FORTUNA
SILVER MINES INC.

BUILDING ON OUR STRENGTHS

2013 Annual Report

FORTUNA
SILVER MINES INC.

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All figures are in US dollars unless otherwise noted.

This annual report contains forward-looking statements. Please refer to the cautionary language under "Cautionary Statement on Forward-Looking Statements" on page 70 of the Management's Discussion & Analysis.

COVER PHOTO: San Jose Mine, Mexico

CORPORATE PROFILE

Fortuna Silver Mines Inc. owns and operates two low-cost silver mines in Latin America, the San Jose Mine in Mexico and the Caylloma Mine in Peru. The mines are forecast to produce a total of 6 million ounces of silver and 32,300 ounces of gold in 2014, at a consolidated all-in sustaining cash cost of $17.14 per ounce of silver, net of by-products gold, lead and zinc.

Our extensive land package of more than 97,000 hectares offers significant potential to support organic growth, from the expansion of existing reserves and resources and the discovery of high-grade silver-gold mineralization.

Trading Symbols

NEW YORK STOCK EXCHANGE	TORONTO STOCK EXCHANGE	BOLSA DE VALORES DE LIMA	FRANKFURT STOCK EXCHANGE
FSM	**FVI**	**FVI**	**F4S.F**

Fortuna is one of the fastest growing silver producers in Latin America.

Caylloma Mine, Peru

By focusing on sustainable, long-term growth and low-cost production, we are building on our strengths to become a leading silver mining company in Latin America.

Experienced management team

Management has followed a disciplined growth strategy since 2006, earning a reputation as efficient mine builders and solid operators.

- San Jose Mine commissioned in 2011 at 1,000 tpd, expanded in 2013 to 1,800 tpd and in April 2014 to 2,000 tpd, on time and on budget

Low-cost, efficient silver producer

By containing costs, expanding capacity and maximizing efficiency, we have become one the lowest cost silver producers in the industry.

- Estimated consolidated all-in sustaining cash cost for 2014 is $17.14 per ounce of silver, net of by-products gold, lead and zinc

Organic growth opportunities

We forecast continued silver-gold production growth by exploring and developing our 97,900-hectare land package.

- Trinidad North discovery adds Inferred Resource containing an estimated 16.3 million ounces of silver and 100,800 ounces of gold
- Annual silver equivalent* production expected to rise by 47% from 5.9, in 2013, to 8.7 million ounces by 2016

Stable balance sheet + financial flexibility

We have a strong balance sheet, no debt and no hedging.

- Cash position as at March 31, 2014 of $62.1 million and an untapped credit facility of $40 million

** Ag Eq estimated using Au = $1,200/oz and Ag = $20/oz; exclusive of by-product lead and zinc*

2013 HIGHLIGHTS

Silver production increases for the seventh consecutive year, reaching a record 4.6 million ounces, while gold production rises by 3% to 21,200 ounces. Balance sheet and treasury remain strong at year-end.

Financial

- Sales of $137.4 million, compared with $161.0 million in 2012
- Cash cost per silver ounce of $7.03, net of by-products, compared with guidance of $6.55
- Consolidated all-in sustaining cash cost per ounce of silver of $20.45, net of by-products, compared with guidance of $20.45
- Net loss of $19.1 million after a non-cash impairment charge of $20.4 million, net of tax, compared with net income of $31.5 million in 2012
- Cash generated by operating activities of $40.9 million, compared with $62.2 million in 2012
- Adjusted net income of $9.4 million or earnings per share of $0.08 compared with earnings of $0.25 in 2012

Production and reserves

- Silver production increases by 16% to 4.6 million ounces
- Gold production rises by 3% to 21,242 ounces
- Combined Inferrred Resources for Caylloma and San Jose increased to 11.6 Mt containing an estimated 59.1 Moz silver averaging 159 g/t and 370.9 koz gold averaging 1.0 g/t; year-over-year increases of 26% and 36%, respectively
- San Jose mill capacity expanded from 1,150 to 1,800 tpd

Community and environment

- Approximately $3 million invested in social programs in Peru and Mexico, with an emphasis on education, health and nutrition, and sustainable development

Brownfields team at Caylloma Mine

San Jose Mine crushing circuit

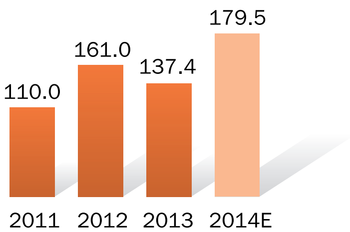
Capital share structure*

Issued and Outstanding	126,335,370
Stock options	6,866,027
Warrants	0
Fully Diluted	133,201,397

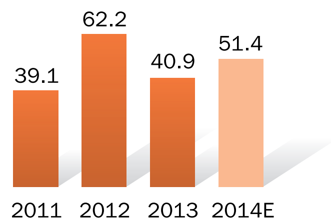
** May 9, 2014*

Financial Snapshot

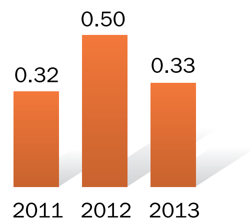
Revenue ($ million)



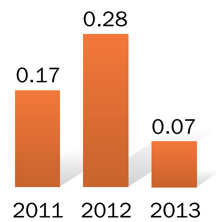
Cash Flow from Operations ($ million)



Cash Flow per Share ($)

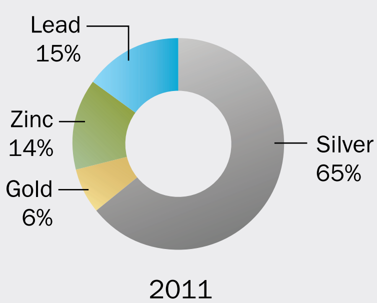


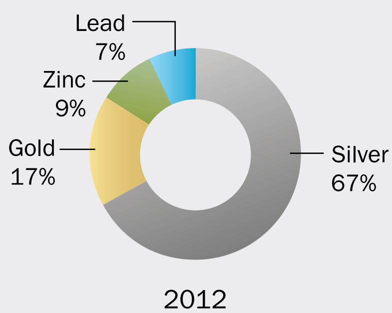
Adjusted Earnings per Share* ($)

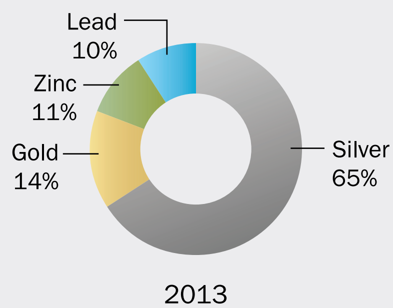


** Net of income tax*

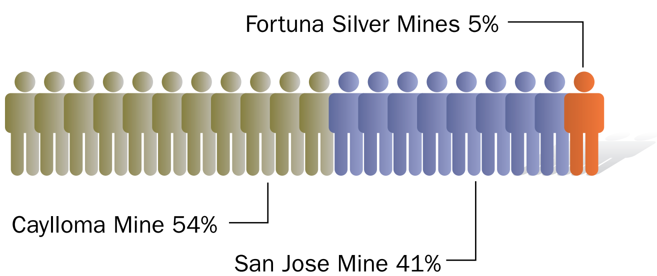
Sales by Metal



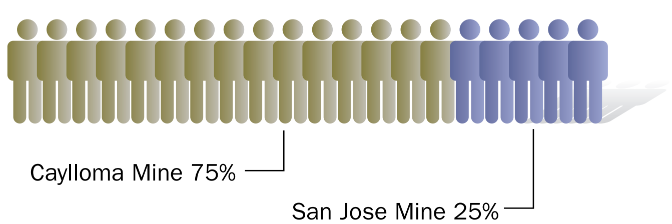




2013 Head Count



Employees: 735 people



Contractors: 1,011 people

Operating Highlights

	2013			2012			2011		
	Caylloma Mine	San Jose Mine	Consolidated	Caylloma Mine	San Jose Mine	Consolidated	Caylloma Mine	San Jose Mine	Consolidated
Processed Ore									
Tonnes milled	458,560	456,048		462,222	369,022		448,866	116,410	
Average tpd milled	1,284	1,296		1,266	1,055		1,264	954	
Silver									
Grade (g/t)	173	194		177	188		171	150	
Recovery (%)	82	89		77	88		81	85	
Production (oz)	2,104,061	2,527,203	4,631,264	2,038,579	1,949,178	3,987,757	2,008,488	478,167	2,486,655
Realized Price ($/oz)*			23.49			30.91			34.83
Net Realized Price ($/oz)**			20.97			27.40			31.09
Gold									
Grade (g/t)	0.36	1.46		0.40	1.74		0.36	1.43	
Recovery (%)	42	89		47	87		46	85	
Production (oz)	2,212	19,031	21,242	2,781	17,918	20,699	2,393	4,524	6,917
Realized Price ($/oz)*			1,394.91			1,648.83			1,631.39
Net Realized Price ($/oz)**			1,040.51			1,295.32			1,179.90
Lead									
Grade (%)	1.92			1.99			2.15		
Recovery (%)	91			88			93		
Production (000 lbs)	17,780		17,780	17,886		17,886	19,678		19,678
Realized Price ($/lb)*			0.97			0.94			1.10
Net Realized Price ($/lb)**			0.72			0.63			0.86
Zinc									
Grade (%)	2.83			2.56			2.68		
Recovery (%)	88			86			88		
Production (000 lbs)	25,211		25,211	22,396		22,396	23,425		23,425
Realized Price ($/lb)*			0.87			0.88			1.00
Net Realized Price ($/lb)**			0.61			0.66			0.66
Unit Costs									
Cash Cost /oz Ag ($)***	7.65	6.53	7.03	8.07	3.76	5.96	(0.78)	4.69	0.25
All-in sustaining cash cost/oz Ag ($) ***	20.83	15.89	20.45	24.05	15.64	23.02	–	–	–
Cash cost /t ($)	91.22	71.41		87.28	74.10		69.12	50.73	
Unit Net Smelter Return ($/t)	161.19	160.76		183.29	209.70		221.01	155.56	

