



**FORTUNA**  
SILVER MINES INC.

**DRIVING GROWTH  
FROM WITHIN**

2014 Annual Report



# FORTUNA

SILVER MINES INC.

## Who We Are

Fortuna owns and operates two underground mines, San Jose in Mexico and Caylloma in Peru. We follow a disciplined strategy, driving low-risk, low-cost organic growth by exploring and developing the 98,000 hectares that surround our mines. Production in 2015 is forecast to reach a total of 6.5 million ounces of silver and 35.3 thousand ounces of gold, as well as lead and zinc by-products. The estimated annual consolidated all-in sustaining cash cost, net of by-product credits, is \$16.61 per ounce of silver, which includes \$4.00 attributed to sustaining capital costs for a dry stack tailings filter facility and deposit at San Jose.

**Our mission** is 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 vision** is to be valued by our workers, the community and our shareholders as a leading silver mining company in Latin America.

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## Capital Share Structure

Issued and Outstanding	129,072,567
Stock Options	3,273,355
Warrants	0
Fully Diluted	132,345,922

(June 18, 2015)

## Trading Symbols

New York Stock Exchange: **FSM**  
Toronto Stock Exchange: **FVI**

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 64 of the Management's Discussion & Analysis.

COVER PHOTO: San Jose Mine, Mexico

**Corporate Office**  
Vancouver, BC Canada

## SAN JOSE MINE

Oaxaca, Mexico  
**Silver, Gold**

<b>Ownership:</b>	100%
<b>Mill throughput rate:</b>	2,000 tpd
<b>Reserve life:</b>	5.4 years
<b>Proven &amp; Probable Reserves:</b>	3.8 Mt averaging 233 g/t Ag and 1.81 g/t Au containing 28.3 Moz Ag + 219.5 koz Au
<b>Status:</b>	Mine expansion to 3,000 tpd underway, commissioning scheduled for mid-2016

*Read more on page 22*

## CAYLLOMA MINE

Arequipa, Peru  
**Silver, Gold, Lead, Zinc**

<b>Ownership:</b>	100%
<b>Mill throughput rate:</b>	1,300 tpd
<b>Reserve life:</b>	6.5 years
<b>Proven &amp; Probable Reserves:</b>	3.0 Mt averaging 134 g/t Ag, 0.33 g/t Au, 2.24% Pb and 3.13% Zn containing 13.0 Moz Ag + 32.3 koz Au
<b>Status:</b>	Plant optimization to increase processing capacity by 10% to be completed by the end of 2015

*Read more on page 26*

**Management Office**  
Lima, Peru

## Chairman's Letter

### To our shareholders and employees,

Driving growth from within is the theme of our 2014 annual report. This theme, however, has underpinned our strategy since the formation of Fortuna in 2005.

Focusing on internal or organic growth has enabled us to effectively manage technical risk and control costs while steadily expanding our operations. Our approach recognizes that precious metal and capital markets are both inherently cyclical. We must, therefore, make decisions with a focus on the long-term.

By following this strategy we have built a sound, successful business, one capable of withstanding the inevitable swings in precious metal prices. Our core assets – the San Jose Mine in Mexico and Caylloma Mine in Peru – cover 98,000 hectares. By actively exploring and developing these highly prospective mineral concessions, we have kept discovery costs low and increased production year-by-year. At the same time, we have improved operational and capital efficiency to maximize cash flow.

In 2014, we posted strong operating and financial performance despite the ongoing weakness in silver and gold prices. We also reported a gratifying increase in proven and probable reserves. The results speak to the strength of our underlying assets and to management's ability to effectively allocate capital and deliver sustainable value. Indeed, while other mining companies are pulling in their horns because of low metal prices and challenging capital markets, we are expanding.

Fortuna is one of the world's fastest growing primary silver producers. When the latest expansion at the San Jose Mine is completed in 2016, Fortuna will be catapulted to a new league as one of the leading and lowest cost silver miners in the industry.

A proactive, responsible approach to sustainability and community relationships has also been key to our growth. Here again, we take a long-term



approach, looking beyond our core operations to find ways to improve lives and the quality of life in local communities. Our goal is to strengthen communities and provide direct benefits to residents by funding or lending our expertise to healthcare, education and business projects. Importantly, all of our work is conducted under formal agreements with local, state and federal authorities.

We continued to make great strides strengthening local communities in 2014. From providing scholarships to help students start a career, to supporting a local trout farming cooperative and bringing electricity to remote households, Fortuna worked alongside residents of small communities in Mexico and Peru to help them cope with poverty and isolation.

Year after year, management has followed a disciplined approach, creating value through the growth of reserves and production while maintaining efficient operations and a commitment to safety, social and environmental responsibility. In other words, we've stayed true to our mission.

In closing, I applaud our management team for aligning employees and contractors with our values and vision. I also thank our employees for their contributions to building a leading silver miner. And I thank my fellow shareholders for their trust and support. I am confident that together we can continue to deliver growth from within for years to come.

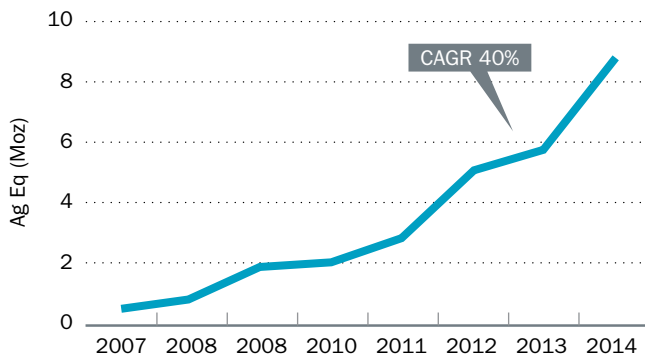
**Simon Ridgway**  
Chairman of the Board

## Driving Growth From Within

By capturing growth opportunities available to us at our mines and surrounding land packages in Mexico and Peru, we have delivered consistent growth since the start of full-scale operations in 2007.

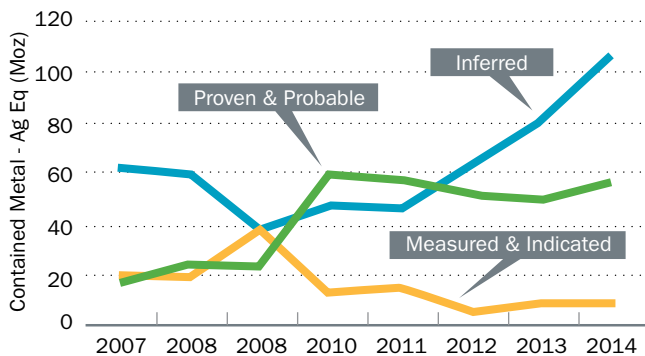
Our goal is to maximize production and profitability through low-cost, low-risk organic growth, while actively seeking to replace reserves and increase resources.

### Increasing silver and gold production



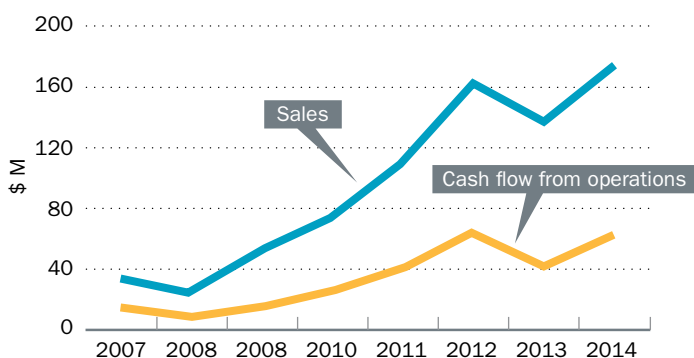
- Expand our mines within our operational and financial capabilities
- Increase production and processing capacity to drive down costs

### Growing reserves and resources



- Conduct in-fill drilling to replace reserves and explore to expand resources
- Target low-risk high-reward opportunities to reduce discovery costs

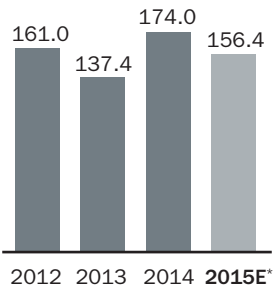
### Generating sustainable value



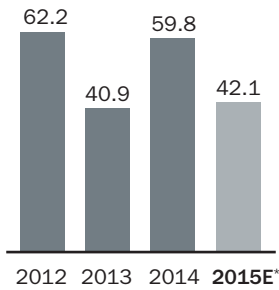
- Maximize operating margins and free cash flow
- Allocate capital to projects with the highest potential returns

# 2014 Highlights

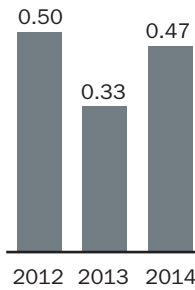
**Revenue**  
(\$ million)



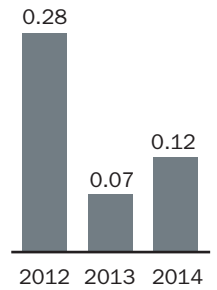
**Cash Flow from Operations**  
(\$ million)



**Cash Flow per Share**  
(\$)



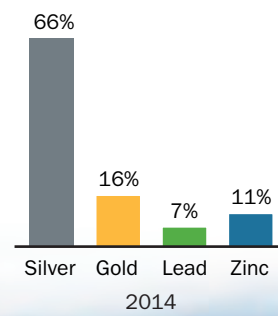
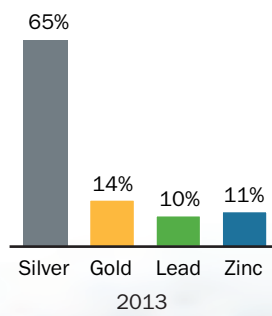
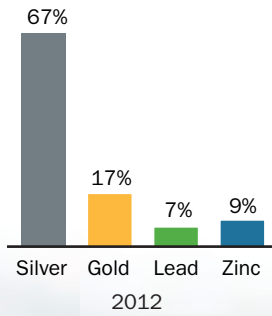
**Adjusted Earnings per Share\*\***  
(\$)



\* 2015E: Au = \$1,207/oz, Ag = \$16.40/oz, Pb = \$1,923/t and Zn = \$2,176/t  
 \*\* Net of tax

*Disciplined strategy drives growth in earnings, production and reserves*

**Sales by Metal**



Concentrate transport at San Jose Mine, Mexico

## Strong financial performance

- Sales increase by 27% to \$174.0 million
- Cash flow from operations increases by 46% to \$59.8 million
- Adjusted net income improves by 67% to \$15.7 million
- Earnings per share grow by 180% to \$0.12
- Cash position at year-end rises by 57% to \$77.3 million

## Increased production and reserves

- Silver production increases by 42% to 6.6 million ounces
- Gold production rises by 66% to 35,316 ounces
- Proven and probable reserves increase to 6.8 Mt containing 41.3 Moz silver (up 14%) and 251,800 ounces gold (up 7%)
- San Jose mill capacity expanded from 1,800 to 2,000 tpd



## Sustainability agreements build better futures

Funding agreements with government authorities in Mexico and Peru improve quality of life by

- providing students with scholarships, technical training and teaching equipment
- building and restoring vital road networks to remote towns
- extending the electricity grid to rural communities

### 2014 Head Count



## Operating Highlights

	2014			2013			2012		
	Caylloma Mine Peru	San Jose Mine Mexico	Consolidated	Caylloma Mine Peru	San Jose Mine Mexico	Consolidated	Caylloma Mine Peru	San Jose Mine Mexico	Consolidated
<b>Processed Ore</b>									
Tonnes milled	464,823	676,959		458,560	456,048		462,222	369,022	
Average tpd milled	1,302	1,928		1,284	1,296		1,266	1,055	
<b>Silver</b>									
Grade (g/t)	174	226		173	194		177	188	
Recovery (%)	85	89		82	89		77	88	
Production (oz)	2,202,540	4,396,760	6,599,300	2,104,061	2,527,203	4,631,264	2,038,579	1,949,178	3,987,757
Realized Price (\$/oz)*			18.90			23.49			30.91
Net Realized Price (\$/oz)**			16.77			20.97			27.40
<b>Gold</b>									
Grade (g/t)	0.31	1.72		0.36	1.46		0.40	1.74	
Recovery (%)	40	90		42	89		47	87	
Production (oz)	1,820	33,496	35,316	2,212	19,031	21,242	2,781	17,918	20,699
Realized Price (\$/oz)*			1,260.64			1,394.91			1,648.83
Net Realized Price (\$/oz)**			959.74			1,040.51			1,295.32
<b>Lead</b>									
Grade (%)	1.70			1.92			1.99		
Recovery (%)	93			91			88		
Production (000 lbs)	16,152		16,152	17,780		17,780	17,886		17,886
Realized Price (\$/lb)*			0.95			0.97			0.94
Net Realized Price (\$/lb)**			0.71			0.72			0.63
<b>Zinc</b>									
Grade (%)	2.97			2.83			2.56		
Recovery (%)	90			88			86		
Production (000 lbs)	27,361		27,361	25,211		25,211	22,396		22,396
Realized Price (\$/lb)*			0.98			0.87			0.88
Net Realized Price (\$/lb)**			0.65			0.61			0.66
<b>Unit Costs</b>									
Cash Cost (\$/oz Ag)***	7.02	3.52	4.69	7.65	6.53	7.03	8.07	3.76	5.96
Cash cost (\$/t)	90.57	62.99		91.22	71.41		87.28	74.10	
Unit Net Smelter Return (\$/t)	144.57	157.55		161.19	160.76		183.29	209.70	
All-in sustaining cash cost (\$/oz Ag)***	14.13	12.07	14.48	20.83	15.89	20.45	24.05	15.64	23.02

\* 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 for gold, lead and zinc



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



## CEO's Letter

### Dear Shareholders,

Our ongoing focus on initiatives to improve productivity and prioritize capital spending on high-return projects paid off in 2014. We increased silver production 42%, reduced all-in sustaining cash costs 29% and raised contained silver in inferred resources 31%. Our decision in late 2014 to expand the San Jose Mine to 3,000 tpd by mid-2016 underscores our long-term improvements at the mine. Post expansion, San Jose will rank among the 15 largest primary silver producers in the world and in the lower quartile in production cost.

Silver prices declined for the fourth consecutive year in 2014. From a peak of \$41.99 per ounce in 2011, our average realized price fell to \$19.01 per ounce in 2014. As I write this letter, silver and gold prices are hovering around \$16 and \$1,200 per ounce, respectively. Despite this price environment, I am pleased to report that the strength of our mines and balance sheet and the resolve and ingenuity of our team have positioned Fortuna to continue to thrive and grow.

### Production to continue to rise

Precious metals sales in 2014 accounted for 83% of revenue, of which 64% was from silver and 19% from gold. We surpassed our 2014 guidance for silver and gold production by 10% and 9%, respectively, following the expansion of San Jose in April to 2,000 tpd from 1,800 tpd.

For 2015, we expect production to be similar to 2014 as we further expand San Jose to 3,000 tpd, the third expansion since the mine was commissioned in 2011. We expect to complete the latest expansion in mid-2016, at which time we will be able to annually produce approximately 9 million ounces of silver and 55,000 ounces of gold from the San Jose and Caylloma mines.

The Caylloma Mine continues to operate at a steady state, annually contributing approximately 2 million ounces of silver and 2,000 ounces of gold, plus 28 million pounds of zinc and 20 million pounds of lead.

*The strength of our physical assets and balance sheet and the resolve and ingenuity of our team have positioned Fortuna to continue to thrive and grow.*

### Investments will further reduce costs

Our all-in sustaining cash cost (AISCC) in 2014 was \$14.48 per silver ounce, net of by-product credits, or 18% below our annual guidance of \$17.14. We continued to improve productivity and to reduce costs by increasing mill throughput, reducing head count, optimizing mine plans and prioritizing exploration, among other initiatives. For example, tonnes produced per man-hour, a standard industry measure of productivity, increased to 0.24 tonnes, or 35%, compared with 2013.

We expect our consolidated AISCC to continue to decline, reaching about \$10 per silver ounce when the San Jose expansion is completed. For 2015, our AISCC guidance is \$16.61. This figure includes approximately \$4 in capital costs for large sustaining projects that we are bringing forward to support the San Jose expansion.

*Our focus must be placed on human capital, asset selection, capital allocation, discovery, cost control and risk management, among other manageable aspects of our business.*

We invested \$40 million in capital projects and brownfields exploration in 2014. For 2015, our capital budget is \$70.5 million, which includes the following primary investments:

- conversion of the tailings management system at San Jose to filters and dry stacking for \$28.5 million,
- expansion of the San Jose plant for \$12.6 million of the \$28 million total cost of the project,
- optimization of the Caylloma plant for \$4 million, and
- brownfields exploration in Mexico and Peru for \$4 million.

### Capital expenditures fully funded

We believe that we are disciplined stewards of capital. During the roaring upswing in the recent commodity cycle, we focused on maintaining sound business principles, generating organic growth and ensuring prudent capital management. Today, in an environment where deep value opportunities typically start to emerge, that focus allows us to look for growth opportunities from a position of strength.

*Post expansion, San Jose will rank among the 15 largest primary silver producers in the world and in the lower quartile in production cost.*

Our available liquidity is in excess of \$130 million and our long-term debt is a modest \$40 million. We have funding available to meet all of our capital investments over the next 18 months while maintaining the flexibility to move on new business opportunities as they arise.

#### Exploration focused on high-reward targets

Nothing in our industry attracts more attention and creates more value than a good discovery. This was certainly the case with our Trinidad North discovery at San Jose in 2013. Two years later, the value is materializing in the form of a significant expansion in production. For 2015, we have a modest exploration budget of \$4.2 million, a reduction of 34% from 2014. We are concentrating on high-reward targets at San Jose, where we plan to drill 12,000 meters in new vein systems and along the south and north extensions of the Trinidad deposit.

#### Looking ahead

I am often asked by the media and investors for my views on metal prices. My short answer is that I find mining executives spend too much time discussing and analyzing metal prices. It is the one variable that we do not control.

Our focus must instead be placed on human capital, asset selection, capital allocation, discovery, cost control and risk management, among other manageable aspects of our business. We know that precious metal prices will always swing like the proverbial pendulum. At Fortuna, our goal is to be the best call option on metal prices in the precious metals mining space for investors.

Our vision is to be valued by our workers, the community and our shareholders as a leading silver mining company in Latin America. I thank all of our employees, contractors and suppliers who help fulfill that vision every day. To our shareholders, your continued trust and support are much appreciated, and I look forward to reporting on our continuing progress and growth.



**Jorge A. Ganoza**  
President and Chief Executive Officer

## Our Growth Strategy

Generate sustainable stakeholder returns through operational excellence and organic growth

Maximize production, profitability and cash flow	Conduct low-risk high-reward brownfields exploration	Foster collaborative sustainability programs	Seek M&A opportunities in the Americas
<p>Continuous improvement of operating efficiency to lower costs and improve margins</p> <p>Maintain financial strength, liquidity and flexibility by generating sustainable free cash flow</p>	<p>Evaluate and target multiple prospects within large, prospective land positions in Peru and Mexico</p> <p>Continue exploration of Trinidad North zone outside the shell of existing resources at the San Jose Mine</p>	<p>Partner with local communities to enhance capabilities and implement self-sustaining economic activities</p> <p>Develop social programs and infrastructure to improve local healthcare, education, housing and civic services</p>	<p>Seek acquisition opportunities in mining-friendly jurisdictions of the Americas</p> <p>Focus on high-grade, high-margin precious metals projects</p>

*Our disciplined, organic growth strategy will position Fortuna among the largest and lowest-cost primary silver producers by 2017.*



2,000 tpd processing plant at San Jose Mine, Mexico

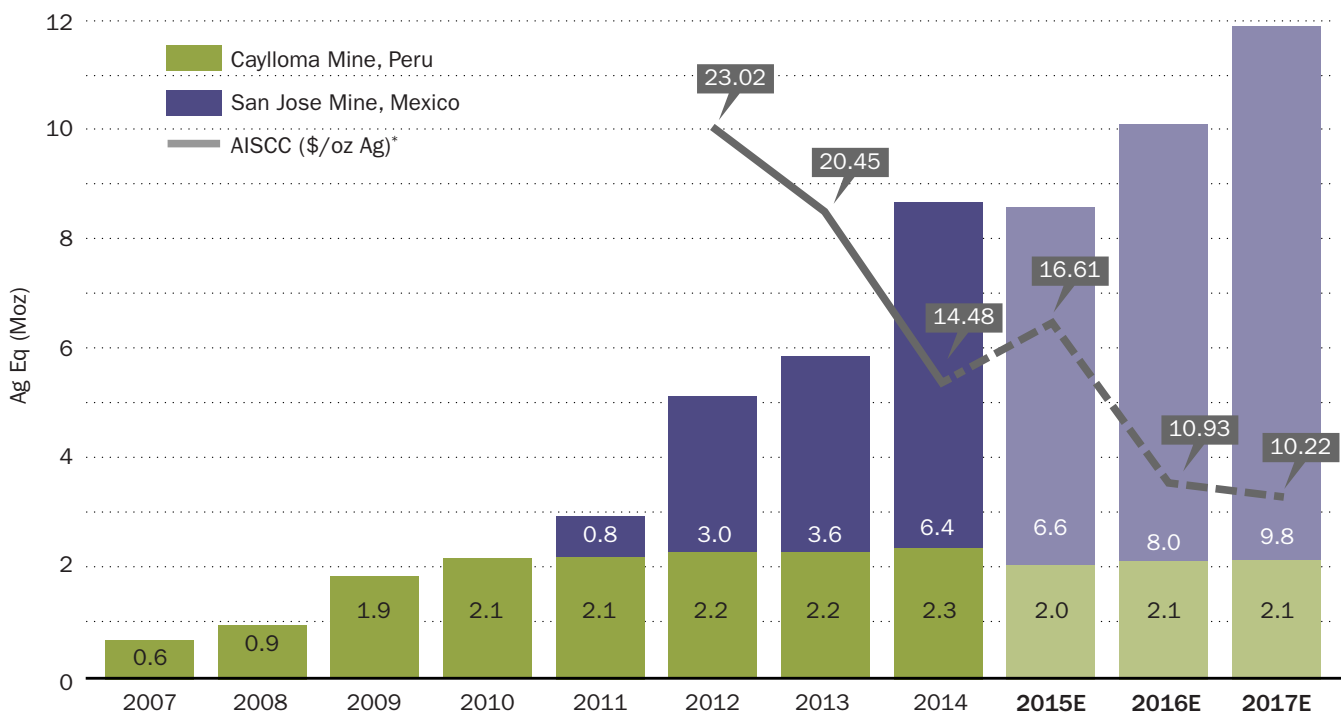
## Driving low-risk, low-cost growth since 2005

Our primary strategy is to drive low-risk, low-cost organic growth by exploring and developing the 98,000 hectares surrounding our mines in Peru and Mexico. We have followed this disciplined approach since Fortuna was established in 2005. By 2014, we had steadily increased production to 8.7 million silver equivalent ounces, while also reducing production costs.

Our highly prospective land portfolio remains the foundation of our growth. We expect annual production to reach approximately 12 million silver equivalent ounces by 2017 on completion of our most recent mill expansion at the San Jose Mine in Mexico.

To further drive growth, we are also seeking opportunities to acquire silver-gold rich properties in other mining-friendly areas of the Americas. Our favored targets are those that will provide low-cost production with minimal technical and financial risk.

