UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 40-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2015 **Commission File Number: 001-35297**

FORTUNA SILVER MINES INC.

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English (if applicable))

British Columbia, Canada
(Province or other jurisdiction of incorporation or organization)

1040	**N/A**
(Primary Standard Industrial Classification Code Number (if applicable))	(I.R.S. Employer Identification Number (if applicable))

200 Burrard Street, Suite 650
Vancouver, British Columbia, Canada V6C 3L6
604-484-4085
(Address and telephone number of Registrant's principal executive offices)

National Corporate Research, Ltd.
10 East 40th Street, 10th Floor
New York, New York 10016
(212) 947-7200
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	**Name of each exchange on which registered**
Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

For annual reports indicate by check mark the information filed with this Form:

þ Annual information form þ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer 's classes of capital or common stock as of the close of the period covered by the annual report:

There were 128,240,567 common shares with no par value outstanding as of December 31, 2015.

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

Yes þ No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes o No o

DISCLOSURE REGARDING CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

Disclosure controls and procedures are defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as those controls and procedures designed to ensure that information required to be disclosed in the annual filings and interim filings and other reports filed or submitted by Fortuna Silver Mines Inc. (the "Company") under the Exchange Act is duly recorded, processed, summarized and reported, within the time periods specified in rules and forms of the United States Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports and filings is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as appropriate, to allow timely decisions regarding required disclosure.

The Company evaluated, with the participation of its CEO and CFO, the effectiveness of its disclosure controls and procedures as of December 31, 2015. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this annual report on Form 40-F, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings and other reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within time periods specified in SEC rules and forms and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Notwithstanding the foregoing, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company and its subsidiaries to disclose material information otherwise required to be set forth in the Company's periodic reports. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objective of ensuring that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is communicated to management to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Controls Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) and has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

In designing and evaluating the Company's internal control over financial reporting, the Company's management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its reasonable judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (1992)*. Based on this assessment, management believes that, as of December 31, 2015, the Company's internal control over financial reporting was effective based on those criteria. See "Internal Control Over Financial Reporting" in the Management's Discussion and Analysis for the fiscal year ended December 31, 2015, included as Exhibit 99.3 to this annual report on Form 40-F.

Attestation Report of the Registered Public Accounting Firm. This annual report on Form 40-F does not include an attestation report of the Company's registered public accounting firm because the Company is exempt from such requirement due to its status as an "emerging growth company" under the Jumpstart Our Business Startups Act.

Changes in Internal Control Over Financial Reporting. During the fiscal year ended December 31, 2015, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

None.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Company has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the audit committee are: Messrs. Robert Gilmore, Thomas Kelly and David Farrell. The board of directors has determined that

each of Messrs. Robert Gilmore, Thomas Kelly and David Farrell is independent, as that term is defined in Rule 10A-3 under the Exchange Act and the Listed Company Manual of the New York Stock Exchange.

AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors of the Company has determined that Robert Gilmore, a member of the Company's audit committee, qualifies as an audit committee financial expert for purposes of paragraph (8) of General Instruction B to Form 40-F. The SEC has indicated that the designation of Robert Gilmore as an audit committee financial expert does not make him an "expert" for any purpose, impose any duties, obligations or liabilities on him that are greater than those imposed on members of the audit committee and the board of directors who do not carry this designation or affect the duties, obligations or liabilities of any other member of the audit committee or the board of directors.

CODE OF ETHICS

The Company has adopted a "code of ethics" (as that term is defined in Form 40-F), entitled the "Code of Business Conduct and Ethics and Whistle-Blower Policy", that applies to all of its directors, officers, employees, and consultants including its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions.

The Code of Business Conduct and Ethics and Whistle-Blower Policy is available for viewing on the Company's website at www.fortunasilver.com under "About Fortuna / Corporate Governance".

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deloitte LLP served as the Company's Independent Registered Public Accounting Firm for the fiscal years ended December 31, 2015 and 2014. Aggregate fees (in Canadian dollars) billed to the Company for professional services rendered by Deloitte LLP during the fiscal years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Audit Fees	$661,970	$507,462
Audit-Related Fees	$72,774	Nil
Tax Fees	$129,988	$150,805
All Other Fees	Nil	Nil
	$864,732	$658,267

"Audit Fees" are the aggregate fees billed for the audit of the Company's consolidated annual financial statements, review of the interim financial statements and management's discussion and analysis, or services that are normally provided in connection with statutory and regulatory filings or engagements.

"Audit-Related Fees" are fees charged for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees".

"Tax Fees" are fees for professional services rendered for tax compliance, tax advice on actual or contemplated transactions, and tax planning.

"All Other Fees" are for amounts not included in the categories above.

PRE-APPROVAL POLICIES AND PROCEDURES

The auditors of the Company obtain, as necessary, the pre-approval of the Audit Committee for any anticipated additional services required of the auditors for the coming fiscal year. If other service requirements arise during the year, the Audit Committee will pre-approve such services at that time, prior to the commencement of such services. Of the total aggregate fees paid by the Company to its auditors during the fiscal year ended December 31, 2015, $nil or 0% of the fees were approved by the Audit Committee pursuant to the de minimus exception provided by Section (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

The required disclosure is included in Notes 17(d) and 24 of the Company's audited consolidated financial statements for the fiscal years ended December 31, 2015 and 2014, filed as part of this annual report on Form 40-F in Exhibit 99.2, and under the headings "Financial Instruments and Related Risks – Liquidity Risk" and "Off-Balance Sheet Arrangements" in the Company's Management's Discussion and Analysis for the fiscal year ended December 31, 2015, filed as part of this annual report on Form 40-F in Exhibit 99.3.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The required disclosure is included under the heading "Contractual Obligations" of the Company's Management's Discussion and Analysis for the fiscal year ended December 31, 2015, filed as part of this annual report on Form 40-F in Exhibit 99.3.

MINE SAFETY DISCLOSURE

The Company is not required to disclose the information required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE

The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and Rule 405 under the United States Securities Act of 1933, as amended, and the Company's common shares are listed on the New York Stock Exchange (the "NYSE"). Sections 103.00, 303A.00 and 303A.11 of the NYSE Listed Company Manual permit foreign private issuers to follow home country practices in lieu of certain provisions of the NYSE Listed Company Manual. A foreign private issuer that follows home country practices in lieu of certain provisions of the NYSE Listed Company Manual must disclose any significant ways in which its corporate governance practices differ from those followed by domestic companies either on its website or in the annual report that it distributes to shareholders in the United States. A description of the significant ways in which the Company's governance practices differ from those followed by domestic companies pursuant to NYSE standards is disclosed on the Company's website at www.fortunasilver.com under "About Fortuna/Corporate Governance / NYSE".

The Company's corporate governance practices, as described on its website, are consistent with the laws, customs and practices in Canada.

INTERACTIVE DATA FILE

The Company is not currently required to submit to the SEC, or post to its corporate website, an Interactive Data File.

UNDERTAKING

The Company undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the SEC staff, and to furnish promptly, when requested to do so by the SEC staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

CONSENT TO SERVICE OF PROCESS

A Form F-X signed by the Company and its agent for service of process has been previously filed with the SEC together with the Company's Registration Statement on Form 40-F (File No. 001-35297) in connection with its securities registered on such form.

Any changes to the name or address of the agent for service of process of the Company shall be communicated promptly to the SEC by an amendment to the Form F-X referencing the file number of the Company.

SIGNATURE

Pursuant to the requirements of the Exchange Act, the Company certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 29, 2016

FORTUNA SILVER MINES INC.

By: *"Jorge Ganoza Durant"*

Name: Jorge Ganoza Durant
Title: President, Chief Executive Officer & Director

EXHIBIT INDEX

Exhibit	Description
99.1	Annual Information Form for the year ended December 31, 2015
99.2	Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014, including the auditor's report with respect thereto
99.3	Management's Discussion and Analysis for the year ended December 31, 2015
99.4	Consent of Deloitte LLP
99.5	Consent of Eric N. Chapman
99.6	Consent of Thomas Kelly

99.7	Consent of Edwin Gutierrez
99.8	Consent of Thomas Vehrs
99.9	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.10	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.11	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.12	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



FORTUNA
SILVER MINES INC.

ANNUAL INFORMATION FORM

For the Fiscal Year Ended December 31, 2015

DATED: March 24, 2016

CORPORATE OFFICE

Suite 650, 200 Burrard Street
Vancouver, BC V6C 3L6, Canada
Tel: 604.484.4085
Fax: 604.484.4029

MANAGEMENT HEAD OFFICE

Piso 5, Av. Jorge Chávez #154
Miraflores, Lima, Peru
Tel: 511.616.6060, ext. 2

TABLE OF CONTENTS

PRELIMINARY NOTES	**1**
Cautionary Statement – Forward Looking Statements	1
Cautionary Note to U.S. Investors	2
Documents Incorporated by Reference	4
Date of Information	4
Currency	4
CORPORATE STRUCTURE	**4**
Name, Address and Incorporation	4
Intercorporate Relationships	4
GENERAL DEVELOPMENT OF THE BUSINESS	**5**
Three-Year History and Recent Developments	5
DESCRIPTION OF THE BUSINESS	**10**
General	10
Risk Factors	11
Material Mineral Properties	17
Caylloma Mine, Peru	17
San Jose Mine, Mexico	19
DIVIDENDS	**23**
DESCRIPTION OF CAPITAL STRUCTURE	**23**
MARKET FOR SECURITIES	**23**
Trading Price and Volume	23
DIRECTORS AND EXECUTIVE OFFICERS	**24**
Name, Occupation and Shareholding	24
Cease Trade Orders or Bankruptcies	25
Penalties or Sanctions	26
Conflicts of Interest	26

AUDIT COMMITTEE 26

LEGAL PROCEEDINGS 28

TRANSFER AGENT AND REGISTRAR 28

MATERIAL CONTRACTS 28

INTERESTS OF EXPERTS 28
Names of Experts 28
Interests of Experts 28

ADDITIONAL INFORMATION 29

Audit Committee Charter **Schedule "A"**

PRELIMINARY NOTES

Cautionary Statement – Forward-Looking Statements

Certain statements contained in this Annual Information Form ("AIF") and any documents incorporated by reference into this AIF constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Section 21E of the United States Securities Exchange Act of 1934, as amended, and forward-looking information within the meaning of applicable Canadian securities legislation (collectively, "forward-looking statements"). All statements included herein, other than statements of historical fact, are forward-looking statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the forward-looking statements. The forward-looking statements in this AIF include, without limitation, statements relating to:

- mineral "reserves" and "resources" as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future;
- timing of the completion of construction activities at the Company's properties and their completion on budget;
- production rates at the Company's properties;
- cash cost estimates;
- timing for delivery of materials and equipment for the Company's properties;
- the sufficiency of the Company's cash position and its ability to raise equity capital or access debt facilities;
- the Company's planned processing and estimated major investments for mine development, plant expansion, filter facility and dry-stack tailings deposit project, and brownfields exploration at the San Jose property during 2016;
- the Company's planned processing and estimated major investments for mine development, plant optimization and brownfields exploration at the Caylloma property during 2016;
- maturities of the Company's financial liabilities, finance leases and other contractual commitments;
- expiry dates of bank letters of guarantee;
- estimated mine closure costs; and
- management's expectation that any investigations, claims, and legal, labor and tax proceedings arising in the ordinary course of business will not have a material effect on the results of operations or financial condition of the Company.

Often, but not always, these forward-looking statements can be identified by the use of words such as "anticipates", "believes", "plans", "estimates", "expects", "forecasts", "scheduled", "targets", "possible", "strategy", "potential", "intends", "advance", "goal", "objective", "projects", "budget", "calculates" or statements that events, "will", "may", "could" or "should" occur or be achieved and similar expressions, including negative variations.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the forward-looking statements. Such uncertainties and factors include, among others:

- uncertainty of mineral resource and reserve estimates;
- risks associated with mineral exploration and project development;
- operational risks associated with mining and mineral processing;
- uncertainty relating to concentrate treatment charges and transportation costs;
- uncertainty relating to capital and operating costs, production schedules, and economic returns;
- uncertainties relating to general economic conditions;
- competition;
- substantial reliance on the Caylloma and San Jose mines for revenues;
- risks related to the integration of businesses and assets acquired by the Company;
- potential legal proceedings;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- fluctuations in metal prices;
- risks associated with entering into commodity forward and option contracts for base metals production;
- environmental matters including potential liability claims;

- reliance on key personnel;
- potential conflicts of interest involving the Company's directors and officers;
- property title matters;
- dilution from further equity financing;
- uncertainty of future dividends;
- currency exchange rate fluctuations;
- adequacy of insurance coverage;
- sufficiency of monies allotted for land reclamation; and
- uncertainty relating to the enforcement of U.S. judgments against the Company;

as well as those factors referred to in the "Risk Factors" section in this AIF.

Forward-looking Statements contained in this AIF are based on the assumptions, beliefs, expectations and opinions of management, including but not limited to:

- all required third party contractual, regulatory and governmental approvals will be obtained for the exploration, development, construction and production of its properties;
- there being no significant disruptions affecting operations, whether relating to labor, supply, power, damage to equipment or other matter;
- permitting, construction, development and expansion proceeding on a basis consistent with the Company's current expectations;
- expected trends and specific assumptions regarding metal prices and currency exchange rates;
- prices for and availability of fuel, electricity, parts and equipment and other key supplies remaining consistent with current levels;
- production forecasts meeting expectations; and
- the accuracy of the Company's current mineral resource and reserve estimates.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. These forward-looking statements are made as of the date of this AIF. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. Except as required by law, the Company does not assume the obligation to revise or update these forward looking-statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events.

CAUTIONARY NOTE TO U.S. INVESTORS

The Company is a Canadian "foreign private issuer" as defined in Rule 3b-4 under the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"), which is permitted to prepare the technical information contained herein in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of U.S. securities laws. The terms "mineral resource," "measured resource," "indicated resource" and "inferred resource" used in the Company's disclosure are Canadian mining terms that are defined in accordance with National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Best Practice Guidelines for the Estimation of Mineral Resources and Mineral Reserves (the "CIM Standards"), adopted by the CIM Council on November 23, 2003. These terms, however, are not recognized by SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the United States Securities and Exchange Commission (the "SEC"). In particular, the term "resource" does not equate to the term "reserve". Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made.

Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally

mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC Industry Guide 7 standards as in place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the SEC.

Accordingly, information contained in this AIF containing descriptions of the Company's mineral deposits may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

Documents Incorporated by Reference

The information provided in this AIF is supplemented by disclosure contained in the documents listed below which are incorporated by reference into this AIF. These documents must be read together with the AIF in order to provide full, true and plain disclosure of all material facts relating to Fortuna Silver Mines Inc. (referred to herein as the "Company" or "Fortuna"). The documents listed below are not contained within or attached to this document. The documents may be accessed on SEDAR at www.sedar.com under the Company's profile, Fortuna Silver Mines Inc.:

Document	Effective Date / Period Ended	Date Filed on SEDAR website	Document Category on the SEDAR website
Management Information Circular	May 4, 2015	May 12, 2015	Management Proxy / Information Circular - English
Technical Report, Caylloma Property, Peru	March 22, 2013	March 26, and April 15, 2013	Technical Report(s)
Technical Report, San Jose Property, Mexico	November 22, 2013	November 29, 2013	Technical Report(s)

Date of Information

This AIF is dated March 24, 2016. Except as otherwise indicated, the information contained herein is as at December 31, 2015, being the date of the Company's most recently completed financial year end.

Currency

Unless otherwise noted, all references to "$" in this AIF refer to United States dollars.

CORPORATE STRUCTURE

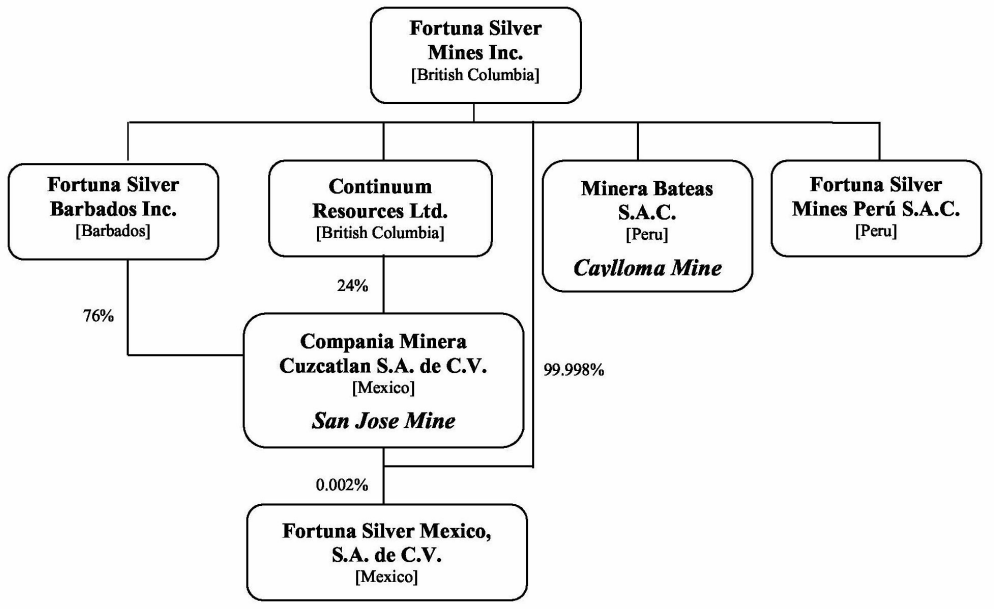
Name, Address and Incorporation

The Company was incorporated on September 4, 1990 pursuant to the Company Act (British Columbia) under the name Jopec Resources Ltd. and subsequently transitioned under the Business Corporations Act (British Columbia). On February 3, 1999, the Company changed its name to Fortuna Ventures Inc. and on June 28, 2005 to Fortuna Silver Mines Inc.

The management head office of the Company is located at Piso 5, Av. Jorge Chávez #154, Miraflores, Lima, Peru. The corporate head and registered office of the Company is located at 200 Burrard Street, Suite 650, Vancouver, BC V6C 3L6.

Intercorporate Relationships

The Company carries on a significant portion of its business through a number of 100%-owned subsidiaries, held either directly or indirectly, as follows:



GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History and Recent Developments

San Jose Mine, Mexico

Located in the state of Oaxaca in southern Mexico, the 100% owned San Jose property covers a high-grade silver-gold bearing epithermal vein system.

Commercial production of the San Jose mine commenced on September 1, 2011 at an initial rate of 1,000 tpd. In 2012, San Jose completed its first full year of operation, producing 1,949,178 ounces of silver and 17,918 ounces of gold. In 2013, the Company produced at San Jose 2.5 million ounces of silver and 19,031 ounces of gold, an increase over 2012 of 30% and 6%, respectively. The increased production resulted from the ramp-up to 1,800 tpd in the fourth quarter of 2013.

Cash cost per tonne of processed ore at San Jose for 2013 was $71.41, a decrease of 4% from 2012 and 3% higher than forecast. The decrease resulted mainly from the ramp-up of production to 1,800 tpd in the fourth quarter of 2013. Cash cost per payable ounce of silver for 2013 was $6.53, net of by-product credits, compared to $3.76 in the prior year, mainly due to lower gold credits related to lower gold prices.

In 2014, the Company produced at San Jose 4.4 million ounces of silver and 33,496 ounces of gold, an increase over 2013 of 74% and 76%, respectively. The increases are the result of higher throughput of 48% and of higher head grade for silver and gold of 16% and 18%, respectively. The San Jose mine and processing plant were expanded to 2,000 tpd in April 2014. Compared to guidance for the year, silver and gold production were 10% and 9% higher, respectively.

Cash cost per tonne of processed ore at San Jose for 2014 was $62.99/t, or 12% below the cost in the prior year due mainly to higher throughput, a 4% devaluation of the peso, and lower mining cost related to support and preparation, and below the annual guidance of $67.10/t. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $12.07 for 2014, below the annual guidance of $14.43.

Capital expenditures at San Jose were $29.0 million in 2014, in line with forecast. Main capital projects for 2014 included $12.3 million for tailings dam expansion and evaporation control, $6.0 million for brownfields exploration, and $4.8 million for mine development.

In 2015, the Company produced at San Jose 4.9 million ounces of silver and 38,526 ounces of gold, an increase over 2014 of 12% and 15%, respectively. The increase in metal production is the result of 6% higher throughput; 4% and 6% higher head grades for silver and gold, respectively; and 2% higher metallurgical recovery for both silver and gold. Annual average head grades for silver and gold were 234 g/t and 1.83 g/t or 9 percent and 10 percent above plan.

Cash cost per tonne of processed ore at San Jose for 2015 was $58.83/t, or 7% below the cost in the prior year and 6% below the annual guidance of $62.70/t. The devaluation of the Mexican peso throughout the year had a positive effect of $4.43/t on costs. Excluding this effect, cash cost was 1% above 2014. All-in sustaining cash cost per payable ounce of silver, net of by-product credits for 2015, was $12.86 or 21% below the annual guidance of $16.27/oz, as a result of lower unit costs and lower sustaining capital expenditures.

During 2016, the Company plans to process at San Jose 875,000 tonnes of ore averaging 230 g/t Ag and 1.65 g/t Au. Capital investments for 2016 are estimated to be $46 million. Of this amount, the major investments are anticipated to include $21.9 million for 3,000 tpd mill expansion; $4.5 million for dry stack tailings deposit (of which $1.0 million is related to the mill expansion), $7.0 million for mine development; and $8.2 million for brownfields exploration.

The budget for the 2016 brownfields exploration program at the San Jose mine includes 22,000 meters of diamond drilling and the development of a 1,500 meter underground exploration drift that will allow better access to test the northern extension of the Trinidad North vein system. Exploration drilling is in progress at the Trinidad Central zone in the San Jose Mine and at La Noria/San Antonio vein system, a parallel vein system located two kilometers to the west of the San Jose Mine area.

Caylloma Mine, Peru

The Company owns a 100% interest in the Caylloma mine and related mining concessions located in southern Peru.

In 2013, the Company produced at Caylloma 2.1 million ounces of silver and 2,212 ounces of gold. Silver production was 3% higher year over year in spite of 2% lower head grades, mainly due to improved metallurgical recoveries of 82% versus 77% the previous year. Higher zinc head grades and recovery resulted in a 13% year over year increase in zinc production, while 4% lower lead head grade, offset by 4% higher recovery resulted in a 1% year over year reduction in lead production.

Cash cost per tonne of processed ore at Caylloma for 2013 was $91.23, an increase of 5% from 2012 and 1% higher than forecast. The increase resulted mainly from higher community relations expense related to the completion of Caylloma's Mini Colliseum and higher distribution costs related to lower base metal concentrate grades. Cash cost per payable ounce of silver for 2013 was $7.65, net of by-product credits, compared to $8.07 in the prior year.

Capital expenditures at Caylloma were $22.1 million in 2013, in line with forecast. Main capital projects for 2013 included $4.0 million for brownfields exploration, $5.4 million for mine camp, and $4.1 million for tailings dam expansion. The new tailings facility was commissioned in

January 2013.

In 2014, the Company produced at Caylloma 2.2 million ounces of silver and 1,820 ounces of gold. Silver production was 5% above production in the prior year due to higher metallurgical recovery and slightly higher head grade. Zinc production increased 9% as a result of higher head grade and higher metallurgical recoveries. Lead production decreased 9% because of reduced head grade. Caylloma exceeded its annual production guidance of 2.0 million ounces of silver.

Cash cost per tonne at Caylloma for 2014 was $90.57 per tonne of processed ore, a decrease of 1% from the prior year and 3% above annual guidance. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, at Caylloma for 2014 was $14.13, 17% below the annual guidance of $17.01.

Capital expenditures at Caylloma were $9.9 million in 2014, in line with forecast. Main capital projects for 2014 included $5.1 million for mine development, $4.0 million for equipment and infrastructure, and $0.8 million for brownfields exploration.

In 2015, the Company produced at Caylloma 1.7 million ounces of silver and 1,163 ounces of gold. Silver production was 23% below production in the prior year due to the decision to shift mining to base metal-rich zones in the polymetallic Animas Vein. Mining at the high-grade Bateas Vein stopped in the fourth quarter of 2015. Decrease in silver production was the result of lower production from the Bateas high-grade silver vein and from Level 6 of the Animas Vein. Zinc and lead production increased 31% and 48%, respectively, year-over-year. Caylloma's silver production was 11% below the revised guidance of 1.9 million ounces.

Cash cost per tonne of processed ore at Caylloma for 2015 was $85.76/t, or 5% below the cost in the prior year and 5% below the annual guidance of $90.30/t, due to lower indirect costs related to headcount, lower distribution costs related to zinc concentrate transport tariffs, and a 14% devaluation of the Peruvian Nuevo Sol. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, for 2015 was $13.56, above the annual guidance of $12.78/oz.

During 2016, the Company plans to process at Caylloma 503,100 tonnes averaging 89 g/t silver, 4.08% Pb and 4.37% Zn. A 10% increase in mill throughput from 1,300 tpd to 1,430 tpd took effect in March. Capital expenditures for 2016 are estimated to be $12.9 million. Of this amount, the major investments are anticipated to include $6.4 million for mine development; $1.0 million for processing plant optimization; and $2.9 million for brownfields exploration.

The budget for the 2016 brownfields exploration program at Caylloma includes 17,000 meters of diamond drilling. Drilling will be focused on testing new exploration targets in the northern portion of the Caylloma District and in the Pisacca prospect area located a short distance to the southwest of the processing plant, as well as further exploring the northeastern extension of the Animas Vein.

Updated Reserve and Resource Estimates – Caylloma and San Jose Mines

The Company released Mineral Reserve and Mineral Resource estimates for Caylloma in March 2013 and for San Jose in October 2013, as set forth in the Caylloma Report and the San Jose Report described below under "Description of the Business - Material Mineral Properties". Updated Mineral Reserve and Mineral Resource estimates for San Jose as at June 30, 2014 were released on September 30, 2014; for both Caylloma and San Jose as at December 31, 2014 were released in March 2015; and for both Caylloma and San Jose as at December 31, 2015 were released on March 24, 2016. A summary of the December 31, 2015 estimates is as follows:

Highlights of Reserve and Resource Update

- Combined Proven and Probable Reserves for Caylloma and San Jose are reported at 5.8 Mt containing 35.9 Moz silver and 229.2 koz gold, representing year-over-year decreases of 13 percent in contained silver ounces and 9 percent in contained gold ounces
- Combined Inferred Resources for Caylloma and San Jose are reported at 10.0 Mt containing an estimated 69.3 Moz silver and 404.6 koz gold, reflecting year-over-year decreases of 10 percent in contained silver ounces and 16 percent in contained gold ounces
- Proven and Probable Reserves for San Jose are reported at 3.8 Mt containing 28.2 Moz silver and 210 koz gold. There is no variation for silver and a 4 percent decrease in contained gold ounces with respect to 2014.
- Proven and Probable Reserves for Caylloma are reported at 2 Mt containing 7.7 Moz silver. This represents a year-over-year decrease of 41 percent in contained silver ounces.

Mineral Reserves - Proven and Probable							**Contained Metal**	
Property	**Classification**	**Tonnes (000)**	**Ag (g/t)**	**Au (g/t)**	**Pb (%)**	**Zn (%)**	**Ag (Moz)**	**Au (koz)**
Caylloma Mine, Peru	Proven	254	138	0.47	2.05	2.34	1.1	3.8
	Probable	1,724	119	0.28	2.95	3.73	6.6	15.4
	Proven + Probable	1,979	121	0.30	2.83	3.55	7.7	19.3
San Jose Mine, Mexico	Proven	282	237	1.84	N/A	N/A	2.1	16.7
	Probable	3,498	232	1.72	N/A	N/A	26.0	193.3
	Proven + Probable	3,780	232	1.73	N/A	N/A	28.2	209.9
Total	**Proven + Probable**	**5,759**	**194**	**1.24**	**N/A**	**N/A**	**35.9**	**229.2**

Mineral Resources - Measured and Indicated	**Contained Metal**

Property	Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (Moz)	Au (koz)
Caylloma Mine, Peru	Measured	582	82	0.36	1.11	2.16	1.5	6.7
	Indicated	1,269	84	0.31	1.14	2.10	3.4	12.7
	Measured + Indicated	1,851	84	0.32	1.13	2.12	5.0	19.3
San Jose Mine, Mexico	Measured	64	89	0.71	N/A	N/A	0.2	1.5
	Indicated	780	84	0.72	N/A	N/A	2.1	18.1
	Measured + Indicated	844	84	0.72	N/A	N/A	2.3	19.6
Total	**Measured + Indicated**	**2,695**	**84**	**0.45**	**N/A**	**N/A**	**7.3**	**38.9**

Mineral Resources – Inferred							**Contained Metal**	
Property	**Classification**	**Tonnes (000)**	**Ag (g/t)**	**Au (g/t)**	**Pb (%)**	**Zn (%)**	**Ag (Moz)**	**Au (koz)**
Caylloma Mine, Peru	Inferred	3,392	132	0.59	2.20	3.30	14.3	64.7
San Jose Mine, Mexico	Inferred	6,561	261	1.61	N/A	N/A	55.0	339.9
Total	**Inferred**	**9,953**	**217**	**1.26**	**N/A**	**N/A**	**69.3**	**404.6**

Notes:
1. Mineral Reserves and Mineral Resources are as defined by CIM Definition Standards on Mineral Resources and Mineral Reserves
2. Mineral Resources are exclusive of Mineral Reserves
3. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability
4. There are no known legal, political, environmental, or other risks that could materially affect potential development of the Mineral Resources or Mineral Reserves at Caylloma or San Jose.
5. Mineral Resources and Mineral Reserves estimated as of June 30, 2015 and reported as of December 31, 2015 taking into account production-related depletion for the period through December 31, 2015
6. Mineral Reserves for San Jose are estimated using a break-even cut-off grade of 137 Ag Eq g/t based on assumed metal prices of US$ 19/oz Ag and US$ 1,140/oz Au; estimated metallurgical recovery rates of 89% for Ag and 89% for Au and actual operating costs incurred in period June 2014 through May 2015. Mineral Resources are estimated at a Ag Eq cut-off grade of 100 g/t, with Ag Eq in g/t = Ag (g/t) + Au (g/t)* ((US$1,140/US$19) * (89/89))

7. Mineral Reserves for Caylloma are estimated using break-even cut-off grades based on estimated NSR values using assumed metal prices of US$19/oz Ag, US$1,140/oz Au, US$2,150/t Pb and US$2300/t Zn; metallurgical recovery rates of 84.5% for Ag, 39.5% for Au, 92.6% for Pb and 89.9% for Zn; and actual operating costs incurred in period July 2014 through June 2015. Caylloma Mineral Resource are reported based on NSR values using the same metal prices and metallurgical recovery rates as detailed for Mineral Reserves; and an NSR cut-off grade of US$50/t for veins classified as wide (Animas, Animas NE, Nancy, San Cristobal) and US$100/t for veins classified as narrow (all other veins)
8. Total may not add due to rounding procedures
9. N/A = Not Applicable

San Jose Mine, Mexico

As of December 31, 2015, the San Jose Mine has Proven and Probable Mineral Reserves of 3.8 Mt containing 28.2 Moz of silver and 210 koz of gold, in addition to Inferred Resources of 6.6 Mt containing a further 55 Moz of silver and 340 koz of gold.

Year-over-year, Mineral Reserves remained constant in tonnes and in contained silver and decreased 4 percent in contained gold after net changes resulting from production-related depletion and upgrades of new reserves through infill drilling . Silver grades remained essentially flat at 232 g/t and gold grades decreased 5 percent to 1.73 g/t.

Infill drilling was successful in upgrading from Inferred Resources to new Mineral Reserves approximately 1.2 Mt averaging 277 g/t Ag and 1.93 g/t Au reported for the Stockwork, Bonanza, and Trinidad veins.

Measured and Indicated Resources exclusive of Mineral Reserves decreased 15 percent year-over-year to approximately 0.8 Mt due to improved conversion of resources to reserves.

Year-over-year, Inferred Resources decreased 7 percent and 15 percent in contained silver and gold ounces, respectively. Silver grade remained flat and gold grade decreased by 8 percent. The net variation is primarily explained by additions through exploration offset by reductions from upgrading of Inferred Resources by infill drilling in the Trinidad North and Central Stockwork zones and geological reinterpretation of previously modeled veins.

Brownfields exploration budget for 2016 at San Jose is $8.2 million, which includes 22,000 meters of diamond drilling and the development of a 1,500 meter underground exploration drift that will allow better access to test the northern extension of the Trinidad North vein system. Exploration drilling is in progress at the Trinidad Central zone in the San Jose Mine and at the La Noria/San Antonio vein system, a parallel vein system located two kilometers to the west of the San Jose Mine area. The company disclosed further details of San Jose's brownfields exploration program on December 16, 2015 (refer to "Fortuna provides year-end update for the San Jose Mine, Mexico").

Caylloma Mine, Peru

As of December 31, 2015, the Caylloma Mine has Proven and Probable Mineral Reserves of 2.0 Mt containing 7.7 Moz of silver and 19.3 koz of

gold, in addition to Inferred Resources of 3.4 Mt containing 14.3 Moz of silver and 64.7 koz of gold.

Mineral Reserves decreased 41 percent in contained silver ounces compared to 2014. The loss of ounces is explained primarily by the update of geological models from June 2014, the net loss to mining related depletion, higher cutoff and dilution applied to narrow veins, and changes to commercial terms. The loss in reserve tonnage is lower than the silver loss, at 35 percent due to the gain in base metal credits from additions to reserves from base metal rich zones. Silver grade decreased 9 percent to 121 g/t, lead grade increased 26 percent to 2.83 %, and zinc grade increased 13 percent to 3.55 %.

Year-over-year, Measured and Indicated Resources, exclusive of Mineral Reserves, increased by 9 percent to 1.9 Mt due to the negative impact on reserves of commercial terms and the geological reinterpretation of the ore deposit.

Inferred Resources decreased by 0.96 Mt or 22 percent to 3.4 Mt, silver grades remained flat, and lead and zinc grades increased by 11 percent and 4 percent, respectively. The decrease in Inferred Resources is primarily due to the upgrading of resources through infill drilling, and changes in the geological interpretation of the mineralized zones.

Brownfields exploration budget for 2016 at the Caylloma Mine is $2.9 million, which includes 17,000 meters of diamond drilling. Drilling will be focused on testing new exploration targets in the northern portion of the Caylloma District and in the Pisacca prospect area located a short distance to the southwest of the plant as well as further exploring the northeastern extension of the Animas Vein.

Qualified Persons

The Mineral Resource estimates have been prepared under the supervision of Eric Chapman, Mineral Resource Manager of Fortuna Silver Mines Inc. The Mineral Reserve estimate and the Mineral Resource estimate exclusive of Mineral Reserves were prepared under the supervision of Edwin Gutierrez, Technical Services Corporate Manager for Fortuna Silver Mines Inc.

E. Chapman and E. Gutierrez are Qualified Persons as defined by the National Instrument 43-101. Mr. Gutierrez is a Registered Member of the Society for Mining, Metallurgy and Exploration, Inc. (SME Registered Member Number 4119110RM) and is responsible for ensuring that the information contained in this AIF relating to the updated Mineral Resources and Mineral Reserves is an accurate summary of the original reports and data provided to or developed by the Company.

Credit Facility

In April 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 (the “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 the Company’s material subsidiaries 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 have been drawn from the Credit Facility.

In March 2015, the Company entered into an amended and restated credit agreement with the Bank of Nova Scotia for a $60 million senior secured financing (the “2015 Credit Facility”) consisting of a $40 million credit facility with a 4 year term and a $20 million revolving credit facility for a two year period. The 2015 Credit Facility is secured by a first ranking lien on the Company’s material subsidiaries and their assets, and bears interest and fees at prevailing market rates. The Company drew down the $40 million credit facility on April 1, 2015.