* *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*

*** *Net of by-product credits*

Dear Shareholders,

Our discovery and ongoing expansion of the high-grade Trinidad North zone at our San Jose Mine in Mexico was the highlight of 2013. Indeed, there is nothing like the discovery of a robust mineralized system to energize a mining organization and capture the attention and imagination of shareholders and mining analysts.

I am pleased to report that our exploration success was underpinned by yet another year of solid operational and financial performance despite persistent challenging market conditions. Precious metal prices continued to decline in 2013 after peaking in mid-2011. Our average realized price per ounce was $23.49 for silver and $1,394.91 for gold, 24% and 15% lower respectively compared with 2012.

2013 was a trying year for the entire mining industry. A lower metal-price environment required many companies to implement significant changes. In the process, we have seen personnel layoffs, lower exploration and capital spending, reductions in reserve estimates and balance sheet adjustments from asset impairment charges. Fortuna was not immune to the impact of lower metal prices. However, I am pleased to report that we have adjusted to this new environment and we are well positioned to generate sustainable free cash flow and continue thriving in the years to come.

Jorge A. Ganoza – President, CEO and Co-founder

Expanding resources at San Jose

Silver reserves increased by 12% and gold by 16%, after taking into consideration production-related depletion and an 18% decline in silver prices since the previous reserve estimate. Reserves now stand at 23 million ounces of silver and 197,000 ounces of gold.

In the inferred resource category, estimated contained silver increased by 39% to 35 million ounces and gold by 26% to 271,000 ounces. Importantly, the inferred resource includes only that portion of Trinidad North explored during the first six months of drilling. Nevertheless, the higher grades of Trinidad North added significantly to the resource, contributing an estimated 16.3 million ounces of silver (47%) and 101,000 ounces of gold (38%), at a 70 g/t silver equivalent cutoff.

Mineralization in Trinidad North remains wide open and we continue to pursue it to the north, at depth and for 300 meters toward surface above level 1200. The importance of the discovery is twofold. First, it is located adjacent to San Jose's underground workings and plant infrastructure, making the resource low risk in terms of capital cost, permitting and time to production.

Second, it highlights the tremendous long-term exploration potential of our contiguous 64,400 hectare mineral concession package at San Jose. All of our reserves and resources at San Jose lie within two sub-parallel vein systems, Bonanza and Trinidad Veins. Based on evidence of additional veins and gold anomalies throughout our land package, we have excellent opportunities for more high-grade silver-gold discoveries.

In 2014, we will continue to explore Trinidad North starting with a 16,000-meter step-out drilling program. We expect to update the resource estimate in the second half of the year.

The pace of discovery at Trinidad North and the growing resource and reserve base at San Jose suggest the potential for still higher production.

Sustaining organic growth

Our consolidated mine production for 2013 was 4.6 million ounces of silver and 21,242 ounces of gold, 3% above guidance for silver and 10% below for gold. Silver accounted for 65% of sales and gold for 14%.

Guidance for 2014 is for silver production to rise by 30% to 6 million ounces and gold by 52% to 32,300 ounces. The increases are due to our recent mill expansion at San Jose. Completed on time and on budget in September 2013, we increased throughput capacity by 57%, from 1,150 to 1,800 tonnes per day (tpd), just two years after starting commercial operations at 1,000 tpd.

During the 2013 expansion project, we identified and captured opportunities for additional capacity that led to a further mill expansion to 2,000 tpd, which we completed in early April 2014.

The pace of discovery at Trinidad North and the growing resource and reserve base at San Jose suggest the potential for still higher production. In 2014, we will therefore assess the technical and financial viability of an expansion to 3,000 tpd.

At the Caylloma Mine, production in 2014 is scheduled to remain steady at 2 million ounces of silver, plus 10,000 tonnes of zinc and 7,500 tonnes of lead. In 2013, we recorded a year-over-year silver reserve reduction of 24% to 14 million ounces, after depletion. The main drivers were lower silver prices and a 9% increase in the breakeven cutoff cost to $87 per tonne. The silver grade in reserves

Our goal is to collaboratively improve the quality of life in ways that are both good for business and for human development in the countries where we operate.

increased marginally to 137 g/t, the lead grade increased by 11% to 1.7% and the zinc grade by 16% to 2.5%. Contained silver in the inferred resource category decreased to 24 million ounces.

Maintaining low-cost operations

In mid-2013, in the face of lower metal prices, we implemented cost reduction measures, restricted capital expenditures and focused exploration programs on higher reward targets. These measures enabled us to achieve revised 2013 guidance for consolidated all-in sustaining cash cost of $20.45 per ounce of silver, net of by-products. Our annual capital expenditures declined by 9.4% from initial guidance of $66.9 million to $60.6 million, which included $10 million to purchase the Taviche Oeste concession covering the Trinidad North discovery.

Our 2014 consolidated all-in sustaining cash cost is forecast to be $17.14 per ounce of silver, net of by-products. This figure includes $40 million in sustaining capital spending. Our lowest cost operation will be San Jose at $14.43 per ounce, compared with Caylloma at $17.01 per ounce.

Realizing our vision

Fortuna continues to establish itself as a positive force and strategic partner in neighboring communities in Peru and Mexico. During 2013, we invested approximately $3 million to execute joint social programs with an emphasis on education, health and nutrition and sustainable development. Our goal is to collaboratively improve the quality of life in ways that are both good for business and for human development in the countries where we operate.

Fortuna is a successful company today only because of the commitment and dedication of its more than 700 employees and 1,000 contractors working together in Peru, Mexico and Canada. It has been my privilege to contribute to the growth of our organization since it was formed in 2004.

I express my gratitude to our entire team. Because of your efforts, we have grown and evolved to become a multinational enterprise that is equipped to thrive in a challenging operating environment.

All of us at Fortuna are deeply proud of the role we play in producing metals that are essential to society. Silver, gold, lead and zinc are all important to the advancement of humankind. We also take great pride in using best practices in all aspects of our business to create shared value for our stakeholders.

In closing, I thank our shareholders for the confidence you place in our company. I look forward to reporting our continued growth and success.

Jorge A. Ganoza
President and Chief Executive Officer

CHAIRMAN'S LETTER

To our shareholders and employees,

Like all mining companies, our business is not isolated from external forces. In 2013, lower metal prices created a difficult operating environment that caused our revenues and earnings to decline. However, these results masked remarkable growth and achievements by our management team and employees during the year. I am pleased and proud to say that we outperformed our peers in virtually all aspects of our operations.

Simon Ridgway – Chairman of the Board

Delivering on our promises

The management team delivered record annual silver and gold production and aggressively reduced operating and capital costs, while expanding production and capacity at San Jose. The team also enjoyed tremendous success exploring the highly promising Trinidad North discovery.

We continue to optimize and expand our operations to ensure that we remain one of the lowest-cost silver producers in the industry. Even though we are still at the early stages of developing Trinidad North, this robust mineralized system is proving to be a great discovery. We have yet to fully attack the potential of our 64,400 hectare property at San Jose, which holds significant potential to generate long-term organic growth for our company.

I am confident that we have the resources and the team to continue to create long term value for our stakeholders.

Creating sustainable value

Fortuna's continued growth demands that we deliver on our promises to local communities. To maintain our social license to operate, we must go beyond traditional philanthropic activities. More than ever, we must demonstrate our commitment to providing employment, to fostering economic development and to environmental stewardship.

Our aim is to form alliances with community stakeholders to develop and implement sustainable development projects. Proving that we're serious about creating shared value in local communities doesn't happen overnight. Year by year, though, we have built goodwill in communities neighboring our operations by resolving issues collaboratively and demonstrating that Fortuna has the means and the commitment to be a positive force.

