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, 2013 **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 125,973,966 common shares with no par value outstanding as of December 31, 2013.

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

EXPLANATORY NOTE

Fortuna Silver Mines Inc. (the "Company" or the "Registrant") is a Canadian issuer eligible to file its annual report pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on Form 40-F. The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and Rule 405 under the Securities Act of 1933, as amended (the "Securities Act"). Equity securities of the Company are therefore exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Exchange Act Rule 3a12-3.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). All information is stated in U.S. dollars unless otherwise noted.

FORWARD-LOOKING STATEMENTS

This annual report on Form 40-F and the documents attached hereto contain "forward-looking statements" within the meaning of applicable securities laws. These statements appear in a number of different places and include statements regarding the intent, belief or current expectations of management and our directors or officers, primarily with respect to our future market size, our business, and our future operating performance. When the words such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategies", "targets", "goals", "forecasts", "objectives", "budgets", "schedules", "potential" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are used, they are not statements of historical fact and are intended to identify forward-looking statements. Forward-looking statements relate to, among other things:

- 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;
- production rates at the Company's properties;
- cash cost estimates;
- timing to achieve full production capacity at the Company's properties;
- timing for completion of infrastructure upgrades related to and construction activities at the Company's properties, and their completion on budget;
- 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, estimated capital expenditures, and anticipated major investments for mining development, maintenance and energy, and brownfields exploration, at the Caylloma property during 2014;
- the Company's plans for the San Jose property in 2014, including the mine development program, processing, delineation drilling and anticipated results thereof, and estimated investments for mine development, tailings dam expansion, the water evaporation control project, and brownfields exploration;
- the Company's expectation for an additional processing plant expansion to 2,000 tpd by the beginning of the second quarter of 2014 resulting in an increase in production without incurring additional capital investments at the San Jose property;
- the Company's intention to conduct engineering studies to assess a further expansion beyond 2,000 tpd at the San Jose property;
- the Company's plans for the 2014 brownfields exploration program at the San Jose property;
- the Company's belief that 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;
- the Company's budgets for its exploration projects and work designed to upgrade inferred resources at the Caylloma property;
- the Company's estimated operating costs;
- the Company's belief that there is excellent potential to further increase the mineral resource at the San Jose 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;
- that management will consider a dividend payment in 2014 taking into account the Company's capital requirements and metal price fluctuations;
- the Company's anticipation that most if not all of its future revenue in 2014 will come from the Caylloma and San Jose mines;
- management's belief that the Company's current operational requirements and capital projects can be funded from existing cash and cash equivalents, cash generated from operations, and the available credit facility;
- management's belief that if the Company needs to access the capital markets for additional financial resources, the Company will be able to do so at prevailing market rates;
- the expected maturities of the Company's financial liabilities, finance leases and other contractual commitments; and
- management's expectation that none of the investigations, claims, and legal, labor and tax proceedings arising in the ordinary course of business will have a material effect on the results of operations or financial conditions of the Company.

You are cautioned that any such forward-looking statements are not guarantees that any of our projects or business operating units, divisions, subsidiaries, or affiliates will achieve any particular financial results. Our actual results may differ from those contained in the forward-looking statements due to risks or uncertainties facing us or due to facts differing from the assumptions underlying our predictions. Some of those risks and assumptions are set out under "Risk Factors" outlined in the Company's Annual Information Form for the year ended December 31, 2013, a copy of which is attached as Exhibit 99.1 hereto, and include, but are not limited to:

- that all required third party contractual, regulatory and governmental approvals will be obtained for the development, construction and

production of its properties,
- there being no significant disruptions affecting operations, whether due to labor disruptions, supply disruptions, power disruptions, damage to equipment or otherwise;
- permitting, development, expansion and power supply proceeding on a basis consistent with the Company's current expectations;
- currency exchange rates being approximately consistent with current levels;
- certain price assumptions for silver, gold, lead, zinc and copper;
- prices for and availability of natural gas, fuel oil, electricity, parts and equipment and other key supplies remaining consistent with current levels;
- production forecasts meeting expectations;
- the accuracy of the Company's current mineral resource and reserve estimates;
- labor and materials costs increasing on a basis consistent with the Company's current expectations;
- assumptions made and judgments used in engineering and geological interpretation;
- risks associated with mineral exploration and project development;
- the need for additional financing;
- 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;
- the Company's 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 entering into commodity forward and option contracts for base metals production;
- potential conflicts of interest involving the Company's directors and officers;
- the risk that monies allotted for land reclamation may not be sufficient;
- risks associated with potential legal proceedings;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Mexico, the United States, Peru or other countries in which the Company does or may carry on business;
- the possibility of cost overruns or unanticipated expenses;
- fluctuations in silver, gold, lead, zinc and copper prices;
- title matters;
- uncertainties and risks related to carrying on business in foreign countries;
- environmental liability claims and insurance;
- reliance on key personnel;
- currency exchange rate fluctuations; and
- competition.

The Company advises you that the cautionary remarks included under the heading "Preliminary Notes – Cautionary Statement-Forward Looking Statements" in the Annual Information Form for the year ended December 31, 2013 expressly qualify, in their entirety, all forward-looking statements attributable to the Company or persons acting on its behalf. Unless required by law, the Company does not assume any obligation to update forward-looking statements, whether based on unanticipated events, changes in expectations, or otherwise. You should not place undue reliance on any forward-looking statements, which apply only as of the date of this annual report.

NOTES TO UNITED STATES READERS

Differences in United States and Canadian Reporting Practices

The Company is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare this annual report on Form 40-F in accordance with Canadian disclosure requirements, which are different from those of the United States. The Company prepares its financial statements, which are filed with this annual report on Form 40-F, in accordance with IFRS, and they are subject to Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). They may not be comparable to financial statements of United States companies.

Resource and Reserve Estimates

The terms "mineral reserve," "proven mineral reserve" and "probable mineral reserve" 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 Resource and Mineral Reserves (the "CIM Standards"), adopted by the CIM Council on November 23, 2003. These definitions differ from the definitions in the United States Securities and Exchange Commission (the "SEC") Industry Guide 7 under the Securities Act. Under Industry Guide 7 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. Under Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

The terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource" used in the Company's disclosure are Canadian mining terms that are defined in accordance with NI 43-101 under the guidelines set out in the CIM Standards; however, these terms are not defined terms under Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. 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 Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this annual report on Form 40-F and the documents incorporated by reference herein 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.

PRINCIPAL DOCUMENTS

The following documents have been filed as part of this annual report on Form 40-F as Exhibits hereto:

A. Annual Information Form

The Annual Information Form of Fortuna Silver Mines Inc. for the year ended December 31, 2013, is included as Exhibit 99.1 of this annual report on Form 40-F.

B. Audited Annual Financial Statements

The Company's audited consolidated financial statements for the years ended December 31, 2013 and December 31, 2012, including the auditor's report with respect thereto, are included as Exhibit 99.2 of this annual report on Form 40-F.

C. Management's Discussion and Analysis

The Company's Management's Discussion and Analysis for the year ended December 31, 2013 is included as Exhibit 99.3 of this annual report on Form 40-F.

TAX MATTERS

Purchasing, holding, or disposing of securities of the Company may have tax consequences under the laws of the United States and Canada that are not described in this annual report on Form 40-F.

DISCLOSURE REGARDING CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

Disclosure controls and procedures are designed to ensure 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 duly recorded, processed, summarized and reported, within the time periods specified in SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports 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.

As required by Rule 13a-15(e) under the Exchange Act, the Company evaluated, with the participation of its CEO and CFO, the effectiveness of its disclosure controls and procedures as of December 31, 2013. 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 controls over financial reporting 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 IFRS.

In designing and evaluating the Company's internal controls 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.

Management assessed the effectiveness of the Company's internal controls over financial reporting as of December 31, 2013. 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.* Based on this assessment, management believes that, as of December 31, 2013, the Company's internal controls over financial reporting were effective based on those criteria.

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 its status as an "emerging growth company" under the Jumpstart Our Business Startups Act.

Changes in Internal Controls Over Financial Reporting. During the fiscal year ended December 31, 2013, there were no changes in the

Registrant's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrant's internal controls over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

None.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant 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.

AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors of the Registrant has determined that Robert Gilmore, a member of the Registrant's audit committee, qualifies as an audit committee financial expert for purposes of paragraph (8) of General Instruction B to Form 40-F. The board of directors has further determined that each of Messrs. Robert Gilmore, Thomas Kelly and David Farrell is independent, as that term is defined in the Listed Company Manual of the New York Stock Exchange. 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 Registrant 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 Registrant's website at www.fortunasilver.com under "About Fortuna / Corporate Governance".

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deloitte LLP served as the Company's auditing firm for the fiscal years ended December 31, 2013 and 2012. Aggregate fees (in Canadian dollars) billed to the Company for professional services rendered by Deloitte LLP during the fiscal years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Audit Fees	$443,073	$374,848
Audit-Related Fees	Nil	Nil
Tax Fees	$151,725	$147,721
All Other Fees	Nil	$ 5,051
	$594,798	$527,620

"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 for amounts invoiced in 2012 for preliminary review of internal controls over financing reporting.

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, 2013, $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 Registrant's audited consolidated financial statements for the fiscal years ended December 31, 2013 and 2012, filed as part of this annual report on Form 40-F in Exhibit 99.2.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The required disclosure is included under the heading "Contractual Obligations" of the Registrant's Management's Discussion and Analysis for the fiscal year ended December 31, 2013, filed as part of this annual report on Form 40-F in Exhibit 99.3.

MINE SAFETY DISCLOSURE

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine are required to disclose in their periodic reports filed with the SEC information regarding

specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. For information regarding the Company's mine safety disclosures, see "Mine Safety Disclosure" filed as Exhibit 99.5 to this annual report on Form 40-F.

NYSE CORPORATE GOVERNANCE

The Company's common shares are listed on the NYSE. Sections 103.00 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 as follows:

Shareholder Meeting Quorum Requirement: The NYSE is of the opinion that the quorum required for any meeting of shareholders should be sufficiently high to insure a representative vote. A quorum for a meeting of members of the Company is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the shares entitled to be voted at the meeting.

Proxy Delivery Requirement: The NYSE requires the solicitation of proxies and delivery of proxy statements for all shareholder meetings, and requires that these proxies shall be solicited pursuant to a proxy statement that conforms to SEC proxy rules. The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act, and the equity securities of the Company are accordingly exempt from the proxy rules set forth in Sections 14(a), 14(b), 14(c) and 14(f) of the Exchange Act. The Company solicits proxies in accordance with applicable rules and regulations in Canada.

Shareholder Approval Requirement: The Company will follow Toronto Stock Exchange rules for shareholder approval of new issuances of its common shares. Following Toronto Stock Exchange rules, shareholder approval is required for certain issuances of shares that: (i) materially affect control of the Company; or (ii) provide consideration to insiders in aggregate of 10% or greater of the market capitalization of the listed issuer and have not been negotiated at arm's length. Shareholder approval is also required, pursuant to Toronto Stock Exchange rules, in the case of private placements: (a) for an aggregate number of listed securities issuable greater than 25% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of closing of the transaction if the price per security is less than the market price; or (b) that during any six month period are to insiders for listed securities or options, rights or other entitlements to listed securities greater than 10% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of the closing of the first private placement to an insider during the six month period.

The foregoing are consistent with the laws, customs and practices in Canada.

UNDERTAKING

Registrant 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

Form F-X signed by the Registrant and its agent for service of process has been filed with the SEC together with Registrant's Registration Statement on Form 40-F (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 Registrant shall be communicated promptly to the SEC by an amendment to the Form F-X referencing the file number of the Registrant.

SIGNATURE

Pursuant to the requirements of the Exchange Act, the Registrant 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 26, 2014

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, 2013.
99.2	Audited consolidated financial statements for the years ended December 31, 2013 and December 31, 2012, including the auditor's report with respect thereto
99.3	Management's Discussion and Analysis for the year ended December 31, 2013
99.4	Consent of Deloitte LLP
99.5	Mine Safety Report
99.6	Consent of Eric N. Chapman
99.7	Consent of Thomas Kelly
99.8	Consent of Boris Caro
99.9	Consent of Thomas Vehrs
99.10	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.11	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.12	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.13	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, 2013

DATED: March 24, 2014

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 Concerning Resource and Reserve Estimates	2
Documents Incorporated by Reference	3
Date of Information	3
Currency	3
CORPORATE STRUCTURE	**3**
Name, Address and Incorporation	3
Intercorporate Relationships	4
GENERAL DEVELOPMENT OF THE BUSINESS	**3**
Three-Year History and Recent Developments	4
DESCRIPTION OF THE BUSINESS	**9**
General	9
Risk Factors	10
Material Mineral Properties	16
Caylloma Mine, Peru	16
San Jose Mine, Mexico	18
DIVIDENDS	**21**

DESCRIPTION OF CAPITAL STRUCTURE	**22**
MARKET FOR SECURITIES	**22**
Trading Price and Volume	22
DIRECTORS AND EXECUTIVE OFFICERS	**23**
Name, Occupation and Shareholding	23
Cease Trade Orders or Bankruptcies	24
Penalties or Sanctions	25
Conflicts of Interest	25
AUDIT COMMITTEE	**25**
LEGAL PROCEEDINGS	**75**
TRANSFER AGENT AND REGISTRAR	**27**
MATERIAL CONTRACTS	**27**
INTERESTS OF EXPERTS	**27**
Names of Experts	27
Interests of Experts	27
ADDITIONAL INFORMATION	**28**
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"). Forward-looking statements express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified using words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategies", "targets", "goals", "forecasts", "objectives", "budgets", "schedules", "potential" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) and are not statements of historical fact. Forward-looking statements relate to, among other things:

- 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 to achieve full production capacity at the Company's properties;
- timing for completion of infrastructure upgrades related to the Company's properties;
- 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, estimated capital expenditures, and anticipated major investments for mining development, maintenance and energy, and brownfields exploration, at the Caylloma property during 2014;
- the Company's plans for the San Jose property in 2014, including the mine development program, processing, delineation drilling and anticipated results thereof, and estimated investments for mine development, tailings dam expansion, the water evaporation control project, and brownfields exploration;
- the Company's expectation for an additional processing plant expansion to 2,000 tpd by the beginning of the second quarter of 2014 resulting in an increase in production without incurring additional capital investments at the San Jose property;
- the Company's intention to conduct engineering studies to assess a further expansion beyond 2,000 tpd at the San Jose property;
- the Company's plans for the 2014 brownfields exploration program at the San Jose property;
- the Company's belief that 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;
- the Company's budgets for its exploration projects and work designed to upgrade inferred resources at the Caylloma property;
- the Company's estimated operating costs;
- the Company's belief that there is excellent potential to further increase the mineral resource at the San Jose 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;
- that management will consider a dividend payment in 2014 taking into account the Company's capital requirements and metal price fluctuations; and
- the Company's anticipation that most if not all of its future revenue in 2014 will come from the Caylloma and San Jose mines.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company as at the date of such statements, are inherently subject to significant business, economic, social, political and competitive uncertainties and contingencies and other factors that could cause actual results or events to differ materially from those projected in the forward-looking statements. The estimates and assumptions of the Company contained or incorporated by reference in this AIF which may prove to be incorrect, include, but are not limited to, (1) that all required third party contractual, regulatory and governmental approvals will be obtained for the development, construction and production of its properties, (2) there being no significant disruptions affecting operations, whether due to labor disruptions, supply disruptions, power disruptions, damage to equipment or otherwise; (3) permitting, development, expansion and power supply proceeding on a basis consistent with the Company's current expectations; (4) currency exchange rates being approximately consistent with current levels; (5) certain price assumptions for silver, gold, lead, zinc and copper; (6) prices for and availability of natural gas, fuel oil, electricity, parts and equipment and other key supplies remaining consistent with current levels; (7) production forecasts meeting expectations; (8) the accuracy of the Company's current mineral resource and reserve estimates; (9) labor and materials costs increasing on a basis consistent with the Company's current expectations; and (10) assumptions made and judgments used in engineering and geological interpretation.

In addition, there are known and unknown risk factors which could cause the Company's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by the forward-looking statements. Known risk factors include, risks associated with mineral exploration and project development; the need for additional financing; 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; the Company's 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 entering into commodity forward and option contracts for base metals production; potential conflicts of interest involving the Company's directors and officers; the risk that monies allotted for land reclamation may not be sufficient; risks associated with potential legal proceedings; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Mexico, the United States, Peru or other countries in which the Company does or may carry on business; the possibility of cost overruns or unanticipated expenses; fluctuations in silver, lead, zinc and copper prices; title matters; uncertainties and risks related to carrying on business in foreign countries; environmental liability claims and insurance; reliance on key personnel; currency exchange rate fluctuations; competition; and other risks and uncertainties, including those described in the "Risk Factors" section in this AIF.

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 Concerning Resource and Reserve Estimates

The terms "mineral reserve," "proven mineral reserve" and "probable mineral reserve" 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 Resource and Mineral Reserves (the "CIM Standards"), adopted by the CIM Council on November 23, 2003. These definitions differ from the definitions in the United States Securities and Exchange Commission (the "SEC") Industry Guide 7 under the Securities Act. Under Industry Guide 7 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. Under Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

The terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource" used in the Company's disclosure are Canadian mining terms that are defined in accordance with NI 43-101 under the guidelines set out in the CIM Standards; however, these terms are not defined terms under Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. 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 Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

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 14, 2013	May 24, 2013	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, 2014. Except as otherwise indicated, the information contained herein is as at December 31, 2013, 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

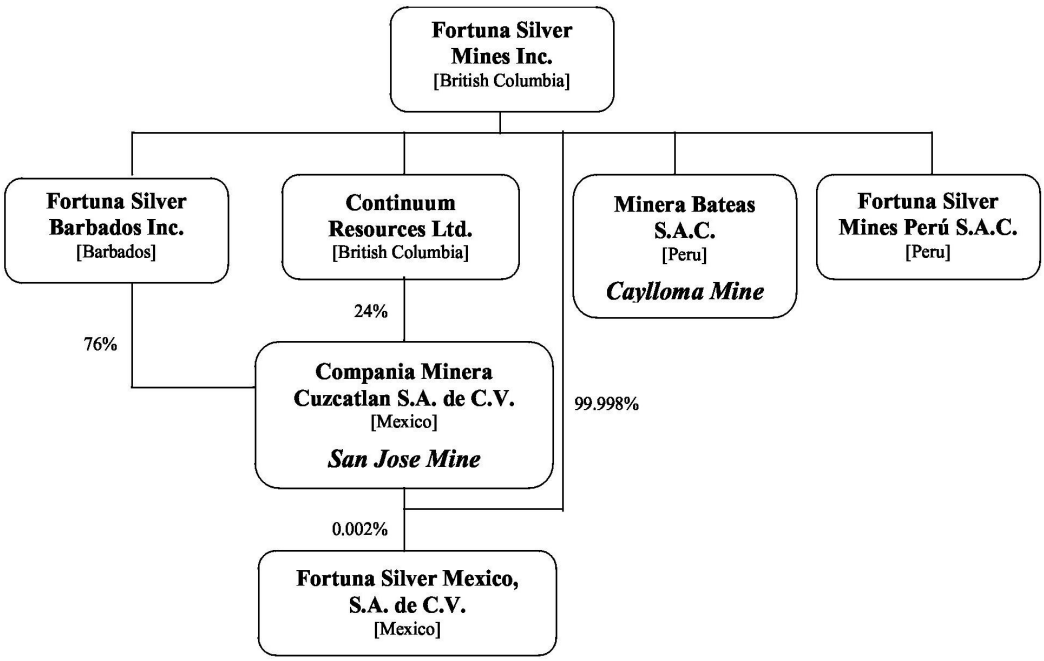
Name, Address and Incorporation

The Company was incorporated on September 4, 1990 under the laws of the Province of British Columbia under the name Jopec Resources Ltd. 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 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

Caylloma Mine, Peru

The Company purchased in 2005 a 100% interest in the Caylloma mine and related mining concessions located in southern Peru. Following a significant upgrading and modernization of the ore processing plant, the Company returned the mine to production in October 2006. In 2009, the Company commissioned an expansion project that increased the plant capacity to 1,200 tonnes per day ("tpd") and added a copper circuit which

started commercial production in December 2009.

In February 2010, the Company announced the discovery of high-grade silver mineralization in the upper portion of the Animas Vein. This traditionally polymetallic vein was then the source of 85% of the mine's ore production. In December 2010, the Company confirmed the discovery of two new high-grade silver ore shoots in the Bateas Vein, located in the central portion of the Caylloma property. Production from the new ore shoots began in late June 2011.

In 2011, the processing plant operated at an average rate of 1,264 tpd and silver production increased 5% year-over-year to 2,008,488 ounces. In January 2011, production of copper-silver concentrate was discontinued at Caylloma due to a material increase in treatment and refining smelter charges. Cash cost per ounce of silver, net of by-product credits, increased to negative $0.78 in 2011, with costs rising from negative $5.93 in Q1 to positive $6.48 in Q4. The increase was driven by cost increases and lower by-product credits in the second half of 2011, particularly in the fourth quarter. The decrease in by-product credits was primarily due to lower base metal prices (down 24% for lead and 21% for zinc) and a 13% decline in lead production. The unit cash cost per tonne increase reflects higher cost of skilled labor and industry related services, a trend common in the Peruvian underground mining industry since late 2010.

In 2012, despite higher ore production (up 3%) and silver head grades (up 4%), silver production at Caylloma increased just 1% year over year primarily because of a 5% decrease in metallurgical recoveries. Metallurgical recoveries were affected by the oxide content of ore mined in level 6 of the Animas Vein, which contributed 30% of ore production during the year. In fourth quarter of 2012, after extensive testing, the Company implemented recommendations to improve metallurgical recoveries. Positive results were achieved in November and December, with silver recoveries improving to 80%. Lower lead and zinc head grades and recoveries resulted in a year-over-year reduction in lead and zinc production of 9% and 4%, respectively.

Cash cost per tonne of processed ore at Caylloma for 2012 was $87.28, an increase of 26% from 2011, but only 1% higher than forecast. The increase resulted mainly from higher contractor tariffs and labor costs. Cash cost per payable ounce of silver for 2012 was $8.07, net of by-product credits, compared to negative $0.78 in the prior year.

