FORTUNA SILVER MINES INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

(Unaudited – Prepared by Management)

(Expressed in thousands of Canadian Dollars)

UNAUDITED FINANCIAL STATEMENTS: In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the nine month period ended September 30, 2008.

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30, 2008
(Unaudited)
(Expressed in thousands of Canadian Dollars)

	September 30, 2008 (unaudited)	December 31, 2007 (audited)
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	$ 41,225	$ 47,240
Derivatives (Note 5)	2,378	1,400
Accounts receivable and prepaid expenses (Note 6)	7,802	2,051
GST and value added taxes	5,230	5,147
Inventories (Note 7)	1,998	1,693
	58,633	57,531
LONG-TERM RECEIVABLES (Note 3)	128	-
LONG-TERM INVESTMENTS (Note 8)	185	908
PROPERTY, PLANT & EQUIPMENT (Note 9)	14,624	13,669
MINERAL PROPERTIES (Note 10)	66,175	52,338
	$ 139,745	$ 124,446
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 4,999	$ 5,917
Due to related parties, net (Note 11)	15	14
Current portion of obligation under capital lease (Note 12)	627	439
	5,641	6,370
OBLIGATIONS UNDER CAPITAL LEASE (Note 12)	513	433
LONG-TERM LIABILITY (Note 12)	601	-
ASSET RETIREMENT OBLIGATION (Note 13)	1,276	1,916
FUTURE INCOME TAX LIABILITY	10,737	8,069
NON-CONTROLLING INTEREST (Note 10)	10,281	6,593
	29,049	23,381
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 14)	108,221	100,159
CONTRIBUTED SURPLUS	12,399	11,770
DEFICIT	(9,440)	(11,008)
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 15)	(484)	144
	110,696	101,065
	$ 139,745	$ 124,446

Nature and continuance of operations (Note 1)
Commitments (Note 18)
Subsequent events (Note 21)

APPROVED BY THE DIRECTORS:

"signed", Director
Jorge Ganoza Durant

"signed", Director
Simon Ridgway

(See accompanying Notes)

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited – Prepared by Management)
(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Sales	$ 7,786	$ 9,201	$ 22,468	$ 23,737
Cost of sales (including depletion, depreciation and accretion of $3,753 and $4,767 for 2007)	5,984	5,104	15,478	13,914
MINE OPERATING INCOME	1,802	4,097	6,990	9,823
Selling, general and administrative expenses (includes depreciation of $35 and $18 for 2007)	2,171	1,413	5,705	4,159
Stock-based compensation (Note 14)	30	4,120	656	6,542
	2,201	5,533	6,361	10,701
OPERATING INCOME	(399)	(1,436)	629	(878)
Interest and other income and expenses	397	406	1,082	1,023
Interest and finance expenses	(26)	(2)	(71)	(18)
Net gain (loss) on commodity contracts (Note 5)	722	(220)	2,368	(220)
Loss on disposal of property, plant and equipment	(27)	(12)	(49)	(12)
Foreign exchange (loss) gain	(143)	(937)	283	(1,483)
	923	(765)	3,613	(710)
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	524	(2,201)	4,242	(1,588)
Income tax provision	880	1,251	2,647	2,666
Non-controlling interest	(48)	(62)	27	(54)
NET (LOSS) INCOME FOR THE PERIOD	(308)	(3,390)	1,568	(4,200)
Other comprehensive loss, net of tax				
Unrealized (loss) on available for sale long-term investments (Note 15)	(3)	(385)	(628)	(64)
COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	$ (311)	$ (3,775)	$ 940	$ (4,264)
Basic (loss) income per share	$ (0.00)	$ (0.05)	$ 0.02	$ (0.06)
Diluted income per share	$ -	$ -	$ 0.02	$ -
Basic comprehensive (loss) income per share	$ (0.00)	$ (0.05)	$ 0.01	$ (0.06)
Diluted comprehensive income per share	$ -	$ -	$ 0.01	$ -
Weighted average number of shares outstanding				
Basic	85,331,659	71,899,133	84,088,475	68,623,834
Diluted	-	-	84,705,770	-