The proceeds of the credit facility may be used for working capital requirements and general corporate purposes. The facility is intended to complement Fortuna’s strong cash position and provide additional financing flexibility during the expansion to 3,000 tpd of the San Jose mine.

Along with the $40 million term loan, the Company entered into an interest rate swap of $40 million and notional amount of $40 million which expires at the same time as the maturity of the bank loan. The interest rate swap was entered into to hedge the variable interest rate risk on the bank loan, and is designated as a cash flow hedge for forecasted variable interest rate payments.

DESCRIPTION OF THE BUSINESS

General

Summary. The Company is engaged in silver and gold mining and related activities, including exploration, extraction, and processing. The Company operates the Caylloma mine in Peru and the San Jose mine in Mexico.

The lead-silver, zinc, and gold-silver concentrates produced by the Company at its Caylloma mine in Peru and its San Jose mine in Mexico are sold to international metals traders who in turn deliver the products to different clients around the world. The material sources of revenue for 2015 and 2014 are as follows:

By type of concentrate:	2015	2014
Ÿ Lead-silver concentrate	24%	28%

Ÿ Zinc concentrate	11%	10%
Ÿ Gold-silver concentrate	65%	62%

By metal contained in concentrate:	2015	2014
Ÿ Silver	58%	64%
Ÿ Lead	9%	7%
Ÿ Zinc	11%	10%
Ÿ Gold	22%	19%

Production Methods. The method of production both at Caylloma and San Jose consists of underground mining principally through cut and fill mechanized operations. Extracted ore is trucked to a conventional crushing, milling and flotation processing plant which consists of zinc, and lead-silver flotation circuits for Caylloma, and a gold-silver circuit for San Jose.

Specialized Skill and Knowledge. All aspects of the Company's business require specialized skills and knowledge. Such skills and knowledge include the areas of geology, mining, metallurgy, engineering, environment issues, permitting, social issues, and accounting. While competition in the resource mining industry can make it difficult to locate and retain competent employees in such fields, the Company has been successful in finding and retaining personnel for the majority of its key processes. Management considers training and re-training of its staff to be a priority.

Competitive Conditions. The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral property interests, as well as for the recruitment and retention of qualified employees.

Environmental Protection. The Company is currently in compliance with all material environmental regulations applicable to its exploration, development, construction and operating activities. The financial and operational effects of environmental protection requirements on the Company's capital expenditures, earnings, and competitive position during the fiscal year ended December 31, 2015 were not material. The Company has recorded in its financial statements for the year 2015 a provision for decommissioning and restoration liabilities which reflects future environmental obligations associated with the Caylloma and San Jose mine closure plans.

Employees. The Company and its subsidiaries have 686 direct employees and 1,182 indirect employees through contractors.

Foreign Operations. The Company's material mineral resource properties are located in Peru and Mexico, each of which has a stable government, and a mature mining industry and regulatory environment.

Health and Safety, Social and Environmental Policies . The Company is committed to maintaining the health and safety of its personnel by minimizing hazards and providing training and safe equipment. A strong safety culture is encouraged so that all employees are empowered to report and address safety issues.

The Company has built strong relationships with the communities in which it operates, and is dedicated to innovative, sustainable projects and partnerships that build company engagement in local communities while respecting their values, customs and traditions.

The Company is committed to complying in all material respects with all environmental laws and regulations applicable to its activities. It interacts proactively with authorities and communicates openly about its activities. The Company works directly and collaboratively with local communities to protect and preserve the environment.

Risk Factors

The Company's ability to generate revenues and profits from its natural resource properties is subject to a number of risks and uncertainties including, without limitation, the following:

Risks Related to the Caylloma and San Jose Mines

Operating hazards and risks. Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Hazards such as unusual or unexpected formations and other conditions can occur. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damages. The Company may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. Any compensation for such liabilities may have a material, adverse effect on the Company's financial position.

Concentrate treatment charges and transportation costs. The Company has entered into agreements to sell its concentrate production from the Caylloma and San Jose mines for 2016. Smelting and refining rates are similar to contract rates established for 2015. There is no assurance that the Company will be able to enter into smelting and refining contracts at similar competitive terms beyond 2016. The cost of transporting concentrate from the Mines to the smelters is dependent on, among other things, the concentrate destination. Transportation related costs have been volatile over the last several years and could continue to be volatile due to a number of factors, including changes in the price of oil, or a shortage in the number of vessels available to ship concentrate to smelters. Increases in these rates would have an adverse impact on the Company's results of operations and financial condition.

Risks Relating to the Company

Capital and operating costs, production schedules, and economic returns. The Company's expected operating costs and expenditures, production schedules, economic returns and other projections from a mining project which are contained in this document and in any technical reports, scoping studies, pre-feasibility studies and feasibility studies prepared for or by the Company are based on assumed or estimated future metals prices, cut-off grades, operating costs, capital costs, and expenditures and other factors any of which may prove to be inaccurate. Therefore, feasibility studies and other studies and reports may prove to be unreliable.

The Company's operating costs are affected by the cost of commodities and goods such as steel, cement, explosives, fuel, electrical power and supplies, including reagents. Management prepares its cost and production guidance and other forecasts based on its review of current and estimated future costs, and assumes that the materials and supplies required for operations will be available for purchase. As the Company relies on certain third-party suppliers and contractors, these factors can be outside our control and an increase in the costs of, or a lack of availability of, commodities and goods may have an adverse impact on the Company's financial condition.

General economic conditions. Turmoil in global financial markets in recent years has had a profound impact on the global economy. Many industries, including the precious and base metals mining industry, have been impacted by these market conditions. Some of the key impacts have included contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. The sovereign debt crisis in Europe and the recent economic slowdown in China have been some of the most visible risks to world financial stability. A continued or worsened slowdown in economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's growth and profitability. Specifically:

- Under a worst case scenario a new global credit/liquidity crisis could impact the cost and availability of financing and the Company's overall market liquidity;
- the volatility of metal prices could impact the Company's revenues, profits, losses and cash flow;
- volatile energy prices, commodity and consumables prices and currency exchange rates could impact the Company's production costs; and

- the devaluation and volatility of global stock markets, which are not related to the Company's operations or assets, could impact the valuation of the Company's equity and other securities.

These factors could have a material adverse effect on the Company's financial condition and results of operations.

Competition. The mining industry is intensely competitive in all of its phases, and such competition could adversely affect the Company's ability to acquire suitable resource properties in the future.

Substantial reliance on the Caylloma and San Jose Mines . All of the Company's revenues were generated by the Caylloma mine until September 2011 when commercial production commenced at the San Jose mine. For 2016, the Company anticipates that all of its revenue will come from the Caylloma and San Jose mines. Unless the Company develops or acquires additional properties or projects, the Company will remain largely dependent upon the operation of the Caylloma and San Jose mines for its future revenue and profits, if any. If for any reason production at either mine was reduced or stopped, the Company's revenues and profits would decrease significantly.

Additional businesses and assets may not be successfully integrated. The Company undertakes evaluations of opportunities to acquire additional mining assets and businesses. Any acquisitions may be significant in size, may change the scale of the Company's business, may require additional capital, and/or may expose the Company to new geographic, political, operating, financial and geological risks. The Company's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, acquire them on acceptable terms, and integrate their operations successfully. Any acquisitions would be accompanied by risks such as a significant decline in the relevant metal price after the Company commits to complete an acquisition on certain terms; the quality of the mineral deposit acquired proving to be lower than expected; the difficulty of assimilating the operations and personnel of any acquired companies; the potential disruption of the Company's ongoing business; the inability of management to realize anticipated synergies and maximize the financial and strategic position of the Company; the failure to maintain uniform standards, controls, procedures and policies; the impairment of relationships with employees, customers and contractors as a result of any integration of new management personnel, and the potential unknown liabilities associated with acquired assets and businesses. There can be no assurance that any assets or business acquired will prove to be profitable or that the Company will be able to integrate the required businesses successfully, which could slow the Company's rate of expansion and the Company's business, results of operations and financial condition could suffer.

Fortuna may need additional capital to finance other acquisitions. If the Company obtains further debt financing, it will be exposed to the risk of leverage and its operations could become subject to restrictive loan and lease covenants and undertakings. If the Company obtains equity financing, existing shareholders may suffer dilution. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such financings.

Political and country risk. The Company conducts, or will conduct, exploration, development and production activity in a number of countries, namely Peru and Mexico and potentially others. The State of Oaxaca in Mexico has a history of social conflicts and political agitation which can lead to public demonstrations and blockades that can from time to time affect the Company's operations. The Company is not able to determine the impact of potential political, social, economic or other risks on its future financial position, which include:

- Cancellation or renegotiation of contracts;
- Changes in foreign laws or regulations;

- Changes in tax laws;
- Royalty and tax increases or claims by governmental entities;
- Retroactive tax or royalty claims;
- Expropriation or nationalization of property;
- Inflation of costs that is not compensated by a currency devaluation;
- Restrictions on the remittance of dividend and interest payments offshore;
- Environmental controls and permitting;
- Opposition from local community members or non-governmental organizations;
- Civil strife, acts of war, guerrilla activities, insurrection and terrorism, and
- Other risks arising out of foreign sovereignty over the areas in which the Company's operations are conducted.

Such risks could potentially arise in any country in which the Company operates. Furthermore, in the event of a dispute arising from such activities, the Company may be subject to the exclusive jurisdiction of courts outside North America or may not be successful in subjecting persons to the jurisdiction of the courts in North America, which could adversely affect the outcome of a dispute.

Metal prices and marketability. The marketability of any metals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling facilities, metal markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting metals and environmental protection.

The price of the common shares of the Company, the Company's financial results and exploration, development and mining activities may in the future be significantly adversely affected by declines in the price of silver, gold or other metals. The price of silver, gold or other metals fluctuates widely and is affected by numerous factors beyond the Company's control such as the sale or purchase of metals by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, the political and economic conditions of major metal-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future serious price declines in the market value of silver, gold or other metals could cause continued development of and commercial production from the Company's properties to be impracticable. Depending on the price of silver, gold and other metals, cash flow from mining operations may not be sufficient and the Company could be forced to discontinue production and may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's mining properties is dependent upon the prices of silver, gold and other metals being adequate to make these properties economic.

In addition to adversely affecting the Company's reserve estimates and its financial condition, declining metal prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Commodity forward and option contracts for base metals production. From time to time the Company may enter into agreements to receive fixed prices on any metal production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases.

Government regulation. Operations, development and exploration on the Company's properties are affected to varying degrees by political stability and government regulations relating to such matters as environmental protection, health, safety and labour, mining law reform, restrictions on production, price controls, tax increases, maintenance of claims, tenure, and expropriation of property. There is no assurance that future changes in such regulations, if any, will not adversely affect the Company's operations.

The activities of the Company require licenses and permits from various governmental authorities. While the Company currently has been granted the requisite licenses and permits to enable it to carry on its existing business and operations, there can be no assurance that the Company will be able to obtain all the necessary licenses and permits which may be required to carry out exploration, development and mining operations for its projects. In rare circumstances, the Company might find itself in situations where the state of compliance with regulation and permits can be subject to interpretation and challenge from authorities that could carry risk of fines or temporary stoppage.

Environmental matters. All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the Company's properties which

are unknown to the Company at present which have been caused by previous or existing owners or operators of the properties.

Dependence on key personnel. The Company is dependent on a number of key management and employee personnel. The Company's ability to manage its exploration, development, construction and operating activities, and hence its success, will depend in large part on the ability to retain current personnel and attract and retain new personnel, including management, technical and unskilled employees. The loss of the services of one or more key management personnel, as well as a prolonged labor disruption, could have a material adverse effect on the Company's ability to successfully manage and expand its affairs.

The Company's ability to recruit and assimilate new personnel will be critical to its performance. The Company will be required to recruit additional personnel and to train, motivate and manage its employees. The international mining industry is very active and the Company is facing increased competition for personnel in all disciplines and areas of operation, including geology and project management, and there can be no assurance that it will be able to retain current personnel and attract and retain new personnel.

Director and officer conflicts of interest. Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. In such case, the Company's directors and officers comply with conflict of interest provisions in Canadian corporate law, including relevant securities regulatory instruments, in order to ensure that they exercise independent judgment in considering transactions and agreements in respect of which a director or officer has a material interest.

Title to properties. Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and, therefore the precise area and location of the properties may be in doubt. The Company's properties may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by unidentified or unknown defects. The Company has conducted as thorough investigation as possible on the title of properties that it has acquired or will be acquiring to be certain that there are no other claims or agreements that could affect its title to the properties.

Dilution from further equity financing. If the Company raises additional funding by issuing equity securities, such financing may substantially dilute the interests of existing shareholders of the Company and reduce the value of their investment.

Foreign currency. The Company's activities and operations in Mexico and Peru make it subject to foreign currency fluctuations. The Company's operating expenses are primarily incurred in Mexican pesos and Peruvian Sol, and the fluctuation of the US dollar in relation to these currencies will consequently have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

Exploration and development, and infrastructure. Development of the Company's non-producing properties will only follow upon obtaining satisfactory exploration results that confirm economically recoverable and saleable volumes of minerals and metal. The business of mineral exploration and development is speculative in nature and involve a high degree of risk, as few properties which are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of reserves of commercial ore. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish resources and reserves through drilling and development and for mining and processing facilities and infrastructure. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis. Economic feasibility of a project is based on several other factors including anticipated metallurgical recoveries, environmental considerations and permitting, future metal prices, and timely completion of the development plan.

Completion of the development of the Company's advanced projects is subject to various requirements, including the availability and timing of acceptable arrangements for power, water, transportation, access and facilities. The lack of, or delay in, availability of any one or more of these items could prevent or delay development of the Company's advanced projects. There can be no assurance that adequate infrastructure, including road access, will be built, that it will be built in a timely manner or that the cost of such infrastructure will be reasonable or that it will sufficiently satisfy the requirements of the advanced projects. As well, accidents or sabotage could affect the provision or maintenance of adequate infrastructure.

The Company's operations require water, and its San Jose mine is located in a region where water is scarce. While the Company believes it holds sufficient water rights to support its current operations, future developments could limit the amount of water available to the Company. New water development projects, or climatic conditions such as extended drought, could adversely affect the Company. There can be no guarantee that the Company will be successful in maintaining adequate supplies of water for its operations.

Insurance. Where practical, a reasonable amount of insurance is maintained against risks in the Company's operations, but coverage has exclusions and limitations. There is no assurance that the Company's insurance will be adequate to cover all liabilities or that it will continue to be available and at terms that are economically acceptable. Losses from un-insured or under-insured events may cause the Company to incur significant costs that could have a material adverse effect on its financial performance.

Estimation of mineral resources and reserves and precious metal recoveries. There is a degree of uncertainty attributable to the estimation of resources and reserves and to expected mineral grades. Mineral resources and mineral reserves may require revision based on actual production experience. Market fluctuations in the price of metals, as well as increased production costs and reduced recovery rates, may render certain mineral reserves uneconomic and may ultimately result in a restatement of mineral resources and/or reserves. Short term operating factors relating to the mineral resources and reserves, such as the need for sequential development of ore bodies may adversely affect the Company's profitability in any accounting period.

Reclamation. There is a risk that monies allotted for land reclamation may not be sufficient to cover all risks, due to changes in the nature of the waste rock or tailings and/or revisions to government regulations. Therefore, additional funds, or reclamation bonds or other forms of financial assurance may be required over the tenure of the project to cover potential risks. These additional costs may have material adverse impact on the financial condition and results of the Company.

Uncertainty of funding. The Company's operating cash flow from the Caylloma and San Jose mines may not be sufficient to cover the current costs of exploration and development of the Company's other, non-producing properties. Exploration and development activities may be dependent upon the Company's ability to obtain financing through joint venturing, equity or debt financing or other means, and although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain additional financing or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of some of its projects.

Uncertainty of dividends on its common shares. The Company has paid no dividends on its common shares since incorporation and does not anticipate paying dividends in the immediate future. Payment of any future dividends will be at the discretion of the Company's Board of Directors (the "Board") after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

Legal Proceedings. Due to the nature of its business, the Company may be subject to numerous regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of its business. The results of these legal proceedings cannot be predicted with certainty due to the uncertainty inherent in litigation, including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and juries and the possibility that decisions may be reversed on appeal. There can be no assurances that these matters will not have a material adverse effect on the Company's business.

U.S. investors may have difficulty enforcing U.S. judgments against the Company. The Company is incorporated under the laws of British Columbia, Canada and the majority of the Company's directors and officers are not

residents of the U.S. Consequently, it may be difficult for U.S. investors to effect service of process within the United States upon the Company or upon such persons who are not residents of the United States, or to realize in the United States upon judgments of U.S. courts predicated upon civil liabilities under U.S. securities laws. A judgment of a U.S. court predicated solely upon such civil liabilities may be enforceable in Canada by a Canadian court if the U.S. court in which the judgment was obtained had jurisdiction, as determined by the Canadian court, in the matter. There is substantial doubt whether an original action could be brought successfully in Canada against any of such persons or the Company predicated solely upon such civil liabilities.

Material Mineral Properties

The Company has two material mineral projects, described below.

Caylloma Mine, Peru

The Company owns a 100% interest in the Caylloma mine, Peru.

The following is the Summary from the technical report (the "Caylloma Report") entitled "Fortuna Silver Mines Inc.: Caylloma Property, Caylloma District, Peru" dated as of March 22, 2013, as amended April 15, 2013, prepared by Eric N. Chapman and Thomas Kelly. The full text of the Caylloma Report is available for viewing on SEDAR at www.sedar.com and is incorporated by reference in this AIF. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the Caylloma Report.

Summary

This Technical Report refers to the Caylloma property, an operating underground mine located in the Caylloma Province, Peru. Since June 2005, the Caylloma property has been 100 % owned by Minera Bateas S.A.C. (Minera Bateas), a Peruvian subsidiary of Fortuna Silver Mines Inc. (Fortuna).

The Caylloma property is located in the Caylloma Mining District, 225 kilometers north-northwest of Arequipa, Peru. The property is within the historical mining district of Caylloma, northwest of the Caylloma caldera complex and southwest of the Chonta caldera complex. Host rocks at the Caylloma property are volcanic in nature, belonging to the Tacaza Group. Mineralization is in the form of low to intermediate sulfidation epithermal vein systems.

Epithermal veins at the Caylloma property are characterized by minerals such as pyrite, sphalerite, galena, chalcopyrite, marcasite, native gold, stibnite, argentopyrite, and silver-bearing sulfosalts (tetrahedrite, polybasite, pyrargyrite, stephanite, stromeyerite, jalpite, miargyrite and bournonite). These are accompanied by gangue minerals, such as quartz, rhodonite, rhodochrosite, johannsenite (manganese-pyroxene) and calcite.

There are two different types of mineralization at Caylloma; the first is comprised of silver-rich veins with low concentrations of base metals and includes the Bateas, Bateas Techo, La Plata, Cimoide La Plata, San Cristóbal, San Pedro, San Carlos, Paralela, and Ramal Paralela veins. The second type of vein is polymetallic in nature with elevated lead, zinc, copper, silver and gold grades and includes the Animas, Animas NE, Santa Catalina, Soledad, Silvia, Pilar, Patricia, and Nancy veins.

Underground operations are presently focused on mining the Animas and Bateas veins. Exploration in 2012 focused on the expansion and delineation of the Animas and Animas NE veins as well as the exploration of the recently discovered Nancy vein.

The 2012 Mineral Resource update has relied on channel and drill hole sample information obtained by Minera Bateas since 2005. Mineralized domains identifying potentially economically extractable material were modeled for each vein and used to code drill holes and channel samples for geostatistical analysis, block modeling and grade interpolation by ordinary kriging or inverse distance weighting.

Mineral Resource and Mineral Reserve estimates for the Caylloma property are reported as of December 31, 2012 and detailed in Table 1.1 and Table 1.2.

Economic values (NSR) for each mining block take into account the commercial terms of 2012, the average metallurgical recovery, the average grade in concentrate and long term projected metal prices. Mineral Reserves have been reported above a break-even cut-off value calculated for each vein, based on NSR values and operating costs. Mineral Resources have been reported above a US$30/t cut-off value based on NSR values.

Mineral Resources are categorized as Measured, Indicated and Inferred. The criteria used for classification includes, the number of samples, spatial distribution, distance to block centroid, kriging efficiency (KE) and slope of regression (ZZ).

Mineral Reserve estimates have considered only Measured and Indicated Mineral Resources as only these categories have sufficient geological confidence to be considered Mineral Reserves (CIM, 2010). Subject to the application of certain economic and mining-related qualifying factors, Measured Resources may become Proven Reserves and Indicated Resources may become Probable Reserves.

Table 1.1 Mineral Reserves as of December 31, 2012

Vein type	Category	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal	
							Ag (Moz)	Au (koz)
Silver Veins	Proven	11	872	0.06	0.43	0.64	0.3	0.0
	Probable	246	386	0.96	0.31	0.51	3.1	7.6
	Proven +Probable	257	407	0.93	0.31	0.51	3.4	7.7
Polymetallic Veins	Proven	1,242	92	0.33	1.48	2.20	3.7	13.2
	Probable	2,809	121	0.33	1.66	2.27	10.9	30.2
	Proven +Probable	4,052	112	0.33	1.60	2.25	14.6	43.4
Combined-All Veins	Proven	1,253	99	0.33	1.47	2.19	4.0	13.2
	Probable	3,055	142	0.38	1.55	2.13	14.0	37.8
	Proven +Probable	4,308	130	0.37	1.52	2.15	17.9	51.1

Table 1.2 Mineral Resources as of December 31, 2012

Category	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal	
						Ag (Moz)	Ag (Moz)
Measured	431	72	0.30	0.88	1.53	1.0	4.2
Indicated	1,170	82	0.34	0.75	1.40	3.1	12.8
Measured + Indicated	1,601	79	0.33	0.79	1.43	4.1	17.0
Inferred	6,633	101	0.27	1.84	2.58	21.5	58.5

Notes

- Mineral Reserves and Mineral Resources are as defined by CIM Definition Standards on Mineral Resources and Mineral Reserves
- Mineral Resources are exclusive of Mineral Reserves
- Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability
- There are no known legal, political, environmental, or other risks that could materially affect the potential development of the Mineral Resources or Mineral Reserves at Caylloma or San Jose.
- Mineral Resources and Mineral Reserves are estimated as of June 30, 2012 and reported as of December 31, 2012 taking into account production-related depletion for the period of July 1, 2012 through December 31, 2012 with the exception of the Animas and Animas NE veins which were re-estimated using all exploration drilling information as of December 31, 2012
- Mineral Reserves are reported above a NSR breakeven cut-off of US$74.69/t for Animas, Animas NE, and San Cristóbal; US$226.77/t for Bateas, Cimoide La Plata, and La Plata; US$138.34/t for Soledad, Silvia, and Santa Catalina

- Mineral Resources are reported above a NSR cut-off of US$30/t
- Metal prices used in the NSR evaluation for Mineral Reserves are US$29.36/oz for silver, US$1,544/oz for gold, US$2,245/t for lead and US$2,139/t for zinc
- Metal prices used in the NSR evaluation for Mineral Resources are US$25.14/oz for silver, US$1,391.63/oz for gold, US$2,116/t for lead and US$2,006/t for zinc
- Metallurgical recovery values used in the NSR evaluation of sulfides are 82 % for silver, 45 % for gold, 93 % for lead, and 88 % for zinc;

and of oxides are 64 % for silver, 45 % for gold, 46 % for lead, and 30 % for zinc

- Operating costs were estimated based on 2012 actual costs
- Tonnes are rounded to the nearest thousand
- The quantity and grade of the Inferred Resources reported in this estimation are conceptual in nature, and it is uncertain if further exploration will result in upgrading of Inferred Resources to Indicated or Measured Resource categories
- Totals may not add due to rounding

Minera Bateas continues to successfully manage the operation, mining 462,000 t of ore from underground to produce 2.0 Moz of silver, 2.8 koz of gold, 17.9 Mlbs of lead, and 22.4 Mlbs of zinc in 2012 while continuing to improve the mine infrastructure.

Fortuna believes there is good potential for a significant increase of the Mineral Resources at the Caylloma property particularly from the continuity of the current veins in operation as well as from the discovery of new veins. During 2012 important exploration projects were developed and new exploration targets were identified. Fortuna is committed in continuing its intensive exploration program, budgeting US$ 6.7 million to continue developing ongoing exploration projects over identified structures as well as the discovery of new targets. In addition to this US$ 4 million has been budgeted for work designed to upgrade Inferred Resources.

The construction of the first stage of the new tailings facility (N° 3) with 15 years life at a 1,300 tpd design capacity, as well as the granting of the operation permit by the Ministry of Energy and Mines in December 2012, has been a major milestone for Minera Bateas in order to assure available tailings disposal capacity for the coming years.

The mining operation has been developed under strict compliance of norms and permits required by public institutions associated with the mining sector. Furthermore, all work follows quality and safety international norms as set out in ISO 14001 and OHSAS 18000.

Minera Bateas continues developing sustainable programs to benefit the local communities including educational, nutritional and economical programs. The socio−environmental responsibilities of these programs contribute toward establishing a good relationship between the company and local communities.

This Technical Report represents the most accurate interpretation of the Mineral Reserve and Mineral Resource available at the effective date of this report. The conversion of Mineral Resources to Mineral Reserve was made using industry-recognized methods, actual operational costs, capital costs, and plant performance data. Thus, it is considered to be representative of actual and future operational conditions.

San Jose Mine, Mexico

The Company owns a 100% interest in the San Jose mine, Mexico.

The following is the Summary from the technical report (the "San Jose Report") entitled "Fortuna Silver Mines Inc.: San Jose Property, Oaxaca, México" dated as of November 22, 2013 prepared by Eric N. Chapman and Thomas Kelly. The full text of the San Jose Report is available for viewing on SEDAR at www.sedar.com and is incorporated by reference in this AIF. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the San Jose Report.

Summary

This Technical Report has been prepared by Fortuna Silver Mines Inc. (Fortuna) in accordance with the disclosure requirements of Canadian National Instrument 43-101 (NI 43-101) to disclose recent information about the San Jose operation.

The San Jose mine is located in the central portion of the state of Oaxaca, Mexico. The project site is 47 km by road south of the city of Oaxaca and 0.8 km east of federal highway 175, the major highway between Oaxaca and Puerto Angel on the Pacific coast. The village of San José del Progreso is located 2 km to the southeast of the project site.

The San Jose mine is operated by Compania Minera Cuzcatlan S.A. de C.V., a Mexican subsidiary 100 percent owned by Fortuna.

The San Jose Mine area is underlain by a thick sequence of sub-horizontal andesitic to dacitic volcanic and volcaniclastic rocks of presumed Paleogene age. These units have been significantly displaced along major north- and northwest-trending extensional fault systems with the precious metal mineralization being hosted in hydrothermal breccias, crackle breccias, and sheeted and stockwork-like zones of quartz/carbonate veins emplaced within zones of high paleopermeability associated with the extensional structures.

The mineralized structural corridor extends for more than 3 km in a north-south direction and has been subdivided into the Trinidad deposit area and the San Ignacio area. The Mineral Resource and Mineral Reserve estimates discussed in this Technical Report are located in the Trinidad deposit area.

The major mineralized structures or vein systems recognized in the Trinidad deposit area are the Trinidad and Bonanza vein systems. In addition to the major veins, secondary veins and zones of sheeted and stockworked quartz-carbonate veins are present between the Trinidad and Bonanza systems and locally in the hanging wall adjacent to the Bonanza vein system.

In the second half of 2012 and first half of 2013 an aggressive program of infill (delineation) drilling and exploration drilling was executed to define and expand the resources and reserves of the Trinidad Deposit.

Infill drilling targeted a Stockwork domain located between the Trinidad and Bonanza veins below the 1300 level. The new drilling results provided closer spaced intercepts enabling the geological interpretation to be refined and resulted in the upgrading of 1.3 Mt from an Inferred to an Indicated category with respect to the previous estimate reported as of December 31, 2012 (Fortuna, 2013b). The stockwork mineralization is characterized by moderate to high-grade material present over significant widths (averaging 27 m).

Exploration drilling targeted the Trinidad North discovery of the Trinidad Deposit with the majority of drilling being north of 1847200N and below 1200 m elevation. The drilling identified the continuation of the Bonanza and Trinidad veins, encountering numerous high-grade intercepts over significant intervals (Fortuna, 2013c; Fortuna, 2013d; Fortuna, 2013e; Fortuna, 2013g). The exploration drilling discovered 1.9 Mt of Inferred Resources averaging 269 g/t Ag and 1.67 g/t Au at a 70 g/t Ag Eq cut-off grade contributing 21.8 million silver equivalent ounces to the resource inventory.

To-date, drilling has defined the Trinidad and Bonanza vein systems over a strike length of approximately 1,000 meters and to depths exceeding 600 meters from the surface. The deposit remains open to the north and at depth.

Mineral Reserves and Mineral Resources as of July 4, 2013 are reported in Table 1.1 and Table 1.2 respectively.

Table 1.1 Mineral Reserves as of July 4, 2013

Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Contained Metal	
				Ag (Moz)	Au (koz)
Proven	314	203	2.03	2.0	20.5
Probable	3,618	196	1.67	22.8	194.6
Proven + Probable	3,933	196	1.70	24.8	215.1

Table 1.2 Mineral Resources as of July 4, 2013

Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Contained Metal	
				Ag (Moz)	Au (koz)
Measured	44	67	0.55	0.1	0.8
Indicated	844	74	0.64	2.0	17.4
Measured + Indicated	888	73	0.64	2.1	18.2
Inferred	5,422	202	1.56	35.3	272.3

Notes:

- Mineral Reserves and Mineral Resources are as defined by CIM Definition Standards on Mineral Resources and Mineral Reserves.
- Mineral Resources are exclusive of Mineral Reserves.
- Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability.
- There are no known legal, political, environmental, or other risks that could materially affect the potential development of the Mineral Resources or Mineral Reserves at San Jose.
- Mineral Resources and Mineral Reserves are estimated and reported as of July 4, 2013.
- Mineral Reserves are estimated using break-even cut-off grades based on assumed metal prices of US$24.00/oz Ag and US$1,400.00/oz Au, estimated metallurgical recovery rates of 89% for Ag and 89% for Au and projected operating costs. Mineral Resources are estimated at a Ag Equivalent cut-off grade of 70 g/t, with Ag Eq in g/t = Ag (g/t) + Au (g/t)* ((US$1,391.63/US$25.14)* (89/89)).
- Mining, processing and administrative costs were estimated based on first half of 2013 actual costs.
- Totals may not add due to rounding.

Mineral Resource estimation involved the usage of drill hole and channel samples in conjunction with underground mapping to construct three dimensional wireframes to define individual vein structures. Samples were selected inside these wireframes, coded, composited and top cuts applied if applicable. Boundaries were treated as hard with statistical and geostatistical analysis conducted on composites identified in individual veins. Silver and gold grades were estimated into a geological block model representing each vein. Primary veins including Bonanza, Trinidad, Fortuna and the Stockwork Zone were estimated by Sequential Gaussian Simulation. Secondary veins were estimated by inverse power of distance. Estimated grades were validated globally, locally, and visually prior to tabulation of the Mineral Resources.

Mineral Reserve estimates have considered only Measured and Indicated Mineral Resources as only these categories have sufficient geological confidence to be considered Mineral Reserves (CIM, 2010). Subject to the application of certain economic and mining-related qualifying factors, Measured Resources may become Proven Reserves and Indicated Resources may become Probable Reserves.

Mineral Reserves are estimated at 3.9 million tonnes as of July 4, 2013, which is sufficient for a 6.3 year life of mine considering 350 days in the year for production and a capacity rate of 1,800 tpd. Expectation is for an average annual production of approximately 3.5 million troy ounces of silver and 30 thousand troy ounces of gold based on an average 195 g/t Ag and 1.68 g/t Au head grade. Proven and Probable Reserves are estimated to contain 24.8 Moz silver and 215.1 koz gold, reflecting increases of 22 percent in contained silver ounces and 27 percent in contained gold ounces relative to the December 31, 2012 Mineral Reserves estimate. Variations from previously announced reserves and resources are the result of successful conversion of previously existing Inferred Resources to Indicated or Measured Resource categories through infill drilling partially offset by depletion through the extraction of ore during the period of Jan. 1st through June 30th of 2013. Alterations in the reserve estimation process have also led to improved spatial identification of reserves in three dimensions. Future increases in the mine life are anticipated

through the upgrading of Inferred Resources in the Trinidad North discovery (planned for 2014) and their subsequent conversion to Mineral Reserves.

Minera Cuzcatlan commenced production at the San Jose mine in September 2011 and as of June 30, 2013 had produced 3.5 Moz of silver and 31 koz of gold. The mining method applied in the exploitation of the veins is overhand cut and fill using a mechanized extraction methodology. Production capacity at the mine has been increased to 1,800 tonnes per day through a plant expansion completed in September 2013. From January 1 to June 30, 2013 the operation had processed close to 200,000 tonnes of ore from its underground mining operation and produced approximately 1.07 Moz of silver and 8.6 koz of gold. Additionally, the tailings dam capacity has been increased with the successful completion of stage 2 of the construction project raising the storage capacity to 1,427,000 m^3.

Operating costs are estimated at US$68.14 per tonne of processed ore. This is a significant improvement from previous years where this value was over US$75.00 per milled tonne. The operating costs reduction is mainly explained by the expanded ore processing throughput to 1,800 tpd which allows for the decrease of the operating fixed costs component.

Recommended projects for 2014 include:

1) **Mine Development Program**. This activity is designed to prepare the high-grade mineralized Stockwork zone at 1,200 masl, which will sustain production in 2014. Additionally, the development will aim to reach the 1,100 level so as to complete the access and allow construction of the required infrastructure for the Trinidad North discovery area.
2) **Completion of Tailing Dam Stage 3a**. This is a core project that requires an investment of US$11.6 million during 2014 and is designed to raise the height of the tailings dam, increasing storage capacity in order to sustain the operation for the next two and a half years. Fortuna is also exploring alternative solutions for future tailings storage, including using the material as back fill underground, in an attempt to reduce future capital and operating expenditures.
3) **Delineation drilling**. Minera Cuzcatlan is planning to continue the delineation drilling from underground in 2014 including in the Trinidad North discovery area. The goal of the program is to convert a total of 641,000 t of Inferred Resource to the category of Indicated Resource representing an estimated 6.6 Moz Ag Eq. To achieve this 23 drill holes totaling 6,315 m have been planned at a budgeted cost of US$1.4 million.
4) **Brownfields exploration**. The Trinidad North exploration drilling campaign is planned to continue in the last quarter of 2013 and throughout 2014. To ensure the drill holes intercept the mineralized structures at a reasonable intersection angle, the drilling will be conducted from underground. An exploration crosscut and two drilling stations have been completed on the 1300 m level and drilling from the underground drill stations was initiated in late September of 2013 to further explore the extensions of this important mineralized shoot to depth and to the north. Fifteen drill holes are planned totaling 6,310 m of drilling at a budget cost of US$1 million with additional drilling being considered to further test the northern extensions of the mineralized structures.
5) **Water evaporation control system**. This has been identified as a key strategic project to increase the water available for the operations through reduction of evaporation losses of the tailings pond by seventy percent. This will reduce the amount of water required external to the operation and lead to a further decrease in operating costs. Additionally, extra water could also be used to facilitate future increases in production. Capital expenditure budgeted for this project in 2014 is US$1.89 million.

This Technical Report represents the most accurate interpretation of the Mineral Reserve and Mineral Resource available at the effective date of this report. The conversion of Mineral Resources to Mineral Reserves was made using industry-recognized methods, actual operational costs, capital costs, and plant performance data. Thus, it is considered to be representative of actual and future operational conditions. This report has been prepared with the latest information regarding environmental and closure cost requirements.