## Increasing silver equivalent production and reducing costs



1. 2015-2017E AISC estimated using Au = \$1,200/oz Au, Pb = \$2,000/t, Zn = \$2,200/t; 2015E AISC includes brownfields exploration, however, brownfields exploration is not included in 2016E and 2017E  
 2. Ag Eq calculated using silver to gold ratio of 60 to 1

## Outlook for 2015

Following eight consecutive years of record growth, we expect silver and gold production in 2015 to be similar to 2014. Tonnage milled will increase by 2% to 1.2 million tonnes overall, while silver and gold grades will decline slightly from the higher than anticipated grades encountered at San Jose in 2014. On completion of the San Jose mill expansion in mid-2016, our outlook is for the consolidated annual rate of silver production to increase by 40–50% to 9–10 million ounces. Gold production, meanwhile, is forecast to increase by 55–65% to 54,000–59,000 ounces annually.

### Production Guidance

Mine	Silver (Moz)	Gold (koz)	Zinc (Mlb)	Lead (Mlb)
San Jose	4.6	33.3	–	–
Caylloma	1.9	1.9	32.1	19.5
<b>Total</b>	<b>6.5</b>	<b>35.3</b>	<b>32.1</b>	<b>19.5</b>

### Cash Cost Guidance

Mine	Cash Cost (\$/t)	AISCC (\$/oz Ag)
San Jose	62.7	16.27
Caylloma	90.3	12.78
<b>Consolidated</b>		<b>16.61</b>

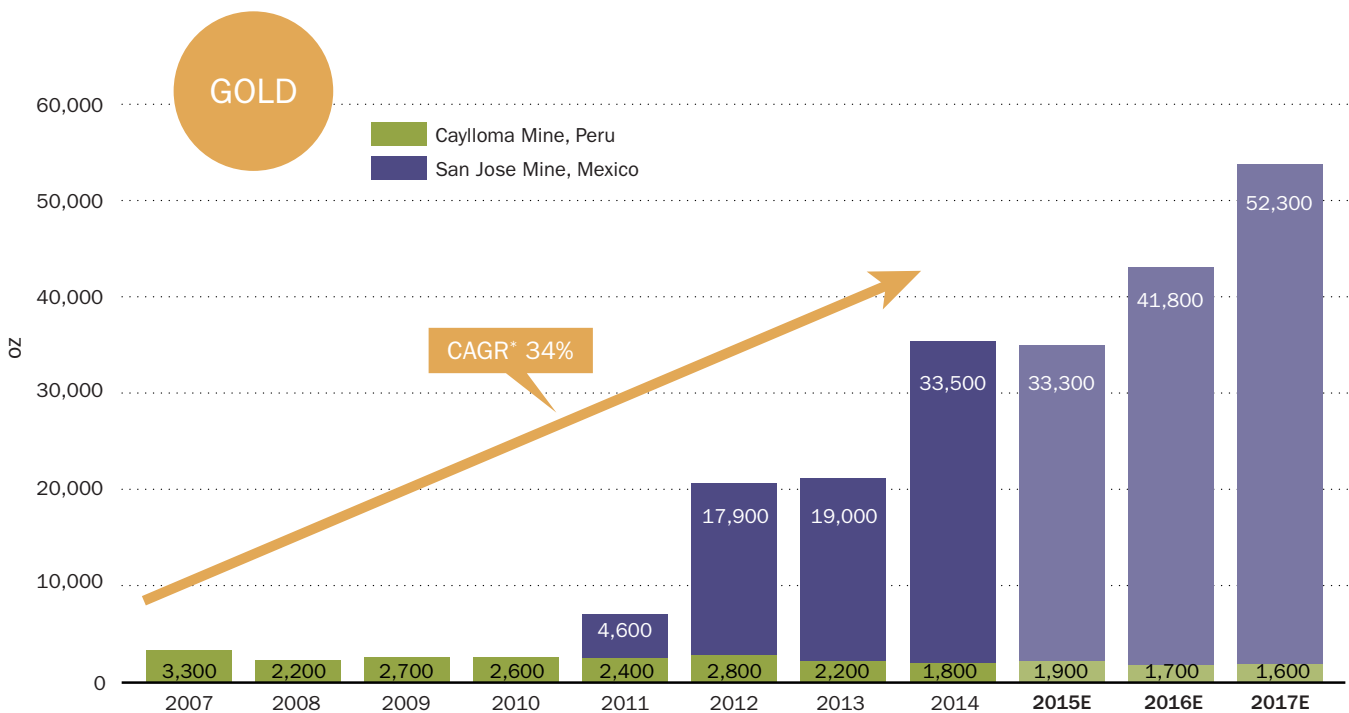
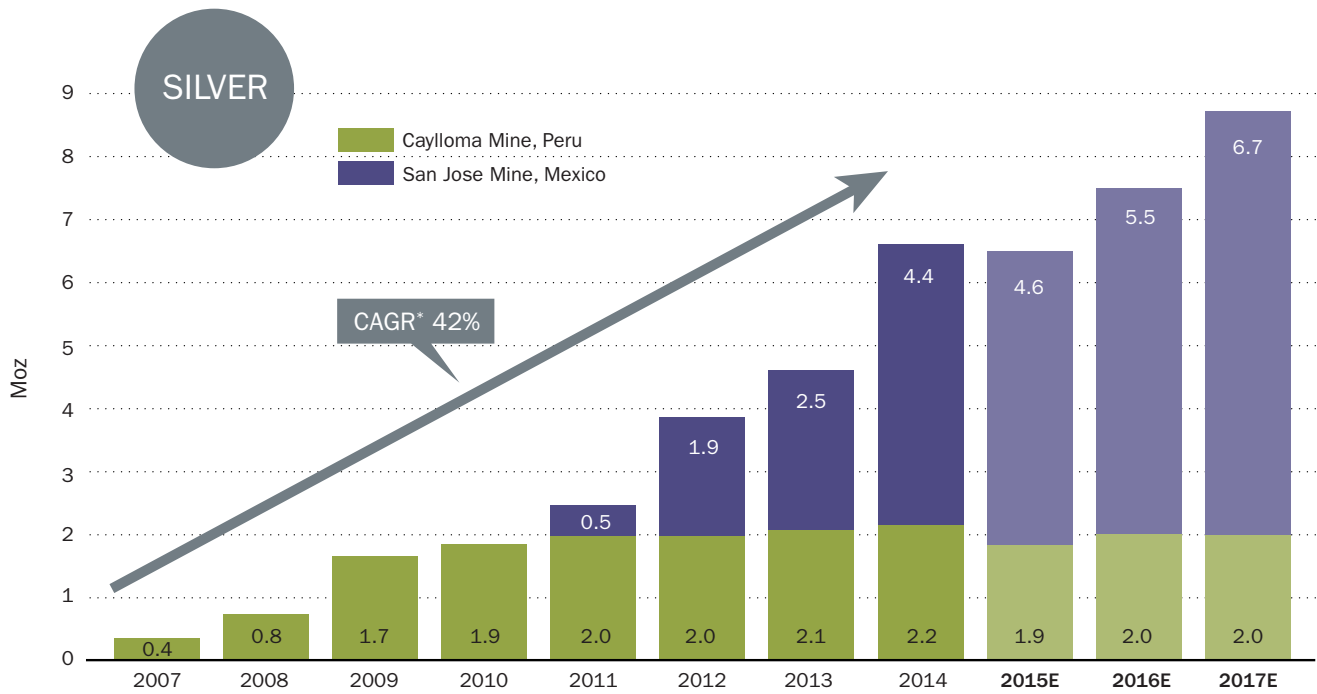
1. Cash cost per tonne includes all on-site direct and indirect production costs, community relations expenses, concentrate transportation and corporate management fees. It excludes government royalties and workers participation
2. San Jose Mine AISCC of \$16.27/oz Ag includes \$5.96/oz Ag or \$24.5 million attributed as sustaining capital investments related to the dry stack tailings filter facility and deposit
3. Consolidated AISCC includes \$4.00/oz attributed as sustaining capital investments related to the dry stack tailings filter facility and deposit at the San Jose Mine, Mexico



Caylloma Mine, Peru



## 2015 – 2017 Silver and Gold Production Forecast



\* CAGR = Compound Annual Growth Rate










# Sustainability

We view sustainability as a key component of our growth strategy. By actively supporting local communities, we strive to improve the quality of life in ways that are both good for business and human development. All of our sustainability efforts are guided by our values.

## 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 neighbours and other stakeholders:** We respect cultural diversity and work as a strategic partner towards the sustainable development of neighbouring communities
-  **We value the commitment to excellence:** We achieve high standards and best practices
-  **We value integrity:** We act according to our philosophy

## Improving lives and the quality of life in local communities

We fund or lend our expertise to projects that strengthen local communities and provide sustainable direct benefits to residents. Our resources are focused primarily on improving local healthcare, education and economies through partnerships, fellowships, sponsorships and donations. We also work to protect wildlife and conserve water for agricultural purposes.

We provide funding directly to local, state or national government authorities and only under formal agreements that enable us to ensure that our funds are directed to the intended project.

In everything we do, we recognize the unique culture, traditions and needs of neighboring communities. The aim is to enhance local capabilities and improve the quality of life of residents by engaging actively and responsibly with local stakeholders.



Luzmila Caferina Llacho, metallurgical laboratory intern at the Caylloma Mine, Peru

## San Jose Mine, Mexico

### Building roads to a better life

Building and maintaining roads is an effective means of fighting rural poverty in Mexico. A reliable road network improves mobility, providing easier access to farms and local markets. Rural roads also aid social development in remote communities by improving supply routes, medical care and travel for residents.

In San Jose del Progreso, a network of small unpaved roads was built in the 1960s to connect surrounding villages. Since then, however, the communities have lacked sufficient funds to maintain

the roads. In 2011, we started the Road Opening and Maintenance Program for the San Jose del Progreso communities and the county seat under an agreement with the municipality of San Jose del Progreso. In 2014, we contributed \$378,000 to the program to build 53 kilometers of new roads. The roads directly benefit 5,600 people living in San Jose del Progreso, San Jose La Garzona, El Cuajilote, Maguey Largo and El Jagüey. In addition to improving communication between the communities, our program also allows for the daily transportation of residents and their animals.

### Bringing electricity to remote households

Mexico has one of the highest levels of coverage of electrical service in Latin America. Yet, many people living in rural areas still do not have access to electricity. This creates an obstacle to the provision of public services, such as drinking water, telecommunication, remote education, health services and commerce. Additionally, new rural roads (see story above) have given local residents of San Jose del Progreso the opportunity to expand their dwelling areas and thus increase demand for basic services.

Under an agreement with the municipality of San Jose del Progreso, we have provided financing to local communities to extend the electrical grid. The extension supplies electricity to households located in the outskirts of the communities, helping residents improve living conditions and start small businesses.

In 2014, we contributed \$63,000 to the project, while municipal and federal governments provided additional funding. The expanded grid serves more than 100 families, as well as the San Isidro Chapel and civic facilities, such as a home for the elderly at San Jose del Progreso, a nursery facility and areas open to the general public.



### Funding education development and infrastructure

Improving education together with social infrastructure helps break the cycle of poverty and increase participation in non-farming activities. For the nearly 1,900 students in the county seat, however, these benefits were out of reach because the state of Oaxaca, one of the most undeveloped areas in the country, had fallen behind in funding education.

In 2014, we implemented a comprehensive social infrastructure program under an annual agreement with the Municipality of San Jose, contributing \$242,300 toward educational and cultural activities. The funds were used to purchase new multimedia and teaching equipment and to rehabilitate and build teaching facilities. Five preschools, five elementary schools and three distance-education high schools, as well as the San José del Progreso daycare center and cultural center, have all benefited from the program.

Additionally, three plots of land were purchased that will be used to expand an elementary school, as a site for a cultural center and to host cultural and sporting events in the community of Cuajilote.



## Caylloma Mine, Peru

### Offering scholarships to help students start a career

Even for top students, the fragile social and economic conditions in the District of Caylloma limit opportunities for those seeking undergraduate or technical education. To help outstanding students further their schooling, we established a five-year fellowship program in an agreement with the Municipality of Caylloma and government educational institutions.

The program started in 2012 and has an annual budget of \$40,000 for scholarships to help pay for food, housing and local transportation. Scholarships were awarded to 14 students in 2014 and to seven more at the beginning of 2015.

The first group of students graduated in 2014 from programs in accounting, agricultural and livestock farming, and metallurgy. Two of the graduates are now employed by our company as interns, completing training requirements in their fields of study. Yesenia Choquehuanca, who studied agriculture and livestock farming, is monitoring farming activities near the Caylloma Mine and providing technical assistance in raising alpacas and llamas, as well as in commercial trout farming operations (see story below).

Luzmila Ceferina Llacho Checco, a metallurgy graduate, is employed in our metallurgical lab, monitoring various milling processes and conducting tests.

### Providing technical training for high school graduates

To further support advanced education, we approved funding in 2013 for the Productive and Technical Education Center of Caylloma. The center was established under an agreement with the Regional Education Management of Arequipa, the Municipality of Caylloma and Virgen del Chapi Association, a non-profit fundraising organization formed by Fortuna. The association is funding approximately \$82,000 in operating costs for two years.

The center opened in 2014, offering training in metalwork and shoemaking. Sixteen students have since completed their studies: nine in metalwork and seven in shoemaking. The center expects to enroll at least 30 students in 2015 and to expand its training courses.

### Supporting a local trout farming cooperative

We have supported the start-up of a commercial trout farm in the Carhualaca Lagoon located near our Caylloma Mine by contributing to start-up costs and lending our operational expertise since 2012.

Together with Sierra Exportadora, a government agency responsible for developing sustainable economic activities in the Andes of Peru, we have held workshops to help achieve commercial production and to comply with local and national standards. The cooperative formed to operate the fish farm started with 40,000 fingerlings in fall 2012 and harvested 2,000 kilos of rainbow trout in mid-2013.



*Fisherman at the Carhualaca Lagoon, near the Caylloma Mine, Peru*

*Yesenia Choquehuanca, Community Relations intern at the Caylloma Mine, Peru*

In 2014, the cooperative stocked its rearing pens with 72,000 fingerlings and Fortuna contributed \$18,000 to the project. Operations remain in a pre-commercialization stage, with production yields and product quality being monitored and evaluated in order to meet market needs. The cooperative is reinvesting cash flow generated from the sale of fish to improve the viability of the project and lessen the need for support from Fortuna.

### Improving local waste management

The District of Caylloma maintains a solid waste landfill that is operated by the municipality. Until recently, however, the municipality lacked suitable equipment to provide timely residential waste collection. In 2014, Fortuna donated a new garbage compactor truck valued at \$71,500. This specially equipped truck can easily navigate the narrow streets of Caylloma to collect waste and deliver it to the landfill.



### Contributing to the restoration of a vital road network

The Vizcachani-Caylloma highway is part of a national road network built between 1935 and 1960 to connect highland villages in the province of Caylloma. The highway has since deteriorated significantly because of limited Government road-maintenance budgets, hindering social and economic development in several communities.

To help restore the roads, we entered into a public-private cooperation agreement in 2014 with the regional government of Arequipa, the District Municipality of Sibayo and two other mining companies operating in the area. The agreement set out guidelines and commitments for a feasibility study and technical document to pave the Vizcachani-Caylloma highway. The estimated cost is \$980,000, of which our share will be approximately \$215,000.

# Mineral Reserves & Resources

## Proven and Probable Reserves

Property	Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal	
							Ag (Moz)	Au (koz)
Caylloma Mine, Peru	Proven	508	142	0.42	1.56	2.24	2.3	6.8
	Probable	2,525	132	0.31	2.38	3.31	10.7	25.4
	Proven + Probable	3,033	134	0.33	2.24	3.13	13.0	32.3
San Jose Mine, Mexico	Proven	311	237	1.95	N/A	N/A	2.4	19.5
	Probable	3,456	233	1.80	N/A	N/A	25.9	200.0
	Proven + Probable	3,767	233	1.81	N/A	N/A	28.3	219.5
<b>Total</b>	<b>Proven + Probable</b>	<b>6,800</b>	<b>189</b>	<b>1.15</b>	<b>N/A</b>	<b>N/A</b>	<b>41.3</b>	<b>251.8</b>

## Measured and Indicated Resources

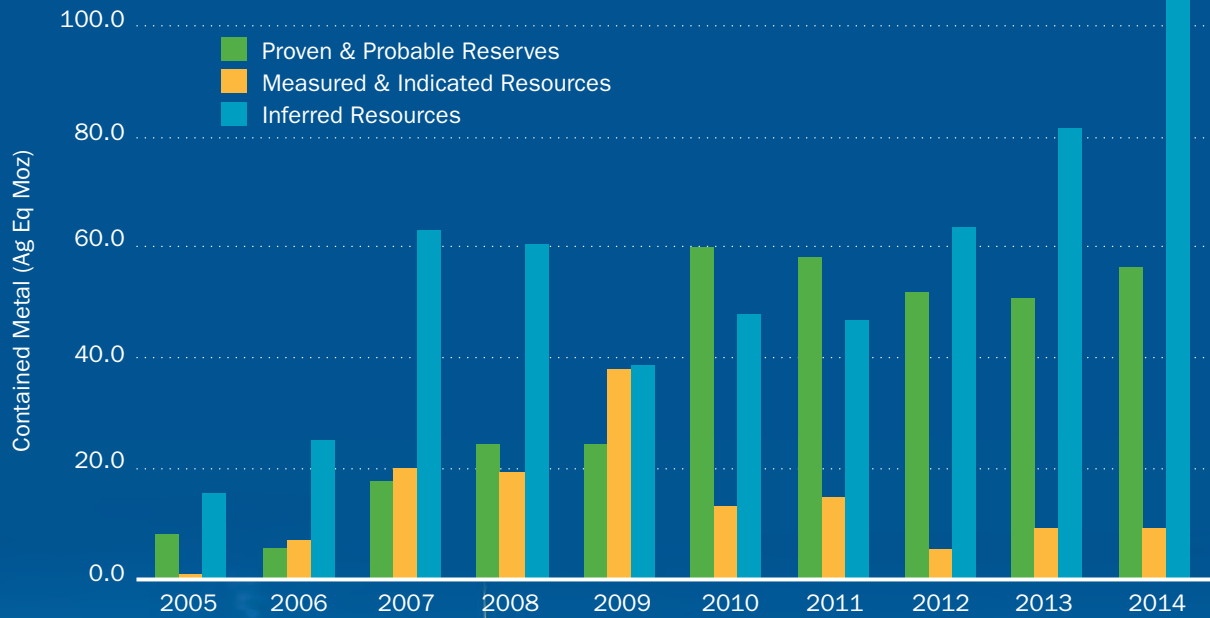
Property	Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal	
							Ag (Moz)	Au (koz)
Caylloma Mine, Peru	Measured	524	74	0.33	0.93	1.94	1.2	5.6
	Indicated	1,170	77	0.29	0.95	1.86	2.9	11.0
	Measured + Indicated	1,695	76	0.31	0.95	1.88	4.1	16.6
San Jose Mine, Mexico	Measured	71	88	0.72	N/A	N/A	0.2	1.6
	Indicated	921	82	0.74	N/A	N/A	2.4	21.9
	Measured + Indicated	992	83	0.74	N/A	N/A	2.6	23.5
<b>Total</b>	<b>Measured + Indicated</b>	<b>2,687</b>	<b>79</b>	<b>0.47</b>	<b>N/A</b>	<b>N/A</b>	<b>6.8</b>	<b>40.2</b>

## Inferred Resources

Property	Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal	
							Ag (Moz)	Au (koz)
Caylloma Mine, Peru	Inferred	4,356	133	0.59	1.98	3.17	18.6	83.1
San Jose Mine, Mexico	Inferred	7,127	257	1.75	N/A	N/A	58.9	400.8
<b>Total</b>	<b>Inferred</b>	<b>11,483</b>	<b>210</b>	<b>1.31</b>	<b>N/A</b>	<b>N/A</b>	<b>77.4</b>	<b>483.9</b>

1. Mineral Reserves and Mineral Resources are as defined by CIM Definition Standards on Mineral Resources and Mineral Reserves
2. Mineral Resources are exclusive of Mineral Reserves
3. Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability
4. There are no known legal, political, environmental or other risks that could materially affect the potential development of the Mineral Resources or Mineral Reserves at Caylloma or San Jose
5. Mineral Resources and Mineral Reserves are estimated as of June 30, 2014 and reported as of December 31, 2014 taking into account production-related depletion for the period through December 31, 2014
6. Mineral Reserves for San Jose are estimated using a break-even cut-off grade of 143 g/t Ag Eq based on assumed metal prices of US\$19/oz Ag and US\$1,140/oz Au; estimated metallurgical recovery rates of 89% for Ag and 89% for Au and projected operating costs for year-end 2014. Mineral Resources are estimated at a Ag Eq cut-off grade of 100 g/t, with Ag Eq in g/t =  $Ag (g/t) + Au (g/t) * ((US\$1,140/US\$19) * (89/89))$
7. Mineral Reserves for Caylloma are estimated using break-even cut-off grades based on estimated NSR values using assumed metal prices of US\$19/oz Ag, US\$1,140/oz Au, US\$2,150/t Pb and US\$2,300/t Zn; metallurgical recovery rates of 84% for Ag, 43% for Au, 92% for Pb and 90% for Zn; and projected operating costs for year-end 2014. Caylloma Mineral Resources are reported based on an NSR cut-off grade of US\$50/t for wide veins and US\$100/t for narrow veins used assumed metal prices and metallurgical recovery rates as detailed for Mineral Reserves with the exception of the Ramal Piso Carolina vein that uses metallurgical recovery rates of 84% for Ag and 75% for Au.
8. Totals may not add due to rounding procedures
9. N/A = Not Applicable

*Strong, steady growth in reserves and resources*



1. Ag Eq calculated using Au = \$1,140/oz and Ag = \$19/oz
2. Reported as of December 31, 2014



San Jose Mine ore stockpile, Mexico

CORE ASSET  
REVIEW  
MEXICO

## San Jose Mine

<b>Commodities:</b>	Silver, gold
<b>Ownership:</b>	100%
<b>Land package:</b>	64,400 hectares
<b>Operation:</b>	2,000 tpd underground mine
<b>Reserve life:</b>	5.2 years
<b>Location:</b>	Taviche Mining District, Oaxaca, Mexico (Latitude: 16° 41' 40" N, Longitude: 96° 42' 00" W)
<b>Deposit type:</b>	High-grade, low-sulphidation, epithermal vein deposit

### 2014 Unit Costs

Cash cost per ounce  
of silver\* (\$/oz Ag)

**\$3.52**

2013: \$6.53

Unit net smelter return  
per tonne (\$/t)

**\$157.55**

2013: \$160.76

Cash cost per tonne\*  
(\$/t)

**\$62.99**

2013: \$71.41

AISCC  
(\$/oz Ag)

**\$12.07**

2013: \$15.89

\* net of by-product credits

Dry stack tailings filter facility under construction





## 2014 Operating and Financial Highlights

Silver production increased by 74% to 4.4 million ounces and gold production by 76% to 33,496 ounces over the prior year. Higher throughput of 48% from a mine and processing plant expansion from 1,800 tpd to 2,000 tpd in April 2014 and higher head grade for silver and gold of 17% contributed to the increase in production. Silver and gold production in 2014 exceeded annual guidance by 10% and 9% respectively.