(See accompanying Notes)

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(Unaudited – Prepared by Management)
(Expressed in thousands of Canadian Dollars, except for share amounts)

	Share Capital		Contributed		Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	surplus	(Deficit)	Income	Equity
Balance – December 31, 2006 (audited)	46,587,728	$ 43,341	$ 6,085	$ (8,219)	$ -	$ 41,207
Cumulative impact of accounting changes, net of tax	-	-	-	-	449	449
Exercise of options	1,077,500	1,515	-	-	-	1,515
Exercise of warrants	13,285,761	18,640	-	-	-	18,640
Private placement for cash	18,000,000	34,200	-	-	-	34,200
Private placement commission non-cash transaction	422,300	802	-	-	-	802
Transfer of contributed surplus on exercise of options	-	963	(963)	-	-	-
Stock based compensation	-	-	6,542	-	-	6,542
Issue costs (non-cash amount $802)	-	(2,487)	-	-	-	(2,487)
(Loss) for the period	-	-	-	(4,200)	-	(4,200)
Other comprehensive (loss), net of tax	-	-	-	-	(64)	(64)
Balance – September 30, 2007	79,373,289	$ 96,974	$ 11,664	$ (12,419)	$ 385	$ 96,604

	Share Capital		Contributed		Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Surplus	(Deficit)	Income	Equity
Balance – December 31, 2007 (audited)	80,977,663	$ 100,159	$ 11,770	$ (11,008)	$ 144	$ 101,065
Exercise of options	31,400	38	-	-	-	38
Exercise of warrants	4,322,596	7,997	-	-	-	7,997
Transfer of contributed surplus on exercise of options	-	27	(27)	-	-	-
Stock based compensation	-	-	656	-	-	656
Income for the period	-	-	-	1,568	-	1,568
Other comprehensive (loss), net of tax	-	-	-	-	(628)	(628)
Balance – September 30, 2008	85,331,659	108,221	12,399	(9,440)	(484)	110,696

(See accompanying Notes)

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in thousands of Canadian Dollars)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
OPERATING ACTIVITIES				
Net income (loss) for the period	$ (308)	$ (3,390)	$ 1,568	$ (4,200)
Items not involving cash				
Depletion and depreciation	1,456	1,742	3,708	4,667
Accretion expense	27	43	80	118
Future income tax	858	526	2,463	1,940
Stock based compensation	30	4,120	656	6,542
Unrealized gain on commodity contracts	(722)	149	(2,368)	149
Loss on disposal of equipment	27	-	49	-
Accrued interest on loan receivable	(6)	-	(6)	-
Foreign exchange loss (gain)	188	(2)	127	(365)
Non-controlling interest	(48)	(62)	27	(54)
Changes in non-cash working capital items				
Realized gain on commodity contract	1,175	-	1,488	-
Accounts receivable and prepaid expenses	(1,769)	329	(3,923)	(2,477)
Inventories	(192)	(386)	(335)	(474)
Accounts payable	(534)	707	(936)	1,477
Payments from (to) related parties (Note 11)	(15)	14	1	13
Net cash from operating activities	167	3,790	2,599	7,336
FINANCING ACTIVITIES				
Proceeds on issuance of common shares	-	10,737	8,035	52,670
Capital lease obligations	(41)	(51)	(170)	(84)
Repayment of debt (Note 12)	-	-	-	(5,730)
Net cash (used in) from financing activities	(41)	10,686	7,865	46,856
INVESTING ACTIVITIES				
Mineral property expenditures	(4,281)	(3,490)	(13,348)	(6,476)
Value added taxes on purchase of property, plant and equipment	(413)	(209)	(1,024)	(737)
Long term receivable	(12)	-	(12)	-
Property, plant & equipment expenditures	(801)	(2,094)	(2,106)	(4,657)
Proceeds from disposal of equipment	1	-	11	-
Net cash used in investing activities	(5,506)	(5,793)	(16,479)	(11,870)
(DECREASE) INCREASE IN CASH	(5,380)	8,683	(6,015)	42,322
Cash and cash equivalents – beginning of period	46,605	35,280	47,240	1,641
CASH AND CASH EQUIVALENTS – END OF PERIOD	$ 41,225	$ 43,963	$ 41,225	$ 43,963
Supplementary disclosure of cash flow information:				
Cash received for interest	$ (419)	$ (368)	$ (1,227)	$ (983)
Cash paid for income taxes	$ 105	$ -	$ 383	$ -

Non-cash transactions (Note 17)

(See accompanying Notes)

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.

