FORTUNA SILVER MINES INC.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Third Quarter Ended September 30, 2009

(Expressed in thousands of United States Dollars, unless otherwise stated)

Notice to Reader of the Unaudited Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2009

In accordance with National Instrument 51-102, of the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements.

The unaudited interim consolidated financial statements of Fortuna Silver Mines Inc. (the "Company") for the three and nine month periods ended September 30, 2009 ("Financial Statements") have been prepared by management. The Financial Statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008, which are available at the SEDAR website at www.sedar.com. The Financial Statements are stated in terms of thousands of United States dollars, unless otherwise indicated, and are prepared in accordance with Canadian generally accepted accounting principles.

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited - Expressed in thousands of US Dollars)

	Notes	September 30, 2009	December 31, 2008
ASSETS			
CURRENT			
Cash and cash equivalents		$ 33,676	$ 29,454
Derivatives	4	-	1,418
Accounts receivable and prepaid expenses	5	8,639	1,865
GST and value added tax		1,245	5,127
Inventories	6	1,793	1,727
		45,353	39,591
LONG TERM RECEIVABLES		48	114
LONG TERM INVESTMENT AND RECEIVABLE	7	-	3,093
PROPERTY, PLANT & EQUIPMENT	8	16,161	13,285
MINERAL PROPERTIES	9	69,810	59,285
		$ 131,372	$ 115,368
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		$ 6,370	$ 4,735
Due to related parties, net	10	23	38
Derivatives	4	3,065	-
Current portion of obligation under capital lease	11 a)	1,037	682
Current portion of long term liability	11 b)	-	80
		10,495	5,535
OBLIGATIONS UNDER CAPITAL LEASE	11 a)	894	717
LONG TERM LIABILITY	11 b)	630	665
ASSET RETIREMENT OBLIGATION	12	1,887	1,066
FUTURE INCOME TAX LIABILITY		10,715	9,410
NON-CONTROLLING INTEREST		-	9,007
		24,621	26,400
SHAREHOLDERS' EQUITY			
SHARE CAPITAL		104,516	98,206
CONTRIBUTED SURPLUS		12,111	11,798
DEFICIT		(10,394)	(9,980)
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME		518	(11,056)
		106,751	88,968
		$ 131,372	$ 115,368

Nature and continuance of operations	1
Commitments and contingencies	15
Subsequent events	18

APPROVED BY THE DIRECTORS:

"Jorge Ganoza Durant", Director
Jorge Ganoza Durant

" Simon Ridgway", Director
Simon Ridgway

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

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

	Notes	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Sales		$ 13,230	$ 7,492	$ 35,072	$ 22,072
Cost of sales (including depletion, depreciation and accretion of $4,492 (2008: $3,543))		6,156	5,758	17,718	15,186
MINE OPERATING INCOME		7,074	1,734	17,354	6,886
Selling, general and administrative expenses (includes depreciation of $48 (2008: $33))	10	2,563	2,088	6,970	5,598
Stock-based compensation	13 d)	123	29	483	652
Write-off of deferred exploration costs		-	-	1,081	-
		2,686	2,117	8,534	6,250
OPERATING INCOME (LOSS)		4,388	(383)	8,820	636
Interest and other income and expenses		187	382	586	1,063
Interest and finance expenses		(46)	(25)	(118)	(70)
Net (loss) on commodity contracts		(3,467)	694	(5,239)	2,322
(Loss) on disposal of property, plant and equipment		(1)	(26)	(7)	(49)
(Loss) on disposal of investment		1	-	(236)	-
Foreign exchange (loss) gain		(312)	(138)	(683)	285
		(3,638)	887	(5,697)	3,551
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST		750	504	3,123	4,187
Income tax provision		1,306	847	3,717	2,601
Non-controlling interest		-	(46)	(180)	28
NET (LOSS) INCOME FOR THE PERIOD		$ (556)	$ (297)	$ (414)	$ 1,558
(Loss) Earnings per Share - Basic and Diluted		$ (0.01)	$ -	$ -	$ 0.02
Weighted average number of shares outstanding - Basic		92,736,581	85,331,659	90,756,857	84,088,475
Weighted average number of shares outstanding - Fully Diluted		92,736,581	85,331,659	90,756,857	84,741,104

FORTUNA SILVER MINES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited - Expressed in thousands of US Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	**2009**	2008
Net (loss) income for the period	**$ (556)**	$ (297)	**$ (414)**	$ 1,558
Other comprehensive income (loss), net of taxes				
Unrealized gain (loss) on available for sale long term investments	**-**	(3)	**148**	(624)
Transfer of unrealized loss to realized loss upon derecognition of available for sale long term investment	**-**	-	**462**	-
Unrealized gain/(loss) on translation of functional currency to reporting currency	**4,256**	(2,930)	**10,964**	(5,948)
Other comprehensive income (loss)	**4,256**	(2,933)	**11,574**	(6,572)
Comprehensive income (loss)	**$ 3,700**	$ (3,230)	**$ 11,160**	$ (5,014)