Cash cost per tonne of processed ore was \$62.99 or 12% below the cost in 2013 and 6% below annual guidance. The cost reduction is due mainly to higher throughput, devaluation of the peso and lower mine development costs. AISCC per payable ounce of silver, net of by-products, was \$12.07 or 24% lower than in 2013 and 16% below annual guidance.

Metallurgical recoveries remained stable for silver at 89% and improved slightly for gold to 90%.

Capital expenditures were \$29.0 million in 2014. The most significant of these were \$4.8 million for mine development, \$6.0 million for brownfields exploration and \$12.3 million for tailings dam expansion and evaporation control.

## Outlook for 2015

### San Jose mill to expand by 50%

In light of the significant growth of mineral reserves and resources, we are proceeding with two major capital projects. The mill will be expanded from 2,000 to 3,000 tonnes per day by mid-2016 and a dry stack tailings deposit and filter facility will be completed in 2015.

### 3,000 tpd mill expansion highlights

- Annual production: 10 to 12 million silver equivalent ounces\* or 7 to 8 million ounces of silver and 52 to 57 thousand ounces of gold
- AISCC\*\*: \$8 to \$9 per ounce silver, net of by-product gold
- Economics: 36% after-tax IRR\*\*, with payback in two years

\* Silver equivalent production estimated using silver-to-gold ratio of 60:1

\*\* AISCC and After-tax Internal Rate of Return (IRR) estimated using \$16/oz Ag and \$1,200/oz Au

The capital cost estimate for the plant expansion is \$30 million, with \$12.6 million budgeted for 2015 and the balance for 2016. The project is fully permitted and commenced on schedule in the first quarter of 2015. We expect to commission the mill in mid-2016.



Mine development is well ahead of production, with a 2.8-year projection of developed reserves by the end of 2015. As this is sufficient to source 3,000 tpd, no major infrastructure projects are required at the mine.

The dry stack tailings and filter facility will shift the San Jose Mine from conventional slurry tailings disposal. The project was started in the fourth quarter of 2014 and is expected to be completed in the fourth quarter of 2015. Capital cost is estimated at \$32 million.

### Trinidad North yields robust mineralization

Favorable drilling results from the Trinidad North Zone, a significant increase in Inferred resources and the open exploration potential to the north and to depth bode well for the future of the San Jose Mine

#### Highlights

- Inferred resources increase by 68% in contained silver and 48% in contained gold
- Trinidad North remains open for expansion in three directions
- Estimated true widths of up to 18.8 meters, with silver equivalent values ranging to 4.4 kg/t

As of December 31, 2014, Mineral Reserves at San Jose increased by 24% in contained silver and by 12% in contained gold. Inferred resources also improved, increasing by 68% in contained silver and 48% in contained gold, primarily due to the expansion of Trinidad North Zone.

Step-out drilling of Trinidad North continues at approximate 100 meter centers from underground drill stations. As in the main Trinidad deposit, silver and gold mineralization is hosted in hydrothermal boiling breccias, crackle breccias and stockwork-like vein systems controlled by the Bonanza and Trinidad structures. The mineralized system pinches and swells along strike reflecting the primary structural controls of the epithermal system.

*Mineral Reserves at San Jose increased by 24% in contained silver and by 12% in contained gold as of December 31, 2014.*

Drill results in 2014 confirm that the Bonanza and Trinidad veins, as well as the structurally and spatially related Trinidad North Stockwork Zone, all remain open to the north and to depth along the strike and plunge of the ore shoots.

### Brownfields exploration

Our \$3.5 million brownfields exploration budget for 2015 includes 12,000 meters of drilling, surface mapping and sampling in areas west of the Trinidad vein system. The program is focused on three initiatives:

- Evaluation of and target generation on multiple prospects within the property package, including Veta Maria, La Noria, San Jose West, San Dionisio Ocotlan, Los Ocotes and El Portillo
- Underground exploration drilling of a 300 meter extension north of the Trinidad North zone outside the shell of existing inferred resources
- Drill testing from the surface of the northern strike projection of the vein system beyond Trinidad North, subject to community agreements



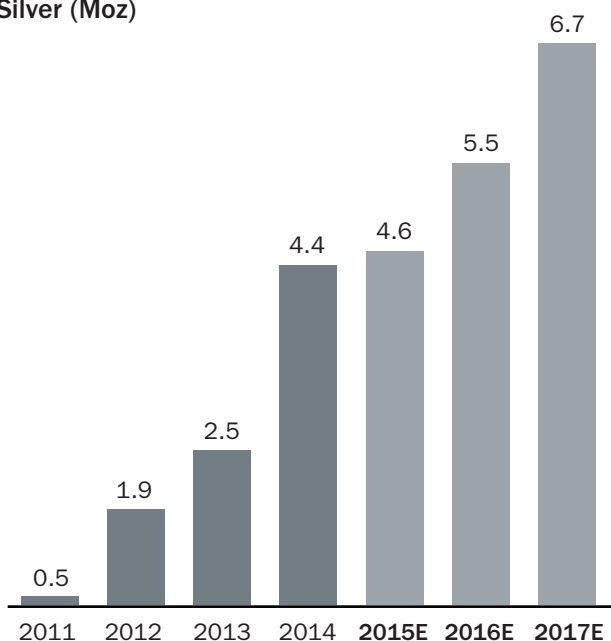
### 2015 Production and Cost Guidance

Tonnes milled	700,000
<b>Metal production</b>	
Silver (Moz)	4.6
Gold (koz)	33.3
<b>Head grade</b>	
Silver (g/t)	214
Gold (g/t)	1.66
<b>Unit costs</b>	
Cash cost (\$/t)	\$62.7
AISCC (\$/oz Ag)	\$16.27

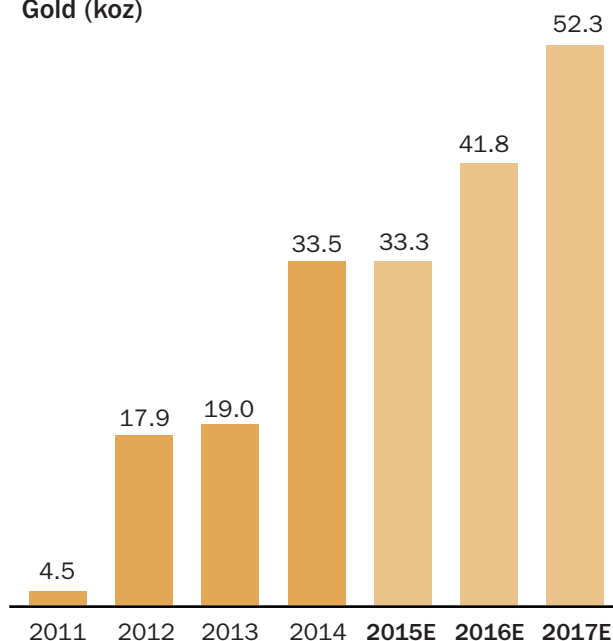


### Silver and Gold Production Guidance

Silver (Moz)



Gold (koz)



CORE ASSET  
REVIEW  
PERU

## Caylloma Mine

<b>Commodities:</b>	Silver, Gold, Lead, Zinc
<b>Ownership:</b>	100%
<b>Land package:</b>	35,500 hectares
<b>Operation:</b>	1,300 tpd underground mine
<b>Reserve life:</b>	6.5 years
<b>Location:</b>	Arequipa, Peru (Latitude 15° 13" S, Longitude 71° 49" W)
<b>Deposit type:</b>	Intermediate-sulphidation epithermal deposit

### 2014 Unit Costs

Cash cost per ounce  
of silver\* (\$/oz Ag)

**\$7.02**

2013: \$7.65

Unit net smelter return  
per tonne (\$/t)

**\$144.57**

2013: \$161.19

Cash cost per tonne\*  
(\$/t)

**\$90.57**

2013: \$91.22

AISCC\*  
(\$/oz Ag)

**\$14.13**

2013: \$20.83

\* net of by-product credits

*AISCC declined by 32% to \$14.13 per ounce of silver in 2014, or 17% below annual guidance.*



## 2014 Operating and Financial Highlights

Silver production increased by 5% over 2013 to 2.2 million ounces because of higher metallurgical recovery and slightly higher head grade. Zinc production increased 9% as a result of higher head grades and metallurgical recoveries. Lead production decreased 9% because of lower zinc head grades.

Cash cost per tonne was \$90.57 per tonne of processed ore, a decrease of 1% from the prior year and 3% above annual guidance. AISCC was \$14.13, or 32% lower than 2013 and 17% below annual guidance.

Capital expenditures, primary property, plant and equipment and brownfields exploration, were \$9.9 million. This included \$5.1 million for mine development and \$4.0 million for equipment and infrastructure.



## Outlook for 2015

We have budgeted \$10.4 million for mine development and plant optimization in 2015. We expect the improvements to increase the recovery of silver to approximately 88% from 84.5% achieved in 2014. Additionally, we anticipate a 10% gain in throughput capacity from improvements to the lead floatation circuit and the use of high-frequency sieving instead of hydrocyclones for separation.

### Brownfields exploration

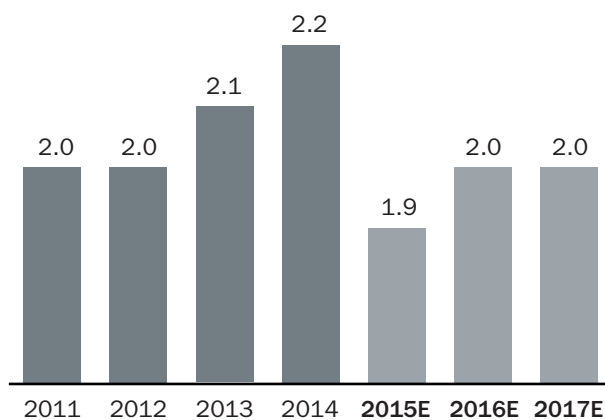
Our exploration budget of \$0.7 million is similar to the expenditure of \$0.8 million in 2014. The modest budget is temporary and made possible by our success in building a Mineral Reserve and Resource base. This is now sufficient to maintain short- or mid-term production levels without compromising future operations. Exploration in 2015 will focus on evaluating and defining high-grade gold and silver targets in the northern portion of the Caylloma District.

## 2015 Production and Cost Guidance

Tonnes milled	464,100
<b>Metal production</b>	
Silver (Moz)	1.9
Gold (koz)	1.9
Zinc (Mlbs)	32.1
Lead (Mlbs)	19.5
<b>Head grade</b>	
Silver (g/t)	175
Gold (g/t)	0.30
Lead (%)	2.05
Zinc (%)	3.12
<b>Unit costs</b>	
Cash cost/t	\$90.3
AISCC (\$/oz Ag)	\$12.78

## 2015 – 2017 Production Guidance

### Silver (Moz)



## Board of Directors



*Simon Ridgway*  
Chairman



*Jorge A. Ganoza*



*David Farrell*



*Robert R. Gilmore*



*Michael Iverson*



*Thomas Kelly*



*Mario Szotlender*

### 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. Simon is the Chairman of Fortuna Silver Mines Inc., CEO of Focus Ventures Ltd., President and CEO of Radius Gold Inc.

### Jorge A. Ganoza

#### President and CEO

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 also serves as Chairman of the Board of Atico Mining Corporation.

### David Farrell

David Farrell is President of Davisa Consulting, a private consulting firm working with junior to mid-tier global mining companies. He has twenty years of corporate and mining experience, and has negotiated, structured and closed more than US\$25 billion worth of M&A and structured financing transactions for junior and mid-tier natural resource companies.

### Robert R. Gilmore

Robert Gilmore is a Certified Public Accountant and a Member of the Colorado Society of Certified Public Accountants and the American Institute of CPAs. Currently serves as Chairman of the Board for Eldorado Gold Corp. and as a Director of Layne Christensen Company.

### Michael Iverson

Michael Iverson 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.

### 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 is currently COO of Atico Mining Corporation.

### Mario Szotlender

Mario Szotlender holds a degree in international relations and is fluent in several languages. Mario is also a Director of Radius Gold Inc. and Endeavour Silver Corp.

# Senior Management



*Jorge A. Ganoza*



*Luis D. Ganoza*



*Dr. Thomas I. Vehrs*



*Manuel Ruiz-Conejo*



*Jose Pacora*

## **Jorge A. Ganoza** **President and CEO**

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 also serves as Chairman of the Board of Atico Mining Corporation.

## **Luis D. Ganoza, B. Sc. Engineering, MBA, M. Sc.** **Chief Financial Officer/Chief Compliance Officer**

Luis D. Ganoza 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**

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. Manuel also holds an Executive Management Program from the Universidad de Piura in Peru.

## **Jose Pacora, B.Sc Engineering** **Vice President of Project Development**

Jose Pacora is a mechanical engineer graduated from the Universidad Nacional de Ingenieria in Lima, Peru. He has more than 30 years of experience in the mining industry working for both, engineering firms and mining companies developing strong capabilities in engineering, construction and project management.

# Our contribution to society

The metals we mine – silver, gold, lead and zinc – are found in many areas of our everyday lives. Some uses are obvious, while others may surprise you. Regardless of their use, these precious and base metals are integral to society and we are proud to help meet their growing global demand.



**GALVANIZED STEEL**  
Zinc: Half of all production is used to protect steel from corrosion, while rolled zinc sheet and strip is used for roofing, cladding, flashings and rainwater disposal applications.

**WINDOW GLASS COATING**  
Gold

**RADIO-FREQUENCY IDENTIFICATION TAGS**  
Silver

**COMPUTER COMPONENTS**  
Gold

**COMPUTER BATTERIES & KEYBOARDS**  
Silver

**WATCH BATTERIES**  
Silver

**CARPETING**  
Silver: More than 700 tonnes (24 million ounces) are used each year to produce ethylene oxide and formaldehyde, both of which are essential to the plastics industry.

**TELEVISION COMPONENTS**  
Silver, gold

**BRASS BUTTON ON JEANS**  
Zinc

**REAR WINDOW DEFROSTER**  
Silver

**INVESTMENT PORTFOLIO**  
Gold, silver

**BATTERIES FOR ELECTRIC CARS**  
Silver, zinc

**BELT BUCKLE**  
Zinc

**ATHLETIC SOCKS**  
Silver

**PACEMAKER**  
Gold

**TIRES**  
Zinc

**HEARING AID**  
Gold

**SCULPTURE**  
Zinc

**NAIL POLISH**  
Silver

**POLYESTER FABRIC**  
Silver





**UrgentCare+**

TELEPHONE SYSTEMS  
Silver

ANTIBIOTIC OINTMENTS & BANDAGES  
Silver

LAB TESTS  
Gold

X-RAY FILM  
Silver

X-RAY PROTECTION  
Lead

MEDICAL GOWNS  
Silver

ENGINE PARTS  
Silver

TRAFFIC & STREET SIGN POLES  
Zinc

**VEHICLE BATTERIES**  
Lead: 80% of usage is in batteries for vehicles, computers, industrial equipment and emergency power systems (e.g. hospitals). More than 95% of these batteries are recycled.

MOTOR AND AUTOMOTIVE PARTS  
Zinc

**Jewelry & Gifts**

JEWELRY, TABLEWARE & HOME DECOR  
Silver, gold, zinc

WEDDING RINGS  
Gold, silver

**AUTOMOTIVE INDUSTRY**  
Silver: Over 36 million ounces are used annually for silver contacts that activate every electrical action in the modern car.

DOG TAGS  
Zinc

SUNBLOCK  
Zinc  
LAUNDRY DETERGENT  
Silver

ANTIFREEZE  
Silver

BARISTA COFFEE MACHINES, TIMERS  
Silver

PLUMBING FIXTURES  
Zinc

DOOR HANDLES & LOCKS  
Zinc

METAL FURNITURE  
Zinc

SOLAR PANELS  
Silver

GUTTERS & DOWNPIPES  
Zinc

**MOBILE PHONE**  
Gold: The electronics sector uses more than 300 tonnes (10 million ounces) annually because of gold's ability to conduct electricity efficiently and complete resistance to corrosion.

LAMPS & LIGHT FIXTURES  
Zinc

MICROWAVE  
Silver

- USEFUL LINKS
- [www.silverinstitute.org](http://www.silverinstitute.org)
  - [www.geology.com/articles/uses-of-silver/](http://www.geology.com/articles/uses-of-silver/)
  - [www.gold.org/](http://www.gold.org/)
  - [www.geology.com/minerals/gold/uses-of-gold.shtml](http://www.geology.com/minerals/gold/uses-of-gold.shtml)
  - [www.geology.com/usgs/uses-of-zinc/](http://www.geology.com/usgs/uses-of-zinc/)
  - [www.geology.com/usgs/lead/](http://www.geology.com/usgs/lead/)

# Financial Review

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2014

As at March 12, 2015

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

Management's discussion and analysis ("MD&A") is intended to help the reader understand the significant factors that have affected Fortuna Silver Mines Inc.'s and its subsidiaries' ("Fortuna's" or the "Company's") performance and factors that may affect its future performance. This MD&A was prepared as of March 12, 2015. It should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2014, 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 payable ounce of 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, and mine operating earnings. These measures are used by the Company to manage and evaluate operating performance and ability to generate cash and are widely reported in the silver mining industry as benchmarks for performance. However, the measures do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. The Company believes that certain investors use these non-GAAP financial measures to evaluate the Company's performance. Accordingly, non-GAAP financial measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. To facilitate a better understanding of these measures as calculated by the Company, we have provided detailed descriptions and reconciliations as required.

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

### Business of the Company

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

Fortuna is a publicly traded company incorporated and domiciled in Canada. Its common shares are listed on the New York Stock Exchange under the trading symbol FSM; on the Toronto Stock Exchange 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").

## 2014 Highlights

### Full Year Financial and Operating Highlights

Net income for the year ended December 31, 2014 ("2014") improved to \$15.6 million compared with a \$19.1 million net loss for the year ended December 31, 2013 ("2013"), resulting in basic earnings per share of \$0.12 (2013: loss \$0.15).

For the year ended December 31, 2014, the Company's adjusted net income was \$15.7 million (2013: \$9.4 million) related to the non-cash impairment of inventories of \$0.1 million (refer to non-GAAP financial measures).

Silver sold increased 45% to 6,694,552 ounces, while the realized silver price decreased 20% to \$18.90 per ounce, from the prior year. Gold sold increased 70% to 35,758 ounces, while the realized gold price decreased 10% to \$1,260.44 per ounce, from the prior year. Sales comprised 64% silver and 19% gold, compared with 65% and 14%, respectively, in the prior year.

Cash flow from operations, before changes in working capital, increased 46% to \$59.8 million (2013: \$40.9 million), reflecting a 27% higher sales and improved margins, from the prior year. Operating cash flow per share, before changes in working capital items, increased to \$0.47 (2013: \$0.33) (refer to non-GAAP financial measures). Cash and cash equivalent and short term investments increased \$28.1 million (57%) to \$77.3 million (2013: \$49.1 million).

Silver production increased 42% to 6,599,300 ounces (2013: 4,631,264 ounces), and gold production increased 66% to 35,316 ounces (2013: 21,242 ounces).

Consolidated all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was \$14.48 and below our annual guidance of \$17.14 for 2014 (refer to non-GAAP financial measures).

San Jose's all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was \$12.07 and below the annual guidance of \$14.43 for 2014 (refer to non-GAAP financial measures).

Caylloma's all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was \$14.13 and below our annual guidance of \$17.01 for 2014 (refer to non-GAAP financial measures).

### Fourth Quarter 2014 Financial Highlights

Fourth quarter 2014 net income amounted to \$0.1 million (Q4 2013: loss \$14.9 million), resulting in basic earnings per share of \$nil (Q4 2013: loss \$0.12). Net income in Q4 2014 was negatively affected by restructuring and severance costs of \$1.1 million and higher mark-to-market effects on share-based compensation to \$1.4 million compared to Q4 2013. Silver sold increased 16% to 1,611,313 ounces while the realized silver price decreased 21% to \$16.33 per ounce from the same period in the prior year.

## 2015 Guidance and Outlook

### 2015 Production Guidance

For 2015, the production and cash cost guidance is noted in the below table.

Mine	Silver (Moz)	Gold (koz)	Investments (\$ millions)	Cash Cost (\$/t)	AISCC** (\$/oz Ag)
San Jose, Mexico	4.3	33.3	56.5	62.71	16.27
Caylloma, Peru	2.2	1.9	14.0	90.29	12.78
<b>Total</b>	<b>6.5</b>	<b>35.3</b>	<b>70.6</b>		

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

All-in sustaining cash cost calculated using Au = \$1,200/oz, Pb = \$2,000/t and Zn = \$2,200/t.

All-in sustaining cash cost is a non-GAAP financial measure

Total figures may not add due to rounding.

- The 2015 San Jose Mine AISCC of \$16.27/oz Ag includes \$5.96/oz Ag or \$24.5 million attributed as sustaining capital investments related to the filter facility and dry stack tailings deposit
- Consolidated AISCC of \$16.61, refer to the table below for details
- Caylloma Mine zinc and lead production forecast of 28.8 million pounds and 19.4 million pounds, respectively

**San Jose Mine AISCC**

Item	2015 Guidance (\$/oz Ag)
Cash cost net of by-product credits	4.44
Government royalty and mining tax	0.66
Workers' participation	0.44
Selling, general and administrative expenses (operations)	0.97
Adjusted operating cash cost	6.50
Sustaining capital expenditures	8.92
Brownfields exploration expenditures	0.84
<b>All-in sustaining cash cost</b>	<b>16.27</b>

**Caylloma Mine AISCC**

Item	2015 Guidance (\$/oz Ag)
Cash cost net of by-product credits	6.12
Government royalty and mining tax	0.28
Workers' participation	0.14
Selling, general and administrative expenses (operations)	1.58
Adjusted operating cash cost	8.12
Sustaining capital expenditures	4.34
Brownfields exploration expenditures	0.32
<b>All-in sustaining cash cost</b>	<b>12.78</b>

**Consolidated AISCC**

Item	2015 Guidance (\$/oz Ag)
Cash cost net of by-product credits	5.01
Government royalty and mining tax	0.53
Workers' participation	0.34
Selling, general and administrative expenses (operations)	1.17
Adjusted operating cash cost	7.05
Selling, general and administrative expenses (corporate)	1.51
Sustaining capital expenditures	7.38
Brownfields exploration expenditures	0.67
<b>All-in sustaining cash cost</b>	<b>16.61</b>

**2015 Outlook****San Jose Mine, Mexico**

San Jose plans to process 700,000 tonnes of ore averaging 214 g/t Ag and 1.66 g/t Au. Capital investment for 2015 is estimated to be \$56.5 million.

Major investments include:

Filter facility and dry stack tailings deposit:	\$28.3 million
3,000 tpd mill expansion:	\$12.6 million
Mine development:	\$ 8.3 million
Exploration:	\$ 3.5 million

On December 17, 2014, the company disclosed further details of capital investments related to the processing plant expansion, and filter facility and dry stack tailings deposit (refer to "Fortuna announces expansion of its San Jose Mine from 2,000 to 3,000 tpd" news release).