Capital expenditures at Caylloma were $16.8 million in 2012, compared to $25.0 million budgeted for the year. The lower expenditures were due mainly to reducing the scope of and postponing refurbishment of the processing plant, postponing until 2013 the energy project, and delaying moderately the mine camp project. The new tailings facility was commissioned in January 2013.

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 3% 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 MiniColliseum 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.

During 2014, the Company plans to process at Caylloma 464,100 tonnes of ore averaging 167 g/t silver. Capital expenditures for 2014 are estimated to be $10.7 million. Of this amount, the major investments are anticipated to include $4.7 million for mining development; $1.9 million for maintenance and energy; and $1.1 million for brownfields exploration.

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.

In December 2009, the Mexican Environmental Agency approved the Company's application for a change of land use from agricultural to industrial for the property. This was the final permit required to commence construction of a mine at San Jose and complemented the environmental impact study that was approved by the Mexican Environmental Agency in October 2009. By April 2010, the Company had completed a pre-feasibility study for the project and started construction activities.

Commercial production of the San Jose mine commenced on September 1, 2011 at an initial rate of 1,000 tpd. In 2011, the mine produced 490,555 ounces of silver and 4,622 ounces of gold at a cash cost of $4.69 per silver equivalent ounce, net of by-product credits. .

In 2012, San Jose completed its first full year of operation, producing 1,949,178 ounces of silver and 17,918 ounces of gold. This was 15% and 19%, respectively, above annual production guidance. The increased production resulted from mining higher grade ore ahead of schedule on level 1350, which contributed approximately 47% of mined ore in the period. By accelerating completion of the main access ramp and preparing levels 1350 and 1300 ahead of plan, the Company added operational flexibility to the mine that will help to sustain production in the face of potential ore variability and to secure the ramp-up of production to 1,500 tpd by the third quarter of 2013. Mine preparation peaked in Q4 2012 at 1,127 meters of underground development, compared to 614 meters, on average, during the first three quarters of the year. In Q4 2012, silver and gold head grades decreased compared to the first nine months of 2012 because of higher production of lower grade development ore from

level 1300.

The San Jose processing plant performed within design parameters during 2012, with silver and gold recoveries of 88% and 87%, respectively, and average ore throughput of 1,055 tpd. Cash cost per tonne of processed ore for 2012 was $74.10, or 6% above forecast as a result of accelerated mine preparation in the fourth quarter and certain non-recurring items. Cash cost per payable ounce of silver for 2012 was $3.76, net of by-product credits. Capital expenditures at San Jose in 2012 were $14.3 million, which is lower than the $30.8 million budgeted mainly due to the postponement of the dore plant project.

In 2013, the Company produced at San Jose 2.5 million ounces of silver and 19,031 ounces of gold, an increase 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.

During 2014, the Company plans to process at San Jose 683,000 tonnes of ore averaging 203 g/t silver and 1.56 g/t gold. Investments for 2014 are estimated to be US$29.4 million. Of this amount, the major investments are anticipated to include $7.0 million for mine development; $11.7 million for tailings dam expansion; $2.2 million for water evaporation control project; and $5.3 million for brownfields exploration.

Spare capacity of major equipment is expected to allow for an additional processing plant expansion to 2,000 tpd by the beginning of the second quarter 2014 resulting in an increase production without incurring additional capital investments. The Company intends to conduct engineering studies to assess a further expansion beyond 2,000 tpd.

The 2014 brownfields exploration program at the San Jose property will focus on testing the potential for extensions of the high-grade silver-gold resources identified at Trinidad North. Step-out and delineation drilling totaling over 16,000 meters will explore the Trinidad North structure over a further 550 meter strike extension and to depths between 1300 and 900 meters in elevation. Underground workings will be advanced a further 300 meters to the north to provide access for drill stations.

Updated Reserve and Resource Estimates – Caylloma and San Jose Mines

The Company released updated 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". Further updated Mineral Reserve and Mineral Resource estimates for both Caylloma and San Jose as at December 31, 2013 were released in February 2014, as follows:

Highlights of Reserve and Resource Update

- Combined Proven and Probable Reserves for Caylloma and San Jose are reported at 6.7 Mt containing 36.3 Moz silver and 235.9 koz gold, representing a year-over-year marginal decrease of 5 percent in contained silver ounces and an increase of 7 percent in contained gold ounces.

- Combined Inferred Resources for Caylloma and San Jose increased significantly to 11.6 Mt containing an estimated 59.1 Moz silver and 370.9 koz gold, reflecting year-over-year increases of 26 percent in contained silver ounces and 36 percent in contained gold 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, Peru	Proven	766	121	0.38	1.72	2.51	3.0	9.3
	Probable	2,317	141	0.40	1.68	2.49	10.5	30.1
	Proven + Probable	3,083	137	0.40	1.69	2.49	13.5	39.4
San Jose, Mexico	Proven	196	209	2.10	N/A	N/A	1.3	13.2
	Probable	3,409	196	1.67	N/A	N/A	21.5	183.3
	Proven + Probable	3,605	197	1.70	N/A	N/A	22.8	196.5
Total	**Proven + Probable**	**6,688**	**169**	**1.10**	**N/A**	**N/A**	**36.3**	**235.9**

Mineral Resources – Measured and Indicated							Contained Metal	
Property	Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (Moz)	Au (koz)
Caylloma, Peru	Measured	821	83	0.31	1.37	2.37	2.2	8.2
	Indicated	1,168	72	0.30	0.88	1.86	2.7	11.2
	Measured + Indicated	1,989	76	0.30	1.08	2.07	4.9	19.4
San Jose, Mexico	Measured	29	69	0.57	N/A	N/A	0.1	0.5
	Indicated	808	74	0.64	N/A	N/A	1.9	16.8
	Measured + Indicated	837	74	0.64	N/A	N/A	2.0	17.3
Total	**Measured + Indicated**	**2,826**	**75**	**0.40**	**N/A**	**N/A**	**6.8**	**36.7**

Mineral Resources – Inferred							Contained Metal	
Property	Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (Moz)	Au (koz)
Caylloma, Peru	Inferred	6,184	121	0.50	2.11	2.97	24.0	100.2

San Jose, Mexico	Inferred	5,394	202	1.56	N/A	N/A	35.1	270.8
Total	**Inferred**	**11,578**	**159**	**1.00**	**N/A**	**N/A**	**59.1**	**370.9**

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 which 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 the potential development of the Mineral Resources or Mineral Reserves at Caylloma or San Jose.

5. Mineral Resources and Mineral Reserves are estimated as of July 4, 2013 for San Jose and as of June 30, 2013 for Caylloma and are reported as of December 31, 2013 taking into account production-related depletion for the period through December 31, 2013.

6. Mineral Reserves for San Jose 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 for year-end 2013. Mineral Resources are estimated at a Ag Eq 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)).

7. Mineral Reserves for Caylloma are estimated using break-even cut-off grades based on estimated NSR values using assumed metal prices of US$24.00/oz Ag, US$1,400/oz Au, US$2,100/t Pb and US$1,900/t Zn; metallurgical recovery rates of 82% for Ag, 45% for Au, 93% for Pb and 88% for Zn; and projected operating costs for year-end 2013. Caylloma Mineral Resources are reported based on estimated NSR values using assumed metal prices of US$25.14/oz Ag, US$1,391.63/oz Au, US$2,116/t Pb and US$2,028/t Zn; metallurgical recovery rates as detailed for Mineral Reserves; and an NSR cut-off grade of US$50/t.

8. Totals may not add due to rounding.

9. N/A = Not Applicable.

San Jose Mine, Mexico

As of December 31, 2013, the San Jose Mine had Proven and Probable Mineral Reserves of 3.6 Mt containing 22.8 Moz of silver and 196.5 koz of gold, in addition to Inferred Resources of 5.4 Mt containing a further 35.1 Moz of silver and 270.8 koz of gold.

Year-over-year, the San Jose Mineral Reserves increased 8 percent in tonnes, 12 percent in contained silver and 16 percent in contained gold after production-related depletion and metal price reductions of 18 percent and 9 percent for silver and gold, respectively, used in the reserve estimation.

The silver grade in reserves increased marginally to 197 g/t and the gold grade increased 7 percent to 1.70 g/t.

The largest gain in reserves for the San Jose Mine is located in the central part of the deposit - identified as the Stockwork zone. As reported in the October 17, 2013 news release, approximately 1.7 Mt of Inferred Resources were upgraded to Measured and Indicated Resources. These materials were subsequently converted to Mineral Reserves partially offset by production-related depletion.

Measured and Indicated Resources exclusive of Mineral Reserves increased year-over-year to approximately 0.8 Mt, relating primarily to a reduction in metal prices used to calculate the breakeven cut-off grade for Mineral Reserves and an improved control of mining losses.

Inferred Resources increased year-over-year by 27 percent in terms of tonnes, 9 percent in silver grade, 39 percent in contained silver ounces and 26 percent in contained gold ounces. The gold grade was essentially unchanged. The year-over-year variation in Inferred Resources is primarily related to the incorporation of the maiden resource from Trinidad North (see Fortuna news release dated October 17, 2013) and reinterpretation of adjacent mineralized structures offset by the upgrading and conversion to Mineral Reserves of stockwork mineralization in the main part of the Trinidad Deposit.

The 2014 brownfields exploration program at San Jose includes 16,000 meters of exploration drilling to further test the potential for extensions of the high-grade silver-gold mineralization identified at Trinidad North (see Fortuna news release dated January 21, 2014 for fourth quarter 2013 drill results). An extension of the 1300 meter level crosscut is scheduled for completion by the third quarter of 2014 to facilitate exploration over a 500 meter strike interval from the northern limit of existing Inferred Resources.

Caylloma Mine, Peru

As of December 31, 2013, the Caylloma Mine had Proven and Probable Mineral Reserves of 3.1 Mt containing 13.5 Moz of silver and 39.4 koz of gold, in addition to Inferred Resources of 6.2 Mt containing a further 24.0 Moz of silver and 100.2 koz of gold.

As of December 31, 2013, approximately 4,000 m in-fill drilling for upgrading of Inferred Resources was carried out subsequent to the resource and reserve cut-off date of June 30, 2013 and will be reflected in the 2014 end-of-year resources and reserves update.

Year-over-year, the Caylloma Mineral Reserves decreased 28 percent in tonnes and 24 percent in contained silver. The main drivers for the reduction in reserves were production-related depletion, 18 percent reduction of silver price used in the estimation and a 9 percent increase of the weighted average breakeven cut-off value to US$87/t.

The silver grade in reserves increased marginally to 137 g/t, lead grades increased 11 percent to 1.69 % and zinc grades increased 16 percent to 2.49 %.

Measured and Indicated Resources exclusive of Mineral Reserves increased year-over-year by approximately 24 percent to 2.0 Mt, relating primarily to the reduction in metal prices and increased operating costs used to calculate the breakeven cut-off value for Mineral Reserves.

Inferred Resources decreased 0.4 Mt or 7 percent to 6.2 Mt primarily related to an increase in the Mineral Resource NSR cut-off from US$30/t to US$50/t, partially offset by exploration of the Nancy vein as well as the addition of maiden resources reported for the Don Luis II and Ramal Piso Carolina veins. Silver grades and contained silver in the Inferred Resource category increased 20 percent and 12 percent, respectively. Gold grades and contained gold in the Inferred Resource increased 87 percent and 71 percent respectively, reflecting the higher gold grades reported for the Ramal Piso Carolina Vein (see Fortuna news release dated May 13, 2013).

The 2014 brownfields exploration program at Caylloma includes 2,400 meters of exploration drilling to test the potential of the Don Luis I and Cailloma 6 veins for discovery of high-grade silver resources.

Qualified Persons

The Mineral Resource estimates have been prepared under the supervision of Eric Chapman of the Company. The Mineral Reserve estimate and the Mineral Resource estimate exclusive of Mineral Reserves were prepared under the supervision of Boris Caro, Corporate Technical Services Manager of the Company.

Eric Chapman and Boris Caro are Qualified Persons as defined by the National Instrument 43-101. Mr. Caro is a Registered Member of Australasian Institute of Mining and Metallurgy (Membership No. 305462) and is a Registered Member of the Chilean Mining Commission (Comisión Calificadora de Competencias en Recursos y Reservas Mineras, Registered Member No. 0229) 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.

TSX Listing

The Company graduated from the TSX Venture Exchange to the TSX and its common shares began trading on the TSX on January 18, 2010 under the symbol FVI.

NYSE Listing

The Company completed a listing application on the New York Stock Exchange and its common shares began trading on the NYSE on September 19, 2011 under the symbol FSM.

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 2013 and 2012 are as follows:

By type of concentrate:	2013	2012
Ÿ Lead-silver concentrate	41%	42%
Ÿ Zinc concentrate	10%	9%
Ÿ Gold-silver concentrate	49%	49%

By metal contained in concentrate:	2013	2012
Ÿ Silver	66%	67%
Ÿ Lead	7%	7%
Ÿ Zinc	9%	9%

Y	Gold	15%	17%

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 increased activity in the resource mining industry has made it more 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.

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 capital expenditures, earnings and expenditures during the fiscal year ended December 31, 2013 were not material. The Company has recorded in its financial statements for the year 2013 an asset retirement obligation which reflects its environmental obligations associated with the Caylloma mine closure plan, which is subject to approval by the Peruvian government. An updated closure plan for the San Jose mine was recorded and approved in 2012.

Employees. The Company and its subsidiaries have 728 direct employees and 1060 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 2014. Smelting and refining rates are similar to contract rates established for 2013. There is no assurance that the Company will be able to enter into smelting and refining contracts at similar competitive terms beyond 2014. 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 has been the most visible risk 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 2014, the Company anticipates that most if not all of its future 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 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, and 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 Ag, Au or other metals. The price of Ag, Au 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 Ag, Au or other metals could cause continued development of and commercial production from the Company's properties to be impracticable. Depending on the price of Ag, Au 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 Ag, Au 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.

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 foreseeable future. Payment of any future dividends will be at the discretion of the Company's board of directors 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

		Tonnes					Contained Metal

Vein type	Category	(000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	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. For 2014, management will consider a dividend payment taking into account the Company's capital requirements and metal price fluctuations.

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-rate basis such dividends as the Board of Directors 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, 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", on the Lima Stock Exchange in Peru under the symbol "FVI", and on the Frankfurt Open Market, the unofficial market organized by Deutsche Börse in Germany, under the symbol "F4S".

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, 2013:

Period	High ($)	Low ($)	Volume
December 2013	3.55	2.71	5,888,600
November 2013	4.13	3.41	4,247,200
October 2013	4.43	3.29	4,780,200
September 2013	4.62	3.71	4,783,100
August 2013	4.93	3.23	6,143,000
July 2013	3.96	3.10	3,553,500
June 2013	3.80	2.80	6,902,000
May 2013	3.76	2.65	6,163,000
April 2013	4.38	2.67	6,716,000
March 2013	4.59	3.87	5,166,300
February 2013	4.79	3.90	5,424,200
January 2013	4.65	3.95	4,818,000

DIRECTORS AND EXECUTIVE OFFICERS

Name, Occupation and Shareholding

The Board of Directors presently consists of eight 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	Chairman & CEO of Niogold Mining Corporation (mineral exploration); President of Triple K Ventures Inc. (private management).	March 30, 1998 to present
TOMAS GUERRERO [3] Director Lima, Peru	President of BO Consulting SA (geological engineering).	July 15, 2005 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, over five years; Director of Eldorado Gold Corporation (mining), over five years; Director of Layne Christensen Company (diversified water and mineral services) since 2009.	June 23, 2010 to present
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] [4] Director British Columbia, Canada	President of Davisa Consulting (a private consulting company), 2011 to present; President of Cannon Point Resources Ltd. (mineral exploration), April 2013 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

Name, Position and Residency [1]	Principal Occupation or Employment [1]	Period as a Director of the Company
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, and Vice-President, Business Development of the Company, February 2008 to July 2009.	N/A
THOMAS VEHRS Vice-President, Exploration Colorado, USA	Vice-President, Exploration of the Company.	N/A
ROBERT BROWN Vice-President, Corporate Development British Columbia, Canada	Vice-President, Corporate Development of the Company, August 2012 to present; President of Septemus Consulting Ltd. (corporate development consulting), June 2011to August 2012; President & CEO of Calibre Mining Corp. (mineral exploration), March 2007 to June 2011.	N/A

CESAR PERA Vice-President, Human & Organizational Development Lima, Peru	Vice-President, Human & Organizational Development of the Company, August 2010 to present; Partner, Hrlatam (human resources), January 2009 to July 2010.	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 nominees.
(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, directly or indirectly, or have control or direction over, an aggregate of 705,660 common shares of the Company, representing approximately 0.55% 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, other than Simon Ridgway and Mario Szotlender who are directors of a company that was the subject of a cease trade order for a period of more than 30 consecutive days from each of the BC Securities Commission and the Alberta Securities Commission. The cease trade orders were issued as a result of that company's failure to file its annual financial statements within the prescribed deadline, and upon the company's filing of the outstanding documents, such orders were revoked. In addition, the SEC revoked this company's registration under Section 12(g) of the Securities Exchange Act of 1934 for failure to keep its filings with the SEC up-to-date. Upon receipt of the SEC's notice of proposed revocation, the company filed a settlement agreement with the SEC consenting to the revocation as the company was dormant;

(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 the settlement agreement described in paragraph (a)(i) under "Cease Trade Orders or Bankruptcies" above; 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 Multilateral 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 30 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 of the Audit Committee 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:

	2013	2012
Audit Fees	$443,073	$374,848
Audit-Related Fees	Nil	Nil
Tax Fees	$151,725	$147,721
All Other Fees	Nil	$ 5,051
	$594,798	$527,620

"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 for amounts invoiced in 2012 for preliminary review of internal controls over financing reporting.

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 Olympia 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, 2013 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 Boris Caro, each a Qualified Person, prepared and/or supervised the updated Mineral Resource and Mineral Reserve estimates for the Caylloma Mine and the San Jose Mine 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 Eric N. Chapman who currently holds 61,542 options in the Company, Thomas Kelly who currently holds 239,519 options in the Company, and Thomas Vehrs who currently holds 425,000 shares and 618,143 options in the Company.

Deloitte LLP are the auditors of the Company and are independent within the meaning of the Rules of Professional Conduct of British Columbia.

ADDITIONAL INFORMATION

Additional information relating to the Company is available for viewing 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 20, 2013. Additional financial information is provided in the Company's audited financial statements for the fiscal year ended December 31, 2013 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 meet the independence and experience requirements and have relevant skills and/or experience in the Audit Committee's areas of responsibility as 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, 2013 and 2012

Consolidated Financial Statements

March 17, 2014

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

Deloitte LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 778-374-0496
www.deloitte.ca

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., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of net (loss) income, comprehensive (loss) income, cash flows, and of changes in equity, for each of the years in the two years ended December 31, 2013 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.

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. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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, 2013 and 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) Deloitte LLP

Chartered Accountants
March 17, 2014
Vancouver, Canada

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	2013	2012
Sales	**18**	**$ 137,394**	$ 161,020
Cost of sales	**19**	**95,619**	90,358
Mine operating earnings		**41,775**	70,662
Other expenses			
Selling, general and administrative expenses	**10 a), 10 b), 20**	**19,783**	20,541
Exploration and evaluation costs	**21**	**418**	777
Net loss on commodity contracts		**-**	339
Loss (gain) on disposal of mineral properties, plant and equipment		**78**	(50)
Restructuring costs	**22**	**493**	-
Write-off of mineral properties, plant and equipment	**8 a), 8 b), 8 e)**	**570**	3,887
Impairment of mineral properties, plant and equipment	**8 f)**	**30,000**	-
Impairment of inventories	**6**	**62**	
Operating (loss) income		**(9,629)**	45,168
Finance items			

Interest income			**591**		620
Interest expense			**(932)**		(562)
Net finance (expense) income	**23**		**(341)**		58
(Loss) income before tax			**(9,970)**		45,226
Income taxes	**13**		**9,130**		13,763
Net (loss) income for the year		**$**	**(19,100)**	**$**	31,463
(Loss) earnings per share -Basic	**14 e)i**	**$**	**(0.15)**	**$**	0.25
(Loss) earnings per share - Diluted	**14 e)ii**	**$**	**(0.15)**	**$**	0.25
Weighted average number of shares outstanding - Basic	**14 e)i**		**125,552,597**		123,584,611
Weighted average number of shares outstanding - Diluted	**14 e)ii**		**126,547,754**		125,232,663

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

	Notes		**2013**		2012
Net (loss) income for the year		**$**	**(19,100)**	$	31,463
Other comprehensive (loss) income					
Items that may be classified subsequently to net income					
Transfer of unrealized loss to realized loss upon reduction of net investment			**-**		(895)
Unrealized loss on translation of net investment			**(1,454)**		(376)
Unrealized gain on translation to presentation currency on foreign operations			**230**		2,224
			(1,224)		953
Total comprehensive (loss) income for the year		**$**	**(20,324)**	$	32,416

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

	Notes		**2013**		2012
OPERATING ACTIVITIES					
Net (loss) income for the year		**$**	**(19,100)**	$	31,463
Items not involving cash					
Depletion and depreciation			**20,304**		21,372
Accretion of provisions			**539**		232
Income taxes			**9,130**		13,763
Share-based payments			**3,221**		1,703
Unrealized (gain) on commodity contracts			**-**		(17)
Write-off of mineral properties			**570**		3,887
Impairment of mineral properties, plant and equipment			**30,000**		-
Impairment of inventories			**62**		-
Loss (gain) on disposal of mineral properties, plant and equipment			**78**		(50)
Accrued interest on long term loans receivable and payable			**(61)**		(25)
Other			**8**		20
			44,751		72,348
Changes in non-cash working capital items					
Accounts receivable and other assets			**8,538**		(6,971)
Prepaid expenses			**(340)**		(45)
Due from related parties			**4**		31
Inventories			**(2,648)**		(1,567)