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

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

	Notes	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
OPERATING ACTIVITIES					
Net (loss) income for the period		**$ (556)**	$ (297)	**$ (414)**	$ 1,558
Items not involving cash					
Depletion and depreciation		**1,489**	1,401	**4,439**	3,638
Accretion expense		**40**	26	**101**	78
Future income tax		**(84)**	826	**601**	2,416
Stock based compensation		**123**	29	**483**	652
Unrealized loss (gain) on commodity contracts		**1,966**	436	**4,483**	(880)
Non-controlling interest		**-**	(46)	**(180)**	28
Write-off of deferred exploration costs		**-**	-	**1,081**	-
Loss on disposal of equipment		**1**	26	**7**	49
Loss on disposal of investments		**(1)**	-	**236**	-
Other		**10**	(5)	**28**	(5)
Unrealized foreign exchange loss (gain)		**(330)**	181	**44**	125
		2,658	2,577	**10,909**	7,659
Changes in non-cash working capital items					
Accounts receivable and prepaid expenses		**(136)**	(1,702)	**(4,849)**	(3,851)
Inventories		**(222)**	(185)	**150**	(328)
Accounts payable		**1,217**	(514)	**1,457**	(921)
Payments from (to) related parties		**(3)**	(14)	**(19)**	2
Net cash provided by (used in) operating activities		**3,514**	162	**7,648**	2,561
FINANCING ACTIVITIES					
Net proceeds on issuance of common shares		**774**	-	**915**	8,004
Capital lease obligations		**(302)**	(40)	**(678)**	(169)
Net cash (used in) provided by financing activities		**472**	(40)	**237**	7,835
INVESTING ACTIVITIES					
Costs relating to the acquisition of Continuum		**(3)**	-	**(162)**	-
Mineral property expenditures		**(2,721)**	(4,119)	**(7,655)**	(13,113)
Value added taxes on purchase of property, plant & equipment		**51**	(397)	**2,024**	(1,003)
Property, plant & equipment		**(989)**	(771)	**(1,962)**	(2,066)
Long term receivable		**33**	(12)	**64**	(12)
Proceeds on disposal of equipment		**24**	1	**24**	11
Acquisition of long term investments		**(8)**	-	**(229)**	-
Proceeds on disposal of long term investments		**16**	-	**477**	-
Net cash (used in) provided by investing activities		**(3,597)**	(5,298)	**(7,419)**	(16,183)
Effect of exchange rate changes on cash and cash equivalents		**2,122**	(1,238)	**3,756**	(2,644)
INCREASE (DECREASE) IN CASH		**389**	(5,176)	**466**	(5,787)
Cash - beginning of period		**31,165**	46,139	**29,454**	48,156
CASH AND CASH EQUIVALENTS - END OF PERIOD		**$ 33,676**	$ 39,725	**$ 33,676**	$ 39,725
Supplementary disclosure of cash flow information:					
Cash received for interest		**$ 93**	$ (403)	**$ 160**	$ (1,206)
Cash paid for income taxes		**$ 110**	$ 101	**$ 253**	$ 377
Non-cash Transactions:					
Issue of shares on purchase of resource property	**9**	**$ -**	$ -	**$ 5,194**	$ -
Reassessment of asset retirement obligation	**9, 12**	**$ 405**	$ -	**$ 694**	$ -
Cancellation of Minera Condor liability	**11**	**$ -**	$ -	**$ 156**	$ -
Equipment purchased through capital lease		**$ 83**	$ -	**$ 1,210**	$ -
Purchase of resource property on a deferred payment plan		**$ -**	$ 578	**$ -**	$ 578
Sale of equipment for a long-term receivable		**$ -**	$ 192	**$ -**	$ 192
Fair value of options exercised		**$ 84**	$ -	**$ 155**	$ 27

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

FORTUNA SILVER MINES INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited - Expressed in thousands of US Dollars, except for share amounts)

	Notes	Share Capital Shares	Share Capital Amount	Contributed Surplus	(Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance - December 31, 2008		85,331,659	$ 98,206	$ 11,798	$ (9,980)	$ (610)	$ 99,414
Translation adjustment due to change of Minera Bateas from integrated to self-sustaining foreign subsidiary		-	-	-	-	(3,941)	(3,941)
Translation adjustment due to change in reporting currency		-	-	-	-	(6,505)	(6,505)
		85,331,659	98,206	11,798	(9,980)	(11,056)	$ 88,968
Exercise of options		255,000	187	-	-	-	187
Exercise of warrants		2,475,355	776	-	-	-	776
Issuance of shares for property		6,786,706	5,192	-	-	-	5,192
Cancellation of fractional shares		(36)	-	-	-	-	-
Transfer of contributed surplus on exercise of options		-	155	(155)	-	-	-
Stock based compensation		-	-	468	-	-	468
(Loss) income for the period		-	-	-	(414)	-	(414)
Unrealized gain on available for sale long term investments		-	-	-	-	148	148
Transfer of unrealized loss to realized loss upon derecognition of available for sale long-term investment		-	-	-	-	462	462
Unrealized gain/(loss) on translation of functional currency to reporting currency		-	-	-	-	10,964	10,964
Balance - September 30, 2009		**94,848,684**	**$ 104,516**	**$ 12,111**	**$ (10,394)**	**$ 518**	**$ 106,751**

	Notes	Share Capital Shares	Share Capital Amount	Contributed Surplus	(Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance - December 31, 2007		80,977,663	$ 90,176	$ 10,533	$ (9,070)	$ 135	$ 91,774
Effect of change in reporting currency		-	-	-	-	11,252	11,252
Exercise of options		31,400	38	-	-	-	38
Exercise of warrants		4,322,596	7,966	-	-	-	7,966
Transfer of contributed surplus on exercise of options		-	27	(27)	-	-	-
Stock based compensation		-	-	652	-	-	652
Income (loss) for the period		-	-	-	1,558	-	1,558
Unrealized loss of AFS shares		-	-	-	-	(624)	(624)
Unrealized gain/(loss) on translation of functional currency to reporting currency		-	-	-	-	(5,948)	(5,948)
Balance - September 30, 2008		85,331,659	$ 98,207	$ 11,158	$ (7,512)	$ 4,815	$ 106,668