Fortuna believes there is excellent potential to further increase the Mineral Resource at the San José property with recent drilling demonstrating the continuation of high-grade mineralization in the Trinidad North discovery with the mineralization remaining open to the north and at depth.

DIVIDENDS

The Company has not to date paid any dividends on its common shares nor does it intend to pay any dividends on its shares in the immediate future as management anticipates that all available funds will be invested to finance further acquisition, exploration and development of its mineral properties.

DESCRIPTION OF CAPITAL STRUCTURE

The Company's authorized share capital is an unlimited number of common shares without par value. All common shares of the Company rank equally as to dividends, voting powers and participation in assets and in all other respects.

Voting. The holders of common shares are entitled to receive notice of, attend and vote at any meeting of the shareholders of the Company. Each common share carries one vote per share.

Dividends. The holders of common shares are entitled to receive on a pro-rata basis such dividends as the Board from time to time may declare, out of funds legally available therefor.

Rights on Dissolution. In the event of a liquidation, winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, the holders of the common shares have the right to receive on a pro-rata basis all of the assets of the Company remaining after payment of all of the Company's liabilities.

Pre-emptive, Conversion and Other Rights. No pre-emptive, redemption, retraction, exchange, sinking fund or conversion rights are attached to the common shares, and the common shares, when fully paid, will not be liable to further call or assessment. No other class of shares may be created without the approval of the holders of the common shares.

MARKET FOR SECURITIES

The Company's common shares were listed and posted for trading on the TSX Venture Exchange ("TSXV") until January 18, 2010 when the Company graduated to the Toronto Stock Exchange ("TSX"). On September 19, 2011, the Company's common shares were listed and posted for trading on the New York Stock Exchange ("NYSE"). The Company's shares currently trade on the NYSE under the symbol "FSM", on the TSX under the symbol "FVI", and on the Frankfurt Open Market, the unofficial market organized by Deutsche Börse in Germany, under the symbol "F4S". On May 14, 2015, the Company voluntarily delisted its common shares from the Lima Stock Exchange as a very limited amount of trading of the Company's common shares occurred on such Exchange.

Trading Prices and Volume

The following table provides the high and low prices (in Canadian dollars) and volume for the Company's shares as traded on the TSX during the fiscal year ended December 31, 2015:

Period	High (CDN$)	Low (CDN$)	Volume
December 2015	3.56	3.05	5,650,785
November 2015	3.52	3.03	4,911,703
October 2015	3.95	2.84	11,188,051
September 2015	3.28	2.65	14,780,006
August 2015	4.09	2.96	7,288,379
July 2015	4.68	3.12	7,415,823
June 2015	5.00	4.43	4,714,784
May 2015	4.87	4.35	5,047,570
April 2015	5.05	4.17	7,582,526
March 2015	5.65	4.45	9,900,340
February 2015	6.30	5.23	7,359,618
January 2015	6.28	5.07	16,067,632

DIRECTORS AND EXECUTIVE OFFICERS

Name, Occupation and Shareholding

The Board presently consists of seven directors. Each director will hold office until the next annual general meeting of the Company or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the Articles of the Company, or with the provisions of the British Columbia *Business Corporations Act*.

The following are the full name, place of residence, position with the Company, and principal occupation within the preceding five years of each of the directors and executive officers of the Company:

Name, Position and Residency (1)	Principal Occupation or Employment (1)	Period as a Director of the Company
JORGE GANOZA DURANT President, Chief Executive Officer & Director Lima, Peru	President & CEO of the Company.	December 2, 2004 to present
SIMON RIDGWAY Chairman and Director British Columbia, Canada	Chairman of the Company; President & CEO of Radius Gold Inc. (mineral exploration).	January 25, 2005 to present
MICHAEL IVERSON (3) (4) Director British Columbia, Canada	Executive Vice-President (and formerly Chairman & CEO) of Niogold Mining Corporation (mineral exploration), over five years; President of Triple K Ventures Inc. (private management).	March 30, 1998 to present
MARIO SZOTLENDER (3) (4) Director Caracas, Venezuela	Independent Consultant and Director of several public mineral exploration companies.	June 16, 2008 to present

ROBERT GILMORE (2) (4) Director Colorado, USA	Independent Certified Public Accountant; Independent Financial Consultant; Director of Eldorado Gold Corporation (mining); Director of Layne Christensen Company (diversified water and mineral services).	June 23, 2010 to present

Name, Position and Residency (1)	Principal Occupation or Employment (1)	Period as a Director of the Company
THOMAS KELLY (2) Director Lima, Peru	Mining Engineer; Chief Operating Officer of Atico Mining Corp. (copper exploration & mining), March 2013 to present; CEO of Apurimac Ferrum (mineral exploration), 2011 to 2013; COO of Inca Pacific Resources, Inc. (mineral exploration), 2008 to 2010.	April 11, 2011 to present
DAVID FARRELL (2) (3) (4) Director British Columbia, Canada	President of Davisa Consulting (a private consulting company), 2011 to present; Managing Director of Mergers & Acquisitions at Endeavour Financial until October 2011.	July 15, 2013 to present
LUIS GANOZA DURANT Chief Financial Officer Lima, Peru	Chief Financial Officer of the Company.	N/A
MANUEL RUIZ-CONEJO Vice-President, Operations Lima, Peru	Vice-President, Operations of the Company, August 2011 to present; formerly Vice-President, Project Development, July 2009 to August 2011.	N/A
THOMAS VEHRS Vice-President, Exploration Colorado, USA	Vice-President, Exploration of the Company.	N/A
JOSE PACORA Vice-President, Project Development Lima, Peru	Vice-President, Project Development of the Company, November 2014 to present; Corporate Project Manager of the Company, February 2012 to November 2014; Project Manager of Pan American Silver Peru SAC (mining company), 2000 to January 2012.	N/A

Notes:
(1) The information as to country of residence, principal occupation, and shares held is not within the knowledge of the management of the Company and has been furnished by the respective individuals
(2) Member of the Audit Committee of the Company.
(3) Member of the Compensation Committee of the Company.
(4) Member of the Corporate Governance and Nominating Committee of the Company.

As at the date hereof, the directors and executive officers of the Company beneficially own or have control or direction over, directly or indirectly, an aggregate of 941,260 common shares of the Company, representing approximately 0.7% of the issued shares of the Company.

Cease Trade Orders or Bankruptcies

As at the date of the AIF and during the 10 years prior to the date of the AIF, none of the directors or executive officers of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

(a) is or has been a director or executive officer of any company (including the Company), that while that person was acting in that capacity:

(i) was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

(ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or

(iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer and shareholder.

Penalties or Sanctions

As at the date of the AIF and during the 10 years prior to the date of the AIF, none of the directors or officers of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority other than Simon Ridgway and Mario Szotlender, who are directors of a corporation that, in the past 10 years, had its registration under Section 12(g) of the U.S. Exchange Act revoked by the SEC for failure to keep its filings with the SEC up-to-date. Upon receipt of the SEC's notice of proposed revocation, the corporation filed a settlement agreement with the SEC consenting to the revocation as the corporation was dormant at the time. This corporation filed a registration statement with the SEC in January 2015 to re-register its common shares under Section 12(g) of the U.S. Exchange Act, which became effective in March 2015. The effectiveness of such registration statement removes the prior restrictions on market participants trading the corporation's shares in United States markets; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

There are no existing or potential material conflicts of interest between the Company or any of its subsidiaries and a director or officer of the Company or any subsidiary.

AUDIT COMMITTEE

Pursuant to the provisions of National Instrument 52-110 (the "Instrument"), the Company's Audit Committee has adopted a written charter (the "Charter") that sets out its mandate and responsibilities. The Charter is attached hereto as Schedule "A".

The Audit Committee is presently comprised of Robert Gilmore, Thomas Kelly and David Farrell. All members of the Committee are "independent" and "financially literate", within the meanings given to those terms in the Instrument.

The education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an audit committee member is as follows:

Audit Committee Member	Education and Experience
Robert Gilmore	Mr. Gilmore is a Certified Public Accountant and independent financial consultant with more than 35 years' experience working with resource companies. He is a graduate of the University of Denver with a Bachelor of Science degree in Business Administration, Accounting. He is Chairman of the Board and a member of the Audit and Compensation Committees of Eldorado Gold Corporation, and is a director and Audit Committee Chairman of Layne Christensen Company. Mr. Gilmore has also served as Chairman of the Audit Committees of Global Med Technologies, MK Resources, Inc., Frontera Copper Corporation and Ram Power Corporation.
Thomas Kelly	Mr. Kelly has Bachelor and Masters Degrees in Mining Engineering from the Colorado School of Mines and is a Fellow of Aus.IMM and a Registered Member of SME. He has over 35 years of world-wide mineral industry experience including underground and open pit mining, project development, project management, corporate management and consulting services. Mr. Kelly has held senior positions with Freeport-McMoRan Copper & Gold Inc., AMEC Americas, Inca Pacific Resources Inc. and other recognized industry-leading companies. He is a recognized expert in project management/development and is fluent in Spanish.

David Farrell	David Farrell is President of Davisa Consulting, a private consulting firm working with junior to mid-tier global mining companies. He formerly was Managing Director, Mergers & Acquisitions at Endeavour Financial where he successfully closed over US$25 billion worth of mergers and acquisitions transactions for junior and mid-tier natural resource companies. Before his 12 years at Endeavour Financial, Mr. Farrell was a lawyer at Stikeman Elliott, working in Vancouver, Budapest and London. He graduated from the University of British Columbia with a B.Comm (Honours, Finance) and an LL.B and was called to the bar in both British Columbia and England. Mr. Farrell is currently a director and member of the audit committee for two other junior public companies. His background has given him the required experience to understand and assess the general application of the accounting principles used by the Company and to understand internal controls and procedures for financial reporting.

The auditors of the Company, Deloitte LLP, obtain, as necessary, the pre-approval of the Audit Committee for any anticipated additional services required of the auditors for the coming fiscal year. If other service requirements arise during the year, the Audit Committee will pre-approve such services at that time, prior to the commencement of such services. No services were performed by the auditors pursuant to the *De-Minimus Non-audit Services* exemption contained in the Instrument.

During the Company's most recently completed fiscal year, the Company's auditors performed certain non-audit services. Fees charged (in Canadian dollars) by the auditors during the last two fiscal years are as follows:

	2015	**2014**
Audit Fees	$661,970	$507,462
Audit-Related Fees	$72,774	Nil
Tax Fees	$129,988	$150,805
All Other Fees	Nil	Nil
	$864,732	$658,267

"Audit Fees" are the aggregate fees billed for the audit of the Company's consolidated annual financial statements, and review of the interim financial statements and management discussion and analysis.

"Audit-Related Fees" are fees charged for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees".

"Tax Fees" are fees for professional services rendered for tax compliance and tax advice on actual or contemplated transactions.

"All Other Fees" are amounts not included in the categories above.

LEGAL PROCEEDINGS

There are no known legal proceedings involving an amount exceeding 10% of the current assets of the Company to which the Company is a party or which any of its properties is the subject during the most recently completed financial year, or any such proceedings known to the Company to be contemplated.

TRANSFER AGENT AND REGISTRAR

The Company's transfer agent and registrar is Computershare Trust Company, at its offices in Vancouver, BC and Toronto, ON.

MATERIAL CONTRACTS

There are no contracts, other than those herein disclosed in this AIF and other than those entered into in the ordinary course of the Company's business, that are material to the Company and that were entered into during the most recently completed fiscal year ended December 31, 2015 or before the most recently completed financial year, but are still in effect as of the date of this AIF.

INTERESTS OF EXPERTS

Names of Experts

Eric N. Chapman and Thomas Kelly, each a Qualified Person as defined by NI 43-101, are the authors of the Caylloma Report and the San Jose Report. In these Reports, the Mineral Resource estimates were prepared under the supervision of Mr. Chapman, and the Mineral Reserve estimate and the Mineral Resource estimate exclusive of Mineral Reserves were prepared under the supervision of Mr. Kelly.

Eric N. Chapman and Edwin A. Gutierrez, each a Qualified Person, supervised the preparation of the updated Mineral Resource and Mineral Reserve estimates for the Caylloma Mine and the San Jose Mine as at December 31, 2015 described in this AIF under the heading "General

Development of the Business – Three-Year History and Recent Developments".

Thomas Vehrs, a Qualified Person, is responsible for ensuring that the technical information contained in this AIF is an accurate summary of the original reports and data provided to or developed by the Company.

Interests of Experts

To the knowledge of the Company, the experts named above did not have any registered or beneficial interest, direct or indirect, in any securities or other property of the Company when the experts prepared their reports, other than Thomas Vehrs who currently holds 695,000 shares and 327,092 stock options in the Company.

Deloitte LLP is the independent registered public accounting firm of the Company and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information relating to the Company is available for viewing on SEDAR at www.sedar.com. Information regarding directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company's Information Circular pertaining to its Annual General Meeting held on June 18, 2015. Additional financial information is provided in the Company's audited financial statements for the fiscal year ended December 31, 2015 and the management's discussion and analysis thereon.

SCHEDULE "A"

FORTUNA SILVER MINES INC.
(the "Company")

AUDIT COMMITTEE CHARTER

PURPOSE

The primary function of the Audit Committee is to assist the Board of Directors of the Company (the 'Board") in fulfilling its oversight responsibilities by reviewing the financial information to be provided to the shareholders and others, the systems of internal controls and management information systems established by the senior officers of the Company ("Management") and the Company's internal and external audit process and monitoring compliance with the Company's legal and regulatory requirements with respect to its financial statements.

The Audit Committee is accountable to the Board. In the course of fulfilling its specific responsibilities hereunder, the Audit Committee is expected to maintain an open communication between the Company's external auditors and the Board.

The Audit Committee does not plan or perform audits or warrant the accuracy or completeness of the Company's financial statements or financial disclosure or compliance with generally accepted accounting procedures as these are the responsibility of Management.

RESPONSIBILITIES

Subject to the powers and duties of the Board, the Board hereby delegates to the Audit Committee the following powers and duties to be performed by the Audit Committee on behalf of and for the Board. Nothing in this Charter is intended to or does confer on any member a higher standard of care or diligence than that which applies to the directors as a whole.

External Auditors

The Audit Committee has primary responsibility for the selection, appointment, dismissal, compensation and oversight of the external auditors, subject to the overall approval of the Board. For this purpose, the Audit Committee may consult with Management.

The external auditors shall report directly to the Audit Committee.

Also, the Audit Committee:

a. recommends to the Board:

   i. whether the current external auditors should be nominated for reappointment for the ensuing year and if applicable, select and recommend a suitable alternative for nomination; and

   ii. the amount of compensation payable to the external auditors;

b. resolves disagreements, if any, between Management and the external auditors regarding financial reporting;

c. provides the Board with such recommendations and reports with respect to the financial statements of the Company as it deems advisable;

d. takes reasonable steps to confirm the independence of the external auditors, including but not limited to pre-approving any non-audit related services provided by the external auditors to the Company or the Company's subsidiaries, if any;

e. confirms that the external auditors are a 'participating audit' firm for the purpose of National Instrument 52-108 *Auditor Oversight* and are in compliance with governing regulations;

---

f. reviews the plan and scope of the audit to be conducted by the external auditors of the Company;

g. reviews and evaluates the performance of the external auditors; and

h. reviews and approves the Company's hiring policy regarding partners, employees and former partners and employees of the Company's present and former external auditors.

Audit and Review Process and Results

The Audit Committee has a duty to receive, review and make any inquiry regarding the completeness, accuracy and presentation of the Company's financial statements to ensure that the financial statements fairly present the financial position and risks of the organization and that they are prepared in accordance with generally accepted accounting principles. To accomplish this, the Audit Committee:

a. considers the scope and general extent of the external auditors' review, including their engagement letter and major changes to the Company's auditing and accounting principles and practices;

b. consults with management regarding the sufficiency of the Company's internal system of audit and financial controls, internal audit procedures and results of such audits;

c. ensures the external auditors have full, unrestricted access to required information and have the cooperation of management;

d. reviews with the external auditors the audit process and standards, as well as regulatory or Company-initiated changes in accounting practices and policies and the financial impact thereof, and selection or application of appropriate accounting principles;

e. reviews with the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company and the manner in which these matters are being disclosed in the financial statements;

f. reviews the appropriateness and disclosure of any off-balance sheet matters;

g. reviews disclosure of related-party transactions;

h. receives and reviews with the external auditors, the external auditors' audit report and the audited financial statements;

i. makes recommendations to the Board respecting approval of the audited financial statements;

j. meets with the external auditors separately from management to review the integrity of the Company's financial reporting, including the clarity of financial disclosure and the degree of conservatism or aggressiveness of the accounting policies and estimates, any significant disagreements or difficulties in obtaining information, adequacy of internal controls over financial reporting, adequacy of disclosure controls and procedures, and the degree of compliance by the Company with prior recommendations of the external auditors;

k. directs management to implement such changes as the Audit Committee considers appropriate, subject to any required approvals of the Board arising out of the review; and

l. meets at least annually with the external auditors, independent of management, and reports to the Board on such meetings.

Interim Financial Statements

The Audit Committee:

a. reviews and determines the Company's practice with respect to review of interim financial statements by the external auditors;

b. conducts all such reviews and discussions with the external auditors and Management as it deems appropriate; and

c. makes recommendations to the Board respecting approval of the interim financial statements.

Involvement with Management

The Audit Committee has primary responsibility for overseeing the actions of management in all aspects of financial management and reporting. The Audit Committee:

a. reviews the Company's annual and interim financial statements, Management's Discussion and Analysis and earnings press releases, if any, before the Company publicly discloses this information;

b. reviews all of the Company's public disclosure of financial information extracted from the Company's financial statements, if such financial statements have not previously been reviewed by the Committee, prior to such information being made public by the Company and for such purpose, the CFO assumes responsibility for providing the information to the Audit Committee for its review;

c. reviews material financial risks with Management, the plan that Management has implemented to monitor and deal with such risks and the success of Management in following the plan;

d. consults annually and otherwise as required with the Company's CEO and CFO respecting the adequacy of the internal controls over financial reporting and disclosure controls and procedures and reviews any breaches or deficiencies;

e. obtains such certifications of annual and interim filings by the CEO and CFO attesting to internal controls over financial reporting and disclosure controls and procedures as deemed advisable;

f. reviews Management's response to significant written reports and recommendations issued by the external auditors and the extent to which such recommendations have been implemented by Management;

g. reviews with Management the Company's compliance with applicable laws and regulations respecting financial reporting matters, and any proposed regulatory changes and their impact on the Company; and

h. reviews as required with Management and approves disclosure of the Audit Committee Charter, and Audit Committee disclosure required in the Company's Annual Information Form, Information Circular and on the Company's website.

PROCEDURAL MATTERS

The Audit Committee:

a. invites the Company's external auditors, the CFO, and such other persons as deemed appropriate by the Audit Committee to attend meetings of the Audit Committee;

b. reports material decisions and actions of the Audit Committee to the Board, together with such recommendations as the Committee may deem appropriate;

c. has the power to conduct or authorize investigations into any matter within the scope of its responsibilities;

d. has the right to engage independent counsel and other advisors as it determines necessary to carry out its duties and the right to set the compensation for any advisors employed by the Audit Committee;

---

e. has the right to communicate directly with the CFO and other members of Management who have responsibility for the internal and external audit process, as well as to communicate directly with the internal and external auditors; and

f. pre-approves non-audit services to be performed by the external auditors.

COMPOSITION

The Audit Committee is composed of a minimum of three directors, all of whom are independent and have relevant skills and/or experience in the Audit Committee's areas of responsibility as may be required by the securities laws applicable to the Company, including those of any stock exchange on which the Company's securities are traded.

Appointment of Committee Members and Vacancies

Members of the Audit Committee are appointed or confirmed by the Board annually and hold office at the pleasure of the Board. The Board fills any vacancy on, or any additional members to, the Audit Committee.

Committee Chair

The Board appoints a Chair for the Audit Committee.

STRUCTURE AND OPERATIONS

Meetings

The Chair of the Audit Committee or the Chair of the Board or any two of its members may call a meeting of the Audit Committee. The Audit Committee meets at least four times each fiscal year, and at such other times during each year as it deems appropriate.

Quorum

A majority of the members appointed to the Audit Committee constitutes a quorum.

Notice of Meetings

The Chair of the Audit Committee arranges to provide notice of the time and place of every meeting in writing (including by facsimile) to each member of the Audit Committee at least two (2) business days prior to the time fixed for such meeting, provided, however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. The Chair also ensures that an agenda for the meeting and all required materials for review by the members of the Audit Committee are delivered to the members with sufficient time for their review, or that such requirement is waived.

Absence of Committee Chair

If the Chair of the Audit Committee is not present at any meeting of the Audit Committee, the other members of the Audit Committee will be chose a Chair to preside at the meeting.

Secretary of Committee

At each meeting the Audit Committee appoints a secretary who need not be a director of the Company.

Attendance of the Company's Officers at Meetings

The Chair of the Audit Committee or any two members of the Audit Committee may invite one or more officers of the Company to attend any meeting of the Audit Committee.

Delegation

The Audit Committee may, in its discretion and where permitted by National Instrument 52-110 – Audit Committees, delegate all or a portion of its duties and responsibilities to a subcommittee, management or, to the extent otherwise permitted by applicable plans, laws or regulations, to any other body or individual.

Procedure and Records

Subject to any statute or constating documents of the Company, the Audit Committee determines its own procedures at meetings and may conduct meetings by telephone and keeps records of its proceedings.

COMPLAINTS

The Audit Committee has established a Whistle Blower Policy which sets out the procedures for:

a. the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and

b. the confidential, anonymous submission to the Company of concerns regarding questionable accounting or auditing matters.

The Audit Committee reviews the Whistle Blower Policy annually.

REPORTING AND ASSESSMENT

The Audit Committee reports to the Board of Directors, and on an annual basis, presents to the Board a Committee Annual Report consisting of the Audit Committee's review of its charter, the Committee's and its Chair's performance over the past year, and any recommendations the Audit Committee makes in respect thereto.



Fortuna Silver Mines Inc.

Years ended December 31, 2015 and 2014

Consolidated Financial Statements

March 14, 2016

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Fortuna Silver Mines Inc.

We have audited the accompanying consolidated financial statements of Fortuna Silver Mines Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of net (loss) income, consolidated statements of comprehensive (loss) income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fortuna

Silver Mines Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, Canada
March 14, 2016

FORTUNA SILVER MINES INC.
CONSOLIDATED STATEMENTS OF NET (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in thousands of US Dollars, except for share and per share amounts)

	Notes	2015	2014
Sales	18	$ 154,729	$ 174,006
Cost of sales	19	111,081	113,753
Mine operating earnings		43,648	60,253
Other expenses			
Selling, general and administrative expenses	10 a), 10 b), 20	17,863	25,426
Exploration and evaluation costs	21	320	-
Foreign exchange loss (gain)		1,564	(201)
Impairment of mineral properties	8 b)	25,000	-
Other operating expense	22	741	1,278
Operating (loss) income		(1,840)	33,750
Finance items			
Interest income		381	281
Interest expense		(1,758)	(1,152)
Net finance expense	23	(1,377)	(871)
(Loss) income before tax		(3,217)	32,879
Income taxes			
Current income tax	14	11,606	13,511
Deferred income tax	14	(4,215)	3,766
		7,391	17,277
Net (loss) income for the year		$ (10,608)	$ 15,602
(Loss) earnings per share -Basic	15 f) i	$ (0.08)	$ 0.12
(Loss) earnings per share - Diluted	15 f) ii	$ (0.08)	$ 0.12
Weighted average number of shares outstanding - Basic	15 f) i	129,001,047	126,786,921
Weighted average number of shares outstanding - Diluted	15 f) ii	129,001,047	128,142,977

FORTUNA SILVER MINES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in thousands of US Dollars)

	Notes	2015	2014
Net (loss) income for the year		$ (10,608)	$ 15,602
Other comprehensive loss			
Items that may be classified subsequently to net (loss) income			
Net change in fair value of hedging instruments, net of nil taxes	5	(307)	-

Unrealized loss on translation of net investment, net of nil taxes			**(2,324)**		(2,001)
Unrealized gain on translation to presentation currency on foreign operations, net of nil taxes			**1,430**		887
		$	**(1,201)**		(1,114)
Total comprehensive (loss) income for the year		**$**	**(11,809)**	**$**	14,488

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

FORTUNA SILVER MINES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in thousands of US Dollars)

	Notes		**2015**		2014
OPERATING ACTIVITIES					
Net (loss) income for the year		$	**(10,608)**	$	15,602
Items not involving cash					
Depletion, depreciation and amortization			**25,739**		23,517
Accretion of provisions			**310**		744
Income taxes			**7,391**		17,277
Share-based payments			**761**		5,586
Impairment of mineral properties, plant and equipment	**8, 8 b)**		**25,000**		-
Impairment of inventories			**585**		121
Other operating expense - other	**22**		**(81)**		-
Loss on disposal of mineral properties, plant and equipment			**46**		66
Accrued interest on long term loans receivable and payable			**39**		(27)
Other			**6**		11
			49,188		62,897
Changes in non-cash working capital items					
Accounts receivable and other assets			**13,233**		(4,521)
Prepaid expenses			**(208)**		(49)
Inventories			**3,324**		282
Trade and other payables			**8,106**		4,900
Provisions			**(273)**		(171)
Cash provided by operating activities before interest and income taxes			**73,370**		63,338
Income taxes paid			**(17,846)**		(3,417)
Interest expense paid			**(1,110)**		(4)
Interest income received			**354**		275
Net cash provided by operating activities			**54,768**		60,192
INVESTING ACTIVITIES					
Purchase of short term investments			**(95,453)**		(65,657)
Redemptions of short term investments			**92,927**		47,641
Expenditures on mineral properties, plant and equipment	**18**		**(57,130)**		(38,943)
Deposits on long term assets, net			**(6,746)**		(68)
Proceeds on disposal of mineral properties, plant and equipment			**13**		67
Net cash used in investing activities			**(66,389)**		(56,960)
FINANCING ACTIVITIES					
Proceeds from bank loan			**39,316**		-
Net proceeds on issuance of common shares			**2,026**		8,458
Repayment of finance lease obligations			**-**		(227)
Net cash provided by financing activities			**41,342**		8,231
Effect of exchange rate changes on cash and cash equivalents			**(370)**		(300)
INCREASE IN CASH AND CASH EQUIVALENTS			**29,721**		11,463
Cash and cash equivalents - beginning of year			**42,867**		31,704
CASH AND CASH EQUIVALENTS - END OF YEAR		$	**72,218**	$	42,867

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

FORTUNA SILVER MINES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31,
(Expressed in thousands of US Dollars)

	Notes	2015	2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	**3**	**$ 72,218**	$ 42,867
Short term investments	**4**	**36,031**	34,391
Accounts receivable and other assets	**6**	**7,068**	19,905
Income tax receivable	**14**	**780**	680
Prepaid expenses		**1,512**	1,592
Inventories	**7**	**10,434**	14,937
Total current assets		**128,043**	114,372
NON-CURRENT ASSETS			
Deposits on long-term assets	**6**	**8,716**	1,963
Deferred income tax assets	**14**	**492**	126
Mineral properties, plant and equipment	**8**	**242,403**	233,849
Total assets		**$ 379,654**	$ 350,310
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	**9, 10 c)**	**$ 28,970**	$ 21,467
Derivative liabilities	**5**	**351**	-
Provisions	**13**	**453**	809
Income tax payable	**14**	**3,605**	9,745
Current portion of other liabilities	**12**	**772**	-
Total current liabilities		**34,151**	32,021
NON-CURRENT LIABILITIES			
Bank loan	**11**	**39,486**	-
Other liabilities	**12**	**4,620**	4,661
Provisions	**13**	**12,052**	11,889
Deferred income tax liabilities	**14**	**25,177**	29,026
Total liabilities		**115,486**	77,597
EQUITY			
Share capital		**203,953**	201,057
Equity reserve		**14,169**	13,800
Accumulated other comprehensive income		**808**	2,010
Retained earnings		**45,238**	55,846
Total equity		**264,168**	272,713
Total liabilities and equity		**$ 379,654**	$ 350,310
Contingencies and capital commitments	**24**		
Subsequent events	**25**		

APPROVED BY THE DIRECTORS

"*Jorge Ganoza Durant*", Director — Jorge Ganoza Durant

"*Robert R. Gilmore*" , Director — Robert R. Gilmore

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

FORTUNA SILVER MINES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in thousands of US Dollars, except for share amounts)

	Attributable to equity holders of the Company							
	Share Capital		Accumulated Other Comprehensive (Loss) Income ("AOCI")					
	Number of Shares	Amount	Equity Reserve	Hedging Reserve	Foreign Currency Reserve	Total Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Equity
Balance - December 31, 2014	128,537,742	$ 201,057	$ 13,800	$ -	$ 2,010	$ 2,010	$ 55,846	$ 272,713
Exercise of stock options	740,860	2,026	-	-	-	-	-	2,026
Cancellation of treasury shares	(38,035)	-	-	-	-	-	-	-
Transfer of stock option and warrant reserve on exercise of stock options	-	870	(870)	-	-	-	-	-
Share-based payments expense	-	-	1,239	-	-	-	-	1,239
Net loss for the period	-	-		-	-	-	(10,608)	(10,608)

Net change in fair value of hedging instruments	-	-	-	(307)	-	(307)	-	(307)
Unrealized loss on translation of net investment	-	-	-	-	(2,324)	(2,324)	-	(2,324)
Unrealized gain on translation to presentation currency on foreign operations	-	-	-	-	1,430	1,430	-	1,430
Total comprehensive loss for the year				(307)	(895)	(1,201)	(10,608)	(11,809)
Balance - December 31, 2015	**129,240,567**	**$ 203,953**	**$ 14,169**	**$ (307)**	**$ 1,115**	**$ 808**	**$ 45,238**	**$ 264,168**
Balance - December 31, 2013	125,973,966	$ 189,092	$ 15,200	$ -	$ 3,124	$ 3,124	$ 40,244	$ 247,660
Exercise of options	2,563,776	8,458	-	-	-	-	-	8,458
Transfer of stock option and warrant reserve on exercise of stock options	-	3,507	(3,507)	-	-	-	-	-
Share-based payments expense	-	-	2,108	-	-	-	-	2,108
Net income for the period			-	-	-	-	15,602	15,602
Unrealized loss on translation of net investment	-	-	-	-	(2,001)	(2,001)	-	(2,001)
Unrealized gain on translation to presentation currency on foreign operations	-	-	-	-	887	887	-	887
Total comprehensive loss for the year	-	-		-	(1,114)	(1,114)	15,602	14.488
Balance - December 31, 2014	128,537,742	$ 201,057	$ 13,800	$ -	$ 2,010	$ 2,010	$ 55,846	$ 272,713

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

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 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 consolidated financial statements ("Financial Statements") have been prepared in accordance with the International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and effective as at December 31, 2015. The Board of Directors approved these financial statements for issue on March 14, 2016.

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.

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 or control and up to the effective date of disposition or loss of control. The principal subsidiaries of the Company and their geographic locations at December 31, 2015 were as follows:

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

b) Basis of Consolidation (continued)

Name	Entity Type at December 31, 2015	Location	Economic Interest at December 31, 2015	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 December 31, 2015, 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.

d) Cash and Cash Equivalents

Cash and cash equivalents are designated as fair value through profit or loss ("FVTPL"). Cash and cash equivalents include cash on hand, demand deposits, and money market instruments, with maturities from the date of acquisition of 90 days or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. Transaction costs are expensed when incurred through profit or loss.

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

e) Mineral Properties, Plant and Equipment

Costs directly related to construction projects are capitalized to work in progress until the asset is available for use in the manner intended by management. Completed property, plant and equipment are recorded at cost, net of accumulated depreciation and impairments. Assets, other than capital work in progress, will be depreciated to their residual values over their estimated useful lives as follows:

Land and buildings		
Land	Not depreciated	
Mineral properties	Units of production	Declining balance
Buildings, located at the mine	Units of production	Declining balance
Buildings, others	6 – 20 years	Straight line

Leasehold improvements	4 – 8 years	Straight line
Plant and equipment		
Machinery and equipment	3 – 15 years	Straight line
Furniture and other equipment	2 – 13 years	Straight line
Transport units	4 – 5 years	Straight line
Capital work in progress	Not depreciated	

Equipment under finance lease is initially recorded at the present value of minimum lease payments at the inception of the lease and depreciated as above. Spare parts and components included in machinery and equipment, depending on the replacement period of the initial component, are depreciated over 8 to 18 months.

Borrowing costs attributed to the construction of qualifying assets are capitalized to mineral properties, plant and equipment are included in the carrying amounts of related assets until the asset is available for use in the manner intended by management.

Costs associated with commissioning activities on constructed plants are deferred from the date of mechanical completion of the facilities until the date the assets are ready for use in the manner intended by management.

On an annual basis, the depreciation method, useful economic life and the residual value of each component asset is reviewed, with any changes recognized prospectively over its remaining useful economic life.

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

e) Mineral Properties, Plant and Equipment (continued)

i. Exploration and Evaluation Assets

Significant payments related to the acquisition of land and mineral rights are capitalized as incurred. Prior to acquiring such land or mineral rights, the Company makes a preliminary evaluation to determine that the property has significant potential to develop an economic ore body. The time between initial acquisition and full evaluation of a property's potential is dependent on many factors including: location relative to existing infrastructure, the property's stage of development, geological controls and metal prices.

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties as exploration and evaluation assets when future inflow of economic benefits from the properties is probable and until such time as the properties are placed into development, abandoned, sold or considered to be impaired in value.

If a mineable ore body is discovered, exploration and evaluation costs are reclassified to mining properties. If no mineable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value.

Proceeds received from the sale of interests in evaluation and exploration assets are credited to the carrying value of the mineral properties, with any excess included in income as gain or loss on disposal of mineral properties, plant and equipment.

Exploration costs that do not relate to any specific property are expensed as incurred.

ii. Operational Mining Properties and Mine Development

For operating mines, all exploration within the mineral deposit is capitalized and amortized on a unit-of-production basis over proven and probable reserves and the portion of resources expected to be extracted economically as part of the production cost.

Costs of producing properties are amortized on a unit-of-production basis over proven and probable reserves and the portion of resources expected to be extracted economically. Costs of abandoned properties are written-off.

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

e) Mineral Properties, Plant and Equipment (continued)

iii. Commercial Production

Capital work in progress consists of expenditures for the construction of future mines and includes pre-production revenues and expenses prior to achieving commercial production. Commercial production is a convention for determining the point in time in which a mine and plant has completed the operational commissioning and has operational results that are expected to remain at a sustainable commercial level over a period of time, after which production costs are no longer capitalized and are reported as operating costs. The determination of when commercial production commences is based on several qualitative and quantitative factors including but not limited to the following:

- 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 within eighty percent of design capacity;
- metallurgical recoveries are achieved within eighty percent of projections; and,
- the ability to sustain ongoing production of ore at a steady or increasing level.

On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis. Any costs incurred after the commencement of production are capitalized to the extent they give rise to a future economic benefit.

f) Asset Impairment

At the end of each reporting period, the Company makes an assessment of impairment indicators and if there are such indicators, then the Company performs a test of impairment.

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.

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.

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.

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

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

f) Asset Impairment (continued)

Where a FVLCTS 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.

g) Borrowing Costs

Interest and other financing costs incurred that are attributable to acquiring and developing exploration and development stage mining properties and constructing new facilities ("qualifying assets") are capitalized and included in the carrying amounts of qualifying assets until those qualifying assets are ready for their intended use.

Capitalization of borrowing costs incurred commences on the date the following three conditions are met:

- expenditures for the qualifying asset are being incurred;
- borrowing costs are being incurred; and,
- activities that are necessary to prepare the qualifying asset for its intended use are being undertaken.

Borrowing costs incurred after the qualifying assets are ready for their intended use are expensed in the period in which they are incurred.