Trade and other payables			**(1,339)**		718
Due to related parties			**(31)**		(155)
Provisions			**(139)**		(386)
Cash provided by operating activities before interest and income taxes			**48,796**		63,973
Income taxes paid			**(4,430)**		(10,703)
Interest expense paid			**(20)**		(31)
Interest income received			**608**		611
Net cash provided by operating activities			**44,954**		53,850
INVESTING ACTIVITIES					
Purchase of short term investments			**(27,241)**		(6,000)
Redemptions in short term investments			**15,178**		17,000
Expenditures on mineral properties, plant and equipment	**18**		**(60,507)**		(44,839)
Advances of deposits on long term assets			**(7,984)**		(9,752)
Receipts of deposits on long term assets			**8,846**		10,429
Proceeds on disposal of mineral properties, plant and equipment			**49**		116
Net cash used in investing activities			**(71,659)**		(33,046)
FINANCING ACTIVITIES					
Repayment of long term debt			**-**		(800)
Net proceeds on issuance of common shares			**707**		738
Repayment of finance lease obligations			**(449)**		(844)
Net cash provided by (used in) financing activities			**258**		(906)
Effect of exchange rate changes on cash and cash equivalents			**(569)**		92
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			**(26,447)**		19,898
Cash and cash equivalents - beginning of year			**58,720**		38,730
CASH AND CASH EQUIVALENTS - END OF YEAR		**$**	**31,704**	$	58,720
Supplemental cash flow information	**15**				

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		**2013**		2012
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	**3**	**$**	**31,704**	$	58,720
Short term investments	**4**		**17,411**		6,019
Accounts receivable and other assets	**5**		**17,040**		27,032
Prepaid expenses			**1,578**		1,268
Due from related parties	**10 c)**		**-**		5
Inventories	**6**		**15,488**		12,858
Assets held for sale	**7, 18**		**-**		51
Total current assets			**83,221**		105,953
NON-CURRENT ASSETS					
Deposits on long-term assets	**5**		**1,882**		2,694
Deferred income tax assets	**13**		**151**		113
Mineral properties, plant and equipment	**8**		**216,961**		207,503
Total assets		**$**	**302,215**	$	316,263
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Trade and other payables	**9**	**$**	**15,897**	$	17,348
Due to related parties	**10 c)**		**20**		54
Provisions	**12**		**622**		457
Income tax payable	**13**		**50**		200
Current portion of leases and long term liabilities	**11**		**227**		449
Total current liabilities			**16,816**		18,508

NON-CURRENT LIABILITIES			
Leases and long term liabilities	**11**	**2,343**	2,250
Provisions	**12**	**10,112**	9,970
Deferred income tax liabilities	**13**	**25,284**	21,042
Total liabilities		**54,555**	51,770
EQUITY			
Share capital		**189,092**	187,807
Share option and warrant reserve		**15,200**	12,994
Retained earnings		**40,244**	59,344
Accumulated other comprehensive income		**3,124**	4,348
Total equity		**247,660**	264,493
Total liabilities and equity		**$ 302,215**	$ 316,263
Contingencies and capital commitments	**24**		

APPROVED BY THE DIRECTORS

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

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

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					
	Notes	Number of Shares	Amount	Share Option and Warrant Reserve	Retained Earnings	Accumulated Other Comprehensive Income ("AOCI")	Total Equity
Balance - December 31, 2012		125,268,751	$ 187,807	$ 12,994	$ 59,344	$ 4,348	$ 264,493
Exercise of options		693,800	707	-	-	-	707
Issuance of shares for property	**14 a)**	11,415	49	-	-	-	49
Transfer of share option and warrant reserve on exercise of options		-	529	(529)	-	-	0
Share-based payments expense		-	-	2,734	-	-	2,734
Net loss for the year		-	-	-	(19,100)	-	(19,100)
Unrealized loss on translation of net investment		-	-	-	-	(1,454)	(1,454)
Unrealized gain on translation to presentation currency on foreign operations		-	-	-	-	230	230
Total comprehensive loss for the year					(19,100)	(1,224)	(20,324)
Balance - December 31, 2013		**125,973,966**	**$ 189,092**	**$ 15,200**	**$ 40,244**	**$ 3,124**	**$ 247,660**
Balance – December 31, 2011		124,945,921	$ 186,540	$ 10,495	$ 27,881	$ 3,395	$ 228,311
Exercise of options		314,225	738	-	-	-	738
Issuance of shares for property	**14 a)**	8,605	51	-	-	-	51
Transfer of share option and warrant reserve on exercise of options		-	478	(478)	-	-	-
Share-based payments expense		-	-	2,977	-	-	2,977
Net income for the year		-	-	-	31,463	-	31,463
Transfer of unrealized loss to realized loss upon reduction of net investment		-	-	-	-	(895)	(895)
Unrealized loss on translation of net investment		-	-	-	-	(376)	(376)
Unrealized gain on translation to presentation currency on foreign operations		-	-	-	-	2,224	2,224
Total comprehensive income for the year					31,463	953	32,416
Balance – December 31, 2012		125,268,751	$ 187,807	$ 12,994	$ 59,344	$ 4,348	$ 264,493

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/zinc mine ("Caylloma") in southern Peru and the San Jose silver/gold mine ("San Jose") in southern Mexico.

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

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

2. Basis of Consolidation and Summary of Significant Accounting Policies

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("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, 2013. The Board of Directors approved these financial statements for issue on March 17, 2014.

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 up to the effective date of disposition or loss of control. The principal subsidiaries of the Company and their geographic locations at December 31, 2013 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, 2013	Location	Economic Interest at December 31, 2013	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, 2013, 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 accumulated 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	
Buildings, located at the mine	Life of mine	
Buildings, others	6 – 20 years	Straight line
Leasehold improvements	7 – 8 years	Straight line
Plant and equipment		
Machinery and equipment	3 – 15 years	Straight line
Furniture and other equipment	3 – 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.

Write-downs due to impairment in value are charged to income. The cash-generating unit for assessing impairment is a geographic region and shall be no larger than the operating segment.

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, and costs of abandoned properties are written-off.

The company has made a change in estimate and commencing in the fourth quarter of 2012, the amortization on a unit-of-production basis will be over the portion of resources, in addition to the proven and probable reserves, expected to be extracted economically. The change in estimate is applied prospectively and impacts the depletion of the mineral deposit for the current and future periods.

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

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

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

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(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 fair value less cost to sell model is used the cash flow forecast includes net cash flows expected to be realized from extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proven or probable reserves

and the portion of resources expected to be extracted economically.

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

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 expenses 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 finance costs 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 (loss). 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 other comprehensive 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 the 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 share 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 DSU compensation liability is accounted for based on the number of units outstanding and the quoted market value of the Company's common shares at the financial position date. The year-over-year change in the deferred share unit compensation liability is recognized in income.

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

l) Share-Based Payments (continued)

iii. Restricted Share Unit ("RSU") Plan

The Company's RSU compensation liability is accounted for based on the number of units 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 RSU 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 the performance period and adjusts for changes in the fair value until the end of the performance date. The cumulative effect of the change in fair value is recognized in income in the period of change.

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.

n) Foreign Currency Translation

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

The functional currency of each of the entities in the group is the US$, with the exception of the parent entity and certain holding companies which have a Canadian dollar functional currency.

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.

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.

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(All amounts in US$'000's unless otherwise stated)

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

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).

Derivatives are 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.

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. They are carried at amortized cost 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, except for short term receivables when the recognition of interest would not be significant.

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

o) Financial Instruments (continued)

i. Financial Assets (continued)

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 available-for-sale 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 available-for-sale securities are recognized in the consolidated statement of income.

The Company does not have any assets classified as AFS.

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.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

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.

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

o) Financial Instruments (continued)

i. Financial Assets (continued)

e. Impairment of Financial Assets (continued)

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

Derivatives 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.

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. 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
Other Accounts Receivables	Loans and receivables	Amortized cost
Due from Related Parties	Loans and receivables	Amortized cost
Long Term Receivables	Loans and receivables	Amortized cost
Trade and Other Payables	Other liabilities	Amortized cost
Due to Related Parties	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

iv. 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).

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

q) Segment Reporting

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.

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

- Measurement of financial instruments involve significant judgments related to interpretation of the terms of the instrument, identification, classification, impairment and the overall measurement to approximate fair values.

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 properties 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.

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

v) Significant Changes Including Initial Adoption of Accounting Standards

The Company has adopted the following accounting standards along with any consequential amendments, effective January 1, 2013:

IAS 1 Presentation of Financial Statements (Amendment); IAS 16 Property, Plant, and Equipment (Amendment); IAS 32 Financial Instruments: Presentation (Amendment); IAS 34 Interim Financial Reporting (Amendment); IAS 34 (Amendment); IFRS 7 Financial Instruments: Disclosures in Respect of Offsetting (Amendment); IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interests in Other Entities; IAS 19 Employee Benefits; IAS 27 Separate Financial Statements; and, IAS 28 Investments in Associates and Joint Ventures.

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

IFRS 13 Fair Value Measurement
The Company has adopted IFRS 13 and as a result has made updates to the disclosure of its financial instruments in Note 17 a).

w) 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.

IAS 32 Financial Instruments - Presentation in Respect of Offsetting (Amendment)
The amendments to IAS 32 address inconsistencies in current practice when applying the requirements with regards to the offsetting of financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

IFRIC 21 - Levies
IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.

IAS 36 - Impairment of Assets - Amendments for Recoverable Amount Disclosures for Non-Financial Assets
The amendment to IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendment is effective for annual periods commencing on or after January 1, 2014.

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

w) New Accounting Standards (continued)

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, 2015, 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; and removes the January 1, 2015 effective date.

x) Change in Estimate

The Company has made a change in estimate and commencing in the fourth quarter of 2012, the amortization of depletable properties on a unit-of-production basis will be over the portion of resources, in addition to the proven and probable reserves, expected to be extracted economically. The change in estimate is applied prospectively and impacts the depletion of the mineral deposit for the current and future periods. The impact on the change in estimate for 2013 is a decrease in depletion of $10,283 (2012: $1,938).

y) Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year. Capital expenditures in segmented information is now presented on a cash basis.

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

y) Comparative Figures (continued)

	Years ended December 31,	
	2013	2012
Capital expenditures, accrual basis		
Corporate	**$ 101**	$ 525
Bateas	**21,202**	29,566
Cuzcatlan	**39,160**	20,868
Total capital expenditures, accrual basis	**$ 60,463**	$ 50,959
Add (deduct) Non-cash items:		
Bateas	**499**	(4,642)
Cuzcatlan	**(455)**	(1,478)
Total non-cash items	**$ 44**	$ (6,120)
Capital expenditures, cash basis		
Corporate	**101**	525
Bateas	**21,701**	24,924
Cuzcatlan	**38,705**	19,390
Total capital expenditures, cash basis	**$ 60,507**	$ 44,839

Total capital expenditures, cash basis is presented in the consolidated statements of cash flows as expenditures on mineral properties, plant and equipment.

3. Cash and Cash Equivalents

	December 31, 2013	December 31, 2012
Cash	**$ 11,066**	$ 18,038
Cash equivalents	**20,638**	40,682
	$ 31,704	$ 58,720

4. Short Term Investments

	December 31, 2013	December 31, 2012
Held for trading short term investments	**$ 17,411**	$ 6,019

5. 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, 2013		December 31, 2012
Trade receivables from concentrate sales	**$**	**9,797**	$	15,158
Current portion of long term receivables		**488**		832
Current portion of borrowing costs		**265**		-
Advances and other receivables		**3,883**		3,637
GST/HST and value added tax receivable		**2,607**		7,405
Accounts receivable and other assets	**$**	**17,040**	$	27,032

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

		December 31, 2013		December 31, 2012
Long term receivables and borrowing costs	**$**	**1,322**	$	1,557
Less: current portion of long term receivables		**(488)**		(832)
Less: current portion of long term borrowing costs		**(265)**		-
Non-current portion of long term receivables		**237**		725
Non-current portion of borrowing costs		**332**		-
Deposits on equipment		**700**		1,086
Deposits paid to contractors		**411**		744
Other		**202**		139
Deposits on long term assets	**$**	**1,882**	$	2,694

As at December 31, 2013, the Company had $245 trade receivables (2012: $1,178) which were past due with no impairment. The Company's allowance for doubtful accounts is $nil for all reporting periods.

As at December 31, 2013, the Company has capitalized $796 (2012: $nil) of borrowing costs comprised of legal fees and upfront commitment fee in connection with the amended and restated credit agreement with the Bank of Nova Scotia. The borrowing costs are amortized over a period of 36 months. Refer to Note 17.d).

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

		December 31, 2013		December 31, 2012
0-30 days	**$**	**9,552**	$	13,725
31-60 days		**-**		255
61-90 days		**-**		-
over 90 days		**245**		1,178
	$	**9,797**	$	15,158

FORTUNA SILVER MINES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(All amounts in US$'000's unless otherwise stated)

6. Inventories

		December 31, 2013		December 31, 2012
Concentrate stock piles	**$**	**2,475**	$	2,918
Ore stock piles		**4,756**		3,391
Materials and supplies		**8,257**		6,549
Total inventories	**$**	**15,488**	$	12,858

For the years ended December 31, 2013, $64,284 (2012: $59,077) of inventory was expensed, respectively, in cost of sales and $62 of materials was written down to its net realizable value and recorded as an impairment in inventories (2012: $nil).

7. Assets Held for Sale

Total assets held for sale - December 31, 2011	$	-
Additions		63
Disposals		(12)
Total assets held for sale – December 31, 2012	**$**	**51**
Disposal proceeds		**(28)**
Loss on disposal		**(23)**
Total assets held for sale – December 31, 2013	**$**	**-**

As at December 31, 2013, the Company has $nil (2012: $51) of equipment held for sale. In 2012, included in assets held for sale were a scoop and a front loader as the machinery were not being used in the mine operations and were expected to be sold within one year.

8. Mineral Properties, Plant and Equipment

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

As at December 31, 2013, the non-depletable mineral property includes the Tlacolula property (2012: Tlacolula property) as the San Luisito property (2012: Mario and Don Mario properties) were abandoned and written off during the year.

8. Mineral Properties, Plant and Equipment (continued)

	Mineral Properties Non-Depletable (Mario, Don Mario, Tlacolula)	Mineral Properties Depletable (Caylloma, San Jose, Taviche)	Machinery and Equipment	Land, Buildings, and Leasehold Improvements	Furniture and Other Equipment	Transport Units	Equipment under Finance Lease	Capital Work in Progress	Total
Period ended December 31, 2012									
Opening carrying amount	$ 7,311	$ 105,668	$ 17,316	$ 37,452	$ 3,185	$ 135	$ 2,520	$ 8,246	$ 181,833
Additions	2,566	24,849	5,384	138	1,462	129	653	15,778	50,959
Disposals	-	-	(1,097)	-	(22)	(5)	-	(50)	(1,174)
Write-off of mineral properties	(3,887)	-	-	-	-	-	-	-	(3,887)
Depletion and depreciation	-	(12,327)	(3,000)	(4,449)	(629)	(73)	(705)	-	(21,183)
Reclassification	(5,030)	5,030	444	2,653	(12)	-	-	(3,085)	-
Adjustment on currency translation	-	953	-	2	-	-	-	-	955
Closing carrying amount	**$ 960**	**$ 124,173**	**$ 19,047**	**$ 35,796**	**$ 3,984**	**$ 186**	**$ 2,468**	**$ 20,889**	**$ 207,503**
As at December 31, 2012									
Cost	$ 960	$ 157,054	$ 27,092	$ 44,004	$ 5,694	$ 539	$ 5,124	$ 20,889	$ 261,356
Accumulated depletion and depreciation	-	(32,881)	(8,045)	(8,208)	(1,710)	(353)	(2,656)	-	(53,853)
Closing carrying amount	**$ 960**	**$ 124,173**	**$ 19,047**	**$ 35,796**	**$ 3,984**	**$ 186**	**$ 2,468**	**$ 20,889**	**$ 207,503**

a) Mario Property

During the second quarter of 2012, upon completion of a 7,000 meter Phase I drill program at the Mario and Don Mario Properties ("Mario project"), the Company determined the program was not successful in demonstrating the potential to meet the minimum target size established for the project and the Company abandoned its interest in the Mario property resulting in a write-off of $3,627.

b) Don Mario Property

As the Don Mario property is part of the overall Mario project and as the Phase 1 drill program at the Mario Property was not successful, the Company abandoned its interest in the Don Mario Property resulting in a write-off of $260 in the second quarter of 2012.

c) Tlacolula Property

Pursuant to an agreement dated September 14, 2009, as amended December 18, 2012, the Company, through its wholly owned subsidiary, Cuzcatlan, was granted an option (the "Option") to acquire a 60% interest (the "Interest") in the Tlacolula silver project ("property") located in the State of Oaxaca, Mexico, from Radius Gold Inc.'s wholly owned subsidiary, Radius (Cayman) Inc. ("Radius") (a related party by way of directors in common with the Company described further in Note 10. a)).

8. Mineral Properties, Plant and Equipment (continued)

c) Tlacolula Property (continued)

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

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

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

As at December 31, 2012, the Company had issued 23,174 common shares of the Company, with a fair market value of $100 and paid $100 cash according to the terms of the option agreement.

On January 15, 2013, the Company issued 11,415 common shares of the Company, at a fair market value of $4.38 per share and on January 14, 2013 paid $50 cash according to the terms of the option agreement.

As at December 31, 2013, the Company had issued 34,589 common shares of the Company, with a fair market value of $150, and paid $150 cash according to the terms of the option agreement.

d) Taviche Oeste Concession

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

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

8. Mineral Properties, Plant and Equipment (continued)

e) San Luisito Concessions

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

f) Caylloma Property

Assets are reviewed and tested for impairment when events or changes in circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Assets are grouped at the lowest level for which there are separately identifiable cash flows or cash generating units.

Impairment indicators were identified for Caylloma in the second quarter of 2013. The impairment was driven by the reduction in gold and silver prices during the aforementioned quarter, and reflected a reduction in expected future cash flows at the Caylloma operations. The Company has determined that the Caylloma property represents a cash generating unit within the Peru geographic region. Fair value models were used to determine the recoverable amount of the cash generating unit using a weighted average cost of capital of 7.65%. The carrying value of net assets of $87,562 was determined to be impaired by $15,000, before tax. In the second quarter ended June 30, 2013, the Company recorded an impairment charge of $10,200, net of tax ($15,000, before tax) (Q2 2012: $nil) for non-current assets related to Caylloma. The impairment charge was allocated on a pro rata basis against the net book value of the mineral properties, plant and equipment of $90,129.

The recoverable amounts of the Company's cash generating units ("CGUs"), which include mineral properties, plant and equipment are determined on an annual basis, or where facts and circumstances provide impairment indicators. The recoverable amounts are based on each CGUs future after-tax cash flows expected to be derived from the Company's mineral properties and represent each CGUs FVLCTS. The after-tax cash flows are determined based on life-of-mine ("LOM") after-tax cash flow projections which incorporate management's best estimates of future metal prices, production based on current estimates of recoverable reserves and resources, exploration potential, future operating costs and non-expansionary capital expenditures. Projected cash flow are discounted using a weighted average cost of capital of 7.42%. Management's estimate of the FVLCTS of its CGUs is classified as level 3 in the fair value hierarchy.

As at December 31, 2013, the Company performed an annual review of the recoverable amounts of its CGUs and recognized a $10,200, net of tax ($15,000, before tax) (Q4 2012: $nil) impairment charge, on the carrying value of net assets of $78,064,

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 of $79,413.

8. Mineral Properties, Plant and Equipment (continued)

f) Caylloma Property (continued)

For December 31, 2013 and 2012, the key assumptions used for fair value less cost to sell calculations are as follows:

	December 31, 2013					
Metal Price Assumptions	**2014**	**2015**	**2016**	**2017**	**2018**	**2019-2026**
Gold price $ per ounce	$ 1,361.50	$ 1,362.50	$ 1,392.50	$ 1,336.50	$ 1,336.50	$ 1,336.50
Silver price $ per ounce	$ 21.35	$ 22.66	$ 23.00	$ 22.40	$ 22.40	$ 22.40
Lead price $ per tonne	$ 2,212.49	$ 2,290.89	$ 2,340.63	$ 2,355.65	$ 2,373.00	$ 2,068.21
Zinc price $ per tonne	$ 2,028.25	$ 2.204.62	$ 2,385.50	$ 2,149.00	$ 2,149.00	$ 2,149.00
Weighted average cost of capital	7.42%	7.42%	7.42%	7.42%	7.42%	7.42%

	December 31, 2012					
Metal Price Assumptions	**2013**	**2014**	**2015**	**2016**	**2017**	**2018-2020**
Gold price $ per ounce	$ 1,700.00	$ 1,700.00	$ 1,700.00	$ 1,700.00	$ 1,700.00	$ 1,700.00
Silver price $ per ounce	$ 34.49	$ 34.25	$ 32.38	$ 29.50	$ 26.94	$26.31-$26.06
Lead price $ per tonne	$ 2,100.00	$ 2,100.00	$ 2,100.00	$ 2,100.00	$ 2,100.00	$ 2,100.00
Zinc price $ per tonne	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00
Weighted average cost of capital	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%

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

9. Trade and Other Payables

	December 31, 2013	December 31, 2012
Trade accounts payable	**$ 9,928**	$ 11,114
Payroll payable	**4,216**	4,238
Restricted share unit payable	**625**	648
Other payables	**1,128**	1,348
	$ 15,897	$ 17,348

10. Related Party Transactions

a) Purchase of Goods and Services

The Company entered into the following related party transactions:

Transactions with related parties	Years ended December 31, 2013	2012
Salaries and wages [1,2]	**$ 86**	$ 135
Other general and administrative expenses [2]	**130**	308
Leasehold improvements [2]	**-**	23
	$ 216	$ 466

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

[2] Radius Gold Inc. ("Radius") has directors in common with the Company and shares office space, and is reimbursed for salaries, wages, general administration costs, and leasehold improvements incurred on behalf of the Company to June 30, 2012. 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 effective July 1, 2012.

In January 2013, the Company issued 11,415 (2012: 8,605) common shares of the Company, at a fair market value of $4.38 (2012: $5.81) per share and paid $50 (2012: $50) cash to Radius, under the option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico.

b) Key Management Compensation

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

	Years ended December 31, 2013	2012
Salaries and other short term employee benefits	**$ 2,849**	$ 2,789
Directors fees	**409**	388
Consulting fees	**175**	180
Share-based payments	**2,683**	1,629
	$ 6,116	$ 4,986

Consulting fees includes fees paid to two non-executive directors in both 2013 and 2012.