1. Nature and Continuance of Operations

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

These unaudited interim consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("Canadian GAAP") applicable to going concerns, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the three and nine months ended September 30, 2009 and 2008, the Company had a net loss of $556 (2008: loss $297) and $414 (2008: income $1,558), respectively, and as at September 30, 2009, had an accumulated deficit of $10,394. The Company's continuing operations as a going concern and the recoverability of amounts shown for its exploration stage mineral properties are dependent upon the availability of the necessary financing to complete the exploration and development of such mineral property interests, and upon future profitable production or proceeds from the disposition of its mineral property interests.

2. Summary of Significant Accounting Policies

a) Basis of presentation and principles of consolidation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and presented in US dollars, but they do not contain all disclosures required by Canadian GAAP for annual financial statements and, accordingly, they should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2008. They include the accounts of the Company and its significantly wholly owned subsidiaries: Minera Bateas S.A.C. ("Bateas"); Fortuna Silver (Barbados) Inc.; Compania Minera Cuzcatlan SA ("Cuzcatlan"); Continuum Resources Ltd. ("Continuum"); and Fortuna Silver Mines Peru S.A.C.

These unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the consolidated financial position as at September 30, 2009 and the consolidated statement of income and consolidated cash flows for the three and nine month periods presented. Operating results of the interim period are not necessarily indicative of the result that may be expected for the full fiscal year ending December 31, 2009.

All significant inter-company transactions and accounts have been eliminated upon consolidation.

b) Change in Reporting Currency

Effective January 1, 2009, the Company changed its reporting currency to the US dollar. The change in reporting currency better reflects the Company's business activities and improves investors' ability to compare the Company's financial results with other publicly traded businesses in the mining industry. Prior to January 1, 2009, the Company reported its annual and quarterly consolidated balance sheets and the related consolidated statements of operations and cash flows in Canadian dollars (CAD).

2. Summary of Significant Accounting Policies (continued)

b) Change in Reporting Currency (continued)

In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants ("CICA"), set out in EIC-130, "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency". In accordance with EIC-130, the financial statements for all years and periods presented have been translated into the new reporting currency using the current rate method. Under this method, the statements of operations and cash flows statements items for each year and period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheets dates. Shareholders' equity transactions since October 1, 1998 have been translated using the rates of exchange in effect as of the dates of the various capital transactions, while shareholders' equity balances on September 30, 1998 have been translated at the exchange rate on that date. All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US dollars.

c) Adoption of New Accounting Standards

i. Goodwill and Intangible Assets (Section 3064)

In February 2008, the CICA issued the following Handbook Sections : Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", Section 3450, "Research and Development Costs", and Section 1000, "Financial Statement Concepts". The standard intends to reduce the differences with International Financial Reporting Standards ("IFRS") in the accounting for intangible assets and results in closer alignment with U.S. GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or U.S. GAAP. The objectives of Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that do not meet the definition and recognition criteria are eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. This standard will be effective for fiscal years beginning on or after October 1, 2008. The Company has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

c) Adoption of New Accounting Standards (continued)

ii. Credit risk and fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments, for presentation and disclosure purposes.

The guidance should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of this Abstract. Retrospective application with restatement of prior periods is permitted but not required. Early adoption is encouraged.

The Company has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

iii. Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA issued EIC-174 "Mining Exploration Costs" which applies to interim and annual financial statements for periods ending on or after January 20, 2009. This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

This standard will be effective for the Company beginning on April 1, 2009. The Company has evaluated the new section and determined that adoption of these new requirements has no impact on the Company's consolidated financial statements.

d) Foreign currency translation

The Company's functional currency is the Canadian dollar. Effective January 1, 2009, the Company changed its reporting currency to the US dollar.

All subsidiaries, except its wholly owned subsidiary, Bateas, are considered to be integrated foreign operations and their financial statements are translated to Canadian dollars under the temporal method. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at historical exchange rates. Revenues and expenses are translated at the average exchange rate in effect during the period. Realized and unrealized foreign exchange gains and losses are included in earnings.

2. Summary of Significant Accounting Policies (continued)

d) Foreign currency translation (continued)

Commencing January 1, 2009, Bateas was reclassified as a self-sustaining operation from an integrated foreign operation because of the significant changes in the economic facts and circumstances of Bateas. Bateas's commercial mine production and cash generated from sales is sufficient to cover further exploration expenditure and other operation costs. Therefore, its financial statements are translated using the current rate method. Assets and liabilities of Bateas, which are denominated in US dollars, are translated into Canadian dollars using the current rate method at period-end exchange rates and resulting translation adjustments are reflected in comprehensive income. Revenues and expenses of Bateas are translated at average exchange rates for the period.

e) Comparative figures

The Company has reclassified certain amounts in the consolidated statements of cash flows, as at period ended September 30, 2009, primarily between future income taxes, the effect of exchange rate changes on cash and cash equivalents, and increase (decrease) of cash which have no impact on the Company's consolidated balance sheets, statement of operations, statements of comprehensive income (loss), or statements of shareholders' equity.

