit facility, net of cash. The Board of Directors has not established a quantitative return on capital criteria for management. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The management of the Company believes that the capital resources of the Company as at September 30, 2014, are sufficient for its present needs for at least the next 12 months. The Company is not subject to externally imposed capital requirements.

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12. Capital Disclosure (continued)

The Company's overall strategy with respect to capital risk management remained unchanged during the year.

13. Management of Financial Risk

The Company is exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk, and price risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

a) Fair Value Measurements of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (interest rate, yield curves), or inputs that are derived principally from or corroborated observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

During the nine months ended September 30, 2014, there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

i. Assets and Liabilities Measured At Fair Value on a Recurring Basis**Fair Value Measurements**

	Quoted Prices in Active Markets for Identical Assets	Significant and Other Observable Inputs	Significant Unobservable Inputs	Aggregate Fair Value
At September 30, 2014	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 40,502	\$ -	\$ -	\$ 40,502
Short term investments	31,788	-	-	31,788
Trade receivable from concentrate sales ¹	-	18,669	-	18,669
	\$ 72,290	\$ 18,669	\$ -	\$ 90,959

¹ Trade receivable from concentrate sales includes provisional pricing, and final price and assay adjustments. The fair value of trade receivable from concentrate sales resulting from provisional pricing reflect observable market commodity prices and thereby classified within Level 2 of the fair value hierarchy.

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13. Management of Financial Risk (continued)**a) Fair Value Measurements of Financial Instruments (continued)****i. Assets and Liabilities Measured at Fair Value on a Recurring Basis (continued)**

	Quoted Prices in Active Markets for Identical Assets		Significant and Other Observable Inputs		Significant Unobservable Inputs		Aggregate Fair Value
At December 31, 2013	Level 1		Level 2		Level 3		
Cash and cash equivalents	\$	31,704	\$	-	\$	-	\$ 31,704
Short term investments		17,411		-		-	17,411
Trade receivable from concentrate sales ¹		-		9,797		-	9,797
	\$	49,115	\$	9,797	\$	-	\$ 58,912

ii. Fair Value of Financial Assets and Liabilities**Fair Values of Financial Assets and Liabilities**

	September 30, 2014		December 31, 2013	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents ¹	\$ 40,502	\$ 40,502	\$ 31,704	\$ 31,704
Short term investments ¹	31,788	31,788	17,411	17,411
Trade receivable from concentrate sales ²	18,669	18,669	9,797	9,797
Advances and other receivables	2,051	2,051	3,883	3,883
Due from related parties ¹	41	41	-	-
	\$ 93,051	\$ 93,051	\$ 62,795	\$ 62,795
Financial liabilities				
Trade and other payables ¹	\$ 21,021	\$ 21,021	\$ 15,272	\$ 15,272
Due to related parties ¹	10	10	20	20
Other liabilities ³	742	742	540	544
	\$ 21,773	\$ 21,773	\$ 15,832	\$ 15,836

¹ Fair value approximates the carrying amount due to the short term nature and historically negligible credit losses.² Trade receivable from concentrate sales includes provisional pricing, and final price and assay adjustments. The fair value of trade receivable from concentrate sales resulting from provisional pricing reflect observable market commodity prices and thereby classified within Level 2 of the fair value hierarchy.³ Other liabilities are recorded at amortized costs. The fair value of other liabilities are primarily determined using quoted market prices. Balance includes current portion of other liabilities.

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13. Management of Financial Risk (continued)**b) Currency Risk**

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Peru and Mexico and a portion of its expenses are incurred in Canadian dollars, nuevo soles, and Mexican pesos. A significant change in the currency exchange rates between the United States dollar relative to the other currencies could have a material effect on the Company's income, financial position, or cash flows. The Company has not hedged its exposure to currency fluctuations.