In 2013, we continued to actively engage with local communities in Peru and Mexico. You can read more about these programs in the Sustainability chapter of this report and on our website.

Implementing our growth strategy

The sustainability of our business is central to everything that we do. Our near-term strategy is to focus on organic growth opportunities to create value for our workers, for local communities near our operations and for society at large. We must, however, also follow a longer term, integrated approach that combines organic growth of our operations with attractive acquisitions in Latin America.

In only a few years, we have made significant progress towards building Fortuna into a leading silver miner. I am confident that we have the resources and the team to continue to create long term value for our stakeholders.

I congratulate Fortuna's management, employees and contractors for continuing to implement our growth strategy effectively during a challenging year. I also thank my fellow shareholders for their trust and support.

Simon Ridgway
Chairman of the Board

BOARD OF DIRECTORS

Simon Ridgway

Chairman of the Board

Simon Ridgway is a co-founder of Fortuna Silver Mines Inc., a prospector, a mining financier and a Casey Research Explorer's League inductee. Grass roots exploration is his first love and he has had a successful career as an explorationist since starting out as a prospector in the Yukon Territory in the late 70s. Simon and the exploration teams under his guidance have discovered gold deposits in Honduras, Guatemala and Nicaragua. On the financial side, companies operating under the Gold Group banner have raised over CAD$350 million for exploration and development projects since 2003. Simon is the Chairman of Fortuna Silver Mines Inc., CEO of Focus Ventures Ltd., President and CEO of Radius Gold Inc.

Jorge A. Ganoza

Jorge A. Ganoza is a geological engineer with over 18 years of experience in mineral exploration, mining and business development throughout Latin America. He is a graduate from the New Mexico Institute of Mining and Technology. Jorge is a fourth generation miner from a Peruvian family that has owned and operated underground gold, silver and polymetallic mines in Peru and Panama. Before co-founding Fortuna back in 2004 he was involved in business development at senior levels for several private and public Canadian junior mining companies working in Central and South America. Jorge also serves as Chairman of the Board of Atico Mining Corporation.

Robert R. Gilmore

Robert Gilmore is a graduate of the University of Denver with a bachelor of science degree in Business Administration, Accounting. Robert is a Certified Public Accountant and a Member of the Colorado Society of Certified Public Accountants and the American Institute of CPAs. Robert has more than 30 years of experience working with resource companies and currently serves as Chairman of the Board for Eldorado Gold Corp., a TSX and NYSE listed Canadian gold mining company, and as a Director of Layne Christensen Company, a NASDAQ listed US company with nearly US$1 billion in revenues.

Tomas Guerrero

Tomas Guerrero is a geological engineer with over 30 years of mine geology and mineral exploration experience in Peru, Mexico, Bolivia, Venezuela, Chile, Argentina and Ecuador. Until 2001, Tomas held a ten year tenure as Director of Explorations for the Hochschild Group, a leading private Peruvian mining company with multiple mine operations. Under his leadership Hochschild discovered and put in production three mid-size gold-silver mines. He is currently the principle of BO Consulting, an engineering consulting firm specializing in servicing the mining sector. Tomas is a Member of the SME (Society Mining Engineers – USA) and Fellow Member of the SEG (Society Economic Geologist – USA).

On April 28, 2014, Tomas Guerrero retired from the Board of Directors

Michael Iverson

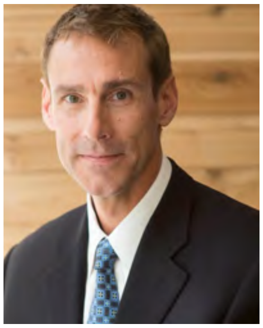
An entrepreneur for the past 30 years, Michael is the President and CEO of several publicly-listed TSX companies, including Niogold Mining Corporation, Volcanic Metals, and past President and CEO of Fortuna Silver Mines Inc. Michael brings a wealth of experience in public and private equity markets and important management disciplines in strategic planning, sales and marketing. He has also been responsible for other private interests for many years, including 30 years as head of Triple K Ventures, a private merchant capital investment company.

Thomas Kelly

Thomas Kelly has bachelor and masters degrees in mining engineering from the Colorado School of Mines, is a Fellow of the Australasian Institute of Mining and Metallurgy and a registered member of the Society for Mining, Metallurgy & Exploration. Tom has over 35 years of worldwide experience with mineral industry leaders such as Freeport-McMoRan Copper & Gold, AMEC Americas and Inca Pacific Resources. He is a recognized expert in project management and development and is fluent in Spanish. Tom is currently COO of Atico Mining Corporation.

Mario Szotlender

Mario Szotlender holds a degree in international relations and is fluent in several languages. He has successfully directed Latin American affairs for numerous private and public companies over the past 20 years, specializing in developing new business opportunities and establishing relations within the investment community. He has been involved in various mineral exploration and development joint ventures (precious metals and diamonds) in Central and South America, including heading several mineral operations in Venezuela, such as Las Cristinas in the 1980s. He was President of Mena Resources Inc. until it was purchased by Rusoro Mining Ltd., of which he was also President. In addition to being a Director and co-founder of Fortuna Silver Mines, Mario is also a Director of Radius Gold Inc. and Endeavour Silver Corp.



David Farrell

David Farrell is President of Davisa Consulting, a private consulting firm working with global mining companies. Prior to founding Davisa in 2011, David was Managing Director, Mergers & Acquisitions at Endeavour Financial where he successfully closed over US$25 billion worth of M&A transactions for junior and mid-tier natural resource companies. Before his 12 years at Endeavour Financial, David 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 is called to the bar in both British Columbia and England. David also serves as a director of Northern Vertex Mining Corp. and is a board and finance committee member of Yaletown House, a non-profit, critical-care seniors' residence in downtown Vancouver.

SENIOR MANAGEMENT

Jorge A. Ganoza,

Geological Engineer

President, CEO and Director

Jorge A. Ganoza is a geological engineer with over 18 years of experience in mineral exploration, mining and business development throughout Latin America. He is a graduate from the New Mexico Institute of Mining and Technology. Jorge is a fourth generation miner from a Peruvian family that has owned and operated underground gold, silver and polymetallic mines in Peru and Panama. Before co-founding Fortuna in 2004 he was involved in business development at senior levels for several private and public Canadian junior mining companies working in Central and South America. Jorge also serves as Chairman of the Board of Atico Mining Corporation.

We have grown and evolved to become a multinational enterprise that is equipped to thrive in a challenging operating environment.

Luis D. Ganoza,

B. Sc. Engineering, MBA, M. Sc.

Chief Financial Officer

Luis D. Ganoza has 12 years of experience in the operation and financial management of mining companies. He has held the position of CFO at Fortuna since 2006 and previously held the positions of Controller and Treasurer for one of Peru's largest public mining companies. Luis has a B.Sc. in mining engineering from the Universidad Nacional de Ingenieria in Peru, and an M.Sc. in accounting and finance from The London School of Economics. Luis also serves as a Director of Atico Mining Corporation.

Dr. Thomas I. Vehrs, Ph.D.

Vice President of Exploration

Over the past 40 years, Dr. Thomas I. Vehrs has built a successful career in mineral exploration and mine development. During this time, he has consulted for and/or held senior positions with Gold Fields, Cyprus-Amax, Western States Minerals and Anaconda Minerals, as well as being a founder, President and COO of Aquest Minerals Corp. Since 1980, Tom has worked extensively in Latin America, developing and managing exploration programs in Chile, Peru, Bolivia, Colombia, Argentina, Mexico and Central America with emphasis on epithermal and porphyry-related mineralized systems. Dr. Vehrs is a Founding Registered Member of The Society for Mining, Metallurgy, and Exploration, Inc. (SME Member Number 3323430RM), a Fellow of the Society of Economic Geologists and a Member of The Geological Society of America. Tom has been Vice President of Exploration since 2006. He also serves as an independent director for AQM Copper Inc.

Manuel Ruiz-Conejo, B. Sc. Engineering

Vice President of Operations

Manuel Ruiz-Conejo is a mining engineer graduated from the Universidad Nacional de Ingenieria in Lima, Peru. He has more than 25 years in the mining industry and has worked for the most prolific polymetallic mines and mine contractors in Peru. As an engineer, he participated in the implementation and execution of critical projects. As an executive, he devised and supervised the execution of several multimillion dollar mining projects. In 2005, he became Chief Operating Manager of Minera Atacocha S.A.A. Manuel also holds an Executive Management Program from the Universidad de Piura in Peru. Amongst his different areas of expertise, he has vast experience in community relations.

Robert Brown, B. Sc. (Honors Geology), MBA

Vice President of Corporate Development

Robert Brown has 20 years of international experience in exploration, project development, finance and corporate development. Throughout his career he has identified exploration and development opportunities through the detailed analysis of economic, geologic and corporate criteria. Prior to joining Fortuna, Robert was President and CEO of Calibre Mining Corp. where he was responsible for the acquisition, exploration and development of the company's projects in Australia, North America and Central America. He also spent nine years with Barrick Gold in various senior management roles in exploration and business development and was involved with numerous exploration, valuation, and merger and acquisition transactions. Robert is a graduate of the University of Alberta with a Bachelor of Science degree in Geology (Honors), and an MBA from the Rotman School of Management at the University of Toronto.