San Jose Mine expansion highlights include:

- Silver and gold production: Annual production rate ranging from 6.7 – 8.3 million ounces of silver and 52.0 - 56.7 thousand ounces of gold or 9.8 – 11.7 million silver equivalent\* ounces
- Capital expenditure: \$30 million
- Economics: 36% after-tax Internal Rate of Return (“IRR”)\*\*; payback period of 2 years
- All-in sustaining cash cost (“AISC”)\*\*: Expansion will position San Jose’s AISC in the range of \$8 - 9/oz Ag, net of by-product gold

\* Silver equivalent production estimated using silver-to-gold ratio of 60:1

\*\* After-tax IRR and AISC estimated using a flat price of US\$16/oz Ag and US\$1,200/oz Au

### 3,000 tpd mill expansion

The capital cost estimate for the plant expansion to 3,000 tpd is \$30 million. The budget for 2015 is \$12.6 million with the balance to be disbursed in 2016. The capital figures are based on a feasibility level capital estimate prepared by M3 Engineering, the same firm that carried out the EPCM for the on-time and on-budget construction of the processing plant in 2011.

Direct capital costs of major items include:

Crushing:	\$ 2.5 million
Grinding:	\$ 8.1 million
Flotation:	\$ 3.9 million
Concentrate filter:	\$ 1.7 million
Power supply:	\$ 1.0 million

Project activities are scheduled to commence in the first quarter of 2015 with commissioning planned for mid-2016. The expansion project is permitted.

The mine is well ahead of production with a 2.8 year projection of developed reserves by the end of 2015; sufficient to comfortably source 3,000 tpd. No major infrastructure projects are required at the mine.

### Dry stack tailings deposit and plant facility

The San Jose Mine will be shifting from conventional slurry tailings disposal to dry stack tailings deposit. The capital projection is \$32 million based on basic engineering estimates prepared by M3 Engineering.

The project was initiated during the fourth quarter of 2014; \$1.0 million has been spent to-date with the balance to be expended in 2015. Purchase orders for filters and other major equipment have already been placed.

Direct capital costs of major items include:

Filtration:	\$13.7 million
Dry stack tailings deposit earthwork and preparation:	\$ 2.3 million
Thickening:	\$ 1.3 million
Backfill plant:	\$ 1.4 million

Construction of the project started in February 2015. The layout of the project has been adjusted so as to allow commencement of construction in parcels for which it has the necessary permits. Full completion of the project will require regularization of the change in land use of a single outstanding parcel. Completion of the dry stack tailings deposit is projected for the fourth quarter of 2015.

### Caylloma Mine, Peru

Caylloma plans to process 464,100 tonnes averaging 175 g/t Ag. Twenty-one per cent of mill feed in the plan is estimated to come from current inferred resource which are planned to be converted to measured and indicated categories during the year. Capital expenditure for 2015 is estimated to be \$14.0 million.

Major investments include:

Mine development:	\$ 6.1 million
Plant optimization:	\$ 4.3 million
Exploration:	\$ 0.7 million

### Brownfields Exploration

At the San Jose Mine, the exploration budget for 2015 is \$3.5 million, which includes 12,000 meters of drilling. The program at the mine's 64,400 hectare concession package is focusing on three main initiatives:

- Continue exploring through underground drilling an additional 300 meters of the northern extent of the Trinidad North zone outside the shell of existing inferred resources, drill testing on approximate 100 meter centers,
- Subject to community agreements, drill test from surface the northern strike projection of the vein system beyond Trinidad North, and,
- Evaluation and target generation work on multiple prospects within the property package: Veta Maria, La Noria, San Jose West, San Dionisio Ocotlan, Los Ocotes and El Portillo.

At the Caylloma Mine, the Company has allocated a modest exploration budget of \$0.7 million for 2015. Over the years the Company has built a sufficient resource and reserve base which permits a reduction in exploration drilling for a year without compromising short or medium term production plans. The main exploration initiative for 2015 is the evaluation of our concessions located approximately 25 kilometers to the south of the Caylloma District, where Compañía de Minas Buenaventura is developing the high-grade Tambomayo silver and gold project.

## Results of Operations

### Consolidated Metal Production

Consolidated Metal Production	QUARTERLY RESULTS					
	Three months ended December 31,					
	2014			2013		
	Caylloma	San Jose	Consolidated	Caylloma	San Jose	Consolidated
Silver (oz)	544,977	1,083,215	1,628,191	542,457	917,668	1,460,125
Gold (oz)	335	8,561	8,896	632	6,420	7,052
Lead (000's lbs)	4,084	–	4,084	3,770	–	3,770
Zinc (000's lbs)	6,986	–	6,986	6,676	–	6,676
Production cash cost (US\$/oz Ag)*	7.70	4.13	5.32	8.29	5.55	6.56
All-in sustaining cash cost (US\$/oz Ag)*	14.64	9.42	12.51	18.55	10.78	15.49

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

Consolidated Metal Production	YEAR TO DATE RESULTS					
	Years ended December 31,					
	2014			2013		
	Caylloma	San Jose	Consolidated	Caylloma	San Jose	Consolidated
Silver (oz)	2,202,540	4,396,760	6,599,300	2,104,061	2,527,203	4,631,264
Gold (oz)	1,820	33,496	35,316	2,212	19,031	21,242
Lead (000's lbs)	16,152	–	16,152	17,780	–	17,780
Zinc (000's lbs)	27,361	–	27,361	25,211	–	25,211
Production cash cost (US\$/oz Ag)*	7.02	3.52	4.69	7.65	6.53	7.03
All-in sustaining cash cost (US\$/oz Ag)*	14.13	12.07	14.48	20.83	15.89	20.45

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

The 2014 consolidated production highlights are as follows:

- Silver and gold production were 10% and 9% respectively above 2014 production guidance
- Silver production of 6,599,300 ounces; 42% increase over 2013
- Gold production of 35,316 ounces; 66% increase over 2013
- Zinc production of 27,360,530 pounds; 9% increase over 2013
- Lead production of 16,152,285 pounds; 9% decrease from 2013

Compared with the prior year, silver and gold production increased 42% and 66%, respectively, explained largely by the commissioning of the San Jose plant expansion to 1,800 tpd in September 2013 and to 2,000 tpd in April 2014.

### Consolidated Cash Cost per Payable Ounce of Silver

All-in sustaining cash cost per ounce of payable silver for 2014, net of by-product credits, decreased to \$14.48 (2013: \$20.45) per ounce as a result of higher payable ounces of silver operations (refer to non-GAAP financial measures). All-in sustaining cash cost per ounce of payable silver for 2014 was below the annual 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 the operating performance of the mine: throughput, grade, recovery, gold and silver production, and unit costs.

Mine Production	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
	Three Months ended December 31,		Years ended December 31,	
	2014	2013	2014	2013
	San Jose	San Jose	San Jose	San Jose
<b>Tonnes milled</b>	181,702	158,218	676,959	456,048
<b>Average tonnes milled per day</b>	2,019	1,741	1,928	1,296
<b>Silver</b>				
Grade (g/t)	208	202	226	194
Recovery (%)	89	89	89	89
Production (oz)	1,083,215	917,668	4,396,760	2,527,203
<b>Gold</b>				
Grade (g/t)	1.65	1.42	1.72	1.46
Recovery (%)	89	89	90	89
Production (oz)	8,561	6,420	33,496	19,031
<b>Unit Costs</b>				
Production cash cost (US\$/oz Ag)*	4.13	5.55	3.52	6.53
Production cash cost (US\$/tonne)	60.41	63.38	62.99	71.41
Unit Net Smelter Return (US\$/tonne)	129.12	147.76	157.55	160.76
All-in sustaining cash cost (US\$/oz/Ag)*	9.42	10.78	12.07	15.89

\* Net of by-product credits from gold

Production for the year ended December 31, 2014 was 4,396,760 ounces of silver and 33,496 ounces of gold, 74% and 76%, respectively, above the prior year's production. The increases are the result of higher throughput of 48% and of higher head grade for silver and gold of 17%. The San Jose Mine and processing plant were expanded to 2,000 tpd in April 2014 (see Fortuna news release of April 14, 2014). Compared to guidance for the year, silver and gold production were 10% and 9% higher, respectively.

Cash cost per tonne of processed ore for the year ended December 31, 2014 was \$62.99/t, or 12% below the cost in the prior year due mainly to higher throughput, a 4% devaluation of the peso, and lower mining cost related to support and preparation, and below the annual guidance of \$67.10/t. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was \$12.07 for the year ended December 31, 2014 (refer to non-GAAP financial measures), below the annual guidance of \$14.43.

Investments in property, plant and equipment and brownfields exploration, on a cash basis, were \$29.0 million for the year ended December 31, 2014, and included \$4.8 million for mine development, \$1.4 million for infill drilling, \$6.0 million for brownfields exploration, and \$16.8 million for equipment and infrastructure, including \$12.3 million for tailings dam expansion and evaporation control.

In light of the significant growth of resources over 2013 (see Fortuna news release dated September, 2014) the Company has made the decision to proceed with mill expansion from 2,000 to 3,000 tonnes per day and the construction of a filter facility and dry stack tailings deposit.

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

On January 21, 2015, the Company announced results for step-out drilling of the Trinidad North zone at the San Jose Mine in Oaxaca. Results are included for twenty-three drill holes completed subsequent to the Mineral Resource and Mineral Reserve estimates reported as of June 30, 2014 (see Fortuna news releases dated August 27, 2014 and September 30, 2014). The new drill results confirm that the Bonanza and Trinidad veins and the structurally and spatially related Trinidad North Stockwork Zone all remain open to the north and to depth along the strike and plunge of the ore shoots. See Fortuna news release dated January 21, 2015.

On March 10, 2015, the Company announced the updated Mineral Reserve and Mineral Resource estimate as of December 31, 2014 for the San Jose Mine located in Oaxaca, Mexico. See Fortuna news release dated March 10, 2015.



The 2015 Brownfields exploration program at San Jose includes 12,000 meters of exploration drilling to further test the potential for extensions of the high-grade silver-gold mineralization identified at Trinidad North (see Fortuna news release dated March 10, 2015, and January 21, 2015 for fourth quarter 2014 drill results).

An Infill drilling program of 9,200 meters for the upgrading of Inferred Resources into Measured or Indicated Resources is budgeted for the San Jose Mine. The cost of the infill drilling program is \$1.59 million (see Fortuna news release dated March 10, 2015).

### Caylloma Mine Review

Caylloma is an underground silver, lead, and 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.

Mine Production	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
	Three Months ended December 31,		Years ended December 31,	
	2014	2013	2014	2013
	Caylloma	Caylloma	Caylloma	Caylloma
<b>Tonnes milled</b>	117,060	116,127	464,823	458,560
<b>Average tonnes milled per day</b>	1,301	1,290	1,302	1,284
<b>Silver</b>				
Grade (g/t)	173	174	174	173
Recovery (%)	84	83	85	82
Production (oz)	544,977	542,457	2,202,540	2,104,061
<b>Gold</b>				
Grade (g/t)	0.27	0.38	0.31	0.36
Recovery (%)	33	44	40	42
Production (oz)	335	632	1,820	2,212
<b>Lead</b>				
Grade (%)	1.70	1.59	1.70	1.92
Recovery (%)	93	93	93	91
Production (000's lbs)	4,084	3,770	16,152	17,780
<b>Zinc</b>				
Grade (%)	3.03	2.88	2.97	2.83
Recovery (%)	89	91	90	88
Production (000's lbs)	6,986	6,676	27,361	25,211
<b>Unit Costs</b>				
Production cash cost (US\$/oz Ag)*	7.70	8.29	7.02	7.65
Production cash cost (US\$/tonne)	91.60	90.49	90.57	91.22
Unit Net Smelter Return (US\$/tonne)	130.13	145.51	144.57	161.19
All-in sustaining cash cost (US\$/oz Ag)*	14.64	18.55	14.13	20.83

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

Silver production for the year ended December 31, 2014 was 5% above production in the prior year due to higher metallurgical recovery and slightly higher head grade. Zinc production increased 9% as a result of higher head grade and higher metallurgical recoveries. Lead production decreased 9% because of reduced head grade. Caylloma met its annual production guidance of 2.0 million ounces of silver.

Cash cost per tonne at Caylloma for the year ended December 31, 2014 was \$90.57 per tonne of processed ore, a decrease of 1% from the prior year and 3% above annual guidance. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, at Caylloma for the year ended December 31, 2014 was \$14.13, below the annual guidance of \$17.01 (refer to non-GAAP financial measures).

Investments in property, plant and equipment and brownfields exploration, on a cash basis, were \$9.9 million for the year ended December 31, 2014, and included \$5.1 million for mine development, \$0.8 million for brownfields exploration, and \$4.0 million for equipment and infrastructure, including \$0.8 million for tailings dam.

On March 10, 2015, the Company announced the updated Mineral Reserve and Mineral Resource estimate as of December 31, 2014 for the Caylloma Mine located in Arequipa, Peru. See Fortuna news release dated March 10, 2015.

An Infill drilling program of 9,500 meters for the upgrading of Inferred Resources into Measured or Indicated Resources is budgeted for the Caylloma Mine. The cost of the infill drilling program is budgeted at \$0.83 million.

### 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.

Mine Concentrates	QUARTERLY RESULTS				YEAR TO DATE RESULTS			
	Three months ended December 31,				Years ended December 31,			
	2014		2013		2014		2013	
	Caylloma	San Jose	Caylloma	San Jose	Caylloma	San Jose	Caylloma	San Jose
<b>Silver-Gold</b>								
Opening Inventory (t)	–	198	–	433	–	617	–	466
Production (t)	–	5,081	–	4,580	–	20,014	–	13,152
Sales (t)	–	4,952	–	4,282	–	20,303	–	12,888
Adjustment (t)	–	–	–	(114)	–	1	–	(114)
Closing Inventory (t)	–	327	–	617	–	329	–	617
<b>Zinc</b>								
Opening Inventory (t)	408	–	355	–	485	–	521	–
Production (t)	6,288	–	5,966	–	24,410	–	22,333	–
Sales (t)	6,256	–	5,843	–	24,501	–	22,384	–
Adjustment (t)	24	–	7	–	70	–	16	–
Closing Inventory (t)	464	–	485	–	464	–	485	–
<b>Lead-Silver</b>								
Opening Inventory (t)	287	–	198	–	208	–	443	–
Production (t)	3,600	–	3,386	–	14,318	–	15,762	–
Sales (t)	3,689	–	3,406	–	14,411	–	16,094	–
Adjustment (t)	21	–	29	–	105	–	97	–
Closing Inventory (t)	220	–	208	–	220	–	208	–

## Property Option Agreements

### Tlacolula Property

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

The Company can earn the interest by spending \$2.0 million, which includes a commitment to drill 1,500 meters within 12 months after Cuzcatlan has received a permit to drill the property, and by making staged payments totaling \$0.30 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;
- \$0.05 million cash by January 19, 2015; 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%. Radius has the right to terminate the agreement if the option is not exercised by January 31, 2017.

As of December 31, 2014, the Company had issued an aggregate of 34,589 common shares, with a fair market value of \$0.15 million, and paid \$0.15 million cash according to the terms of the option agreement. Subsequent to December 31, 2014, the Company paid \$0.05 million under the option agreement.

## Annual 2014 Financial Results

Expressed in \$000's, except per share data	Years ended December 31,		
	2014	2013	2012
Sales	174,006	137,394	161,020
Mine operating earnings	60,253	41,775	70,662
Operating income (loss)	33,750	(9,629)	45,168
Net income (loss)	15,602	(19,100)	31,463
Earnings (loss) per share, basic	0.12	(0.15)	0.25
Earnings (loss) per share, diluted	0.12	(0.15)	0.25
Total assets	350,310	302,215	316,983
Other liabilities	4,661	2,343	2,250

For the year ended December 31, 2014, net income was \$15.6 million, compared with a loss of \$19.1 million for the year ended December 31, 2013 ("2013"). Silver sold increased 45% to 6,694,552 ounces, while the realized silver price decreased 20% to \$18.90 per ounce, from the prior year. Gold sold increased 70% to 35,758 ounces, while the realized gold price decreased 10% to \$1,260.44 per ounce, from the prior year. Net income was negatively affected by a higher share-based compensation expense of \$3.5 million compared to 2013 mostly related to mark-to-market effects, and restructuring and severance costs of \$1.1 million.

For the year ended December 31, 2014, the Company's adjusted net income was \$15.7 million (2013: \$9.4 million) related to the non-cash impairment of inventories of \$0.1 million (refer to non-GAAP financial measures).

For the year ended December 31, 2013, the Company's adjusted net income was \$9.4 million after adjustments for the non-cash impairment charge related to the Caylloma Mine of \$20.4 million, net of tax, a one-time non-cash income tax provision of \$7.7 million resulting from the initial recognition of the Mexican mining tax reform, and a non-cash write-off of mineral properties, plant and equipment of \$0.4 million, net of tax, related to the San Luisito concessions (refer to non-GAAP financial measures).

Mine operating earnings increased 44% over the prior year, while gross margins (mine operating earnings over sales) increased from 30% to 35% (refer to non-GAAP financial measures). The impact of lower metal prices on gross margins was offset to a large extent by significantly lower unit cash costs (12% lower at San Jose and 1% lower at Caylloma) and higher head grades and metal recovery for silver and gold.

Cash flow from operations, before changes in working capital, increased 46% to \$59.8 million (2013: \$40.9 million), reflecting 27% higher sales and improved margins, from the prior year.

Basic earnings per share were \$0.12 (2013: loss \$0.15). Operating cash flow per share, before changes in working capital items, increased to \$0.47 (2013: \$0.33) (refer to non-GAAP financial measures).

**Sales** for the year ended December 31, 2014, were \$174.0 million (2013: \$137.4 million). Silver and gold ounces sold increased 45% and 70%, respectively, while realized silver and gold prices decreased 20% and 10%, respectively. Sales at San Jose increased 66% to \$108.0 million (2013: \$65.1 million) as a result of higher production and a reduction of inventories, while sales at Caylloma decreased 9% to \$66.0 million (2013: \$72.3 million) mainly as a result of lower silver prices.

The Company's metal concentrates are provisionally priced at the time of sale based on the prevailing commodity market price. Final prices are set in a period subsequent to the date of sale based on a specified quotational period, either one, two, or three months after delivery. Under current sales contracts, final pricing for all concentrates takes place one month after the month of sale.

Our recorded sales during the year ended December 31, 2014, consisted of provisional sales of \$176.0 million (2013: \$146.9 million); final price and mark-to-market adjustments of negative \$0.5 million (2013: negative \$4.5 million); and negative assay adjustments of \$1.5 million (2013: negative \$5.0 million).

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

Sales and Realized Prices	YEAR TO DATE RESULTS					
	Years ended December 31,					
	2014			2013		
	Caylloma	San Jose	Consolidated	Caylloma	San Jose	Consolidated
Provisional Sales	67,461,129	108,562,070	176,023,198	75,434,322	71,421,250	146,855,572
Adjustments*	(1,407,018)	(610,307)	(2,017,325)	(3,128,808)	(6,332,971)	(9,461,779)
Sales	66,054,110	107,951,763	174,005,873	72,305,514	65,088,279	137,393,793
<b>Silver</b>						
Provisional Sales (oz)	2,209,690	4,484,861	6,694,552	2,160,783	2,451,608	4,612,391
Realized Price (\$/oz)**	19.01	18.85	18.90	23.69	23.31	23.49
Net Realized Price (\$/oz)***	16.46	16.92	16.77	20.71	21.19	20.97
<b>Gold</b>						
Provisional Sales (oz)	1,828	33,930	35,758	2,247	18,750	20,997
Realized Price (\$/oz)**	1,275.25	1,259.65	1,260.44	1,399.42	1,394.37	1,394.91
Net Realized Price (\$/oz)***	907.40	962.61	959.79	1,052.19	1,039.11	1,040.51
<b>Lead</b>						
Provisional Sales (000's lb)	16,244	–	16,244	18,170	–	18,170
Realized Price (\$/lb)**	0.95	–	0.95	0.97	–	0.97
Net Realized Price (\$/lb)***	0.71	–	0.71	0.72	–	0.72
<b>Zinc</b>						
Provisional Sales (000's lb)	27,471	–	27,471	25,259	–	25,259
Realized Price (\$/lb)**	0.98	–	0.98	0.87	–	0.87
Net Realized Price (\$/lb)***	0.65	–	0.65	0.61	–	0.61

\* 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 the year ended December 31, 2014, increased 19% to \$113.8 million (2013: \$95.6 million), driven by a 58% higher tonnage of concentrate sold. Direct mining costs increased \$10.7 million to \$85.4 million (2013: \$74.7 million). Depletion and depreciation increased \$3.6 million to \$22.7 million (2013: \$19.1 million).

Workers' participation for San Jose increased \$3.5 million to \$3.6 million (2013: \$0.1 million).

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

	Expressed in \$ millions					
	Years ended December 31,					
	2014			2013		
	Caylloma	San Jose	Total	Caylloma	San Jose	Total
Direct mining costs <sup>1</sup>	\$ 42.1	\$ 43.3	\$ 85.4	\$ 42.4	\$ 32.3	\$ 74.7
Workers' participation	0.7	3.6	4.3	1.0	0.1	1.1
Depletion and depreciation	7.4	15.3	22.7	9.6	9.5	19.1
Royalty expenses	0.9	0.5	1.4	0.7	–	0.7
	\$ 51.1	\$ 62.7	\$ 113.8	\$ 53.7	\$ 41.9	\$ 95.6

<sup>1</sup> Direct mining costs includes salaries and other short term benefits, contractor charges, energy, consumables and production related costs.

**Selling, general and administrative expenses** for the year ended December 31, 2014, increased 28%, or \$5.4 million, to \$25.2 million (2013: \$19.8 million). The main driver for the increase was higher share-based payments to \$6.7 million compared with the prior year, mostly related to mark-to-market effects, in particular the increase in share price, compared to the prior year.

Also explaining the increase were higher general and administrative expenses of \$0.9 million and higher workers' participation of \$0.8 million.

General and administrative expenses consist primarily of corporate office and subsidiary expenses, such as salaries and payroll-related costs for executives and management. These expenses include administrative, legal, financial, information technology, and human and organizational development, procurement, and professional service fees. General and administrative expenses for the year ended December 31, 2014, increased 6% to \$17.6 million (2013: \$16.7 million).

	Expressed in \$ millions							
	Years ended December 31,							
	2014				2013			
	Corporate	Bateas	Cuzcatlan	Total	Corporate	Bateas	Cuzcatlan	Total
General and administrative expenses	\$ 10.8	\$ 3.4	\$ 3.4	\$ 17.6	\$ 10.3	\$ 3.0	\$ 3.4	\$ 16.7
Foreign exchange	(0.7)	0.4	0.2	(0.1)	(0.7)	0.3	0.1	(0.3)
Share-based payments	6.7	–	–	6.7	3.2	–	–	3.2
Workers' participation	–	0.1	0.9	1.0	–	0.2	–	0.2
	\$ 16.8	\$ 3.9	\$ 4.5	\$ 25.2	\$ 12.8	\$ 3.5	\$ 3.5	\$ 19.8

**Exploration and evaluation costs** for the year ended December 31, 2014, decreased to \$nil (2013: \$0.4 million) as a result of the Company's reduction in its greenfields exploration program.

	Expressed in \$ millions	
	Years ended December 31,	
	2014	2013
Salaries, wages, and benefits	\$ –	\$ 0.3
Direct costs	–	0.1
	\$ –	\$ 0.4

**Loss on disposal of mineral properties, plant and equipment** for the year ended December 31, 2014, amounted to \$0.1 million (2013: \$0.1 million) and pertained to the disposal of equipment.

**Restructuring and severance costs** for the year ended December 31, 2014, amounted to \$1.1 million (2013: \$0.5 million) and pertained to the Company's cost-reduction program, and include all salaries and post-employment costs.