Borrowing costs, comprised of legal fees and upfront commitment fee, associated with the credit facility for general working capital and future expansion are recorded as Accounts Receivable and Other Assets and amortized over the term of the credit facility.

All other borrowing costs are expensed in the period in which they are incurred.

h) Provisions

i. Decommissioning and restoration provisions

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based on estimated future cash flows discounted at the risk-free rate.

The decommissioning and restoration provision ("DRP") is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free discount rate.

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

h) Provisions (continued)

i. Decommissioning and restoration provisions (continued)

The liability is accreted to full value over time through periodic charges to income. This accretion of provisions is charged to interest expense in the consolidated statements of income.

The amount of the DRP initially recognized is capitalized as part of the related asset's carrying value and amortized to income. The method of amortization follows that of the underlying asset. The costs related to a DRP are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit. For a closed site or where the asset which generated a DRP no longer exists, there is no longer future benefit related to the costs and as such, the amounts are expensed. For operating sites, a revision in estimates or a new disturbance will result in an adjustment to the liability with an offsetting adjustment to the capitalized retirement cost. For closed sites, adjustments to the DRP that are required as a result of changes in estimates are charged to income in the period in which the adjustment is identified.

ii. Environmental disturbance restoration provisions

During the operating life of an asset, events such as infractions of environmental laws or regulations may occur. These events are not related to the normal operation of the asset and are referred to as environmental disturbance restoration provisions ("EDRP"). The costs associated with an EDRP are accrued and charged to earnings in the period in which the event giving rise to the liability occurs. Any subsequent adjustments to an EDRP due to changes in estimates are also charged to earnings in the period of adjustment. These costs are not capitalized as part of the long-lived asset's carrying value.

iii. Other provisions

Provisions are recognized when a present legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate.

i) Inventories

Inventories include metals contained in concentrates, stockpiled ore, materials, and supplies. The classification of metals inventory is determined by the stage in the production process. Product inventories are sampled for metal content and are valued based on the lower of actual production costs incurred or estimated net realizable value based upon the period ending prices of contained metal.

Ore stockpile and finished goods inventories are valued at the lower of production cost and net realizable value. Materials and supplies are valued at the lower of average cost and net realizable value. Production costs include all mine site costs.

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

j) Assets Held for Sale

A non-current asset is classified as held for sale when it meets the following criteria:

- the non-current asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; and,
- the sale of the non-current asset is highly probable. For the sale to be highly probable:
  - the appropriate level of management must be committed to a plan to sell the asset;
  - an active program to locate a buyer and complete the plan must have been initiated;
  - the non-current asset or disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
  - the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale (with certain exceptions); and,
  - actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets held for sale are not depreciated. When the sale of assets held for sale is expect to occur beyond one year, the assets are measured at the lower of its carrying amount and fair value less costs to sell. Any gain or loss from initial measurement and subsequent measurement are recorded in income but not in excess of cumulative impairment losses.

k) Income Taxes

Income tax expense consists of current and deferred tax expense. Income tax is recognized in the consolidated statement of income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to unused tax loss carry forwards, unused tax credits and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that deferred tax asset will be recovered, the deferred tax asset is reduced.

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

k) Income Taxes (continued)

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable income;
- goodwill; and,
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

l) Share-Based Payments

The fair value method of accounting is used for share-based payment transactions. Under this method, the cost of stock options and other equity-settled share-based payment arrangements are recorded based on the estimated fair value at the grant date and charged to earnings over the vesting period. Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is proportionately reversed in the period the forfeiture occurs.

Share-based payment expense relating to cash-settled awards, including deferred and restricted share units is accrued over the vesting period of the units based on the quoted market value of Company's common shares. As these awards will be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

i. Stock Option Plan

The Company applies the fair value method of accounting for all stock option awards. Under this method, the Company recognizes a compensation expense for all stock options awarded to employees, based on the fair value of the options on the date of grant which is determined by using the Black-Scholes option pricing model. The fair value of the options is expensed over the graded vesting period of the options.

ii. Deferred Share Unit ("DSU") Plan

The Company's DSUs are cash settled. The DSU compensation liability is accounted for based on the number of DSUs outstanding and the quoted market value of the Company's common shares at the financial position date. The year-over-year change in the DSU compensation liability is recognized in income.

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

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

l) Share-Based Payments (continued)

iii. Share Unit Plan

The Company's amended and restated share unit plan (the "SU Plan") covers all restricted share units ("RSUs") and performance share units ("PSUs") granted by the Company on and after March 1, 2015. All RSUs granted prior to March 1, 2015, are governed under the restricted share unit plan dated November 12, 2010.

a) RSUs

The Company's RSUs are settled in cash. The RSUs compensation liability is accounted for based on the number of RSUs outstanding and the quoted market value of the Company's common shares at the financial position date. The Company

recognizes a compensation cost in operating income on a graded vesting basis for each RSUs granted equal to the quoted market value of the Company's common shares at the date of which RSUs are awarded to each participant prorated over a specified period of time and adjusts for changes in the fair value until the end of the term of the RSUs. The cumulative effect of the change in fair value is recognized in income in the period of change.

b) PSUs

The Company's PSUs are settled in cash. The fair value of the estimated number of PSUs awarded that will eventually vest, determined as of the date of grant, is recognized as share-based compensation expense within selling, general and administrative expenses in the consolidated statement of income over the vesting period, with a corresponding amount recorded as a liability. Until the liability is settled, the fair value of the PSUs is re-measured at the end of each reporting period and at the date of settlement, with changes in fair value recognized as share-based compensation expense or recovery over the vesting period. The fair value of PSUs are estimated on a graded vesting basis for each PSUs granted equal to the quoted market value, up to a maximum of two times the grant price, of the Company's common shares.

m) Earnings per Share

Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year.

The diluted earnings per share calculation is based on the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options issued should be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the year, but only if dilutive.

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

n) Foreign Currency Translation

The presentation currency of the Company is the United States Dollar ("US$").

Prior to April 1, 2015, the functional currency of each of the entities in the group was the US$, with the exception of the parent entity and certain holding companies which had a Canadian dollar functional currency.

On April 1, 2015, the functional currency of the parent entity and certain holding companies which had a Canadian dollar functional currency were determined to have a US$ functional currency. The change was primarily a result of the currency in which funds from financing activities are generated and in particular, a loan denominated and drawn down in US$. This change has been prospectively applied from the date of change, April 1, 2015.

As at April 1, 2015, the parent entity and certain holding companies have translated all monetary assets and liabilities into the US$ functional currency using the exchange rate at the date of the change. Non-monetary assets and liabilities were translated into the US$ functional currency using the historical exchange rates at the date of the initial transaction. Revenues and expenses were translated at the average rate of exchange for the period. Foreign exchange differences arising from the translation of a foreign operation previously recognized in other comprehensive income are not reclassified from equity to profit or loss until disposal of the operation.

Prior to April 1, 2015, for entities with a functional currency different from the presentation currency of the Company, translation to the presentation currency is required. Assets and liabilities are translated at the rate of exchange at the financial position date. Revenue and expenses are translated at the average rate for the period. All resulting exchange differences are recognized in other comprehensive income. These previously recognized foreign exchange differences are not reclassified from equity to profit or loss until disposal of the operations.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at each financial position date. Foreign exchange gains or losses on translation to the functional currency of an entity are recorded in income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

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

o) Financial Instruments

i. Financial Assets

The Company classifies all financial assets as either fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), loans and receivables, or available-for-sale "(AFS"). The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

a) Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is a designated FVTPL on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in income or loss in the period in which they arise. Transaction costs related to financial assets classified as FVTPL are recognized immediately in net income (loss).

b) Held-to-Maturity ("HTM")

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as HTM investments.

c) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value, net of transaction costs and are classified as current or non-current assets based on their maturity date, and subsequently measured at amortized cost, using the effective interest method, less any impairment. The impairment loss of receivables is based on a review of all outstanding amounts at each reporting period. Interest income is recognized by applying the effective interest rate.

d) Available-For-Sale ("AFS") Assets

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

AFS financial assets are measured at fair value, determined by published market prices in an active market, except for investments in equity instruments that do not have quoted market prices in an active market which are measured at cost. Changes in fair value are recorded in other comprehensive income (loss) until realized through disposal or impairment. Investments classified as AFS are written down to fair value through income whenever it is necessary to reflect prolonged or significant decline in the value of the assets. Realized gains and losses on the disposal of AFS securities are recognized in the consolidated statement of income. The Company does not have any assets classified as AFS.

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

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

o) Financial Instruments (continued)

i. Financial Assets (continued)

e) Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets at amortized cost, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income or loss.

With the exception of AFS equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had an impairment not been recognized.

f) Derecognition of Financial Assets

A financial asset is derecognized when:

- the contractual right of the asset's cash flows expire; or
- if the Company transfers the financial asset and substantially all risks and reward of ownership to another entity.

ii. Financial Liabilities

Long term debt and other financial liabilities are recognized initially at the fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period to maturity using the effective interest method.

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

o) Financial Instruments (continued)

iii. Derivative Instruments

Derivatives instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in the consolidated statement of income with exception of derivatives designated as effective cash flow hedges.

Derivatives not being accounted for as hedges and are categorized as held-for-trading. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Fair value of the Company's recognized commodity-based derivatives are based on the forward prices of the associated market index. Gains or losses are recorded in the consolidated statement of income.

For cash flow hedges that qualify under the hedging requirements of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), the effective portion of any gain or loss on the hedging instrument is recognized in other comprehensive income ("OCI") and the ineffective portion is reported as a gain (loss) on derivatives in the consolidated statement of income.

Hedge accounting is discontinued prospectively when:

- the hedge instrument expires or is sold, terminated, or exercised;
- the hedge no longer meets the criteria for hedge accounting; and,
- the Company revokes the designation.

The Company considers derecognition of a cash flow hedge when the related forecast transaction is no longer expected to occur. If the Company revokes the designation, the cumulative gain or loss on the hedging instrument that has been recognized in OCI from the period when the hedge was effective remains separately in equity until the forecast transaction occurs or is no longer expected to occur. Otherwise, the cumulative gain or loss on the hedge instrument that has been recognized in OCI from the period when the hedge was effective is reclassified from equity to profit or loss.

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

o) Financial Instruments (continued)

iv. Classification and Subsequent Measurements

The Company has designated each of its significant categories of financial instruments as follows:

Financial Instrument	Classification	Measurement
Cash and Cash Equivalents	FVTPL	Fair value
Short Term Investments	FVTPL	Fair value
Derivative Assets	FVTPL	Fair value
Trade Receivable from Concentrate Sales	FVTPL	Fair value
Income Tax Receivable	Loans and receivables	Amortized cost
Other Accounts Receivables	Loans and receivables	Amortized cost
Long Term Receivables	Loans and receivables	Amortized cost
Trade and Other Payables	Other liabilities	Amortized cost
Bank Loan	Other Liabilities	Amortized cost
Derivative Liabilities	FVTPL	Fair value
Income Tax Payable	Other liabilities	Amortized cost
Lease and Long Term Liabilities	Other liabilities	Amortized cost

v. Effective Interest Method

The effective interest method calculates the amortized cost of a financial instrument and allocates interest income or expense over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts or payments over the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognized on an effective interest basis for instruments other than those financial instruments classified as FVTPL.

p) 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 17. a).

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

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

q) Segment Reporting

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.

A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

The business operations comprise the mining and processing of silver-lead, zinc, and silver-gold and the sale of these products. Refer to Note 18.

r) Leases

A lease is a finance lease when substantially all of the risks and rewards incidental to ownership of the leased asset are transferred from the lessor to the lessee by the agreement. The leased assets are initially recorded at the lower of the fair value and the present value of the minimum lease payments and are depreciated over the shorter of the asset's useful lives and the term of the lease. Interest on the lease instalments is recognized as interest expense over the lease term using the effective interest method. Leases for land and buildings are recorded separately if the lease payments can be allocated accordingly.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments are recorded in the income statement using the straight line method over their estimated useful lives.

s) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of shares are shown in equity as a deduction from the proceeds. Share-based payments including stock option plan, DSUs, RSUs, and PSUs are discussed in Note 2. l).

t) Related Party Transactions

Parties are considered to be related if one party has the ability directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

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

u) 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 Canadian, Peruvian, Mexican, and Barbados entities, management considered the currency that mainly influences the sales and costs 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.

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

u) 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 YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

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

v) New Accounting Standards

There were no significant accounting standards or interpretations along with any consequential amendments required for the Company to adopt for the year ended December 31, 2015.

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

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, 2018, 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.

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

w) New Accounting Standards (continued)

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.

IFRS 9 Financial Instruments - Expected Credit Losses

On July 24, 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.

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases of which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

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

w) Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the years ended December 31, 2015 and 2014. Foreign exchange loss (gain) is now reported separate from selling, general and administrative expenses with no effect on the net (loss) income for the years ended December 31, 2015 and 2014.

		Years ended December 31, 2015		2014
Selling, general and administrative expenses , as previously reported	**$**	**19,427**	$	25,225
less: foreign exchange loss (gain)		**1,564**		(201)
Selling, general and administrative expenses	**$**	**17,863**	$	25,426

3. Cash and Cash Equivalents

		December 31, 2015		December 31, 2014
Cash	**$**	**70,268**	$	15,234
Cash equivalents		**1,950**		27,633
	$	**72,218**	$	42,867

4. Short Term Investments

		December 31, 2015		December 31, 2014
Held for trading short term investments	**$**	**36,031**	$	34,391

5. Derivative Assets and Derivative Liabilities

	December 31, 2015		December 31, 2014	
	Assets	**Liabilities**	Assets	Liabilities
Interest rate swap	**$ -**	**$ 351**	$ -	$ -

Under interest rate swaps contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The interest rate swap contract enables the Company to mitigate the risk of changing interest rates on the drawn variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting future cash flows using the curves at the end of the reporting period and credit risk inherent in the contract, and is disclosed below.

The interest rate swap is carried on the statement of financial position at fair value, with periodic changes in the fair value being recorded in other comprehensive income, to the extent that it is determined to be an effective hedge with the gain or loss being recorded to income for the ineffective portion. Interest expense on the bank loan will be recorded to income.

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

5. Derivative Assets and Derivatives Liabilities (continued)

On March 26, 2015, the Company entered into an interest rate swap of $40 million, effective date of April 1, 2015, and expires on March 25, 2019 matching the maturity of the bank loan (refer to Note 11). The interest rate swap was entered into to hedge the variable interest rate risk on the bank loan. The interest rate swap is designated as a cash flow hedge for forecasted variable interest rate payments.

The fixed rate on the interest rate swap is 1.52% and the floating amount is based on the one month LIBOR rate. The interest rate swap is settled on a monthly basis and the settlement is the difference between the fixed and floating interest

rate on a net basis.

As at December 31, 2015, the mark-to-market fair value of the interest rate swap was $351. This includes $44 of accrued interest on the bank loan and as the hedge was effective, the remaining $307 mark-to-market fair value loss was recognized in other comprehensive income.

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

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

	December 31, 2015	December 31, 2014
Trade receivables from concentrate sales	**$ 5,172**	$ 16,573
Current portion of long term receivables	**-**	209
Current portion of borrowing costs	**-**	244
Advances and other receivables	**1,350**	2,226
GST and value added tax receivable	**546**	653
Accounts receivable and other assets	**$ 7,068**	$ 19,905

Deposits on long term assets are comprised of the following:

	December 31, 2015	December 31, 2014
Long term receivables and borrowing costs	**$ 28**	**$** 542
Less: current portion of long term receivables	**-**	(209)
Less: current portion of long term borrowing costs	**-**	(244)
Non-current portion of long term receivables	**28**	28
Non-current portion of borrowing costs	**-**	61
Deposits on equipment	**8,183**	516
Deposits paid to contractors	**505**	1,358
Deposits on long term assets	**$ 8,716**	**$** 1,963

As at December 31, 2015, the Company had $nil trade receivables (2014: $nil) which were over 90 days and with no impairment. The Company's allowance for doubtful accounts is $nil for all reporting periods.

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

As at December 31, 2015, the unamortized borrowing costs of $305, associated with the April 23, 2013 amended and restated credit agreement with the Bank of Nova Scotia, has been written off to selling, general and administrative expenses as the Company has entered into an amended and restated credit agreement effective March 25, 2015.

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

	December 31, 2015	December 31, 2014
0-30 days	**$ 5,172**	$ 16,157
31-60 days	**-**	416
	$ 5,172	$ 16,573

7. Inventories

	December 31, 2015	December 31, 2014
Concentrate stock piles	**$ 1,457**	$ 1,575
Ore stock piles	**1,912**	4,992
Materials and supplies	**7,065**	8,370
Total inventories	**$ 10,434**	$ 14,937

For the year ended December 31, 2015, $74,060 (2014: $76,230) of inventory was expensed in cost of sales and $175 (2014: $nil) of concentrate stock pile and $410 (2014: $121) of materials were written down to net realizable value and recorded as an impairment of inventories.

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

8. Mineral Properties, Plant and Equipment

	Mineral Properties Non-Depletable (Tlacolula)	Mineral Properties Depletable (Caylloma and San Jose)	Machinery and Equipment	Land, Buildings, and Leasehold Improvements	Furniture and Other Equipment	Transport Units	Equipment under Finance Lease	Capital Work in Progress	Total
Year ended December 31, 2015									
Opening carrying amount, January 1, 2015	$ 1,348	$ 139,191	$ 13,345	$ 67,678	$ 8,009	$ 151	$ 876	$ 3,251	$ 233,849
Additions	185	17,128	1,011	128	1,924	179	1,577	36,343	58,475
Disposals	-	-	(37)	(6)	(4)	(2)	(10)	-	(59)
Depreciation	-	(13,934)	(2,827)	(6,205)	(1,233)	(122)	(367)	-	(24,688)
Impairment charge	-	(15,032)	(1,630)	(7,983)	(166)	-	(189)	-	(25,000)
Reclassification	-	-	-	647	155	-	-	(802)	-
Adjustment on currency translation	-	(166)	-	(7)	(1)	-	-	-	(174)
Closing carrying amount, December 31, 2015	**$ 1,533**	**$ 127,187**	**$ 9,862**	**$ 54,252**	**$ 8,684**	**$ 206**	**$ 1,887**	**$ 38,792**	**$ 242,403**
As at December 31, 2015									
Cost	$ 1,533	$ 197,739	$ 24,678	$ 78,718	$ 13,071	$ 711	$ 4,732	$ 38,792	$ 359,974
Accumulated depreciation	-	(70,552)	(14,816)	(24,466)	(4,387)	(505)	(2,845)	-	(117,571)
Closing carrying amount, December 31, 2015	**$ 1,533**	**$ 127,187**	**$ 9,862**	**$ 54,252**	**$ 8,684**	**$ 206**	**$ 1,887**	**$ 38,792**	**$ 242,403**

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

8. Mineral Properties, Plant and Equipment (continued)

	Mineral Properties Non-Depletable (Tlacolula)	Mineral Properties Depletable (Caylloma and San Jose)	Machinery and Equipment	Land, Buildings, and Leasehold Improvements	Furniture and Other Equipment	Transport Units	Equipment under Finance Lease	Capital Work in Progress	Total
Year ended December 31, 2014									
Opening carrying amount, January 1, 2014	$ 1,277	$ 127,141	$ 14,301	$ 55,574	$ 5,215	$ 197	$ 1,406	$ 11,850	$ 216,961
Additions	71	21,016	1,297	228	1,147	60	-	16,516	40,335
Disposals	-	-	(69)	(28)	(1)	(7)	(28)	-	(133)
Depreciation	-	(13,395)	(2,602)	(5,619)	(883)	(99)	(502)	-	(23,100)
Reclassification	-	4,633	418	17,531	2,533	-	-	(25,115)	-
Adjustment on currency translation	-	(204)	-	(8)	(2)	-	-	-	(214)
Closing carrying amount, December 31, 2014	**$ 1,348**	**$ 139,191**	**$ 13,345**	**$ 67,678**	**$ 8,009**	**$ 151**	**$ 876**	**$ 3,251**	**$ 233,849**
As at December 31, 2014									
Cost	$ 1,348	$ 196,093	$ 25,768	$ 85,947	$ 11,220	$ 627	$ 3,991	$ 3,251	$ 328,245
Accumulated depreciation	-	(56,902)	(12,423)	(18,269)	(3,211)	(476)	(3,115)	-	(94,396)
Closing carrying amount, December 31, 2014	**$ 1,348**	**$ 139,191**	**$ 13,345**	**$ 67,678**	**$ 8,009**	**$ 151**	**$ 876**	**$ 3,251**	**$ 233,849**

a) Tlacolula Property

Pursuant to an agreement dated September 14, 2009, as amended December 18, 2012 and November 10, 2014, the Company, through its wholly owned subsidiary, Cuzcatlan, holds 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 10. a)).

The Company can earn the Interest by spending $2,000 on exploration of the property, which includes a commitment to drill 1,500 meters within 12 months after Cuzcatlan has received a permit to drill the property, by making staged payments totalling $300 in cash, and by providing $250 in common shares of the Company to Radius according to the following schedule:

- Ø $20 in cash and $20 cash equivalent in shares upon stock exchange approval;
- Ø $30 in cash and $30 cash equivalent in shares by January 15, 2011;
- Ø $50 in cash and $50 cash equivalent in shares by January 15, 2012;
- Ø $50 in cash and $50 cash equivalent in shares by January 15, 2013;
- Ø $50 in cash by January 19, 2015; and,
- Ø $100 in cash and $100 cash equivalent in shares within 90 days after Cuzcatlan has completed the first 1,500 meters of drilling on the property of which has not occurred.

8. 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%. Radius has the right to terminate the agreement if the option is not exercised by January 31, 2017.

As at December 31, 2015, the Company had issued an aggregate of 34,589 (2014: 34,589) common shares of the Company to Radius, with a fair market value of $150 (2014: $150), and paid $200 (2014: $150) in cash according to the terms of the option agreement. Refer to Note 10. a). Joint venture has not been formed as of yet.

b) Impairment of Mineral Properties, Plant and Equipment

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 inflows or cash generating units. The Company's cash generating units ("CGU") have been identified as follows:

i. ***Cuzcatlan CGU*** *includes the assets at the San Jose property, which includes Taviche and Taviche Oeste, and the Tlacolula property in the Mexico geographical region.*

ii. ***Bateas CGU*** *includes the assets at the Caylloma property in the Peru geographical region.*

The recoverable amounts of the Company's CGUs, which include mineral properties, plant and equipment are determined 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-expansionary 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.

At December 31, 2015, the Company determined there were several indicators of potential impairment on its non current assets, including the decline in the Company's market capitalization, reduction in the market consensus on long term silver price forecasts during the year and the consequential impact on the Company's reserves and resources. Based on the Company's assessment of the recoverable amounts of its CGUs, the Company concluded that the Caylloma Mine had an estimated recoverable value, based on its FVLCTS, below its carrying value and an impairment charge was required. As a result, the Company recognized a $17,000, net of tax ($25,000, before tax) (2014: $nil) impairment charge, on the carrying value of net assets of $65,187, in respect to the Company's investment in Caylloma. The impairment charge was allocated on a pro rata basis against the net book value of the mineral properties, plant and equipment.

8. Mineral Properties, Plant and Equipment (continued)

b) Impairment of Mineral Properties, Plant and Equipment (continued)

For December 31, 2015 and 2014, the key assumptions used for FVLCTS calculations were as follows:

	December 31, 2015						
Metal Price Assumptions	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Gold price $ per ounce	$ 1,150.00	$ 1,173.85	$ 1,191.54	$ 1,215.71	$ 1,200.56	$ 1,200.56	$ 1,200.56
Silver price $ per ounce	$ 15.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00
Lead price $ per tonne	$ 1,750.00	$ 1,936.98	$ 1,921.58	$ 2,014.90	$ 2,016.62	$ 2,016.62	$ 2,016.62
Zinc price $ per tonne	$ 1,750.00	$ 2,216.41	$ 2,350.62	$ 2,525.38	$ 2,218.65	$ 2,218.65	$ 2,218.65
Weighted average cost of capital	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

	December 31, 2014					
Metal Price Assumptions	**2015**	**2016**	**2017**	**2018**	**2019**	**2020-2021**
Gold price $ per ounce	$ 1,248.00	$ 1,261.00	$ 1,263.00	$ 1,270.00	$ 1,270.00	$ 1,270.00
Silver price $ per ounce	$ 17.98	$ 18.27	$ 19.39	$ 19.60	$ 19.60	$ 19.60
Lead price $ per tonne	$ 2,206.00	$ 2,294.00	$ 2,320.00	$ 2,062.00	$ 2,062.00	$ 2,062.00
Zinc price $ per tonne	$ 2,374.00	$ 2,533.00	$ 2,599.00	$ 2,200.00	$ 2,200.00	$ 2,200.00
Weighted average cost of capital	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%

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 LOM 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.

9. Trade and Other Payables

	December 31, 2015	December 31, 2014
Trade accounts payable	**$ 18,177**	$ 10,105
Payroll payable	**6,607**	8,005
Mining royalty	**471**	487
VAT payable	**-**	70
Due to related party (Note 10. c))	**8**	9
Restricted share unit payable	**1,117**	1,386
Performance share unit payable	**462**	-
Refundable deposits to contractors	**1,370**	780
Other payables	**758**	625
	$ 28,970	$ 21,467

10. Related Party Transactions

a) Purchase of Goods and Services

The Company entered into the following related party transactions:

	Years ended December 31,	
Transactions with related parties	**2015**	2014
Salaries and wages [1,2]	**$ 88**	$ 83
Other general and administrative expenses [2]	**104**	108
Computer equipment [2]	**6**	-

	$ 198	$	191

[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] 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 2014, Radius Gold Inc. ("Radius"), which has directors in common with the Company and shares office space, reimbursed the Company for general overhead costs incurred in prior periods.

In 2015, the Company paid $50 in 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 8. a).

10. Related Party Transactions (continued)

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:

	Years ended December 31,		
	2015		2014
Salaries and other short term employee benefits	**3,947**	$	4,828
Directors fees	**373**		390
Consulting fees	**141**		163
Share-based payments	**1,381**		6,178
	$ 5,842	$	11,559

Consulting fees includes fees paid to two non-executive directors in both 2015 and 2014.

c) Period End Balances Arising From Purchases of Goods/Services

Amounts due to related party	**December 31, 2015**	December 31, 2014
Owing to a company with a common director[3]	**$ 8**	$ 9

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

11. Bank Loan

		Par Value	**Maturity**		**December 31, 2015**		December 31, 2014
Bank loan	$	**40,000**	April 1, 2019	$	**40,000**	$	-
Unamortized transaction costs					**(514)**		-
				$	**39,486**	$	-
Non-Current				$	**39,486**	$	-

On March 25, 2015, the Company entered into an amended and restated credit agreement with the Bank of Nova Scotia for a $60 million senior secured financing ("credit facility") consisting of a $40 million term credit facility with a 4 year term and a $20 million revolving credit facility for a two year period. 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.

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

11. Bank Loan (continued)

On April 1, 2015, the $40 million term credit facility was drawn down. Interest on the term credit facility is calculated from the one, two, three, or six month LIBOR plus a graduated margin based on the Company's leverage ratio and interest is payable one month in arrears. The term credit facility bears a 4 year term and is repayable with a balloon payment on maturity date of April 1, 2019. Refer to Note 16.

While the term credit facility remains unpaid, the Company is required to maintain the following financial covenants:

- Total debt to EBITDA of not greater than 3:1 calculated on a rolling four fiscal quarter basis and measured at the end of each fiscal quarter of the Company; and,
- Minimum tangible net worth in an amount equal to the sum of (a) 85% of the tangible net worth as at June 30, 2014, plus (b) 50% of positive quarterly net income earned after June 30, 2014, plus (c) 50% of the value of any equity interests issued by the Company after June 30, 2014.

Unamortized transaction costs are comprised of legal fees and upfront commitment fee in connection with the amended and restated credit agreement with the Bank of Nova Scotia on March 25, 2015.

The following is a schedule of long-term bank loan principal repayments, during each of the four years ended December 31:

2016	$	**-**
2017		**-**
2018		**-**
2019		**40,000**
	$	**40,000**

12. Other Liabilities

Other liabilities are comprised of the following:

	December 31, 2015	December 31, 2014
Obligations under finance lease (a)	**$ 1,884**	$ -
Long term liabilities (b)	**44**	38
Deferred share units (Note 15. c))	**2,279**	3,762
Restricted share units (Note 15. d))	**1,570**	861
Performance share units (Note 15. e))	**1,194**	-
	6,971	4,661
Less: current portion		
Obligations under finance lease (a)	**772**	-
Restricted share units	**1,117**	-
Performance share units	**462**	-
Less: current portion of other liabilities	**2,351**	-
Other liabilities, non-current	**$ 4,620**	$ 4,661

12. Other Liabilities (continued)

a) Obligations under Finance Lease

Obligations under Finance Lease	**December 31, 2015**	December 31, 2014
Not later than 1 year	**$ 809**	$ -
Less: future finance charges on finance lease	**(37)**	-
	772	-
Later than 1 year but less than 5 years	**$ 1,132**	$ -
Less: future finance charges on finance lease	**(20)**	-
	1,112	-
Present value of finance lease payments	**$ 1,884**	$ -

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. The seniority premium, equal to 12 days of salary for each year of services rendered and is subject to a salary limitation of up to twice the minimum wage, is payable to employees who: (i) voluntarily leave their employment after completing 15 years of service; (ii) leave their employment for just cause; (iii) are dismissed by the Company with or without just cause; or (iv) die during the labor relationship, in such event their beneficiaries must receive such premium. In addition, an employee dismissed without cause has the option to be reinstated to his or her former job instead of receiving the seniority payment, provided the employee does not work in a white-collar position.

A summary of the Company's long term liabilities for seniority premium are presented below:

At December 31, 2015	
Discount rate	**7.5%**
General wage increase - Regular employees	**5.0%**
General wage increase - Unionized employees	**4.5%**
Increase in minimum wage	**4.0%**
Long term inflation rate	**4.0%**

Total seniority premium – December 31, 2013	$	27
Seniority premium expense		18
Foreign exchange differences		(5)
Cash payments		(2)
Total seniority premium – December 31, 2014	$	38
Seniority premium expense		**15**
Foreign exchange differences		**(6)**
Cash payments		**(3)**
Total seniority premium – December 31, 2015	**$**	**44**

13. Provisions

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

	Decommissioning and Restoration Liabilities		
	Caylloma Mine	**San Jose Mine**	**Total**
At December 31, 2015			
Anticipated settlement date to	**2027**	**2030**	
Undiscounted value of estimated cash flow	$ **8,299**	$ **5,573**	$ **13,872**
Estimated mine life (years)	**7**	**8**	
Discount rate	**4.63%**	**6.25%**	
Inflation rate	**2.00%**	**3.32%**	
Total provisions – December 31, 2013	**$** 6,758	$ 3,976	$ 10,734
Increase to existing provisions	695	1,863	2,558
Accretion of provisions	398	345	743
Foreign exchange differences	(553)	(613)	(1,166)
Cash payments	(111)	(60)	(171)
Total provisions – December 31, 2014	$ 7,187	$ 5,511	$ 12,698
Less: current portion	(256)	(553)	(809)
Non current – December 31, 2014	$ 6,931	$ 4,958	$ 11,889
Total provisions – December 31, 2014	$ **7,187**	$ **5,511**	$ **12,698**
Increase to existing provisions	**1,165**	**471**	**1,636**
Accretion of provisions	**344**	**(34)**	**310**
Foreign exchange differences	**(1,061)**	**(806)**	**(1,867)**
Cash payments	**(127)**	**(145)**	**(272)**
Total provisions – December 31, 2015	$ **7,508**	$ **4,997**	$ **12,505**
Less: current portion	**(335)**	**(118)**	**(453)**

Non current – December 31, 2015	$	**7,173**	$	**4,879**	$ **12,052**

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 mines are 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.

14. Income Tax

a) Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26% (2014: 26%) to income before income taxes. The reasons for the differences are as follows:

		December 31, 2015		December 31, 2014
(Loss) income before tax	**$**	**(3,216)**	$	32,879
Statutory income tax rate		**26.00%**		26.00%
Expected income tax	**$**	**(836)**	$	8,549
Items not deductible for tax purposes		**774**		1,665
Difference between Canadian and foreign tax rates		**(354)**		2,046
Other		**801**		128
Effect of change in tax rates		**860**		(41)
Inflation adjustment		**(613)**		-
Impact of foreign exchange		**(402)**		-
Impact of foreign exchange on tax assets and liabilities		**8,151**		790
Under(over) provided in prior years		**(2,009)**		-
Unused tax losses and tax offsets not recognized		**(812)**		2,425
Minimum royalty tax		**1,831**		1,715
Total income taxes	**$**	**7,391**	$	17,277
Effective tax rate		**-229.82%**		52.55%
Total income taxes represented by:				
Current income tax	**$**	**11,606**	$	13,510
Deferred income tax		**(4,215)**		3,767
	$	**7,391**	$	17,277

The Canadian Federal corporate tax and the British Columbia provincial tax rates remained unchanged at 15% and 11%, respectively, for 2015 and 2014, resulting in a statutory tax rate of 26% throughout 2015 and 2014.

In the fourth quarter 2014, a tax rate change was enacted in Peru, reducing corporate income tax rates. The Company has a legal stability agreement with the Peruvian government and it is valid until 2017. The reduction in tax rate would impact the temporary difference that will reverse subsequent to 2017. This resulted in a deferred tax expense of $860 in 2015 (2014: recovery of $34) due to impairment and the deferred tax recovery in 2014 was due recording the deferred tax liability in Peru at the lower rates. The Company will be subject to a Peruvian income tax rate of 27% in 2018 and 26% thereafter.

In December 2013, the Mexican President signed a bill approving significant tax reforms which have an effective date of January 1, 2014. These tax reforms include a tax-deductible special mining royalty of 7.5% on EBITDA and an extraordinary mining royalty of 0.5% on precious metals revenue. The Mexican corporate tax rate remained unchanged at 30% for 2015 and 2014.

14. Income Tax (continued)

a) (continued)

The special mining royalty is an annual tax with the first payment of $9,745 due and paid in March 2015 for 2014 activities. The special mining royalty balance for 2015 is $3,105 (December 31, 2014: $5,870) resulting in a deferred tax expense of $1,486 (2014: $1,807) which offsets the current tax special mining royalty expense of $1,934 (2014: $3,522). The deferred tax liability will be drawn down to $nil as a reduction to tax expense over the life of mine as the mine and its related assets are depleted or depreciated.

Income taxes receivable of $780 (December 31, 2014: $680) of which $622 relates to current taxes (December 31, 2014: $500) and $158 (December 31, 2014: $180) relates to mining tax in Peru.

Income taxes payable of $3,605 (December 31, 2014: $9,745) of which $500 relates to current taxes (December 31, 2014: $6,223) and $3,105 (December 31, 2014: $3,522) relates to special mining royalty in Mexico.

b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2015 and December 31, 2014 are presented below:

		December 31, 2015		December 31, 2014
Deferred income tax assets:				
Provisions and other	**$**	**1,546**		3,889
Deferred mining tax		**2,877**		-
Other		**2,154**		2,515
Net deferred income tax assets	**$**	**6,577**	$	6,404
Deferred income tax liabilities:				
Mineral properties – Peru	**$**	**(5,255)**	$	(11,280)
Mineral properties – Mexico		**(12,745)**		(10,302)
Special mining royalty		**(7,211)**		(5,870)
Equipment		**(5,643)**		(7,541)
Other		**(408)**		(311)
Total deferred income tax liabilities	**$**	**(31,262)**	$	(35,304)
Net deferred income tax liabilities	**$**	**(24,685)**	$	(28,900)
Classification				
Non-current assets	**$**	**492**	$	126
Non-current liabilities		**(25,177)**		(29,026)
Net deferred income tax liabilities	**$**	**(24,685)**	$	(28,900)

14. Income Tax (continued)

c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

		December 31, 2015		December 31, 2014
Non-capital losses	**$**	**43,916**	$	46,166
Provisions and other		**5,042**		6,009
Share issue cost		**868**		639
Mineral properties, plant and equipment		**1,450**		1,704
Derivative Liability		**351**		-

Capital Losses		**839**		1,004
Unrecognized deductible temporary differences	**$**	**52,466**	$	55,522

The Company has unremitted intercompany interest of $22,553 (2014 - $22,775) from Mexico that is subject to an interest withholding tax rate of 10% and unremitted retained earnings of $45,687 (2014 - $67,173) in Peru and $58,248 (2014 - $41,101) in Mexico that is subject to withholding taxes of 10% and 5% respectively. No withholding taxes have been accrued with respect to the unremitted intercompany interest and unremitted retained earnings as the company is permanently reinvested in its foreign subsidiaries.