The Company's continuing operations 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. Future profitable production is primarily dependent on the quality of ore resources, ability to obtain permits, future metal prices, operating and environmental costs, fluctuations in currency exchange rates, political risks and varying levels of taxation.

2. Significant Accounting Policies

Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods as our most recent annual financial statements except as noted below. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements as at December 31, 2007.

The interim consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Minera Bateas SAC (Bateas), Fortuna Silver Mines Peru S.A.C. and Fortuna Silver (Barbados) Inc. and of the Company's 76% interest in Compania Minera Cuzcatlan SA (Cuzcatlan), a variable interest entity for which a non-controlling interest has been recorded to reflect the 24% interest of the Company's partner. All significant intercompany balances and transactions have been eliminated on consolidation.

Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the following standards previously issued by the Canadian Accounting Standards Board ("AcSB"). In accordance with the transitional provisions of these standards, the changes were adopted prospectively (if applicable), with no restatement of prior periods.

Section 1535 – Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Disclosures include what is defined as capital, how it is managed, and whether externally imposed restrictions on capital are present.

Section 3031 - Inventories

This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

2. Significant Accounting Policies (cont'd)

Section 3862 – Financial Instruments – Disclosures

This Section, in addition to Section 3863, replaces Section 3861 "Financial Instruments – Disclosure and Presentation" and requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Entities are required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

Section 3863 – Financial Instruments – Presentation

This Section, in addition to Section 3862, replaces Section 3861 "Financial Instruments – Disclosure and Presentation", and provides guidance on presentation of financial instruments as liabilities vs. equity and when offsetting of financial assets and financial liabilities is appropriate. The adoption of this standard did not have a material impact on the Company's presentation of its financial instruments.

Mineral Properties and Generative Exploration costs

During the period, the Company clarified its accounting policy with respect to generative exploration costs. This does not represent a change in accounting policy and there is no effect on prior periods. The Company's revised policy is as follows:

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties when future inflow of economic benefits from the properties is probable and until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties, including capitalized interest are amortized on a unit-of-production basis over proven and probable reserves and costs of abandoned properties are written-off. Proceeds received from the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations. Exploration costs that do not relate to any specific property are expensed as incurred. Exploration and business development costs that do not relate to a property where the Company has a vested interest are expensed as incurred.

For operating mines all replacement and expansion exploration within the mineral deposit is capitalized and amortized on a unit-of-production basis over proven and probable reserves as part of the production cost.

Management reviews the carrying value of mineral properties when events or changes in circumstances indicate that their carrying values may not be recoverable. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

2. Significant Accounting Policies (cont'd)

Recent Accounting Pronouncements Not Yet Adopted

Goodwill and Intangible Assets (Section 3064)

In February 2008, the CICA issued section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets," and CICA Section 3450, "Research and Development Costs," and CICA 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 CICA 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 1 October 2008. We are currently evaluating the impact of adopting this standard in 2009.

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 1 January 2011. The transition date of 1 January 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended 31 December 2010. In July 2008 the AcSB announced that early adoption will be allowed in 2009 subject to seeking and obtaining exemptive relief. The Company is currently assessing the financial reporting impact of the transition to IFRS and the changeover date.

3. Financial Instruments

All financial instruments are recorded initially at estimated fair value on the balance sheet and classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables and other liabilities.

