UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 40-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☑ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2016 **Commission File Number: 001-35297**

FORTUNA SILVER MINES INC.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English (if applicable))

British Columbia, Canada
(Province or other jurisdiction of incorporation or organization)

1040	**N/A**
(Primary Standard Industrial Classification Code Number (if applicable))	(I.R.S. Employer Identification Number (if applicable))

200 Burrard Street, Suite 650
Vancouver, British Columbia, Canada V6C 3L6
604-484-4085
(Address and telephone number of Registrant's principal executive offices)

National Corporate Research, Ltd.
10 East 40th Street, 10th Floor
New York, New York 10016
(212) 947-7200
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	**Name of each exchange on which registered**
Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

For annual reports indicate by check mark the information filed with this Form:

☑ Annual information form ☑ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

There were 146,978,173 common shares with no par value outstanding as of December 31, 2016.

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☐ No ☐

DISCLOSURE REGARDING CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

Disclosure controls and procedures are defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as those controls and procedures designed to ensure that information required to be disclosed in the annual filings and interim filings and other reports filed or submitted by Fortuna Silver Mines Inc. (the "Company") under the Exchange Act is duly recorded, processed, summarized and reported, within the time periods specified in rules and forms of the United States Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports and filings is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as appropriate, to allow timely decisions regarding required disclosure.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company and its subsidiaries to disclose material information otherwise required to be set forth in the Company's periodic reports. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objective of ensuring that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is communicated to management to allow timely decisions regarding required disclosure.

Based on management's evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2016 as a result of the material weaknesses in the Company's internal control over financial reporting. See "Evaluation of Disclosure Controls and Procedures", "Management's Report on Internal Control Over Financial Reporting" and "Material Weaknesses Relating to Insufficient Qualified Resources, the Effectiveness of Risk Assessment, Design and Implementation of Control Activities and Monitoring Activities as of December 31, 2016" in the Management's Discussion and Analysis for the fiscal years ended December 31, 2016 and 2015, included as Exhibit 99.3 to this annual report on Form 40-F.

Notwithstanding these material weaknesses, management has concluded that the Company's audited consolidated financial statements as at and for the fiscal years ended December 31, 2016 and 2015, filed as part of this annual report on Form 40-F in Exhibit 99.2, fairly present in all material respects the Company's financial position, results of operations, capital position, and cash flows for the periods presented, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management's Annual Report on Internal Controls Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) and has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

In designing and evaluating the Company's internal control over financial reporting, the Company's management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its reasonable judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management of the Company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted as evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013).* Based on evaluation performed, management concluded that material weaknesses existed as of December 31, 2016. As a result, the Company's internal control over financial reporting was not effective. See "Management's Report on Internal Control Over Financial Reporting" and "Material Weaknesses Relating to Insufficient Qualified Resources, the Effectiveness of Risk Assessment, Design and Implementation of Control Activities and Monitoring Activities as of December 31, 2016" in the Management's Discussion and Analysis for the fiscal years ended December 31, 2016 and 2015, included as Exhibit 99.3 to this annual report on Form 40-F. The Company's auditors have issued an attestation report on management's assessment of the Company's internal control over financial reporting. See "Attestation Report of the Registered Public Accounting Firm" below.

Attestation Report of the Registered Public Accounting Firm. The required disclosure is included in the "Report of Independent Registered Public Accounting Firm" that accompanies the Company's audited consolidated financial statements as at and for the fiscal years ended December 31, 2016 and 2015, filed as part of this annual report on Form 40-F in Exhibit 99.2.

Changes in Internal Control Over Financial Reporting. During the fiscal year ended December 31, 2016, other than as described in "Management's Annual Report on Internal Controls over Financial Reporting" above, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

None.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Company has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the audit committee are: Messrs. Robert Gilmore, David Farrell and Alfredo Sillau. The board of directors has determined that each of Messrs. Robert Gilmore, David Farrell and Alfredo Sillau is independent, as that term is defined in Rule 10A-3 under the Exchange Act and the Listed Company Manual of the New York Stock Exchange.

AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors of the Company has determined that Robert Gilmore, a member of the Company's audit committee, qualifies as an audit committee financial expert for purposes of paragraph (8) of General Instruction B to Form 40-F. The SEC has indicated that the designation of Robert Gilmore as an audit committee financial expert does not make him an "expert" for any purpose, impose any duties, obligations or liabilities on him that are greater than those imposed on members of the audit committee and the board of directors who do not carry this designation or affect the duties, obligations or liabilities of any other member of the audit committee or the board of directors.