Brownsfields exploration at San Jose Mine

Coreshack at San Jose Mine

Ore transport at Caylloma Mine

OUR GROWTH STRATEGY

Peru and Mexico have maintained their standing as mining-friendly jurisdictions in the Americas.

Animas Vein, Caylloma Mine

We believe that operating low-cost, long-life mines is the best strategy for delivering sustainable value.

In light of recent lower metal prices, we have reduced costs and increased operating efficiency to ease pressure on financial margins. We also have maintained an intense focus on capital stewardship, investing wisely in opportunities that generate immediate growth—such as the recent expansions of our San Jose Mine.

Looking ahead, we expect the large, highly prospective land packages surrounding our mines to keep generating steady organic growth in our silver and gold production profile. We will, at the same time, continue to evaluate new sources of long-term growth through selective accretive acquisitions in the region.

Objectives for 2014

Maximize production, profitability and cash flow

- Assess the economics of expanding the San Jose Mine from 2,000 to 3,000 tpd
- Maintain balance sheet strength by generating sustainable free cash flow

Invest in high return organic growth

- Continue step-out and delineation drilling of the Trinidad North discovery at the San Jose Mine
- Generate and evaluate new high-grade silver-gold targets at San Jose and Caylloma

Maintain flexibility for M&A

- Focus on high-grade, high-margin precious metals opportunities
- Seek attractive acquisitions in mining friendly jurisdictions in the Americas

Caylloma Mine

2014 Guidance

Production Guidance

For 2014, we forecast a 30% increase in silver production to 6 million ounces and a 52% increase in gold production to 32,300 ounces or 8 million silver equivalent* ounces.

Mine	Silver (Moz)	Gold (koz)	Zinc (Mlb)	Lead (Mlb)
San Jose, Mexico	4.0	30.4	–	–
Caylloma, Peru	2.0	1.9	22.6	16.6
Total	**6.0**	**32.3**	**22.6**	**16.6**

Cash Cost Guidance

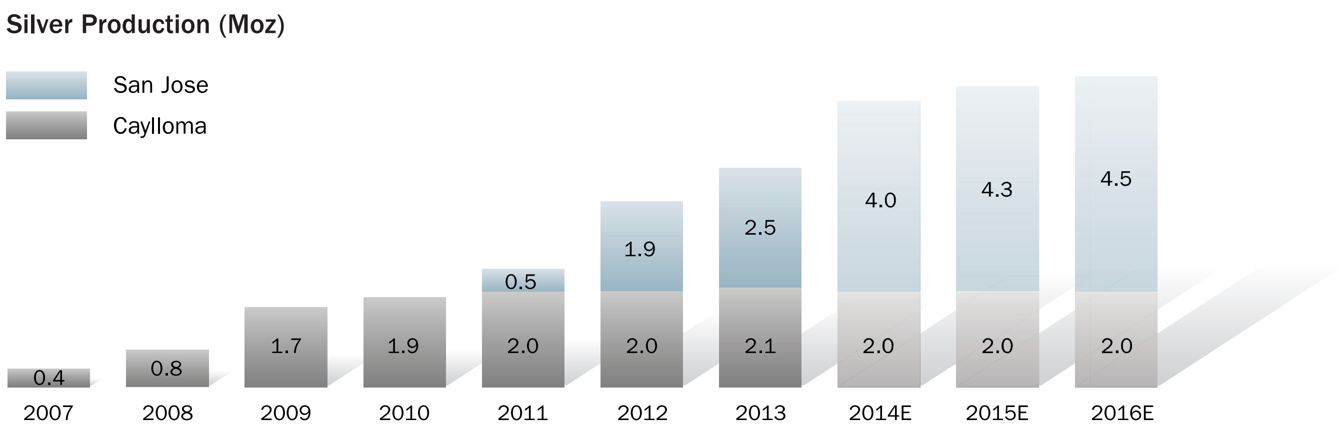
Mine	Cash Cost Per tonne**	Cash Cost All-in sustaining***
San Jose	$67.10	$14.43
Caylloma	88.30	17.01
Consolidated		**$17.14**

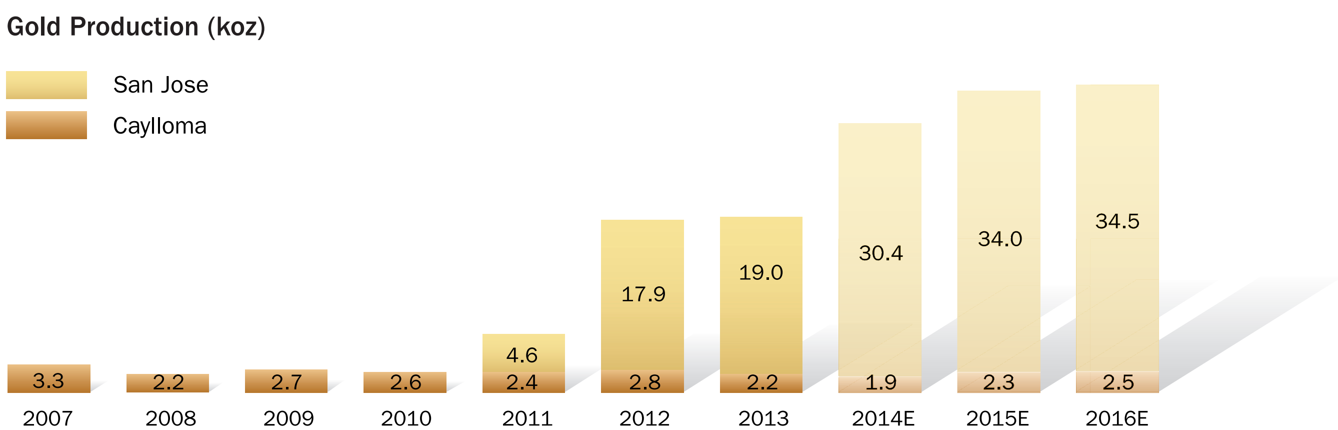
** Silver equivalent (Ag Eq) net of by-products lead and zinc and calculated using Au = $1,200/oz and Ag = $20/oz*

*** Cash cost per tonne includes all on-site direct and indirect production costs, community relations expenses, concentrate transportation and corporate management fees. It excludes government royalties and workers participation*

**** All-in sustaining cash cost per ounce of silver is based on the guidelines of the World Gold Council and is net of by-products gold, lead and zinc*

2014 - 2016 Silver and Gold Production Forecast





HISTORICAL MILESTONES

Delivering steady growth and creating value since 2005

2005
- Acquired 100 % interest in the Caylloma Mine, Peru
- Shares begin trading on the Toronto Venture Exchange
- Fortuna is established in British Columbia, Canada

2006
- Caylloma Mine resumes production at 500 tpd
- Acquired 76% interest in the San Jose Project, Mexico

2007
- Silver production of 400,000 ounces
- Successful drilling at the San Jose Project significantly increased Ag Eq resources

2008
- Silver production of 800,000 ounces, up 100% over 2007
- Shares begin trading on the Bolsa de Valores de Lima, Peru

2009
- Silver production of 1.7 million ounces, up 109% over 2008
- Environmental Impact Study approved and construction permits received for San Jose Mine
- Acquired 100% interest in the San Jose Project

2010
- Silver production of 1.9 million ounces, up 13% over 2009
- San Jose Mine construction commences
- Shares upgraded to Toronto Stock Exchange from Toronto Venture Exchange

2011
- Silver production of 2.5 million ounces, up 31% over 2010
- Gold production of 6,917 ounces, up 170% over 2010
- San Jose Mine achieves commercial production at 1,000 tpd
- Common shares begin trading in the New York Stock Exchange

2012
- Silver production of 3.9 million ounces, up 60% over 2011
- Gold production of 20,699 ounces, up 199% over 2011
- San Jose Mine expansion to 1,500 tpd commences

2013
- Record silver production of 4.6 million ounces, up 16% over 2012
- Record gold production of 21,242 ounces; up 3% over 2012
- High-grade silver-gold Trinidad North discovery at the San Jose Mine
- San Jose Mine expanded from 1,150 to 1,800 tpd

2014
(as of April 30)
- San Jose Mine expanded from 1,800 to 2,000 tpd

OUR VISION, MISSION & VALUES

Our Vision

To be valued by our workers, the community and our shareholders as a leading silver mining company in Latin America.

Our Mission

To create value through the growth of silver reserves, metal production and the efficient operation of our assets with a commitment to safety, social and environmental responsibility.