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets and financial liabilities considered held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized costs using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

3. Financial Instruments (cont'd)

The long-term receivables are classified as loans and receivables and are measured at amortized costs using a credit adjusted rate of 9.0%. The long-term investments are classified as available-for-sale and are recorded at their fair value, which is determined with reference to market value of underlying marketable securities. Derivative instruments are classified as held-for-trading and are recorded at fair value, which is determined with reference to the market value of underlying commodities. The long-term liability is classified as other liabilities and is measured at amortized cost using a credit adjusted rate of 9.0%. All other financial instruments are recorded at cost, which approximates their fair value, due to the short-term maturity and high liquidity.

4. Cash and cash equivalents

Cash and cash equivalents include a term deposit of $623 (US$600) securing a bank letter of guarantee issued on behalf of the Peruvian mining regulatory agency in compliance with local regulation associated with the existing asset retirement obligation. These funds are restricted until the term deposit is redeemed November 2, 2008.

5. Derivatives

During October 2007, the Company entered into a series of put and call option commodity arrangements to secure a minimum price level on part of its zinc and lead metal production throughout the period November 2007 to December 2008. A long put and a long call refer to put and call options that have been bought by the Company, and a short call refers to call options that have been sold by the Company. Settlement of these options occurs monthly during the period from December 2007 until January 2009. No initial premium associated with these trades has been paid.

The following Zinc Asian Option contracts were entered into:

- 14 Long put options at strike price: USD 2,575/t, for the total of 2,800 tons
- 14 Short call options at strike price: USD 2,750/t, for the total of 2,800 tons
- 14 Long call options at strike price: USD 3,450/t, for the total of 2,800 tons

The following Lead Asian Option contracts were entered into:

- 14 Long put options at strike price: USD 3,000/t, for the total of 1,750 tons
- 14 Short call options at strike price: USD 3,300/t, for the total of 1,750 tons
- 14 Long call options at strike price: USD 4,300/t, for the total of 1,750 tons

As at September 30, 2008 the Company had 4 open positions on each of these arrangements.

During January 2008 the Company entered into additional derivative contracts spread out evenly over the period from February 2008 to January 2009.

The following Lead Asian Option contracts were entered into:

- 12 Long put options at strike price: USD 2,200/t, for the total of 1,025 tons
- 12 Short call options at strike price: USD 2,750/t, for the total of 1,025 tons
- 12 Long call options at strike price: USD 3,750/t, for the total of 1,025 tons

As at September 30, 2008 the Company had 5 open positions on each of these arrangements.

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

5. Derivatives (cont'd)

The following Zinc Forward sale contracts were entered into on a SWAP basis:

- 12 Forward contracts: USD 2,360/t, for the total of 1,700 tons

The contract is settled against the arithmetic average of zinc spot prices over the month in which the contract matures.

As at September 30, 2008, the Company had 5 open positions on each of these arrangements.

Additionally, the Company will occasionally enter into forward lead and zinc contracts with banks to fix the final settlement price of metal delivered in concentrates (QP hedges), where the final settlement price is yet to be set at a future quotational period according to contract terms.

The estimated fair value of the outstanding derivative contracts of $2,378 was determined based on using applicable valuation techniques for commodity options and futures with reference to the published market prices for underlying commodities quoted at London Metal Exchange. The change in estimated fair value with respect to the amount recorded at December 31, 2007 has been recorded as a gain on commodity contract of $2,368 as at September 30, 2008.

6. Accounts receivable and prepaid expenses

	September 30, 2008	December 31, 2007
Trade accounts receivable	$ 3,701	$ 409
Advances and other receivables	3,941	1,505
Prepaid expenses and deposits	160	137
	$ 7,802	$ 2,051

Advances and other receivables include a $2.35 million short term loan to Continuum Resources Ltd. granted under the terms of the agreement by which Fortuna will acquire all of the issued and outstanding shares of Continuum. This amount has been used by Continuum to meet its share of the San Jose project capital contributions.