10. Related Party Transactions (continued)

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

Amounts due from related parties	December 31, 2013	December 31, 2012
Owing from a company with common director [3]	**$ -**	$ 5

[3] Owing from company controlled by a director of the company at December 31, 2012.

Subsequent to December 31, 2013, the Company entered into a sales transaction with a Company related by directors and officers in common for the sale of materials with a book value of $36 and a selling price of $37 resulted in a gain on sale of $1. Terms of payment are 180 days guaranteed by a bill of exchange.

Amounts due to related parties	December 31, 2013	December 31, 2012

Owing to a company(ies) with common directors [4]	**$**	**20**	$	54

[4] 2012 Owing to Gold Group Management Inc. ("Gold Group") whom have directors in common with the Company. 2012 owing to Radius Gold Inc. ("Radius") and Gold Group Management Inc. ("Gold Group") whom have directors in common with the Company.

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

11. Leases and Long Term Liabilities

Leases and long term liabilities are comprised of the following:

		December 21, 2013		December 31, 2012
Obligations under finance lease (a)	**$**	**227**	$	676
Long term liabilities (b)		**27**		19
Deferred share units (Note 14. c))		**2,030**		2,004
Restricted share units (Note 14. d))		**286**		-
		2,570		2,699
Less: current portion				
Obligations under finance lease (a)		**227**		449
Leases and long term liabilities, non-current	**$**	**2,343**	$	2,250

11. Leases and Long Term Liabilities (continued)

a) Obligations under Finance Lease

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

Obligations under Finance Lease		**December 31, 2013**		December 31, 2012
Not later than 1 year	**$**	**231**	$	469
Less: future finance charges on finance lease		**(4)**		(20)
		227		449
Later than 1 year but less than 5 years		**-**		231
Less: future finance charges on finance lease		**-**		(4)
		-		227
Present value of finance lease payments	**$**	**227**	$	676

b) Long Term Liabilities

The Company's Mexican operation is required to provide a seniority premium to all employees as required under Mexican labor law. This liability is calculated using actuarial techniques and discounting the benefit using the Projected Unit Credit Method with the following assumptions: a discount rate of 7.50%, wage increases ranging from 4.5% to 5.0%, minimum wage increase of 4.0%, and a long term inflation rate of 4.0%. During the year end December 31, 2013, $16 (2012: $20) has been recognized as an expense, respectively.

12. Provisions

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

	Decommissioning and Restoration Liabilities		
	Caylloma Mine	**San Jose Mine**	**Total**
At December 31, 2013			
Anticipated settlement date to	**2028**	**2026**	
Undiscounted value of estimated cash flow	$ **7,718**	$ **5,587**	$ **13,305**
Estimated mine life (years)	**10**	**10**	
Discount rate	**6.20%**	**6.45%**	
Inflation rate	**3.88%**	**3.35%**	
Total provisions – December 31, 2011	**$** 3,496	$ 1,478	$ 4,974
Increase to existing provisions	3,954	1,680	5,634
Accretion of provisions	124	108	232
Foreign exchange differences	(129)	102	(27)
Cash payments	(386)	-	(386)
Total provisions – December 31, 2012	$ 7,059	$ 3,368	$ 10,427
Less: current portion	(111)	(346)	(457)
Non current – December 31, 2012	$ 6,948	$ 3,022	$ 9,970
Total provisions – December 31, 2012	$ **7,059**	$ **3,368**	$ **10,427**
Increase to existing provisions	**103**	**424**	**527**
Accretion of provisions	**291**	**247**	**538**
Foreign exchange differences	**(600)**	**(19)**	**(619)**
Cash payments	**(95)**	**(44)**	**(139)**
Total provisions – December 31, 2013	$ **6,758**	$ **3,976**	$ **10,734**
Less: current portion	**(125)**	**(497)**	**(622)**
Non-current – December 31, 2013	$ **6,633**	$ **3,479**	$ **10,112**

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

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

13. Income Tax

a) Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25.75% (2012: 25.00%) to income before income taxes. The reasons for the differences are as follows:

	December 31, 2013	December 31, 2012
Income before tax	**$ (9,970)**	$ 45,226

Statutory income tax rate		**25.75%**		25.00%
Expected income tax	**$**	**(2,567)**	$	11,307
Items non-deductible for income tax purposes		**1,458**		962
Difference between Canadian and foreign tax rates		**407**		2,354
Effect of change in tax rates		**306**		(796)
Impact of foreign exchange on tax assets and liabilities		**1,244**		(1,580)
Special Mining Royalty		**7,677**		-
Other items		**(766)**		(70)
Unused tax losses and tax offsets not recognized in tax asset		**1,371**		1,586
Total income taxes	**$**	**9,130**	$	13,763
Represented by:				
Current income tax	**$**	**4,926**	$	5,508
Deferred income tax		**4,204**		8,255
	$	**9,130**	$	13,763

The Canadian Federal corporate tax rate remained unchanged at 15% throughout 2013, and the British Columbia provincial tax rate increased from 10% to 11% effective April 1, 2013. The overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 25.00% to 25.75%.

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. In addition, the Mexican corporate tax rate is to remain at 30%, while previously expected to decrease to 28% in 2015.

The special mining royalty is an annual tax with the first payment due in March 2015 for 2014 activities. For 2013, the Company recognized an initial deferred tax liability of $7,677 related to the special mining royalty of 7.5%. This 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 payable of $50 (December 31, 2012: $200) relates to current taxes.

13. Income Tax (continued)

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, 2013 and 2012 are presented below:

		December 31, 2013		December 31, 2012
Deferred income tax assets:				
Non-capital losses	**$**	**6,148**	$	2,431
Provisions and other		**3,301**		4,059
Other		**898**		78
Net deferred income tax assets	**$**	**10,347**	$	6,568
Deferred income tax liabilities:				
Mineral properties – Peru	**$**	**(10,393)**	$	(14,314)
Mineral properties – Mexico		**(8,241)**		(3,452)
Special Mining Royalty		**(7,677)**		-
Equipment		**(9,169)**		(9,731)
Total deferred income tax liabilities	**$**	**(35,480)**	$	(27,497)
Net deferred income tax liabilities	**$**	**(25,133)**	$	(20,929)

Classification				
Non-current assets	**$**	**151**	$	113
Non-current liabilities		**(25,284)**		(21,042)
Net deferred income tax liabilities	**$**	**(25,133)**	$	(20,929)

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, 2013		December 31, 2012
Non-capital losses	**$**	**44,961**	$	47,124
Provisions and other		**2,941**		2,652
Share issue cost		**1,119**		1,947
Investments in subsidiaries		**-**		1,283
Mineral properties, plant and equipment		**1,593**		1,467
Unrecognized deductible temporary differences	**$**	**50,614**	$	54,473

13. Income Tax (continued)

c) (continued)

The Company's unrecognized taxable temporary difference consists of the following amounts:

		December 31, 2013		December 31, 2012
Investment in subsidiaries	**$**	**13,599**	$	6,620
Unrecognized taxable temporary difference	**$**	**13,599**	$	6,620

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

			Expiry date
Non-capital losses, expiring as follows:			
Canada	$	44,524	2014 - 2033
Mexico		20,928	2021 - 2023
	$	**65,452**	

14. Share Capital

a) Unlimited Common Shares Without Par Value

During the year ended December 31, 2013, the Company issued 11,415 (2012: 8,605) common shares of the Company, at a fair market value of $4.38 (2012: $5.81) per share and paid $50 (2012: $50) cash to Radius, under the option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico. (Refer to Note 8. c)).

b) Share Options

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

Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility,

risk-free interest rate and expected life of the options. Changes in the subjective input assumptions can materially affect the fair value estimate. The following is a summary of share option transactions:

14. Share Capital (continued)

b) Share Options (continued)

	December 31, 2013		December 31, 2012	
	Shares (in 000's)	**Weighted average exercise price (CAD$)**	Shares (in 000's)	Weighted average exercise price (CAD$)
Outstanding at beginning of the period	**6,117**	**$ 3.42**	3,876	$ 2.83
Granted	**1,153**	**3.38**	2,613	4.18
Exercised	**(694)**	**1.01**	(314)	2.35
Forfeited	**(84)**	**4.69**	(50)	4.46
Expired	**(55)**	**2.27**	(8)	4.46
Outstanding at end of the period	**6,437**	**$ 3.65**	6,117	$ 3.42
Vested and exercisable at end of the period	**3,949**	**$ 3.55**	3,081	$ 2.63

During the year ended December 31, 2013, 1,152,669 share purchase options with a term of three years were granted with an exercise price of CAD$3.38, vesting 50% after one year and 100% after two years from the grant date.

During the year ended December 31, 2013, 67,939 share purchase options were accelerated to expire as follows:

Shares	**Exercise price (CAD$)**	**Original Expiry Date**	**Accelerated Expiry Date**
25,000$	**0.85**	**January 11, 2017**	**April 17, 2013**
8,271	**4.46**	**June 8, 2014**	**June 29, 2013**
2,500	**0.85**	**July 5, 2016**	**September 5, 2013**
10,000	**0.85**	**January 11, 2017**	**September 5, 2013**
9,905	**4.03**	**May 29, 2015**	**October 16, 2013**
12,263	**6.67**	**February 20, 2017**	**December 29, 2013**
67,939Total			

During the year ended December 31, 2013, 83,351 share purchase options with exercise prices ranging from CAD$3.38 and CAD$6.67 per share were forfeited and 55,439 share purchase options with exercise prices ranging from CAD$0.85 and CAD$6.67 expired unexercised.

During the year ended December 31, 2013, 693,800 share purchase options with exercise prices ranging from CAD$0.83 and CAD$1.66 per share were exercised.

Subsequent to December 31, 2013 to March 17, 2014, 64,866 share purchase options were exercised at prices ranging from CAD$2.29 to CAD$4.03 resulting in issued and outstanding shares of 126,038,832.

14. Share Capital (continued)

b) Share Options (continued)

During the year ended December 31, 2013, the Company recorded share-based payment charge of $2,734 (2012: $2,977). The assumptions used to estimate the fair value of the share purchase options granted during the years ended December 31, 2013 and 2012 were:

	Years ended December 31,	
	2013	2012
Risk-free interest rate	**1.18%**	1.00% to 1.62%
Expected stock price volatility	**57.81%**	55.93% to 58.36%
Expected term in years	**3**	3
Expected dividend yield	**0%**	0%
Expected forfeiture rate	**4.15%**	4.15%

The expected volatility assumption is based on the historical volatility of the Company's Canadian dollar common share price on the Toronto Stock Exchange. The weighted average fair value per share purchase option was CAD$3.68 (2012: CAD$4.25).

The following table summarizes information related to stock options outstanding and exercisable at December 31, 2013:

Exercise price in CAD$	Number of outstanding share purchase options (in 000's)	Weighted average remaining contractual life of outstanding share purchase options (years)	Weighted average exercise price on outstanding share purchase options CAD$	Exercisable share purchase options (in 000's)	Weighted average exercise price on exercisable share purchase options CAD$
$0.80 to $0.99	270	4.8	$ 0.85	270	$ 0.85
$1.00 to $1.99	452	2.4	1.51	452	1.51
$2.00 to $6.67	5,715	1.6	3.95	3,227	4.06
$0.80 to $6.67	6,437	1.8	$ 3.65	3,949	$ 3.55

The weighted average remaining life of vested share purchase options at December 31, 2013 was 1.6 years (December 31, 2012: 3.3 years).

14. Share Capital (continued)

c) Deferred Share Units ("DSU") Cost

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

During the year ended December 31, 2013, the Company granted 230,479 (2012: nil) DSU with a market value of CAD$782, at the date of grants, to non-executive directors. During the year ended December 31, 2013 and 2012, there were no DSU settlements in cash.

As at December 31, 2013, there are 711,944 (2012: 481,465) DSU outstanding with a fair value of $2,030 (2012: $2,004). Refer to Note 11.

d) Restricted Share Units ("RSU") Cost

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

During the year ended December 31, 2013, the Company granted 582,846 (2012: nil) RSU with a market value of CAD$1,970, at the date of grant, to an executive director and officer (131,953), officers (259,770), and employees (191,123), 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, 2013, the Company cancelled 39,201 (2012: nil) RSU and there were no (2012: nil) RSU settlements.

As at December 31, 2013, there are 699,319 (2012: 155,674) RSU outstanding with a fair value of $911 (2012: $648). Refer to Note 9 and Note 11.

14. Share Capital (continued)

e) (Loss) Earnings per Share

i. Basic

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

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

		Years ended December 31,	
		2013	2012
(Loss) income available to equity owners	**$**	**(19,100)**	$ 31,463
Weighted average number of shares (in '000's)		**125,553**	123,585
(Loss) earnings per share - basic	**$**	**(0.15)**	$ 0.25

ii. Diluted

Diluted (loss) 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 (loss) earnings per share:

		Years ended December 31,	
		2013	2012
(Loss) income available to equity owners	**$**	**(19,100)**	$ 31,463
Weighted average number of shares ('000's)		**125,553**	123,585
Incremental shares from share options		**996**	1,648
Weighted average diluted shares outstanding ('000's)		**126,549**	125,233
(Loss) earnings per share - diluted	**$**	**(0.15)**	$ 0.25

For the year ended December 31, 2013, excluded from the calculation were 4,180,104 (2012: 184,138) anti-dilutive options, respectively with exercise prices ranging from CAD$3.79 to CAD$6.67 (2012: CAD$6.67).

15. Supplemental Cash Flow Information

	Note	Years ended December 31, **2013**	2012
Non-cash Investing and Financing Activities:			

Issuance of shares on purchase of mineral properties, plant and equipment	**8 c)**	**$ 50**	$	50

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 does not establish 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, 2013, are sufficient for its present needs for at least the next 12 months. The Company is not subject to externally imposed capital requirements.

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, 2013, 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

At December 31, 2013	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	**$ 31,704**	**$ -**	**$ -**	**$ 31,704**
Short term investments	**17,411**	**-**	**-**	**17,411**
Trade receivable from concentrate sales [1]	**-**	**9,797**	**-**	**9,797**
	$ 49,115	**$ 9,797**	**$ -**	**$ 58,912**

[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.

ii. Fair Value of Financial Assets and Liabilities

Fair Values of Financial Assets and Liabilities

	December 31, 2013		December 31, 2012	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents [1]	**$ 31,704**	**$ 31,704**	$ 58,720	$ 58,720
Short term investments [1]	**17,411**	**17,411**	6,019	6,019
Trade receivable from concentrate sales [2]	**9,797**	**9,797**	15,158	15,158
Advances and other receivables	**3,883**	**3,883**	3,637	3,637
Due from related parties [1]	**-**	**-**	5	5
	$ 62,795	**$ 62,795**	$ 83,539	$ 83,539
Financial liabilities				
Trade and other payables [1]	**$ 15,272**	**$ 15,272**	$ 16,700	$ 16,700
Due to related parties [1]	**20**	**20**	54	54
Leases and long term liabilities [3]	**540**	**544**	695	719
	$ 15,832	**$ 15,836**	$ 17,449	$ 17,473

17. Management of Financial Risk (continued)

a) Fair Value Measurements of Financial Instruments (continued)

ii. Fair Value of Financial Assets and Liabilities (continued)

[1] Fair value approximates the carrying amount due to short term nature and historically negible credit losses.

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

[3] Borrowing costs and deposits on long term assets includes the amortized value of long term receivables which approximates their fair value.

[4] Leases and long term liabilities are recorded at amortized costs. The fair value of leases and long term liabilities are primarily determined using quoted market prices. Balance includes current portion of leases and long term liabilities.

b) Currency Risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Peru and Mexico and a portion of its expenses are incurred in Canadian dollars, nuevo soles, and Mexican pesos. A significant change in the currency exchange rates between the United States dollar relative to the other currencies could have

a material effect on the Company's income, financial position, or cash flows. The Company has not hedged its exposure to currency fluctuations.

As at December 31, 2013, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, nuevo soles and Mexican pesos (all amounts are expressed in thousands of Canadian dollars, thousands of nuevo soles or thousands of Mexican pesos):

	December 31, 2013			December 31, 2012		
	Canadian Dollars	**Nuevo Soles**	**Mexican Pesos**	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	**$ 2,699**	S/. **619**	**$ 10,994**	$ 4,231	S/. 1,389	$ 6,136
Short term investments	**3,286**	**-**	**-**	6,000	-	-
Accounts receivable and other assets	**306**	**7,917**	**33,818**	77	3,097	98,147
Deposits on long term assets and long term borrowing costs	**355**	**-**	**-**	-	-	-
Trade and other payables	**(1,181)**	**(12,659)**	**(49,618)**	(1,225)	(12,300)	(49,779)
Due to related parties	**(22)**	**-**	**-**	(54)	-	-
Provisions, current	**-**	**(349)**	**(6,499)**	-	(284)	(4,502)
Income tax payable	**-**	**(2,213)**	**-**	-	(326)	-
Leases and long term liabilities	**(2,477)**	**-**	**(350)**	(1,998)	-	(245)
Provisions	**-**	**(18,544)**	**(45,499)**	-	(19,560)	(39,323)
Total	**$ 2,966**	**S/. (25,229)**	**$ (57,154)**	$ 7,031	S/. (27,984)	$ 10,434
Total US$ equivalent	**$ 2,773**	**$ (9,023)**	**$ (4,371)**	$ 7,053	$ (10,970)	$ 802

17. Management of Financial Risk (continued)

b) Currency Risk (continued)

Based on the above net exposure as at December 31, 2013, 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 $308 (2012: $784) and a net loss of $1,489 (2012: net loss $1,130).

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, 2013 is as follows:

	December 31, 2013	December 31, 2012
Cash and cash equivalents	**$ 31,704**	$ 58,720
Short term investments	**17,411**	6,019
Accounts receivable and other assets	**17,040**	27,032
Due from related parties	**-**	5
	$ 66,155	$ 91,776

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, 2013				
	Less than 1 year	1 - 3 years	4 -5 years	After 5 years	Total
Trade and other payables	$ 15,897	$ -	$ -	$ -	$ 15,897
Due to related parties	20	-	-	-	20
Income tax payable	50	-	-	-	50
Long term liabilities	231	2,343	-	-	2,574
Operating leases	572	1,103	349	-	2,024
Provisions	700	762	1,170	10,673	13,305
	$ 17,470	**$ 4,208**	**$ 1,519**	**$ 10,673**	**$ 33,870**

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

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

e) Interest Rate Risk

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

A 10% change in interest rates would cause a $2 change in income on an annualized basis.

f) Metal Price Risk

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

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, 2013 and 2012 are as follows:

Reportable Segments	**Corporate**	**Bateas**	**Cuzcatlan**	**Total**
Year ended December 31, 2013				
Sales to external customers	**$ -**	**$ 72,306**	**$ 65,088**	**$ 137,394**
Silver-gold concentrates	**$ -**	**$ -**	**$ 65,088**	**$ 65,088**
Silver-lead concentrates	**$ -**	**$ 57,013**	**$ -**	**$ 57,013**
Zinc concentrates	**$ -**	**$ 15,293**	**$ -**	**$ 15,293**
Cost of sales*	**$ -**	**$ 53,672**	**$ 41,947**	**$ 95,619**
Depletion and depreciation**	**$ 662**	**$ 9,676**	**$ 9,966**	**$ 20,304**
Selling, general and administrative expenses*	**$ 12,820**	**$ 3,513**	**$ 3,450**	**$ 19,783**
Exploration and evaluation costs	**$ 376**	**$ -**	**$ 42**	**$ 418**
Restructuring costs	**$ 305**	**$ 57**	**$ 131**	**$ 493**
Write-off of mineral properties	**$ -**	**$ -**	**$ 570**	**$ 570**
Other material non-cash items	**$ -**	**$ 7**	**$ 71**	**$ 78**
Impairment of mineral properties, plant and equipment	**$ -**	**$ 30,000**	**$ -**	**$ 30,000**
Impairment of inventories	**$ -**	**$ 62**	**$ -**	**$ 62**
Interest income	**$ 101**	**$ 402**	**$ 88**	**$ 591**
Interest expense	**$ 374**	**$ 311**	**$ 247**	**$ 932**
(Loss) income before tax	**$ (13,774)**	**$ (14,914)**	**$ 18,718**	**$ (9,970)**
Income taxes	**$ 231**	**$ (2,816)**	**$ 11,715**	**$ 9,130**
(Loss) income for the year	**$ (14,005)**	**$ (12,098)**	**$ 7,003**	**$ (19,100)**
Capital expenditures***	**$ 101**	**$ 21,701**	**$ 38,705**	**$ 60,507**

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

18. Segmented Information (continued)

Reportable Segments	**Corporate**	**Bateas**	**Cuzcatlan**	**Total**
Year ended December 31, 2012				
Sales to external customers	$ -	$ 83,697	$ 77,323	$ 161,020
Silver-gold concentrates	$ -	$ -	$ 77,323	$ 77,323
Silver-lead concentrates	$ -	$ 68,616	$ -	$ 68,616
Zinc concentrates	$ -	$ 15,081	$ -	$ 15,081
Cost of sales*	$ -	$ 51,231	$ 39,127	$ 90,358
Depletion and depreciation**	$ 284	$ 8,961	$ 12,127	$ 21,372
Selling, general and administrative expenses*	$ 13,594	$ 3,337	$ 3,610	$ 20,541

Exploration and evaluation costs	$ 777	$ -	$ -	$ 777
Write-off of mineral properties	$ -	$ 3,887	$ -	$ 3,887
Other material non-cash items	$ 2	$ (1)	$ (51)	$ (50)
Interest income	$ 156	$ 394	$ 70	$ 620
Interest expense	$ 300	$ 154	$ 108	$ 562
(Loss) income before tax	$ (14,514)	$ 25,396	$ 34,344	$ 45,226
Income taxes	$ 272	$ 6,521	$ 6,970	$ 13,763
(Loss) income for the year	$ (14,786)	$ 18,875	$ 27,374	$ 31,463
Capital expenditures***	$ 525	$ 24,924	$ 19,390	$ 44,839