Our Values

We value the health and safety of our workers
We do not tolerate unsafe acts or conditions

We value the environment
We subscribe to the highest environmental standards

We value our neighbors and other stakeholders
We respect cultural diversity and work as a strategic partner towards the sustainable development of neighboring communities

We value the commitment to excellence
We achieve high standards and best practices

We value integrity
We act according to our philosophy

Building stronger and more competitive communities

Wherever we operate, our aim is to collaborate and form strategic partnerships with neighboring communities to enhance their capabilities and improve their quality of life. Our community relations programs recognize the unique culture, traditions and needs of local communities.

We implement programs through partnerships, fellowships, sponsorships and donations to improve local healthcare, education and economies. We also work with our host communities to help protect wildlife and conserve water for agricultural purposes.

By actively engaging with local stakeholders, we seek opportunities to establish and participate collaboratively in sustainable community development projects.

Caylloma Mine, Peru

Fellowships enable students to pursue professional careers

In 2012, we established a five-year fellowship program, in cooperation with the District Municipality of Caylloma and government educational institutions, to help students pay for food, housing and local transportation. Each year starting in 2013, up to 10 fellowships are available for pupils in the city of Arequipa who are pursuing university or technical degree programs. The program aims to train 60 professionals by 2017.

"My desire is to carry out innovation projects in the livestock arena, working together with the communities of the District of Caylloma. I look forward to being a veterinary technician who works hand in hand with the population and the communities."

Yesenia Choquehuanca, fellowship holder pursuing a career in agriculture and livestock production

Education center funding imparts technical skills

We approved funding for the Productive and Technical Education Center of Caylloma in 2013. Scheduled to open in 2014, the center will be the first higher education facility in the District of Caylloma.

We will finance the center's operations for 2014 and 2015 under an agreement with the Regional Education Management of Arequipa, the non-profit fundraising organization Virgen del Chapi Association and the Municipality of Caylloma.

Our objective is to promote the development of technical skills and training to adolescents who have finished high school. In the first year of operation, we expect about 30 students to enroll in programs for industrial leather garment-making and steel building fabrication. In future years, the center will offer training in fish farming, civil works, electrical maintenance and heavy machinery maintenance.

Trout farming boosts local economies

To meet growing demand for freshwater fish in Arequipa, we worked alongside residents of the District of Caylloma and local government to build a commercial trout farm in the Carhualaca lagoon. Started in 2012, we have contributed two-thirds of the start-up costs and assisted with technical aspects of the construction and training for large-scale production.

To help gain market access, Fortuna approached the Peruvian government agency responsible for developing sustainable economic activities in the Andes. On the strength of a five-year plan to produce up to 50 tonnes annually of high-quality trout, the agency agreed to provide the necessary training and technical assistance. The agency also secured a distribution agreement with two supermarket chains that serve regional markets.

About 40,000 fingerlings were stocked in 13 floating cages in the initial production module in September 2012. In June 2013, the cooperative formed to manage the trout farm harvested 2,000 kilos of Rainbow trout. By 2015, the cooperative plans to sustainably produce 50 tonnes per year, using staggered production to achieve a constant supply of fresh fish (to learn more, please see the case study on our website).

Multipurpose coliseum benefits entire community

In 2010, we entered into a seven-year agreement with the Municipality of Caylloma to support local infrastructure development. Our commitment was to fund the construction of a multipurpose coliseum on 5,000 square meters of land provided by the municipality.

In 2013, the coliseum became a reality as a result of consensus-based agreements among the population of Caylloma, its authorities and Fortuna. Importantly, dozens of direct and indirect jobs were generated during construction.

This major infrastructure project benefits the entire population, but particularly children and young people. The coliseum provides an appropriate space to practice sports and hold cultural and recreational events, as well as a shelter from the rough weather conditions common to the Peruvian Andes.

San Jose Mine, Mexico

New roof creates all-weather multipurpose public space

In coordination with the residents of Cuajilote, a village within the municipality of San Jose del Progreso, Fortuna refurbished the local basketball court in late 2010 so it could be used to practice different sports. In 2013, under a collaboration agreement between Fortuna and the municipality, the court was roofed to create an all-weather, multipurpose facility.

Today, local residents have a public space where they can practice sports and hold cultural and civic events, health workshops and community meetings, among other activities.

"Children will not be exposed to the sun during outdoor activities anymore, and will be able to enjoy recreational activities for longer. When community meetings are held, it will not be necessary to rent canvas marquees or modules. It's an important community space."

Victor Arango, Municipal Agent

Mushroom crops benefit local farmers

In the Ocotlan Valley, the local diet is based on maize, beans, chili and pumpkin. These crops have been grown for generations, but farming has become increasingly difficult due to poor water recovery and the loss of nutrients in the soil. Moreover, the work is hard and, in general, expenses are not fully recovered through the sale of harvested produce.

To offer a dietary and a harvest alternative to the community, Fortuna worked alongside local farmers to introduce oyster mushroom crops. Oyster mushroom cultivation offers a viable solution for local farmers, as the crops require smaller plots, less water and the raw materials are more affordable.

"I was not aware that this type of product could be grown in our region, but with the support of Fortuna, we are learning how to handle this crop."

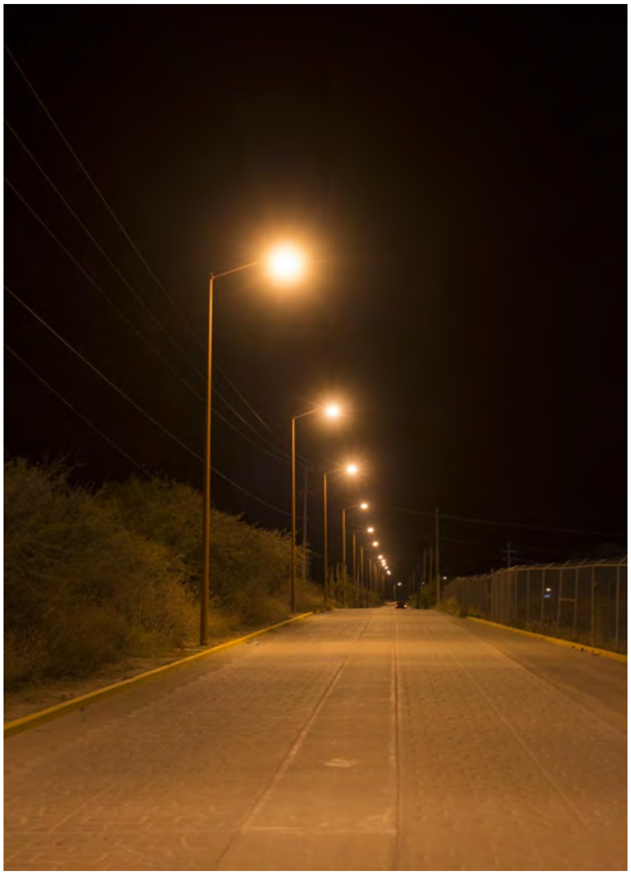
Gerardo Santiago, oyster mushroom producer
from the Porvenir Municipal Agency

Lighting project increases public safety

The road connecting the federal highway to the town of San Jose del Progreso is approximately three kilometers in length. Before road lighting was installed, many of the 2,800 residents of the town were concerned for their safety because of poor visibility.

Working in partnership with municipal authorities, we funded a street lighting project in 2013. The road is now safer for the students, workers and others using the road during the night and early morning hours.

"Our village not only looks better, now it is also safer," said a child while exercising at the sports facility, looking at the newly lit entrance with joy.



Emotional care for those in need

Finding emotional-care services in San Jose del Progreso is very difficult, if not impossible. The community is small and located in Oaxaca, one of the most economically marginal states in Mexico. Government-funded care programs are either non-existent or inadequate.

As the largest employer in the area, we recognize that we have a responsibility beyond providing employment and contributing to the local economy. We also have an obligation to contribute to the well-being of local residents, especially children and single parents.

With the aim of improving the quality of life and unity within the community, we established an emotional-care program in 2009. The service is free and provides ready access to healthcare counsellors and other professionals.

The services have enabled women to address intra-family violence and self-destructive behavior, as well as manage family and working relationships. Relationships with children have also improved, which helps to prevent addictions, school dropout, unwanted pregnancy or early marriage. We have also seen improved school grades among children and adolescents with a history of low performance.

> *"Therapy allowed me to be stronger, stand by my decisions and do whatever it takes to achieve happiness. Through this program I was able to let it all out. The therapies convinced me that I must not be afraid of anything or anyone. I feel better and more self-assured. This is working, because my life is changing and I will become a better person, which is what my family and I want."*
>
> Manuel, a 16-year-old resident of San José del Progreso

Dining facility receives national food-service award

The cafeteria at our San Jose Mine is one of several benefits we provide to employees. It is staffed by eleven women from San Jose del Progreso and other neighboring communities.