CODE OF ETHICS

The Company has adopted a "code of ethics" (as that term is defined in Form 40-F), entitled the "Code of Business Conduct and Ethics and Whistle-Blower Policy", that applies to all of its directors, officers, employees, and consultants including its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions.

The Code of Business Conduct and Ethics and Whistle-Blower Policy is available for viewing on the Company's website at www.fortunasilver.com under "About Fortuna / Corporate Governance".

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deloitte LLP served as the Company's Independent Registered Public Accounting Firm for the fiscal years ended December 31, 2016 and 2015. Aggregate fees (in Canadian dollars) billed to the Company for professional services rendered by Deloitte LLP during the fiscal years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Audit Fees	$915,813	$661,970
Audit-Related Fees	$126,742	$72,774
Tax Fees	$142,746	$129,988
All Other Fees	Nil	Nil
	$1,185,301	$864,732

"Audit Fees" are the aggregate fees billed for the audit of the Company's consolidated annual financial statements, and review of the interim financial statements.

"Audit-Related Fees" are fees charged for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees". These fees include services for securities and prospectus engagements.

"Tax Fees" are fees for professional services rendered for tax compliance, tax advice on actual or contemplated transactions, and tax planning.

"All Other Fees" are for amounts not included in the categories above.

PRE-APPROVAL POLICIES AND PROCEDURES

The auditors of the Company obtain, as necessary, the pre-approval of the Audit Committee for any anticipated additional services required of the auditors for the coming fiscal year. If other service requirements arise during the year, the Audit Committee will pre-approve such services at that time, prior to the commencement of such services. Of the total aggregate fees paid by the Company to its auditors during the fiscal year ended December 31, 2016, $nil or 0% of the fees were approved by the Audit Committee pursuant to the de minimus exception provided by Section (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

The required disclosure is included under the heading "Off-Balance Sheet Arrangements" in the Company's Management's Discussion and Analysis for the fiscal years ended December 31, 2016 and 2015, filed as part of this annual report on Form 40-F in Exhibit 99.3.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The required disclosure is included under the heading "Contractual Obligations" of the Company's Management's Discussion and Analysis for the fiscal years ended December 31, 2016 and 2015, filed as part of this annual report on Form 40-F in Exhibit 99.3.

MINE SAFETY DISCLOSURE

The Company is not required to disclose the information required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE

The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and Rule 405 under the United States Securities Act of 1933, as amended, and the Company's common shares are listed on the New York Stock Exchange (the "NYSE"). Sections 103.00, 303A.00 and 303A.11 of the NYSE Listed Company Manual permit foreign private issuers to follow home country practices in lieu of certain provisions of the NYSE Listed Company Manual. A foreign private issuer that follows home country practices in lieu of certain provisions of the NYSE Listed Company Manual must disclose any significant ways in which its corporate governance practices differ from those followed by domestic companies either on its website or in the annual report that it distributes to shareholders in the United States. A description of the significant ways in which the Company's governance practices differ from those followed by domestic companies pursuant to NYSE standards is disclosed on the Company's website at www.fortunasilver.com under "About Fortuna / Corporate Governance / NYSE".

The Company's corporate governance practices, as described on its website, are consistent with the laws, customs and practices in Canada.

INTERACTIVE DATA FILE

The Company is not currently required to submit to the SEC, or post to its corporate website, an Interactive Data File.

UNDERTAKING

The Company undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the SEC staff, and to furnish promptly, when requested to do so by the SEC staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

CONSENT TO SERVICE OF PROCESS

A Form F-X signed by the Company and its agent for service of process has been previously filed with the SEC together with the Company's Registration Statement on Form 40-F (File No. 001-35297) in connection with its securities registered on such form.

Any changes to the name or address of the agent for service of process of the Company shall be communicated promptly to the SEC by an amendment to the Form F-X referencing the file number of the Company.

SIGNATURE

Pursuant to the requirements of the Exchange Act, the Company certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 15, 2017

FORTUNA SILVER MINES INC.