7. Inventories

Inventories consist of the following:

	September 30, 2008	December 31, 2007
Ore stock piles	$ 409	$ 466
Concentrate stock piles	29	159
Materials and supplies	1,560	1,068
	$ 1,998	$ 1,693

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

8. Long term investments

At September 30, 2008 and December 31, 2007 the Company owned 3,706,250 shares of Continuum Resources Ltd. With the adoption of financial instruments standards, the Company measures these investments at fair value (Note 3). The fair value was determined based on published share prices of underlying securities on the active market. On adoption of financial instruments standards, a cumulative adjustment was recorded in other comprehensive income to reflect the change in accounting policy.

	September 30, 2008	December 31, 2007
Fair value	$ 185	$ 908
Cost	741	741
Unrealized (loss) gain (cumulative)	$ (556)	$ 167

9. Property, Plant & Equipment

Property, plant and equipment are comprised of the following:

September 30, 2008	Cost	Accumulated Depreciation	Net book value
Land	$ 259	$ -	$ 259
Machinery & equipment	8,247	1,801	6,446
Buildings	3,171	636	2,535
Furniture & other equipment	1,267	219	1,048
Vehicles	643	172	471
Equipment under capital lease	1,473	213	1,260
Work in progress	2,605	-	2,605
	$ 17,665	$ 3,041	$ 14,624

December 31, 2007	Cost	Accumulated Depreciation	Net book value
Land	$ 259	$ -	$ 259
Machinery & equipment	8,222	1,034	7,188
Buildings	2,989	409	2,580
Furniture & other equipment	912	104	808
Vehicles	524	75	449
Equipment under capital lease	1,035	71	964
Work in progress	1,421	-	1,421
	$ 15,362	$ 1,693	$ 13,669

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

10. Mineral Properties

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

				September 30, 2008	December 31, 2007
	Cost	Depletion	Write-off	Net	Net
Peru - Caylloma	$ 36,627	$ 7,279	$ -	$ 29,348	$ 26,268
Mexico – San Jose	36,827	-	-	36,827	26,070
	$ 73,454	$ 7,279	$ -	$ 66,175	$ 52,338

Additions to mineral properties are comprised of development and exploration costs capitalized and consist of $6,285 at Caylloma and $10,757 at San Jose properties for the nine month period ended September 30, 2008. In addition, there was a revision to the estimate for the asset retirement obligation for Caylloma which resulted in a decrease of $720 to the cost of the mineral property. Included in the additions for the San Jose property is the acquisition of the Monte Alban II concession. This was acquired for a total of US$1,900 and consists of a payment of US$1,100 made in May 2008 and a future payment of US$800 to be made in May 2012. The present value of the US$800 is $601 (Note 12). This will be accreted monthly with the accretion amount being capitalized to the mineral property (Note 12). Also, included in additions to San Jose mineral properties are depreciation of equipment involved in construction work of $167 (2007: $1), and general and administrative costs to develop the mine of $948 (2007: $nil).

There have been generative exploration expenses of $18 (2007: $nil) which have been included as part of the selling, general and administrative expenses on the Statements of Operations.

San Jose Project, Mexico

The San Jose Project is owned and operated by Compañia Minera Cuzcatlan ("Cuzcatlan"), a company owned 76% by the Company and 24% by Continuum Resources Ltd ("Continuum"). The Company is the operator of the work programs and the Company and Continuum must contribute to the costs thereof in proportion to its ownership percentage in Cuzcatlan.

Cuzcatlan has been accounted for as a variable interest entity, as defined in CICA Accounting Guideline 15 "Consolidation of Variable Interest Entities" and has been consolidated from the date of acquisition. A non-controlling interest of $10,281 has been recorded as at September 30, 2008 (September 30, 2007 - $5,708).

11. Related Party Transactions

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

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Mineral property costs – geological fees	$ -	$ 45
Consulting fees	43	91
Salaries and wages	60	71

These charges were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

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

11. Related Party Transactions (cont'd)

At September 30, 2008, due to related parties consists of $15 (December 31, 2007 - $14) owing to an officer and to companies with a common director. These amounts were incurred as a result of shared administrative costs. These amounts are unsecured, non-interest bearing and payable in the normal course of business.

12. Leases and long-term liabilities

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.