The Company's tax losses have the following expiry dates:

			Expiry date
Non-capital losses, expiring as follows:			
Canada	$	43,281	2025 – 2035
Mexico		450	2021 – 2025
Barbados		185	2022 – 2024
	$	**43,916**	

15. Share Capital

a) Unlimited Common Shares Without Par Value

Pursuant to the Combination Agreement (the "Combination Agreement") dated October 29, 2008 between the Company and Continuum Resources Ltd. ("Continuum"), the Company acquired all of the issued and outstanding common shares of Continuum pursuant to a plan of arrangement under section 288 of the *Business Corporations Act* (British Columbia) (the "Arrangement"). The Combination Agreement provided that any certificate formerly representing Continuum common shares not duly surrendered on or prior to the sixth anniversary of the effective date of the Arrangement shall cease to represent a claim or interest of any kind or nature against the Company or Continuum by a former holder, and that on such anniversary date, all common shares in the capital of the Company to which the former holders of such certificates were entitled (the "Surrendered Shares") shall be deemed to have been surrendered to the Company. On June 18, 2015, the Company cancelled and returned to treasury 38,035 common shares of the Company registered in the name of Computershare in trust for Continuum holders pursuant to a Depositary Agreement between among the Company and Computershare Investor Services dated February 22, 2009.

b) Stock Options

The Company's Stock Option Plan (the "Plan") dated April 11, 2011 was approved by the shareholders at the Company's annual general meeting held on May 26, 2011. On April 21, 2015 the Board approved amendments to the Plan which do not require shareholder approval. The Plan provides that from May 9, 2011, 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 equaled 9.92% of the total number of issued and outstanding common shares of the Company as at April 11, 2011. As at December 31, 2015, the number of common shares available for issuance under the Plan is 2,817,098.

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:

15. Share Capital (continued)

b) Stock Options (continued)

	December 31, 2015		December 31, 2014	
	Shares (in 000's)	**Weighted average exercise price (CAD$)**	Shares (in 000's)	Weighted average exercise price (CAD$)
Outstanding at beginning of the period	**2,944**	**$ 3.25**	6,437	$ 3.42
Granted	**902**	**4.79**	828	4.30
Exercised	**(741)**	**3.40**	(2,564)	3.68
Forfeited	**-**	**-**	(70)	5.26
Expired	**-**	**-**	(1,687)	4.55
Outstanding at end of the period	**3,105**	**$ 3.66**	2,944	$ 3.25
Vested and exercisable at end of the period	**1,874**	**$ 3.01**	1,776	$ 2.80

During the year ended December 31, 2015, 901,969 stock options with a term of five years were granted with an exercise price of CAD$4.79, vesting 50% after one year and 100% after two years from the grant date.

During the year ended December 31, 2015, 740,860 stock options with an exercise prices ranging from CAD$0.85 to CAD$4.03 per share were exercised.

During the year ended December 31, 2015, the expiry date for 75,000 stock options with an exercise price of CAD$4.03 was extended from May 29, 2015 to June 12, 2015.

During the year ended December 31, 2015, the Company recorded a share-based payment charge of $1,239 (2014: $2,108) in respect to options granted and vested.

The assumptions used to estimate the fair value of the stock options granted during the years ended December 31, 2015 and 2014 were as follows:

	Years ended December 31,	
	2015	2014
Risk-free interest rate	**0.45%**	1.19%
Expected stock price volatility	**61.22%**	59.29%
Expected term in years	**3**	3
Expected dividend yield	**0%**	0%
Expected forfeiture rate	**5.25%**	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 stock option was CAD$4.86 (2014: CAD$4.30).

15. Share Capital (continued)

b) Stock options (continued)

The following table summarizes information related to stock options outstanding and exercisable at December 31, 2015:

Exercise price in CAD$	Number of outstanding stock options (in 000's)	Weighted average remaining contractual life of outstanding stock options (years)	Weighted average exercise price on outstanding stock options CAD$	Exercisable stock options (in 000's)	Weighted average exercise price on exercisable stock options CAD$
$0.85 to $0.99	262	2.8	$ 0.85	262	$ 0.85
$1.00 to $1.99	114	0.5	1.57	114	1.57
$2.00 to $2.99	250	1.0	2.22	250	2.22
$3.00 to $3.99	869	0.4	3.38	869	3.38

$4.00 to $4.99	1,561	3.0		4.58	330	4.30
$6.00 to $6.67	49	1.1		6.67	49	6.67
$0.85 to $6.67	3,105	2.0	$	3.66	1,874	$ 3.01

The weighted average remaining life of vested share purchase options at December 31, 2015 was 1.0 years (December 31, 2014: 1.5 years).

c) DSUs

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 year ended December 31, 2015, the Company granted 187,890 (2014: 244,188) DSU with a market value of CAD$900 (2014: CAD$1,050), at the date of grants, to non-executive directors.

During the year ended December 31, 2015, the Company paid $nil (2014: $514) on nil (2014: 127,063) DSU to a former director of the Company.

As at December 31, 2015, there are 1,016,419 (2014: 828,529) DSU outstanding with a fair value of $2,279 (2014: $3,762). Refer to Note 12.

d) RSUs

The Company's SU Plan covers all RSUs and PSUs granted by the Company on and after March 1, 2015. All RSUs granted prior to March 1, 2015, are governed under the restricted share unit plan dated November 12, 2010.

15. Share Capital (continued)

d) RSUs (continued)

The RSUs entitle employees or officers to cash payments which vest and are payable in installments over a period of up to three years following the date of the award. The RSUs 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 vesting date multiplied by the number of RSUs held.

During the year ended December 31, 2015, the Company granted 385,740 (2014: 424,425) RSU with a market value of CAD$1,848 (2014: CAD$1,825), at the date of grant, to an executive director and officer (151,651), officers (205,185), and employees (28,904), vesting and payable 20% after one year, 30% after two years, and the remaining 50% after three years from the date of grant.

During the year ended December 31, 2015, the Company cancelled nil (2014: 52,528) RSU and paid $nil (2014: $601) on nil (2014: 137,305) RSU to former officers of the Company, and $739 (2014: $435) on 192,519 (2014: 111,286) RSU to an executive director and officer, officers, employees, and a former employee.

As at December 31, 2015, there were 1,015,846 (2014: 822,625) RSUs outstanding with a fair value of $1,570 (2014: $2,247). Refer to Note 9 and Note 12.

e) PSUs

The cash settled PSUs are performance-based awards for the achievement of specified performance metrics by specified deadlines, which vest in installments over a three year period. Any PSUs for which the performance metrics have not been achieved shall automatically be forfeited and cancelled. The PSUs for which the performance metrics have been achieved will vest and the PSU 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 vesting date multiplied by the number of PSUs held.

During the year ended December 31, 2015, the Company granted 1,236,620 (2014: nil) PSU with a market value of CAD$5,923 (2014: $nil), at the date of grant, to an executive director and officer (758,255) and officers (478,365), vesting and payable 20% after one year, 30% after two years, and the remaining 50% after three years from the date of grant if certain performance metrics are achieved. For PSUs that vest under this grant, the payout will be paid up to a maximum of two times

the grant price.

As at December 31, 2015, a total of 1,236,620 (2014: nil) PSUs are outstanding with a fair value of $1,194 (2014: $nil).

f) 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:

15. Share Capital (continued)

f) Earnings per Share (continued)

i. Basic (continued)

		Years ended December 31,		
		2015		2014
(Loss) income available to equity owners	**$**	**(10,608)**	$	15,602
Weighted average number of shares (in '000's)		**129,001**		126,787
(Loss) earnings per share - basic	**$**	**(0.08)**	$	0.12

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:

		Years ended December 31,		
		2015		2014
(Loss) income available to equity owners	**$**	**(10,608)**	$	15,602
Weighted average number of shares ('000's)		**129,001**		126,787
Incremental shares from share options		**-**		1,356
Weighted average diluted shares outstanding ('000's)		**129,001**		128,143
(Loss) earnings per share – diluted	**$**	**(0.08)**	$	0.12

For the year ended December 31, 2015, excluded from the calculation were 1,417,685 (2014: 49,084) anti-dilutive options with exercise prices ranging from CAD$4.79 to CAD$6.67 (2014: CAD$6.67).

16. 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 December 31, 2015, are sufficient for its present needs for at least the next 12 months.

16. Capital Disclosure (continued)

The Company, under the credit facility, shall maintain at all times, on a consolidated basis, a tangible net worth in an amount equal to the sum of (a) 85% of the tangible net worth as at June 30, 2014, plus (b) 50% of positive quarterly net income earned after June 30, 2014 plus (c) 50% of the value of any equity interests issued by the Company after June 30, 2014. Tangible net worth is defined as shareholders' equity less all amounts that would be included on a consolidated statement of financial position of the Company as amounts owed by the Company or as intangibles. Intangibles includes, without limitation, such personal property as goodwill, copyrights, patents and trademarks, franchises, licences of intellectual property rights, research and development costs, but, for greater certainty, excludes accounts receivable, prepaids, future tax assets and deferred development costs. As at December 31, 2015, the Company is in compliance with the credit facility covenants.

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

17. 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 year ended December 31, 2015, there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

17. 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

Fair Value Measurements

At December 31, 2015	Quoted Prices in Active Markets for Identical Assets Level 1	Significant and Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Aggregate Fair Value
Cash and cash equivalents	$ 72,218	$ -	$ -	$ 72,218
Short term investments	36,031	-	-	36,031
Trade receivable from concentrate sales [1]	-	5,172	-	5,172
Derivative liabilities [2]	-	(351)	-	(351)
	$ 108,249	$ 4,821	$ -	$ 113,070

[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.

[1] The Company's trade receivables arose from provisional concentrate sales and are valued using quoted market prices based on the forward London Metal Exchange ("LME") for zinc and lead, the average London Bullion Market Association A.M. and P.M. fix ("London A.M. fix" and "London P.M. fix") for gold and silver, and the London Bullion Market Association P.M. fix ("London P.M. fix") for gold and silver.

[2] Derivative liabilities includes interest rate swaps. The fair value of the derivative liabilities reflect observable LIBOR and hereby classified within Level 2 of the fair value hierarchy.

At December 31, 2014	Quoted Prices in Active Markets for Identical Assets Level 1	Significant and Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Aggregate Fair Value
Cash and cash equivalents	$ 42,867	$ -	$ -	$ 42,867
Short term investments	34,391	-	-	34,391
Trade receivable from concentrate sales [1]	-	16,573	-	16,573
	$ 77,258	$ 16,573	$ -	$ 93,831

17. Management of Financial Risk (continued)

a) Fair Value Measurements of Financial Instruments (continued)

ii. Fair Value of Financial Assets and Liabilities

	December 31, 2015		December 31, 2014	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Trade receivable from concentrate sales [2]	$ 5,172	$ 5,172	$ 16,573	$ 16,573
Advances and other receivables [3]	1,350	1,350	2,226	2,226
	$ 6,522	$ 6,522	$ 18,799	$ 18,799
Financial liabilities				
Derivative liabilities [1]	$ 351	$ 351	$ -	$ -
Other liabilities [3]	1,928	1,985	38	38
	$ 2,279	$ 2,336	$ 38	$ 38

[1] Derivative derivative liabilities includes interest rate swaps. The fair value of the derivative assets reflect observable LIBOR and hereby classified within Level 2 of the fair value hierarchy.

[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] Advances and other receivables and other liabilities are recorded at amortized costs. The fair value of other assets and other liabilities are primarily determined using quoted market prices, and the balances include the current portion of other assets and other liabilities, respectively.

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.

17. Management of Financial Risk (continued)

b) Currency Risk (continued)

As at December 31, 2015, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, Peruvian nuevo soles and Mexican pesos (all amounts are expressed in thousands of Canadian dollars, thousands of Peruvian nuevo soles or thousands of Mexican pesos):

	December 31, 2015			December 31, 2014		
	Canadian Dollars	**Nuevo Soles**	**Mexican Pesos**	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	**$ 10,023**	**S/. 983**	**$ 46,405**	$ 2,695	S/. 8,633	$ 56,739
Short term investments	**-**	**-**	**-**	7,696	-	-
Accounts receivable and other assets	**83**	**4,035**	**6,805**	897	3,742	15,692
Income tax receivable	**-**	**2,663**	**-**	-	448	-
Deposits on long term assets and long term borrowing costs	**-**	**-**	**31,899**	71	-	19,096
Trade and other payables	**(2,921)**	**(10,931)**	**(163,699)**	(2,231)	(12,387)	(117,848)
Provisions, current	**-**	**(1,143)**	**(2,028)**	-	(767)	(8,138)
Income tax payable	**-**	**(15)**	**(61,960)**	-	(37)	(143,426)
Other liabilities	**(4,805)**	**-**	**(754)**	(5,376)	-	(563)
Provisions	**-**	**(24,475)**	**(83,978)**	-	(20,710)	(73,001)
Total	**$ 2,380**	**S/. (28,883)**	**$ (227,310)**	$ 3,752	S/. (21,078)	$ (251,449)
Total US$ equivalent	**$ 1,716**	**$ (8,463)**	**$ (13,211)**	$ 3,226	$ (7,052)	$ (17,084)

Based on the above net exposure as at December 31, 2015, 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 $nil (2014: $358) and an impact to net income before tax of $2,217 (2014: $2,682).

The sensitivity analyses in the above table should be used with caution as the results are theoretical, based on management's best assumptions using material and practicable data which may generate results that are not necessarily indicative of future performance. In addition, in deriving this analysis, the Company has made assumptions based on the structure and relationship of variables as at the balance sheet date which may differ due to fluctuations throughout the year with all other variables assumed to remain constant. Actual changes in one variable may contribute to changes in another variable, which may amplify or offset the effect on earnings.

17. Management of Financial Risk (continued)

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.

The Company's maximum exposure to credit risk as at December 31, 2015 is as follows:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	**$ 72,218**	$ 42,867
Short term investments	**36,031**	34,391
Accounts receivable and other assets	**7,068**	19,905
Income tax receivable	**780**	680
	$ 116,097	$ 97,843

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.

17. Management of Financial Risk (continued)

d) Liquidity Risk (continued)

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 December 31, 2015				
	Less than 1 year	1 - 3 years	4 -5 years	After 5 years	Total
Trade and other payables	$ 28,970	$ -	$ -	$ -	$ 28,970
Bank loan	-	-	40,000	-	40,000
Derivative liabilities	351	-	-	-	351
Income tax payable	3,605	-	-	-	3,605
Other liabilities	809	4,640	-	-	5,449
Operating leases	539	585	-	-	1,124
Provisions	447	1,134	1,239	11,052	13,872
	$ 34,721	**$ 6,539**	**$ 41,239**	**$ 11,052**	**$ 93,371**

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business. Refer to Note 24. c).

On March 25, 2015, the Company entered into an amended and restated credit agreement with the Bank of Nova Scotia for a $60 million senior secured financing ("credit facility") consisting of a $40 million term credit facility with a 4 year term and a $20 million revolving credit facility for a two year period. 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.

On April 1, 2015, the $40 million term credit facility was drawn down. Refer to Note 5 and Note 11.

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 $1 change in income on an annualized basis.

On March 25, 2015, the Company entered into a $40 million interest rate swap, effective for April 1, 2015 as a cash flow hedge to the credit facility (refer to Note 11 and Note 17. d)).

17. Management of Financial Risk (continued)

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.

A 10% change in zinc, lead, silver, and gold prices would cause a $1,738, $1,168, $6,425, $2,392, respectively, change in net earnings on an annualized basis.

The Company also enters into provisional concentrate contracts to sell the silver-gold, zinc, lead-silver concentrates produced by the San Jose and Caylloma mines. For the year ended December 31, 2015, the impact of price adjustments was an expense of $2,329 (2014: expense $539).

18. 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 years ended December 31, 2015 and 2014 are as follows:

18. Segmented Information (continued)

Reportable Segments	**Corporate**	**Bateas**	**Cuzcatlan**	**Total**
Year ended December 31, 2015				
Sales to external customers	**$ -**	**$ 53,803**	**$ 100,926**	**$ 154,729**
Silver-gold concentrates	**$ -**	**$ -**	**$ 100,926**	**$ 100,926**
Silver-lead concentrates	**$ -**	**$ 36,962**	**$ -**	**$ 36,962**
Zinc concentrates	**$ -**	**$ 16,841**	**$ -**	**$ 16,841**
Cost of sales*	**$ -**	**$ 50,113**	**$ 60,968**	**$ 111,081**
Depletion, depreciation and amortization**	**$ 643**	**$ 9,400**	**$ 15,696**	**$ 25,739**
Selling, general and administrative expenses*	**$ 10,818**	**$ 2,561**	**$ 4,484**	**$ 17,863**
Exploration and evaluation costs	**$ 253**	**$ -**	**$ 67**	**$ 320**
Foreign exchange loss	**$ 216**	**$ 333**	**$ 1,015**	**$ 1,564**
Impairment of mineral properties	**$ -**	**$ 25,000**	**$ -**	**$ 25,000**
Other operating expense	**$ 19**	**$ 572**	**$ 150**	**$ 741**
Interest income	**$ 160**	**$ 138**	**$ 83**	**$ 381**
Interest expense	**$ 1,428**	**$ 364**	**$ (34)**	**$ 1,758**
(Loss) income before tax	**$ (12,573)**	**$ (25,002)**	**$ 34,358**	**$ (3,217)**
Current income tax	**$ 114**	**$ 1,690**	**$ 9,802**	**$ 11,606**
Deferred income tax	**$ (90)**	**$ (5,611)**	**$ 1,486**	**$ (4,215)**
Income taxes	**$ 24**	**$ (3,921)**	**$ 11,288**	**$ 7,391**
(Loss) income for the year	**$ (12,597)**	**$ (21,081)**	**$ 23,070**	**$ (10,608)**
Capital expenditures***	**$ 29**	**$ 8,351**	**$ 48,750**	**$ 57,130**

Reportable Segments	**Corporate**	**Bateas**	**Cuzcatlan**	**Total**
Year ended December 31, 2014				
Sales to external customers	$ -	$ 66,054	$ 107,952	$ 174,006
Silver-gold concentrates	$ -	$ -	$ 107,952	$ 107,952
Silver-lead concentrates	$ -	$ 47,978	$ -	$ 47,978
Zinc concentrates	$ -	$ 18,076	$ -	$ 18,076
Cost of sales*	$ -	$ 51,131	$ 62,622	$ 113,753
Depletion, depreciation and amortization**	$ 465	$ 7,521	$ 15,531	$ 23,517
Selling, general and administrative expenses*	$ 17,536	$ 3,535	$ 4,355	$ 25,426
Foreign exchange (gain) loss	$ (747)	$ 368	$ 178	$ (201)
Other operating expense	$ 1,021	$ 241	$ 16	$ 1,278

Interest income	$ 93	$ 100	$ 88	$ 281
Interest expense	$ 404	$ 403	$ 345	$ 1,152
(Loss) income before tax	$ (18,120)	$ 10,475	$ 40,524	$ 32,879
Current income tax	$ 289	$ 3,300	$ 9,922	$ 13,511
Deferred income tax	$ 26	$ 1,552	$ 2,188	$ 3,766
Income taxes	$ 315	$ 4,852	$ 12,110	$ 17,277
(Loss) income for the year	$ (18,435)	$ 5,623	$ 28,414	$ 15,602
Capital expenditures***	$ 87	$ 9,850	$ 29,006	$ 38,943

* cost of sales and selling, general and administrative expenses includes depletion, depreciation, and amortization
** included in cost of sales or selling, general and administrative expenses
*** segmented capital expenditures are presented on a cash basis

18. Segmented Information (continued)

Reportable Segments	Corporate	Bateas	Cuzcatlan	Total
As at December 31, 2015				
Mineral properties, plant and equipment	**$ 371**	**$ 42,072**	**$ 199,960**	**$ 242,403**
Total assets	**$ 51,061**	**$ 86,159**	**$ 242,434**	**$ 379,654**
Total liabilities	**$ 47,681**	**$ 17,015**	**$ 50,790**	**$ 115,486**
As at December 31, 2014				
Mineral properties, plant and equipment	$ 539	$ 66,570	$ 166,740	$ 233,849
Total assets	$ 20,804	$ 110,499	$ 219,007	$ 350,310
Total liabilities	$ 8,153	$ 19,813	$ 49,631	$ 77,597

The segment information by geographical region for the years ended December 31, 2015 and 2014 are as follows:

Reportable Segments	Canada	Peru	Mexico	Total
Year ended December 31, 2015				
Sales to external customers	**$ -**	**$ 53,803**	**$ 100,926**	**$ 154,729**
Silver-gold concentrates	**$ -**	**$ -**	**$ 100,926**	**$ 100,926**
Silver-lead concentrates	**$ -**	**$ 36,962**	**$ -**	**$ 36,962**
Zinc concentrates	**$ -**	**$ 16,841**	**$ -**	**$ 16,841**
Year ended December 31, 2014				
Sales to external customers	$ -	$ 66,054	$ 107,952	$ 174,006
Silver-gold concentrates	$ -	$ -	$ 107,952	$ 107,952
Silver-lead concentrates	$ -	$ 47,978	$ -	$ 47,978
Zinc concentrates	$ -	$ 18,076	$ -	$ 18,076

Reportable Segments	Canada	Peru	Mexico	Total
As at December 31, 2015				
Non current assets	**$ 1,897**	**$ 43,053**	**$ 206,661**	**$ 251,611**
As at December 31, 2014				
Non current assets	$ 2,323	$ 67,196	$ 166,419	$ 235,938

18. Segmented Information (continued)

For the year ended December 31, 2015, there were nine (2014: six) customers, respectively, represented 100% of total sales to external customers as follows:

External Sales by Customer and Region	**Years ended December 31, 2015**		2014	
Customer 1	**$ 20,230**	**37%**	$ 35,624	53%
Customer 2	**-**	**0%**	12,324	19%

Customer 3	**(11)**	**0%**		16,869	26%
Customer 4	**(18)**	**0%**		1,237	2%
Customer 5	**8,389**	**16%**		-	0%
Customer 6	**461**	**1%**		-	0%
Customer 7	**368**	**1%**		-	0%
Customer 8	**24,384**	**45%**		-	0%
Bateas/Peru	**$ 53,803**	**100%**	$	66,054	100%
% of total sales	**35%**			38%	
Customer 1	**$ 100,831**	**100%**	$	50,278	47%
Customer 2	**95**	**0%**		57,674	53%
Cuzcatlan/Mexico	**$ 100,926**	**100%**	$	107,952	100%
% of total sales	**65%**			62%	
Consolidated	**$ 154,729**	**100%**	$	174,006	100%
% of total sales	**100%**			100%	

19. Cost of Sales

The cost of sales for the years ended December 31, 2015 and 2014 are as follows:

	2015			2014		
	Caylloma	**San Jose**	**Total**	Caylloma	San Jose	Total
Direct mining costs [1]	**$39,681**	**$42,503**	**$ 82,184**	$ 42,013	$ 43,418	$ 85,431
Workers' participation	**385**	**2,269**	**2,654**	735	3,556	4,291
Depletion and depreciation	**9,366**	**15,527**	**24,893**	7,482	15,161	22,643
Royalty expenses	**681**	**669**	**1,350**	901	487	1,388
	$50,113	**$60,968**	**$ 111,081**	$ 51,131	$ 62,622	$ 113,753

[1] Direct mining costs includes salaries and other short term benefits, contractor charges, energy, consumables and production related costs.

20. Selling, General and Administrative expenses

The selling, general and administrative expenses for the years ended December 31, 2015 and 2014 are as follows:

	Years ended December 31,	
	2015	2014
Salaries and benefits	**$ 11,198**	$ 18,599
Corporate administration	**1,321**	(8)
Audit, legal and professional fees	**4,221**	5,269
Filing and listing fees	**188**	223
Director's fees	**506**	546
Depreciation and amortization	**429**	797
	$ 17,863	$ 25,426

21. Exploration and Evaluation Costs

The exploration and evaluation costs for the years ended December 31, 2015 and 2014 are as follows:

	Years ended December 31,							
	2015				2014			
	Corporate	**Bateas**	**Cuzcatlan**	**Total**	Corporate	Bateas	Cuzcatlan	Total
Salaries, wages, and benefits	**$ 133**	**$ -**	**$ -**	**$ 133**	$ -	$ -	$ -	$ -
Direct costs	**120**	**-**	**67**	**187**	-	-	-	-
	$ 253	**$ -**	**$ 67**	**$ 320**	$ -	$ -	$ -	$ -

22. Other Operating Expense

The other operating expense for the years ended December 31, 2015 and 2014 are comprised of the following:

	Years ended December 31,	
	2015	2014
Loss on disposal of mineral properties, plant and equipment	**$ 46**	$ 66
Restructuring and severance costs	**191**	1,091
Impairment of inventories	**585**	121
Other operating (income) – other	**(81)**	-
	$ 741	$ 1,278

Restructuring and severance costs include the Company's cost-reduction program, and include all salaries and post-employment costs.

23. Net Finance Expense

The net finance expense income for the years ended December 31, 2015 and 2014 are as follows:

	Years ended December 31,	
	2015	2014
Finance income		
Interest income on FVTPL financial assets	**$ 381**	$ 281
Total finance income	**381**	281
Finance expenses		
Interest expense	**1,258**	5
Standby and commitment fees	**190**	404
Accretion of provisions (Note 13)	**310**	743
Total finance expense	**1,758**	1,152
Net finance expense	**$ (1,377)**	$ (871)

24. 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 was 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 was subject to annual collateral in the form of a letter of guarantee. In August 2015, the closure plan was again updated with total closure costs of $7,770, consisting of progressive closure activities of $3,604, final closure of $3,594, and post closure of $573. Under the rules of closure, for purposes of determining the annual financial collateral in the form of a letter of guarantee, the final closure and post-closure activities constitute one amount of $4,166, the same to be allocated annually constituting the following guarantees by year: 2016 $2,495, 2017 $3,179, 2018 $3,908, 2019 $4,705 and 2020 $5,641, according to the approved life in the study of mine closure.

Scotiabank Peru, a third party, has established a bank letter of guarantee in the amount of $2,495 (2014: $1,842) ,on behalf of Bateas, in favor of the Peruvian mining regulatory agency in compliance with local regulation and to collateralize Bateas's mine closure plan. This bank letter of guarantee expires on December 31, 2016.

Scotiabank Peru, a third party, has established a bank letter of guarantee in the amount of $3 (2014: $3), on behalf of Bateas, in favor of the Peruvian Energy and Mining Ministry to collateralize Bateas's regulatory compliance with an electric transmission line project. This bank letter of guarantee expires on November 30, 2016.

Scotiabank Peru, a third party, has established a bank letter of guarantee in the amount of $55 (2014: $58), for office rental, on behalf of Bateas, in favor of Centro Empresarial Nuevo Mundo S.A.C. This bank letter of guarantee expires on July 15, 2016.

24. Contingencies and Capital Commitments (continued)

b) Capital Commitments

As at December 31, 2015, $8,346 of capital commitments not disclosed elsewhere in the Financial Statements, and forecasted to be expended within one year, included $1,938 for the dry stack tailing dam and $4,649 for the plant expansion at the San Jose property, and $213 for an energy improvement project and $1,546 for the plant expansion at the Caylloma property.

c) Other Commitments

The Company has a contract to guarantee the 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 5,200 kW) and the Company is obligated to purchase subject to exemptions under provisions of "Force Majeure". The contract period is 15 years and expires in 2022, after that it is automatically renewed for periods of two years. Renewal can be avoided without penalties by notification 10 months in advance of the renewal date.

Tariffs are established annually by the energy market regulator in accordance with applicable regulations in Peru. The minimum committed demand is $30 per month, and the average monthly charge for 2016 is $300.

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business. Refer to Note 17. d).

The expected payments due by period, as at December 31, 2015, are as follows:

	Expected payments due by period as at December 31, 2015			
	Less than 1 year	1 - 3 years	4 -5 years	Total
Office premises – Canada	$ 66	$ 199	$ -	$ 265
Office premises – Peru	335	141	-	476
Office premises – Mexico	8	-	-	8
Total office premises	**$ 409**	**$ 340**	**$ -**	**$ 749**
Computer equipment – Peru	126	47	-	173
Computer equipment – Mexico	4	139	-	143
Total computer equipment	**$ 130**	**$ 186**	**$ -**	**$ 316**
Machinery – Mexico	-	59	-	59
Total machinery	**$ -**	**$ 59**	**$ -**	**$ 59**
Total operating leases	**$ 539**	**$ 585**	**$ -**	**$ 1,124**

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(All amounts in US$'000's unless otherwise stated)

24. Contingencies and Capital Commitments (continued)

d) Tax Contingencies

The Company has been assessed taxes and related interest and penalties by the Peruvian tax authority, SUNAT, for tax years 2010 and 2011 in the amounts of $957, $564, respectively, for a total of $1,521. The Company is currently appealing the assessments and believes the appeals will be ruled in favor of the Company. The Company has provided a guarantee by way of a letter bond in the amount of $772. This bank letter of guarantee expires on September 8, 2016.

During 2015, the Company's foreign trade operations for tax years 2011 to 2014 were under review by the Mexican Tax Administration Service (SAT) and facing an administrative customs procedure (PAMA) for specific temporary import documents (pediments). On October 27, 2015, the Mexican Tax Administration Service (SAT) issued a final resolution regarding the Company's foreign trade operations for tax years 2011 to 2014, concluding that certain claims are denied resulting in an assessment of $25 customs excise tax, $63 in VAT, and $93 in penalties and interest for a total of $181 (the

"Tax Credit"). On December 11, 2015, the Company, through Afianzadora Sofimex S.A., has established a security bond in the amount of $215, in favor of the PAMA to collateralize the Tax Credit of $181. This security bond expires on December 10, 2017. Subsequent to December, 31, 2015, on January 21, 2016, the Company presented its arguments before the Federal Court for the nullity and voidance of the Tax Credit.

e) 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 for the Company. Certain conditions may exist as of the date the financial statements are issued that 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.

25. Subsequent event up to March 14, 2016

Subsequent to December 31, 2015, 4,940 share purchase options with an exercise price of CAD$3.38 were exercised resulting in issued and outstanding shares of 129,245,507.

FORTUNA
SILVER MINES INC.

CORPORATE OFFICE:
Suite 650-200 Burrard Street
Vancouver, BC Canada V6C 3L6

T: +1.604.484.4085
F: +1.604.484.4029

MANAGEMENT HEAD OFFICE:
Piso 5. Av. Jorge Chávez #154
Miraflores, Lima – Perú

T: +51.1.616.6060, ext. 0

TRADING SYMBOL:
NYSE: **FSM**
TSX: **FVI**

info@fortunasilver.com
WWW.FORTUNASILVER.COM

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE

YEAR ENDED DECEMBER 31, 2015

As of March 14, 2016

(Dollar amounts expressed in US dollars, unless otherwise indicated)

FORTUNA SILVER MINES INC.
Management's Discussion and Analysis
For the year ended December 31, 2015
(Dollar amounts expressed in US dollars, unless otherwise indicated)

Management's discussion and analysis ("MD&A") is intended to help the reader understand the significant factors that have affected Fortuna Silver Mines Inc.'s and its subsidiaries' ("Fortuna's" or the "Company's") performance and that may affect its future performance. This MD&A was prepared as of March 14, 2016 and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015, and the related notes contained therein. The Company reports its financial position, financial performance and cash flows in accordance with International Financial Reporting Standards ("GAAP" or "IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A refers to various non-GAAP financial measures, such as cash cost per tonne of processed ore; cash cost per payable ounce of silver; total production cost per tonne; all-in sustaining cash cost; all-in cash cost; adjusted net (loss) income; operating cash flow per share before changes in working capital, income taxes, and interest income; mine operating earnings (loss); and adjusted EBITDA. These measures are used by the Company to manage and evaluate operating performance and ability to generate cash and are widely reported in the silver mining industry as benchmarks for performance. However, the measures do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. The Company believes that certain investors use these non-GAAP financial measures to evaluate the Company's performance. Accordingly, non-GAAP financial measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. To facilitate a better understanding of these measures as calculated by the Company, we have provided detailed descriptions and reconciliations as required.

This document contains forward-looking statements. Please refer to the cautionary language under the heading "Cautionary Statement on Forward-Looking Statements."

Contents **Page**

Business of the Company	2
2015 Highlights	2
2016 Guidance and Outlook	3
Property Option Agreements	13
Annual 2015 Financial Results	14
Quarterly Information	21
Fourth Quarter 2015 Financial Results	22
Non-GAAP Financial Measures	28
Liquidity and Capital Resources	36
Off-Balance Sheet Arrangements	43
Related Party Transactions (expressed in $'000's)	43
Significant Accounting Judgments and Estimates	43
Financial Instruments and Related Risks (expressed in $'000's)	45
Significant Changes, Including Initial Adoption of Accounting Standards	49
New Accounting Standards	50

Other Data 51
Share Position and Outstanding Warrants and Options 51
Other Risks and Uncertainties 51
Controls and Procedures 52
Qualified Persons 52
Cautionary Statement on Forward-Looking Statements 52
Cautionary Note to United States Investors Concerning Estimates of Reserves and Resources 55

Business of the Company

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 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.

The financial results include the accounts of the Company and its wholly owned subsidiaries: Minera Bateas S.A.C. ("Bateas"); Fortuna Silver (Barbados) Inc. ("Barbados"); Compania Minera Cuzcatlan SA ("Cuzcatlan"); Continuum Resources Ltd. ("Continuum"); Fortuna Silver Mines Peru S.A.C. ("FSM Peru"); and Fortuna Silver Mexico, S.A. de CV. ("FS Mexico").

2015 Highlights

Full Year Financial and Operating Highlights

Net loss for the year ended December 31, 2015 ("2015"), amounted to $10.6 million compared with $15.6 million net income for the year ended December 31, 2014 ("2014"), resulting in a basic loss per share of $0.08 (2014: earnings of $0.12).

For the year ended December 31, 2015, the Company recorded an impairment on its Caylloma Mine for $25.0 million, before tax. Refer to the below discussion on the Impairment of Caylloma Mine.

The Company's adjusted net income was $6.7 million (2014: $15.7 million), after adjusting for the non-cash impairment of Caylloma Mine, net of tax, of $17.0 million ($25.0 million before tax) and other minor items. Refer to non-GAAP financial measures.

Silver sold decreased 1% to 6,618,784 ounces from the prior year, while the realized silver price decreased 17% to $15.65 per ounce. Gold sold increased 10% to 39,209 ounces, while the realized gold price decreased 8% to $1,156.24 per ounce. Sales comprised 58% silver and 22% gold, compared with 64% and 19%, respectively, in the prior year.

Cash flow from operations, before changes in working capital, refer to non-GAAP measures, decreased 49% to $30.6 million (2014: $59.8 million) from the prior year, reflecting an increase of $14.4 million in income taxes paid related mostly to timing issues in the payment of income taxes. Operating cash flow per share, before changes in working capital items, decreased to $0.24 (2014: $0.47) (refer to non-GAAP financial measures). Cash and cash equivalent and short term investments increased $31.0 million (40%) to $108.2 million (2014: $77.3 million).