For many of these women, food service was a new career that required learning specialized skills for sourcing supplies, preparing food, cleaning and disinfecting equipment, as well as related clerical duties. Adapting and changing old work habits was another challenge many had never faced before.

In 2013, the cafeteria staff started a comprehensive program to improve their skills and knowledge. The goal was to achieve 90% compliance with a wide range of food service standards established by the Ministry of Tourism. After completing the program, the staff achieved 100% compliance, earning the ministry's Distintivo H award for providing high-quality services and observing strict hygiene practices in food handling.

The achievement was of great significance for our cafeteria staff, as it encourages them to excel in their work by improving personally and professionally. The community also benefited as local suppliers improved the quality of their goods and services to meet new, stricter food-handling standards at our mine.

MINERAL RESERVES & RESOURCES

Mineral Reserves – Proven and Probable

Property	Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal Ag (Moz)	Contained Metal Au (koz)
Caylloma Mine, Peru								
Silver Veins	Proven	12	772	0.06	0.36	0.56	0.3	0.0
	Probable	199	495	1.26	0.34	0.55	3.2	8.1
	Proven + Probable	211	511	1.20	0.34	0.55	3.5	8.1
Polymetallic Veins	Proven	754	111	0.38	1.75	2.54	2.7	9.3
	Probable	2,118	108	0.32	1.81	2.67	7.4	22.0
	Proven + Probable	2,872	109	0.34	1.79	2.64	10.1	31.3
Combined-All Veins	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 Mine, 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

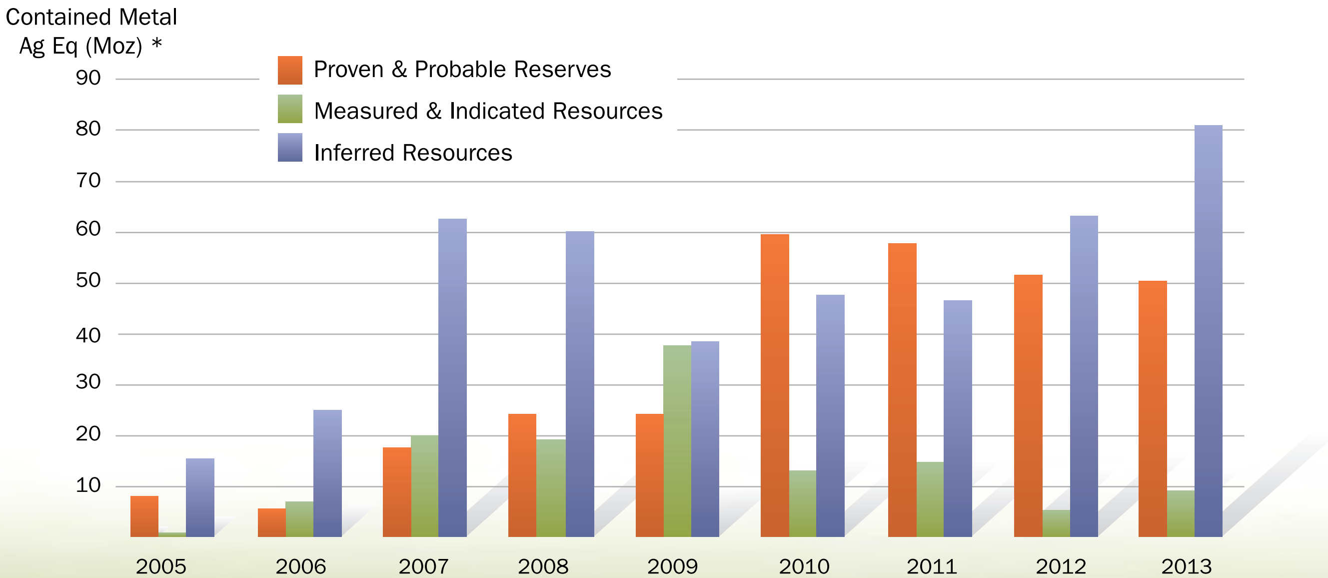
Property	Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal Ag (Moz)	Contained Metal Au (koz)
Caylloma Mine, Peru	Measured	821	83	0.31	1.37	2.37	2.2	8.2
	Indicated	1,168	72	0.30	0.88	1.86	2.7	11.2
	Measured + Indicated	1,989	76	0.30	1.08	2.07	4.9	19.4
San Jose Mine, Mexico	Measured	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

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

1. *Mineral Reserves and Mineral Resources are as defined by CIM Definition Standards on Mineral Resources and Mineral Reserves*
2. *Mineral Resources are exclusive of Mineral Reserves*
3. *Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability*
4. *There are no known legal, political, environmental, or other risks that could materially affect 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 procedures*
9. *N/A = Not Applicable*

Historical Reserve and Resource Base



* *Ag Eq for Resources and Reserves calculated using Au = US$1,200/oz and Ag = US$20/oz*

Coreshack at San Jose Mine

CAYLLOMA MINE

Commodities
Silver, gold, lead and zinc

Ownership
100%

Land package
33,500 hectares

Operation
1,300 tpd underground mine

Reserve life
8 years

Location
Arequipa, Peru
(Latitude: 15° 12’ 15” S,
Longitude: 71° 51’ 40” W)

Deposit type
Intermediate-sulphidation epithermal deposit

2013 UNIT COSTS

Cash cost per ounce of silver*
$7.65

Cash cost per tonne
$91.22

Unit net smelter return per tonne
$161.19

All-in sustaining cash cost per ounce of silver*
$20.83

** Net of by-product credits*

2013 operating and financial results

Caylloma exceeded production guidance by 6% in 2013, producing 2.1 million ounces of silver, a 3% increase over 2012. Improvements to the processing plant completed in late 2012 resulted in silver recoveries rising to 82% in 2013 from 77% in the previous year. The higher recoveries offset a small decrease in ore production (1%) and in silver head grades (2%).

Zinc production increased by 13% due to higher head grades and was in line with plan. Lead production was stable, declining only 1% compared with 2012, although 8% below plan.

Caylloma has met or exceeded production forecasts every year since 2007, when the mine and mill were upgraded.

Cash cost per ounce of silver, net of by-product credits, was $7.65, a 5% decrease from 2012. Cash cost per tonne was $91.22. This was 5% lower than guidance because of cost-reduction measures implemented at the beginning of the third quarter, but 5% higher than 2012. The all-in sustaining cash cost per ounce of silver, net of by-products, was $20.83, in line with 2013 guidance, and 13% lower than 2012.

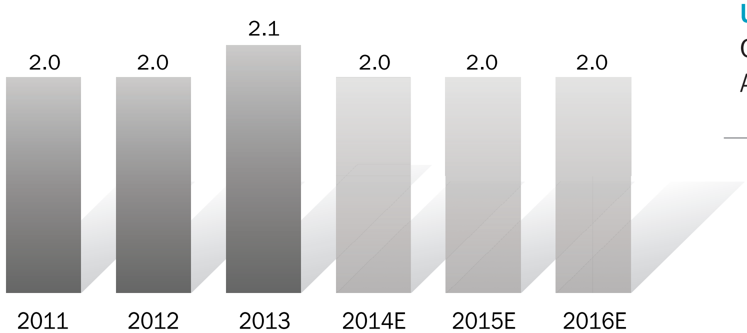
Outlook for 2014

We have budgeted $10.7 million in capital expenditures, primarily for mine development, maintenance and energy projects, and brownfields exploration.

Brownfields exploration drilling will focus on testing high-grade silver mineralization targets within the Don Luis I and Cailloma 6 vein systems.

Silver Production

Moz



2014 Production and Cost Guidance

Tonnes milled	464,100
Metal production	
Silver (Moz)	2.0
Gold (koz)	1.9
Zinc (Mlbs)	22.6
Lead (Mlbs)	16.6
Head grade	
Silver (g/t)	167
Gold (g/t)	0.29
Lead (%)	1.76
Zinc (%)	2.51
Unit costs	
Cash cost/t	$88.30
All-in sustaining cash cost/oz Ag, net of by-product credits	$17.01

Jumbo drilling at Level 12 at Animas Vein

Operations team

New mine camp

Caylloma has met or exceeded production forecasts every year since 2007, when the mine and mill were upgraded.

1,300 tpd processing plant

SAN JOSE MINE

Commodities
Silver, gold

Ownership
100%

Land package
64,400 hectares

Operation
2,000 tpd underground mine

Reserve life
5.2 years

Location
Taviche Mining District, Oaxaca, Mexico
(Latitude: 16° 41' 40" N, Longitude: 96° 42' 00" W)

Deposit type
High-grade, low-sulphidation, epithermal vein deposit

2013 UNIT COSTS

Cash cost per ounce of silver*
$6.53

Cash cost per tonne
$71.41

Unit net smelter return per tonne
$160.76

All-in sustaining cash cost per ounce of silver*
$15.89

** Net of by-product credits*

2013 operating and financial results

Silver production in 2013 increased by 30% to 2.5 million ounces and gold production by 6% to 19,031 ounces, compared with 2012. Annual silver production was 3% above guidance, however, gold production was 8% below guidance because of variations in the head grade from the mine's resource model.