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

Reportable Segments	**Corporate**	**Bateas**	**Cuzcatlan**	**Total**
As at December 31, 2013				
Mineral properties, plant and equipment	**$ 670**	**$ 64,197**	**$ 152,094**	**$ 216,961**
Total assets	**$ 25,191**	**$ 104,398**	**$ 172,626**	**$ 302,215**
Total liabilities	**$ 4,715**	**$ 19,091**	**$ 30,749**	**$ 54,555**
As at December 31, 2012				
Assets held for sale	$ -	$ 51	$ -	$ 51
Mineral properties, plant and equipment	$ 1,034	$ 82,940	$ 123,529	$ 207,503
Total assets	$ 19,412	$ 127,778	$ 169,073	$ 316,263
Total liabilities	$ 5,466	$ 27,710	$ 18,594	$ 51,770

18. Segmented Information (continued)

The segment information by geographical region for the years ended December 31, 2013 and 2012 are as follows:

Reportable Segments	**Canada**	**Peru**	**Mexico**	**Total**
Year ended December 31, 2013				
Sales to external customers	**$ -**	**$ 72,306**	**$ 65,088**	**$ 137,394**
Silver-gold concentrates	**$ -**	**$ -**	**$ 65,088**	**$ 65,088**
Silver-lead concentrates	**$ -**	**$ 57,013**	**$ -**	**$ 57,013**
Zinc concentrates	**$ -**	**$ 15,293**	**$ -**	**$ 15,293**
Year ended December 31, 2012				
Sales to external customers	$ -	$ 83,697	$ 77,323	$ 161,020
Silver-gold concentrates	$ -	$ -	$ 77,323	$ 77,323
Silver-lead concentrates	$ -	$ 68,616	$ -	$ 68,616
Zinc concentrates	$ -	$ 15,081	$ -	$ 15,081

Reportable Segments	**Canada**	**Peru**	**Mexico**	**Total**
As at December 31, 2013				
Non current assets	**$ 3,038**	**$ 64,938**	**$ 151,018**	**$ 218,994**
As at December 31, 2012				
Non Current assets	$ 3,132	$ 84,531	$ 122,647	$ 210,310

For the year ended December 31, 2013, there were six (2012: six) customers, respectively, represented 100% of total sales to external customers as follows:

External Sales by Customer and Region	**Years ended December 31, 2013**		2012	
Customer 1	**$ 29,341**	**41%**	$ 1,391	2%
Customer 2	**42,968**	**59%**	75,136	89%
Customer 3	**9**	**0%**	6,675	8%
Customer 4	**(12)**	**0%**	495	1%
Bateas/Peru	**$ 72,306**	**100%**	$ 83,697	100%
% of total sales	**53%**		52%	
Customer 1	**$ 63,955**	**98%**	$ 2,333	3%

Customer 2	**1,133**	**2%**	74,990	97%
Cuzcatlan/Mexico	**$ 65,088**	**100%**	$ 77,323	100%
% of total sales	**47%**		48%	
Consolidated	**$ 137,394**	**100%**	$ 161,020	100%
% of total sales	**100%**		100%	

19. Cost of Sales

The cost of sales for the years ended December 31, 2013 and 2012 are as follows:

	Years ended December 31,					
	2013			2012		
	Caylloma	**San Jose**	**Total**	Caylloma	San Jose	Total
Direct mining costs [1]	**$42,331**	**$32,345**	**$ 74,676**	$ 39,767	$ 27,470	$ 67,237
Workers' participation	**998**	**81**	**1,079**	1,112	41	1,153
Depletion and depreciation	**9,594**	**9,521**	**19,115**	8,861	11,616	20,477
Royalty expenses	**749**	**-**	**749**	1,491	-	1,491
	$53,672	**$41,947**	**$ 95,619**	$ 51,231	$ 39,127	$ 90,358

[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, 2013 and 2012 are as follows:

	Years ended December 31,	
	2013	2012
Salaries and benefits	**$ 14,275**	$ 12,213
Corporate administration	**112**	2,172
Audit, legal and professional fees	**3,795**	4,461
Filing and listing fees	**40**	236
Director's fees	**578**	564
Depreciation	**983**	895
	$ 19,783	$ 20,541

21. Exploration and Evaluation Costs

The exploration and evaluation costs for the years ended December 31, 2013 and 2012 are as follows:

	Years ended December 31,	
	2013	2012
Share-based payments	**$ 22**	$ 52
Salaries, wages and benefits	**312**	506
Direct costs	**84**	219
	$ 418	$ 777

22. Restructuring Costs

The restructuring costs for the years ended December 31, 2013 and 2012 are as follows:

	Years ended December 31,	
	2013	2012
Salaries and post-employment benefits	**$ 493**	$ -
	$ 493	$ -

23. Net Finance (Expense) Income

The net finance (expense) income for the years ended December 31, 2013 and 2012 are as follows:

	Years ended December 31,	
	2013	2012
Finance income		
Interest income on FVTPL financial assets	**$ 591**	$ 620
Total finance income	**591**	620
Finance expenses		
Interest expense	**21**	30
Standby and commitment fees	**373**	300
Accretion of provisions (Note 12)	**538**	232
Total finance expense	**932**	562
Net finance (expense) income	**$ (341)**	$ 58

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

Scotiabank Peru, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian mining regulatory agency in compliance with local regulation and to collateralize Bateas' mine closure plan, in the amount of $1,204 (2012: $585). This bank letter of guarantee expires on December 31, 2014.

In August 2013, Bateas obtained two bank letters of guarantee of a combined amount of $1,182 from Banco Continental in favor of the Peruvian Tax Authority SUNAT associated to a claim made by Bateas .

24. Contingencies and Capital Commitments (continued)

b) Capital Commitments

As at December 31, 2013, $361 of capital commitments not disclosed elsewhere in the Financial Statements, and forecasted to be expended within one year, includes the following: $nil mine and tailing dam development at the San Jose property; and $361 for the tailing dam infrastructure at Caylloma.

c) Other Commitments

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

Tariffs are established annually by the energy market regulator in accordance with applicable regulations in Peru. The commitment is $180 per month.

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, 2013 are as follows:

	Expected payments due by period as at December 31, 2013				
	Less than 1 year	1 - 3 years	4 -5 years	After 5 years	Total
Office premises – Canada	$ 79	$ 261	$ 177	$ -	$ 517
Office premises – Peru	385	805	172	-	1,362
Office premises – Mexico	10	-	-	-	10
Total office premises	**$ 474**	**$ 1,066**	**$ 349**	**$ -**	**$ 1,889**
Computer equipment – Peru	81	30	-	-	111
Computer equipment – Mexico	17	7	-	-	24
Total computer equipment	**$ 98**	**$ 37**	**$ -**	**$ -**	**$ 135**
Total operating leases	**$ 572**	**$ 1,103**	**$ 349**	**$ -**	**$ 2,024**

24. Contingencies and Capital Commitments (continued)

d) Other Contingencies

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

During the year ended December 31, 2012, the Ministry of Mining and Energy (MEM) in Peru made an update to the approved Mining Environmental Liabilities List. As at December 31, 2013, the Company has completed its evaluation of the mining concessions which are currently included on the list and has estimated the net cost of the mine closure liability of $350. This estimate is included as part of the provisions in Note 12.

FORTUNA
SILVER MINES INC.

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

Tel: +1.604.484.4085
Fax: +1.604.484.4029

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

Tel: +51.1.616.6060, ext.2

TRADING SYMBOL:
NYSE: FSM
TSX: FVI
BVL: FVI
Frankfurt: F4S.F
info@fortunasilver.com
WWW.FORTUNASILVER.COM

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE

YEAR ENDED DECEMBER 31, 2013

As at March 17, 2014

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

FORTUNA SILVER MINES INC.
Management's Discussion and Analysis
For the year ended December 31, 2013
(Dollar amounts expressed in US dollars, unless otherwise indicated)

This management's discussion and analysis ("MD&A") is intended to help the reader understand the significant factors that have affected Fortuna Silver Mines Inc. and its subsidiaries ("Fortuna" or the "Company")'s performance and such factors that may affect its future performance. This MD&A, which has been prepared as of March 17, 2014, should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013, and the related notes contained therewith. The Company reports its financial position, financial performance and cash flows in accordance with International Financial Reporting Standards ("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 ounce of payable silver, total production cost per tonne, all-in sustaining cash cost, all-in cash cost**,** adjusted net income, operating cash flow per share before changes in working capital, income taxes, and interest income, used by the Company to manage and evaluate operating performance and ability to generate cash and widely reported in the silver mining industry as benchmarks for performance but that 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 the 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".

Index **Page**

Business of the Company	2
2013 Highlights	2
2014 Guidance and Outlook	3
Results of Operations	6
Property Option Agreements	13
Annual 2013 Financial Results	14
Quarterly Information	18
Fourth Quarter 2013 Financial Results	18
Non-GAAP Financial Measures	22
Liquidity and Capital Resources	29
Off-Balance Sheet Arrangements	33
Related Party Transactions (expressed in $'000's)	33
Significant Accounting Judgments and Estimates	35
Financial Instruments and Related Risks (expressed in 000's)	36
Significant Changes in Accounting Policies including Initial Adoption	39
New Accounting Standards	40
Other Data	41
Share Position and Outstanding Warrants and Options	41
Other Risks and Uncertainties	41
Controls and Procedures	41
Qualified Person	42
Cautionary Statement on Forward-Looking Statements	42

Business of the Company

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

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

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

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").

2013 Highlights

Full-Year Financial and Operating Highlights

Net loss for the year ended December 31, 2013 ("2013"), amounted to $19.1 million, compared with $31.5 million net income for the year ended December 31, 2012 ("2012"). The loss was driven by a non-cash impairment charge of $20.4 million, net of tax (2012: $nil) and by a one-time non-cash income tax provision of $7.7 million resulting from the initial recognition of the Mexican mining tax reform.

The Company's adjusted net income was $9.4 million (2012: $34.1 million), after adjusting for the write-off and impairment of mineral properties, plant and equipment and the initial recognition impact of the Mexican mining tax reform (refer to non-GAAP financial measures). The decrease with respect to 2012 was driven by lower silver and gold prices of 24% and 15%, respectively. Sales decreased 15% to $137.4 million, while silver ounces sold increased 16%.

Cash flow from operations, before changes in working capital, decreased 34% to $40.9 million (2012: $62.2 million). The decrease reflects the negative impact of lower metal prices on our sales offset by the lower taxes paid at Caylloma in 2013.

Basic loss per share for the year was $0.15 (2012: earnings $0.25). Operating cash flow per share, before changes in working capital items, decreased 34% to $0.33 (2012: $0.50) (refer to non-GAAP financial measures).

In 2013, sales comprised 65% silver and 14% gold, compared with 67% and 17%, respectively, in the prior year.

Silver production increased 16% to 4,631,264 ounces (2012: 3,987,757 ounces), and gold production rose 3% to 21,242 ounces (2012: 20,699 ounces). Silver exceeded annual production guidance by 3%, and gold fell 10% short of annual guidance.

Consolidated all-in sustaining cash cost per ounce of silver, net of by-product credits, was $20.45 in line with our guidance for 2013 (refer to non-GAAP financial measures).

Trinidad North Discovery

The Trinidad North discovery was announced in February of 2013 (see Fortuna news release of February 4, 2013) and a maiden resource for the Trinidad North zone was announced in October of 2013 (see Fortuna news release of October 17, 2013). At a 70 g/t Ag Eq cutoff, inferred resources at Trinidad North are estimated at 1.9 Mt averaging 269 g/t Ag and 1.67 g/t Au, containing 16.3 Moz Ag and 100.8 koz Au. Step-out drilling of the Trinidad North discovery was initiated in late September of 2013 and is being carried out from two underground drill stations located at the 1,300 meter level. Through December 2013, eight step-out drill holes were completed in the Trinidad North Extension, a 200 meter strike extension beyond the existing resource boundary at Trinidad North (see Fortuna news release of January 21, 2014). Results from the step-out drilling campaign have confirmed the continuation of the high-grade Trinidad North zone over the full 200 meter strike extension. The mineralization remains open to the north and to depth as well as vertically above the 1,200 meter level.

2014 Guidance and Outlook

2014 Production Guidance

For 2014, silver production is estimated to grow 30% to 6 million ounces and gold production 52% to 32,300 ounces, or 7.9 million Ag Eq ounces*, plus base metal by-products, at an estimated all-in sustaining cash cost** of $17.14 per ounce of silver.

Mine	Silver (Moz)	Gold (koz)	Investments ($ million)	Cash Cost ($/t)	All-in Sustaining Cash Cost ($/ oz Ag)
San Jose, Mexico	4.0	30.4	29.4	67.1	14.43
Caylloma, Peru	2.0	1.9	10.7	88.3	17.01
Total	**6.0**	**32.3**	**40.1**	**--**	**--**

- Caylloma Mine zinc and lead production forecast of 22.6 million pounds and 16.6 million pounds, respectively.
- Consolidated all-in sustaining cash cost per ounce of silver of $17.14.

(*) Ag Eq estimated based on gold price of $1,260/oz and silver price of $21/oz.
(**) All-in sustaining cash cost per ounce of silver, net of by-product credits. Based on the guidelines from the World Gold Council. All-in sustaining cash cost calculated using Au = $1,300/oz, Pb = $2,100/t and Zn = $1,900/t.

2014 Outlook

San Jose Mine, Mexico

San Jose plans to process 683,000 tonnes of ore averaging 203 g/t Ag and 1.56 g/t Au. Investments for 2014 are estimated to be $29.4 million.

The Company has captured opportunities in spare capacity of major equipment, allowing for an additional processing plant expansion to 2,000 tpd by the beginning of the second quarter of 2014. The mill and mine will increase production without incurring additional capital investments. The Company will be conducting engineering studies to assess a further expansion beyond 2,000 tpd.

Major investments include:

- Mine development: $7.0 million
- Tailings dam expansion: $11.7 million
- Water evaporation control project: $2.2 million
- Brownfields exploration: $5.3 million

Caylloma Mine, Peru

Caylloma plans to process 464,100 tonnes of ore averaging 167 g/t Ag. Capital expenditures for 2014 are estimated to be $10.7 million.

Major investments include:

- Mine development: $4.7 million
- Maintenance and energy: $1.9 million
- Brownfields exploration: $1.1 million

Brownfields Exploration

The 2014 brownfields exploration program at the San Jose property is focused on testing the potential for extensions of the high-grade silver-gold resources identified at Trinidad North (see Fortuna Silver news release dated October 17, 2013). Step-out and delineation drilling totaling over 16,000 meters will explore the Trinidad North structure over a further 550-meter strike extension and to depths between 1,300 and 900 meters in elevation. Underground workings will be advanced a further 300 meters to the north to provide access for drill stations.

At the Caylloma property, brownfields exploration drilling will focus on testing the Don Luis I and Cailloma 6 vein systems, where exploration completed to date has identified potential for high-grade silver mineralization.

2014 All-in sustaining cash cost per ounce of Ag, net of by-product credits

Refer to All-in cash cost per payable ounce of silver (non-GAAP financial measures).

San Jose Mine all-in cash cost per oz ounce of Ag, net of by-product credits

Item	**2014 Guidance ($/oz Ag)**
Cash cost net of by-product credits	4.97
Government royalty and mining tax	0.14
Workers' participation	1.03
Selling, general and administrative expenses (operations)	0.84
Adjusted operating cash cost	6.98
Selling, general and administrative expenses (corporate)	-
Sustaining capital expenditures	6.06
Brownfields exploration	1.39
All-in sustaining cash cost/oz Ag	**14.43**
Non-sustaining capital expenditures	0.26
All-in cash cost/oz Ag	**14.69**

Caylloma Mine all-in cash cost per ounce of Ag, net of by-product credits

Item	**2014 Guidance ($/oz Ag)**

Cash cost net of by-product credits	9.36
Government royalty and mining tax	0.34
Workers' participation	0.33
Selling, general and administrative expenses (operations)	1.65
Adjusted operating cash cost	11.68
Selling, general and administrative expenses (corporate)	-
Sustaining capital expenditures	4.76
Brownfields exploration	0.57
All-in sustaining cash cost/oz Ag	**17.01**
Non-sustaining capital expenditures	0.21
All-in cash cost/oz Ag	**17.22**

Consolidated all-in cash cost per ounce of Ag, net of by-product credits

Item	**2014 Guidance ($/oz Ag)**
Cash cost net of by-product credits	6.44
Government royalty and mining tax	0.21
Workers' participation	0.80
Selling, general and administrative expenses (operations)	1.11
Adjusted operating cash cost	8.56
Selling, general and administrative expenses (corporate)	1.85
Sustaining capital expenditures	5.62
Brownfields exploration	1.11
All-in sustaining cash cost/oz Ag	**17.14**
Non-sustaining capital expenditures	0.24
All-in cash cost/oz Ag	**17.38**

Mexico Mining Tax

On October 31, 2013, the 2014 Mexico Tax Reform package ("reform") was approved by the Mexican Congress and was published in the official gazette in November and December 2013. The new laws have an effective date of January 1, 2014.

Under the reform, three new articles were included relating to federal royalties and taxes, among other tax law changes:

- Special Mining Royalty. This is a 7.5% royalty on earnings before interest, taxes, depreciation, and amortization ("EDITDA") based on tax rules (taxable income minus producing costs, but some costs will no longer be deductible, such as depreciation) and is deductible from income tax.

- Extraordinary Mining Royalty. This consists of a 0.5% royalty rate for companies producing gold, silver and platinum. This royalty is based on the gross revenues derived from the sales of these metals and is deductible from income tax but not deductible for the special mining royalty.

- Additional Mining Tax. This corresponds to a tax of 50% of $124.74 per hectare for each concessioned hectare for companies that have not performed exploration or exploration activities for a consecutive two-year period during the first 11 years of the concession grant. The tax is increased to 100% of $124.74 per hectare in the 12th year of the concession grant.

- Non-deductible Payments to Employees. Payments to employees that, in turn, are not included as taxable income to the employee will result in the employer absorbing the non-deductible portion of up to 53%.

In addition, the option that allows the deduction of exploration expenses in mineral deposits in the same period they were incurred is limited to the general rule of applying 10% amortization per year. As well, a 10% dividend withholding tax will be applied to distributions, from after-tax earnings generated in 2014 and subsequent years, to non-resident shareholders. Furthermore, the tax stimulus that allowed for immediate deduction of fixed assets is eliminated.

Results of Operations

Consolidated Metal Production

QUARTERLY RESULTS
Three months ended December 31,

Consolidated Metal Production	2013 Caylloma	2013 San Jose	2013 Consolidated	2012 Caylloma	2012 San Jose	2012 Consolidated
Silver (oz)	**542,457**	**917,668**	**1,460,125**	519,549	491,181	1,010,730
Gold (oz)	**632**	**6,420**	**7,052**	514	3,854	4,368
Lead (000's lbs)	**3,770**	**-**	**3,770**	4,936	-	4,936
Zinc (000's lbs)	**6,676**	**-**	**6,676**	6,135	-	6,135
Production cash cost (US$/oz Ag)*	**8.29**	**5.55**	**6.56**	9.30	8.38	8.85
All-in sustaining cash cost (US$/oz Ag)*	**18.55**	**10.78**	**15.49**	24.75	29.09	30.17

*** Net of by-product credits**

	YEAR TO DATE RESULTS					
	Years ended December 31,					
Consolidated Metal Production	2013 Caylloma	2013 San Jose	2013 Consolidated	2012 Caylloma	2012 San Jose	2012 Consolidated
Silver (oz)	**2,104,061**	**2,527,203**	**4,631,264**	2,038,579	1,949,178	3,987,757
Gold (oz)	**2,212**	**19,031**	**21,242**	2,781	17,918	20,699
Lead (000's lbs)	**17,780**	**-**	**17,780**	17,886	-	17,886
Zinc (000's lbs)	**25,211**	**-**	**25,211**	22,396	-	22,396
Copper (000's lbs)	**-**	**-**	**-**	48	-	48
Production cash cost (US$/oz Ag)*	**7.65**	**6.53**	**7.03**	8.07	3.76	5.96
All-in sustaining cash cost (US$/oz Ag)*	**20.83**	**15.89**	**20.45**	24.05	15.64	23.02

*** Net of by-product credits**

Silver and gold production for the year ended December 31, 2013, totaled 4,631,264 ounces and 21,242 ounces, respectively, exceeding by 3% and under by 10%, respectively, the Company's production guidance for 2013. Compared with the previous year, silver and gold production increased 16% and 3%, respectively, explained largely by the commissioning of the San Jose plant expansion to 1,800 tpd, on September 23, 2013.

Consolidated Cash Cost per Ounce of Payable Silver

All-in sustaining cash cost per ounce of payable silver for 2013, net of by-product credits, decreased to $20.45 (2012: $23.02) as a result of lower operating and capital costs per ounce in spite of lower gold by-product credits (refer to non-GAAP financial measures). All-in sustaining cash cost per ounce of payable silver for 2013 was in line with guidance.

San Jose Mine Review

San Jose is an underground silver-gold mine located in southern Mexico in the State of Oaxaca. The table below shows the main variables used by management to measure 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	
Mine Production	**2013 San Jose**	2012 San Jose	**2013 San Jose**	2012 San Jose
Tonnes milled	**158,218**	98,348	**456,048**	369,022
Average tonnes milled per day	**1,741**	1,107	**1,296**	1,055
Silver				
Grade (g/t)	**202**	177	**194**	188
Recovery (%)	**89**	88	**89**	88
Production (oz)	**917,668**	491,181	**2,527,203**	1,949,178
Gold				
Grade (g/t)	**1.42**	1.39	**1.46**	1.74
Recovery (%)	**89**	88	**89**	87
Production (oz)	**6,420**	3,854	**19,031**	17,918
Unit Costs				
Production cash cost (US$/oz Ag)*	**5.55**	8.38	**6.53**	3.76
Production cash cost (US$/tonne)	**63.38**	82.82	**71.41**	74.10
Unit Net Smelter Return (US$/tonne)	**147.76**	198.53	**160.76**	209.70
All-in sustaining cash cost (US$/oz Ag)*	**10.78**	29.09	**15.89**	15.64

*** Net of by-product credits**

Silver annual production for 2013 was 3% above guidance. Gold annual production was 8% below guidance due to variations in the head grade relative to the resource model. The Company is analyzing the reasons for these variations and is taking measures to improve the accuracy of gold grade estimates predicted by the resource model and the mining schedule production plans. The expansion of the San Jose Mine's processing plant capacity to 1,800 tpd was successfully completed and commissioned in September 2013 on time and on budget.