Silver production marginally increased to 6,624,635 ounces (2014: 6,599,300 ounces), and gold production increased 12% to 39,689 ounces (2014: 35,316 ounces).

Consolidated all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $14.51, below our annual guidance of $16.61 for 2015 (refer to non-GAAP financial measures).

San Jose's all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $12.86 and below the annual guidance of $16.27 for 2015 (refer to non-GAAP financial measures).

Caylloma's all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $13.56 and above our annual guidance of $12.78 for 2015 (refer to non-GAAP financial measures).

Fourth Quarter 2015 Financial Highlights

For the fourth quarter ended December 31, 2015 ("Q4 2015"), net loss amounted to $17.3 million (Q4 2014: income of $0.1 million), resulting in basic loss per share of $0.13 (Q4 2014: $nil). Loss before income tax for Q4 2015 was $21.2 million, compared with income of $3.4 million in Q4 2014.

The Company's Q4 2015 adjusted net loss was $0.1 million (Q4 2014: income of $0.2 million), after adjusting for the non-cash impairment of Caylloma Mine, net of tax, of $17.0 million ($25.0 million before tax) and other minor items. Refer to non-GAAP financial measures.

Silver sold remained flat, at 1,614,908 (Q4 2015: 1,611,313) ounces, while the realized silver price decreased 9% to $14.80 per ounce from

the same period in the prior year. Gold sold increased 12% to 9,865 ounces, while the realized gold price decreased 7% to $1,106.34 per ounce.

2016 Guidance and Outlook

2016 Production and Cash Cost Guidance

For 2016, the production and cash cost guidance is noted in the table below.

Mine	Silver (Moz)	Gold (koz)	Investments ($ million)	Cash Cost ($/t)	AISCC** ($/ oz Ag)
San Jose, Mexico	5.9	42.0	46.0	57.4	9.1
Caylloma, Peru	1.2	0.9	12.9	79.4	12.5
Total	**7.0**	**42.8**	**58.9**	--	--

** All-in sustaining cash cost ("AISCC") per ounce of silver is net of by-products gold, lead and zinc
All-in sustaining cash cost is a non-GAAP financial measure

Total figures may not add up due to rounding.

- The 2016 San Jose Mine AISCC of $9.1/oz Ag includes $2.5/oz Ag, or $13.9 million in sustaining capital investments mainly related to mine development and the expansion of the dry stack tailings deposit.
- The consolidated AISCC is estimated to be $11.1/ oz Ag.
- Caylloma Mine zinc and lead production is forecast at 43.7 million pounds and 42.5 million pounds, respectively.

San Jose Mine AISCC guidance

Item	2016 Guidance ($/oz Ag)
Cash cost net of by-product credits	3.4
Commercial and government royalties and mining tax	0.6
Workers' participation	0.5
Selling, general and administrative expenses (operations)	0.7
Adjusted operating cash cost	5.2
Sustaining capital expenditures	2.5
Brownfields exploration expenditures	1.5
All-in sustaining cash cost per payable ounce of silver	**9.1**

Total figures may not add up due to rounding.

Caylloma Mine AISCC guidance

Item	2016 Guidance ($/oz Ag)
Cash cost net of by-product credits	(1.0)
Commercial and government royalties and mining tax	0.6
Workers' participation	0.1
Selling, general and administrative expenses (operations)	2.5
Adjusted operating cash cost	2.3
Sustaining capital expenditures	7.6
Brownfields exploration expenditures	2.6
All-in sustaining cash cost per payable ounce of silver	**12.5**

Total figures may not add up due to rounding.

Consolidated AISCC guidance

Item	2016 Guidance ($/oz Ag)
Cash cost net of by-product credits	2.7
Commercial and government royalties and mining tax	0.6
Workers' participation	0.4
Selling, general and administrative expenses (operations)	1.0
Adjusted operating cash cost	4.7
Selling, general and administrative expenses (corporate)	1.4
Sustaining capital expenditures	3.3
Brownfields exploration expenditures	1.7
All-in sustaining cash cost per payable ounce of silver	**11.1**

Total figures may not add up due to rounding.

2016 Outlook

San Jose Mine, Mexico

San Jose plans to process 875,000 tonnes of ore averaging 230 g/t Ag and 1.65 g/t Au. An increase of mill throughput from 2,000 tpd to 3,000 tpd is planned for July 2016. Capital investment is estimated at $46 million.

Major capital investments include:

- 3,000 tpd mill expansion: $21.9 million
- Mine development: $ 7.0 million
- Dry stack tailings deposit expansion: $ 4.5 million
- Brownfields exploration: $ 8.2 million

Caylloma Mine, Peru

Caylloma plans to process 503,100 tonnes of ore averaging 89 g/t Ag, 4.08 % Pb and 4.37 % Zn. A 10% increase in mill throughput from 1,300 tpd to 1,430 tpd is planned for March. Capital investment is estimated at $12.9 million.

Major capital investments include:

- Mine development: $ 6.4 million
- Processing plant optimization: $ 1.0 million
- Brownfields exploration: $ 2.9 million

Brownfields Exploration Highlights

San Jose Mine, Mexico

Brownfields exploration program budget for 2016 at the San Jose Mine is $8.2 million, which includes 22,000 meters of diamond drilling and the development of a 1,500 meter underground exploration drift that will allow better access to test the northern extension of the Trinidad North vein system. Exploration drilling is in progress at the Trinidad Central zone in the San Jose Mine and at La Noria/San Antonio vein system, a parallel vein system located two kilometers to the west of the San Jose Mine area. The Company disclosed further details of San Jose's brownfields exploration program on December 16, 2015 (refer to "Fortuna provides year-end update for the San Jose Mine, Mexico").

Caylloma Mine, Peru

Brownfields exploration program budget for 2016 at the Caylloma Mine is $2.9 million, which includes 17,000 meters of diamond drilling. Drilling will be focused on testing new exploration targets in the northern portion of the Caylloma District and in the Pisacca prospect area located a short distance to the southwest of the plant as well as further exploring the northeastern extension of the Animas Vein.

Results of Operations

Consolidated Metal Production

	Three months ended December 31,					
	2015			2014		
Consolidated Metal Production	**Caylloma**	**San Jose**	**Consolidated**	Caylloma	San Jose	Consolidated
Silver (oz)	**323,820**	**1,261,495**	**1,585,315**	544,977	1,083,215	1,628,191
Gold (oz)	**193**	**9,762**	**9,955**	335	8,561	8,896
Lead (000's lbs)	**8,361**	**-**	**8,361**	4,084	-	4,084
Zinc (000's lbs)	**9,599**	**-**	**9,599**	6,986	-	6,986
Production cash cost (US$/oz Ag)*	**6.57**	**1.81**	**2.77**	7.70	4.13	5.32
All-in sustaining cash cost (US$/oz Ag)*	**16.47**	**16.80**	**18.13**	14.64	9.42	12.51

*** Net of by-product credits from gold, lead and zinc**

	Years ended December 31,					
	2015			2014		
Consolidated Metal Production	**Caylloma**	**San Jose**	**Consolidated**	Caylloma	San Jose	Consolidated
Silver (oz)	**1,695,742**	**4,928,893**	**6,624,635**	2,202,540	4,396,760	6,599,300
Gold (oz)	**1,163**	**38,526**	**39,689**	1,820	33,496	35,316
Lead (000's lbs)	**23,835**	**-**	**23,835**	16,152	-	16,152
Zinc (000's lbs)	**35,829**	**-**	**35,829**	27,361	-	27,361
Production cash cost (US$/oz Ag)*	**6.60**	**2.57**	**3.59**	7.02	3.52	4.69
All-in sustaining cash cost (US$/oz Ag)*	**13.56**	**12.86**	**14.51**	14.13	12.07	14.48

*** Net of by-product credits from gold, lead and zinc**

Consolidated production highlights for 2015 are as follows:

- Silver production of 6,624,635 ounces; 0.4% increase over 2014

- Silver and gold production were 2% and 13%, respectively, above 2015 production guidance
- Gold production of 39,689 ounces; 12% increase over 2014
- Zinc production of 35,828,558 pounds; 31% increase over 2014
- Lead production of 23,834,964 pounds; 48% increase over 2014
- Cash cost for San Jose of $58.83/t; 7% under 2014, and 6% under annual guidance of $62.7/t
- Cash cost for Caylloma of $85.76/t; 5% under both 2014 and annual guidance of $90.3/t

*Ag Eq calculated using silver to gold ratio of 60 to 1

Compared with the prior year, silver production remained flat and gold production increased 12%, explained largely by the commissioning of the San Jose plant expansion from 1,800 tpd to 2,000 tpd in April 2014 as well as higher head grades. Silver and gold production for 2015 totaled 6.6 million ounces and 39,689 ounces, respectively, reflecting 102% and 113%, respectively, of the Company's annual guidance (see Fortuna news release dated January 14, 2016).

Consolidated Cash Cost per Payable Ounce of Silver

All-in sustaining cash cost per ounce of payable silver for 2015, net of by-product credits, was $14.51, in line with the prior year (2014: $14.48) and below our 2015 guidance of $16.61 as a result of lower unit costs, higher by-product credits, and lower sustaining capital expenditures. Refer to non-GAAP financial measures.

San Jose Mine Review

San Jose is an underground silver-gold mine located in the State of Oaxaca in southern Mexico. The following table shows the main variables used by management to measure the operating performance of the mine: throughput, grade, recovery, gold and silver production, and unit costs.

	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
	Three months ended December 31,		Years ended December 31,	
	2015	2014	**2015**	2014
Mine Production	**San Jose**	San Jose	**San Jose**	San Jose
Tonnes milled	**172,789**	181,702	**717,505**	676,959
Average tonnes milled per day	**2,071**	2,019	**2,072**	1,928
Silver				
Grade (g/t)	**245**	208	**234**	226
Recovery (%)	**93**	89	**91**	89
Production (oz)	**1,261,495**	1,083,215	**4,928,893**	4,396,760
Gold				
Grade (g/t)	**1.90**	1.65	**1.83**	1.72
Recovery (%)	**93**	89	**91**	90
Production (oz)	**9,762**	8,561	**38,526**	33,496
Unit Costs				
Production cash cost (US$/oz Ag)*	**1.81**	4.13	**2.57**	3.52
Production cash cost (US$/tonne)	**55.45**	60.41	**58.83**	62.99
Unit Net Smelter Return (US$/tonne)	**146.65**	129.12	**144.77**	157.55
All-in sustaining cash cost (US$/oz Ag)*	**16.80**	9.42	**12.86**	12.07

*** Net of by-product credits from gold**

Silver and gold annual production for 2015 increased 12% and 15% to 4,928,893 and 38,526 ounces of silver and gold, respectively, above the prior year's production. The increases were the result of higher throughput of 6%; higher head grades of 3% and 6% for silver and gold, respectively; and higher metallurgical recovery of 2 percentage points for both silver and gold. See sales for information on metal sold.

Silver and gold annual production was 15% and 16%, respectively, above 2015 guidance. Annual average head grades for silver and gold were 234 g/t and 1.83 g/t, or 9% and 10%, above plan. Increased silver and gold production was the result of higher contributions in ore tonnage and grade from Level 1,100 relative to the mine plan and of 3% higher metallurgical recoveries and mill throughput.

Silver production in Q4 2015 was 1.3 million ounces compared to 1.1 million ounces in the same period of the prior year. Silver and gold production was 16% and 14%, respectively, above Q4 2014.

Cash cost per tonne of processed ore for 2015 was $58.83, or 7% below the cost in the prior year, and 6%below the annual guidance of $62.7/t. The devaluation of the Mexican peso throughout the year had a positive effect on our costs, of $4.43/t. Excluding this effect, cash cost for 2015 was 1% above the prior year. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $12.86 for 2015 (refer to non-GAAP financial measures), below the annual guidance of $16.27 as a result of lower unit costs and lower sustaining capital expenditures.

Cash cost per tonne of processed ore for Q4 2015 was $55.45, or 8% below Q4 2014. The devaluation of the Mexican peso throughout the year had a positive effect on our costs, of $3.88/t. Excluding this effect, cash cost for Q4 2015 was 2% below cost in Q4 2014.

Cash cost per payable ounce of silver and cash cost per tonne of processed ore are non-GAAP financial measures (refer to non-GAAP financial measures for the reconciliation of cash cost to the cost of sales).

Investments in property, plant and equipment and brownfields exploration, on a cash basis, comprised the following expenditures:

Year ended December 31, 2015 (Expressed in $ millions)		Cuzcatlan
Plant and equipment	$	3.3
Dry stack tailings deposit project		25.0
Equipment and infrastructure		28.3
Plant expansion		9.4
Infill drilling		1.6
Mine development		5.9
Brownfields exploration		3.5
	$	**48.7**

Processing plant expansion to 3,000 tpd

The expansion of the mill capacity to 3,000 tpd from the current 2,000 tpd is currently under way, with a planned commissioning for mid-2016 (see Fortuna news releases dated December 17, 2014, October 15, 2015, and December 16, 2015). Also, see Fortuna news release dated August 12, 2015.

Work on the third expansion of the San Jose Mine to 3,000 tpd is advancing on schedule and within budget, with 64% progress as of the end of December 2015.

Dry stack tailings deposit and filter facility project

Construction of the dry stack tailings deposit and the tailings filter facility have progressed according to schedule in spite of a delay in the delivery of the filters from the supplier. The project is in the final stages of dry commissioning and is 8% below the approved budget of $29.2 million. The first stage of the dry stack deposit was built to provide storage capacity until year-end 2016. The deposit will be expanded in 2016 to provide storage capacity through April 2017 at an estimated capital expenditure (CAPEX) of $3.5 million and will continue to be expanded as required throughout the life of mine (see Fortuna news release dated December 16, 2015). The dry stack tailings deposit and filter facility project is advancing on schedule and within budget, with 97% progress as of the end of December 2015.

Caylloma Mine Review

Caylloma is an underground silver, lead, and zinc mine located in the Arequipa Department in southern Peru. Its commercial products are silver-lead and zinc concentrates. The table below shows the main variables used by management to measure the operating performance of the mine.

	QUARTERLY RESULTS Three months ended December 31,		YEAR TO DATE RESULTS Years ended December 31,	
	2015	2014	**2015**	2014
Mine Production	**Caylloma**	Caylloma	**Caylloma**	Caylloma
Tonnes milled	**117,776**	117,060	**466,286**	464,823
Average tonnes milled per day	**1,309**	1,301	**1,306**	1,302
Silver				
Grade (g/t)	**103**	173	**136**	174
Recovery (%)	**83**	84	**83**	85
Production (oz)	**323,820**	544,977	**1,695,742**	2,202,540
Gold				
Grade (g/t)	**0.22**	0.27	**0.26**	0.31
Recovery (%)	**23**	33	**30**	40
Production (oz)	**193**	335	**1,163**	1,820
Lead				
Grade (%)	**3.38**	1.70	**2.47**	1.70
Recovery (%)	**95**	93	**94**	93
Production (000's lbs)	**8,361**	4,084	**23,835**	16,152
Zinc				
Grade (%)	**4.09**	3.03	**3.84**	2.97
Recovery (%)	**90**	89	**91**	90
Production (000's lbs)	**9,599**	6,986	**35,829**	27,361
Unit Costs				
Production cash cost (US$/oz Ag)*	**6.57**	7.70	**6.60**	7.02
Production cash cost (US$/tonne)	**81.77**	91.60	**85.76**	90.57
Unit Net Smelter Return (US$/tonne)	**103.17**	130.13	**117.58**	144.57
All-in sustaining cash cost (US$/oz Ag)*	**16.47**	14.64	**13.56**	14.13

*** Net of by-product credits from gold, lead and zinc**

Silver production in 2015 was 1.7 million ounces, 23% below 2014, due to a 22% lower head grade. The decrease in silver production was the result of lower production from the Bateas high-grade silver vein and Level 6 of the Animas Vein. Zinc and lead production in 2015 increased 31% and 48% over 2014.

Silver annual production was 1.7 million ounces, or 11% below the revised guidance of 1.9 million ounces resulting from a management decision to focus on base metal-rich zones of the polymetallic Animas Vein. Mining at the high-grade Bateas Vein stopped in the fourth quarter of 2015.

Zinc and lead annual production was 12% and 22%, respectively, above the revised 2015 guidance of 32.1 million pounds and 19.5 million pounds, respectively.

Silver production in Q4 2015 was 0.32 million ounces compared to 0.54 million ounces in the same period of the prior year. Zinc and lead production was 37% and 105%, respectively, above Q4 2014.

Cash cost per tonne of processed ore at Caylloma for 2015 was $85.76 , a decrease of 5% from the prior year due to lower indirect costs related to headcount, lower distribution costs related to zinc concentrate transport tariffs, and a 14% devaluation of the Peruvian nuevo sol and was 5% below the annual guidance of $90.3/t. Caylloma's all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $13.56 for 2015, compared with the annual guidance of $12.78 (refer to non-GAAP financial measures).

Cash cost per tonne at Caylloma for Q4 2015 was $81.77, 11% below Q4 2014, as a result of lower mining costs related to decreased sourcing of ore from the high-grade silver-bearing Bateas Vein (where conventional mining takes place), the devaluation of the Peruvian nuevo sol, and restructuring efforts impacting mining and indirect costs.

Investments in property, plant and equipment and brownfields exploration, on a cash basis, comprised the following expenditures:

Year ended December 31, 2015 **(Expressed in $ millions)**	**Bateas**
Equipment and infrastructure	3.2
Plant expansion	1.6
Mine development	4.7
Brownfields exploration	0.5
$	**10.0**

Impairment of Caylloma Mine

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 inflows or cash generating units ("CGUs").

The recoverable amounts of the Company's CGUs, which include mineral properties, plant and equipment are determined 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-expansionary 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.

At December 31, 2015, the Company determined there were several indicators of potential impairment on its non current assets, including the decline in the Company's market capitalization, reduction in the market consensus on long term silver price forecasts during the year and the consequential impact on the Company's reserves and resources. Based on the Company's assessment of the recoverable amounts of its CGUs, the Company concluded that the Caylloma Mine had an estimated recoverable value, based on its FVLCTS, below its carrying value and an impairment charge was required. As a result, the Company recognized a $17.0 million, net of tax ($25.0 million before tax) (2014: $nil) impairment charge, on the carrying value of net assets of $65.2 million, in respect to the Company's investment in Caylloma. The impairment charge was allocated on a pro rata basis against the net book value of the mineral properties, plant and equipment.

For December 31, 2015, the key assumptions used for FVLCTS calculations were as follows:

	December 31, 2015						
Metal Price Assumptions	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Gold price $ per ounce	$ 1,150.00	$ 1,173.85	$ 1,191.54	$ 1,215.71	$ 1,200.56	$ 1,200.56	$ 1,200.56
Silver price $ per ounce	$ 15.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00
Lead price $ per tonne	$ 1,750.00	$ 1,936.98	$ 1,921.58	$ 2,014.90	$ 2,016.62	$ 2,016.62	$ 2,016.62
Zinc price $ per tonne	$ 1,750.00	$ 2,216.41	$ 2,350.62	$ 2,525.38	$ 2,218.65	$ 2,218.65	$ 2,218.65
Weighted average cost of capital	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

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 LOM 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.

Caylloma Mine and San Jose Mine Concentrates

The table below shows the production and balance of commercial end products at each of our operating mines.

	QUARTERLY RESULTS				YEAR TO DATE RESULTS			
	Three months ended December 31,				Years ended December 31,			
	2015		2014		2015		2014	
Mine Concentrates	**Caylloma**	**San Jose**	Caylloma	San Jose	**Caylloma**	**San Jose**	Caylloma	San Jose
Silver-Gold								
Opening Inventory (t)	**-**	**283**	-	198	**-**	**302**	-	617
Production (t)	**-**	**4,663**	-	5,081	**-**	**21,321**	-	20,014
Sales (t)	**-**	**4,779**	-	4,952	**-**	**21,394**	-	20,303
Adjustment (t)	**-**	**(2)**	-	-	**-**	**(63)**	-	(1)
Closing Inventory (t)	**-**	**165**	-	327	**-**	**165**	-	327
Zinc								
Opening Inventory (t)	**488**	**-**	408	-	**464**	**-**	485	-
Production (t)	**8,625**	**-**	6,288	-	**31,967**	**-**	24,410	-
Sales (t)	**8,680**	**-**	6,256	-	**32,063**	**-**	24,501	-
Adjustment (t)	**8**	**-**	24	-	**74**	**-**	70	-
Closing Inventory (t)	**442**	**-**	464	-	**442**	**-**	464	-
Lead-Silver								
Opening Inventory (t)	**500**	**-**	287	-	**220**	**-**	208	-
Production (t)	**6,836**	**-**	3,600	-	**19,818**	**-**	14,318	-
Sales (t)	**6,712**	**-**	3,689	-	**19,474**	**-**	14,411	-
Adjustment (t)	**(14)**	**-**	21	-	**45**	**-**	105	-
Closing Inventory (t)	**610**	**-**	220	-	**610**	**-**	220	-

Property Option Agreements

Tlacolula Property

Pursuant to an agreement dated September 14, 2009, as amended December 18, 2012 and November 10, 2014, the Company, through its wholly owned subsidiary Cuzcatlan, holds an option (the "option") to acquire a 60% interest (the "interest") in the Tlacolula silver project (the "property") located in the State of Oaxaca, Mexico, from Radius Gold Inc.'s wholly owned subsidiary, Radius (Cayman) Inc. ("Radius").

The Company can earn the interest by spending $2.0 million, which includes a commitment to drill 1,500 meters within 12 months after Cuzcatlan has received a permit to drill the property, by making staged payments totaling $0.30 million in cash, and by providing $0.25 million in common shares of the Company to Radius according to the following schedule:

- Ø $0.02 million in cash and $0.02 million cash equivalent in shares upon stock exchange approval;
- Ø $0.03 million in cash and $0.03 million cash equivalent in shares by January 15, 2011;
- Ø $0.05 million in cash and $0.05 million cash equivalent in shares by January 15, 2012;
- Ø $0.05 million in cash and $0.05 million cash equivalent in shares by January 15, 2013;
- Ø $0.05 million in cash by January 19, 2015; and,
- Ø $0.10 million in cash and $0.10 million cash equivalent in shares within 90 days after Cuzcatlan has completed the first 1,500 meters of drilling on the property of which has not occurred.

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%. Radius has the right to terminate the agreement if the option is not exercised by January 31, 2017.

As of December 31, 2015, the Company had issued an aggregate of 34,589 common shares of the Company to Radius, with a fair market value of $0.15 million, and paid $0.20 million in cash according to the terms of the option agreement. Joint venture has not been formed as of yet.

Annual 2015 Financial Results

	Years Ended December 31,		
Expressed in $000's, except per share data	**2015**	2014	2013
Sales	**154,729**	174,006	137,394
Mine operating earnings	**43,648**	60,253	41,775
Operating (loss) income	**(1,840)**	33,750	(9,629)
Net (loss) income	**(10,608)**	15,602	(19,100)
(Loss) earnings per share, basic	**(0.08)**	0.12	(0.15)
(Loss) earnings per share, diluted	**(0.08)**	0.12	(0.15)
Total assets	**379,654**	350,310	302,215
Long term bank loan	**39,486**	-	-
Other liabilities	**4,620**	4,661	2,343

Net loss for the year ended December 31, 2015 ("2015"), amounted to $10.6 million compared with $15.6 million net income for the year ended December 31, 2014 ("2014"), resulting in a basic loss per share of $0.08 (2014: earnings of $0.12).

The Company's adjusted net income was $6.7 million (2014: $15.7 million), after adjusting for the non-cash impairment of inventories, net of tax, of $0.4 million ($0.6 million before tax) (2014: $0.1 million); non-cash impairment of Caylloma Mine, net of tax, of $17.0 million ($25.0 million before tax) (2014: $nil); and non-cash other operating income-other, net of tax, of $0.1 million (2014: $nil). Refer to non-GAAP

financial measures.

As at December 31, 2015, total assets increased to $379.7 million, as the $40.0 million term credit facility was drawn down, with a net of unamortized transaction costs of $0.5 million; property, plant and equipment increased $8.6 million; accounts receivable and other assets decreased $12.8 million; and inventories decreased $4.5 million.

For other liabilities as of December 31, 2015, refer to financial statement note 12.

Summary of Financial Results

	Years ended December 31,		
(Expressed in $ millions)	**2015**	2014	**% Chg**
Sales	$ **154.7**	$ 174.0	(11%)
Cost of Sales	**111.1**	113.7	(2%)
Mine operating earnings*	$ **43.6**	$ 60.3	(28%)
as a % of Sales	**28%**	35%	(19%)
Selling, general and administrative expenses	**17.9**	25.4	(30%)
Foreign exchange (gain) loss	**1.6**	(0.2)	(900%)
Impairment of mineral properties	**25.0**	-	0%
Operating (loss) income	**(1.8)**	33.7	(105%)
as a % of Sales	**-1%**	19%	(106%)
(Loss) income before tax	**(3.2)**	32.9	(110%)
Net (loss) income	**(10.6)**	15.6	(168%)
as a % of Sales	**-7%**	9%	
Adjustments to net (loss) income, net of taxes**	$ **17.3**	$ 0.1	17200%
Adjusted net income */**	$ **6.7**	$ 15.7	(57%)
Operating cash flow before changes in working capital*	$ **30.6**	$ 59.8	(49%)

Note: Figures may not add due to rounding
*Note: * Mine operating earnings, Adjusted net income, and Operating cash flow per share before changes in working capital are non-GAAP financial measures*
*Note: ** Refer to non-GAAP Financial Measures*

2015 net loss amounted to $10.6 million (2014: income $15.6 million) as a result of a $25.0 million (before tax) impairment charge on the Caylloma mine. Adjusted net income in 2015 decreased 57% to $6.7 million compared to $15.7 million in 2014. This was due mainly to lower metal prices partially offset by higher gold and base metal production, and lower unit costs at both operations. General and administrative expenses were $7.5 million lower compared to 2014. This was mostly due to a stock based compensation charge of $1.5 million in 2015, compared to $6.7 million in 2014 (a $5.2 million decrease), and $1.5 million less corporate expenses.

Sales

The following table summarizes the details of sales by region and component:

	YEAR TO DATE RESULTS					
	Years ended December 31,					
	2015			2014		
Sales and Realized Prices	**Caylloma**	**San Jose**	**Consolidated**	Caylloma	San Jose	Consolidated
(Expressed in $ millions, unless otherwise noted)						
Provisional Sales	**54.8**	**103.2**	**158.1**	67.5	108.6	176.0
Adjustments *	**(1.0)**	**(2.3)**	**(3.4)**	(1.5)	(0.6)	(2.0)
Sales	**53.8**	**100.9**	**154.7**	66.0	108.0	174.0
Silver						
Provisional Sales (oz)	**1,715,126**	**4,903,658**	**6,618,784**	2,209,690	4,484,861	6,694,552
Realized Price ($/oz)**	**15.80**	**15.60**	**15.65**	19.01	18.85	18.90
Net Realized Price ($/oz)***	**13.58**	**14.01**	**13.90**	16.46	16.92	16.77
Gold						
Provisional Sales (oz)	**1,070**	**38,140**	**39,209**	1,828	33,930	35,758
Realized Price ($/oz)**	**1,192.12**	**1,155.23**	**1,156.24**	1,275.25	1,259.65	1,260.44
Net Realized Price ($/oz)***	**623.27**	**903.37**	**895.73**	907.40	962.61	959.79
Lead						
Provisional Sales (000's lb)	**23,361**	**-**	**23,361**	16,244	-	16,244
Realized Price ($/lb)**	**0.80**	**-**	**0.80**	0.95	-	0.95
Net Realized Price ($/lb)***	**0.58**	**-**	**0.58**	0.71	-	0.71
Zinc						
Provisional Sales (000's lb)	**35,934**	**-**	**35,934**	27,471	-	24,471
Realized Price ($/lb)**	**0.87**	**-**	**0.87**	0.98	-	0.98
Net Realized Price ($/lb)***	**0.48**	**-**	**0.48**	0.65	-	0.65

*** Adjustments consists of mark-to-market and final price adjustments, and final assay adjustments**
**** Based on provisional sales before final price adjustments**
*****Net after payable metal deductions, treatment, and refining charges**
Treatment charges are allocated to the base metals in Caylloma and to gold in San Jose.

Sales for 2015 were $154.7 million, 11% below the prior year (2014: $174.0 million). Silver ounces sold decreased 1%, and gold ounces sold

increased 10%, while realized prices on provisional sales for silver and gold decreased 17% and 8%, respectively. Sales at San Jose decreased 7% to $100.9 million (2014: $108.0 million) as a result of lower realized prices for silver and gold. Sales at Caylloma decreased 18% to $53.8 million (2014: $66.0 million) as a result of lower realized prices for silver, lead, and zinc, and lower silver and gold ounces sold.

Sales in 2015 comprised 58% silver and 22% gold, compared with 64% and 19%, respectively, in the prior year.

The Company's metal concentrates are provisionally priced at the time of sale based on the prevailing commodity market price. Final 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. Under current sales contracts, final pricing for all concentrates takes place one month after the month of sale. During 2015, the recorded sales consisted of provisional sales of $158.1 million (2014: $176.0 million); negative price and mark-to-market adjustments of $2.3 million (2014: $0.5 million); and negative assay adjustments of $1.0 million (2014: negative $1.5 million).

The net realized prices shown above are calculated based on provisional sales pricing and on contained metals in concentrate sold and after accounting for payable metal deductions, treatment, and refining charges before government royalties. To establish the net realized price for silver, treatment charges on our mineral concentrates are allocated to the base metals at Caylloma and to gold at San Jose. The Company has not hedged its exposure to metal price risks.

Mine Operating Earnings, Operating (Loss) Income, and Adjusted EBITDA

The following table summarizes the details of mine operating earnings, operating (loss) income, and adjusted EBITDA by region and component:

	Years ended December 31,								
	2015				2014				
(Expressed in $ millions)	**Corporate**	**Bateas**	**Cuzcatlan**	**Total**	Corporate	Bateas	Cuzcatlan	Total	**% Change**
Mine operating earnings*	**$ -**	**$ 3.7**	**$ 40.0**	**$ 43.6**	$ -	$ 14.9	$ 45.3	$ 60.3	(28%)
as a % of Sales	**0%**	**7%**	**40%**	**28%**	0%	23%	42%	35%	(19%)
Other expenses									
Selling, general and administrative expenses	**10.8**	**2.6**	**4.5**	**17.9**	17.5	3.5	4.4	25.4	(30%)
as a % of Sales	**0%**	**5%**	**4%**	**12%**	0%	5%	4%	15%	(21%)
Operating (loss) income	**(11.3)**	**(24.8)**	**34.2**	**(1.8)**	(17.8)	10.9	40.8	33.8	(105%)
as a % of Sales	**0%**	**-46%**	**34%**	**-1%**	0%	16%	38%	19%	(106%)
Net (loss) income	**(12.6)**	**(21.1)**	**23.1**	**(10.6)**	(18.3)	5.6	28.4	15.6	(168%)
Adjustments to net (loss) income, net of taxes	**-**	**17.2**	**0.1**	**17.3**	-	0.1	-	0.1	17200%
Adjusted net (loss) income *	**$ (12.6)**	**$ (3.9)**	**$ 23.2**	**$ 6.7**	$ (18.3)	$ 5.7	$ 28.4	$ 15.7	(57%)
Operating (loss) income	**$ (11.3)**	**$ (24.8)**	**$ 34.2**	**$ (1.8)**	$ (17.8)	$ 10.9	$ 40.8	$ 33.8	(105%)
Add back: Depreciation, depletion and amortization**	**0.6**	**9.4**	**15.7**	**25.7**	0.5	7.5	15.5	23.5	9%
Add back: Share-based payments**	**1.5**	**-**	**-**	**1.5**	6.7	-	-	6.7	(78%)
Add back: Impairment of mineral properties	**-**	**25.0**	**-**	**25.0**	-	-	-	-	0%
Add back: Other operating expense (income)	**-**	**0.6**	**0.2**	**0.6**	-	0.1	-	0.2	200%
Adjusted EBITDA*	**$ (9.2)**	**$ 10.0**	**$ 50.1**	**$ 50.9**	$ (10.6)	$ 18.4	$ 56.3	$ 64.1	(21%)

Note : Figures may not add due to rounding

*Note: * Mine operating earnings, Adjusted net (loss) income, and adjusted EBITDA are non-GAAP financial measures*

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

For 2015, mine operating earnings decreased 28% due to lower sales and higher depletion. Margin (mine operating earnings over sales) decreased from 35% to 28%, impacted mostly by deteriorated results at Caylloma, where mine operating earnings fell 75% and margin fell from 23% to 7%. Caylloma was affected by lower silver, lead, and zinc, prices of 17%, 16%, and 11%, respectively, higher depletion compared to 2014, and a drop in silver sold of 22%. This was partially offset by higher lead and zinc sales of 44% and 31% and lower unit costs of 5%. Mine operating earnings at San Jose fell 12% and margin dropped slightly from 42% to 40% as the impact of lower metal prices and higher depletion was partially offset by higher silver and gold sold, and lower unit costs of 7%.

Adjusted EBITDA in 2015 decreased $13.2 million, or 21% over 2014 to $50.9 million reflecting the negative effect of metal prices with the largest impact felt at the Caylloma mine. Adjusted EBITDA at Caylloma was down $8.4 million or 46%, while at the San Jose mine adjusted EBITDA was down $6.2 million, or 11%, as improved operating results helped compensate the negative impact of metal prices.

Selling, General and Administrative Expenses

The following table summarizes the details of selling, general and administrative expenses by region and component:

	Expressed in $ millions								
	Years ended December 31,								
	2015				2014				
	Corporate	**Bateas**	**Cuzcatlan**	**Total**	Corporate	Bateas	Cuzcatlan	Total	
General and administrative expenses	**$ 9.3**	**$ 2.5**	**$ 3.9**	**$ 15.7**	$ 10.8	$ 3.4	$ 3.5	$ 17.7	
Share-based payments	**1.5**	**-**	**-**	**1.5**	6.7	-	-	6.7	
Workers' participation	**-**	**0.1**	**0.6**	**0.7**	-	0.1	0.9	1.0	
	$ 10.8	**$ 2.6**	**$ 4.5**	**$ 17.9**	$ 17.5	$ 3.5	$ 4.4	$ 25.4	

Selling, general and administrative expenses for 2015 decreased 30%, or $7.5 million, to $17.9 million (2014: $25.4 million). The main driver

for the decrease was the decline in share-based payments to $1.5 million, a $5.2 million reduction compared with the prior year period that was mostly related to mark-to-market effects stemming from the performance of our share price. Without the mark-to-market effect of $3.5 million the charge for share-based payments would have been $5.0 million. Also contributing to the decrease were lower general and administrative expenses of $2.0 million to $15.7 million and lower workers' participation of $0.3 million to $0.7 million.

Foreign Exchange Loss (Gain)

For 2015, foreign exchange loss (gain) by reportable segments was as follows:

Expressed in $ millions								
Years ended December 31,								
2015				2014			
Corporate	**Bateas**	**Cuzcatlan**	**Total**	Corporate	Bateas	Cuzcatlan	Total
$ 0.2	**$ 0.3**	**$ 1.1**	**$ 1.6**	$ (0.7)	$ 0.3	$ 0.2	$ (0.2)

The increase in the foreign exchange loss by $1.8 million to $1.6 million is a result of the devaluation of the Peruvian nuevo sol and Mexican peso against the United States dollar. Refer below to "Currency Risk" or to financial statement note 17 b).

Impairment of Mineral Properties

For 2015, the $25.0 million (2014: $nil) impairment of mineral properties relates to the impairment of Caylloma as a result of declining metal prices. Refer above to the disclosure on the "Impairment of Caylloma Mine."