As at September 30, 2014, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, nuevo soles and Mexican pesos (all amounts are expressed in thousands of Canadian dollars, thousands of nuevo soles or thousands of Mexican pesos):

	September 30, 2014			December 31, 2013		
	Canadian Dollars	Nuevo Soles	Mexican Pesos	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	\$ 4,060 S/.	7,548	\$ 76,023	\$ 2,699 S/.	619	\$ 10,994
Short term investments	3,105	-	-	3,286	-	-
Accounts receivable and other assets	302	2,981	9,018	306	7,917	33,818
Deposits on long term assets and long term borrowing costs	142	-	2,063	355	-	-
Trade and other payables	(2,148)	(14,126)	(132,839)	(1,181)	(12,659)	(49,618)
Due to related parties	(11)	-	-	(22)	-	-
Provisions, current	-	(605)	(6,952)	-	(349)	(6,499)
Income tax payable	-	(37)	(105,178)	-	(2,213)	-
Other liabilities	(4,507)	-	(505)	(2,477)	-	(350)
Provisions	-	(19,351)	(66,878)	-	(18,544)	(45,499)
Total	\$ 943 S/.	(23,590)	\$ (225,248)	\$ 2,966 S/.	(25,229)	\$ (57,154)
Total US\$ equivalent	\$ 845	\$ (8,157)	\$ (16,742)	\$ 2,773	\$ (9,023)	\$ (4,371)

Based on the above net exposure as at September 30, 2014, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the above currencies would result in an increase or decrease, as follows: impact to other comprehensive income of \$94 (2013: \$308) and a net loss of \$2,766 (2013: net loss \$1,489).

c) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents and short term investments are held through large Canadian, international, and foreign national financial institutions. These investments mature at various dates within one year. All of the Company's trade accounts receivables from concentrate sales are held with large international metals trading companies.

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13. Management of Financial Risk (continued)**c) Credit (continued)**

The Company's maximum exposure to credit risk as at September 30, 2014 is as follows:

	September 30, 2014		December 31, 2013	
Cash and cash equivalents	\$	40,502	\$	31,704
Short term investments		31,788		17,411
Accounts receivable and other assets		21,389		17,040
Due from related parties		41		-
	\$	93,720	\$	66,155

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant credit risk and overall, the Company's credit risk has not declined significantly from the prior year.

d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuing to monitor forecasted and actual cash flows. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its development plans. The Company strives to maintain sufficient liquidity to meet its short term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash, short term investments, and its committed liabilities.

The Company expects the following maturities of its financial liabilities (including interest), finance leases, and other contractual commitments:

	Expected payments due by period as at September 30, 2014					
	Less than		After			Total
	1 year	1 - 3 years	4 - 5 years	5 years		
Trade and other payables	\$ 22,200	\$ -	\$ -	\$ -	\$ -	22,200
Due to related parties	10	-	-	-	-	10
Income tax payable	8,025	-	-	-	-	8,025
Other liabilities	22	4,076	-	-	-	4,098
Operating leases	722	1,291	110	-	-	2,123
Provisions	733	935	1,563	11,047	-	14,278
	\$ 31,712	\$ 6,302	\$ 1,673	\$ 11,047	\$ -	50,734

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business. Refer to Note 15. c).

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13. Management of Financial Risk (continued)**d) Liquidity Risk (continued)**

On April 23, 2013, the Company entered into an amended and restated credit agreement with the Bank of Nova Scotia for a \$40 million senior secured revolving credit facility ("credit facility") to be refinanced or repaid on or within three years or before April 22, 2016. The credit facility is secured by a first ranking lien on Bateas, Cuzcatlan, Continuum, and Barbados, and their assets and bears interest and fees at prevailing market rates. In the event that utilization under the credit facility is less than \$10 million, a commitment fee of 1.0% per annum is payable quarterly on the unutilized portion of the available credit facility. No funds were drawn from this credit facility.

e) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value is limited because the balances are generally held with major financial institutions in demand deposit accounts.

A 10% change in interest rates would cause a \$6 change in income on an annualized basis.

f) Metal Price Risk

The Company is exposed to metals price risk with respect to silver, gold, zinc, and lead sold through its mineral concentrate products. As a matter of policy, the Company does not hedge its silver production.