An expansion of the processing plant to 1,800 tpd was completed and commissioned in September 2013 on time and on budget. This additional capacity, higher throughput during the year of 24% and a 3% higher silver head grade all contributed to the increase in silver production in 2013.

Cash cost per ounce of silver, net of by-products, was $6.53, compared with $3.76 in 2012; difference is mainly due to lower gold credits. Cash cost per tonne of processed ore for 2013 was $71.41, in line with annual guidance, and 4% lower than 2012. The all-in sustaining cash cost per ounce of silver, net of by-products, was $15.89, in line with 2013 guidance, and 1.6% higher than 2012.

Metallurgical recoveries continued to improve during 2013, rising to 89% for both gold and silver.

Trinidad North Discovery

- Robust high-grade silver-gold mineralization, open in three directions with potential for further extension
- Average grade and widths greater than San Jose Mine reserves and resources
- Estimated true widths up to 18.8 meters, with silver equivalent values ranging to 4.4 kg/t
- Initial contribution to production blend expected by first quarter of 2015

In early 2013, our brownfields exploration drilling extended the Trinidad ore shoot to the north and to depth. The grades and widths indicated a strong mineralized system that was open in both directions. Mineralization is present in two sub-parallel vein systems (Bonanza and Trinidad Veins) and locally in the form of stockwork zones between the two structures.

Drilling continued to July 2013, with results incorporated in an updated reserve and resource estimate for San Jose in October 2013. Inferred Resources totaled 1.9 million tonnes averaging 269 g/t silver and 1.67 g/t gold, at a 70 g/t silver equivalent cutoff. The contained metal is estimated at 16.3 million ounces of silver and 100,800 ounces of gold.

In September 2013, we started a step-out drilling program to test extensions of the Trinidad North zone. Eight drill holes were completed from underground drilling stations at the 1300 meter level by December 2013. These holes confirmed the extension of a robust mineralized system over a 200 meter strike extension. The mineralization remains open to the north, at depth and vertically above the 1200 meter level.

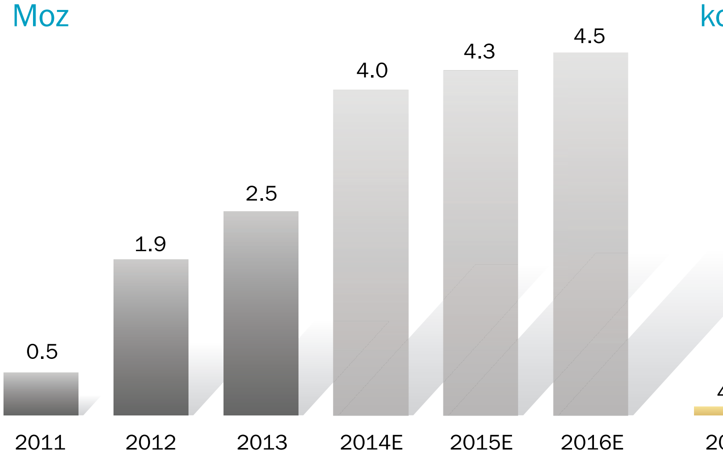
We continue to explore the Trinidad North zone with two drill rigs operating from underground drill stations. By the third quarter of 2014, the crosscut at the 1300 meter level should be advanced to the point to enable exploration of a further 300 meter extension of the Trinidad North zone for a total of 550 meters strike length beyond the current northern limit of the Inferred Resources.

We anticipate incorporating the most recent drilling results into an updated reserve and resource estimate in the second half of 2014.

Additionally, in 2013 we consolidated our land position by acquiring a 100% interest in the Taviche Oeste concession that covers Trinidad North. The concession was purchased for $10 million and is subject to net smelter return royalties totaling 2.5%.

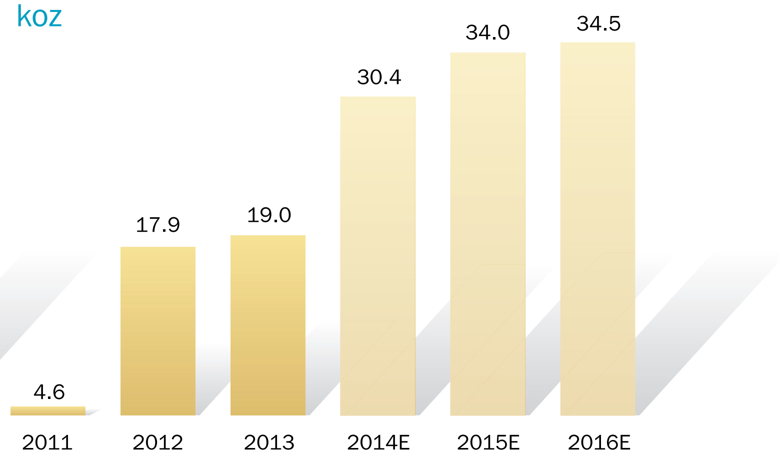
Silver Production

Moz



Gold Production

koz



Outlook for 2014

We have identified and captured unused capacity in major equipment that enabled a further expansion of mine and mill production to 2,000 tpd in April 2014. No additional capital investment was required for this increase in production. Throughout 2014, we will conduct engineering studies to evaluate the economic robustness of expanding production to 3,000 tpd in 2015.

We have budgeted $29.4 million in capital expenditures at San Jose, primarily for tailings dam expansion, mine development, brownfields exploration and a water evaporation control project. Our brownfields exploration will focus on testing for extensions of high-grade silver-gold resources at Trinidad North.

2014 Production and Cost Guidance

Tonnes milled	683,000
Metal production	
Silver (Moz)	4.0
Gold (koz)	30.4
Head grade	
Silver (g/t)	203
Gold (g/t)	1.56
Unit Costs	
Cash cost/t	$67.10
All-in sustaining cash cost/oz Ag, net of by-product credits	$14.43

Trinidad North discovery indicates robust high-grade silver-gold mineralization, open in three directions with potential for further extension of the system.

2,000 tpd processing plant

Gold assay at laboratory

Tailings dam

PROUD TO BE MINERS

The metals that we mine – silver, gold, lead and zinc – are vital commodities in our daily lives. From cell phones to renewable energy and medical equipment, these precious and base metals form the building blocks of our society.

Demand for most metals continues to climb as the world's population rises and standards of living improve in developing countries. We are proud to contribute to this growing global demand by producing metals responsibly and by making a lasting contribution to local communities where we operate.

Silver: The indispensable element

Silver has countless applications, however, 95% of the demand for silver is from three areas: industry, investment and silver jewelry and décor. In recent years, fabrication demand has greatly outpaced mine production forcing market participants to use existing stocks to meet demand. As these available sources continue to decline, silver's fundamental value continues to strengthen.

- **Solar energy.** 90% of all photovoltaic cells rely on silver paste. These cells turn the sun's rays into solar energy, one of our most valuable sources of renewable energy.
- **Medicine.** The medical community has long valued silver for its healing and anti-disease properties. Today, it is added to bandages and wound-dressings, catheters and other medical instruments and is a key part of the technology behind X-rays.
- **Cars.** Over 36 million ounces of silver are used annually in automobiles. Silver-coated electrical contacts help start the engine, open power windows, adjust power seats and close a power trunk.

Source: The Silver Institute

Gold: The iconic metal

Gold has been used for jewelry, decorative and monetary purposes for thousands of years. And it has long been considered a store value. Today, gold is also increasingly important in the development of new technologies.

- **Electronics.** Gold is used in components for mobile phones, computer systems and a variety of high-performance electronic systems. Only silver and copper are better conductors of electricity.
- **Medicine.** Gold is highly resistant to bacteria and can be used for medical implants where there is a high risk of infection, such as in the inner ear.
- **Diagnostics.** Researchers have used gold nanoparticles in laboratory tests to detect disease, which could lead to tests more than three-million times more sensitive than currently available.

Source: World Gold Council

Zinc: Critical for life on earth

Zinc is integral to our daily lives. From transportation and medicine, to energy conservation, pollution control, electronics and space exploration, about 12 million tons of zinc is produced annually to meet this demand. About 75% of the zinc consumed worldwide originates from mined ores and 25% from recycled or secondary zinc.

- **Galvanizing.** More than half is used for galvanizing to protect steel from corrosion.
- **Die-casting.** Approximately 14% goes into the production of zinc-based alloys, mainly to supply the die-casting industry, and 10% to produce brass and bronze.
- **Housing.** Zinc is used for applications such as roofing, gutters and down-pipes.

Source: International Zinc Association

Lead: A store of energy

Lead is mined on all continents except Antarctica and is one of the most important metals to industrialized economies. Global demand for lead has more than doubled since the early 1990s. Today, lead has the highest recycling and reuse rates compared to other major metals.