	Interest Rate	Maturity Date	September 30, 2008	December 31, 2007
Banco Interamercano de Finanzas	8.50%	2009	$ 54	$ 82
Scotiabank	9.29%	2009	19	28
Scotiabank	8.20%	2009	172	252
Scotiabank	8.66%	2010	265	335
Scotiabank	8.34%	2010	30	37
Scotiabank	8.20%	2010	600	138
Present value of lease payments			$ 1,140	$ 872
Less current amount			(627)	(439)
			$ 513	$ 433

Long-term liability

	September 30, 2008	December 31, 2007
Long-term liability	$ 794	$ -
Less: adjustment to amortized cost	(210)	-
Fair value of liability at inception measured at amortized cost	584	
Accretion to period end	17	
Fair value of liability at September 30, 2008	601	-
Less: current portion of long-term liability	-	-
	$ 601	$ -

In May 2008, Cuzcatlan acquired the Monte Alban II concession (Note 9) and this includes a payment of $794 (US$800) due May 2012. This payment is non-interest bearing. All debt relating to the acquisition of the mineral resource property has been recognized as at September 30, 2008. Principal minimum repayment terms will be:

	$
2012	794

12. Leases and long-term liabilities (cont'd)

On November 21, 2006 the Company borrowed $4,600 at an interest rate of 12% from Quest Capital Corporation in connection with the acquisition of the San Jose property. The loan was due on May 30, 2007, however the $4,600 plus interest of $25 was paid back on January 15, 2007.

On October 30, 2006 a revolving credit line of US$ 950 with a CDN value of $1,079 as of December 31, 2006 and an interest rate of Libor + 1.5% plus a variable utilization fee, was taken for working capital purposes from Traxys North America. The amount of the credit line of $1,079, plus interest and fees of $41 was paid back on February 8, 2007.

13. Asset Retirement Obligation

The Company has recorded an asset retirement obligation of $1,276 as of September 30, 2008 consisting of accretion of the previously recorded asset retirement obligation of $1,916 as of December 31, 2007 by $80 and a reduction in the estimated amount of the asset retirement obligation of $720. The accretion expense was calculated over the year using a rate of 9%. The initial amount was based on an estimate prepared by an independent third party at the time of acquisition as to the cost of reclamation associated with the Caylloma property. 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 a reduction in the estimated amount of the asset retirement obligation of $720.

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.

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

14. Share Capital

a) Authorized: Unlimited common shares without par value

	Number of shares		Amount
Balance - September 30, 2005	20,083,465	$	12,164
Exercise of options	650,000		424
Exercise of warrants	6,124,631		5,601
Private placement for cash	16,700,000		22,050
Private placement commission non-cash transaction	760,261		1,140
Property acquisition non-cash transaction	1,897,621		2,714
Property finders fee non-cash transaction	50,000		68
Property acquisition non-cash transaction	168,417		285
Loan fee	153,333		276
Transfer of contributed surplus on exercise of options	-		214
Less issue costs (non-cash amount $1,140)	-		(1,595)
Balance - December 31, 2006	46,587,728		43,341
Exercise of options	1,753,600		1,957
Exercise of warrants	14,214,035		21,057
Private placement for cash	18,000,000		34,200
Private placement commission non-cash transaction (Note 16)	422,300		802
Transfer of contributed surplus on exercise of options	-		1,289
Less issue costs (non-cash amount $802)	-		(2,487)
Balance - December 31, 2007	80,977,663		100,159
Exercise of options	31,400		38
Exercise of warrants	4,322,596		7,997
Transfer of contributed surplus on exercise of options	-		27
Balance - September 30, 2008	85,331,659	$	108,221

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

14. Share Capital (continued)

b) Stock Options

A summary of stock options granted and exercised under the Company's stock option plan is as follows:

	Nine months ended September 30, 2008		Year ended December 31, 2007	
	Number of Options	Weighted Average Exercised Price	Number of Options	Weighted Average Exercised Price
Outstanding, beginning of period	6,686,400	$ 2.24	3,765,000	$ 1.62
Granted	400,000	2.04	4,355,000	2.82
Exercised	(31,400)	1.22	(1,321,100)	1.48
Expired/cancelled	(105,000)	2.79	(112,500)	2.56
Outstanding, end of period	6,950,000	$ 2. 39	6,686,400	$ 2.24

A summary of the Company's options as at September 30, 2008 is as follows:

Number of options		Exercise Price $	Expiry Date
29,000		0.37	December 2, 2009
30,000		0.80	July 24, 2010
270,000		1.35	February 5, 2016
451,000	*	2.29	March 30, 2016
60,000		1.75	May 8, 2016
200,000		1.75	May 22, 2016
280,000		1.55	July 5, 2016
860,000		1.66	July 10, 2016
225,000		1.61	September 13, 2016
20,000		1.90	November 20, 2016
50,000		1.96	November 23, 2016
1,360,000	**	2.22	January 11, 2017
50,000		2.75	February 6, 2017
15,000		3.09	April 22, 2017
50,000		3.10	May 31, 2017
50,000		3.05	June 27, 2017
2,025,000	***	3.22	July 2, 2017
250,000		2.97	September 23, 2017
250,000		2.82	October 9, 2010
25,000		3.10	October 24, 2017
250,000		2.52	February 5, 2018
150.000		1.25	August 25, 2018
6,950,000			

* 201,000 of these options were cancelled subsequent to the quarter end on October 8, 2008
** 470,000 of these options were cancelled subsequent to the quarter end on October 8, 2008
*** 800,000 of these options were cancelled subsequent to the quarter end on October 8, 2008

6,812,500 options have vested as at September 30, 2008. The average remaining life of the outstanding options at September 30, 2008 is 8.0 years.

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

14. Share Capital (continued)

c) Warrants

A summary of share purchase warrants issued and exercised is as follows:

	Nine months ended September 30, 2008		Year ended December 31, 2007	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	16,479,375	$ 1.89	20,566,185	$ 1.23
Issued	-	-	10,559,725	2.30
Exercised	(4,322,596)	1.85	(14,646,535)	1.44
Expired	(1,093,424)	2.30	-	-
Outstanding, end of period	11,063,355	$ 1.86	16,479,375	$ 1.89

The following share purchase warrants were outstanding at September 30, 2008:

Number of warrants		Exercise Price $	Expiry Date
862,117		0.345	June 27, 2010
1,613,238		0.345	November 17, 2010
8,588,000	*	2.300	July 11, 2009
12,156,779			

* During the quarter, the expiry date for these warrants was extended from July 11, 2008 to July 11, 2009.

d) Stock-Based Compensation

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 $656 recognized for the nine month period ended September 30, 2008 (nine month period ended September 30, 2007: $6,542) is associated with the granting of options to consultants, officer and employee. These compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following assumptions:

	Nine month period ended September 30, 2008	Nine month period ended September 30, 2007
Risk-free interest rate	2.97% - 3.78%	4.03% - 4.67%
Expected stock price volatility	63.49% - 74.54%	59.0% - 68.0%
Expected term in years	3 & 5	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.

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

15. Accumulated other comprehensive income

		September 30, 2008
Balance - December 31, 2007	$	144
Unrealized (loss) on available-for-sale long term investment, net of tax		(628)
Balance - September 30, 2008	$	(484)

16. Segmented Information

The Company is currently engaged in mining and the development and mining of mineral properties. Details on a geographical basis are as follows:

	Canada	Peru	Mexico	Other	Total
Nine months ended September 30, 2008					
Revenue	$ -	$ 22,468	$ -	$ -	$ 22,468
Operating (loss) income	$ (2,805)	$ 3,448	$ -	$ (14)	$ 629
Nine months ended September 30, 2007					
Revenue	$ -	$ 23,737	$ -	$ -	$ 23,737
Operating (loss) income	$ (7,743)	$ 6,870	$ -	$ (5)	$ (878)
As at September 30, 2008					
Property, plant & equipment	$ 5	$ 9,956	$ 4,660	$ 3	$ 14,624
Total assets	$ 34,509	$ 54,729	$ 48,276	$ 2,231	$ 139,745
As at December 31, 2007					
Property, plant & equipment	$ 7	$ 9,252	$ 4,407	$ 3	$ 13,669
Total assets	$ 40,273	$ 49,297	$ 34,155	$ 721	$ 124,446