By: *"Jorge Ganoza Durant"*
Name: Jorge Ganoza Durant
Title: President, Chief Executive Officer & Director

EXHIBIT INDEX

Exhibit		Description
99.1		Annual Information Form for the year ended December 31, 2016
99.2		Audited Consolidated Financial Statements as at and for the years ended December 31, 2016 and 2015, including the Report of Independent Registered Public Accounting Firm with respect thereto
99.3		Management's Discussion and Analysis for the years ended December 31, 2016 and 2015
99.4		Consent of Deloitte LLP
99.5		Consent of Eric Chapman
99.6		Consent of Edwin Gutierrez
99.7		Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.8		Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.9		Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.10		Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 99.1

ANNUAL INFORMATION FORM

FORTUNA
SILVER MINES INC.

ANNUAL INFORMATION FORM

For the Fiscal Year Ended December 31, 2016

DATED: May 12, 2017

CORPORATE OFFICE:

Suite 650, 200 Burrard Street
Vancouver, BC V6C 3L6, Canada
Tel: 604.484.4085
Fax: 604.484.4029

MANAGEMENT HEAD OFFICE:

Piso 5, Av. Jorge Chávez #154
Miraflores, Lima, Peru
Tel: 511.616.6060, ext. 2

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PRELIMINARY NOTES

Cautionary Statement – Forward-Looking Statements

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

- Production guidance for 2017 at the San Jose Mine and the Caylloma Mine;
- cash cost estimates and all-in sustaining cash cost estimates for 2017 at the Caylloma Mine and San Jose Mine;
- Mineral Reserves and Mineral Resources, as they involve implied assessment, based on estimates and assumptions that the Mineral Reserves and Mineral Resources described exist in the quantities predicted or estimated and can be profitably produced in the future;
- timing for delivery of materials and equipment for the Company's properties;
- the sufficiency of the Company's cash position and its ability to raise equity capital or access debt facilities;
- the Company's planned processing and estimated capital investments for mine development and brownfields exploration at the San Jose Mine;
- the Company's planned processing and estimated capital investments for mine development, plant optimization and brownfields exploration at the Caylloma Mine;
- the Company's plans for development of the Lindero Project;
- the maturities of the Company's financial liabilities, finance leases and other contractual commitments;
- the expiry dates of bank letters of guarantee;
- estimated mine closure costs; and
- management's expectation that any investigations, claims, and legal, labor and tax proceedings arising in the ordinary course of business will not have a material effect on the results of operations or financial condition of the Company.

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

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

- operational risks associated with mining and mineral processing;
- uncertainty relating to Mineral Resource and Mineral Reserve estimates;
- uncertainty relating to capital and operating costs, production schedules and economic returns;
- risks associated with the Company's mineral exploration, project development and infrastructure;
- risks associated with environmental matters, including the Company's compliance with environmental laws and regulations and potential liability claims against the Company;
- uncertainty relating to nature and climate conditions;
- risks associated with changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- risks associated with political instability and changes to the regulations governing the Company's business operations;
- risks relating to the termination of the Company's mining concessions in certain circumstances;
- risks related to opposition of the Company's exploration, development and operational activities;
- risks related to the Company's ability to obtain adequate financing for planned exploration and development activities;

- risks associated with the Company's substantial reliance on the Caylloma Mine and the San Jose Mine for revenues;
- risks associated with property title matters;
- risks related to the integration of businesses and assets acquired by the Company;
- risks associated with the Company's reliance on key personnel;
- risks associated with the Company's reliance on local counsel and advisors and its management and board of directors in foreign jurisdictions;
- uncertainty relating to potential conflicts of interest involving the Company's directors and officers;
- risks associated with the adequacy of the Company's insurance coverage;
- risks related to the Company's conclusion that it did not have effective internal control over financial reporting as of December 31, 2016 in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 and applicable Canadian securities laws;
- risks related to the foreign corrupt practices regulations and anti-bribery laws;
- uncertainty related to potential legal proceedings involving the Company;
- uncertainty relating to general economic conditions;
- risks associated with competition in the mining industry;
- uncertainty relating to fluctuations in metal prices and the marketability of metals acquired by the Company;
- risks associated with entering into commodity forward and option contracts for base metals production;
- uncertainty relating to fluctuations in currency exchange rates and the Company's operating expenses;
- uncertainty relating to concentrate treatment charges and transportation costs;
- uncertainty relating to the sufficiency of monies allotted by the Company for land reclamation;
- risks related to the volatility of the trading price of the Company's common shares ("**Common Shares**");
- risks related to shareholder dilution as a result of future equity financings;
- risks related to future insufficient liquidity resulting from a decline in the price of the Common Shares;
- uncertainty relating to the Company's ability to pay dividends in the future; and
- uncertainty relating to the enforcement of U.S. judgments against the Company;

as well as those factors referred to in the "Risk Factors" section in this AIF.