- **Batteries.** 80% of lead usage is in the production of batteries, of which more than 95% are recycled in developed countries. Lead batteries are allowing significant vehicle CO2 savings through “start-stop” technology and hybrid electric vehicles.
- **Protection.** Lead provides protection from radiation for people working in hospitals, dental surgeries, laboratories and nuclear installations. It is also vital for protecting underwater transmission cables.

Source: International Lead Association

FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

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)

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".

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 impact of the initial recognition 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 ($ millions)	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-producing 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
Brownsfields 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
Brownsfields 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
Brownsfields 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,					
	2013			2012		
Consolidated Metal Production	Caylloma	San Jose	Consolidated	Caylloma	San Jose	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 lb)	3,770	–	3,770	4,936	–	4,936
Zinc (000's lb)	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,					
	2013			2012		
Consolidated Metal Production	Caylloma	San Jose	Consolidated	Caylloma	San Jose	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 lb)	17,780	–	17,780	17,886	–	17,886
Zinc (000's lb)	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	
	2013	2012	2013	2012
Mine Production	San Jose	San Jose	San Jose	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$/tonne)	147.76	198.53	160.76	209.70
ll-in sustaining cash cost (US$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 in 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 lbs)	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 lbs)	6,676	6,135	25,211	22,396
Copper				
Production (000's lbs)	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 Decmber 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	9	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	2,129.00	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:

- $0.02 million cash and $0.02 million cash equivalent in shares upon stock exchange approval;
- $0.03 million cash and $0.03 million cash equivalent in shares by January 15, 2011;
- $0.05 million cash and $0.05 million cash equivalent in shares by January 15, 2012;
- $0.05 million cash and $0.05 million cash equivalent in shares by January 15, 2013; and,
- $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	137,393,279	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 $ millions					
	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							
	Years 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 YEAR	$ (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 $'000's			
		YTD		YTD
	Q4 2013	Q4 2013	Q4 2012	Q4 2012
Cost of sales [1]	26,004	95,619	24,631	90,358
Add / (Subtract)				
Change in concentrate inventory	562	(472)	394	430
Depletion and depreciation in concentrate inventory	(132)	194	(41)	23
Government royalties and mining taxes	(218)	(749)	(399)	(1,491)
Workers participation	(353)	(1,078)	(379)	(1,153)
Depletion and depreciation	(5,327)	(19,114)	(4,879)	(20,477)
Cash cost (A)	20,536	74,400	19,327	67,690
Cash cost (A)	20,536	74,400	19,327	67,690
Add / (Subtract)				
By-product credits	(13,181)	(50,105)	(12,878)	(52,899)
Refining charges	1,809	6,794	2,051	7,790
Cash cost applicable per payable ounce (B)	9,164	31,089	8,500	22,581
Payable ounces of silver production (C)	1,396,295	4,420,241	960,194	3,788,369
Cash cost per ounce of payable silver ($/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 $'000's			
		YTD		YTD
	Q4 2013	Q4 2013	Q4 2012	Q4 2012
Cost of sales [1]	13,080	41,947	10,090	39,126
Add / (Subtract)				
Change in concentrate inventory	462	105	115	(269)
Depletion and depreciation in concentrate inventory	(113)	117	16	146
Workers' participation	(81)	(81)	(41)	(41)
Depletion and depreciation	(3,320)	(9,520)	(2,035)	(11,616)
Cash cost (A)	10,028	32,568	8,145	27,346
Total processed ore (tonnes) (B)	158,218	456,048	98,348	369,022
Cash cost per tonne of processed ore ($/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) (B/C)	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 $'000's			
		YTD		YTD
	Q4 2013	Q4 2013	Q4 2012	Q4 2012
Cost of sales [1]	12,924	53,672	14,541	51,232
Add / (Subtract)				
Change in concentrate inventory	100	(577)	279	699
Depletion and depreciation in concentrate inventory	(19)	77	(57)	(123)
Government royalties and taxes	(218)	(749)	(399)	(1,491)
Workers' participation	(272)	(997)	(338)	(1,112)
Depletion and depreciation	(2,007)	(9,594)	(2,844)	(8,861)
Cash cost (A)	10,508	41,832	11,182	40,344
Total processed ore (tonnes) (B)	116,127	458,560	115,522	462,222
Cash cost per tonne of processed ore ($/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) (B/C)	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			
		YTD		YTD
	Q4 2013	Q4 2013	Q4 2012	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

[1] *presented on a cash basis*

San Jose Mine All-in Cash Cost

	Expressed in $'000's			
		YTD		YTD
	Q4 2013	Q4 2013	Q4 2012	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			
		YTD		YTD
	Q4 2013	Q4 2013	Q4 2012	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 commitements:

	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:

- 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;
- certain vendors of acquired company for obligations that may or may not have been known at the date of the transaction; and,
- 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 the financial condition, results of operations, liquidity, capital expenditures, or capital resources that are material to investors, other than those disclosed in this MD&A and the consolidated financial statements and the related notes.

Related Party Transactions

(expressed in $'000's)

A) PURCHASE OF GOODS AND SERVICES

The Company entered into the following related party transactions:

Transactions with related parties	Expressed in $'000's 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 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

Amounts due from related parties	Expressed in $'000's 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 Radius and Gold Group who has a director in common with the Company. 2012 owing to Radius and 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 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			
	Quoted Prices in Active Markets for Identical Assets	Significant and Other Observable Inputs	Significant Unobservable inputs	
At December 31, 2013	Level 1	Level 2	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 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**	**$ 85,539**	**$ 85,539**
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 the 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
	195,866	$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.

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.

Deloitte LLP

Chartered Accountants
March 17, 2014
Vancouver, Canada

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), 8e)	570	3,887
Impairment of mineral properties, plant and equipment	8f	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

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

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

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

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31,
(Expressed in thousands of US Dollars)

	Notes	Years ended December 31, 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 of 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.

Consolidated Statements of Financial Position

AS AT DECEMBER 31,
(Expressed in thousands of US Dollars)

	Notes	As at December 31, 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 — *"Robert R. Gilmore"*, Director

Jorge Ganoza Durant — Robert R. Gilmore

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

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 Compre-hensive Income ("AOCI")	Total Equity
Balance – December 31, 2012		125,268,751	$ 187,807	$ 12,944	$ 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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(All amounts in US$'000's unless otherwise stated)

1. Corporate Information

Fortuna Silver Mines Inc. ("Fortuna" or the "Company") is engaged in silver mining and related activities in Latin America, including exploration, extraction, and processing. The Company operates the Caylloma silver/lead/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:

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 arrangement 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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).

o) 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.

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.

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.

v) 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 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.

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

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.

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.

	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.

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

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).

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

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

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.

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

9. 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
Year ended December 31, 2013									
Opening carrying amount	$ 960	$ 124,173	$ 19,047	$ 35,796	$ 3,984	$ 186	$ 2,468	$ 20,889	$ 207,503
Additions	887	31,430	(242)	1,236	1,192	102	–	25,858	60,463
Disposals	–	–	(20)	(2)	(53)	–	–	(50)	(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.

	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
Year 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)).

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

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

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 Concessions

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.

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.

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

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.

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	2,129.00	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.

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

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:

	Years ended December 31,	
Transaction 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 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, 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.

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

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]	$ –	$ —

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

[4] *2013 owing to Gold Group who has a director in common with the Company. 2012 owing to Radius and 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 31, 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

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, and 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

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

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 other liabilities and charges is presented below:

	Decommissioning and Restoration Liabilities		
	Caylloma Mine	San Jose Mine	Total
As 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.

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

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.

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

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

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 differences	$ 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:

	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 year	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 year	6,437	$ 3.65	6,117	$ 3.42
Vested and exercisable at end of the year	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
67,939	Total			

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.

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).

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.

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).

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

15. Supplemental Cash Flow Information

		Years ended December 31,	
	Note	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 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.

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

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 Total
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

1 Fair value approximates the carrying amount due to the 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

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.

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

d) Liquidity Risk

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

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

	Expected payments due by period as at 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.

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

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	–	57,293
Zinc concentrates	–	15,293	–	15,013
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*

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*

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

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

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%	

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

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, 2012 and 2011 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	$ –

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

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.

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).

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

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

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.

NOTES

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Dr. Thomas I. Vehrs, Ph.D., Vice President of Exploration, is the 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 annual report is an accurate summary of the original reports and data provided to or developed by Fortuna Silver Mines Inc.

Abbreviations

Ag silver
Ag Eq silver equivalent
Au gold
g/t grams per metric tonne
m meters
koz 1,000 ounces
M million
Moz 1,000,000 ounces
oz troy ounce. One troy ounce is equal to 31.1035 grams
Pb lead
t metric tonne
tpd metric tonnes per day. One metric tonne equals 2,204.62 pounds
Zn zinc

FORTUNA
SILVER MINES INC.

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Caylloma Mine, Peru

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