14. Segmented Information

All of the Company's operations are within the mining sector, conducted through operations in three countries. Due to geographic and political diversity, the Company's mining operations are decentralized whereby management are responsible for achieving specified business results within a framework of global policies and standards. Country corporate offices provide support infrastructure to the mine in addressing local and country issues including financial, human resources, and exploration support.

Products are silver, gold, lead, zinc and copper produced from mines in Peru and Mexico, as operated by Bateas and Cuzcatlan, respectively. Segments have been aggregated where operations in specific regions have similar products, production processes, types of customers and economic environment.

The Company's operating segments are based on the reports reviewed by the senior management group that are used to make strategic decisions. The Chief Executive Officer considers the business from a geographic perspective considering the performance of the Company's business units. The segment information for the reportable segments for the three and nine months ended September 30, 2014 and 2013 are as follows:

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14. Segmented Information (continued)

Reportable Segments	Corporate	Bateas	Cuzcatlan	Total
Three months ended September 30, 2014				
Sales to external customers by product	\$ -	\$ 17,868	\$ 28,516	\$ 46,384
Silver-gold concentrates	\$ -	\$ -	\$ 28,516	\$ 28,516
Silver-lead concentrates	\$ -	\$ 12,736	\$ -	\$ 12,736
Zinc concentrates	\$ -	\$ 5,132	\$ -	\$ 5,132
Cost of sales*	\$ -	\$ 13,137	\$ 16,527	\$ 29,664
Depletion and depreciation**	\$ 106	\$ 1,901	\$ 4,229	\$ 6,236
Selling, general and administrative expenses*	\$ 1,183	\$ 1,010	\$ 1,274	\$ 3,467
Other material non-cash items	\$ -	\$ 42	\$ 10	\$ 52
Interest income	\$ 25	\$ 25	\$ 21	\$ 71
Interest expense	\$ 102	\$ 95	\$ 113	\$ 310
(Loss) income before tax	\$ (1,259)	\$ 3,608	\$ 10,613	\$ 12,962
Income taxes	\$ 92	\$ 1,740	\$ 3,306	\$ 5,138
(Loss) income for the period	\$ (1,351)	\$ 1,868	\$ 7,307	\$ 7,824
Capital expenditures***	\$ 13	\$ 2,695	\$ 5,685	\$ 8,393

* cost of sales and selling, general and administrative expenses includes depletion and depreciation

** included in cost of sales or selling, general and administrative expenses

*** segmented capital expenditures are presented on a cash basis

Reportable Segments	Corporate	Bateas	Cuzcatlan	Total
Three months ended September 30, 2013				
Sales to external customers by product	\$ -	\$ 18,552	\$ 11,651	\$ 30,203
Silver-gold concentrates	\$ -	\$ -	\$ 11,651	\$ 11,651
Silver-lead concentrates	\$ -	\$ 14,866	\$ -	\$ 14,866
Zinc concentrates	\$ -	\$ 3,686	\$ -	\$ 3,686
Cost of sales*	\$ -	\$ 13,403	\$ 8,660	\$ 22,063
Depletion and depreciation**	\$ 190	\$ 2,557	\$ 2,055	\$ 4,802
Selling, general and administrative expenses*	\$ 3,530	\$ 737	\$ 684	\$ 4,951
Exploration and evaluation costs	\$ 104	\$ -	\$ 42	\$ 146
Restructuring costs	\$ 308	\$ 59	\$ 132	\$ 499
Write-off of mineral properties	\$ -	\$ -	\$ 125	\$ 125
Other material non-cash items	\$ -	\$ 53	\$ 20	\$ 73
Interest income	\$ 22	\$ 57	\$ 21	\$ 100
Interest expense	\$ 100	\$ 87	\$ 60	\$ 247
(Loss) income before tax	\$ (4,019)	\$ 4,271	\$ 1,947	\$ 2,199
Income taxes	\$ 22	\$ 2,218	\$ 223	\$ 2,463
(Loss) income for the period	\$ (4,040)	\$ 2,052	\$ 1,724	\$ (264)
Capital expenditures***	\$ 2	\$ 4,571	\$ 7,244	\$ 11,817