Silver and gold production for 2013 was 30% and 6% above the previous year respectively. Silver production increased on the back of higher processed ore of 24% and 3% higher head grade. Gold production saw a more modest increase due to a reduction in head grades of 16%, where our mine plan contemplated an 8% reduction.

A total of 6,552 m of preparation and development were completed in 2013 compared with 6,015 m in 2012. The increase is related to the ramp-up in mine production throughout the year as the extraction rate went from 1,200 tpd to 1,800 tpd.

Cash cost per tonne of processed ore for 2013 was 4% below 2012 and in line with guidance for the year. All-in sustaining cash cost per ounce, net of by-product credits, at San Jose was $15.89 in 2013 (refer to non-GAAP financial measures), in line with guidance for the year.

Investments on property plant and equipment and brownfields exploration, on a cash basis, were $28.3 million for the year ended December 31, 2013, and include $4.3 million for mine development, $6.2 million for brownfields exploration, $16.1 million of equipment and infrastructure, and $1.7 million of infill drilling.

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

Exploration drilling at Trinidad North continues with two drill rigs from existing underground drilling stations with the objectives of extending the mineralization in open directions and the delineation of new mineral resources for incorporation into the resource update scheduled for the second half of 2014. An extension of the crosscut at the 1300 meter level is planned for completion by June of 2014 to facilitate the exploration of a further 300 meter extension of the mineralized system for a total of 500 meters from the northern limit of existing inferred resources.

Caylloma Mine Review

Caylloma is an underground silver-lead-zinc mine located in southern Peru, in the Arequipa Department. 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		**YEAR TO DATE RESULTS**	
	Three months ended December 31,		**Years ended December 31,**	
	2013	2012	**2013**	2012
Mine Production	**Caylloma**	Caylloma	**Caylloma**	Caylloma
Tonnes milled	**116,127**	115,522	**458,560**	462,222
Average tonnes milled per day	**1,290**	1,256	**1,284**	1,266
Silver				
Grade (g/t)	**174**	176	**173**	177
Recovery (%)	**83**	79	**82**	77
Production (oz)	**542,457**	519,549	**2,104,061**	2,038,579
Gold				
Grade (g/t)	**0.38**	0.34	**0.36**	0.40
Recovery (%)	**44**	40	**42**	47
Production (oz)	**632**	514	**2,212**	2,781
Lead				
Grade (%)	**1.59**	2.16	**1.92**	1.99
Recovery (%)	**93**	90	**91**	88
Production (000's lb)	**3,770**	4,936	**17,780**	17,886
Zinc				
Grade (%)	**2.88**	2.78	**2.83**	2.56
Recovery (%)	**91**	87	**88**	86
Production (000's lb)	**6,676**	6,135	**25,211**	22,396
Copper				
Production (000's lb)	**0**	0	**0**	48
Unit Costs				
Production cash cost (US$/oz Ag)*	**8.29**	9.30	**7.65**	8.07
Production cash cost (US$/tonne)	**90.49**	96.80	**91.22**	87.28
Unit Net Smelter Return (US$/tonne)	**145.51**	196.29	**161.19**	183.29
All-in sustaining cash cost (US$/oz Ag)*	**18.55**	24.75	**20.83**	24.05

*** Net of by-product credits**

Silver annual production was 6% over guidance mainly due to an improvement in silver metallurgical recovery from 77% to 82%. In

Q4 2012, the Company implemented recommendations to improve metallurgical recoveries following extensive testing conducted over several months. Positive results were achieved in November and December 2012, with silver recoveries improving to 82%, throughout 2013.

When compared with the prior year, silver production for 2013 increased 3% due to the increase in metallurgical recoveries of 6% and despite slightly lower head grades (down 2%). Zinc production increased 13% year over year as a result of higher head grade and was in line with the plan. Lead production was stable when compared with the previous year, albeit 8% below plan.

A total of 7,100 m of mine development and preparation were completed in 2013, compared with 9,643 m in 2012. The reduction is part of the optimization initiatives undertaken in the second half of 2013 to bring down operating costs.

Cash cost per tonne at Caylloma for 2013 was $91.22 per tonne of processed ore, an increase of 5% from 2012, but 5% lower than guidance. This decrease is the result of cost-reducing measures undertaken at the beginning of the third quarter. These consist mainly of an optimization of mine preparation activities and reductions in related personnel expenses and technical services. All-in sustaining cash cost per ounce, net of by-product credits, at Caylloma in 2013 was $20.83 (refer to non-GAAP financial measures) in line with guidance for the year.

Investments, on a cash basis, were $21.8 million for the year ended December 31, 2013, and include $5.3 million for mine development, $4.0 million for brownfields exploration, and $12.5 million of equipment and infrastructure.

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,**			
	2013		2012		**2013**		2012	
Mine Concentrates	**Caylloma**	**San Jose**	Caylloma	San Jose	**Caylloma**	**San Jose**	Caylloma	San Jose
Silver Gold								
Opening Inventory (t)	**0**	**433**	0	424	**0**	**466**	0	730
Production (t)	**0**	**4,580**	0	2,723	**0**	**13,152**	0	9,647
Sales (t)	**0**	**4,282**	0	2,682	**0**	**12,888**	0	9,915
Adjustment (t)	**0**	**-114**	0	2	**0**	**-114**	0	3
Closing Inventory (t)	**0**	**617**	0	466	**0**	**617**	0	466
Zinc								
Opening Inventory (t)	**355**	**0**	589	0	**521**	**0**	305	0
Production (t)	**5,966**	**0**	5,351	0	**22,333**	**0**	19,588	0
Sales (t)	**5,843**	**0**	5,435	0	**22,384**	**0**	19,394	0
Adjustment (t)	**7**	**0**	15	0	**16**	**0**	23	0
Closing Inventory (t)	**485**	**0**	521	0	**485**	**0**	521	0
Lead								
Opening Inventory (t)	**198**	**0**	261	0	**443**	**0**	255	0
Production (t)	**3,386**	**0**	4,155	0	**15,762**	**0**	14,803	0
Sales (t)	**3,406**	**0**	4,011	0	**16,094**	**0**	14,820	0
Adjustment (t)	**29**	**0**	37	0	**97**	**0**	204	0
Closing Inventory (t)	**208**	**0**	443	0	**208**	**0**	443	0
Copper								
Opening Inventory (t)	**0**	**0**	0	0	**0**	**0**	4	0
Production (t)	**0**	**0**	0	0	**0**	**0**	97	0
Sales (t)*	**0**	**0**	0	0	**0**	**0**	0	0
Adjustment (t)	**0**	**0**	-9	0	**0**	**0**	-101	0
Closing Inventory (t)	**0**	**0**	0	0	**0**	**0**	0	0

*** Copper concentrate sold as lead concentrate**

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 flows or cash generating units.

Impairment indicators were identified for Caylloma in the second quarter of 2013. The impairment was driven by the reduction in gold and silver prices during the aforementioned quarter, and reflected a reduction in expected future cash flows at the Caylloma operations. The Company has determined that the Caylloma property represents a cash generating unit within the Peru geographic region. Fair value models were used to determine the recoverable amount of the cash generating unit using a weighted average cost of capital of 7.65%. The carrying value of net assets of $87.6 million was determined to be impaired by $15.0 million, before tax. In the second quarter ended June 30, 2013, the Company recorded an impairment charge of $10.2 million, net of tax ($15.0 million, before tax) (Q2 2012: $nil) for non-current assets related to Caylloma. The impairment charge was allocated on a pro rata

basis against the net book value of the mineral properties, plant and equipment of $90.1 million.

The recoverable amounts of the Company's cash generating units ("CGUs"), which include mineral properties, plant and equipment are determined on an annual basis, or where facts and circumstances provide impairment indicators. The recoverable amounts are based on each CGUs future after-tax cash flows expected to be derived from the Company's mineral properties and represent each CGUs FVLCTS. The after-tax cash flows are determined based on life-of-mine ("LOM") after-tax cash flow projections which incorporate management's best estimates of future metal prices, production based on current estimates of recoverable reserves and resources, exploration potential, future operating costs and non-expansionary capital expenditures. Projected cash flow are discounted using a weighted average cost of capital of 7.42%. Management's estimate of the FVLCTS of its CGUs is classified as level 3 in the fair value hierarchy.

As at December 31, 2013, the Company performed an annual review of the recoverable amounts of its CGUs and recognized a $10.2 million, net of tax ($15.0 million, before tax) (Q4 2012: $nil) impairment charge, on the carrying value of net assets of $78.1 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 of $79.4 million.

For December 31, 2013 and 2012, the key assumptions used for fair value less cost to sell calculations are as follows:

	December 31, 2013					
Metal Price Assumptions	**2014**	**2015**	**2016**	**2017**	**2018**	**2019-2026**
Gold price $ per ounce	$ 1,361.50	$ 1,362.50	$ 1,392.50	$ 1,336.50	$ 1,336.50	$ 1,336.50
Silver price $ per ounce	$ 21.35	$ 22.66	$ 23.00	$ 22.40	$ 22.40	$ 22.40
Lead price $ per tonne	$ 2,212.49	$ 2,290.89	$ 2,340.63	$ 2,355.65	$ 2,373.00	$ 2,068.21
Zinc price $ per tonne	$ 2,028.25	$ 2.204.62	$ 2,385.50	$ 2,149.00	$ 2,149.00	$ 2,149.00
Weighted average cost of capital	7.42%	7.42%	7.42%	7.42%	7.42%	7.42%

	December 31, 2012					
Metal Price Assumptions	**2013**	**2014**	**2015**	**2016**	**2017**	**2018-2020**
Gold price $ per ounce	$ 1,700.00	$ 1,700.00	$ 1,700.00	$ 1,700.00	$ 1,700.00	$ 1,700.00
Silver price $ per ounce	$ 34.49	$ 34.25	$ 32.38	$ 29.50	$ 26.94	$26.31-$26.06
Lead price $ per tonne	$ 2,100.00	$ 2,100.00	$ 2,100.00	$ 2,100.00	$ 2,100.00	$ 2,100.00
Zinc price $ per tonne	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 2,000.00
Weighted average cost of capital	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%

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

Property Option Agreements

Tlacolula Property

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

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, and by making staged annual payments totalling $0.25 million cash and providing $0.25 million in common shares of the Company to Radius according to the following schedule:

- Ø $0.02 million cash and $0.02 million cash equivalent in shares upon stock exchange approval;
- Ø $0.03 million cash and $0.03 million cash equivalent in shares by January 15, 2011;
- Ø $0.05 million cash and $0.05 million cash equivalent in shares by January 15, 2012;

- Ø $0.05 million cash and $0.05 million cash equivalent in shares by January 15, 2013; and,
- Ø $0.10 million 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.

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

As at December 31, 2013, the Company had issued 34,589 common shares of the Company, with a fair market value of $0.15 million, and paid $0.15 million cash according to the terms of the option agreement.

Taviche Oeste Concession

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

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

San Luisito Concessions

On February 26, 2013, the Company, through its wholly owned subsidiary, Cuzcatlan, was granted an option with a third party on concessions in the San Luisito Project, Sonora, Mexico, and made a cash payment of $0.05 million. During the second quarter of 2013, upon completion of the exploration program and given the current economic environment, the Company abandoned its interest in the option agreement, resulting in a write-off of $0.4 million. Additional costs of $0.1 million and $0.1 million were written off in Q3 2013 and Q4 2013, respectively, for a total write-off of $0.6 million.

Annual 2013 Financial Results

	Years Ended December 31,		
Expressed in $000's, except per share data	**2013**	2012	2011
Sales	**137,394**	161,020	110,004
Mine operating earnings	**41,775**	70,662	60,974
Operating (loss) income	**(9,629)**	45,168	38,065
Net (loss) income	**(19,100)**	31,463	19,533
(Loss) earnings per share, basic	**(0.15)**	0.25	0.16
(Loss) earnings per share, diluted	**(0.15)**	0.25	0.16
Total assets	**302,215**	316,983	271,642
Leases and long term liabilities	**2,343**	2,250	2,764

Net loss for the year ended December 31, 2013 ("2013"), amounted to $19.1 million, compared with $31.5 million of net income for the year ended December 31, 2012 ("2012"). The loss was driven by a non-cash impairment charge of $20.4 million, net of tax (2012: $nil) and by a one-time non-cash income tax provision of $7.7 million resulting from the initial recognition of the Mexican mining tax reform.

The Company's adjusted net income was $9.4 million (2012: $34.1 million) (refer to non-GAAP financial measures). The decrease with respect to 2012 was driven by lower sales of 15%, related mainly to lower silver and gold prices of 24% and 15%, respectively. The impact of lower metal prices on our sales was partially offset by higher ounces of silver sold, of 16%, reflecting mostly the expansion at the San Jose mine. Mine operating earnings decreased 41% to $41.8 million (2012: $70.7 million), and gross margins (mine operating earnings over sales) fell from 44% to 30%, reflecting the effect of lower metal prices.

Cash flow from operations, before changes in working capital, decreased 34% to $40.9 million (2012: $62.2 million). The decrease reflects the negative impact of lower metal prices on our sales, offset by the lower taxes paid at Caylloma in 2013.

Basic loss per share for the year decreased to $0.15 (2012: earnings $0.25). Operating cash flow per share, before changes in working capital items, decreased 34% to $0.33 (2012: $0.50) (refer to non-GAAP financial measures).

Sales for 2013 decreased 15% from a year ago to $137.4 million (2012: $161.0 million). Sales from Caylloma decreased 14% to $72.3 million (2012: $83.7 million) and from San Jose, 16% to $65.1 million (2012: $77.3 million), as realized prices for silver and gold declined 24% and 15%, respectively.

Provisional sales during the period decreased 9% to $146.9 million (2012: $161.4 million), while negative price and assay adjustments amounted to $9.5 million (2012: $0.4 million).

Net realized prices are calculated from provisional sales, based on contained metals in concentrate sold, before government royalties and after deductions, treatment, and refining charges. Treatment charges are allocated to the base metals in Caylloma and to gold in San Jose. Final pricing for all concentrates takes place one month after the month of sale. The Company has not hedged its exposure to metal price risks.

	YEAR TO DATE RESULTS Years ended December 31,					
	2013			2012		
Sales and Realized Prices	**Caylloma**	**San Jose**	**Consolidated**	Caylloma	San Jose	Consolidated
Provisional Sales	**75,434,322**	**71,421,250**	**146,855,572**	82,226,303	79,161,972	161,388,274
Adjustments *	**(3,128,808)**	**(6,332,971)**	**(9,461,779)**	1,470,935	(1,839,272)	(368,338)
Sales	**72,305,514**	**65,088,279**	**137,393,793**	83,697,237	77,322,699	161,019,936
Silver						
Provisional Sales (oz)	**2,160,783**	**2,451,608**	**4,612,391**	1,975,984	1,984,902	3,960,886
Realized Price ($/oz)**	**23.69**	**23.31**	**23.49**	30.98	30.84	30.91
Net Realized Price ($/oz)***	**20.71**	**21.19**	**20.97**	26.96	27.83	27.40
Gold						
Provisional Sales (oz)	**2,247**	**18,750**	**20,997**	2,452	18,524	20,976
Realized Price ($/oz)	**1,399.42**	**1,394.37**	**1,394.91**	1,667.47	1,657.14	1,648.83
Net Realized Price ($/oz)***	**1,052.19**	**1,039.11**	**1,040.51**	1,321.92	1,291.80	1,295.32
Lead						
Provisional Sales (000's lb)	**18,170**	**-**	**18,170**	17,662	-	17,662
Realized Price ($/lb)**	**0.97**	**-**	**0.97**	0.94	-	0.94
Net Realized Price ($/lb)***	**0.72**	**-**	**0.72**	0.63	-	0.63
Zinc						
Provisional Sales (000's lb)	**25,259**	**-**	**25,259**	22,049	-	22,049
Realized Price ($/lb)**	**0.87**	**-**	**0.87**	0.88	-	0.88
Net Realized Price ($/lb)***	**0.61**	**-**	**0.61**	0.66	-	0.66

*** 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.

Cost of sales for 2013 increased 6% to $95.6 million (2012: $90.4 million), as direct mining costs increased $7.6 million to $74.8 million, offset by a decrease in depletion and depreciation of $1.4 million. In Q4 2012, the Company made a change in estimate, on a prospective basis, to the amortization on a unit-of-production basis over the portion of inferred resources, in addition to the proven and probable reserves, expected to be extracted economically. The change was not applied to periods prior to Q4 2012.

(Refer to non-GAAP financial measures for reconciliation of cash cost to the cost of sales.)

Workers' participation for San Jose remained at $0.1 million (2012: $0.1 million).

	Expressed in $ millions Years ended December 31,					
	2013			2012		
	Caylloma	**San Jose**	**Total**	Caylloma	San Jose	Total
Direct mining costs [1]	**$ 42.4**	**$ 32.4**	**$ 74.8**	$ 39.8	$ 27.4	$ 67.2
Workers' participation	**1.0**	**0.1**	**1.1**	1.1	0.1	1.2
Depletion and depreciation	**9.6**	**9.5**	**19.1**	8.9	11.6	20.5
Royalty expenses	**0.7**	**-**	**0.7**	1.5	-	1.5
	$ 53.7	**$ 42.0**	**$ 95.7**	$ 51.3	$ 39.1	$ 90.4

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

Selling, general and administrative expenses for 2013 decreased 3% to $19.8 million (2012: $20.5 million). The decrease was largely because general and administrative expenses for 2013 decreased 8% to $16.7 million (2012 $18.2 million), as the Company has undertaken cost-cutting measures since Q2 2013, but was offset by higher share-based payments of $3.2 million (2012: $2.2 million) following the granting of restricted share units and deferred share units during the year and to vesting of granted options.

Selling, general and administrative expenses consist primarily of corporate office and subsidiary expenses, such as salaries and payroll-related costs for executive and management. These expenses also include administrative, legal, financial, information

technology, human and organizational development, procurement functions, and professional service fees.

	Expressed in $ millions							
	Years ended December 31,							
	2013				2012			
	Corporate	**Bateas**	**Cuzcatlan**	**Total**	Corporate	Bateas	Cuzcatlan	Total
General and administrative expenses	**$ 10.3**	**$ 3.0**	**$ 3.4**	**$ 16.7**	$ 11.7	$ 3.2	$ 3.3	$ 18.2
Foreign exchange	**(0.7)**	**0.3**	**0.1**	**(0.3)**	(0.3)	(0.1)	0.3	(0.1)
Share-based payments	**3.2**	**-**	**-**	**3.2**	2.2	-	-	2.2
Workers' participation	**-**	**0.2**	**-**	**0.2**	-	0.2	-	0.2
	$ 12.8	**$ 3.5**	**$ 3.5**	**$ 19.8**	$ 13.6	$ 3.3	$ 3.6	$ 20.5

Exploration and evaluation costs for 2013 decreased 50% to $0.4 million (2012: $0.8 million) as a result of the Company's reduction in its greenfields exploration program.

	Expressed in $ millions	
	Years ended December 31,	
	2013	2012
Share-based payments	**$ -**	$ 0.1
Salaries, wages, and benefits	**0.3**	0.5
Direct costs	**0.1**	0.2
	$ 0.4	$ 0.8

Net loss on commodity contracts for 2013 was $nil compared with a loss of $0.3 million in 2012 that was related to short-term contracts used to fix the final settlement price on metal contained in concentrate delivered throughout the period.

Restructuring costs for 2013 amounted to $0.5 million (2012: $nil) and were related to the Company's cost-reduction program and included all post-employment costs.

	Expressed in $ millions	
	Years ended December 31,	
	2013	2012
Salaries and post-employment benefits	**$ 0.5**	$ -

Write-off of mineral properties, plant and equipment for 2013 was $0.6 million and pertained to the San Luisito concessions. This was a decrease of 85% compared with $3.9 million in 2012, which pertained to the Mario project.

Impairment of mineral properties, plant and equipment for 2013 of $30.0 million (2012: $nil) related to the impairment of Caylloma as a result of declining silver prices during the year.

Impairment of inventories for 2013 of $0.1 million (2012:$nil) related to the write-down of materials in inventory to its net realizable value.

Interest income for 2013 amounted to $0.6 million (2012: $0.6 million).

Interest expense for 2013 amounted to $0.9 million (2012: $0.6 million).

Income taxes for 2013 decreased to $9.1 million (2012: $13.8 million) because of the $9.6 million (2012: $nil) tax impact of the impairment charge for Caylloma, the deferred income tax provision of $7.7 million (2012: $nil) resulting from the Mexico special mining royalty, and a reduction of the tax base.

The income tax provision comprises $4.9 million (2012: $5.5 million) of current expense arising mainly from Peruvian operations and $4.2 million of deferred income tax (2012: $8.3 million) arising from Peruvian and Mexican operations.

Quarterly Information

The following table provides information for the eight fiscal quarters ended December 31, 2013:

	Quarters ended							
Expressed in $000's, except per share data	**31-Dec-13**	30-Sep-13	30-Jun-13	31-Mar-13	31-Dec-12	30-Sep-12	30-Jun-12	31-Mar-12
Sales	**36,377**	30,203	30,101	40,713	37,895	43,835	38,689	40,601
Mine operating earnings	**10,373**	8,140	6,478	16,784	13,264	19,239	17,078	21,081

Operating (loss) income	**(8,312)**	2,346	(14,669)	11,006	7,976	12,262	8,397	16,533
Net (loss) income	**(14,930)**	(264)	(10,571)	6,665	8,472	8,026	3,854	11,111
(Loss) earnings per share, basic	**(0.12)**	0.00	(0.08)	0.05	0.07	0.06	0.03	0.09
(Loss) earnings per share, diluted	**(0.12)**	0.00	(0.08)	0.05	0.07	0.06	0.03	0.09
Total assets	**302,215**	311,170	310,291	327,346	316,983	304,612	288,686	280.825
Leases and long term liabilities	**2,343**	2,850	2,282	2,238	2,250	2,766	1,658	2,237

During Q4 2013, sales increased 20% from Q3 2013 as a result of an increase in silver and gold sold of 32% and 66%, respectively, offset by lower lead sold of 23% and lower realized silver and gold metal prices both of 3%. Mine operating earnings increased 27% from Q3 2013 as a result of increased sales and the Company's continuing efforts to contain costs. Operating income decreased due to the impairment charge of $15.0 million, before tax (Q3 2013: $nil). Net loss increased due to the non-cash impairment charge of $10.2 million, net of tax (Q3 2013: $nil) and the non-cash income tax provision of $7.7 million resulting from the Mexico special mining royalty.