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

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

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. These forward-looking statements are made as of the date of this AIF. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. Except as required by law, the Company does not assume the obligation to revise or update these forward looking-statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events.

NOTICE REGARDING NON-IFRS MEASURES

This AIF includes certain terms or performance measures that are not defined under International Financial Reporting Standards, as issued by the International Accounting Standards Board ("**IFRS**"), including but not limited to cash costs and all-in sustaining costs. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with the Company's financial statements and management's discussion and analysis incorporated by reference herein. See "Non-GAAP Financial Measures" in the Company's management's discussion and analysis for the fiscal year ended December 31, 2016 regarding the Company's use of non-IFRS measures.

CAUTIONARY NOTE TO UNITED STATES INVESTORS

The Company is a Canadian "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act, and is permitted to prepare the technical information contained herein in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of U.S. securities laws.

Canadian standards, including National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("**NI 43-101**"), differ significantly from the requirements of the Exchange Act, and Mineral Reserve and Mineral Resource information contained or incorporated by reference in this AIF may not be comparable to similar information disclosed by United States companies. In particular, and without limiting the generality of the foregoing, the term Mineral Resource does not equate to the term "reserve". Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Among other things, all necessary permits would need to be in hand or issuance imminent in order to classify mineralized material as reserves under standards of the United States Securities and Exchange Commission (the "**SEC**"). The SEC's current disclosure standards normally do not permit the inclusion of information concerning Measured Mineral Resources, Indicated Mineral Resources or Inferred Mineral Resources or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by United States standards in documents filed with the SEC.

United States investors are cautioned not to assume that all or any part of Measured Mineral Resources or Indicated Mineral Resources will ever be converted into reserves. United States investors should also understand that Inferred Mineral Resources have an even greater amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a category having a higher degree of certainty. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of Feasibility or Pre-Feasibility Studies except in rare cases. Investors are cautioned not to assume that all or any part of an Inferred Mineral Resource exists or is economically or legally mineable.

Disclosure of "contained tonnes" in a Mineral Resource estimate is permitted disclosure under NI 43-101 provided that the grade or quality and the quantity of each category is stated; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of Mineral Reserves are also not the same as those of the SEC, and Mineral Reserves reported in compliance with NI 43-101 may not qualify as "reserves" under SEC standards. Accordingly, information contained in this AIF and the documents incorporated by reference herein containing descriptions of mineral deposits may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the U.S. federal securities laws and the rules and regulations thereunder.

Documents Incorporated by Reference

The information provided in this AIF is supplemented by disclosure contained in the documents listed below which are incorporated by reference into this AIF. These documents must be read together with the AIF in order to provide full, true and plain disclosure of all material facts relating to Fortuna Silver Mines Inc. (referred to herein as the "**Company**" or "**Fortuna**"). The documents listed below are not contained within or attached to this document. The documents may be accessed on SEDAR at www.sedar.com under the Company's profile, Fortuna Silver Mines Inc.:

Document	Effective Date / Period Ended	Date Filed on SEDAR website	Document Category on the SEDAR website
Management Information Circular	April 27, 2016	May 9, 2016	Management Proxy / Information Circular - English
Technical Report, Caylloma Property, Peru	August 31, 2016	February 1, 2017	Technical Report(s)
Technical Report, San Jose Property, Mexico	August 20, 2016	February 1, 2017	Technical Report(s)

Date of Information

This AIF is dated May 12, 2017. Except as otherwise indicated, the information contained herein is as at December 31, 2016, being the date of the Company's most recently completed financial year end.

Currency

Unless otherwise noted, all references to "$" in this AIF refer to United States dollars.