**Write-off of mineral properties, plant and equipment** for the year ended December 31, 2014, amounted to \$nil (2013: \$0.6 million, pertaining to the San Luisito concessions).

**Impairment of mineral properties, plant and equipment** for the year ended December 31, 2014, amounted to \$nil (2013: \$30.0 million, related to the impairment of Caylloma Mine as a result of declining silver prices).

**Impairment of inventories** for the year ended December 31, 2014, amounted to \$0.1 million (2013:\$0.1 million) and pertained to the write-down of materials in inventory to their net realizable value.

**Interest income** for the year ended December 31, 2014, amounted to \$0.3 million (2013: \$0.6 million).

**Interest expense** for the year ended December 31, 2014, amounted to \$1.2 million (2013: \$0.9 million).

**Income taxes** for the year ended December 31, 2014, increased to \$17.3 million (2013: \$9.1 million) mainly due to the increase in current income taxes in Mexico even after accelerating the depletion of Mexico mining rights along with no further impact of the Mexico special mining royalty on deferred income tax.

In 2013, income taxes included a \$9.6 million tax impact related to the impairment charge of Caylloma and to the deferred income provision of \$7.7 million resulting from the Mexico special mining royalty, and a reduction of the tax base.

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

Income Taxes	Expressed in \$ millions					
	Years ended December 31,					
	2014			2013		
	Peru	Meixco	Total	Peru	Mexico	Total
Current income tax	\$ 3.6	\$ 9.9	\$ 13.5	\$ 4.9	\$ –	\$ 4.9
Deferred income tax	1.6	2.2	3.8	(7.5)	11.7	4.2
	\$ 5.2	\$ 12.1	\$ 17.3	\$ (2.6)	\$ 11.7	\$ 9.1

## Quarterly Information

The following table provides information for eight fiscal quarters up to December 31, 2014:

Expressed in \$000's, except per share data	Quarters ended							
	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13	30-Jun-13	31-Mar-13
Sales	37,823	46,384	44,319	45,480	36,377	30,203	30,101	40,713
Mine operating earnings	10,052	16,720	16,277	17,204	10,373	8,140	6,478	16,784
Operating income (loss)	3,653	13,201	7,623	9,273	(8,312)	2,346	(14,669)	11,006
Net income (loss)	57	7,824	2,868	4,853	(14,930)	(264)	(10,571)	6,665
Earnings (loss) per share, basic	0.00	0.06	0.02	0.04	(0.12)	0.00	(0.08)	0.05
Earnings (loss) per share, diluted	0.00	0.06	0.02	0.04	(0.12)	0.00	(0.08)	0.05
Total assets	350,310	342,413	330,791	318,349	302,215	311,170	310,291	327,346
Other liabilities	4,661	4,076	5,269	4,076	2,343	2,850	2,282	2,238

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

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

During Q2 2014, sales decreased 3%, or \$1.2 million, from Q1 2014 as a result of San Jose's provisional sales declining \$1.9 million, offset by positive adjustments of \$0.7 million. San Jose's provisional sales of silver and gold declined 2% and 5%, respectively, from Q1 2014, along with lower realized silver metal and gold prices of 3% and 1%, respectively.

During Q1 2014, sales increased 25% from Q4 2013 as a result of increases in silver and gold sold, of 17% and 29%, respectively, offset by a lower realized silver metal price of 2%. Mine operating earnings increased 66% from Q4 2013 because of increased sales and the Company's continuing efforts to contain costs. In Q4 2013, a net loss reflected a non-cash impairment charge of \$10.2 million, net of tax (Q3 2013: \$nil), and a non-cash income tax provision of \$7.7 million resulting from Mexico's special mining royalty.

During Q3 2013, mine operating earnings increased from Q2 2013 in part as a result of the Company's implementation of efforts to contain costs. As part of the Company's cost-reduction program, the Company recorded a \$0.5 million restructuring and severance costs in Q3 2013 covering 65 positions. In Q2 2013, the Company recorded a non-cash impairment charge, related to the Caylloma Mine, of \$15.0 million before tax and a non-cash write-off of mineral properties, plant, and equipment of \$0.4 million related to the San Luisito concessions that negatively affected operating income.

## Fourth Quarter 2014 Financial Results

Fourth quarter 2014 net income amounted to \$0.1 million (Q4 2013: loss \$14.9 million), resulting in basic earnings per share of \$nil (Q4 2013: loss \$0.12). Net income in Q4 2014 was negatively affected by restructuring and severance costs of \$1.1 million and higher mark-to-market effects on share-based compensation to \$1.4 million compared to Q4 2013. Silver sold increased 16% to 1,611,313 ounces while the realized silver price decreased 21% to \$16.33 per ounce from the same period in the prior year.

For the three months ended December 31, 2014, the Company's adjusted net income was \$0.2 million (2013: \$3.0 million) related to the non-cash impairment of inventories of \$0.1 million (refer to non-GAAP financial measures). The decrease in adjusted net income was driven by lower silver price, a \$1.1 million restructuring and severance costs and a higher share-based compensation expense.

For the three months ended December 31, 2013, the Company's adjusted net income was \$3.0 million after adjustments for the non-cash impairment charge of \$10.2 million, net of tax, and after a one-time non-cash income tax provision of \$7.7 million resulting from the initial recognition of the Mexican mining tax reform.

Mine operating earnings decreased 4% from Q4 2013, while gross margins (mine operating earnings over sales) decreased from 29% to 26%. The impact of lower metal prices on gross margins was partially offset by lower unit cash costs at San Jose (down 5%), and by higher head grades for silver and gold.

Cash flow from operations, before changes in working capital, decreased 11% to \$10.0 million (Q4 2013: \$11.2 million) driven by lower metal prices.

Operating cash flow per share, before changes in working capital items, decreased to \$0.08 (Q4 2013: \$0.09) (refer to non-GAAP financial measures).

**Sales** for Q4 2014 were \$37.8 million (Q4 2013: \$36.4 million). Silver and gold ounces sold increased 16% and 29%, respectively, while realized prices for silver and gold decreased 21% and 6%, respectively. Sales at San Jose increased 15% to \$23.0 million (Q4 2013: \$20.0 million), as a result of higher production. Sales by Caylloma decreased 9% to \$14.8 million (Q4 2013: \$16.3 million), as a result of lower realized prices for silver.

Sales comprised 61% silver and 20% gold, compared with 66% and 16%, respectively, in the prior year.

The Company's metal concentrates are provisionally priced at the time of sale based on the prevailing commodity market price. Final prices are set in a period subsequent to the date of sale based on a specified quotational period, either one, two, or three months after delivery. Under current sales contracts, final pricing for all concentrates takes place one month after the month of sale. Our recorded sales during the fourth quarter consisted of provisional sales of \$38.4 million (Q4 2013: \$38.7 million); negative price and mark-to-market adjustments of \$0.5 million (Q4 2013: negative \$1.0 million); and negative assay adjustments of \$0.1 million (Q4 2013: negative \$1.3 million).

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

Sales and Realized Prices	QUARTERLY RESULTS					
	Three months ended December 31,					
	2014			2013		
	Caylloma	San Jose	Consolidated	Caylloma	San Jose	Consolidated
Provisional Sales	15,260,751	23,123,753	38,384,504	16,914,394	21,817,857	38,732,251
Adjustments*	(429,376)	(132,291)	(561,668)	(572,594)	(1,782,823)	(2,355,416)
Sales	14,831,374	22,991,462	37,822,837	16,341,801	20,035,034	36,376,835
<b>Silver</b>						
Provisional Sales (oz)	544,603	1,066,710	1,611,313	546,633	848,156	1,394,789
Realized Price (\$/oz)**	16.41	16.28	16.33	20.70	20.74	20.72
Net Realized Price (\$/oz)***	14.07	14.48	14.34	17.96	18.95	18.56
<b>Gold</b>						
Provisional Sales (oz)	318	8,452	8,770	642	6,158	6,801
Realized Price (\$/oz)**	1,204.32	1,192.43	1,192.86	1,266.41	1,274.33	1,273.58
Net Realized Price (\$/oz)***	701.67	908.15	900.66	1,013.68	933.06	940.67
<b>Lead</b>						
Provisional Sales (000's lb)	4,181	–	4,181	3,789	–	3,789
Realized Price (\$/lb)**	0.90	–	0.90	0.96	–	0.96
Net Realized Price (\$/lb)***	0.68	–	0.68	0.71	–	0.71
<b>Zinc</b>						
Provisional Sales (000's lb)	6,954	–	6,954	6,532	–	6,532
Realized Price (\$/lb)**	1.01	–	1.01	0.86	–	0.86
Net Realized Price (\$/lb)***	0.65	–	0.65	0.57	–	0.57

\* 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 2014 increased 7% to \$27.8 million (Q4 2013: \$26.0 million), driven by a 16% higher tonnage of concentrate sold. Direct mining costs increased \$1.4 million to \$21.5 million (Q4 2013: \$20.1 million). Depletion and depreciation increased \$0.1 million to \$5.4 million (Q4 2013: \$5.3 million).

Workers' participation for San Jose increased \$0.4 million to \$0.5 million (Q4 2013: \$0.1 million).

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

	Expressed in \$ millions					
	Three months ended December 31,					
	2014			2013		
	Caylloma	San Jose	Total	Caylloma	San Jose	Total
Direct mining costs <sup>1</sup>	\$ 10.8	\$ 10.7	\$ 21.5	\$ 10.4	\$ 9.7	\$ 20.1
Workers' participation	0.1	0.5	0.6	0.3	0.1	0.4
Depletion and depreciation	2.0	3.4	5.4	2.0	3.3	5.3
Royalty expenses	0.2	0.1	0.3	0.2	–	0.2
	\$ 13.1	\$ 14.7	\$ 27.8	\$ 12.9	\$ 13.1	\$ 26.0

<sup>1</sup> 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 2014 increased 46%, or \$1.6 million, to \$5.2 million (Q4 2013: \$3.6 million). The main driver for the increase was the rise in share-based payments to \$1.4 million, compared with the same period in the prior year, mostly related to mark-to-market effects, in particular the increase in share price.

General and administrative expenses consist primarily of corporate office and subsidiary expenses, such as salaries and payroll-related costs for executives and management. These expenses include administrative, legal, financial, information technology, and human and organizational development, procurement, and professional service fees. General and administrative expenses for Q4 2014 decreased 7% to \$3.6 million (Q4 2013: \$4.1 million).

	Expressed in \$ millions							
	Years ended December 31,							
	2014				2013			
	Corporate	Bateas	Cuzcatlan	Total	Corporate	Bateas	Cuzcatlan	Total
General and administrative expenses	\$ 2.1	\$ 0.9	\$ 0.6	\$ 3.6	\$ 2.6	\$ 0.7	\$ 0.8	\$ 4.1
Foreign exchange	(0.3)	0.2	0.2	0.1	(0.6)	–	–	(0.6)
Share-based payments	1.4	–	–	1.4	0.1	–	–	0.1
Workers' participation	–	–	0.1	0.1	–	–	–	–
	\$ 3.2	\$ 1.1	\$ 0.9	\$ 5.2	\$ 2.1	\$ 0.7	\$ 0.8	\$ 3.6

**Restructuring and severance costs** for Q4 2014 amounted to \$1.1 million (Q4 2013: \$nil) and pertained to the Company's cost-reduction program, and include all salaries and post-employment costs.

**Write-off of mineral properties, plant and equipment** for Q4 2014 amounted to \$nil (Q4 2013: \$0.1 million, pertaining to the San Luisito concessions).

**Impairment of mineral properties, plant and equipment** for Q4 2014 amounted to \$nil (Q4 2013: \$15.0 million related to the impairment of Caylloma as a result of declining silver prices recorded in Q4 2013).

**Impairment of inventories** for Q4 2014 amounted to \$0.1 million (Q4 2013: \$0.1 million) and related to the write-down of materials in inventory to their net realizable value.

**Interest income** for Q4 2014 amounted to \$0.1 million (Q4 2013: \$0.1 million).

**Interest expense** for Q4 2014 amounted to \$0.3 million (Q4 2013: \$0.2 million).

**Income taxes** for Q4 2014 decreased to \$3.4 million (Q4 2013: \$6.4 million) mainly because of no further impact of the Mexico special mining royalty on deferred income tax along with an increase in current taxes in Mexico even after accelerating the depletion of Mexico mining rights.

In Q4 2013, income taxes included a \$4.8 million tax impact related to the impairment charge of Caylloma and to the deferred income provision of \$7.7 million resulting from the Mexico special mining royalty.



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

Income Taxes	Expressed in \$ millions					
	Years ended December 31,					
	2014			2013		
	Peru	Mexico	Total	Peru	Mexico	Total
Current income tax	\$ 0.2	\$ 1.9	\$ 2.1	\$ 1.6	\$ –	\$ 1.6
Deferred income tax	0.8	0.5	1.3	(4.7)	9.5	4.8
	\$ 1.0	\$ 2.4	\$ 3.4	\$ (3.1)	\$ 9.5	\$ 6.4

## Non-GAAP Financial Measures

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

Cash cost per payable ounce of silver and cash cost per tonne of processed ore are key performance measures that management uses to monitor performance. Management believes that certain investors also use these non-GAAP financial measures to evaluate the Company's performance. Cash 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 with 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 payable ounce of silver to the cost of sales in the consolidated financial statements for the three months and the years ended December 31, 2014 and 2013:

### Consolidated Mine Cash Cost

	Expressed in \$'000's			
	YTD		YTD	
	Q4 2014	Q4 2014	Q4 2013	Q4 2013
Cost of sales <sup>1</sup>	27,771	113,753	26,004	95,619
Add / (Subtract):				
Change in concentrate inventory	235	(901)	562	(472)
Depletion and depreciation in concentrate inventory	(70)	211	(132)	194
Government royalties and mining taxes	(298)	(1,388)	(218)	(749)
Workers participation	(519)	(4,291)	(353)	(1,078)
Depletion and depreciation	(5,419)	(22,643)	(5,327)	(19,114)
Cash cost (A)	21,700	84,741	20,536	74,400
Cash cost (A)	21,700	84,741	20,536	74,400
Add / (Subtract):				
By-product credits from gold, lead, and zinc	(15,356)	(63,198)	(13,181)	(50,105)
Refining charges	1,899	7,920	1,809	6,794
Cash cost applicable per payable ounce (B)	8,243	29,463	9,164	31,089
Payable ounces of silver production (C)	1,549,464	6,287,593	1,396,295	4,420,241
Cash cost per ounce of payable silver (\$/oz) (B/C)	5.32	4.69	6.56	7.03

<sup>1</sup> 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 2014	Q4 2014	Q4 2013	Q4 2013
Cost of sales <sup>1</sup>	14,661	62,622	13,080	41,947
Add / (Subtract):				
Change in concentrate inventory	366	(1,006)	462	105
Depletion and depreciation in concentrate inventory	(98)	232	(113)	117
Government royalties and mining taxes	(71)	(487)	–	–
Workers participation	(456)	(3,556)	(81)	(81)
Depletion and depreciation	(3,425)	(15,161)	(3,320)	(9,520)
Cash cost (A)	10,977	42,644	10,028	32,568
Total processed ore (tonnes) (B)	181,702	676,959	158,218	456,048
Cash cost per tonne of processed ore (\$/t) (A/B)	60.41	62.99	63.38	71.41
Cash cost (A)	10,977	42,644	10,028	32,568
Add / (Subtract):				
By-product credits from gold	(7,791)	(32,244)	(6,017)	(19,775)
Refining charges	1,071	4,369	881	3,007
Cash cost applicable per payable ounce (C)	4,257	14,769	4,892	15,800
Payable ounces of silver production (D)	1,031,736	4,195,180	880,961	2,421,383
Cash cost per ounce of payable silver (\$/oz) (C/D)	4.13	3.52	5.55	6.53
Mining cost per tonne	32.73	31.51	34.21	34.50
Milling cost per tonne	14.11	16.08	14.27	16.95
Indirect cost per tonne	7.94	9.18	9.44	13.19
Community relations cost per tonne	1.53	1.25	1.08	1.88
Distribution cost per tonne	4.10	4.97	4.38	4.89
Total production cost per tonne	60.41	62.99	63.38	71.41

<sup>1</sup> 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 2014	Q4 2014	Q4 2013	Q4 2013
Cost of sales <sup>1</sup>	13,110	51,131	12,924	53,672
Add / (Subtract):				
Change in concentrate inventory	(131)	105	100	(577)
Depletion and depreciation in concentrate inventory	28	(21)	(19)	77
Government royalties and mining taxes	(227)	(901)	(218)	(749)
Workers participation	(63)	(735)	(272)	(997)
Depletion and depreciation	(1,994)	(7,482)	(2,007)	(9,594)
Cash cost (A)	10,723	42,097	10,508	41,832
Total processed ore (tonnes) (B)	117,060	464,823	116,127	458,560
Cash cost per tonne of processed ore (\$/t) (A/B)	91.60	90.57	90.49	91.22
Cash cost (A)	10,723	42,097	10,508	41,832
Add / (Subtract):				
By-product credits from gold, lead, and zinc	(7,565)	(30,954)	(7,164)	(30,330)
Refining charges	828	3,551	928	3,787
Cash cost applicable per payable ounce (C)	3,986	14,694	4,272	15,289
Payable ounces of silver production (D)	517,728	2,092,413	515,334	1,998,858
Cash cost per ounce of payable silver (\$/oz) (C/D)	7.70	7.02	8.29	7.65
Mining cost per tonne	44.16	43.58	40.10	39.38
Milling cost per tonne	15.41	15.32	15.31	15.02
Indirect cost per tonne	22.61	22.67	24.95	23.55
Community relations cost per tonne	0.94	0.65	2.00	4.56
Distribution cost per tonne	8.48	8.35	8.13	8.71
Total production cost per tonne	91.60	90.57	90.49	91.22

<sup>1</sup> 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, the economics of silver mining, the Company’s operating performance, and the Company’s ability to generate free cash flow from current operations and on an overall company basis.

The Company, in conjunction with an initiative undertaken within the gold mining industry, has adopted an all-in sustaining cost-performance measure; however, this performance measure has no standardized meaning. Effective June 30, 2013, the Company conformed its all-in sustaining definition to that set out in the guidance note released by the World Gold Council (“WGC,” a non-regulatory market development organization for the gold industry whose members comprise global senior gold mining companies) on June 27, 2013, and that came into effect January 1, 2014. 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 the IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with the IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under the IFRS. Although the WGC has published a standardized definition, companies may calculate these measures differently.

All-in sustaining costs include total production cash costs incurred at the Company’s mining operations, which form the basis of the Company’s by-product cash costs. Additionally, the Company includes sustaining capital expenditures, corporate selling, general and administrative expenses, and brownfields exploration expenditures. The Company believes that this measure represents the total costs of producing silver from operations and provides the Company and stakeholders of the Company with additional information on the Company’s operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production from operations, new project capital is not included. Certain other cash expenditures, including tax payments, dividends, and financing costs, are also not included. The Company reports this measure on a silver ounce sold basis.

The following tables provide a reconciliation of all-in sustaining costs per ounce to the consolidated financial statements for the three months and the years ended December 31, 2014 and 2013:

**Consolidated Mine All-in Cash Cost**

	Expressed in \$'000's			
	YTD		YTD	
	Q4 2014	Q4 2014	Q4 2013	Q4 2013
Cash cost applicable per payable ounce	8,243	29,463	9,164	31,089
Government royalty and mining tax	298	1,388	218	749
Workers' participation	629	5,321	463	1,306
Selling, general and administrative expenses (operations)	1,495	6,877	1,336	6,084
<b>Adjusted operating cash cost</b>	<b>10,665</b>	<b>43,049</b>	<b>11,181</b>	<b>39,228</b>
Selling, general and administrative expenses (corporate)	2,107	10,825	2,537	10,253
Sustaining capital expenditures <sup>1</sup>	5,383	30,395	6,754	30,728
Brownfields exploration expenditures <sup>1</sup>	1,232	6,757	1,162	10,198
<b>All-in sustaining cash cost</b>	<b>19,387</b>	<b>91,026</b>	<b>21,634</b>	<b>90,407</b>
Non-sustaining capital expenditures <sup>1</sup>	846	1,704	1,196	8,910
<b>All-in cash cost</b>	<b>20,233</b>	<b>92,730</b>	<b>22,830</b>	<b>99,317</b>
Payable ounces of silver operations	1,549,464	6,287,593	1,396,295	4,420,241
<b>All-in sustaining cash cost per payable ounce of silver</b>	<b>12.51</b>	<b>14.48</b>	<b>15.49</b>	<b>20.45</b>
<b>All-in cash cost per payable ounce of silver</b>	<b>13.06</b>	<b>14.75</b>	<b>16.35</b>	<b>22.47</b>

<sup>1</sup> presented on a cash basis

**San Jose Mine All-in Cash Cost**

	Expressed in \$'000's			
	YTD		YTD	
	Q4 2014	Q4 2014	Q4 2013	Q4 2013
Cash cost applicable per payable ounce	4,257	14,769	4,892	15,800
Government royalty and mining tax	71	487	–	–
Workers' participation	570	4,445	101	101
Selling, general and administrative expenses (operations)	634	3,466	743	3,347
<b>Adjusted operating cash cost</b>	<b>5,532</b>	<b>23,167</b>	<b>5,736</b>	<b>19,248</b>
Sustaining capital expenditures <sup>1</sup>	3,037	21,477	2,751	13,045
Brownfields exploration expenditures <sup>1</sup>	1,146	5,978	1,006	6,180
<b>All-in sustaining cash cost</b>	<b>9,715</b>	<b>50,622</b>	<b>9,493</b>	<b>38,473</b>
Non-sustaining capital expenditures <sup>1</sup>	680	1,551	1,196	8,910
<b>All-in cash cost</b>	<b>10,395</b>	<b>52,173</b>	<b>10,689</b>	<b>47,383</b>
Payable ounces of silver operations	1,031,736	4,195,180	880,961	2,421,383
<b>All-in sustaining cash cost per payable ounce of silver</b>	<b>9.42</b>	<b>12.07</b>	<b>10.78</b>	<b>15.89</b>
<b>All-in cash cost per payable ounce of silver</b>	<b>10.08</b>	<b>12.44</b>	<b>12.13</b>	<b>19.57</b>

<sup>1</sup> presented on a cash basis**Caylloma Mine All-in Cash Cost**

	Expressed in \$'000's			
	YTD		YTD	
	Q4 2014	Q4 2014	Q4 2013	Q4 2013
Cash cost applicable per payable ounce	3,986	14,694	4,272	15,289
Government royalty and mining tax	227	901	218	749
Workers' participation	73	859	315	1,158
Selling, general and administrative expenses (operations)	861	3,411	593	2,737
<b>Adjusted operating cash cost</b>	<b>5,147</b>	<b>19,865</b>	<b>5,398</b>	<b>19,933</b>
Sustaining capital expenditures <sup>1</sup>	2,346	8,918	4,003	17,683
Brownfields exploration expenditures <sup>1</sup>	86	779	156	4,018
<b>All-in sustaining cash cost</b>	<b>7,579</b>	<b>29,562</b>	<b>9,557</b>	<b>41,634</b>
Non-sustaining capital expenditures <sup>1</sup>	166	153	–	–
<b>All-in cash cost</b>	<b>7,745</b>	<b>29,715</b>	<b>9,557</b>	<b>41,634</b>
Payable ounces of silver operations	517,728	2,092,413	515,334	1,998,858
<b>All-in sustaining cash cost per payable ounce of silver</b>	<b>14.64</b>	<b>14.13</b>	<b>18.55</b>	<b>20.83</b>
<b>All-in cash cost per payable ounce of silver</b>	<b>14.96</b>	<b>14.20</b>	<b>18.55</b>	<b>20.83</b>

<sup>1</sup> presented on a cash basis**Adjusted net income (non-GAAP financial measure)**

The Company uses the financial measures “adjusted net income” to supplement information in its consolidated financial statements. The Company believes that in addition to conventional measures prepared in accordance with IFRS, the Company and certain investors and analysts use this information to evaluate the Company’s performance. The term “adjusted net income” does not have a standardized meaning prescribed by IFRS, and therefore the Company’s definitions are unlikely to be comparable to similar measures presented by other companies.