During Q3 2013, sales increased marginally from Q2 2013 as a result of a reduction of $4.7 million in sales adjustments, which offset a reduction of provisional sales of $4.6 million. The reduction in our provisional sales was driven by lower silver and gold production, and an accumulation of inventory in Q3 2013 that resulted in lower silver and gold sold of 5% and 25%, respectively. Realized price on the sale of silver and gold decreased 7% and 6% to $21.30 and $1,318.93 per ounce, respectively. Mine operating earnings increased from Q2 2013 in part as a result of the Company's implementation of efforts to contain costs. In addition, as part of the Company's cost-reduction program, the Company recorded a $0.5 million restructuring charge in Q3 2013 covering 65 positions, while in Q2 2013 the Company recorded a non-cash impairment charge of $15.0 million, before tax impacting operating income.

During Q2 2013, declining silver prices, along with rising costs, resulted in a significant decline in mine operating earnings compared with prior quarters. Lower silver prices also contributed to the non-cash impairment charge related to the carrying value of Caylloma, resulting in a net loss for the period. The impairment charge also reduced the total assets of the Company.

The operating loss in Q3 2013, compared with the operating income in Q3 2012, is due to a decrease in sales; an increase in restructuring costs; the write-off of mineral properties, plant and equipment; and a decrease in the cost of sales because of lower cash costs per tonne of processed ore (refer to non-GAAP financial measures).

Fourth-Quarter 2013 Financial Results

The fourth-quarter net loss was $14.9 million (Q4 2012: income $8.5 million), resulting in a loss per share of $0.12 (Q4 2012 earnings per share: $0.07). The loss was driven by a non-cash impairment charge of $10.2 million, net of tax (Q4 2012: $nil) and by a one-time non-cash income tax provision of $7.7 million (Q4 2012: $nil) resulting from the initial recognition of the Mexican mining tax reform.

The Company's fourth-quarter adjusted net income was $3.0 million (Q4 2012: income $8.5 million) (refer to non-GAAP financial measures). The corresponding adjusted income before taxes was $6.5 million, compared with $8.0 million in the prior-year period. The decrease with respect to Q4 2012 was driven mainly by lower silver and gold prices, of 37% and 26%, respectively, partially offset by higher silver and gold sales resulting from the expansion at the San Jose mine, of 49% and 64%, respectively. Mine operating earnings decreased 22% to $10.4 million (Q4 2012: $13.3 million), and gross margins fell from 35% to 29%, reflecting the impact of lower metal prices, which was partially offset by lower unit cash costs at both our mines. Also contributing to offset the negative impact of metal prices were lower selling, general and administrative expenses which were reduced by $1.5 million.

Cash generated by operating activities, before changes in working capital, was $11.2 million, a decrease of 6% from the prior-year period, mainly because of lower sales, of 4%. Operating cash flow per share, before changes in working capital, decreased 10% to $0.09 (Q4 2012: $0.10) (refer to non-GAAP financial measures).

The basic loss per share for Q4 2013 was $0.12 (Q4 2012: earnings per share $0.07). Operating cash flow per share, before changes in working capital, was $0.09 (Q4 2012: $0.10) (refer to non-GAAP financial measures).

Sales for Q4 2013 were $36.4 million (Q4 2012: $37.9 million). Sales from Caylloma decreased 23% to $16.3 million (Q4 2012: $21.2 million), while sales at San Jose increased 20% to $20.0 million (Q4 2012: $16.7 million). The decreases was driven by lower realized prices for silver and gold, which declined 37% and 26%, respectively, and by higher negative price adjustments.

In Q4 2013, provisional sales decreased 2% to $38.7 million (Q4 2012: $39.7 million), while negative price and assay adjustments amounted to $2.4 million (Q4 2012: $1.8 million).

Net realized prices are calculated from provisional sales, based on contained metals in concentrate sold, before government royalties and after deductions, treatment, and refining charges. Treatment charges are allocated to the base metals in Caylloma and to gold in San Jose. Final pricing for all concentrates takes place one month after the month of sale. The Company has not hedged its exposure to metal price risks.

QUARTERLY RESULTS

	Three months ended December 31,					
	2013			2012		
Sales and Realized Prices	**Caylloma**	**San Jose**	**Consolidated**	Caylloma	San Jose	Consolidated
Provisional Sales	**16,914,394**	**21,817,857**	**38,732,251**	20,980,783	18,707,113	39,687,896
Adjustments *	**(572,594)**	**(1,782,823)**	**(2,355,416)**	223,218	(2,016,662)	(1,793,444)
Sales	**16,341,801**	**20,035,034**	**36,376,835**	21,204,001	16,690,451	37,894,452
Silver						
Provisional Sales (oz)	**546,633**	**848,156**	**1,394,789**	466,492	469,858	936,350
Realized Price ($/oz)**	**20.70**	**20.74**	**20.72**	32.56	32.73	32.64
Net Realized Price ($/oz)***	**17.96**	**18.95**	**18.56**	28.30	29.71	29.01
Gold						
Provisional Sales (oz)	**642**	**6,158**	**6,801**	440	3,710	4,150
Realized Price ($/oz)**	**1,266.41**	**1,274.33**	**1,273.58**	1,714.36	1,707.87	1,718.91
Net Realized Price ($/oz)***	**1,013.68**	**933.06**	**940.67**	1,206.60	1,279.55	1,271.81
Lead						
Provisional Sales (000's lb)	**3,789**	**-**	**3,789**	4,698	-	4,698
Realized Price ($/lb)**	**0.96**	**-**	**0.96**	1.00	-	1.00
Net Realized Price ($/lb)***	**0.71**	**-**	**0.71**	0.68	-	0.68
Zinc						
Provisional Sales (000's lb)	**6,532**	**-**	**6,532**	6,223	-	6,223
Realized Price ($/lb)**	**0.86**	**-**	**0.86**	0.89	-	0.89
Net Realized Price ($/lb)***	**0.57**	**-**	**0.57**	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

Cost of sales for Q4 2013 increased 6% to $26.0 million (Q4 2012: $24.6 million), as direct mining costs increased $1.1 million to $20.1 million (Q4 2012: $19.0 million). Depletion and depreciation increased $0.5 million to $5.3 million (Q4 2012: $4.8 million). The Company has made a change in estimate, and commencing in the fourth-quarter of 2012 the amortization of depletable properties on a unit-of-production basis will be over the portion of inferred resources, in addition to the proven and probable reserves, expected to be extracted economically. The change was not applied to periods prior to Q4 2012.

Workers' participation for San Jose remained at $0.1 million (Q4 2012: $0.1 million).

(Refer to non-GAAP financial measures for reconciliation of cash cost to the cost of sales.)

	Expressed in $ 000's					
	Three months ended December 31,					
	2013			2012		
	Caylloma	**San Jose**	**Total**	Caylloma	San Jose	Total
Direct mining costs [1]	**$ 10.4**	**$ 9.7**	**$ 20.1**	$ 11.0	$ 8.0	$ 19.0
Workers' participation	**0.3**	**0.1**	**0.4**	0.3	0.1	0.4
Depletion and depreciation	**2.0**	**3.3**	**5.3**	2.8	2.0	4.8
Royalty expenses	**0.2**	**-**	**0.2**	0.4	-	0.4
	$ 12.9	**$ 13.1**	**$ 26.0**	$ 14.5	$ 10.1	$ 24.6

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

Selling, general and administrative expenses for Q4 2013 decreased 31% to $3.6 million (Q4 2012: $5.1 million), due to lower general and administrative expenses of $4.1 million (Q4 2012: $4.6 million), foreign exchange of negative $0.6 million (Q4 2012: positive $0.1 million), and lower share-based payments of $0.1 million (Q4 2012: $0.3 million).

Selling, general and administrative expenses consist primarily of corporate office and subsidiary expenses, such as salaries and payroll-related costs for executive and management. These expenses also include administrative, legal, financial, information technology, human and organizational development, procurement, and professional service fees. General and administrative expenses for Q4 2013 decreased 11% to $4.1 million (Q4 2012: $4.6 million), as the Company has undertaken cost-cutting measures since Q2 2013.

	Expressed in $ millions					
	Three months ended December 31,					
	2013			2012		
	Corporate	**Bateas Cuzcatlan**	**Total**	Corporate	Bateas Cuzcatlan	Total

General and administrative expenses	**$**	**2.6**	**$**	**0.7**	**$**	**0.8**	**$**	**4.1**	$	3.1	$	0.7	$	0.8	$	4.6
Foreign exchange		**(0.6)**		**-**		**-**		**(0.6)**		-		(0.1)		0.2		0.1
Share-based payments		**0.1**		**-**		**-**		**0.1**		0.3		-		-		0.3
Workers' participation		**-**		**-**		**-**		**-**		-		0.1		-		0.1
	$	**2.1**	**$**	**0.7**	**$**	**0.8**	**$**	**3.6**	$	3.4	$	0.7	$	1.0	$	5.1

Exploration and evaluation costs for Q4 2013 decreased to $nil (Q4 2012: $0.2 million) as a result of the Company's reduction in its greenfields exploration program.

	Expressed in $ millions	
	Three months ended December 31,	
	2013	2012
Salaries, wages, and benefits	$ **-**	$ 0.1
Direct costs	**-**	0.1
	$ -	$ 0.2

Write-off of mineral properties, plant and equipment for Q4 2013 was $0.1 million and pertained to the San Luisito concessions (Q4 2012: $nil).

Impairment of mineral properties, plant and equipment for Q4 2013 of $15.0 million (Q4 2012: $nil) related to the impairment of Caylloma as a result of declining silver prices recorded in Q4 2013.

Impairment of inventories for Q4 2013 of $0.1 million (2012:$nil) related to the write-down of materials in inventory to its net realizable value.

Interest income for Q4 2013 amounted to $0.1 million (Q4 2012: $0.2 million).

Interest expense for Q4 2013 amounted to $0.2 million (Q4 2012: $0.1 million).

Income taxes for Q4 2013 increased to $6.4 million (Q4 2012: recovery $0.5 million) because of the $4.8 million (Q4 2012: $nil) tax impact of the impairment charge for Caylloma, the deferred income tax provision of $7.7 million (Q4 2012: $nil) resulting from the Mexico special mining royalty, and a reduction of the tax base.

The income tax provision comprises $1.6 million (Q4 2012: $1.7 million) of current expense arising mainly from Peruvian operations and $4.8 million of deferred income tax (Q4 2012: recovery $2.2 million) arising from Peruvian and Mexican operations.

Non-GAAP Financial Measures

Adjusted Net Income (non-GAAP financial measure)

	Expressed in $ millions			
	Three months ended December 31,		**Years ended December 31,**	
	2013	2012	**2013**	2012
NET (LOSS) INCOME FOR THE PERIOD	**$ (14.9)**	$ 8.5	**$ (19.1)**	$ 31.5
Items of note, net of tax:				
Write-off of mineral properties	**-**	-	**0.4**	2.6
Impairment of mineral properties, plant and equipment	**10.2**	-	**20.4**	-
Initial recognition impact of Mexican mining tax reform	**7.7**	-	**7.7**	-
ADJUSTED NET INCOME FOR THE PERIOD [(1)]	**3.0**	8.5	**9.4**	34.1

[(1)] A non-GAAP financial measure

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,			
		2013		2012		**2013**		2012
Net (loss) income for the period	**$**	**(14,930)**	$	8,472	**$**	**(19,100)**	$	31,463
Items not involving cash		**27,456**		4,392		**63,851**		40,885
	$	**12,526**	$	12,864	**$**	**44,751**	$	72,348
Income taxes paid		**(1,408)**		(1,141)		**(4,430)**		(10,703)
Interest expense paid		**(3)**		(8)		**(20)**		(31)
Interest income received		**69**		150		**608**		611
Cash generated by operating activities before changes in working capital	**$**	**11,184**	$	11,865	**$**	**40,909**	$	62,225
Divided by								
Weighted average number of shares ('000's)		**125,974**		124,412		**125,553**		123,585
Operating cash flow per share before changes in working capital (1)	**$**	**0.09**	$	0.10	**$**	**0.33**	$	0.50

(1) A non-GAAP financial measure

Cash cost per ounce of payable silver and cash cost per tonne of processed ore (non-GAAP financial measure)

Cash cost per ounce of payable 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 costs are 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 to similar data presented by other mining companies.

The following tables present a reconciliation of cash costs per tonne of processed ore and cash costs per ounce of payable silver to the cost of sales in the consolidated financial statements for the three months and the years ended December 31, 2013 and 2012.

Consolidated Mine Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2013	**YTD Q4 2013**	Q4 2012	YTD Q4 2012
Cost of sales [1]	**26,004**	**95,619**	24,631	90,358
Add / (Subtract):				
Change in concentrate inventory	**562**	**(472)**	394	430
Depletion and depreciation in concentrate inventory	**(132)**	**194**	(41)	23
Government royalties and mining taxes	**(218)**	**(749)**	(399)	(1,491)
Workers participation	**(353)**	**(1,078)**	(379)	(1,153)
Depletion and depreciation	**(5,327)**	**(19,114)**	(4,879)	(20,477)
Cash cost (A)	**20,536**	**74,400**	19,327	67,690
Cash cost (A)	**20,536**	**74,400**	19,327	67,690
Add / (Subtract):				
By-product credits	**(13,181)**	**(50,105)**	(12,878)	(52,899)
Refining charges	**1,809**	**6,794**	2,051	7,790
Cash cost applicable per payable ounce (B)	**9,164**	**31,089**	8,500	22,581
Payable ounces of silver production (C)	**1,396,295**	**4,420,241**	960,194	3,788,369
Cash cost per ounce of payable silver ($/oz) (B/C)	**6.56**	**7.03**	8.85	5.96

[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 2013	**YTD Q4 2013**	Q4 2012	YTD Q4 2012

Cost of sales [1]	**13,080**	**41,947**	10,090	39,126
Add / (Subtract):				
Change in concentrate inventory	**462**	**105**	115	(269)
Depletion and depreciation in concentrate inventory	**(113)**	**117**	16	146
Workers participation	**(81)**	**(81)**	(41)	(41)
Depletion and depreciation	**(3,320)**	**(9,520)**	(2,035)	(11,616)
Cash cost (A)	**10,028**	**32,568**	8,145	27,346
Total processed ore (tonnes) (B)	**158,218**	**456,048**	98,348	369,022
Cash cost per tonne of processed ore ($/t) (A/B)	**63.38**	**71.41**	82.82	74.10
Cash cost (A)	**10,028**	**32,568**	8,145	27,346
Add / (Subtract):				
By-product credits	**(6,017)**	**(19,775)**	(4,916)	(23,146)
Refining charges	**881**	**3,007**	679	2,757
Cash cost applicable per payable ounce (C)	**4,892**	**15,800**	3,908	6,957
Payable ounces of silver production (D)	**880,961**	**2,421,383**	466,622	1,851,718
Cash cost per ounce of payable silver ($/oz) (C/D)	**5.55**	**6.53**	8.38	3.76
Mining cost per tonne	**34.21**	**34.50**	40.36	33.43
Milling cost per tonne	**14.27**	**16.95**	17.84	17.96
Indirect cost per tonne	**9.44**	**13.19**	15.99	15.53
Community relations cost per tonne	**1.08**	**1.88**	3.52	2.09
Distribution cost per tonne	**4.38**	**4.89**	5.11	5.09
Total production cost per tonne	**63.38**	**71.41**	82.82	74.10

[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 $'000's	
	Q4 2013	**YTD Q4 2013**	Q4 2012	YTD Q4 2012
Cost of sales [1]	**12,924**	**53,672**	14,541	51,232
Add / (Subtract):				
Change in concentrate inventory	**100**	**(577)**	279	699
Depletion and depreciation in concentrate inventory	**(19)**	**77**	(57)	(123)
Government royalties and mining taxes	**(218)**	**(749)**	(399)	(1,491)
Workers participation	**(272)**	**(997)**	(338)	(1,112)
Depletion and depreciation	**(2,007)**	**(9,594)**	(2,844)	(8,861)
Cash cost (A)	**10,508**	**41,832**	11,182	40,344
Total processed ore (tonnes) (B)	**116,127**	**458,560**	115,522	462,222
Cash cost per tonne of processed ore ($/t) (A/B)	**90.49**	**91.22**	96.80	87.28
Cash cost (A)	**10,508**	**41,832**	11,182	40,344
Add / (Subtract):				
By-product credits	**(7,164)**	**(30,330)**	(7,962)	(29,753)
Refining charges	**928**	**3,787**	1,372	5,033
Cash cost applicable per payable ounce (C)	**4,272**	**15,289**	4,592	15,624
Payable ounces of silver production (D)	**515,334**	**1,998,858**	493,572	1,936,651
Cash cost per ounce of payable silver ($/oz) (C/D)	**8.29**	**7.65**	9.30	8.07
Mining cost per tonne	**40.10**	**39.38**	40.04	39.78
Milling cost per tonne	**15.31**	**15.02**	15.69	14.05

Indirect cost per tonne	**24.95**	**23.55**	27.82	24.83
Community relations cost per tonne	**2.00**	**4.56**	4.61	1.46
Distribution cost per tonne	**8.13**	**8.71**	8.64	7.16
Total production cost per tonne	**90.49**	**91.22**	96.80	87.28

[1] includes depletion, depreciation, distribution, community relations, government royalties and mining taxes, and workers participation

All-in cash cost per payable ounce of silver (non-GAAP financial measure)

The Company believes that "all-in sustaining costs" and "all-in costs" will better meet the needs of analysts, investors and other stakeholders of the Company in understanding the costs associated with producing silver, understanding the economics of silver mining, assessing our operating performance and also our ability to generate free cash flow from current operations and to generate free cash flow 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 the measure as 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 which is expected to be effective from January 1, 2014. The comparative periods have been restated accordingly.

"All-in sustaining costs" and "all-in costs" are intended to provide additional information only and do not have standardized definitions under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Although the WGC has published a standardized definition, companies may calculate these measures differently.

"All-in sustaining costs" include total production cash costs incurred at the Company's mining operations, which forms 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 current operations, and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production from current 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 ounces sold basis.

The following tables provide a reconciliation of all-in sustaining costs per ounce to the consolidated financial statements for each of the three months and year ended December 31, 2013:

Consolidated Mine All-in Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2013	**YTD Q4 2013**	Q4 2012	YTD Q4 2012
Cash cost applicable per payable ounce	**9,164**	**31,089**	8,500	22,581
Government royalty and mining tax	**218**	**749**	399	1,491
Workers' participation	**463**	**1,306**	471	1,404
Selling, general and administrative expenses (operations)	**1,336**	**6,084**	1,595	6,575
Adjusted operating cash cost	**11,181**	**39,228**	10,965	32,051
Selling, general and administrative expenses (corporate)	**2,537**	**10,253**	3,154	11,615
Sustaining capital expenditures[1]	**6,754**	**30,728**	11,350	31,402
Brownfields exploration expenditures[1]	**1,162**	**10,198**	3,501	12,138
All-in sustaining cash cost	**21,634**	**90,407**	28,970	87,206
Non-sustaining capital expenditures[1]	**1,196**	**8,910**	697	772
All-in cash cost	**22,830**	**99,317**	29,667	87,978
Payable ounces of silver operations	**1,396,295**	**4,420,241**	960,194	3,788,369
All-in sustaining cash cost per payable ounce of silver	**15.49**	**20.45**	30.17	23.02
All-in cash cost per payable ounce of silver	**16.35**	**22.47**	30.90	23.22

San Jose Mine All-in Cash Cost	**Expressed in $'000's**	Expressed in $'000's

	Q4 2013	YTD Q4 2013	Q4 2012	YTD Q4 2012
Cash cost applicable per payable ounce	**4,892**	**15,800**	3,908	6,957
Workers' participation	**101**	**101**	51	51
Selling, general and administrative expenses (operations)	**743**	**3,347**	835	3,333
Adjusted operating cash cost	**5,736**	**19,248**	4,794	10,341
Sustaining capital expenditures[1]	**2,751**	**13,045**	7,184	13,857
Brownfields exploration expenditures[1]	**1,006**	**6,180**	1,594	4,760
All-in sustaining cash cost	**9,493**	**38,473**	13,572	28,958
Non-sustaining capital expenditures[1]	**1,196**	**8,910**	697	772
All-in cash cost	**10,689**	**47,383**	14,269	29,730
Payable ounces of silver operations	**880,961**	**2,421,383**	466,622	1,851,718
All-in sustaining cash cost per payable ounce of silver	**10.78**	**15.89**	29.09	15.64
All-in cash cost per payable ounce of silver	**12.13**	**19.57**	30.58	16.06

[1] presented on a cash basis

Caylloma Mine All-in Cash Cost	**Expressed in $'000's**		Expressed in $'000's	
	Q4 2013	**YTD Q4 2013**	Q4 2012	YTD Q4 2012
Cash cost applicable per payable ounce	**4,272**	**15,289**	4,592	15,624
Government royalty and mining tax	**218**	**749**	399	1,491
Workers' participation	**315**	**1,158**	393	1,305
Selling, general and administrative expenses (operations)	**593**	**2,737**	760	3,242
Adjusted operating cash cost	**5,398**	**19,933**	6,144	21,662
Sustaining capital expenditures[1]	**4,003**	**17,683**	4,166	17,545
Brownfields exploration expenditures[1]	**156**	**4,018**	1,907	7,378
All-in cash cost	**9,557**	**41,634**	12,217	46,585
Payable ounces of silver operations	**515,334**	**1,998,858**	493,572	1,936,651
All-in sustaining cash cost per payable ounce of silver	**18.55**	**20.83**	24.75	24.05
All-in cash cost per payable ounce of silver	**18.55**	**20.83**	24.75	24.05

[1] presented on a cash basis

Liquidity and Capital Resources

Full-Year 2013 Liquidity and Capital Resources

The Company's cash and cash equivalents as at December 31, 2013, totalled $31.7 million (December 31, 2012: $58.7 million) and short term investments totalled $17.4 million (December 31, 2012: $6.0 million).