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

17. Supplementary Disclosure of Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

The following non-cash transactions occurred:

	Nine months ended September 30, 2008		
	Number of shares	Amount	
Sale of equipment for receivable		$	200
Future payment for resource property		$	601
Fair value of options exercised	-	$	27

	Nine months ended September 30, 2007		
	Number of shares	Amount	
Shares issued for commission on private placement	422,300	$	802
Purchase of equipment on a deferred payment plan	-	$	856
Fair value of options exercised	-	$	963

18. Commitments

On May 6, 2008, after renegotiating the existing option agreement on the Monte Alban II concession surrounding the San Jose project, Compañia Minera Cuzcatlan SA closed the purchase of a direct 100% interest on this property (Note 10). The purchase price consisted of US$1,100 paid upon closing, and an additional US$800 payment due by May 2012 (Note 12).

The Company has a contract with one customer who purchases the full production of the year 2008 from the Company’s operating Caylloma mine. Under the contract, the Company is committed to supply 8,700 wet metric tons of lead concentrate and 17,000 wet metric tons of zinc concentrate.

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 energy market regulator in accordance with applicable regulations in Peru.

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, 2008 these obligations amounted to US$1,599 and mature in 2010

19. 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.

The Company is not subject to externally imposed capital requirements.

20. 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.

(a) 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 US dollars, Nuevo Soles, and Mexican Pesos. A significant change in the currency exchange rates between the Canadian dollar relative to the other currencies could have an 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, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars, Nuevo Soles and Mexican Pesos (all amounts are expressed in thousands of US dollars, thousands of Nuevo Soles or thousands of Mexican Pesos):

	September 30, 2008		
	US Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	6,950	173	3,351
Derivatives	1,426	-	-
Accounts receivable	3,106	7,970	41,624
Long-term receivable	239,766	-	-
Accounts payable and accrued liabilities	(1,221)	(6,327)	(19,689)
Long-term liability	(800,000)	-	-
Obligations under capital lease	(1,106)	-	-

Based on the above net exposures as at September 30, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase/decrease of $1,035 in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Nuevo Soles would result in an increase/decrease of $97 in the Company's net earnings and a 10% depreciation or appreciation of the Canadian dollar against the Mexican Pesos would result in an increase/decrease of $249 in the Company's net earnings.

20. Management of financial risk continued

(b) 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 a large international metals trading company.

(c) 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 through the management of its capital structure and financial leverage as outlined in Note 19 to the unaudited consolidated financial statements. Accounts payable and accrued liabilities, amounts due to related parties and the current portion of obligations under capital lease are due within the current operating period.

(d) 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.

(e) 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.

21. Subsequent Events

Fortuna and Continuum have entered into a Combination Agreement dated October 29, 2008 whereby Fortuna will acquire all of the outstanding common shares of Continuum. The companies currently hold jointly the San Jose Project in Mexico (Fortuna 76%; Continuum 24%). As a result of the acquisition, Fortuna will own 100% of the Project. Continuum has 124,052,503 shares outstanding, and Fortuna will issue to the continuum shareholders a total of 7.0 million shares, which is an exchange ratio of approximately 0.0564 of a share of Fortuna for every one Continuum share held. Stock options in Continuum held by non-insiders totaling 285,000 shares will be converted to options to purchase Fortuna shares, at the same ratio.

On October 6, 2008, 1,405,000 options were issued with an exercise price of $0.85 per share and an expiry date of October 5, 2018. The total fair value of these options has been calculated to be $735 using the Black-Scholes options pricing model.

On October 6, 2008, 430,000 options were amended to have an exercise price of $0.85 per share. The total fair value of this amendment is $76 and was calculated using the Black-Scholes options pricing model.

22. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.