Other Operating Expenses

The following table summarizes the details of other operating expenses:

Expressed in $ millions		
Years ended December 31,		
	2015	2014
Loss on disposal of mineral properties, plant and equipment	**$ -**	$ 0.1
Restructuring and severance costs	**0.2**	1.1
Impairment of inventories	**0.6**	0.1
Other operating (income) – other	**(0.1)**	-
	$ 0.7	$ 1.3

Restructuring and severance costs include the Company's cost-reduction program which includes salaries and post-employment costs. For 2015, these costs were related solely to Caylloma, compared with the prior year, when the costs were throughout the organization.

For 2015, the impairment of inventories included the write-down of concentrate stock piles of $0.2 million, and $0.4 million of materials were written down to net realizable value.

Expressed in $ millions						
Years ended December 31,						
2015				2014		
Bateas	**Cuzcatlan**	**Total**	Bateas	Cuzcatlan	Total
Concentrate stock piles	**$ 0.2**	**$ -**	**$ 0.2**	$ -	$ -	$ -
Materials and supplies	**0.1**	**0.3**	**0.4**	0.1	-	0.1
	$ 0.3	**$ 0.3**	**$ 0.6**	$ 0.1	$ -	$ 0.1

Finance items

The following table summarizes the details of finance items:

Expressed in $ millions		
Years ended December 31,		
	2015	2014
Finance income		
Interest income on FVTPL financial assets	**$ 0.4**	$ 0.3
Total finance income	**$ 0.4**	$ 0.3
Finance expenses		
Interest expense	**1.3**	-
Standby and commitment fees	**0.2**	0.4
Accretion of provisions (Note 13)	**0.3**	0.8
Total finance expense	**$ 1.8**	$ 1.2
Net finance expense	**$ (1.4)**	$ (0.9)

Interest expense of $1.3 million (2014: $nil) includes $0.8 million interest on the bank loan, $0.4 million interest on the interest rate swap, and $0.1 million on leases. Refer below to the discussion on "Liquidity and Capital Resources."

Income Taxes

The following table summarizes the details of income taxes by region and component:

	Expressed in $ millions					
	Years ended December 31,					
	2015			2014		
Income taxes	**Peru**	**Mexico**	**Total**	Peru	Mexico	Total
Current income tax	**$ 1.8**	**$ 9.8**	**$ 11.6**	$ 3.6	$ 9.9	$ 13.5
Deferred income tax	**(5.7)**	**1.5**	**(4.2)**	1.6	2.2	3.8
	$ (3.9)	**$ 11.3**	**$ 7.4**	$ 5.2	$ 12.1	$ 17.3

Income taxes for 2015 decreased to $7.4 million (2014: $17.3 million) as current income tax decreased $1.9 million and deferred income tax decreased $8.0 million because of the $8.0 million (2014: $nil) tax impact of the impairment charge for Caylloma Mine.

For 2015, the Company paid $17.8 million in income tax, comprising $8.8 million in income tax related to the 2014 fiscal period and $9.0 million in tax installments related to the 2015 fiscal period. The current income tax incurred in 2015 was $11.6 million (2014: $13.5 million).

Quarterly Information

The following table provides information for eight fiscal quarters up to December 31, 2015:

	Quarters ended							
	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Expressed in $000's, except per share data	**31-Dec-15**	30-Sep-15	30-Jun-15	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14
Sales	**37,013**	39,041	38,871	39,804	37,823	46,384	44,319	45,480
Mine operating earnings	**10,332**	10,333	10,402	12,581	10,052	16,720	16,277	17,204
Operating (loss) income	**(20,675)**	6,099	4,775	7,961	3,653	13,201	7,623	9,273
Net (loss) income	**(17,290)**	2,592	236	3,854	57	7,824	2,868	4,853
(Loss) earnings per share, basic	**(0.13)**	0.02	-	0.03	-	0.06	0.02	0.04
(Loss) earnings per share, diluted	**(0.13)**	0.02	-	0.03	-	0.06	0.02	0.04
Total assets	**379,654**	398,648	392,488	351,260	350,310	342,413	330,791	318,349
Long term bank loan	**39,486**	39,487	39,470	-	-	-	-	-
Other liabilities	**4,620**	4,353	5,701	4,578	4,661	4,076	5,269	4,076

During Q4 2015, sales decreased 5% from Q3 2015 as a result of a decrease in silver and gold ounces sold of 7% and 10%, respectively, and of lower head grades for silver and gold of 7% and 6%, respectively. Mine operating earnings was flat at $10.3 million as a result of both the decrease in sales and cost of sales of $2.0 million. Operating loss increased because of the non-cash impairment charge on Caylloma Mine of $25.0 million ($17.0 million, net of tax) (Q3 2015: $nil) related to the reduction of Caylloma Mine's carrying value as a result of declining metal prices. Current assets decreased $14.3 million, and non-current assets decreased $4.7 million, resulting in the reduction in total assets of $19.0 million to $379.7 million compared with Q3 2015.

During Q3 2015, sales and mine operating earnings remained relatively unchanged from Q2 2015, while operating income increased 28% to $6.1 million. This reflects a recovery of share-based payments of $1.5 million in Q3 2015 compared with a $1.2 million charge in Q2 2015 as a result of the decline in the Company's share price in Q3 2015.

During Q2 2015, sales decreased 2%, or $0.9 million, from Q1 2015, due mostly to negative mark-to-market adjustment increases of $1.0 million. Operating income decreased 40%, or $3.2 million, from Q1 2015 as a result of $2.2 million in lower mine operating earnings, $0.4 million in higher share-based payment costs, $0.9 million in higher foreign exchange costs, $0.4 million in lower corporate costs, and $0.7 million in higher interest expense related to a bank loan. The Company's long term bank loan includes a $40.0 million bank loan, net of unamortized transaction costs of $0.5 million, for working capital requirements and general corporate purposes.

During Q1 2015, sales increased 5%, or $2.0 million, from Q4 2014, due mostly to higher gold and base metal sold. The Company's realized prices for silver and gold increased 2% to $16.65 and $1,215.57 per ounce, respectively. Operating income increased twofold from Q4 2014 as mine operating earnings increased $2.5 million and as restructuring and severance costs declined from $1.1 million to $nil in Q1 2015.

During Q4 2014, sales decreased 18%, or $8.6 million, from Q3 2014 as metal prices decreased. The Company's realized prices for silver and gold declined 15% and 6%, respectively, to $16.33 and $1,192.86 per ounce, respectively. During the fourth quarter of 2014, the Company's operating income was negatively affected by the mark-to-market effects on share-based compensation expense of $1.4 million, compared with a recovery of $0.8 million in Q3 2014. In addition, as a result of declining metal prices the Company restructured its operations and incurred restructuring and severance costs of $1.1 million during the fourth quarter of 2014 that negatively affected its operating income in that quarter.

During Q3 2014, sales increased 5%, or $2.1 million, from Q2 2014 as a result of Caylloma's and San Jose's provisional sales increasing $1.9 million and $3.8 million, respectively, and being offset by negative price and mark-to-market adjustments that increased $1.0 million and $2.1 million, respectively. During Q3 2014, operating income increased 73% to $13.2 million from Q2 2014 as selling, general and administrative expenses decreased $5.1 million, or 60%, to $3.5 million. The decrease in selling, general and administrative expenses was mainly attributed to the positive effect of mark-to-market effects on share-based compensation of $4.1 million over Q2 2014.

During Q2 2014, sales decreased 3%, or $1.2 million, from Q1 2014 as a result of San Jose's provisional sales declining $1.9 million, offset

by positive adjustments of $0.7 million. San Jose's provisional sales of silver and gold declined 2% and 5%, respectively, from Q1 2014, along with lower realized silver and gold prices of 3% and 1%, respectively.

Fourth Quarter 2015 Financial Results

Summary of Financial Results

	Three months ended December 31,		
(Expressed in $ millions)	**2015**	2014	**% Chg**
Sales	$ **37.0**	$ 37.8	(2%)
Cost of Sales	**26.7**	27.8	(4%)
Mine operating earnings*	$ **10.3**	$ 10.1	2%
as a % of Sales	**28%**	27%	4%
Selling, general and administrative expenses	**4.6**	5.2	(12%)
Foreign exchange (gain) loss	**0.8**	0.1	700%
Impairment of mineral properties	**25.0**	-	0%
Operating (loss) income	**(20.7)**	3.5	(691%)
as a % of Sales	**-56%**	9%	(704%)
(Loss) income before tax	**(21.2)**	3.4	(724%)
Net (loss) income	**(17.3)**	0.1	(17400%)
as a % of Sales	**(47%)**	0%	
Adjustments to net (loss) income, net of taxes**	$ **17.2**	$ 0.1	17100%
Adjusted net (loss) income */**	$ **(0.1)**	$ 0.2	(150%)
Operating cash flow before changes in working capital *	$ **10.8**	$ 10.0	8%

Note : Figures may not add due to rounding
*Note: * Mine operating earnings, Adjusted net (loss) income, and Operating cash flow per share before changes in working capital are non-GAAP financial measures*
*Note: ** Refer to non-GAAP Financial Measures*

Q4 2015 net loss amounted to $17.3 million (Q4 2014: $0.1 million), resulting in a basic loss per share of $0.13 (Q4 2014: $nil) driven by a $25.0 million impairment charge at the Caylloma mine. The Company's Q4 2015 adjusted net loss was $0.1 million (Q4 2014: income of $0.2 million). The adjusted net loss was driven by an operating loss at Caylloma resulting from 19% lower sales, and a high deferred tax charge from the impact of the devaluation of the Peruvian nuevo sol. Compared to the prior year San Jose increased sales by 9% and operating income by 28%. Refer to non-GAAP financial measures.

Cash flow from operations, before changes in working capital and after income taxes paid, increased 9% to $10.8 million (Q4 2014: $10.0 million).

Operating cash flow per share, before changes in working capital items, increased to $0.08 (Q4 2014: $0.08) (refer to non-GAAP financial measures).

Sales

The following table summarizes the details of sales by region and component:

	QUARTERLY RESULTS					
	Three months ended December 31,					
	2015			2014		
Sales and Realized Prices	**Caylloma**	**San Jose**	**Consolidated**	Caylloma	San Jose	Consolidated
(Expressed in $ millions, unless otherwise noted)						
Provisional Sales	**12.0**	**25.8**	**37.8**	15.3	23.1	38.4
Adjustments *	**-**	**(0.8)**	**(0.8)**	(0.5)	(0.1)	(0.6)
Sales	**12.0**	**25.0**	**37.0**	14.8	23.0	37.8
Silver						
Provisional Sales (oz)	**322,465**	**1,292,443**	**1,614,908**	544,603	1,066,710	1,611,313
Realized Price ($/oz)**	**14.75**	**14.81**	**14.80**	16.41	16.28	16.33
Net Realized Price ($/oz)***	**12.59**	**13.26**	**13.13**	14.07	14.48	14.34
Gold						
Provisional Sales (oz)	**73**	**9,792**	**9,865**	318	8,452	8,770
Realized Price ($/oz)**	**1,030.87**	**1,106.91**	**1,106.34**	1,204.32	1,192.43	1,192.86
Net Realized Price ($/oz)***	**91.07**	**881.86**	**876.01**	701.67	908.15	900.66
Lead						
Provisional Sales (000's lb)	**8,156**	**-**	**8,156**	4,181	-	4,181
Realized Price ($/lb)**	**0.77**	**-**	**0.77**	0.90	-	0.90
Net Realized Price ($/lb)***	**0.54**	**-**	**0.54**	0.68	-	0.68
Zinc						
Provisional Sales (000's lb)	**9,665**	**-**	**9,665**	6,954	-	6,954
Realized Price ($/lb)**	**0.73**	**-**	**0.73**	1.01	-	1.01
Net Realized Price ($/lb)***	**0.37**	**-**	**0.37**	0.65	-	0.65

*** Adjustments consists of mark-to-market and final price adjustments, and final assay adjustments**
**** Based on provisional sales before final price adjustments**
*****Net after payable metal deductions, treatment, and refining charges**
Treatment charges are allocated to the base metals in Caylloma and to gold in San Jose.

Sales for Q4 2015 were $37.0 million, 2% below Q4 2014's $37.8 million. Silver ounces sold were flat, and gold ounces sold increased 12%,

while realized prices on provisional sales for silver and gold decreased 9% to $14.80 per ounce and 7% to $1,106.34 per ounce, respectively. Sales at San Jose increased 9% to $25.0 million (Q4 2014: $23.0 million) as a result of increased silver and gold ounces sold of 21% and 16%, respectively, compared with the same period in the prior year. Sales at Caylloma decreased 19% to $12.0 million (Q4 2014: $14.8 million) as a result of lower silver and gold ounces sold and lower realized prices for silver.

The Company's metal concentrates are provisionally priced at the time of sale based on the prevailing commodity market price. Final 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. Under current sales contracts, final pricing for all concentrates takes place one month after the month of sale. During the fourth quarter of 2015, recorded sales consisted of provisional sales of $37.8 million (Q4 2014: $38.4 million); negative price and mark-to-market adjustments of $0.6 million (Q4 2014: negative $0.5 million); and negative assay adjustments of $0.2 million (Q4 2014: negative $0.1 million).

The net realized prices shown above were calculated based on provisional sales pricing and on contained metals in concentrate sold and after accounting for payable metal deductions, treatment, and refining charges before government royalties. To establish the net realized price for silver, treatment charges on our mineral concentrates are allocated to the base metals at Caylloma and to gold at San Jose. The Company has not hedged its exposure to metal price risks.

Mine Operating (Loss) Earnings, Operating (Loss) Income, and Adjusted EBITDA

The following table summarizes the details of mine operating earnings, operating (loss) income, and adjusted EBITDA by region and component:

	Three months ended December 31,								
	2015				2014				%
(Expressed in $ millions)	**Corporate**	**Bateas**	**Cuzcatlan**	**Total**	Corporate	Bateas	Cuzcatlan	Total	**Change**
Mine operating (loss) earnings*	**$ -**	**$ (0.5)**	**$ 10.8**	**$ 10.3**	$ -	$ 1.8	$ 8.3	$ 10.1	2%
as a % of Sales	**0%**	**-4%**	**43%**	**28%**	0%	12%	36%	27%	5%
Other expenses									
Selling, general and administrative expenses	**3.1**	**0.5**	**1.0**	**4.6**	3.5	0.9	0.7	5.2	(12%)
as a % of Sales	**0%**	**4%**	**4%**	**12%**	0%	6%	3%	14%	(10%)
Operating (loss) income	**(3.4)**	**(26.7)**	**9.5**	**(20.7)**	(4.2)	0.4	7.4	3.7	(659%)
as a % of Sales	**0%**	**(223%)**	**38%**	**-56%**	0%	3%	32%	10%	(672%)
Net (loss) income	**(3.9)**	**(20.3)**	**6.9**	**(17.3)**	(4.2)	(0.6)	5.0	0.1	(17400%)
Adjustments to net (loss) income, net of taxes	**-**	**17.2**	**-**	**17.2**	-	0.1	-	0.1	17100%
Adjusted net (loss) income*	**$ (3.9)**	**$ (3.1)**	**$ 6.9**	**$ (0.1)**	$ (4.2)	$ (0.5)	$ 5.0	$ 0.2	(150%)
Operating (loss) income	**$ (3.4)**	**$ (26.7)**	**$ 9.5**	**$ (20.7)**	$ (4.2)	$ 0.4	$ 7.4	$ 3.7	(659%)
Add back: Depreciation, depletion and amortization**	**0.1**	**2.7**	**3.4**	**6.3**	0.1	2.0	3.5	5.6	13%
Add back: Share-based payments**	**1.0**	**-**	**-**	**1.0**	1.4	-	-	1.4	(29%)
Add back: Impairment of mineral properties	**-**	**25.0**	**-**	**25.0**	-	-	-	-	0%
Add back: Other operating expense (income)	**-**	**0.5**	**(0.1)**	**0.3**	-	0.1	-	0.1	200%
Adjusted EBITDA*	**$ (2.4)**	**$ 1.3**	**$ 12.9**	**$ 11.9**	$ (2.8)	$ 2.6	$ 11.0	$ 10.8	10%

Note: Figures may not add due to rounding

*Note: * Mine operating (loss) earnings, Adjusted net (loss) income, and adjusted EBITDA are non-GAAP financial measures*

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

During Q4 2015, mine operating earnings remained flat at $10.3 million as compared to Q4 2014 of $10.1 million, while gross margin (mine operating earnings over sales) was 28% (Q4 2014: 27%). A mine operating loss at Caylloma was offset by an increase of mine operating income of 30% at San Jose. Caylloma´s results were impacted by lower silver sold of 41% and lower metal prices, in particular lead and zinc which fell 14% and 28% quarter over quarter. Higher lead and zinc sold and lower unit costs of 11% partially compensated the negative effect from metal prices. At San Jose, higher head grades and metallurgical recoveries, and lower unit costs of 8% more than compensated lower silver and gold prices, resulting in higher gross margin of 43% compared to 36% in Q4 2014.

Adjusted EBITDA in Q4 2015 increased 10% over Q4 2014 to $11.9 million driven by an increase at San Jose of $1.9 million, or 17%, to $12.9 million. This was partially offset by a decrease at Caylloma of $1.3 million or 50%, to $1.3 million.

Selling, General and Administrative Expenses

The following table summarizes the details of selling, general and administrative expenses by region and component:

	Expressed in $ millions								
	Three months ended December 31,								
	2015				2014				
	Corporate	**Bateas**	**Cuzcatlan**	**Total**	Corporate	Bateas	Cuzcatlan	Total	
General and administrative expenses	**$ 2.1**	**$ 0.5**	**$ 0.8**	**$ 3.4**	$ 2.1	$ 0.9	$ 0.6	$ 3.6	
Share-based payments	**1.0**	**-**	**-**	**1.0**	1.4	-	-	1.4	
Workers' participation	**-**	**-**	**0.3**	**0.3**	-	-	0.1	0.1	
	$ 3.1	**$ 0.5**	**$ 1.1**	**$ 4.7**	$ 3.5	$ 0.9	$ 0.7	$ 5.2	

Selling, general and administrative expenses for Q4 2015 decreased 10%, or $0.5 million, to $4.7 million (Q4 2014: $5.2 million). The main driver for the decrease compared with the same period in the prior year was the decline in share-based payments of $0.4 million to $1.0 million that was mostly related to higher charges in Q4 2014 from the mark-to-market effect. Also contributing to the decrease were lower

general and administrative expenses of $0.2 million to $3.4 million, offset by higher workers' participation of $0.2 million to $0.3 million.

Foreign Exchange Loss (Gain)

For the three months ended December 31, 2015 and 2014, the foreign exchange loss (gain) by reportable segments was as follows:

Expressed in $ millions								
Three months ended December 31,								
2015					2014			
Corporate	**Bateas**	**Cuzcatlan**	**Total**	Corporate	Bateas	Cuzcatlan	Total	
$ 0.2	**$ 0.2**	**$ 0.4**	**$ 0.8**	$ (0.3)	$ 0.2	$ 0.2	$ 0.1	

The increase in the foreign exchange loss by $0.7 million to $0.8 million is a result of the devaluation of the Peruvian nuevo sol and Mexican peso against the United States dollar.

Impairment of Mineral Properties

For Q4 2015, the $25.0 million (Q4 2014: $nil) impairment of mineral properties relates to the impairment of Caylloma as a result of declining metal prices. Refer above to the disclosure on the "Impairment of Caylloma Mine."

Other Operating Expenses

The following table summarizes the details of other operating expenses:

	Expressed in $ millions	
	Three months ended December 31,	
	2015	2014
Restructuring and severance costs	**$ 0.2**	$ 1.1
Impairment of inventories	**0.4**	0.1
Other operating (income) – other	**(0.1)**	-
	$ 0.5	$ 1.2

Restructuring and severance costs include the Company's cost-reduction program which includes salaries and post-employment costs. For Q4 2015, these costs were related solely to the Caylloma, compared with the same period in the prior year, when the costs were throughout the organization.

For Q4 2015, the impairment of inventories included the write-down of concentrate stock piles of $0.2 million, and $0.2 million of materials were written down to net realizable value.

	Expressed in $ millions	
	Three months ended December 31,	
	2015	2014
	Bateas	Bateas
Concentrate stock piles	**$ 0.2**	$ -
Materials and supplies	**0.2**	0.1
	$ 0.4	$ 0.1

Finance items

	Expressed in $ millions	
	Three months ended December 31,	
	2015	2014
Finance income		
Interest income on FVTPL financial assets	**$ 0.1**	$ 0.1
Total finance income	**$ 0.1**	$ 0.1
Finance expenses		
Interest expense	**0.4**	-
Standby and commitment fees	**-**	0.1
Accretion of provisions (Note 13)	**0.2**	0.2
Total finance expense	**$ 0.6**	$ 0.3
Net finance expense	**$ (0.5)**	$ (0.2)

Interest expense of $0.4 million (Q4 2014: $nil) included $0.3 million interest on the bank loan and $0.1 million interest on the interest rate swap. Refer below to the discussion on "Liquidity and Capital Resources."

Income Taxes

The following table summarizes the details of income taxes by region and component:

Expressed in $ millions						
	Three months ended December 31,					
	2015			2014		
Income taxes	**Peru**	**Mexico**	**Total**	Peru	Mexico	Total
Current income tax	**$ 0.2**	**$ 2.7**	**$ 2.9**	$ 0.2	$ 1.9	$ 2.1
Deferred income tax	**(6.7)**	**(0.1)**	**(6.8)**	0.8	0.5	1.3
	$ (6.5)	**$ 2.6**	**$ (3.9)**	$ 1.0	$ 2.4	$3.4

Income taxes for Q4 2015 decreased to a recovery of $3.9 million (Q4 2014: expense of $3.4 million), as current income tax increased $0.8 million and deferred income tax decreased $8.1 million because of the $8.0 million (Q4 2014: $nil) tax impact of the impairment charge for Caylloma Mine.

In Q4 2015, the Company paid $0.4 million in income tax related to the 2015 fiscal period. The current income tax incurred in Q4 2015 was $2.9 million (Q4 2014: $2.1 million).

Non-GAAP Financial Measures

Cash Cost per Payable Ounce of Silver and Cash Cost per Tonne of Processed Ore (Non-GAAP Financial Measure)

Cash cost per payable ounce of silver and cash cost per tonne of processed ore are key performance measures that management uses to monitor performance. Management believes that certain investors also use these non-GAAP financial measures to evaluate the Company's performance. Cash cost is an industry-standard method of comparing certain costs on a per unit basis; however, they do not have a standardized meaning or method of calculation, even though the descriptions of such measures may be similar. These performance measures have no meaning under International Financial Reporting Standards ("IFRS"), and, therefore, amounts presented may not be comparable with similar data presented by other mining companies.

The following tables present a reconciliation of cash cost per tonne of processed ore and cash cost per payable ounce of silver to the cost of sales in the consolidated financial statements for the three months ("Q4") and the years ("YTD Q4") ended December 31, 2015 and 2014:

Consolidated Mine Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2015	**YTD Q4 2015**	**Q4 2014**	YTD **Q4 2014**
Cost of sales [1]	**26,681**	**111,081**	27,771	113,753
Add / (Subtract):				
Change in concentrate inventory	**(262)**	**57**	235	(901)
Depletion and depreciation in concentrate inventory	**64**	**(38)**	(70)	211
Commercial and government royalties and mining taxes	**(464)**	**(1,350)**	(298)	(1,388)
Workers participation	**(719)**	**(2,654)**	(519)	(4,291)
Depletion and depreciation	**(6,089)**	**(24,893)**	(5,419)	(22,643)
Cash cost (A)	**19,211**	**82,203**	21,700	84,741
Cash cost (A)	**19,211**	**82,203**	21,700	84,741
Add / (Subtract):				
By-product credits from gold, lead, and zinc	**(16,676)**	**(66,600)**	(15,356)	(63,198)
Refining charges	**1,672**	**7,169**	1,899	7,920
Cash cost applicable per payable ounce (B)	**4,207**	**22,772**	8,243	29,463
Payable ounces of silver production (C)	**1,518,664**	**6,342,693**	1,549,464	6,287,593
Cash cost per ounce of payable silver ($/oz) (B/C)	**2.77**	**3.59**	5.32	4.69

[1] Includes depletion, depreciation, distribution, community relations, government royalties and mining taxes, and workers participation

San Jose Mine Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2015	**YTD Q4 2015**	Q4 2014	YTD Q4 2014
Cost of sales [1]	**14,175**	**60,968**	14,661	62,622
Add / (Subtract):				
Change in concentrate inventory	**(292)**	**(396)**	366	(1,006)
Depletion and depreciation in concentrate inventory	**85**	**105**	(98)	232
Commercial and government royalties and mining taxes	**(318)**	**(669)**	(71)	(487)
Workers participation	**(670)**	**(2,269)**	(456)	(3,556)
Depletion and depreciation	**(3,399)**	**(15,527)**	(3,425)	(15,161)
Cash cost (A)	**9,581**	**42,212**	10,977	42,644

Total processed ore (tonnes) (B)	**172,789**	**717,505**	181,702	676,959
Cash cost per tonne of processed ore ($/t) (A/B)	**55.45**	**58.83**	60.41	62.99
Cash cost (A)	**9,581**	**42,212**	10,977	42,644
Add / (Subtract):				
By-product credits from gold	**(8,605)**	**(34,803)**	(7,791)	(32,244)
Refining charges	**1,211**	**4,732**	1,071	4,369
Cash cost applicable per payable ounce (C)	**2,187**	**12,141**	4,257	14,769
Payable ounces of silver production (D)	**1,211,035**	**4,731,738**	1,031,736	4,195,180
Cash cost per ounce of payable silver ($/oz) (C/D)	**1.81**	**2.57**	4.13	3.52
Mining cost per tonne	**33.20**	**32.37**	32.73	31.51
Milling cost per tonne	**8.34**	**13.02**	14.11	16.08
Indirect cost per tonne	**8.21**	**7.92**	7.94	9.18
Community relations cost per tonne	**1.33**	**1.15**	1.53	1.25
Distribution cost per tonne	**4.37**	**4.37**	4.10	4.97
Total production cost per tonne	**55.45**	**58.83**	60.41	62.99

[1] includes depletion, depreciation, distribution, community relations, government royalties and mining taxes, and workers participation

Caylloma Mine Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2015	**YTD Q4 2015**	Q4 2014	YTD Q4 2014
Cost of sales [1]	**12,506**	**50,113**	13,110	51,131
Add / (Subtract):				
Change in concentrate inventory	**30**	**453**	(131)	105
Depletion and depreciation in concentrate inventory	**(21)**	**(143)**	28	(21)
Commercial and government royalties and mining taxes	**(146)**	**(681)**	(227)	(901)
Workers participation	**(49)**	**(385)**	(63)	(735)
Depletion and depreciation	**(2,690)**	**(9,366)**	(1,994)	(7,482)
Cash cost (A)	**9,630**	**39,991**	10,723	42,097
Total processed ore (tonnes) (B)	**117,776**	**466,286**	117,060	464,823
Cash cost per tonne of processed ore ($/t) (A/B)	**81.77**	**85.76**	91.60	90.57
Cash cost (A)	**9,630**	**39,991**	10,723	42,097
Add / (Subtract):				
By-product credits from gold, lead, and zinc	**(8,071)**	**(31,797)**	(7,565)	(30,954)
Refining charges	**461**	**2,437**	828	3,551
Cash cost applicable per payable ounce (C)	**2,020**	**10,631**	3,986	14,694
Payable ounces of silver production (D)	**307,629**	**1,610,955**	517,728	2,092,413
Cash cost per ounce of payable silver ($/oz) (C/D)	**6.57**	**6.60**	7.70	7.02
Mining cost per tonne	**38.68**	**43.83**	44.16	43.58
Milling cost per tonne	**15.40**	**14.66**	15.41	15.32
Indirect cost per tonne	**17.23**	**18.80**	22.61	22.67
Community relations cost per tonne	**0.50**	**0.36**	0.94	0.65
Distribution cost per tonne	**9.96**	**8.11**	8.48	8.35
Total production cost per tonne	**81.77**	**85.76**	91.60	90.57

[1] includes depletion, depreciation, distribution, community relations, government royalties and mining taxes, and workers participation

All-in Sustaining Cash Cost and All-in Cash Cost per Payable Ounce of Silver (Non-GAAP Financial Measure)

The Company believes that "all-in sustaining cash cost" and "all-in cash cost" better meet the needs of analysts, investors, and other stakeholders of the Company in understanding the cost associated with producing silver, the economics of silver mining, the Company's operating performance, and the Company's ability to generate free cash flow from current operations and on an overall company basis.

The Company, in conjunction with an initiative undertaken within the gold mining industry, has adopted an all-in sustaining cost-performance measure; however, this performance measure has no standardized meaning. Effective June 30, 2013, the Company conformed its all-in sustaining definition to that set out in the guidance note released by the World Gold Council ("WGC," a non-regulatory market development organization for the gold industry whose members comprise global senior gold mining companies) on June 27, 2013, and that came into effect January 1, 2014.

All-in sustaining cash cost and all-in cash cost are intended to provide additional information only and do not have standardized definitions under the IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with the IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under the IFRS. Although the WGC has published a standardized definition, companies may calculate these measures differently.

All-in sustaining cost include total production cash costs incurred at the Company's mining operations, which form the basis of the Company's by-product cash costs. Additionally, the Company includes sustaining capital expenditures, corporate selling, general and administrative expenses, and brownfields exploration expenditures. The Company believes that this measure represents the total costs of producing silver from operations and provides the Company and stakeholders of the Company with additional information on the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production from operations, new project capital is not included. Certain other cash expenditures, including tax payments, dividends, and financing costs, are also not included. The Company reports this measure on a silver ounce sold basis.

The following tables provide a reconciliation of all-in sustaining cash cost per ounce in the consolidated financial statements for the three months and years ended December 31, 2015 and 2014:

Consolidated Mine All-in Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2015	**YTD Q4 2015**	Q4 2014	YTD Q4 2014
Cash cost applicable per payable ounce	**4,207**	**22,772**	8,243	29,463
Commercial and government royalties and mining tax	**483**	**3,294**	298	1,388
Workers' participation	**904**	**3,318**	629	5,321
Selling, general and administrative expenses (operations)	**1,339**	**6,408**	1,495	6,877
Adjusted operating cash cost	**6,933**	**35,792**	10,665	43,049
Selling, general and administrative expenses (corporate)	**2,117**	**9,292**	2,107	10,825
Sustaining capital expenditures[1]	**17,928**	**42,977**	5,383	30,395
Brownfields exploration expenditures[1]	**561**	**3,965**	1,232	6,757
All-in sustaining cash cost	**27,539**	**92,026**	19,387	91,026
Non-sustaining capital expenditures[1]	**8,704**	**11,736**	846	1,704
All-in cash cost	**36,243**	**103,762**	20,233	92,730
Payable ounces of silver operations	**1,518,664**	**6,342,693**	1,549,464	6,287,593
All-in sustaining cash cost per payable ounce of silver	**18.13**	**14.51**	12.51	14.48
All-in cash cost per payable ounce of silver	**23.87**	**16.36**	13.06	14.75

[1] presented on a cash basis

San Jose Mine All-in Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2015	**YTD Q4 2015**	Q4 2014	YTD Q4 2014
Cash cost applicable per payable ounce	**2,187**	**12,141**	4,257	14,769
Commercial and government royalties and mining tax	**337**	**2,613**	71	487
Workers' participation	**837**	**2,836**	570	4,445
Selling, general and administrative expenses (operations)	**803**	**3,917**	634	3,466
Adjusted operating cash cost	**4,164**	**21,507**	5,532	23,167
Sustaining capital expenditures[1]	**15,719**	**35,840**	3,037	21,477
Brownfields exploration expenditures[1]	**461**	**3,513**	1,146	5,978
All-in sustaining cash cost	**20,344**	**60,860**	9,715	50,622
Non-sustaining capital expenditures[1]	**6,506**	**9,397**	680	1,551
All-in cash cost	**26,850**	**70,257**	10,395	52,173
Payable ounces of silver operations	**1,211,035**	**4,731,738**	1,031,736	4,195,180
All-in sustaining cash cost per payable ounce of silver	**16.80**	**12.86**	9.42	12.07
All-in cash cost per payable ounce of silver	**22.17**	**14.85**	10.08	12.44

[1] presented on a cash basis

Caylloma Mine All-in Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2015	**YTD Q4 2015**	Q4 2014	YTD Q4 2014
Cash cost applicable per payable ounce	**2,020**	**10,631**	3,986	14,694
Commercial and government royalties and mining tax	**146**	**681**	227	901

Workers' participation	**57**	**455**	73	859
Selling, general and administrative expenses (operations)	**536**	**2,491**	861	3,411
Adjusted operating cash cost	**2,759**	**14,258**	5,147	19,865
Sustaining capital expenditures[1]	**2,209**	**7,137**	2,346	8,918
Brownfields exploration expenditures[1]	**100**	**452**	86	779
All-in sustaining cash cost	**5,068**	**21,847**	7,579	29,562
Non-sustaining capital expenditures[1]	**2,198**	**2,339**	166	153
All-in cash cost	**7,266**	**24,186**	7,745	29,715
Payable ounces of silver operations	**307,629**	**1,610,955**	517,728	2,092,413
All-in sustaining cash cost per payable ounce of silver	**16.47**	**13.56**	14.64	14.13
All-in cash cost per payable ounce of silver	**23.62**	**15.01**	14.96	14.20

[1] presented on a cash basis

Adjusted Net (Loss) Income (Non-GAAP Financial Measure)

The Company uses the financial measure of "adjusted net (loss) income" to supplement information in its consolidated financial statements. The Company believes that in addition to conventional measures prepared in accordance with the IFRS, the Company and certain investors and analysts use this information and information obtained from conventional IFRS measures to evaluate the Company's performance. The term "adjusted net (loss) income" does not have a standardized meaning prescribed by the IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies.

	Expressed in $ millions			
	Three months ended December 31,		**Years ended December 31,**	
	2015	2014	**2015**	2014
NET (LOSS) INCOME FOR THE YEAR	**$ (17.3)**	$ 0.1	**$ (10.6)**	$ 15.6
Items of note, net of tax:				
Impairment of mineral properties, plant and equipment	**17.0**	-	**17.0**	-
Impairment of inventories	**0.3**	0.1	**0.4**	0.1
Other operating income - other	**(0.1)**	-	**(0.1)**	-
ADJUSTED NET (LOSS) INCOME FOR THE YEAR [(1)]	**(0.1)**	0.2	**6.7**	15.7

[(1)] A non-GAAP financial measure

The Company uses other financial measures whose presentation is not meant to be a substitute for other subtotals or totals presented in accordance with the IFRS measures but that rather should be evaluated in conjunction with IFRS measures. The following other financial measures are used: operating cash flow per share before changes in working capital, and adjusted EBITDA. These terms described and presented below do not have standardized meanings prescribed by IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies. The Company's management believes that its presentation provides useful information for investors.