The $26.4 million decrease (2012: $19.9 million increase) in cash and cash equivalents at December 31, 2013, is due to cash provided by operating activities of $45.0 million, net cash used in investing activities of $71.7 million, and net cash provided by financing activities of $0.3 million. Exchange rate changes had a negative $0.6 million impact on cash and cash equivalents. Compared with 2012, the Company's expenditures on mineral properties, plant and equipment increased $15.7 million, net redemptions of short term investments declined $23.1 million, and cash provided by operating activities decreased $8.9 million.

Working capital for the year ended December 31, 2013, decreased $21.0 million to $66.4 million. This reflects decreases in cash and cash equivalents of $27.0 million, accounts receivable and other assets of $10.0 million, assets held for sale of $0.1 million, and increases in provisions of $0.2 million. These decreases in working capital were offset by increases in short term investments of $11.4 million, in prepaid expenses of $0.3 million and in inventories of $2.6 million, and by decreases in trade and other payables of $1.7 million, in income tax payable of $0.1 million, and in the current portion of leases and long term liabilities of $0.2 million.

During the year ended December 31, 2013, cash generated by operating activities before changes in non-cash working capital items, income taxes paid, and interest income paid and received totalled $40.9 million (2012: $62.2 million). Net cash provided by operating activities was $45.0 million (2012: $53.9 million). This included income taxes paid and interest income paid and received of $3.8 million (2012: $10.1 million) and changes in non-cash working capital items of $4.0 million (2012: $8.4 million).

Cash used by the Company in investing activities for the year ended December 31, 2013, totalled $71.7 million (2012: $33.0 million) and comprised the following:

- $12.1 million (2012: $11.0 million net redemptions) in net purchases of short term investments,

- $0.9 million (2012: $0.7 million) in net receipts on deposits on long term assets,
- $nil (2012: $0.1 million) in proceeds on disposal of mineral properties, plant and equipment, and,
- $60.5 million (2012: $44.8 million) in expenditures on mineral properties, plant and equipment.

Investing activities included $60.5 million of expenditures on mineral properties, plant and equipment that comprised $39.7 million of plant and equipment and mine development, $10.2 million of brownfields exploration, $10.0 million for the acquisition of the Taviche Oeste concession, and $0.6 million of greenfields exploration for the San Luisito concessions.

During the year ended December 31, 2013, cash provided by financing activities totalled $0.3 million (2012: used in $0.9 million) and comprised net proceeds on issuance of common shares of $0.7 million (2012: $0.7 million), the repayment of finance lease obligations of $0.4 million (2012: $0.8 million), and the repayment of long term debt of $nil (2012: $0.8 million).

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

Management believes that the Company's current operational requirements and capital projects can be funded from existing cash and cash equivalents, cash generated from operations, and the available credit facility. If future circumstances dictate an increased cash requirement and we elect not to delay, limit, or eliminate some of our plans, we may raise additional funds through debt financing, the issuance of hybrid debt-equity securities, or additional equity securities. If the Company needs to access the capital markets for additional financial resources, management believes the Company will be able to do so at prevailing market rates.

Fourth-Quarter 2013 Liquidity and Capital Resources

The capital of the Company consists of equity and an available credit facility, net of cash. The Board of Directors does not establish 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.

During the three months ended December 31, 2013, cash and cash equivalents increased $0.7 million (Q4 2012: decreased $1.8 million) to $31.7 million. The increase was due to cash provided by operating activities of $16.8 million, net cash used in investing activities of $16.0 million, net cash used in financing activities of $0.1 million, and the negative effect of exchange rate changes on cash and cash equivalents of $0.3 million. Compared with 2012, the Company's expenditures on mineral properties, plant and equipment decreased $6.6 million, net purchases of short term investments increased $3.4 million, and cash provided by operating activities decreased $0.8 million.

During the three months ended December 31, 2013, cash generated by operating activities before changes in non-cash working capital items, income taxes paid, and interest income paid and received was $11.2 million (Q4 2012: $11.9 million). Net cash provided by operating activities amounted to $16.8 million (Q4 2012: $17.6 million). This includes income taxes paid and interest income paid and received of $1.3 million (Q4 2012: $1.0 million) and changes in non-cash working capital items of $5.6 million (Q4 2012: $5.7 million).

Cash used by the Company in investing activities for the three months ended December 31, 2013, totalled $16.0 million (Q4 2012: $19.2 million) and comprised the following:

- $7.4 million (Q4 2012: $4.0 million) in net purchases of short term investments,
- $9.2 million (Q4 2012: $15.8 million) in expenditures on mineral properties, plant and equipment, and
- $0.6 million (Q4 2012: $0.6 million) in net receipts on deposits on long term assets.

Investing activities included $9.2 million of expenditures on mineral properties, plant and equipment that comprised $7.9 million of plant and equipment and mine development, $1.2 million of brownfields exploration, and $0.1 million of greenfields exploration for the San Luisito concessions.

During the three months ended December 31, 2013, cash used in financing activities totalled $0.1 million (Q4 2012: $0.1 million) and comprised the repayment of finance lease obligations of $0.1 million (Q4 2012: $0.1 million).

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, 2013				
	Less than 1 year	1 - 3 years	4 -5 years	After 5 years	Total
Trade and other payables	$ 15.9	$ -	$ -	$ -	$ 15.9
Income tax payable	0.1	-	-	-	0.1
Long term liabilities	0.2	2.4	-	-	2.6
Operating leases	0.6	1.1	0.3	-	2.0
Provisions	0.7	0.7	1.2	10.7	13.3
	$ 17.5	**$ 4.2**	**$ 1.5**	**$ 10.7**	**$ 33.9**

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, 2013, $361 of capital commitments not disclosed elsewhere in the Financial Statements, and forecasted to be expended within one year, includes the following: $nil mine and tailing dam development at the San Jose property; and $361 for the tailing dam infrastructure at Caylloma.

Other Commitments (expressed in $'000's)

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

Tariffs are established annually by the energy market regulator in accordance with applicable regulations in Peru. The commitment is $180 per month.

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, 2013 are as follows:

Expressed in $'000's					
	Expected payments due by period as at December 31, 2013				
	Less than 1 year	1 - 3 years	4 -5 years	After 5 years	Total
Office premises – Canada	$ 79	$ 261	$ 177	$ -	$ 517
Office premises – Peru	385	805	172	-	1,362
Office premises – Mexico	10	-	-	-	10
Total office premises	**$ 474**	**$ 1,066**	**$ 349**	**$ -**	**$ 1,889**
Computer equipment – Peru	81	30	-	-	111
Computer equipment – Mexico	17	7	-	-	24
Total computer equipment	**$ 98**	**$ 37**	**$ -**	**$ -**	**$ 135**
Total operating leases	**$ 572**	**$ 1,103**	**$ 349**	**$ -**	**$ 2,024**

Other Contingencies

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

During the year ended December 31, 2012, the Ministry of Mining and Energy (MEM) in Peru made an update to the approved Mining Environmental Liabilities List. As at December 31, 2013, the Company has completed its evaluation of the mining concessions which are currently included on the list and has estimated the net cost of the mine closure liability of $350. This estimate is included as part of the provisions.

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 obligation to indemnify:

- 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;
- Ø certain vendors of acquired company for obligations that may or may not have been known at the date of the transaction; and,
- Ø the dollar value 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 is subject to annual collateral in the form of a letter of guarantee, to be awarded each year in increments of $146 over 12 years based on the estimated life of the mine. In March 2013 the closure plan was updated with total closure costs of $7,996 of which $4,167 is subject to annual collateral in the form of a letter of guarantee.

Scotiabank Peru, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian mining regulatory agency in compliance with local regulation and to collateralize Bateas' mine closure plan, in the amount of $1,204 (2012: $585). This bank letter of guarantee expires on December 31, 2014.

In August 2013, Bateas obtained two bank letters of guarantee of a combined amount of $1,182 from Banco Continental in favor of the Peruvian Tax Authority SUNAT associated to a claim made by Bateas .

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 our 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:

	Years ended December 31,	
Transactions with related parties	**2013**	2012
Salaries and wages [1,2]	**$ 86**	$ 135
Other general and administrative expenses [2]	**130**	308
Leasehold improvements [2]	**-**	23
	$ 216	$ 466

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

[2] Radius Gold Inc. ("Radius") has directors in common with the Company and shares office space, and is reimbursed for salaries and wages, general administration costs, and leasehold improvements incurred on behalf of the Company to June 30, 2012. 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 effective July 1, 2012.

In January 2013, the Company issued 11,415 (2012: 8,605) common shares of the Company, at a fair market value of $4.38 (2012: $5.81) per share and paid $50 (2012: $50) cash to Radius, under the option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico.

b) Key Management Compensation

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

Expressed in $'000's

	Years ended December 31,	
	2013	2012
Salaries and other short term employee benefits	**$ 2,849**	$ 2,789
Directors fees	**409**	388
Consulting fees	**175**	180
Share-based payments	**2,683**	1,629

	$ 6,116	$	4,986

Consulting fees includes fees paid to two non-executive directors in both 2013 and 2012.

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

	Expressed in $'000's	
Amounts due from related parties	**December 31, 2013**	December 31, 2012
Owing from a company with common director [3]	**$ -**	$ 5

[3] Owing from a company controlled by a director of the Company at December 31, 2012 .

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

Subsequent to December 31, 2013, the Company entered into a sales transaction with a Company related by directors and officers in common for the sale of materials with a book value of $36 and a selling price of $37 resulted in a gain on sale of $1. Terms of payment are 180 days guaranteed by a bill of exchange.

	Expressed in $'000's	
Amounts due to related parties	**December 31, 2013**	December 31, 2012
Owing to company(ies) with common directors [4]	**$ 20**	$ 54

[4] 2013 Owing to Gold Group Management Inc. ("Gold Group)" who has a director in common with the Company. 2012 owing to Radius Gold Inc. ("Radius") and Gold Group Management Inc. ("Gold Group") whom have directors in common with the Company.

Significant Accounting Judgments and Estimates

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

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 properties 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, 2013 there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

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

Fair Value Measurements

Expressed in $'000's

At December 31, 2013	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	$ 31,704	$ -	$ -	$ 31,704
Short term investments	17,411	-	-	17,411
Trade receivable from concentrate sales [1]	-	9,797	-	9,797
	$ 49,115	$ 9,797	$ -	$ 58,912

[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.

ii. Fair Value of Financial Assets and Liabilities

Expressed in $'000's	December 31, 2013		December 31, 2012	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents [1]	**$ 31,704**	**$ 31,704**	$ 58,720	$ 58,720
Short term investments [1]	**17,411**	**17,411**	6,019	6,019
Trade receivable from concentrate sales [2]	**9,797**	**9,797**	15,158	15,158
Advances and other receivables	**3,883**	**3,883**	3,637	3,637
Due from related parties [1]	**-**	**-**	5	5
	$ 62,795	**$ 62,795**	$ 83,539	$ 83,539
Financial liabilities				
Trade and other payables [1]	**$ 15,272**	**$ 15,272**	$ 16,700	$ 16,700
Due to related parties [1]	**20**	**20**	54	54
Leases and long term liabilities [3]	**540**	**544**	695	719
	$ 15,832	**$ 15,836**	$ 17,449	$ 17,473

[1] Fair value approximates the carrying amount due to short term nature and historically negible credit losses.

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

[3] Borrowing costs and deposits on long term assets includes the amortized value of long term receivables which approximates their fair value.

[4] Leases and long term liabilities are recorded at amortized costs. The fair value of leases and long term liabilities are primarily determined using quoted market prices. Balance includes current portion of leases and long term liabilities.

b) Currency Risk

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

As at December 31 2013, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, nuevo soles and Mexican pesos (all amounts are expressed in thousands of Canadian dollars, thousands of nuevo soles or thousands of Mexican pesos):

Expressed in '000's	December 31, 2013			December 31, 2012		
	Canadian Dollars	**Nuevo Soles**	**Mexican Pesos**	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	**$ 2,699** S/.	**619**	**$ 10,994**	$ 4,231 S/.	1,389	$ 6,136
Short term investments	**3,286**	**-**	**-**	6,000	-	-
Accounts receivable and other assets	**306**	**7,917**	**33,818**	77	3,097	98,147
Deposits on long term assets and long term borrowing costs	**355**	**-**	**-**	-	-	-
Trade and other payables	**(1,181)**	**(12,659)**	**(49,618)**	(1,225)	(12,300)	(49,779)
Due to related parties	**(22)**	**-**	**-**	(54)	-	-
Provisions, current	**-**	**(349)**	**(6,499)**	-	(284)	(4,502)
Income tax payable	**-**	**(2,213)**	**-**	-	(326)	-
Leases and long term liabilities	**(2,477)**	**-**	**(350)**	(1,998)	-	(245)
Provisions	**-**	**(18,544)**	**(45,499)**	-	(19,560)	(39,323)
Total	**$ 2,966 S/.**	**(25,229)**	**$ (57,154)**	$ 7,031 S/.	(27,984)	$ 10,434
Total US$ equivalent	**$ 2,773 $**	**(9,023)**	**$ (4,371)**	$ 7,053 $	(10,970)	$ 802

Based on the above net exposure as at December 31, 2013, 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 $308 (2012: $784) and a net loss of $1,489 (2012: net loss $1,130).

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, 2013 is as follows:

	Expressed in '000's	
	December 31, 2013	December 31, 2012
Cash and cash equivalents	**$ 31,704**	$ 58,720
Short term investments	**17,411**	6,019
Accounts receivable and other assets	**17,040**	27,032
Due from related parties	**-**	5
	$ 66,155	$ 91,776

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.

(Refer to Contractual Obligations for the expected payments due as at December 31, 2013.)

Significant Changes in Accounting Policies including Initial Adoption

The Company has adopted the following accounting standards along with any consequential amendments, effective January 1, 2013:

IAS 1 Presentation of Financial Statements (Amendment); IAS 16 Property, Plant, and Equipment (Amendment); IAS 32 Financial Instruments: Presentation (Amendment); IAS 34 Interim Financial Reporting (Amendment); IAS 34 (Amendment); IFRS 7 Financial Instruments: Disclosures in Respect of Offsetting (Amendment); IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interests in Other Entities; IAS 19 Employee Benefits; IAS 27 Separate Financial Statements; and, IAS 28 Investments in Associates and Joint Ventures.

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

IFRS 13 Fair Value Measurement
The Company has adopted IFRS 13 and as a result has made updates to the disclosure of its financial instruments.

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.

IAS 32 Financial Instruments - Presentation in Respect of Offsetting (Amendment)
The amendments to IAS 32 address inconsistencies in current practice when applying the requirements with regards to the offsetting of financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

IFRIC 21 - Levies
IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.

IAS 36 - Impairment of Assets - Amendments for Recoverable Amount Disclosures for Non-Financial Assets
The amendment to IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or cash-

generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendment is effective for annual periods commencing on or after January 1, 2014.

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, 2015, 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; and removes the January 1, 2015 effective date.

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 17, 2014 is 126,038,832 common shares. In addition, 6,371,823 incentive stock options are currently outstanding as follows:

Type of Security	No. of Shares	Exercise Price (CAD$)	Expiry Date
Incentive Stock Options:	1,651,244	$4.46	June 8, 2014
	1,985,866	$4.03	May 29, 2015
	160,000	$1.35	February 5, 2016
	10,000	$1.75	May 8, 2016
	1,134,885	$3.38	May 29, 2016
	153,800	$1.55	July 5, 2016
	127,900	$1.66	July 10, 2016
	350,000	$2.22	January 11, 2017
	147,349	$6.67	February 20, 2017
	380,779	$3.79	July 31, 2017
	250,000	$0.85	October 5, 2018
	20,000	$0.85	November 5, 2018
TOTAL OUTSTANDING OPTIONS	**6,371,823**		

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, 2012, available at www.sedar.com and the Company's Annual Information Form for the year ended December 31, 2013 to be filed on SEDAR.

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, 2013, 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, 2013, the Company's internal control over financial reporting was effective and no material weaknesses were identified.

Qualified Person

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

Certain statements contained in this MD&A and any documents incorporated by reference into this MD&A 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"). Forward-looking statements express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified using words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategies", "targets", "goals", "forecasts", "objectives", "budgets", "schedules", "potential" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) and are not statements of historical fact. Forward-looking statements relate to, among other things:

- 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 to achieve full production capacity at the Company's properties;
- timing for completion of infrastructure upgrades related to the Company's properties;
- 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, tailings dam expansion, the water evaporation control project and brownfields exploration, at the San Jose property in 2014;
  - the Company's expectation for an additional processing plant expansion to 2,000 tpd by the beginning of the second quarter of 2014 resulting in an increase in production without incurring additional capital investments at the San Jose property;
  - the Company's intention to conduct engineering studies to assess a further expansion beyond 2,000 tpd at the San Jose property;
  - the Company's planned processing, estimated capital expenditures, and anticipated major investments for mine development, maintenance and energy, and brownfields exploration, at the Caylloma property during 2014;
  - the Company's plans for the 2014 brownfields exploration program at the Caylloma property;
  - management's belief that the Company's current operational requirements and capital projects can be funded from existing cash and cash equivalents, cash generated from operations, and the available credit facility;
  - management's belief that if the Company needs to access the capital markets for additional financial resources, the Company will be able to do so at prevailing market rates;
  - the expected maturities of the Company's financial liabilities, finance leases and other contractual commitments; and
  - management's expectation that none of the investigations, claims, and legal, labor and tax proceedings arising in the

ordinary course of business will have a material effect on the results of operations or financial conditions of the Company.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company as at the date of such statements, are inherently subject to significant business, economic, social, political and competitive uncertainties and contingencies and other factors that could cause actual results or events to differ materially from those projected in the forward-looking statements. The estimates and assumptions of the Company contained or incorporated by reference in this MD&A which may prove to be incorrect, include, but are not limited to, (1) that all required third party contractual, regulatory and governmental approvals will be obtained for the development, construction and production of its properties, (2) there being no significant disruptions affecting operations, whether due to labor disruptions, supply disruptions, power disruptions, damage to equipment or otherwise; (3) permitting, development, expansion and power supply proceeding on a basis consistent with the Company's current expectations; (4) currency exchange rates being approximately consistent with current levels; (5) certain price assumptions for silver, gold, lead, zinc and copper; (6) prices for and availability of natural gas, fuel oil, electricity, parts and equipment and other key supplies remaining consistent with current levels; (7) production forecasts meeting expectations; (8) the accuracy of the Company's current mineral resource and reserve estimates; (9) labor and materials costs increasing on a basis consistent with the Company's current expectations; and (10) assumptions made and judgments used in engineering and geological interpretation.

In addition, there are known and unknown risk factors which could cause the Company's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by the forward-looking statements. Known risk factors include, risks associated with mineral exploration and project development; the need for additional financing; 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; the Company's 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 entering into commodity forward and option contracts for base metals production; potential conflicts of interest involving the Company's directors and officers; the risk that monies allotted for land reclamation may not be sufficient; risks associated with potential legal proceedings; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Mexico, the United States, Peru or other countries in which the Company does or may carry on business; the possibility of cost overruns or unanticipated expenses; fluctuations in silver, lead, zinc and copper prices; title matters; uncertainties and risks related to carrying on business in foreign countries; environmental liability claims and insurance; reliance on key personnel; currency exchange rate fluctuations; competition; and other risks and uncertainties, including those described in the "Risks and Uncertainties" section in the MD&A and in the "Risk Factors" section in the Company's Annual Information Form for the financial year ended December 31, 2012 filed with the Canadian Securities Administrators and the U.S. Securities and Exchange Commission and available at www.sedar.com and www.sec.gov.

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 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.

EXHIBIT 99.4
CONSENT OF DELOITTE LLP

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the use of our report dated March 17, 2014 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, 2013.

/s/ Deloitte LLP

Independent Registered Chartered Accountants
Vancouver, Canada
March 26, 2014

EXHIBIT 99.5
MINE SAFETY DISCLOSURE

During the year ended December 31, 2013, Fortuna Silver Mines Inc. (the “Company”) had one mine-related fatality at its San Jose Mine.

As the Company’s mines are located outside the United States, the Company has no other mine safety disclosures to be made in response to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act for the year ended December 31, 2013.

EXHIBIT 99.6
CONSENT OF ERIC N. CHAPMAN

CONSENT OF AUTHOR

I hereby consent to 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 as described or incorporated by reference in the Company's Annual Report on Form 40-F for the year ended December 31, 2013 filed with the United States Securities and Exchange Commission.

Dated the 26th day of March, 2014.

"Eric N. Chapman"
Eric N. Chapman, P.Geo., C. Geol. (FGS)

EXHIBIT 99.7
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 as described or incorporated by reference in the Company's Annual Report on Form 40-F for the year ended December 31, 2013 filed with the United States Securities and Exchange Commission.

Dated the 26th day of March, 2014.

"Thomas Kelly"
Thomas Kelly, E.M. Fellow AusIMM, Registered Member SME

EXHIBIT 99.8
CONSENT OF BORIS CARO

CONSENT OF EXPERT

I hereby consent to the use of my name, Boris Caro, 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, 2013 described or incorporated by reference in the Company's Annual Report on Form 40-F for the year ended December 31, 2013 filed with the United States Securities and Exchange Commission.

Dated the 26th day of March, 2014.

"Boris Caro"
Boris Caro,
Member of AusIMM, Membership No. 305462; Registered Member of Chilean Mining Commission, Membership No. 229

EXHIBIT 99.9
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, 2013 described or incorporated by reference in the Company's Annual Report on Form 40-F for the year ended December 31, 2013 filed with the United States Securities and Exchange Commission.

Dated the 26th day of March, 2014.

"Thomas Vehrs"
Thomas Vehrs, Ph.D., Registered Member SME

EXHIBIT 99.10

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 26, 2014

"Jorge Ganoza Durant"
Name: Jorge Ganoza Durant
Title: President, Chief Executive Officer & Director
(principal executive officer)

EXHIBIT 99.11

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, Luiz 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 26, 2014

"Luis Ganoza Durant"
Name: Luiz Ganoza Durant
Title: Chief Financial Officer
(principal financial officer)

EXHIBIT 99.12

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, 2013, 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 26, 2014

"Jorge Ganoza Durant"
Name: Jorge Ganoza Durant
Title: President, Chief Executive Officer & Director
(principal executive officer)

EXHIBIT 99.13

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, 2013, 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 26, 2014

"Luis Ganoza Durant"
Name: Luiz Ganoza Durant
Title: Chief Financial Officer
(principal financial officer)