* cost of sales and selling, general and administrative expenses includes depletion and depreciation

** included in cost of sales or selling, general and administrative expenses

*** segmented capital expenditures are presented on a cash basis

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14. Segmented Information (continued)

Reportable Segments	Corporate	Bateas	Cuzcatlan	Total
Nine months ended September 30, 2014				
Sales to external customers	\$ -	\$ 51,223	\$ 84,960	\$ 136,183
Silver-gold concentrates	\$ -	\$ -	\$ 84,960	\$ 84,960
Silver-lead concentrates	\$ -	\$ 37,643	\$ -	\$ 37,643
Zinc concentrates	\$ -	\$ 13,580	\$ -	\$ 13,580
Cost of sales*	\$ -	\$ 38,021	\$ 47,961	\$ 85,982
Depletion and depreciation**	\$ 359	\$ 5,519	\$ 12,060	\$ 17,938
Selling, general and administrative expenses*	\$ 13,535	\$ 2,846	\$ 3,635	\$ 20,016
Other material non-cash items	\$ -	\$ 78	\$ 10	\$ 88
Interest income	\$ 66	\$ 72	\$ 58	\$ 196
Interest expense	\$ 300	\$ 285	\$ 257	\$ 842
(Loss) income before tax	\$ (13,769)	\$ 10,065	\$ 33,155	\$ 29,451
Income taxes	\$ 321	\$ 3,812	\$ 9,773	\$ 13,906
(Loss) income for the period	\$ (14,090)	\$ 6,253	\$ 23,382	\$ 15,545
Capital expenditures***	\$ 57	\$ 7,252	\$ 24,143	\$ 31,452

* cost of sales and selling, general and administrative expenses includes depletion and depreciation

** included in cost of sales or selling, general and administrative expenses

*** segmented capital expenditures are presented on a cash basis

Reportable Segments	Corporate	Bateas	Cuzcatlan	Total
Nine months ended September 30, 2013				
Sales to external customers	\$ -	\$ 55,964	\$ 45,053	\$ 101,017
Silver-gold concentrates	\$ -	\$ -	\$ 45,053	\$ 45,053
Silver-lead concentrates	\$ -	\$ 44,530	\$ -	\$ 44,530
Zinc concentrates	\$ -	\$ 11,434	\$ -	\$ 11,434
Cost of sales*	\$ -	\$ 40,748	\$ 28,867	\$ 69,615
Depletion and depreciation**	\$ 495	\$ 7,652	\$ 6,506	\$ 14,653
Selling, general and administrative expenses*	\$ 10,704	\$ 2,836	\$ 2,675	\$ 16,215
Exploration and evaluation costs	\$ 375	\$ -	\$ 42	\$ 417
Restructuring costs	\$ 308	\$ 59	\$ 132	\$ 499
Write-off of mineral properties	\$ -	\$ -	\$ 501	\$ 501
Other material non-cash items	\$ -	\$ 36	\$ 51	\$ 87
Impairment of mineral properties, plant and equipment	\$ -	\$ 15,000	\$ -	\$ 15,000
Interest income	\$ 79	\$ 366	\$ 74	\$ 519
Interest expense	\$ 271	\$ 228	\$ 186	\$ 685
(Loss) income before tax	\$ (11,579)	\$ (2,577)	\$ 12,673	\$ (1,483)
Income taxes	\$ (57)	\$ 583	\$ 2,161	\$ 2,687
(Loss) income for the period	\$ (11,522)	\$ (3,160)	\$ 10,512	\$ (4,170)
Capital expenditures***	\$ 97	\$ 17,542	\$ 33,683	\$ 51,322

* cost of sales and selling, general and administrative expenses includes depletion and depreciation