3. Recently released Canadian Accounting Standards

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Company:

a) Convergence with International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will begin reporting its financial statements in accordance with IFRS on January 1, 2011, with comparative figures for 2010.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

3. Recently released Canadian Accounting Standards (continued)

a) Convergence with International Financial Reporting Standards ("IFRS") (continued)

The Company has begun planning its transition to IFRS but the impact on its consolidated financial position and results of operations has not yet been determined. The process will consist of three phases: Scoping and Diagnostics, Analysis and Development, and Implementation and Review. In the third quarter of 2009, the Company completed a high-level impact assessment to identify key areas that will be affected by the conversion. The detailed analysis of the IFRS - Canadian GAAP differences, and the selection of accounting policy choices under IFRS has commenced and is expected to be completed by the end of the fourth quarter 2009. The Company will continue to monitor changes in IFRS leading up to the changeover date, and will update its conversion plan as required.

b) Business Combinations

In January 2009, the CICA issued the following Handbook Sections: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests". These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted. The Company is evaluating the attributes of early adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

c) Comprehensive revaluation of assets and liabilities and Equity

In August 2009, the CICA amended Section 1625, "Comprehensive revaluation of assets and liabilities" as a result of issuing "Business Combinations, Section 1582, "Consolidated Financial Statements", Section 1601, and Non-Controlling Interests", Section 1602, in January 2009.

In August 2009, the CICA amended Section 3251, "Equity" as a result of issuing Section 1602, "Non-controlling Interests". These amendments only apply to entities that have adopted Section 1602.

These amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011, but early adoption is permitted. The Company is evaluating the attributes of early adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

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

3. Recently released Canadian Accounting Standards (continued)

d) Financial Instruments and Impaired Loans

In August 2009, the CICA issued amendments to Section 3855, "Financial Instruments: Recognition and Measurement". These amendments will permit (or require in certain circumstances) entities to reclassify certain investments in debt instruments, will amend the guidance regarding impairment measurement for Held to Maturity debt instruments and will require reversals of impairment losses for Available for Sale debt instruments when conditions have changed. These amendments apply only to investments in debt instruments and do not apply to investments in equity investments or to debt instruments that have been designated at origination as Held for Trading.

In August 2009, the CICA amended Section 3025, "Impaired loans" to conform with the definition of a loan to that in amended Section 3855 and to include held-to-maturity investments within the scope of this Section.

These amendments are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008 with early adoption permitted for interim financial statements issued on or after August 20, 2009. The Company is evaluating the attributes of early adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

4. Derivatives

Forward Sales Contracts - Swap Basis

During the year, the Company entered into commodity forward contracts to secure a minimum price level on part of its zinc and lead metal production throughout the period February 2009 to June 2010. The contracts are spread evenly over the periods shown below with settlement occurring on a monthly basis. No initial premium associated with these trades has been paid. The counterparties are Standard Bank PLC, Banco Bilbao Vizcaya Argentaria, S.A., Macquarie Bank Limited, and Goldman Sachs.

The following forward sale contracts were entered into on a SWAP basis, as defined below:

January 2009 - settlements throughout February 2009 to July 2009:

Lead forward contracts:	$1,109/t, for the total of 3,150 tons
Zinc forward contracts:	$1,240/t, for the total of 3,850 tons

July 2009 - settlements throughout August 2009 to December 2009:

Lead forward contracts:	$1,645/t, for the total of 2,675 tons
Zinc forward contracts:	$1,561/t, for the total of 3,000 tons

August 2009 - settlements throughout January 2010 to June 2010:

Lead forward contracts:	$1,910/t, for the total of 1,800 tons
Zinc forward contracts:	$1,787/t, for the total of 1,050 tons

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

4. Derivatives (continued)

The SWAP basis contracts are settled against the arithmetic average of zinc and lead spot prices over the month in which the contract matures.

The estimated fair value of the outstanding derivative contracts of ($3,065) (2008: $1,418) was determined with reference to the published market prices for underlying commodities quoted at the London Metal Exchange.

5. Accounts receivable and prepaid expenses

		September 30, 2009		December 31, 2008
Trade accounts receivable	**$**	**6,986**	$	-
Advances and other receivables		**1,367**		1,701
Prepaid expenses and deposits		**286**		164
	$	**8,639**	$	1,865

Accounts receivable and prepaid expenses include prepaid income tax of $9 (2008: $605), $118 (2008: $102) short term portion of the long term receivable, and $198 (2008: $33) in guaranteed deposits.

6. Inventories

Inventories consist of the following:

		September 30, 2009		December 31, 2008
Stockpile ore	**$**	**256**	$	322
Concentrate inventory		**108**		90
Materials and supplies		**1,429**		1,315
	$	**1,793**	$	1,727

7. Long term investment and receivable

As at December 31, 2008, the Company had an investment in 3,706,250 shares of Continuum Resources Ltd. (“Continuum”). The Company measures these investments at fair value and this was determined based on published share prices of underlying securities on the active market. In addition, the Company had granted a loan to Continuum under the terms of the agreement by which Fortuna acquired all of the issued and outstanding shares of Continuum. This amount was used by Continuum to meet its share of the San Jose project capital contributions as well as general corporate expenditures.

As at March 6, 2009, the Company closed the acquisition of Continuum as discussed in Note 9. c).