	Expressed in \$ millions			
	Three months ended December 31,		Years ended December 31,	
	2014	2013	2014	2013
<b>NET INCOME (LOSS) FOR THE YEAR</b>	\$ 0.1	\$ (14.9)	\$ 15.6	\$ (19.1)
Items of note, net of tax:				
Write-off of mineral properties	–	–	–	0.4
Impairment of mineral properties, plant and equipment	–	10.2	–	20.4
Impairment of inventories	\$ 0.1	–	0.1	–
Initial recognition impact of Mexican mining tax reform	–	7.7	–	7.7
<b>ADJUSTED NET INCOME FOR THE YEAR <sup>1</sup></b>	<b>\$ 0.2</b>	<b>\$ 3.0</b>	<b>\$ 15.7</b>	<b>\$ 9.4</b>

<sup>1</sup> A non-GAAP financial measure

### Additional Measures (non-GAAP financial measures)

The Company uses other financial measures the presentation of which is not meant to be a substitute for other subtotals or totals presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measures. The following other financial measures are used: operating cash flow per share before changes in working capital, and mine operating earnings. The terms described below do not have standardized meaning prescribed by IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies. The Company's management believes that their presentation provides useful information to investors.

### Operating cash flow per share before changes in working capital (non-GAAP financial measure)

	Expressed in \$'000's (except per share measures)			
	Three months ended December 31,		Years ended December 31,	
	2014	2013	2014	2013
Net income (loss) for the year	\$ 57	\$ (14,930)	\$ 15,602	\$ (19,100)
Items not involving cash	10,712	27,456	47,295	63,851
	\$ 10,769	\$ 12,526	\$ 62,897	\$ 44,751
Income taxes paid	(890)	(1,408)	(3,417)	(4,430)
Interest expense paid	–	(3)	(4)	(20)
Interest income received	87	69	275	608
Cash generated by operating activities before changes in working capital	\$ 9,966	\$ 11,184	\$ 59,751	\$ 40,909
Divided by				
Weighted average number of shares ('000's)	127,700	125,974	126,787	125,553
<b>Operating cash flow per share before changes in working capital <sup>1</sup></b>	<b>\$ 0.08</b>	<b>\$ 0.09</b>	<b>\$ 0.47</b>	<b>\$ 0.33</b>

<sup>1</sup> A non-GAAP financial measure

### Mine operating earnings (non-GAAP financial measure)

	Expressed in \$'000's			
	Three months ended December 31,		Years ended December 31,	
	2014	2013	2014	2013
Sales	\$ 37,823	\$ 36,377	\$ 174,006	\$ 137,394
Cost of sales	27,771	26,004	113,753	95,619
<b>Mine operating earnings <sup>1</sup></b>	<b>\$ 10,052</b>	<b>\$ 10,373</b>	<b>\$ 60,253</b>	<b>\$ 41,775</b>

<sup>1</sup> A non-GAAP financial measure

## Liquidity and Capital Resources

### Full-Year 2014 Liquidity and Capital Resources

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

The Company's cash and cash equivalents as at December 31, 2014, totaled \$42.9 million (December 31, 2013: \$31.7 million), and short term investments totaled \$34.4 million (December 31, 2013: \$17.4 million).

Working capital for the year ended December 31, 2014 increased \$16.0 million, to \$82.4 million (December 31, 2013: \$66.4 million). This reflects the increases in cash and cash equivalents of \$11.2 million, short term investments of \$17.0 million, accounts receivable and other assets of \$3.5 million, and a decrease in the current portion of other liabilities of \$0.3 million. The increase in working capital was offset by a decrease in inventories of \$0.6 million, and increases in trade and other payables of \$5.6 million, provisions of \$0.1 million, and income taxes payable of \$9.7 million.

During the year ended December 31, 2014, cash and cash equivalents increased \$11.5 million (2013: decreased \$26.4 million). The increase was due to net cash provided by operating activities of \$60.2 million, net cash used in investing activities of \$57.0 million, and net cash provided by financing activities of \$8.2 million. Exchange rate changes had a negative impact of \$0.3 million on cash and cash equivalents. Compared with 2013, the Company's expenditures on mineral properties, plant and equipment decreased \$21.6 million, net purchases of short-term investments increased \$5.9 million, cash provided by operating activities increased \$15.2 million, and exchange rate changes decreased \$0.3 million.

During the year ended December 31, 2014, cash generated by operating activities before changes in non-cash working capital items, income taxes paid, and interest income paid and received was \$59.8 million (2013: \$40.9 million). Net cash provided by operating activities amounted to \$60.2 million (2013: \$45.0 million). This includes income taxes paid and interest income paid and received of \$3.1 million (2013: \$3.8 million) and changes in non-cash working capital items of \$0.4 million (2013: \$4.0 million).

Cash used by the Company in investing activities for the year ended December 31, 2014, totaled \$57.0 million (2013: \$71.7 million) and comprised of the following:

- \$18.0 million (2013: \$12.1 million) in net purchases of short-term investments,
- \$38.9 million (2013: \$60.5 million) in expenditures on mineral properties, plant and equipment, and
- \$0.1 million in net advances (2013: net receipts \$0.9 million) on deposits on long-term assets.

Investing activities included \$38.9 million of expenditures on mineral properties, plant and equipment that comprised of the following \$20.8 million for plant and equipment, \$1.4 million for infill drilling, \$9.9 million for mine development, and \$6.8 million for brownfields exploration.

During the year ended December 31, 2014, cash provided by financing activities totaled \$8.2 million (2013: provided \$0.3 million) and comprised the repayment of finance lease obligations of \$0.3 million (2013: \$0.4 million) and net proceeds on the issuance of common shares of \$8.5 million (2013: \$0.7 million).

### Fourth Quarter 2014 Liquidity and Capital Resources

During the three months ended December 31, 2014, cash and cash equivalents increased \$2.4 million (Q4 2013: increased \$0.7 million). The increase was due to net cash provided by operating activities of \$9.3 million, net cash used in investing activities of \$11.7 million, and net cash provided by financing activities of \$4.8 million. Exchange rate changes had no impact on cash and cash equivalents. Compared with Q4 2013, the Company's expenditures on mineral properties, plant and equipment decreased \$1.7 million, net purchase of short-term investments decreased \$4.2 million, cash provided by operating activities decreased \$7.5 million, and exchange rate changes decreased by \$0.3 million.

During the three months ended December 31, 2014, cash generated by operating activities before changes in non-cash working capital items, income taxes paid, and interest income paid and received was \$10.0 million (Q4 2013: \$11.2 million). Net cash provided by operating activities amounted to \$9.3 million (Q4 2013: \$16.8 million). This includes income taxes paid and interest income paid and received of \$0.8 million (Q4 2013: \$1.3 million) and changes in non-cash working capital items of \$0.7 million (Q4 2013: \$5.6 million).

Cash used by the Company in investing activities for the three months ended December 31, 2014, totaled \$11.7 million (Q4 2013: \$16.0 million) and comprised of the following:

- \$3.2 million (Q4 2013: \$7.4 million) in net purchases of short-term investments,
- \$7.5 million (Q4 2013: \$9.2 million) in expenditures on mineral properties, plant and equipment, and
- \$1.0 million in net advances (Q4 2013: net receipts \$0.6 million) on deposits on long-term assets.

Investing activities included \$7.5 million of expenditures on mineral properties, plant and equipment that comprised of the following: \$3.9 million for plant and equipment, \$2.4 million for mine development, and \$1.2 million for brownfields exploration.

During the three months ended December 31, 2014, cash provided by financing activities totaled \$4.8 million (Q4 2013: \$0.1 million) and comprised the repayment of finance lease obligations of \$nil (Q4 2013: \$0.1 million) and net proceeds on the issuance of common shares of \$4.8 million (Q4 2013: \$nil).

### Contractual Obligations

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

	Expressed in \$ millions				
	Expected payments due by period as at December 31, 2014				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Trade and other payables	\$ 21.5	\$ -	\$ -	\$ -	\$ 21.5
Income tax payable	9.7	-	-	-	9.7
Long term liabilities	-	4.7	-	-	4.7
Operating leases	0.7	1.3	0.1	-	2.1
Provisions	1.0	0.9	1.6	11.4	14.9
	<b>\$ 32.9</b>	<b>\$ 6.9</b>	<b>\$ 1.7</b>	<b>\$ 11.4</b>	<b>\$ 52.9</b>

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, 2014, there are no capital commitments.

### Other Commitments (expressed in \$'000's)

The Company has a contract to guarantee the power supply at its Caylloma Mine. Under the contract, the seller is obligated to deliver a "maximum committed demand" (for the present term this stands at 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 the renewal date.

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

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business.

The expected payments due by period as at December 31, 2014 are as follows:

	Expressed in \$'000's			
	Expected payments due by period as at December 31, 2014			
	Less than 1 year	1-3 years	4-5 years	Total
Office premises – Canada	\$ 132	\$ 452	\$ 126	\$ 710
Office premises – Peru	396	\$ 580	-	976
Office premises – Mexico	15	-	-	15
<b>Total office premises</b>	<b>\$ 543</b>	<b>\$ 1,032</b>	<b>\$ 126</b>	<b>\$ 1,701</b>
Computer equipment – Peru	185	164	-	349
Computer equipment – Mexico	17	-	-	17
<b>Total computer equipment</b>	<b>\$ 202</b>	<b>\$ 164</b>	<b>\$ -</b>	<b>\$ 366</b>
Machinery – Mexico	-	79	-	79
<b>Total machinery</b>	<b>\$ -</b>	<b>\$ 79</b>	<b>\$ -</b>	<b>\$ 79</b>
<b>Total operating leases</b>	<b>\$ 745</b>	<b>\$ 1,275</b>	<b>\$ 126</b>	<b>\$ 2,146</b>



**Tax Contingencies (expressed in \$'000's)**

The Company has been assessed taxes and related interest and penalties, in Peru by SUNAT, for tax years 2010, 2011, and 2012, in the amounts of \$1,161, \$740, and \$110, respectively, for a total of \$2,011. The Company is currently appealing the assessments and believes the appeals will be ruled in favor of the Company. Subsequent to December 31, 2014, the Company has provided as a guarantee by way of letter bond in the amount of \$776.

**Other Contingencies**

The Company is subject to various investigations, claims, legal, labor and tax proceedings covering matters that arise in the ordinary course of business activities. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably for the Company. Certain conditions may exist as of the date the financial statements are issued that 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.

**Guarantees and Indemnifications (expressed in \$'000's)**

The Company may provide guarantees and indemnifications in conjunction with transactions in the normal course of operations. These are recorded as liabilities when reasonable estimates of the obligations can be made. Indemnifications that the Company has provided include the obligation to indemnify the following:

- directors and officers of the Company and its subsidiaries for potential liability while acting as a director or officer of the Company, together with various expenses associated with defending and settling such suits or actions due to association with the Company; and,
- certain vendors of an acquired company for obligations that may or may not have been known at the date of the transaction.

The dollar value of guarantees and indemnifications cannot be reasonably estimated.

The Caylloma Mine closure plan was approved in November 2009 with total closure costs of \$3,587 of which \$1,756 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 \$1,842 (2013: \$1,204). This bank letter of guarantee expires on December 31, 2015.

Scotiabank Peru, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian Energy and Mining Ministry to collateralize Bateas's regulatory compliance with the electric transmission line project, in the amount of \$3 (2013: \$3). This bank letter of guarantee expires on December 6, 2015.

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

**Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on the financial condition, results of operations, liquidity, capital expenditures, or capital resources that are material to investors, other than those disclosed in this MD&A and the consolidated financial statements and the related notes.

## Related Party Transactions

(expressed in \$'000's)

### a) Purchase of Goods and Services

The Company entered into the following related party transactions:

	Expressed in \$'000's			
	Three months ended December 31,		Years ended December 31,	
	2014	2013	2014	2013
Salaries and wages <sup>1,2</sup>	\$ 15	\$ 15	\$ 83	\$ 86
Other general and administrative expenses <sup>2</sup>	16	21	108	130
	\$ 31	\$ 36	\$ 191	\$ 216

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

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

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

Subsequent to December 31, 2014, the Company paid \$50 under the option agreement to Radius.

### 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			
	Three months ended December 31,		Years ended December 31,	
	2014	2013	2014	2013
Salaries and other short term				
employee benefits	\$ 1,292	\$ 884	\$ 4,828	\$ 2,849
Directors fees	97	106	390	409
Consulting fees	40	43	163	175
Share-based payments	1,437	(14)	6,178	2,683
	\$ 2,866	\$ 1,019	\$ 11,559	\$ 6,116

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

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

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.

Amounts due from related parties	Expressed in \$'000's	
	December 31, 2014	December 31, 2013
Owing to company(ies) with common directors <sup>3</sup>	\$ 9	\$ 20

<sup>3</sup> Owing to Gold Group Management Inc. ("Gold Group") who has a director in common with the Company.

## Significant Accounting Judgments and Estimates

The preparation of the 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 property and related determination of the net realizable value and write-down of those properties where applicable;
- the determination of the fair value of financial instruments and derivatives included in the consolidated statements of financial position;
- the fair value estimation of share-based awards included in the consolidated statements of financial position and the inputs used in accounting for share-based compensation expense in the consolidated statements of income;

- the provision for income taxes which is included in the consolidated statements of income and composition of deferred income tax asset and liabilities included in the consolidated statement of financial position;
- the recognition of deferred income tax assets, amounts recorded for uncertain tax positions, the measurement of income tax expense and indirect taxes included in the consolidated statement of financial position;
- the inputs used in determining the net present value of the liability for provisions related to decommissioning and restoration included in the consolidated statements of financial position; and,
- the inputs used in determining the various commitments and contingencies accrued in the consolidated statements of financial position.

## Financial Instruments and Related Risks

(expressed in ('000's)

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

### a) Fair Value 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, 2014, there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

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

##### Fair Value Measurements

	Expressed in \$'000's			Aggregate Fair Value
	Quoted Prices in Active Markets for Identical Assets	Significant and Other Observable Inputs	Significant Unobservable inputs	
At December 31, 2014	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 42,867	\$ –	\$ –	\$ 42,867
Short term investments	34,391	–	–	34,391
Trade receivable from concentrate sales <sup>1</sup>	–	16,573	–	16,573
	\$ 77,258	\$ 16,573	\$ –	\$ 93,831

<sup>1</sup> 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.

At December 31, 2013	Expressed in \$'000's			Aggregate Fair Value
	Quoted Prices in Active Markets for Identical Assets	Significant and Other Observable Inputs	Significant Unobservable inputs	
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 31,704	\$ –	\$ –	\$ 31,704
Short term investments	17,411	–	–	17,411
Trade receivable from concentrate sales <sup>1</sup>	–	9,797	–	9,797
	\$ 49,115	\$ 9,797	\$ –	\$ 58,912

## ii. Fair Value of Financial Assets and Liabilities

	Expressed in \$'000's			
	December 31, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets</b>				
Cash and cash equivalents <sup>1</sup>	\$ 42,867	\$ 42,867	\$ 31,704	\$ 31,704
Short term investments <sup>1</sup>	34,391	34,391	17,411	17,411
Trade receivable from concentrate sales <sup>2</sup>	16,573	16,573	9,797	9,797
Advances and other receivables	2,906	2,906	3,883	3,883
	\$ 96,737	\$ 96,737	\$ 62,795	\$ 62,795
<b>Financial liabilities</b>				
Trade and other payables <sup>1</sup>	\$ 20,072	\$ 20,072	\$ 15,272	\$ 15,272
Due to related parties <sup>1</sup>	9	9	20	20
Other liabilities <sup>3</sup>	38	38	254	258
Income tax payable <sup>1</sup>	9,745	9,745	50	50
	\$ 29,864	\$ 29,864	\$ 15,596	\$ 15,600

<sup>1</sup> Fair value approximates the carrying amount due to the short term nature and historically negligible credit losses.

<sup>2</sup> 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.

<sup>3</sup> Other liabilities are recorded at amortized costs. The fair value of other liabilities are primarily determined using quoted market prices. Balance includes current portion of other liabilities.

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

	Expressed in '000's					
	December 31, 2014			December 31, 2013		
	Canadian Dollars	Nuevo Soles	Mexican Pesos	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	\$ 2,695	S/. 8,633	\$ 56,739	\$ 2,699	S/. 619	\$ 10,994
Short term investments	7,696	–	–	3,286	–	–
Accounts receivable and other assets	897	4,190	15,692	306	7,917	33,818
Deposits on long term assets and long term borrowing costs	71	–	19,096	355	–	–
Trade and other payables	(2,220)	(12,387)	(117,848)	(1,181)	(12,659)	(49,618)
Due to related parties	(11)	–	–	(22)	–	–
Provisions, current	–	(767)	(8,138)	–	(349)	(6,499)
Income tax payable	–	(37)	(143,426)	–	(2,213)	–
Other liabilities	(5,376)	–	(563)	(2,477)	–	(350)
Provisions	–	(20,710)	(73,001)	–	(18,544)	(45,499)
<b>Total</b>	<b>\$ 3,752</b>	<b>S/. (21,078)</b>	<b>\$ (251,449)</b>	<b>\$ 2,966</b>	<b>S/. (25,229)</b>	<b>\$ (57,154)</b>
<b>Total US\$ equivalent</b>	<b>\$ 3,226</b>	<b>\$ (7,052)</b>	<b>\$ (17,084)</b>	<b>\$ 2,773</b>	<b>\$ (9,023)</b>	<b>\$ (4,371)</b>

Based on the above net exposure as at December 31, 2014, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the above currencies would result in an increase or decrease, as follows: impact to other comprehensive income of \$358 (2013: \$308) and an impact to net income of \$2,682 (2013: \$1,489).

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

### c) Credit Risk

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

The Company's maximum exposure to credit risk as at December 31, 2014 is as follows:

	Expressed in \$'000's	
	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 42,867	\$ 31,704
Short term investments	34,391	17,411
Accounts receivable and other assets	20,585	17,040
	<b>\$ 97,843</b>	<b>\$ 66,155</b>

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.

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.

Subsequent to December 31, 2014, the Company is proposing to enter into an amended and restated credit agreement with the Bank of Nova Scotia for a \$60 million senior secured financing ("credit facility") consisting of a \$40 million term credit facility with a 4 year term and a \$20 million revolving credit facility for a two year period. The credit facility is to be 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.

(Refer to Contractual Obligations for the expected payments due as at December 31, 2014.)

## **Significant Changes, Including Initial Adoption of Accounting Standards**

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

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

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

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

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

***IFRS 3 Business Combinations – Contingent consideration (Amendment)***

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

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

## **New Accounting Standards**

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

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

**IFRS 11 Joint Arrangements (Amendment)**

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

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

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

**IFRS 15 Revenue from Contracts with Customers**

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

**IFRS 9 Financial Instruments - Classification and Measurement**

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

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

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

**IFRS 9 Financial Instruments - Expected Credit Losses**

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

## Other Data

Additional information related to the Company is available for viewing at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.fortunasilver.com](http://www.fortunasilver.com).



## Share Position and Outstanding Warrants and Options

The Company's outstanding share position as at March 12, 2015 is 128,845,842 common shares. In addition, 2,636,146 incentive stock options are currently outstanding as follows:

Type of Security	No. of Shares	Exercise Price (CAD\$)	Expiry Date
Incentive Stock Options:	245,000	\$4.03	May 29, 2015
	160,000	\$1.35	February 5, 2016
	10,000	\$1.75	May 8, 2016
	888,880	\$3.38	May 29, 2016
	103,800	\$1.55	July 5, 2016
	250,000	\$2.22	January 11, 2017
	49,084	\$6.67	February 20, 2017
	659,382	\$4.30	March 23, 2017
	250,000	\$0.85	October 5, 2018
	20,000	\$0.85	November 5, 2018
<b>Total Outstanding Options</b>	<b>2,636,146</b>		

## 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 available at [www.sedar.com](http://www.sedar.com) and [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml).

## Controls and Procedures

### Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the SEC and the Canadian Securities Administrators ("CSA") as of December 31, 2014, 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, 2014, the Company's internal control over financial reporting was effective and no material weaknesses were identified.

## Qualified Persons

Thomas I. Vehrs, Ph.D., Vice President of Exploration, is a Qualified Person for Fortuna Silver Mines Inc. as defined by National Instrument 43-101. Dr. Vehrs is a Founding Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc. (SME Registered Member Number 3323430RM) and is responsible for ensuring that the technical information contained in this Management's Discussion and Analysis is an accurate summary of the original reports and data provided to or developed by Fortuna Silver Mines Inc.

## Cautionary Statement on Forward-Looking Statements

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

- mineral "reserves" and "resources" as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future;
- timing of the completion of construction activities at the Company's properties and their completion on budget;
- production rates at the Company's properties;
- cash cost estimates;
- timing for delivery of materials and equipment for the Company's properties;
- the sufficiency of the Company's cash position and its ability to raise equity capital or access debt facilities;
- the Company's planned processing and estimated major investments for mine development, plant expansion, filter facility and dry stack tailings deposit project, and brownfields exploration at the San Jose property during 2015;
- the Company's planned processing and estimated major investments for mine development, plant optimization and brownfields exploration at the Caylloma property during 2015;
- management's expectation that there are no off-balance sheet arrangements or commitments that will have a material effect on the Company's financial condition other than those disclosed in this MD&A and the consolidated financial statements;
- maturities of the Company's financial liabilities, finance leases and other contractual commitments;
- expiry dates of bank letters of guarantee;
- estimated mine closure costs;
- management's expectation that any investigations, claims, and legal, labor and tax proceedings arising in the ordinary course of business will not have a material effect on the results of operations or financial condition of the Company; and,
- management's belief that there has been no change in the Company's internal control over financial reporting that occurred during 2014 that is reasonably likely to materially affect its internal control over financial reporting.

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

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

- uncertainty of mineral resource and reserve estimates;
- risks associated with mineral exploration and project development;
- operational risks associated with mining and mineral processing;
- uncertainty relating to concentrate treatment charges and transportation costs;
- uncertainty relating to capital and operating costs, production schedules, and economic returns;
- uncertainties relating to general economic conditions;
- competition;
- substantial reliance on the Caylloma and San Jose mines for revenues;

- risks related to the integration of businesses and assets acquired by the Company;
- risks associated with potential legal proceedings;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- fluctuations in metal prices;
- risks associated with entering into commodity forward and option contracts for base metals production;
- environmental matters including potential liability claims;
- reliance on key personnel;
- potential conflicts of interest involving the Company's directors and officers;
- property title matters;
- dilution from further equity financing;
- currency exchange rate fluctuations;
- adequacy of insurance coverage;
- sufficiency of monies allotted for land reclamation ; and
- potential legal proceedings;

as well as those factors referred to in the "Risks and Uncertainties" section in this MD&A and in the "Risk Factors" section in the Company's Annual Information Form filed with the Canadian Securities Administrators and the U.S. Securities and Exchange Commission and available at [www.sedar.com](http://www.sedar.com) and [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in Forward-looking Statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended.