** included in cost of sales or selling, general and administrative expenses

*** segmented capital expenditures are presented on a cash basis

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14. Segmented Information (continued)

Reportable Segments	Corporate		Bateas		Cuzcatlan		Total
As at September 30, 2014							
Mineral properties, plant and equipment	\$	556	\$	65,788	\$	165,554	\$ 231,898
Total assets	\$	19,477	\$	110,701	\$	212,235	\$ 342,413
Total liabilities	\$	7,701	\$	19,157	\$	47,688	\$ 74,546
As at December 31, 2013							
Mineral properties, plant and equipment	\$	670	\$	64,197	\$	152,094	\$ 216,961
Total assets	\$	25,191	\$	104,398	\$	172,626	\$ 302,215
Total liabilities	\$	4,715	\$	19,091	\$	30,749	\$ 54,555

The segment information by geographical region as at September 30, 2014 and December 31, 2013 are as follows:

Reportable Segments	Canada			Peru		Mexico		Total
Three months ended September 30, 2014								
Sales to external customers by product	\$	-	\$	17,868	\$	28,516	\$	46,384
Silver-gold concentrates	\$	-	\$	-	\$	28,516	\$	28,516
Silver-lead concentrates	\$	-	\$	12,736	\$	-	\$	12,736
Zinc concentrates	\$	-	\$	5,132	\$	-	\$	5,132
Three months ended September 30, 2013								
Sales to external customers by product	\$	-	\$	18,552	\$	11,651	\$	30,203
Silver-gold concentrates	\$	-	\$	-	\$	11,651	\$	11,651
Silver-lead concentrates	\$	-	\$	14,866	\$	-	\$	14,866
Zinc concentrates	\$	-	\$	3,686	\$	-	\$	3,686
Nine months ended September 30, 2014								
Sales to external customers	\$	-	\$	51,223	\$	84,960	\$	136,183
Silver-gold concentrates	\$	-	\$	-	\$	84,960	\$	84,960
Silver-lead concentrates	\$	-	\$	37,643	\$	-	\$	37,643
Zinc concentrates	\$	-	\$	13,580	\$	-	\$	13,580
Nine months ended September 30, 2013								
Sales to external customers	\$	-	\$	55,964	\$	45,053	\$	101,017
Silver-gold concentrates	\$	-	\$	-	\$	45,053	\$	45,053
Silver-lead concentrates	\$	-	\$	44,530	\$	-	\$	44,530
Zinc concentrates	\$	-	\$	11,434	\$	-	\$	11,434

Reportable Segments	Canada		Peru		Mexico		Total
As at September 30, 2014							
Non current assets	\$	2,534	\$	66,554	\$	163,877	\$ 232,965
As at December 31, 2013							
Non current assets	\$	3,038	\$	64,938	\$	151,018	\$ 218,994

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14. Segmented Information (continued)

For the three and nine months ended September 30, 2014, there were six (2013: four and six) customers, respectively, represented 100% of total sales to external customers as follows:

External Sales									
by Customer and Region	Three months ended September 30,				Nine months ended September 30,				
	2014		2013		2014		2013		
Customer 1	\$ 12,747	71%	\$ 11,357	61%	\$ 25,288	49%	\$ 19,250	34%	
Customer 2	(12)	0%	7,195	39%	12,324	24%	36,717	66%	
Customer 3	-	0%	-	0%	-	0%	9	0%	
Customer 4	4,785	27%	-	0%	13,263	26%	(12)	0%	
Customer 5	348	2%	-	0%	348	1%	-	0%	
Bateas/Peru	\$ 17,868	100%	\$ 18,552	100%	\$ 51,223	100%	\$ 55,964	100%	
% of total sales	39%		61%		38%		55%		
Customer 1	\$ 3,904	14%	\$ 12,213	105%	\$ 40,030	47%	\$ 43,920	97%	
Customer 2	-	0%	(562)	-5%	-	0%	1,133	3%	
Customer 3	24,612	86%	-	0%	44,930	53%	-	0%	
Cuzcatlan/Mexico	\$ 28,516	100%	\$ 11,651	100%	\$ 84,960	100%	\$ 45,053	100%	
% of total sales	61%		39%		62%		45%		
Consolidated	\$ 46,384	100%	\$ 30,203	100%	\$ 136,183	100%	\$ 101,017	100%	
% of total sales	100%		100%		100%		100%		