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

7. Long term investment and receivable (continued)

	September 30, 2009		December 31, 2008	
Investment in shares in Continuum	**$**	**-**	$	91
Loan to Continuum		**-**		3,002
	$	**-**	$	3,093

8. Property, Plant & Equipment

Property, plant and equipment are comprised of the following:

	September 30, 2009			December 31, 2008		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Land	**$ 258**	**$ -**	**$ 258**	$ 231	$ -	$ 231
Machinery & equipment	**8,888**	**2,684**	**6,204**	7,867	1,704	6,163
Buildings	**3,716**	**947**	**2,769**	3,410	602	2,808
Furniture & other equipment	**1,461**	**392**	**1,069**	1,193	218	975
Transport units	**338**	**210**	**128**	526	171	355
Equipment under capital lease	**3,075**	**472**	**2,603**	1,615	216	1,399
Work in progress	**3,130**	**-**	**3,130**	1,354	-	1,354
	$ 20,866	**$ 4,705**	**$ 16,161**	$ 16,196	$ 2,911	$ 13,285

9. Mineral Properties

Mineral properties are located in Peru and Mexico and are comprised of the following:

	September 30, 2009				December 31, 2008			
	Cost	**Depletion**	**Write-off**	**Net Book Value**	Cost	Depletion	Write-off	Net Book Value
Caylloma, Peru	**$ 40,174**	**$ 10,682**	**$ 160**	**$ 29,332**	$ 32,915	$ 7,154	$ -	$ 25,761
San Jose, Mexico	**41,508**	**82**	**1,054**	**40,372**	33,843	34	285	33,524
Predilecta, Mexico	**106**	**-**	**-**	**106**	-	-	-	-
Tlacolula, Mexico	-	-	-	-	-	-	-	-
	$ 81,788	**$ 10,764**	**$ 1,214**	**$ 69,810**	$ 66,758	$ 7,188	$ 285	$ 59,285

a) Caylloma Project, Peru

For the nine months ending September 30, 2009, additions to the Caylloma mineral property includes development and exploration costs of $3,638, an increase of $694 resulting from a revision to the estimate for the asset retirement obligation, and $160 write off of exploration costs.

9. Mineral Properties (continued)

b) San Jose Project, Mexico

For the nine months ending September 30, 2009, additions to the San Jose mineral property consist of development and exploration costs capitalized of $3,726. Included in the additions for the San Jose property is $52 relating to the accretion of the payable for the Monte Alban II concession. This property was acquired for a total of $1,900 and consists of a payment of $1,100 made in May 2008 and a future payment of $800 is to be made in May 2012 (Note 11. b)). The present value of the $800 was $589 and this is being accreted monthly with the accretion amount being capitalized to the mineral property.

Also included in additions to the San Jose mineral property is depreciation of equipment involved in construction work of $146 (2008: $181), and general and administrative costs to develop the mine of $1,072 (2008: $1,087), and $121 received as interest on VAT recovered. There was also a decrease of $324 resulting from the purchase price discrepancy upon the acquisition of Continuum. The San Jose Project is owned and operated by Cuzcatlan, a wholly owned subsidiary of the Company.

In February 2009, the Company made effective a reduction of 8,344 ha out of the approximately 49,000 ha surrounding the San Jose project for which it holds exploration and mining rights. This is equivalent to a write-down of $1,054. This decision was based on existing geological information and is part of an effort to prioritize capital expenditures.

c) Acquisition of Continuum

On March 6, 2009, the Company closed the acquisition of all the issued and outstanding shares of Continuum which had 124,037,920 shares outstanding as of March 6, 2009. The Company agreed to issue to the Continuum shareholders a total of 6,995,738 shares, which is an exchange ratio of approximately 0.0564 of a share of the Company for every one Continuum share held. As Fortuna held 3,706,250 common shares of the issued and outstanding share capital of Continuum as at March 6, 2009, those shares were cancelled and Fortuna issued a total of 6,786,706 shares to the Continuum shareholders other than Fortuna. As a result of the acquisition of Continuum, Fortuna now owns 100% of the San Jose Project in Oaxaca, Mexico.

The acquisition is being accounted for as a purchase of assets. The following calculations include the fair value of Fortuna shares issued, based on the issuance of 6,786,706 Fortuna shares at CAD$0.98 per share for consideration of $5,194 (CAD$6,651). A valuation date of March 6, 2009 was determined for the share value.

The difference between the purchase consideration and the adjusted book values of Continuum's assets and liabilities has been allocated to "Mineral properties". The fair value of all identifiable assets and liabilities acquired was determined by a valuation effective March 6, 2009. No future tax asset or liability has been recorded as the price paid was less than the book value of the assets and the tax basis and book value of the assets purchased was equivalent. The resulting "negative" purchase price discrepancy would have resulted in a future tax asset but as it is more likely than not that this will not be recovered, it has not been recorded.

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

9. Mineral Properties (continued)

c) Acquisition of Continuum (continued)

The preliminary purchase price allocation is as follows:

Purchase price		
6,786,706 common shares of Fortuna	$	5,194
Acquisition costs		113
Loan to Continuum		3,184
Cost of shares previously acquired		130
Total purchase price	**$**	**8,621**

Purchase price allocation		
Net assets acquired:		
Cash received	$	5
Property, plant & equipment		6
Mineral property interests		8,749
Accounts payable and accrued liabilities		(139)
Net identifiable assets of Continuum	**$**	**8,621**

Included as part of the mineral property interests purchased was the Predilecta project in Mexico with a value of $87 at acquisition date.

d) Tlacolula Project, Mexico

In September 2009, the Company was granted an option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico from Radius Gold Inc. (“Radius”) (a related party by way of directors in common with the Company). The Company can earn the interest by spending $2,000, which includes a commitment to drill 1,500 meters within three years, and making staged annual payments of $250 cash and $250 in common stock 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 the first year anniversary;
- $50 cash and $50 cash equivalent in shares by the second year anniversary;
- $50 cash and $50 cash equivalent in shares by the third year anniversary; and,
- $100 cash and $100 cash equivalent in shares by the fourth year anniversary.