Operating cash flow per share before changes in working capital (non-GAAP financial measure)

	Expressed in $'000's (except per share measures)			
	Three months ended December 31,		**Years ended December 31,**	
	2015	2014	**2015**	2014
Net (loss) income for the year	**$ (17,290)**	$ 57	**$ (10,608)**	$ 15,602
Items not involving cash	**28,809**	10,712	**59,796**	47,295
	$ 11,519	$ 10,769	**$ 49,188**	$ 62,897
Income taxes paid	**(367)**	(890)	**(17,846)**	(3,417)
Interest expense paid	**(417)**	-	**(1,110)**	(4)
Interest income received	**86**	87	**354**	275
Cash generated by operating activities before changes in working capital	**$ 10,821**	$ 9,966	**$ 30,586**	$ 59,751
Divided by				
Weighted average number of shares ('000's)	**129,133**	127,700	**129,001**	126,787
Operating cash flow per share before changes in working capital [(1)]	**$ 0.08**	$ 0.08	**$ 0.24**	$ 0.47

[(1)] A non-GAAP financial measure

Mine operating earnings (non-GAAP financial measure)

	Expressed in $'000's			
	Three months ended December 31,		**Years ended December 31,**	
	2015	2014	**2015**	2014
Sales	**$ 37,013**	$ 37,823	**$ 154,729**	$ 174,006
Cost of sales	**26,681**	27,771	**111,081**	113,753
Mine operating earnings [(1)]	**$ 10,332**	$ 10,052	**$ 43,648**	$ 60,253

Adjusted EBITDA (non-GAAP financial measure)

Expressed in $'000's

	Three months ended December 31,		Years ended December 31,	
	2015	2014	**2015**	2014
Net (Loss) income	**$ (17,290)**	$ 57	**$ (10,608)**	$ 15,602
Add back: Net finance expense	**564**	225	**1,377**	871
Add back: Depreciation, depletion, and amortization	**6,263**	5,579	**25,739**	23,517
Add back: Income taxes	**(3,949)**	3,371	**7,391**	17,277
Add back: Share-based payments	**985**	1,447	**1,499**	6,695
Add back: Impairment of mineral properties	**25,000**	-	**25,000**	-
Add back: Other operating expenses	**321**	99	**550**	187
Adjusted EBITDA [(1)(2)]	**$ 11,894**	$ 10,778	**$ 50,948**	$ 64,149

(1) A non-GAAP financial measure

(2) EBITDA is net income before interest, taxes, depreciation, depletion, and amortization, unrealized gains and losses on hedge contracts, share based payments, and other non-cash expenses.

Liquidity and Capital Resources

Full-Year 2015 Liquidity and Capital Resources

The capital of the Company consists of equity and an 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 Company's cash and cash equivalents at December 31, 2015, totaled $72.2 million (December 31, 2014: $42.9 million), and its short term investments totaled $36.0 million (December 31, 2014: $34.4 million).

On April 1, 2015, the Company drew down a $40.0 million term credit facility from the Bank of Nova Scotia. (Refer to "Liquidity Risk," discussed below.)

On March 26, 2015, the Company entered into an interest rate swap of $40.0 million, effective date of April 1, 2015, and expires on March 25, 2019 matching the maturity of the bank loan (refer to financial statement note 11). The interest rate swap was entered into to hedge the variable interest rate risk on the bank loan. The interest rate swap is designated as a cash flow hedge for forecasted variable interest rate payments.

The fixed rate on the interest rate swap is 1.52% and the floating amount is based on the one month LIBOR rate. The interest rate swap is settled on a monthly basis and the settlement is the difference between the fixed and floating interest rate on a net basis. Refer to financial statement note 5.

Working capital for the year ended December 31, 2015, increased $11.5 million, to $93.9 million (December 31, 2014: $82.4 million). This reflects the proceeds from a bank loan of $39.3 million, net of transaction costs.

The increase in working capital resulted from increases in the following: cash and cash equivalents of $29.4 million, short term investments of $1.6 million, income tax receivable of $0.1 million, and from decreases in the following: provisions of $0.4 million, and income tax payable of $6.1 million.

The increase in working capital was offset by decreases in the following: accounts receivable and other assets of $12.8 million, prepaid expenses of $0.1 million, inventories of $4.5 million, and from increases in the following: accounts payable of $7.5 million, derivative liabilities of $0.4 million, and current portion of other liabilities of $0.8 million.

During the year ended December 31, 2015, cash and cash equivalents increased $29.7 million (2014: increased $11.5 million) and comprised the following:

	Years ended December 31,		
(Expressed in $ millions)	**2015**	2014	**Change**
Net cash provided by operating activities	**$ 54.8**	$ 60.2	**$ (5.4)**
Net used in investing activities	**(66.4)**	(57.0)	**(9.4)**
Net cash provided by financing activities	**41.3**	8.2	**33.1**
Effect of exchange rate changes on cash and cash equivalents	**(0.4)**	(0.3)	**(0.1)**
INCREASE IN CASH AND CASH EQUIVALENTS	**$ 29.7**	$ 11.5	**$ 18.2**

Note: Figures may not add due to rounding

During the years ended December 31, 2015 and 2014, net cash provided by operating activities included income taxes paid, interest expense paid, and income received as follows:

	Years ended December 31,		
(Expressed in $ millions)	**2015**	2014	**Change**
Cash provided by operating activities before interest and income	**$ 73.4**	$ 63.3	**$ 10.1**
Income taxes paid	**(17.8)**	(3.4)	**(14.4)**
Interest expense paid	**(1.1)**	-	**(1.1)**
Interest income received	**0.4**	0.3	**0.1**
Net cash provided by operating activities	**$ 54.8**	$ 60.2	**$ (5.4)**

Note: Figures may not add due to rounding

For the years ended December 31, 2015 and 2014, net cash provided by operating activities included the following non-cash working capital items:

(Expressed in $ millions)	Years ended December 31, 2015	2014	Change	Change %
Cash generated by operating activities before changes in working capital	**$ 30.6**	$ 59.8	**$ (29.2)**	**-49%**
Changes in non-cash working capital items				
Accounts receivable and other assets	**$ 13.2**	$ (4.5)	**$ 17.7**	**-393%**
Prepaid expenses	**(0.2)**	-	**(0.2)**	**0%**
Inventories	**3.3**	0.3	**3.0**	**1000%**
Trade and other payables	**8.1**	4.9	**3.2**	**65%**
Provisions	**(0.3)**	(0.2)	**(0.1)**	**50%**
Changes in non-cash working capital	**$ 24.1**	$ 0.5	**$ 23.6**	**4720%**
Net cash provided by operating activities	**$ 54.8**	$ 60.2	**$ (5.4)**	**-9%**

Note: Figures may not add due to rounding

Cash used by the Company in investing activities for the year ended December 31, 2015, totaled $66.4 million (2014: $57.0 million) and comprised the following:

- $2.6 million (2014: net purchases of $18.0 million) in net purchases of short term investments;
- $6.8 million in net advances (2014: net advances of $0.1 million) on deposits on long term assets; and,
- $57.1 million (2014: $38.9 million) in expenditures on mineral properties, plant and equipment, representing an increase of $18.2 million over the prior year period and comprising the following expenditures:

Year ended December 31, 2015 **(Expressed in $ millions)**	**Bateas**	**Cuzcatlan**	**Consolidated**
Plant and equipment	$ 3.2	$ 3.3	$ 6.5
Dry stack tailings deposit project	-	25.0	25.0
Equipment and infrastructure	3.2	28.3	31.5
Plant Expansion	-	9.4	9.4
Infill drilling	-	1.6	1.6
Mine development	4.7	5.9	10.6
Brownfields exploration	0.5	3.5	4.0
	$ **8.4**	$ **48.7**	$ **57.1**

During the year ended December 31, 2015, cash provided by financing activities totaled $41.3 million (2014: $8.2 million) and comprised the proceeds from a bank loan of $39.3 million (2014: $nil); net proceeds on the issuance of common shares of $2.0 million (2014: $8.5 million); and repayments of finance lease obligations of $nil (2014: $0.2 million).

Fourth Quarter 2015 Liquidity and Capital Resources

During Q4 2015, cash and cash equivalents increased $5.0 million (Q4 2014: increased $2.4 million) and comprised the following:

(Expressed in $ millions)	Three months ended December 31, 2015	2014	Change
Net cash provided by operating activities	**$ 23.2**	$ 9.3	**$ 13.9**
Net cash used in investing activities	**(18.3)**	(11.7)	**(6.6)**
Net cash provided by financing activities	**0.1**	4.8	**(4.7)**
INCREASE IN CASH AND CASH EQUIVALENTS	**$ 5.0**	$ 2.4	**$ 2.6**

Note: Figures may not add due to rounding

During the three months ended December 31, 2015 and 2014, net cash provided by operating activities included income taxes paid, interest expense paid, and income received as follows:

(Expressed in $ millions)	Three months ended December 31, 2015	2014	Change
Cash provided by operating activities before interest and income	**$ 23.9**	$ 10.1	**$ 13.8**
Income taxes paid	**(0.4)**	(0.9)	**0.5**
Interest expense paid	**(0.4)**	-	**(0.4)**
Interest income received	**0.1**	0.1	**-**
Net cash provided by operating activities	**$ 23.2**	$ 9.3	**$ 13.9**

Note: Figures may not add due to rounding

During the three months ended December 31, 2015 and 2014, net cash provided by operating activities included the following non-cash working capital items:

(Expressed in $ millions)	Three months ended December 31, 2015	2014	Change
Cash generated by operating activities before changes in working capital	**$ 10.8**	$ 10.0	**$ 0.8**
Changes in non-cash working capital items			
Accounts receivable and other assets	**$ 8.6**	$ 1.2	**$ 7.4**
Prepaid expenses	**(0.8)**	(0.8)	**-**
Inventories	**1.8**	(0.1)	**1.9**
Trade and other payables	**2.9**	(0.9)	**3.8**
Provisions	**(0.2)**	-	**(0.2)**
Changes in non-cash working capital	**$ 12.3**	$ (0.6)	**$ 12.9**
Net cash provided by operating activities	**$ 23.2**	$ 9.3	**$ 13.9**

Note: Figures may not add due to rounding

Cash used by the Company in investing activities for Q4 2015 totaled $18.3 million (Q4 2014: $11.7 million) and comprised the following:

- $6.6 million (Q4 2014: net purchases of $3.2 million) in net redemption of short term investments;
- $0.8 million in net receipts (Q4 2014: net advances of $1.1 million) on deposits on long term assets; and,
- $25.6 million (Q4 2014: $7.5 million) in expenditures on mineral properties, plant and equipment comprising the following expenditures:

Three months ended December 31, 2015 (Expressed in $ millions)	**Bateas**	**Cuzcatlan**	**Consolidated**
Plant and equipment	$ 1.7	$ 1.2	$ 2.9
Dry stack tailings deposit project	-	12.2	12.2
Equipment and infrastructure	1.7	13.4	15.1
Plant Expansion	-	6.5	6.5
Infill drilling	-	0.1	0.1
Mine development	1.1	2.3	3.4
Brownfields exploration	0.1	0.4	0.5
	$ 2.9	**$ 22.7**	**$ 25.6**

Cash provided by financing activities was $0.1 million (Q 2014: $4.8 million) and included the net proceeds on the issuance of common shares of $0.2 million (Q4 2014: $4.8 million), less the use of a bank loan of $0.1 million (2014: $nil).

Contractual Obligations

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

	Expressed in $ millions				
	Expected payments due by period as at December 31, 2015				
	Less than 1 year	1 - 3 years	4 -5 years	After 5 years	Total
Trade and other payables	$ 29.0	$ -	$ -	$ -	$ 29.0
Bank loan	-	-	40.0	-	40.0
Derivative liabilities	0.4	-	-	-	0.4
Income tax payable	3.6	-	-	-	3.6
Other liabilities	0.8	4.6	-	-	5.4
Operating leases	0.5	0.6	-	-	1.1
Provisions	0.4	1.2	1.2	11.1	13.9
	$ 34.7	**$ 6.4**	**$ 41.2**	**$ 11.1**	**$ 93.4**

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business.

Capital Commitments (expressed in $'000's)

As at December 31, 2015, $8,346 of capital commitments not disclosed elsewhere in the Financial Statements, and forecasted to be expended within one year, included $1,938 for the dry stack tailing dam and $4,649 for the plant expansion at the San Jose property, and $213 for an energy improvement project and $1,546 for the plant expansion at the Caylloma property.

Other Commitments (expressed in $'000's)

The Company has a contract to guarantee the 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 5,200 kW) and the Company is obligated to purchase subject to exemptions under provisions of "Force Majeure". The contract period is 15 years and expires in 2022, after that it is automatically renewed for periods of two years. Renewal can be avoided without penalties by notification 10 months in advance of the renewal date.

Tariffs are established annually by the energy market regulator in accordance with applicable regulations in Peru. The minimum committed

demand is $30 per month, and the average monthly charge for 2016 is $300.

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business. The expected payments due by period, as at December 31, 2015, are as follows:

Expressed in $'000's

Expected payments due by period as at December 31, 2015

	Less than 1 year	1 - 3 years	4 -5 years	Total
Office premises – Canada	$ 66	$ 199	$ -	$ 265
Office premises – Peru	335	141	-	476
Office premises – Mexico	8	-	-	8
Total office premises	**$ 409**	**$ 340**	**$ -**	**$ 749**
Computer equipment – Peru	126	47	-	173
Computer equipment – Mexico	4	139	-	143
Total computer equipment	**$ 130**	**$ 186**	**$ -**	**$ 316**
Machinery – Mexico	-	59	-	59
Total machinery	**$ -**	**$ 59**	**$ -**	**$ 59**
Total operating leases	**$ 539**	**$ 585**	**$ -**	**$ 1,124**

Tax Contingencies (expressed in $'000's)

The Company has been assessed taxes and related interest and penalties by the Peruvian tax authority, SUNAT, for tax years 2010 and 2011 in the amounts of $957, $564, respectively, for a total of $1,521. The Company is currently appealing the assessments and believes the appeals will be ruled in favor of the Company. The Company has provided a guarantee by way of a letter bond in the amount of $772. This bank letter of guarantee expires on September 8, 2016.

During 2015, the Company's foreign trade operations for tax years 2011 to 2014 were under review by the Mexican Tax Administration Service (SAT) and facing an administrative customs procedure (PAMA) for specific temporary import documents (pediments). On October 27, 2015, the Mexican Tax Administration Service (SAT) issued a final resolution regarding the Company's foreign trade operations for tax years 2011 to 2014, concluding that certain claims are denied resulting in an assessment of $25 customs excise tax, $63 in VAT, and $93 in penalties and interest for a total of $181 (the "Tax Credit"). On December 11, 2015, the Company, through Afianzadora Sofimex S.A., has established a security bond in the amount of $215, in favor of the PAMA to

collateralize the Tax Credit of $181. This security bond expires on December 10, 2017. Subsequent to December, 31, 2015, on January 21, 2016, the Company presented its arguments before the Federal Court for the nullity and voidance of the Tax Credit.

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 for the Company. Certain conditions may exist as of the date the financial statements are issued that 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.

Guarantees and Indemnifications (expressed in $'000's)

The Company may provide guarantees and indemnifications in conjunction with transactions in the normal course of operations. These are recorded as liabilities when reasonable estimates of the obligations can be made. Indemnifications that the Company has provided include the obligation to indemnify the following:

- Ø directors and officers of the Company and its subsidiaries for potential liability while acting as a director or officer of the Company, together with various expenses associated with defending and settling such suits or actions due to association with the Company; and,
- Ø certain vendors of an acquired company for obligations that may or may not have been known at the date of the transaction.

The dollar value of guarantees and indemnifications cannot be reasonably estimated.

The Caylloma Mine closure plan was approved in November 2009 with total closure costs of $3,587 of which $1,756 was 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 was subject to annual collateral in the form of a letter of guarantee. In August 2015, the closure plan was again updated with total closure costs of $7,770, consisting of progressive closure activities of $3,604, final closure of $3,594, and post closure of $573. Under the rules of closure, for purposes of determining the annual financial collateral in the form of a letter of guarantee, the final closure and post-closure activities constitute one amount of $4,166, the same to be allocated annually constituting the following guarantees by year: 2016 $2,495, 2017 $3,179, 2018 $3,908, 2019 $4,705 and 2020 $5,641, according to the approved life in the study of mine closure.

Scotiabank Peru, a third party, has established a bank letter of guarantee in the amount of $2,495 (2014: $1,842),on behalf of Bateas, in favor of the Peruvian mining regulatory agency in compliance with local regulation and to collateralize Bateas's mine closure plan. This bank letter of guarantee expires on December 31, 2016.

Scotiabank Peru, a third party, has established a bank letter of guarantee in the amount of $3 (2014: $3), on behalf of Bateas, in favor of the

Peruvian Energy and Mining Ministry to collateralize Bateas's regulatory compliance with an electric transmission line project. This bank letter of guarantee expires on November 30, 2016.

Scotiabank Peru, a third party, has established a bank letter of guarantee in the amount of $55 (2014: $58), for office rental, on behalf of Bateas, in favor of Centro Empresarial Nuevo Mundo S.A.C. This bank letter of guarantee expires on July 15, 2016.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on the financial condition, results of operations, liquidity, capital expenditures, or capital resources that are material to investors, other than those disclosed in this MD&A and the consolidated financial statements and the related notes.

Related Party Transactions *(expressed in $'000's)*

a) Purchase of Goods and Services

The Company entered into the following related party transactions:

	Expressed in $'000's Years ended December 31,	
Transactions with related parties	**2015**	2014
Salaries and wages [1,2]	**$ 88**	$ 83
Other general and administrative expenses [2]	**104**	108
Computer equipment [2]	**6**	-
	$ 198	$ 191

[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] 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 2014, Radius Gold Inc. ("Radius"), which has directors in common with the Company and shares office space, reimbursed the Company for general overhead costs incurred in prior periods.

In 2015, the Company paid $50 in 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 8. a).

b) Period End Balances Arising From Purchases of Goods/Services

	Expressed in $'000's	
Amounts due to related party	**December 31, 2015**	December 31, 2014
Owing to a company with a common director [3]	**$ 8**	$ 9

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

Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements ("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 Canadian, Peruvian and Mexican, and Barbados entities, management considered the currency that mainly influences the sales and costs 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.

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.

Financial Instruments and Related Risks *(expressed in $'000's)*

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 year ended December 31, 2015, 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

	Expressed in $'000's			
	Quoted Prices in Active Markets for Identical Assets	Significant and Other Observable Inputs	Significant Unobservable Inputs	Aggregate Fair
At December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Value**
Cash and cash equivalents	**$ 72,218**	**$ -**	**$ -**	**$ 72,218**
Short term investments	**36,031**	**-**	**-**	**36,031**
Trade receivable from concentrate sales [1]	**-**	**5,172**	**-**	**5,172**
Derivative liabilities [2]	**-**	**(351)**	**-**	**(351)**
	$ 108,249	**$ 4,821**	**$ -**	**$ 113,070**

[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.

[1] The Company's trade receivables arose from provisional concentrate sales and are valued using quoted market prices based on the forward London Metal Exchange ("LME") for zinc and lead, the average London Bullion Market Association A.M. and P.M. fix ("London A.M. fix" and "London P.M. fix") for gold and silver, and the London Bullion Market Association P.M. fix ("London P.M. fix") for gold and silver.

[2] Derivative liabilities includes interest rate swaps. The fair value of the derivative liabilities reflect observable LIBOR and hereby classified within Level 2 of the fair value hierarchy.

At December 31, 2014	Quoted Prices in Active Markets for Identical Assets Level 1	Significant and Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Aggregate Fair Value
Cash and cash equivalents	$ 42,867	$ -	$ -	$ 42,867
Short term investments	34,391	-	-	34,391
Trade receivable from concentrate sales [1]	-	16,573	-	16,573
	$ 77,258	$ 16,573	$ -	$ 93,831

ii. Fair Value of Financial Assets and Liabilities

Fair Values of Financial Assets and Liabilities

Expressed in $'000's	December 31, 2015		December 31, 2014	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Trade receivable from concentrate sales [2]	$ 5,172	$ 5,172	$ 16,573	$ 16,573
Advances and other receivables [3]	1,350	1,350	2,226	2,226
	$ 6,522	$ 6,522	$ 18,799	$ 18,799
Financial liabilities				
Derivative liabilities [1]	$ 351	$ 351	$ -	$ -
Other liabilities [3]	1,928	1,985	38	38
	$ 2,279	$ 2,336	$ 38	$ 38

[1] Derivative derivative liabilities includes interest rate swaps. The fair value of the derivative assets reflect observable LIBOR and hereby classified within Level 2 of the fair value hierarchy.

[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] Advances and other receivables and other liabilities are recorded at amortized costs. The fair value of other assets and other liabilities are primarily determined using quoted market prices, and the balances include the current portion of other assets and other liabilities, respectively.

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, Peruvian 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 December 31, 2015, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, Peruvian nuevo soles and Mexican pesos (all amounts are expressed in thousands of Canadian dollars, thousands of Peruvian nuevo soles or thousands of Mexican pesos):

Expressed in '000's	December 31, 2015			December 31, 2014		
	Canadian Dollars	Nuevo Soles	Mexican Pesos	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	$ 10,023	S/. 983	$ 46,405	$ 2,695	S/. 8,633	$ 56,739
Short term investments	-	-	-	7,696	-	-
Accounts receivable and other assets	83	4,035	6,805	897	3,742	15,692
Income tax receivable	-	2,663	-	-	448	-
Deposits on long term assets and long term borrowing costs	-	-	31,899	71	-	19,096
Trade and other payables	(2,921)	(10,931)	(163,699)	(2,231)	(12,387)	(117,848)
Provisions, current	-	(1,143)	(2,028)	-	(767)	(8,138)
Income tax payable	-	(15)	(61,960)	-	(37)	(143,426)
Other liabilities	(4,805)	-	(754)	(5,376)	-	(563)
Provisions	-	(24,475)	(83,978)	-	(20,710)	(73,001)
Total	$ 2,380	S/. (28,883)	$ (227,310)	$ 3,752	S/. (21,078)	$ (251,449)
Total US$ equivalent	$ 1,716	$ (8,463)	$ (13,211)	$ 3,226	$ (7,052)	$ (17,084)

Based on the above net exposure as at December 31, 2015, 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 $nil (2014: $358) and an impact to net income before tax of $2,217 (2014: $2,682).

The sensitivity analyses included in the table above should be used with caution as the results are theoretical, based on management's best assumptions using material and practicable data which may generate results that are not necessarily indicative of future performance. In addition, in deriving this analysis, the Company has made assumptions based on the structure and relationship of variables as at the balance sheet date which may differ due to fluctuations throughout the year with all other variables assumed to remain constant. Actual changes in one variable may contribute to changes in another variable, which may amplify or offset the effect on earnings.

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.

The Company's maximum exposure to credit risk as at December 31, 2015 is as follows:

	Expressed in '000's	
	December 31, 2015	December 31, 2014
Cash and cash equivalents	**$ 72,218**	$ 42,867
Short term investments	**36,031**	34,391
Accounts receivable and other assets	**7,068**	19,905
Income tax receivable	**780**	680
	$ 116,097	$ 97,843

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 same period in 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.

On March 25, 2015, the Company entered into an amended and restated credit agreement with the Bank of Nova Scotia for a $60.0 million senior secured financing ("credit facility") consisting of a $40.0 million term credit facility with a 4 year term and a $20.0 million revolving credit facility for a two year period. 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 $10.0 million, a commitment fee of 1.0% per annum is payable quarterly on the unutilized portion of the available credit facility.

On April 1, 2015, the $40.0 million term credit facility was drawn down.

While the term credit facility remains unpaid, the Company is required to maintain the following financial covenants:

- Total debt to EBITDA of not greater than 3:1 calculated on a rolling four fiscal quarter basis and measured at the end of each fiscal quarter of the Company; and,
- Minimum tangible net worth in an amount equal to the sum of (a) 85% of the tangible net worth as at June 30, 2014, plus (b) 50% of positive quarterly net income earned after June 30, 2014 plus (c) 50% of the value of any equity interests issued by the Company after June 30, 2014.

(Refer to Contractual Obligations for the expected payments due as at December 31, 2015.)

Significant Changes, Including Initial Adoption of Accounting Standards

There were no significant accounting standards or interpretations along with any consequential amendments required for the Company to adopt for the year ended December 31, 2015.

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 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, 2018, 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.

IFRS 9 Financial Instruments - Expected Credit Losses

On July 24, 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.

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases of which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

Other Data

Additional information related to the Company is available for viewing at www.sedar.com and the Company's website at www.fortunasilver.com.

Share Position and Outstanding Warrants and Options

The Company's outstanding share position as at March 14, 2016 is 129,245,507 common shares. In addition, 3,100,415 incentive stock options are currently outstanding as follows:

Type of Security	No. of Shares	Exercise Price (CAD$)	Expiry Date
Incentive Stock Options:	10,000	$1.75	May 8, 2016
	864,180	$3.38	May 29, 2016
	103,800	$1.55	July 5, 2016
	250,000	$2.22	January 11, 2017
	49,084	$6.67	February 20, 2017
	659,382	$4.30	March 23, 2017
	242,000	$0.85	October 5, 2018
	20,000	$0.85	November 5, 2018
	901,969	$4.79	March 18, 2020
TOTAL OUTSTANDING OPTIONS:	**3,100,415**		

Other Risks and Uncertainties

For further information regarding the Company's operational risks, please refer to the section entitled "Description of the Business - Risk

Factors" in the Annual Information Form for the year ended December 31, 2014 available at www.sedar.com and www.sec.gov/edgar.shtml.

Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the SEC and the Canadian Securities Administrators ("CSA") as of December 31, 2015, and have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 and Canadian securities laws is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and Canadian securities laws and (ii) accumulated and communicated to them Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

The Company's management, with the participation of its CEO and CFO, are responsible for establishing a system of internal control over financial reporting to provide reasonable assurance regarding the reliability and integrity of the Company's financial information and the preparation of its financial statements in accordance with IFRS as issued by the IASB.

The Company's management, including its CEO and CFO, believe that due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projection of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There has been no change in the Company's internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Management concludes that, as of December 31, 2015, the Company's internal control over financial reporting was effective and no material weaknesses were identified.

Qualified Persons

Thomas I. Vehrs, Ph.D., Vice President of Exploration, is a Qualified Person for Fortuna Silver Mines Inc. as defined by National Instrument 43-101. Dr. Vehrs is a Founding Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc. (SME Registered Member Number 3323430RM) and is responsible for ensuring that the technical information contained in this Management's Discussion and Analysis is an accurate summary of the original reports and data provided to or developed by Fortuna Silver Mines Inc.

Cautionary Statement on Forward-Looking Statements

This MD&A and any documents incorporated by reference into this MD&A contain forward-looking statements which constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Section 21E of the United States Securities Exchange Act of 1934, as amended, and forward-looking information within the meaning of applicable Canadian securities legislation (collectively, "Forward-

looking Statements"). All statements included herein, other than statements of historical fact, are Forward-looking Statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the Forward-looking Statements. The Forward-looking Statements in this MD&A include, without limitation, statements relating to:

- mineral "reserves" and "resources" as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future;
- timing of the completion of construction activities at the Company's properties and their completion on budget;
- production rates at the Company's properties;
- cash cost estimates;
- timing for delivery of materials and equipment for the Company's properties;
- the sufficiency of the Company's cash position and its ability to raise equity capital or access debt facilities;
- the Company's planned processing and estimated major investments for mine development, plant expansion, filter facility and dry stack tailings deposit project, and brownfields exploration at the San Jose property during 2016;
- the Company's planned processing and estimated major investments for mine development, plant optimization and brownfields exploration at the Caylloma property during 2016;
- maturities of the Company's financial liabilities, finance leases and other contractual commitments;
- expiry dates of bank letters of guarantee;
- estimated mine closure costs; and
- management's expectation that any investigations, claims, and legal, labor and tax proceedings arising in the ordinary course of business will not have a material effect on the results of operations or financial condition of the Company.

Often, but not always, these Forward-looking Statements can be identified by the use of words such as "anticipates", "believes", "plans", "estimates", "expects", "forecasts", "scheduled", "targets", "possible", "strategy", "potential", "intends", "advance", "goal", "objective", "projects",

"budget", "calculates" or statements that events, "will", "may", "could" or "should" occur or be achieved and similar expressions, including negative variations.

Forward-looking Statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the Forward-looking Statements. Such uncertainties and factors include, among others:

- uncertainty of mineral resource and reserve estimates;
- risks associated with mineral exploration and project development;
- operational risks associated with mining and mineral processing;
- uncertainty relating to concentrate treatment charges and transportation costs;
- uncertainty relating to capital and operating costs, production schedules, and economic returns;
- uncertainties relating to general economic conditions;
- competition;
- substantial reliance on the Caylloma and San Jose mines for revenues;
- risks related to the integration of businesses and assets acquired by the Company;

- risks associated with potential legal proceedings;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- fluctuations in metal prices;
- risks associated with entering into commodity forward and option contracts for base metals production;
- environmental matters including potential liability claims;
- reliance on key personnel;
- potential conflicts of interest involving the Company's directors and officers;
- property title matters;
- dilution from further equity financing;
- currency exchange rate fluctuations;
- adequacy of insurance coverage;
- sufficiency of monies allotted for land reclamation; and
- potential legal proceedings;

as well as those factors referred to in the "Risks and Uncertainties" section in this MD&A and in the "Risk Factors" section in the Company's Annual Information Form filed with the Canadian Securities Administrators and available at www.sedar.com and filed with the U.S. Securities and Exchange Commission as part of the Company's Form 40-F and available at www.sec.gov/edgar.shtml. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in Forward-looking Statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

Forward-looking Statements contained in this MD&A are based on the assumptions, beliefs, expectations and opinions of management, including but not limited to:

- all required third party contractual, regulatory and governmental approvals will be obtained for the exploration, development, construction and production of its properties;
- there being no significant disruptions affecting operations, whether relating to labor, supply, power, damage to equipment or other matter;
- permitting, construction, development and expansion proceeding on a basis consistent with the Company's current expectations;
- expected trends and specific assumptions regarding metal prices and currency exchange rates;
- prices for and availability of fuel, electricity, parts and equipment and other key supplies remaining consistent with current levels;
- production forecasts meeting expectations; and
- the accuracy of the Company's current mineral resource and reserve estimates.

These forward-looking statements are made as of the date of this MD&A. There can be no assurance that Forward-looking Statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers are cautioned not to place undue reliance on Forward-looking Statements. Except as required by law, the Company does not assume the obligation to revise or update these forward looking-statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events.

Cautionary Note to United States Investors Concerning Estimates of Reserves and Resources

Reserve and resource estimates included in this MD&A have been prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining, Metallurgy, and Petroleum Definition Standards on Mineral Resources and Mineral Reserves. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for public disclosure by a Canadian company of scientific and technical information concerning mineral projects. Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and reserve and resource information contained in this news release may not be comparable to similar information disclosed by U.S. companies. In particular, the term "resource" does not equate to the term "reserves". Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made.

The SEC's disclosure standards normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by U.S. standards in documents filed with the SEC. Readers are cautioned not to assume that resources will ever be converted into reserves. Readers should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. Readers should also not assume that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies except in rare cases. Readers are cautioned not to assume that all or any part of an "inferred mineral resource" exists or is economically or legally mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in-place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the SEC, and reserves reported in compliance with NI 43-101 may not qualify as "reserves" under SEC standards. Accordingly, information concerning mineral deposits set forth in this news release may not be comparable with information made public by companies that report in accordance with U.S. standards.

EXHIBIT 99.4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use of our report dated March 14, 2016 relating to the consolidated financial statements of Fortuna Silver Mines Inc. appearing in this Annual Report on Form 40-F of Fortuna Silver Mines Inc. for the year ended December 31, 2015.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, Canada
March 29, 2016

EXHIBIT 99.5

CONSENT OF ERIC N. CHAPMAN

CONSENT OF AUTHOR / EXPERT

I hereby consent to:

1. the use of my name, Eric N. Chapman, and reference to my name, the technical report entitled "Fortuna Silver Mines Inc.: Caylloma Property, Caylloma District, Peru" dated as of March 22, 2013, as amended April 15, 2013 (the "Caylloma Report") evaluating the Caylloma Property of Fortuna Silver Mines Inc. (the "Company"), the technical report entitled "Fortuna Silver Mines Inc.: San Jose Property, Oaxaca, Mexico" dated as of November 22, 2013 evaluating the San Jose Property of the Company (together with the Caylloma Report, the "Reports"), and the information contained in the Reports described or incorporated by reference in the Company's Annual Report on Form 40-F for the year ended December 31, 2015 filed with the United States Securities and Exchange Commission; and

2. the use of my name, Eric N. Chapman, and reference to my name, and the technical information relating to the Updated Mineral Resource and Mineral Reserve estimates for the Caylloma Mine and the San Jose Mine contained under the heading "General Development of the Business – Three-Year History and Recent Developments" in the Annual Information Form of Fortuna Silver Mines Inc. (the "Company") for the year ended December 31, 2015 included in the Company's Annual Report on Form 40-F for the year ended December 31, 2015 filed with the United States Securities and Exchange Commission.

Dated: March 29, 2016

"Eric N. Chapman"
Eric N. Chapman, P.Geo., C. Geol. (FGS)

EXHIBIT 99.6

CONSENT OF THOMAS KELLY

CONSENT OF AUTHOR

I hereby consent to the use of my name, Thomas Kelly, and reference to my name, the technical report entitled "Fortuna Silver Mines Inc.: Caylloma Property, Caylloma District, Peru" dated as of March 22, 2013, as amended April 15, 2013 (the "Caylloma Report") evaluating the Caylloma Property of Fortuna Silver Mines Inc. (the "Company"), the technical report entitled "Fortuna Silver Mines Inc.: San Jose Property, Oaxaca, Mexico" dated as of November 22, 2013 evaluating the San Jose Property of the Company (together with the Caylloma Report, the "Reports"), and the information contained in the Reports described or incorporated by reference in the Company's Annual Report on Form 40-F for the year ended December 31, 2015 filed with the United States Securities and Exchange Commission.

Dated: March 29, 2016

"Thomas Kelly"
Thomas Kelly, E.M. Fellow AusIMM, Registered Member SME

EXHIBIT 99.7

CONSENT OF EDWIN GUTIERREZ

CONSENT OF EXPERT

I hereby consent to the use of my name, Edwin Gutierrez, and reference to my name, and the technical information relating to the Updated Mineral Resource and Mineral Reserve estimates for the Caylloma Mine and the San Jose Mine contained under the heading "General Development of the Business – Three-Year History and Recent Developments" in the Annual Information Form of Fortuna Silver Mines Inc. (the "Company") for the year ended December 31, 2015 included in the Company's Annual Report on Form 40-F for the year ended December 31, 2015 filed with the United States Securities and Exchange Commission.

Dated: March 29, 2016

"Edwin Gutierrez"
Edwin Gutierrez,
Registered Member of the Society for Mining, Metallurgy and Exploration, Inc. (SME Registered Member Number 4119110RM)

EXHIBIT 99.8

CONSENT OF THOMAS VEHRS

CONSENT OF EXPERT

I hereby consent to the use of my name, Thomas Vehrs, and reference to my name, and the technical information contained in the Annual Information Form of Fortuna Silver Mines Inc. (the "Company") for the year ended December 31, 2015 included in the Company's Annual Report on Form 40-F for the year ended December 31, 2015 filed with the United States Securities and Exchange Commission.

Dated: March 29, 2016

"Thomas Vehrs"
Thomas Vehrs, Ph.D., Registered Member SME

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jorge Ganoza Durant, certify that:

1. I have reviewed this annual report on Form 40-F of Fortuna Silver Mines Inc. (the "issuer");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 29, 2016

"Jorge Ganoza Durant"
Name: Jorge Ganoza Durant
Title: President, Chief Executive Officer & Director
(principal executive officer)

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Luis Ganoza Durant, certify that:

1. I have reviewed this annual report on Form 40-F of Fortuna Silver Mines Inc. (the "issuer");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 29, 2016

"Luis Ganoza Durant"

Name: Luis Ganoza Durant
Title: Chief Financial Officer
(principal financial officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Fortuna Silver Mines Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jorge Ganoza Durant, President, Chief Executive Officer & Director of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2016

"Jorge Ganoza Durant"
Name: Jorge Ganoza Durant
Title: President, Chief Executive Officer & Director
(principal executive officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Fortuna Silver Mines Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Luis Ganoza Durant, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2016

"Luis Ganoza Durant"
Name: Luis Ganoza Durant
Title: Chief Financial Officer
(principal financial officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.