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

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

and such other assumptions as set out herein. Forward-looking Statements are made as of the date of this MD&A and the Company disclaims any obligation to update any Forward-looking Statements, whether as a result of new information, future events or results or otherwise, except as required by law. 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 should not place undue reliance on Forward-looking Statements.

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated financial statements of Fortuna Silver Mines Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of net income (loss), consolidated statements of comprehensive income (loss), consolidated statements of cash flows, and consolidated statements of changes in equity for the years then ended December 31, 2014 and 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fortuna Silver Mines Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*(Signed) Deloitte LLP*

Chartered Accountants  
March 12, 2015  
Vancouver, Canada

## Consolidated Statements of Net Income (Loss)

**FOR THE YEARS ENDED DECEMBER 31,**

(Expressed in thousands of US Dollars, except for share and per share amounts)

	Notes	2014	2013
<b>Sales</b>	<b>17</b>	\$ 174,006	\$ 137,394
<b>Cost of sales</b>	<b>18</b>	113,753	95,619
<b>Mine operating earnings</b>		60,253	41,775
<b>Other expenses</b>			
Selling, general and administrative expenses	9 a), 9 b), 19	25,225	19,783
Exploration and evaluation costs	20	–	418
Loss on disposal of mineral properties, plant and equipment		66	78
Restructuring and severance costs	21	1,091	493
Write-off of mineral properties, plant and equipment	7 b)	–	570
Impairment of mineral properties, plant and equipment	7 d)	–	30,000
Impairment of inventories	6	121	62
<b>Operating income (loss)</b>		33,750	(9,629)
<b>Finance items</b>			
Interest income		281	591
Interest expense		(1,152)	(932)
<b>Net finance expense</b>	<b>22</b>	(871)	(341)
<b>Income (loss) before tax</b>		32,879	(9,970)
Income taxes	12	17,277	9,130
<b>Net income (loss) for the year</b>		\$ 15,602	\$ (19,100)
<b>Earnings (loss) per share – Basic</b>	<b>13 e) i</b>	\$ 0.12	\$ (0.15)
<b>Earnings (loss) per share – Diluted</b>	<b>13 e) ii</b>	\$ 0.12	\$ (0.15)
<b>Weighted average number of shares outstanding – Basic</b>	<b>13 e) i</b>	126,786,921	125,552,597
<b>Weighted average number of shares outstanding – Diluted</b>	<b>13 e) ii</b>	128,142,977	126,547,754

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

## Consolidated Statements of Comprehensive Income (Loss)

FOR THE YEARS ENDED DECEMBER 31,

(Expressed in thousands of US Dollars)

	2014	2013
<b>Net income (loss) for the year</b>	\$ 15,602	\$ (19,100)
<b>Other comprehensive income (loss)</b>		
<b>Items that may be classified subsequently to net income</b>		
Unrealized loss on translation of net investment, net of nil taxes	(2,001)	(1,454)
Unrealized gain on translation to presentation currency on foreign operations, net of nil taxes	887	230
	(1,114)	(1,224)
<b>Total comprehensive income (loss) for the year</b>	\$ 14,488	\$ (20,324)

*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	2014	2013
<b>OPERATING ACTIVITIES</b>			
Net income (loss) for the year		\$ 15,602	\$ (19,100)
Items not involving cash			
Depletion and depreciation		23,517	20,304
Accretion of provisions		744	539
Income taxes		17,277	9,130
Share-based payments		5,586	3,221
Write-off of mineral properties		–	570
Impairment of mineral properties, plant and equipment		–	30,000
Impairment of inventories		121	62
Loss on disposal of mineral properties, plant and equipment		66	78
Accrued interest on long term loans receivable and payable		(27)	(61)
Other		11	8
		62,897	44,751
Changes in non-cash working capital items			
Accounts receivable and other assets		(4,521)	8,538
Prepaid expenses		(49)	(340)
Due from related parties		–	4
Inventories		282	(2,648)
Trade and other payables		4,910	(1,339)
Due to related parties		(10)	(31)
Provisions		(171)	(139)
<b>Cash provided by operating activities before interest and income taxes</b>		<b>63,338</b>	<b>48,796</b>
Income taxes paid		(3,417)	(4,430)
Interest expense paid		(4)	(20)
Interest income received		275	608
<b>Net cash provided by operating activities</b>		<b>60,192</b>	<b>44,954</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of short term investments		(65,657)	(27,241)
Redemptions of short term investments		47,641	15,178
Expenditures on mineral properties, plant and equipment	17	(38,943)	(60,507)
Advances of deposits on long term assets		(4,667)	(7,984)
Receipts of deposits on long term assets		4,599	8,846
Proceeds on disposal of mineral properties, plant and equipment		67	49
<b>Net cash used in investing activities</b>		<b>(56,960)</b>	<b>(71,659)</b>
<b>FINANCING ACTIVITIES</b>			
Net proceeds on issuance of common shares		8,458	707
Repayment of finance lease obligations		(227)	(449)
<b>Net cash provided by financing activities</b>		<b>8,231</b>	<b>258</b>
Effect of exchange rate changes on cash and cash equivalents		(300)	(569)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>11,463</b>	<b>(26,447)</b>
Cash and cash equivalents – beginning of year		31,704	58,720
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>		<b>\$ 42,867</b>	<b>\$ 31,704</b>
<b>Supplemental cash flow information</b>	<b>14</b>		

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	2014	2013
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	\$ 42,867	\$ 31,704
Short term investments	4	34,391	17,411
Accounts receivable and other assets	5	20,585	17,040
Prepaid expenses		1,592	1,578
Inventories	6	14,937	15,488
Total current assets		114,372	83,221
<b>NON-CURRENT ASSETS</b>			
Deposits on long term assets	5	1,963	1,882
Deferred income tax assets	12	126	151
Mineral properties, plant and equipment	7	233,849	216,961
<b>Total assets</b>		<b>\$ 350,310</b>	<b>\$ 302,215</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	\$ 21,458	\$ 15,897
Due to related parties	9 c)	9	20
Provisions	11	809	622
Income tax payable	12	9,745	50
Current portion of other liabilities	10	–	227
Total current liabilities		32,021	16,816
<b>NON-CURRENT LIABILITIES</b>			
Other liabilities	10	4,661	2,343
Provisions	11	11,889	10,112
Deferred income tax liabilities	12	29,026	25,284
Total liabilities		77,597	54,555
<b>EQUITY</b>			
Share capital		201,057	189,092
Share option and warrant reserve		13,800	15,200
Retained earnings		55,846	40,244
Accumulated other comprehensive income		2,010	3,124
Total equity		272,713	247,660
<b>Total liabilities and equity</b>		<b>\$ 350,310</b>	<b>\$ 302,215</b>
<b>Contingencies and capital commitments</b>	<b>23</b>		

**APPROVED BY THE DIRECTORS:**

“Jorge Ganoza Durant”, Director

Jorge Ganoza Durant

“Robert R. Gilmore”, Director

Robert R. Gilmore

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



## 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						Total Equity
	Notes	Share Capital		Share Option and Warrant Reserve	Retained Earnings	Accumulated Other Comprehensive Income ("AOCI")	
		Number of Shares	Amount				
Balance – December 31, 2013		125,973,966	\$ 189,092	\$ 15,200	\$ 40,244	\$ 3,124	\$ 247,660
Exercise of options		2,563,776	8,458	–	–	–	8,458
Transfer of share option and warrant reserve on exercise of options		–	3,507	(3,507)	–	–	–
Share-based payments expense		–	–	2,108	–	–	2,108
Net income for the period		–	–	–	15,602	–	15,602
Unrealized loss on translation of net investment		–	–	–	–	(2,001)	(2,001)
Unrealized gain on translation to presentation currency on foreign operations		–	–	–	–	887	887
Total comprehensive loss for the year					15,602	(1,114)	14,488
<b>Balance – December 31, 2014</b>		<b>128,537,742</b>	<b>\$ 201,057</b>	<b>\$ 13,800</b>	<b>\$ 55,846</b>	<b>\$ 2,010</b>	<b>\$ 272,713</b>
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	13 a)	11,415	49	–	–	–	49
Transfer of share option and warrant reserve on exercise of options		–	529	(529)	–	–	–
Share-based payments expense		–	–	2,734	–	–	2,734
Net loss for the period		–	–	–	(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

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

# Notes to the Consolidated Financial Statements

## FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

### 1. Corporate Information

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

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

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

### 2. Basis of Consolidation and Summary of Significant Accounting Policies

#### a) Statement of Compliance

These 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, 2014. The Board of Directors approved these financial statements for issue on March 12, 2015.

#### 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, 2014 were as follows:

Name	Entity Type at December 31, 2014	Location	Economic Interest at December 31, 2014	Principal Activity	Method
Minera Bateas S.A.C. ("Bateas")	Subsidiary	Peru	100%	Caylloma Mine	Consolidation
Fortuna Silver Mines Peru S.A.C. ("FSM Peru")	Subsidiary	Peru	100%	Service company	Consolidation
Compania Minera Cuzcatlan SA ("Cuzcatlan")	Subsidiary	Mexico	100%	San Jose Mine	Consolidation
Fortuna Silver Mexico, S.A. de CV. ("FS Mexico")	Subsidiary	Mexico	100%	Exploration company	Consolidation
Fortuna Silver (Barbados) Inc. ("Barbados")	Subsidiary	Barbados	100%	Holding company	Consolidation
Continuum Resources Ltd. ("Continuum")	Subsidiary	Canada	100%	Holding company	Consolidation

As at December 31, 2014, the Company has no joint arrangements or associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
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## 2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)

### 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:

<i>Land and buildings</i>		
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
<i>Plant and equipment</i>		
Machinery and equipment	3 – 15 years	Straight line
Furniture and other equipment	3 – 13 years	Straight line
Transport units	4 – 5 years	Straight line
<i>Capital work in progress</i>	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.

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**2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)**  
**e) Mineral Properties, Plant and Equipment (Continued)**

**i. Exploration and Evaluation Assets**

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

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

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

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

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

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

**ii. Operational Mining Properties and Mine Development**

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

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

**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.

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## **2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)**

### **f) Asset Impairment (Continued)**

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.

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**2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)**  
**h) Provisions (Continued)**

**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 expected 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.

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## **2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)**

### **k.) Income Taxes (Continued)**

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

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

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

### **l) Share-Based Payments**

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

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

#### **i. Stock Option Plan**

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

#### **ii. Deferred Share Unit ("DSU") Plan**

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

#### **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)**  
**n) Foreign Currency Translation (Continued)**

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.



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

**o) Financial Instruments (Continued)**

**e) Impairment of Financial Assets (Continued)**

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.

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## **2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)**

### **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 16. a).

### **q) Segment Reporting**

The Company's operating segments are based on the reports reviewed by the senior management group that are used to make strategic decisions. The Chief Executive Officer considers the business from a geographic perspective considering the performance of the Company's business units.

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

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

### **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:

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## **2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)**

### **u) Significant Accounting Judgments and Estimates (Continued)**

#### **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 property and related determination of the net realizable value and write-down of those properties where applicable;
- the determination of the fair value of financial instruments and derivatives included in the consolidated statements of financial position;
- the fair value estimation of share-based awards included in the consolidated statements of financial position and the inputs used in accounting for share-based compensation expense in the consolidated statements of income;
- the provision for income taxes which is included in the consolidated statements of income and composition of deferred income tax asset and liabilities included in the consolidated statement of financial position;
- the recognition of deferred income tax assets, amounts recorded for uncertain tax positions, the measurement of income tax expense and indirect taxes included in the consolidated statement of financial position;
- the inputs used in determining the net present value of the liability for provisions related to decommissioning and restoration included in the consolidated statements of financial position; and,
- the inputs used in determining the various commitments and contingencies accrued in the consolidated statements of financial position.

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

### v) Significant Changes Including Initial Adoption of Accounting Standards

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

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

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

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

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

#### **IFRS 3 Business Combinations – Contingent consideration (Amendment)**

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

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

### 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.

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

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

#### **IFRS 11 Joint Arrangements (Amendment)**

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

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

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

#### **IFRS 15 Revenue from Contracts with Customers**

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

#### **IFRS 9 Financial Instruments – Classification and Measurement**

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

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**2. Basis of Consolidation and Summary of Significant Accounting Policies (Continued)**  
**w) New Accounting Standards (Continued)**

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

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

**IFRS 9 Financial Instruments – Expected Credit Losses**

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

### 3. Cash and Cash Equivalents

	December 31, 2014	December 31, 2013
Cash	\$ 15,234	\$ 11,066
Cash equivalents	27,633	20,638
	\$ 42,867	\$ 31,704

### 4. Short Term Investments

	December 31, 2014	December 31, 2013
Held for trading short term investments	\$ 34,391	\$ 17,411

### 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, 2014	December 31, 2013
Trade receivables from concentrate sales	\$ 16,573	\$ 9,797
Current portion of long term receivables	209	488
Current portion of borrowing costs	244	265
Advances and other receivables	2,906	3,883
GST/HST and value added tax receivable	653	2,607
Accounts receivable and other assets	\$ 20,585	\$ 17,040

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**5. Accounts Receivable and Other Assets and Deposits on Long Term Assets (Continued)**

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

	December 31, 2014	December 31, 2013
Long term receivables and borrowing costs	\$ 542	\$ 1,322
Less: current portion of long term receivables	(209)	(488)
Less: current portion of long term borrowing costs	(244)	(265)
Non-current portion of long term receivables	28	237
Non-current portion of borrowing costs	61	332
Deposits on equipment	516	700
Deposits paid to contractors	1,358	411
Other	-	202
Deposits on long term assets	\$ 1,963	\$ 1,882

As at December 31, 2014, the Company had \$nil trade receivables (2013: \$245) which were over 90 days with no impairment. The Company's allowance for doubtful accounts is \$nil for all reporting periods.

As at December 31, 2014, the Company has capitalized \$nil (2013: \$796) of borrowing costs comprised of legal fees and upfront commitment fee in connection with the amended and restated credit agreement with the Bank of Nova Scotia. The borrowing costs are amortized over a period of 36 months. Refer to Note 16. d).

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

	December 31, 2014	December 31, 2013
0-30 days	\$ 16,157	\$ 9,552
31-60 days	416	-
over 90 days	-	245
	\$ 16,573	\$ 9,797

**6. Inventories**

	December 31, 2014	December 31, 2013
Concentrate stock piles	\$ 1,575	\$ 2,475
Ore stock piles	4,992	4,756
Materials and supplies	8,370	8,257
Total inventories	\$ 14,937	\$ 15,488

For the years ended December 31, 2014, \$76,230 (2013: \$64,284), respectively, of inventory was expensed in cost of sales and \$121 (2013: \$62) of material was written down to its net realizable value and recorded as an impairment of inventories.

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## 7. Mineral Properties, Plant and Equipment

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

As at December 31, 2014, the non-depletable mineral property includes the Tlacolula property (2013: Tlacolula and San Luisito properties).

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

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**7. Mineral Properties, Plant and Equipment (Continued)**

**a) Tlacolula Property**

Pursuant to an agreement dated September 14, 2009, as amended December 18, 2012 and November 10, 2014, the Company, through its wholly owned subsidiary, Cuzcatlan, holds an option (the "Option") to acquire a 60% interest (the "Interest") in the Tlacolula silver project ("property") located in the State of Oaxaca, Mexico, from Radius Gold Inc.'s wholly owned subsidiary, Radius (Cayman) Inc. ("Radius") (a related party by way of directors in common with the Company described further in Note 9. a)).

The Company can earn the Interest by spending \$2,000 on exploration of the property, which includes a commitment to drill 1,500 meters within 12 months after Cuzcatlan has received a permit to drill the property, and by making staged payments totalling \$300 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;
- \$50 cash by January 19, 2015; 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%. Radius has the right to terminate the agreement if the option is not exercised by January 31, 2017.

As at December 31, 2014, the Company had issued an aggregate of 34,589 (2013: 34,589) common shares of the Company, with a fair market value of \$150 (2013: \$150), and paid \$150 (2013: \$150) cash according to the terms of the option agreement. Subsequent to December 31, 2014, the Company paid \$50 under the option agreement. Refer to Note 9. a).

**b) San Luisito Concessions**

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

**c) Taviche Oeste Concession**

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

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

**d) Impairment of Mineral Properties, Plant and Equipment**

Assets are reviewed and tested for impairment when events or changes in circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Assets are grouped at the lowest level for which there are separately identifiable cash flows or cash generating units. The Company's cash generating units ("CGU") have been identified as follows:

- i. **Cuzcatlan CGU** includes the assets at San Jose, Taviche, Taviche Oeste, and Tlacolula properties in Mexico.
- ii. **Bateas CGU** includes the assets at the Caylloma property in Peru. Bateas is considered as separate CGU within the Peru geographical area.

The Company has determined that the Caylloma property represents a cash generating unit within the Peru geographic region.



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**7. Mineral Properties, Plant and Equipment (Continued)**  
**d) Impairment of Mineral Properties, Plant and Equipment (Continued)**

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

For December 31, 2014, the Company performed an annual review of the recoverable amounts of its CGU's which resulted in no impairment or reversal of previously recorded impairments.

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

For December 31, 2014 and 2013, the key assumptions used for fair value less cost to sell calculations were as follows:

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

Metal Price Assumptions	December 31, 2013					
	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%

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.

## 8. Trade and Other Payables

	December 31, 2014	December 31, 2013
Trade accounts payable	\$ 10,105	\$ 9,928
Payroll payable	8,005	4,216
Restricted share unit payable	1,386	625
Other payables	1,962	1,128
	\$ 21,458	\$ 15,897

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## 9. Related Party Transactions

### a) Purchase of Goods and Services

The Company entered into the following related party transactions:

Transaction with related parties	Years ended December 31,	
	2014	2013
Salaries and wages <sup>1,2</sup>	\$ 83	\$ 86
Other general and administrative expenses <sup>2</sup>	108	130
	\$ 191	\$ 216

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

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

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

Subsequent to December 31, 2014, the Company paid \$50 under the option agreement to Radius. Refer to Note 7. a).

### 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,	
	2014	2013
Salaries and other short term employee benefits	\$ 4,828	\$ 2,849
Directors fees	390	409
Consulting fees	163	175
Share-based payments	6,178	2,683
	\$ 11,559	6,116

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

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

Amounts due to related parties	December 31, 2014	December 31, 2013
Owing to company(ies) with common directors <sup>3</sup>	\$ 9	\$ 20

<sup>3</sup> Owing to Gold Group Management Inc. ("Gold Group") who has a director in common with the Company.

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

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## 10. Other Liabilities

Other liabilities are comprised of the following:

	December 31, 2014	December 31, 2013
Obligations under finance lease (a)	\$ –	\$ 227
Long term liabilities (b)	38	27
Deferred share units (Note 13 c))	3,762	2,030
Restricted share units (Note 13, d))	861	286
	4,661	2,570
Less: current portion		
Obligations under finance lease (a)	–	227
Leases and long term liabilities, non-current	\$ 4,661	\$ 2,343

### a) Obligations under Finance Lease

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

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

### b) Long Term Liabilities

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

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**10. Other Liabilities (Continued)**  
**b. Long Term Liabilities (Continued)**

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

<b>At December 31, 2014</b>		
Discount rate		7.5%
General wage increase		
Regular employees		5.0%
Unionized employees		4.5%
Increase in minimum wage		4.0%
Long term inflation rate		4.0%
Total seniority premium – December 31, 2012	\$	19
Seniority premium expense		16
Foreign exchange differences		(1)
Cash payments		(7)
Total seniority premium – December 31, 2013	\$	27
Less: current portion		-
Non current – December 31, 2013	\$	27
Total seniority premium – December 31, 2013	\$	27
Seniority premium expense		18
Foreign exchange differences		(5)
Cash payments		(2)
<b>Total seniority premium – December 31, 2014</b>	<b>\$</b>	<b>38</b>
<b>Less: current portion</b>		<b>-</b>
<b>Non current – December 31, 2014</b>	<b>\$</b>	<b>38</b>

## 11. 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
<b>As at December 31, 2014</b>			
Anticipated settlement date to	2028	2026	
Undiscounted value of estimated cash flow	\$ 8,113	\$ 6,727	\$ 14,840
Estimated mine life (years)	7	9	
Discount rate	6.19%	5.80%	
Inflation rate	3.30%	4.08%	
Total provisions – December 31, 2012	\$ 7,059	\$ 3,368	\$ 10,427
Increase to existing provisions	103	424	527
Accretion of provisions	291	247	538
Foreign exchange differences	(600)	(19)	(619)
Cash payments	(95)	(44)	(139)
Total provisions – December 31, 2013	\$ 6,758	\$ 3,976	\$ 10,734
Less: current portion	(125)	(497)	(622)
Non current – December 31, 2013	\$ 6,633	\$ 3,479	\$ 10,112
Total provisions – December 31, 2013	\$ 6,758	\$ 3,976	\$ 10,734
Increase to existing provisions	695	1,863	2,558
Accretion of provisions	398	345	743
Foreign exchange differences	(553)	(613)	(1,166)
Cash payments	(111)	(60)	(171)
<b>Total provisions – December 31, 2014</b>	<b>\$ 7,187</b>	<b>\$ 5,511</b>	<b>\$ 12,698</b>
<b>Less: current portion</b>	<b>(256)</b>	<b>(553)</b>	<b>(809)</b>
<b>Non current – December 31, 2014</b>	<b>\$ 6,931</b>	<b>\$ 4,958</b>	<b>\$ 11,889</b>

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### 11. Provisions (Continued)

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

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

## 12. Income Tax

a) Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26% (2013: 25.75%) to income before income taxes. The reasons for the differences are as follows:

	December 31, 2014	December 31, 2013
Income before tax	\$ 32,879	\$ (9,970)
Statutory income tax rate	26.00%	25.75%
Expected income tax	\$ 8,549	\$ (2,567)
Items non-deductible for income tax purposes	1,665	1,458
Difference between Canadian and foreign tax rates	2,046	407
Effect of change in tax rates	(41)	306
Impact of foreign exchange on tax assets and liabilities	790	1,244
Special Mining Royalty	1,715	7,677
Other items	128	(766)
Unused tax losses and tax offsets not recognized in tax asset	2,425	1,371
Total income taxes	\$ 17,277	\$ 9,130
Represented by:		
Current income tax	\$ 13,510	\$ 4,926
Deferred income tax	3,767	4,204
	\$ 17,277	\$ 9,130

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. For 2014, the overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 25.75% to 26%.

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

In December 2013, the Mexican President signed a bill approving significant tax reforms which have an effective date of January 1, 2014. These tax reforms include a tax-deductible special mining royalty of 7.5% on EBITDA and an extraordinary mining royalty of 0.5% on precious metals revenue. 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. The Company recognized an initial deferred tax liability of \$7,677 in 2013 related to the special mining royalty of 7.5%. The balance for 2014 is \$5,870 resulting in a deferred tax recovery of \$1,807 which offsets the current tax special mining royalty expense of \$3,522 in 2014. The deferred tax liability will be drawn down to \$nil as a reduction to tax expense over the life of mine as the mine and its related assets are depleted or depreciated.