As at September 30, 2009, the transaction is pending stock exchange approval and no payments have been made.

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

10. Related Party Transactions

The Company incurred charges from directors, officers, and companies having a common director or officer as follows:

Transactions with related parties	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Consulting fees [1]	**$ 38**	$ 27	**$ 103**	$ 42
Salaries and wages [2]	**28**	45	**88**	58
Other general and administrative expenses [3]	**36**	39	**102**	39
	$ 102	$ 111	**$ 293**	$ 139

[1] Consulting fees includes fees paid to two directors, Simon Ridgway and Mario Szotlender.

[2, 3] Radius Gold Inc. ("Radius") has directors in common with the Company and shares office space, and is reimbursed for various general and administrative costs incurred on behalf of the Company.

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

In September 2009, the Company was granted an option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico from Radius. Refer to Notes to the Consolidated Financial Statements Note 9. d).

Amounts due to/(from) related parties	September 30, 2009	December 31, 2008
Owing to a company with common directors [3]	**$ 23**	$ 38

The transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed upon by the parties. The balances with related parties are unsecured, non-interest bearing, and payable in the normal course of business.

11. Leases and Long Term Liabilities

a) Obligations under capital lease

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

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

11. Leases and Long Term Liabilities (continued)

a) Obligations under capital lease (continued)

	Interest Rate	Maturity Date	**September 30, 2009**	December 31, 2008
Scotia Bank	9.29%	2009	**$ -**	$ 14
Interamericano de Finanzas	8.50%	2009	**4**	38
Scotia Bank	8.20%	2009	**35**	134
Scotia Bank	8.66%	2010	**133**	226
Scotia Bank	8.20%	2010	**325**	26
Scotia Bank	8.49%	2010	**71**	534
Scotia Bank	8.34%	2010	**17**	110
Scotia Bank	8.49%	2011	**117**	248
Scotia Bank	6.75%	2011	**18**	-
Scotia Bank	6.75%	2011	**23**	-
Interbank	9.12%	2011	**190**	69
Interbank	9.75%	2012	**99**	-
Interbank	9.75%	2012	**899**	-
Lease payments			**$ 1,931**	$ 1,399
Less current amount			**(1,037)**	(682)
			$ 894	$ 717

b) Long term liability

In November 2007, Bateas acquired the Minera Condor II and the Minera Condor III concessions for $250. A payment of $50 was done at the signing of the contract, payments of $30 are required to be paid every six months for a total of five payments, and $50 is required to be paid November 2010. This contract was cancelled in March 2009 and the obligation of $156 recorded has been written down.

In May 2008, Cuzcatlan acquired the Monte Alban II concession (Note 9. b)) for which a payment of $800 is due May 2012. This payment is non-interest bearing and all debt relating to the acquisition of the mineral resource property has been recognized as at September 30, 2009.

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

11. Leases and Long Term Liabilities (continued)

b) Long term liability (continued)

		September 30, 2009		December 31, 2008
Face value of long term liability	**$**	**970**	$	1,000
Less: adjustment to amortized cost		**(225)**		(271)
Opening fair value of liability measured at amortized cost		**745**		729
Cancellation of contract		**(156)**		-
Add: accretion to period end		**41**		46
Less: payments		**-**		(30)
Liability at period end		**630**		745
Less: current portion of long term liability		**-**		(80)
	$	**630**	$	665

Principal minimum repayment terms will be :

2009	**$**	**-**
2010		**-**
2011		**-**
2012		**800**
	$	**800**

c) Contingent liability

Interbank bank, 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 associated with the approval procedures of Bateas' mine closure plan, for the sum of $600. This letter is available against first and simple demand expired on July 27, 2009. This letter has been renewed until the end of 2009 when a new guarantee will be set up according to an approved mine closure plan for an amount corresponding to the work to be executed during 2010. This amount is yet to be established but it is expected to be less than the current guarantee.

12. Asset Retirement Obligation

The Company has recorded an asset retirement obligation of $1,887 as of September 30, 2009 consisting of accretion of the previously recorded asset retirement obligation of $1,066 as of December 31, 2008 by $101, an increase in the estimated amount of the asset retirement obligation of $694, and a translation adjustment of $26. The accretion expense was calculated over the year using a rate of 9%. The Company has reviewed its reclamation obligations at the property in light of changing regulations and on the basis of further data in respect of the mine life and has made an increase to the estimated amount of the asset retirement obligation of $694.

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

12. Asset Retirement Obligation (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 asset retirement obligation relating to the Caylloma mine is subject to change based on amendments to laws and regulations and as new information regarding the Company's operations becomes available.

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

13. Share Capital

a) Authorized: Unlimited common shares without par value

On June 17, 2009, an aggregate of 36 common shares resulting from rounding of previous capital consolidations were returned to treasury to reduce the accumulated fractional shares held in the Company's trustee account.

b) Stock Options

The following is a summary of option transactions:

	Number of Shares		Weighted Average Exercised Price Per Share in CAD$
Balance, December 31, 2007	6,686,400	$	2.24
Granted	2,655,000		1.03
Exercised	(31,400)		1.22
Expired	-		-
Forfeited	(1,576,000)		2.77
Balance, December 31, 2008	7,734,000	$	1.79
Granted	**250,000**		**0.83**
Exercised	**(255,000)**		**0.85**
Expired	**(920,000)**		**2.38**
Forfeited	**-**		**-**
Balance, September 30, 2009	**6,809,000**	**$**	**1.71**

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

13. Share Capital (continued)

b) Stock Options (continued)

During the period, 920,000 share purchase options with exercise prices ranging from CAD$0.85 to CAD$3.22 per share expired unexercised, 255,000 share purchase options were exercised at an exercise price of CAD$0.85 per share. During the period, the Company granted to an officer and an employee an aggregate of 250,000 share purchase options with an exercise price of CAD$0.83 per share, exercisable for ten years, with 200,000 share purchase options vested immediately and 50,000 share purchase options vesting on October 1, 2009.