15. Contingencies and Capital Commitments**a) Bank Letter of Guarantee**

The Caylloma mine closure plan was approved in November 2009 with total closure costs of \$3,587 of which \$1,756 is subject to annual collateral in the form of a letter of guarantee, to be awarded each year in increments of \$146 over 12 years based on the estimated life of the mine. In March 2013 the closure plan was updated with total closure costs of \$7,996 of which \$4,167 is subject to annual collateral in the form of a letter of guarantee.

Scotiabank Peru, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian mining regulatory agency in compliance with local regulation and to collateralize Bateas' mine closure plan, in the amount of \$1,204 (2013: \$1,204). This bank letter of guarantee expires on December 31, 2014.

Scotiabank Peru, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian Energy and Mining Ministry to collateralize Bateas's regulatory compliance with the electric transmission line project, in the amount of \$3 (2013: \$3). This bank letter of guarantee expires on December 11, 2014.

FORTUNA SILVER MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**

(All amounts in US\$'000's unless otherwise stated)

15. Contingencies and Capital Commitments (continued)**a) Bank Letter of Guarantee (continued)**

Scotiabank Peru, a third party, has established a bank letter of guarantee, for office rental, on behalf of Bateas in favor of Centro Empresarial Nuevo Mundo S.A.C., in the amount of \$58. This bank letter of guarantee expires on July 18, 2015.

b) Capital Commitments

As at September 30, 2014, \$7 of capital commitments not disclosed elsewhere in the Financial Statements, and forecasted to be expended within one year, includes \$7 for tailing dam development at the San Jose property.

c) Other Commitments

The Company has a contract to guarantee power supply at its Caylloma mine. Under the contract, the seller is obligated to deliver a "maximum committed demand" (for the present term this stands at 3,500 kW) and the Company is obligated to purchase subject to exemptions under provisions of "Force Majeure". The contract is automatically renewed every two years for a period of 10 years and expiring in 2017. Renewal can be avoided without penalties by notification 10 months in advance of renewal date.

Tariffs are established annually by the energy market regulator in accordance with applicable regulations in Peru. The minimum committed demand is \$19 per month and the average monthly charge for 2014 is \$202.

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business. Refer to Note 13. d).

The expected payments due by period as at September 30, 2014 are as follows:

	Expected payments due by period as at September 30, 2014			
	Less than			
	1 year	1 - 3 years	4 - 5 years	Total
Office premises - Canada	\$ 137	\$ 471	\$ 110	\$ 718
Office premises - Peru	393	680	-	1,073
Office premises - Mexico	14	-	-	14
Total office premises	\$ 544	\$ 1,151	\$ 110	\$ 1,805
Computer equipment - Peru	163	140	-	303
Computer equipment - Mexico	15	-	-	15
Total computer equipment	\$ 178	\$ 140	\$ -	\$ 318
Total operating leases	\$ 722	\$ 1,291	\$ 110	\$ 2,123

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15. Contingencies and Capital Commitments (continued)**d) Other Contingencies**

The Company is subject to various investigations, claims, legal, labor and tax proceedings covering matters that arise in the ordinary course of business activities. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably to the Company. Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company. In the opinion of management none of these matters are expected to have a material effect on the results of operations or financial conditions of the Company.

16. Subsequent event up to November 10, 2014

Subsequent to September 30, 2014 the vesting of 84,463 RSU was accelerated and \$397 was paid to a former officer of the Company. In addition, the Company cancelled 10,296 RSU and accelerated vesting of 8,473 RSU and \$31 was paid to a former employee of the Company.