Income taxes payable of \$9,745 (December 31, 2013: \$50) of which \$6,223 relates to current taxes (December 31, 2013: \$50) and \$3,522 (December 31, 2013: \$nil) relates to special mining royalty.

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**12. Income Tax (Continued)**

b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2014 and 2013 are presented below:

	December 31, 2014	December 31, 2013
Deferred income tax assets:		
Non-capital losses	\$ –	\$ 6,148
Provisions and other	3,889	3,301
Equipment	–	–
Other	2,515	898
Net deferred income tax assets	6,404	10,347
Deferred income tax liabilities:		
Mineral properties – Peru	\$ (11,280)	\$ (10,393)
Mineral properties – Mexico	(10,302)	(8,241)
Special Mining Royalty	(5,870)	(7,677)
Equipment	(7,541)	(9,169)
Other	(311)	–
Total deferred income tax liabilities	\$ (35,304)	\$ (35,480)
Net deferred income tax liabilities	\$ (28,900)	\$ (25,133)
Classification		
Non-current assets	\$ 126	\$ 151
Non-current liabilities	(29,026)	(25,284)
Net deferred income tax liabilities	\$ (28,900)	\$ (25,133)

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, 2014	December 31, 2013
Non-capital losses	\$ 46,166	\$ 44,961
Provisions and other	6,009	2,941
Share issue cost	639	1,119
Mineral properties, plant and equipment	1,704	1,593
Capital losses	1,004	–
Unrecognized deductible temporary differences	\$ 55,522	\$ 50,614

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

	December 31, 2014	December 31, 2013
Investment in subsidiaries	\$ 22,775	\$ 13,599
Unrecognized taxable temporary differences	\$ 22,775	\$ 13,599

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

	Expiry Date	
Non-capital losses, expiring as follows:		
Canada	\$ 45,634	2025 - 2034
Mexico	419	2021 - 2026
Barbados	113	2022 - 2023
	\$ 46,166	

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## 13. Share Capital

### a) Unlimited Common Shares Without Par Value

During the year ended December 31, 2014, the Company issued nil (2013: 11,415) common shares of the Company, at a fair market value of \$nil (2013: \$4.38) per share and paid \$nil (2013: \$50) cash to Radius, under the option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico. (Refer to Note 7. a).

### b) Share Options

Shareholder approval of the Company's Stock Option Plan (the "Plan"), dated April 11, 2011, was obtained at the Company's annual general meeting held on May 26, 2011. The Plan provides that the number of common shares of the Company issuable under the Plan, together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 12,200,000 shares, which equals 9.92% of the current total number of issued and outstanding common shares of the Company, as at April 11, 2011. As at December 31, 2014, the number of common shares available for issuance under the Plan is 3,719,067.

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, 2014		December 31, 2013	
	Shares (in '000's)	Weighted average exercise price (CAD\$)	Shares (in '000's)	Weighted average exercise price (CAD\$)
Outstanding at beginning of the year	6,437	\$ 3.42	6,117	\$ 3.42
Granted	828	4.30	1,153	3.38
Exercised	(2,564)	3.68	(694)	1.01
Forfeited	(70)	5.26	(84)	4.69
Expired	(1,687)	4.55	(55)	2.27
Outstanding at end of the year	2,944	\$ 3.25	6,437	\$ 3.42
Vested and exercisable at end of the year	1,776	\$ 2.80	3,949	\$ 3.55

During the year ended December 31, 2014, 828,242 share purchase options with a term of three years were granted with an exercise price of CAD\$4.30, vesting 50% after one year and 100% after two years from the grant date.

During the year ended December 31, 2014, 2,563,776 share purchase options with exercise prices ranging from CAD\$1.55 to CAD\$4.46 per share were exercised, 70,255 share purchase options with exercise prices ranging from CAD\$4.03 to CAD\$6.67 per share were forfeited, 1,686,654 share purchase options with an exercise prices ranging from CAD\$4.46 to CAD\$6.67 per share expired, and 865,895 share purchase options were accelerated to expire as follows:

Shares	Exercise price (CAD\$)	Original Expiry Date	Accelerated Expiry Date
170,000	\$ 4.03	May 29, 2015	July 13, 2014
79,038	3.38	May 29, 2016	July 13, 2014
60,307	4.30	March 23, 2017	July 13, 2014
37,500	4.03	May 29, 2015	July 27, 2014
65,510	6.67	February 20, 2017	August 29, 2014
71,134	3.38	May 29, 2016	January 20, 2015
108,553	4.30	March 23, 2017	January 20, 2015
253,853	3.79	July 31, 2017	January 20, 2015
20,000	4.03	May 29, 2015	February 8, 2015
<b>865,895</b>	<b>Total</b>		

During the year ended December 31, 2014, the Company recorded a share-based payment charge of \$2,108 (2013: \$2,734) in respect to options granted and vested.

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**13. Share Capital (Continued)**  
**b) Share Options (Continued)**

The assumptions used to estimate the fair value of the share purchase options granted during the year ended December 31, 2014 and 2013 were:

	Years ended December 31,	
	2014	2013
Risk-free interest rate	1.19%	1.18%
Expected stock price volatility	59.29%	57.81%
Expected term in years	3	3
Expected dividend yield	0%	0%
Expected forfeiture rate	4.15%	4.15%

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

The following table summarizes information related to stock options outstanding and exercisable at December 31, 2014:

Exercise price in CAD\$	Number of outstanding share purchase options (in '000's)	Weighted average remaining contractual life of outstanding share purchase options (years)	Weighted average exercise price on outstanding share purchase options CAD\$	Exercisable share purchase options (in '000's)	Weighted average exercise price on exercisable share purchase options CAD\$
\$0.85 to \$0.99	270	3.8	\$ 0.85	270	\$ 0.85
\$1.00 to \$1.99	274	1.3	1.44	274	1.44
\$2.00 to \$2.99	250	2.0	2.22	250	2.22
\$3.00 to \$3.99	889	1.4	3.38	397	3.38
\$4.00 to \$4.99	1,212	1.4	4.18	552	4.03
\$6.00 to \$6.67	49	2.1	6.67	33	6.67
\$0.85 to \$6.67	2,944	1.7	\$ 3.25	1,776	\$ 2.80

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

Subsequent to December 31, 2014, 308,100 share purchase options with an exercise price of CAD\$4.03 were exercised resulting in issued and outstanding shares of 128,845,842.

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

During the year ended December 31, 2014, the Company paid \$514 (2013: \$nil) on 127,063 (2013: nil) DSU to a former director of the Company.

As at December 31, 2014, there are 828,529 (2013: 711,944) DSU outstanding with a fair value of \$3,762 (2013: \$2,030). Refer to Note 10.

**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.



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### 13. Share Capital (Continued)

#### d) Restricted Share Units ("RSU") Cost (Continued)

During the year ended December 31, 2014, the Company granted 424,425 (2013: 582,846) RSU with a market value of CAD\$1,825 (2013: CAD\$1,970), at the date of grant, to an executive director and officer (103,721), officers (204,192), and employees (116,512), payable 20% after one year, 30% after two years, and the remaining 50% after three years from the date of grant.

During the year ended December 31, 2014, the Company cancelled 52,528 (2013: 39,201) RSUs, and paid \$1,036 (2013: \$nil) on 248,591 (2013: nil) RSUs to an executive director and officer, officers, employees, former officers, and a former employee.

As at December 31, 2014, there were 822,625 (2013: 699,319) RSU outstanding with a fair value of \$2,247 (2013: \$911). Refer to Note 8 and Note 10.

#### e) Earnings (Loss) per Share

##### i. Basic

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

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

	Years ended December 31,	
	2014	2013
Income (loss) available to equity owners	\$ 15,602	\$ (19,100)
Weighted average number of shares (in '000's)	126,787	125,553
Earnings (loss) per share – basic	\$ 0.12	\$ (0.15)

##### ii. Diluted

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

	Years ended December 31,	
	2014	2013
Income (loss) available to equity owners	\$ 15,602	\$ (19,100)
Weighted average number of shares ('000's)	126,787	125,553
Incremental shares from share options	1,356	996
Weighted average diluted shares outstanding ('000's)	128,143	126,549
Earnings (loss) per share – diluted	\$ 0.12	\$ (0.15)

For the year ended December 31, 2014, excluded from the calculation were 49,084 (2013: 4,180,104) anti-dilutive options with exercise price of CAD\$6.67 (2013: ranging from CAD\$3.79 to CAD\$6.67).

## 14. Supplemental Cash Flow Information

	Note	Years ended December 31,	
		2014	2013
<b>Non-cash Investing and Financing Activities:</b>			
Issuance of shares on purchase of mineral properties, plant and equipment	7 a)	\$ –	\$ 50

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## 15. Capital Disclosure

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

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

The management of the Company believes that the capital resources of the Company as at December 31, 2014, 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.

## 16. 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, 2014, there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

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

At December 31, 2014	Quoted Prices in Active Markets for Identical Assets	Significant and other Observable Inputs	Significant Unobservable Inputs	Aggregate Fair Value Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 42,867	\$ –	\$ –	\$ 42,867
Short term investments	34,391	–	–	34,391
Trade receivable from concentrate sales <sup>1</sup>	–	16,573	–	16,573
	\$ 77,258	\$ 16,573	\$ –	\$ 93,831

<sup>1</sup> 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.

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

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**16. Management of Financial Risk (Continued)**

**a.) Fair Value of Financial Instruments (Continued)**

**i. Assets and Liabilities Measured At Fair Value on a Recurring Basis (Continued)**

	Quoted Prices in Active Markets for Identical Assets		Significant and other Observable Inputs		Significant Unobservable Inputs		Aggregate Fair Value Total
	Level 1		Level 2		Level 3		
<b>At December 31, 2013</b>	Level 1		Level 2		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 <sup>1</sup>		–		9,797		–	9,797
	\$	49,115	\$	9,797	\$	–	\$ 58,912

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

	December 31, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets</b>				
Cash and cash equivalents <sup>1</sup>	\$ 42,867	\$ 42,867	\$ 31,704	\$ 31,704
Short term investments <sup>1</sup>	34,391	34,391	17,411	17,411
Trade receivable from concentrate sales <sup>2</sup>	16,573	16,573	9,797	9,797
Advances and other receivables	2,906	2,906	3,883	3,883
	\$ 96,737	\$ 96,737	\$ 62,795	\$ 62,795
<b>Financial liabilities</b>				
Trade and other payables <sup>1</sup>	\$ 20,072	\$ 20,072	\$ 15,272	\$ 15,272
Due to related parties <sup>1</sup>	9	9	20	20
Other liabilities <sup>3</sup>	38	38	254	258
Income tax payable <sup>1</sup>	9,745	9,745	50	50
	\$ 29,864	\$ 29,864	\$ 15,596	\$ 15,600

<sup>1</sup> Fair value approximates the carrying amount due to the short term nature and historically negligible credit losses.

<sup>2</sup> 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.

<sup>3</sup> Other liabilities are recorded at amortized costs. The fair value of other liabilities are primarily determined using quoted market prices. Balance includes current portion of other liabilities.

**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.

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**16. Management of Financial Risk (Continued)**  
**b.) Currency Risk (Continued)**

As at December 31, 2014, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, nuevo soles and Mexican pesos (all amounts are expressed in thousands of Canadian dollars, thousands of nuevo soles or thousands of Mexican pesos):

	December 31, 2014			December 31, 2013		
	Canadian Dollars	Nuevo Soles	Mexican Pesos	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	\$ 2,695	S/. 8,633	\$ 56,739	\$ 2,699	S/. 619	\$ 10,994
Short term investments	7,696	–	–	3,286	–	–
Accounts receivable and other assets	897	4,190	15,692	306	7,917	33,818
Deposits on long term assets and long term borrowing costs	71	–	19,096	355	–	–
Trade and other payables	(2,220)	(12,387)	(117,848)	(1,181)	(12,659)	(49,618)
Due to related parties	(11)	–	–	(22)	–	–
Provisions, current	–	(767)	(8,138)	–	(349)	(6,499)
Income tax payable	–	(37)	(143,426)	–	(2,213)	–
Other liabilities	(5,376)	–	(563)	(2,477)	–	(350)
Provisions	–	(20,710)	(73,001)	–	(18,544)	(45,499)
<b>Total</b>	<b>\$ 3,752</b>	<b>S/. (21,078)</b>	<b>\$ (251,449)</b>	<b>\$ 2,966</b>	<b>S/. (25,229)</b>	<b>\$ (57,154)</b>
<b>Total US\$ equivalent</b>	<b>\$ 3,226</b>	<b>\$ (7,052)</b>	<b>\$ (17,084)</b>	<b>\$ 2,773</b>	<b>\$ (9,023)</b>	<b>\$ (4,371)</b>

Based on the above net exposure as at December 31, 2014, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the above currencies would result in an increase or decrease, as follows: impact to other comprehensive income of \$358 (2013: \$308) and an impact to net income of \$2,682 (2013: \$1,489).

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

**c) Credit Risk**

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

The Company's maximum exposure to credit risk as at December 31, 2014 is as follows:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 42,867	\$ 31,704
Short term investments	34,391	17,411
Accounts receivable and other assets	20,585	17,040
<b>Total</b>	<b>\$ 97,843</b>	<b>\$ 66,155</b>

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.

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## 16. Management of Financial Risk (Continued)

### 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.

	Expected payments due by period as at December 31, 2014				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
Trade and other payables	\$ 21,458	\$ -	\$ -	\$ -	\$ 21,458
Due to related parties	9	-	-	-	9
Income tax payable	9,745	-	-	-	9,745
Other liabilities	-	4,661	-	-	4,661
Operating leases	745	1,275	126	-	2,146
Provisions	871	902	1,620	11,447	14,840
	\$ 32,828	\$ 6,838	\$ 1,746	\$ 11,447	\$ 52,859

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business. Refer to Note 23. 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.

Subsequent to December 31, 2014, the Company is pending to enter an amended and restated credit agreement with the Bank of Nova Scotia for a \$60 million senior secured financing ("credit facility") consisting of a \$40 million term credit facility with a 4 year term and a \$20 million revolving credit facility for a two year period. The credit facility is to be 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.

A 10% change in zinc, lead, silver, and gold prices would cause an \$881, \$607, \$8,294, \$2,910, respectively, change in net earnings on an annualized basis.

The Company also enters into provisional concentrate contracts to sell the silver-gold, zinc, lead-silver concentrates produced by the San Jose and Caylloma mines. For the year ended December 31, 2014, the impact of price adjustments was a loss of \$539 (2013: loss \$4,456).

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## 17. Segmented Information

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

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

The Company's operating segments are based on the reports reviewed by the senior management group that are used to make strategic decisions. The Chief Executive Officer considers the business from a geographic perspective considering the performance of the Company's business units. The segment information for the reportable segments for the years ended December 31, 2014 and 2013 are as follows:

Reportable Segments	Corporate	Bateas	Cuzcatlan	Total
<b>Year ended December 31, 2014</b>				
Sales to external customers	\$ –	\$ 66,054	\$ 107,952	\$ 174,006
Silver-gold concentrates	–	–	107,952	107,952
Silver-lead concentrates	–	47,978	–	47,978
Zinc concentrates	–	18,076	–	18,076
Cost of sales*	–	51,13	62,622	113,753
Depletion and depreciation**	465	7,521	15,531	23,517
Selling, general and administrative expenses*	16,789	3,903	4,533	25,225
Restructuring and severance costs	1,021	70	–	1,091
Other material non-cash items	–	50	16	66
Impairment of inventories	–	121	–	121
Interest income	93	100	88	281
Interest expense	404	403	345	1,152
(Loss) income before tax	(18,120)	10,475	40,524	32,879
Income taxes	315	4,852	12,110	17,277
(Loss) income for the year	(18,435)	5,623	28,414	15,602
Capital expenditures***	87	9,850	29,006	38,943

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

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

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

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**17. Segmented Information (Continued)**

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 and severance 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
As at December 31, 2014				
Mineral properties, plant and equipment	\$ 539	\$ 66,570	\$ 166,740	\$ 233,849
Total assets	20,804	110,499	219,007	350,310
Total liabilities	8,153	19,813	49,631	77,597
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

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**17. Segmented Information (Continued)**

The segment information by geographical region for the years ended December 31, 2014 and 2013 are as follows:

Reportable Segments	Canada	Peru	Mexico	Total
<b>Year ended December 31, 2014</b>				
Sales to external customers	\$ –	\$ 66,054	\$ 107,952	\$ 174,006
Silver-gold concentrates	–	–	107,952	107,952
Silver-lead concentrates	–	47,978	–	47,978
Zinc concentrates	–	18,076	–	18,076
<b>Year ended December 31, 2013</b>				
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
Reportable Segments	Canada	Peru	Mexico	Total
<b>As at December 31, 2014</b>				
Non current assets	\$ 2,323	\$ 67,196	\$ 166,419	\$ 235,938
<b>As at December 31, 2013</b>				
Non current assets	\$ 3,038	\$ 64,938	\$ 151,018	\$ 218,994

For the year ended December 31, 2014, there were six (2013: six) customers, respectively, represented 100% of total sales to external customers as follows:

External Sales by Customer and Region	Years ended December 31,			
	2014		2013	
Customer 1	\$ 35,624	54%	\$ 29,341	41%
Customer 2	12,324	19%	42,968	59%
Customer 3	–	0%	9	0%
Customer 4	16,869	26%	(12)	0%
Customer 5	1,237	2%	–	0%
Bateas/Peru	\$ 66,054	100%	\$ 72,306	100%
% of total sales	38%		53%	
Customer 1	\$ 50,278	47%	\$ 63,955	98%
Customer 2	–	0%	\$ 1,133	2%
Customer 3	57,674	53%	–	0%
Cuzcatlan/Mexico	\$ 107,952	100%	\$ 65,088	100%
% of total sales	62%		47%	
Consolidated	\$ 174,006	100%	\$ 137,394	100%
% of total sales	100%		100%	



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## 18. Cost of Sales

The cost of sales for the years ended December 31, 2014 and 2013 are as follows:

	Years ended December 31,					
	2014			2013		
	Caylloma	San Jose	Total	Caylloma	San Jose	Total
Direct mining costs <sup>1</sup>	\$ 42,031	\$ 43,418	\$ 85,431	\$ 42,331	\$ 32,345	\$ 74,676
Workers' participation	735	3,556	4,291	998	81	1,079
Depletion and depreciation	7,482	15,161	22,643	9,594	9,521	19,115
Royalty expenses	901	487	1,388	749	–	749
	\$ 51,131	\$ 62,622	\$ 113,753	\$ 53,672	\$ 41,947	\$ 95,619

<sup>1</sup> Direct mining costs includes salaries and other short term benefits, contractor charges, energy, consumables and production related costs.

## 19. Selling, General and Administrative Expenses

The selling, general and administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

	Years ended December 31,	
	2014	2013
Salaries and benefits	\$ 18,599	\$ 14,275
Corporate administration	(209)	112
Audit, legal and professional fees	5,269	3,795
Filing and listing fees	223	40
Director's fees	546	578
Depreciation	797	983
	\$ 25,225	\$ 19,783

## 20. Exploration and Evaluation Costs

The exploration and evaluation costs for the years ended December 31, 2014 and 2013 are as follows:

	Years ended December 31,	
	2014	2013
Share-based payments	\$ –	\$ 22
Salaries, wages, and benefits	–	312
Direct costs	–	84
	\$ –	\$ 418

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## 21. Restructuring and Severance Costs

The restructuring and severance costs for the years ended December 31, 2014 and 2013 are as follows:

	Years ended December 31,	
	2014	2013
Restructuring costs	\$ –	\$ 493
Severance costs	1,091	–
	\$ 1,091	\$ 493

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

## 22. Net Finance (Expense) Income

The net finance (expense) income for the years ended December 31, 2014 and 2013 are as follows:

	Years ended December 31,	
	2014	2013
<b>Finance income</b>		
Interest income on FVTPL financial assets	\$ 281	\$ 591
<b>Total finance income</b>	281	591
<b>Finance expenses</b>		
Interest expense	5	21
Standby and commitment fees	404	373
Accretion of provisions (Note 12)	743	538
<b>Total finance expense</b>	1,152	932
<b>Net finance (expense) income</b>	\$ (871)	\$ (341)

## 23. 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 \$1,842 (2013: \$1,204). This bank letter of guarantee expires on December 31, 2015.

Scotiabank Peru, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian Energy and Mining Ministry to collateralize Bateas's regulatory compliance with the electric transmission line project, in the amount of \$3 (2013: \$3). This bank letter of guarantee expires on December 6, 2015.

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

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### 23. Contingencies and Capital Commitments (Continued)

#### b) Capital Commitments

As at December 31, 2014, there are no capital commitments

#### c) Other Commitments

The Company has a contract to guarantee the power supply at its Caylloma Mine. Under the contract, the seller is obligated to deliver a "maximum committed demand" (for the present term this stands at 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 the renewal date.

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

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business. Refer to Note 16. d).

The expected payments due by period as at December 31, 2014 are as follows:

	Expected payments due by period as at December 31, 2014				Total
	Less than 1 year	1-3 years	4-5 years		
Office premises – Canada	\$ 132	\$ 452	\$ 126	\$ 710	
Office premises – Peru	396	580	–	976	
Office premises – Mexico	15	–	–	15	
<b>Total office premises</b>	<b>\$ 543</b>	<b>\$ 1,032</b>	<b>\$ 126</b>	<b>\$ 1,701</b>	
Computer equipment – Peru	185	164	–	349	
Computer equipment – Mexico	17	–	–	17	
<b>Total computer equipment</b>	<b>\$ 202</b>	<b>\$ 164</b>	<b>\$ –</b>	<b>\$ 366</b>	
Machinery – Mexico	–	79	–	79	
<b>Total machinery</b>	<b>\$ –</b>	<b>\$ 79</b>	<b>\$ –</b>	<b>\$ 79</b>	
<b>Total operating leases</b>	<b>\$ 745</b>	<b>\$ 1,275</b>	<b>\$ 126</b>	<b>\$ 2,146</b>	

#### d) Tax Contingencies

The Company has been assessed taxes and related interest and penalties, in Peru by SUNAT, for tax years 2010, 2011, and 2012, in the amounts of \$1,161, \$740, and \$110, respectively, for a total of \$2,011. The Company is currently appealing the assessments and believes the appeals will be ruled in favor of the Company. Subsequent to December 31, 2014, the Company has provided as a guarantee by way of letter bond in the amount of \$776.

#### e) Other Contingencies

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



# Corporate Data

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## Share Transfer Agent

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## Qualified Person

**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

<b>Ag</b>	silver	<b>g</b>	gram	<b>Moz</b>	1,000,000 ounces
<b>Ag Eq</b>	silver equivalent	<b>g/t</b>	grams per metric tonne	<b>oz</b>	ounce
<b>AISCC</b>	all-in sustaining cash cost per ounce of silver, net of by-product credits	<b>koz</b>	1,000 ounces	<b>Pb</b>	lead
<b>Au</b>	gold	<b>lbs</b>	pounds	<b>t</b>	metric tonne; (2,204.62 pounds)
<b>CAGR</b>	compound annual growth rate	<b>m</b>	meters	<b>tpd</b>	metric tonnes per day
		<b>M</b>	million	<b>Zn</b>	zinc



# FORTUNA

SILVER MINES INC.

[www.fortunasilver.com](http://www.fortunasilver.com)

NYSE: FSM | TSX: FVI

 **Minera  
Bateas**  
Corporación Fortuna Silver Mines Inc.