The following share purchase options were outstanding at September 30, 2009:

Number of shares	Exercise Price CAD$		Expiry Date	Weighted Average Remaining Contractual Life - Years
29,000	$	0.37	December 2, 2009	0.2
30,000	$	0.80	July 24, 2010	0.8
270,000	$	1.35	February 5, 2016	6.4
250,000	$	2.29	March 30, 2016	6.5
60,000	$	1.75	May 8, 2016	6.6
200,000	$	1.75	May 22, 2016	6.6
20,000	$	0.85	July 5, 2016	6.8
245,000	$	1.55	July 5, 2016	6.8
860,000	$	1.66	July 10, 2016	6.8
225,000	$	1.61	September 13, 2016	7.0
110,000	$	0.85	January 11, 2017	7.3
730,000	$	2.22	January 11, 2017	7.3
50,000	$	2.75	February 6, 2017	7.4
15,000	$	0.85	April 22, 2017	7.6
10,000	$	0.85	May 31, 2017	7.7
50,000	$	0.85	June 27, 2017	7.7
50,000	$	0.85	July 2, 2017	7.8
1,075,000	$	3.22	July 2, 2017	7.8
25,000	$	0.85	October 24, 2017	8.1
250,000	$	2.52	February 5, 2018	8.4
150,000	$	1.25	August 25, 2018	8.9
1,205,000	$	0.85	October 5, 2018	9.0
650,000	$	0.85	November 5, 2018	9.1
250,000	$	0.83	July 6, 2019	9.8
6,809,000				**7.77**

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

13. Share Capital (continued)

b) Stock Options (continued)

As at September 30, 2009, 6,759,000 share purchase options have vested and 50,000 share purchase options remain unvested. Subsequent to September 30, 2009, 6,809,000 share purchase options have vested, 50,000 share purchase options with exercise prices ranging from CAD$1.55 to CAD$2.22 expired, and 15,000 share purchase options were exercised at CAD$0.85 per share. In addition, the Company granted incentive stock options, subject to shareholder approval, to its directors and officers to purchase up to 2,150,000 shares exercisable for ten years at a price of CAD$1.60 per share.

c) Warrants

The following is a summary of share purchase warrant transactions:

	Number of Share Purchase Warrants	Weighted Average Exercise Price Per Share Purchase Warrant in CAD$	
Balance, December 31, 2007	16,479,375	$	1.89
Issued	-		-
Exercised	(4,322,596)		1.85
Expired	(1,093,424)		2.30
Balance, December 31, 2008	11,063,355	$	1.86
Issued	**-**		**-**
Exercised	**(2,475,355)**		**0.35**
Expired	**(8,588,000)**		**2.30**
Balance, September 30, 2009	**-**	**$**	**-**

As at September 30, 2009, no share purchase warrants were outstanding.

d) Stock-Based Compensation

The Company has established a formal stock option plan in accordance with the policies of the TSX Venture Exchange under which it is authorized to grant options up to 10% of its outstanding shares to officers, directors, employees, and consultants. The exercise price of each option must not be less than the closing market price of the Company’s shares on the trading day immediately prior to the date of grant. The options are for a maximum term of ten years.

The Company uses the fair value based method of accounting for share options granted to consultants, directors, officers, and employees. The non-cash compensation charge of $483 recognized for the nine months ended September 30, 2009 (2008: $652) is associated with the granting of options to a consultant, directors and employees. These compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following assumptions:

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

13. Share Capital (continued)

d) Stock-Based Compensation (continued)

	Nine months ended September 30,	
	2009	**2008**
Risk-free interest rate	**2.42% - 3.45%**	2.97% - 3.78%
Expected stock price volatility	**70% - 78%**	63% - 75%
Expected term in years	**5 & 10**	3, 5 & 10
Expected dividend yield	**0%**	0%

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, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

14. Segmented Information

a) Industry Information

The Company operates in one reportable operating segment, being the acquisition, exploration, development, and operation of mineral properties.

b) Geographic Information

The following is the summary of operations and summary of certain assets on a geographical basis.

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

14. Segmented Information (continued)

b) Geographic Information (continued)

	Canada	Peru	Mexico	Other	Total
Three months ended September 30,					
Revenues	**$ -**	**$ 13,230**	**$ -**	**$ -**	**$ 13,230**
Operating (loss) income	**$ (977)**	**$ 5,373**	**$ -**	**$ (8)**	**$ 4,388**
Three months ended September 30, 2008					
Revenues	$ -	$ 7,492	$ -	$ -	$ 7,492
Operating (loss) income	$ 291	$ (663)	$ -	$ (11)	$ (383)
Nine months ended September 30,					
Revenues	**$ -**	**$ 35,072**	**$ -**	**$ -**	**$ 35,072**
Operating income (loss)	**$ (2,643)**	**$ 12,445**	**$ (921)**	**$ (61)**	**$ 8,820**
Nine months ended September 30, 2008					
Revenues	$ -	$ 22,072	$ -	$ -	$ 22,072
Operating (loss) income	$ (2,791)	$ 3,441	$ -	$ (14)	$ 636
As at September 30, 2009					
Property, plant & equipment	**$ 12**	**$ 11,356**	**$ 4,790**	**$ 3**	**$ 16,161**
Total assets	**$ 25,965**	**$ 60,890**	**$ 44,505**	**$ 12**	**$ 131,372**
As at December 31, 2008					
Property, plant & equipment	$ 4	$ 9,105	$ 4,174	$ 2	$ 13,285
Total assets	$ 25,071	$ 46,124	$ 41,348	$ 2,825	$ 115,368

c) Major Customers

For the three month periods ended September 30, 2009 and 2008, there was one customer accounting for greater than 10% of revenues and represented 96% and 100% of total sales of the Company, respectively.

For the nine month periods ended September 30, 2009 and 2008, there was one customer accounting for greater than 10% of revenues and represented 96% and 100% of total sales of the Company, respectively.

15. Commitments and Contingencies

The Company has a contract to guarantee power supply at its Caylloma mine. Under the contract, the seller is obligated to deliver a "maximum committed demand" (for the present term this stands at 2,800 Kw) and Bateas 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. Renewal can be avoided without penalties by notifying 10 months in advance of renewal date. Tariffs are established yearly by the energy market regulator in accordance with applicable regulations in Peru.

15. Commitments and Contingencies (continued)

The Company acts as guarantor to capital lease obligations held by two of its mining contractors. These capital lease contracts are related to the acquisition of mining equipment deployed at the Caylloma mine. As at September 30, 2009, these obligations amounted to $1,237 and mature in 2010.

a) Environmental Matters

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect the public health and environment and believes its operations are in compliance with applicable laws and regulations in all material respects. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures.

Estimated future reclamation costs are based principally on legal and regulatory requirements. As of September 30, 2009 and December 31, 2008, $1,887 and $1,066, respectively, were accrued for reclamation costs relating to mineral properties in accordance with Section 3110, "Asset Retirement Obligations". See Note 12.

b) Income Taxes

The Company operates in numerous countries around the world and accordingly it is subject to, and pays annual income taxes under the various income tax regimes in the countries in which it operates. Some of these tax regimes are defined by contractual agreements with the local government, and others are defined by the general corporate income tax laws of the country. The Company has historically filed, and continues to file, all required income tax returns and to pay the taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time, the Company is subject to a review of its historic income tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Company's business conducted within the country involved.

c) Title Risk

Although the Company has taken steps to verify title to properties in which it has an interest, these procedures do not guarantee the Company's title. Property title may be subject to, among other things, unregistered prior agreements or transfers and may be affected by undetected defects.

16. Management of capital risk

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.

16. Management of capital risk (continued)

The Company is not subject to externally imposed capital requirements.

17. Management of financial risk

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk, and price risk. The Company's 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

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, due to related parties, net, approximate their fair value due to the relatively short periods to maturity and the terms of these financial instruments.

Fair value estimates are made a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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, Mexico and Barbados 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 results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At September 30, 2009, 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):

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

17. Management of financial risk (continued)

b) Currency risk (continued)

	September 30, 2009			December 31, 2008		
	Canadian Dollars	**Nuevo Soles**	**Mexican Pesos**	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	**$ 23,821**	S/. **2,526**	**$ 4,610**	$29,748	S/. 629	$ 3,864
Accounts receivable	**7**	**334**	**18,490**	13	10,400	46,460
Accounts payable and accrued liabilities	**(87)**	**(11,291)**	**(641)**	(172)	(5,281)	(10,259)

Based on the above net exposure as at September 30, 2009, 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, expressed in US dollars, as follows:

Impact to other comprehensive income (loss)	$ 2,429		
Impact to net income (loss)		$ (325)	$ 200

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 equivalents are held through large Canadian and international financial institutions. These investments mature at various dates over the current operating period. All of the Company's trade accounts receivables are held with large international metals trading companies. As at September 30, 2009, the Company has a Mexican value added tax of $1,294 and Peruvian value added tax of $149. The Company expects to recover the full amounts from the Mexican and Peruvian Governments.

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 and cash equivalents, and its committed liabilities.

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

17. Management of financial risk (continued)

d) Liquidity risk (continued)

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

	Expected payments due by period as at September 30, 2009				
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Accounts payable and accrued liabilities	$ 6,370	$ -	$ -	$ -	$ 6,370
Due to related parties, net	23	-	-	-	23
Derivatives	3,065	-	-	-	3,065
Capital lease obligations	1,037	894	-	-	1,931
Long term liability	-	630	-	-	630
Total [1]	$ 10,495	$ 1,524	$ -	$ -	$ 12,019

[1] Amounts above do not include payments related to the following: (i) the Company's anticipated asset retirement obligation of $1,887 associated with mine closure, land reclamation, and other environmental matters.

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 of the amounts in investments with maturities of 90 days or less included in cash and cash equivalents is limited because these investments, although available for sale, are generally held to maturity.

f) Price risk

The Company is exposed to metals price risk with respect to silver, gold, zinc, and lead sold through its mineral concentrate products. The Company mitigates this risk by implementing price protection programs for some of its zinc and lead production through the use of derivative instruments. As a matter of policy, the Company does not hedge its silver production.

18. Subsequent Events

There are no further subsequent events not reported above.