CORPORATE STRUCTURE

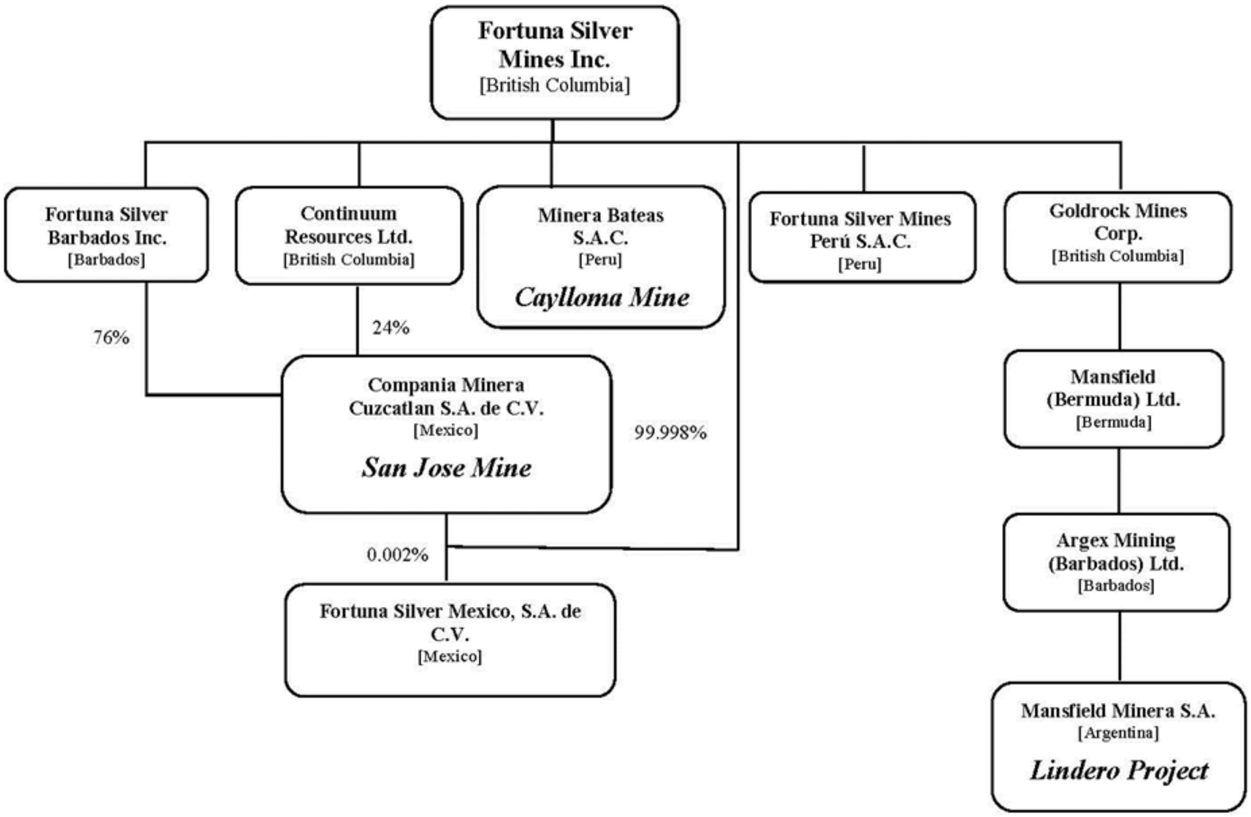
Name, Address and Incorporation

The Company was incorporated on September 4, 1990 pursuant to the Company Act (British Columbia) under the name Jopec Resources Ltd. and subsequently transitioned under the Business Corporations Act (British Columbia). On February 3, 1999, the Company changed its name to Fortuna Ventures Inc. and on June 28, 2005 to Fortuna Silver Mines Inc.

The management head office of the Company is located at Piso 5, Av. Jorge Chávez #154, Miraflores, Lima, Peru. The corporate head and registered office of the Company is located at 200 Burrard Street, Suite 650, Vancouver, BC V6C 3L6.

Intercorporate Relationships

The Company carries on a significant portion of its business through a number of 100%-owned subsidiaries, held either directly or indirectly, as follows:



GENERAL DEVELOPMENT OF THE BUSINESS

Fortuna is engaged in precious and base metals mining and related activities, including exploration, extraction, and processing. Fortuna operates the Caylloma zinc, lead and silver mine (the "**Caylloma Mine**") in southern Peru and the San Jose silver and gold mine (the "**San Jose Mine**") in southern Mexico. The Company is also developing its recently acquired Lindero gold project (the "**Lindero Project**") in Argentina.

Three-Year History and Recent Developments

San Jose Mine, Mexico

Located in the state of Oaxaca in southern Mexico, the 100% owned San Jose Mine covers a high-grade silver-gold bearing epithermal vein system.

In 2014, the Company produced at the San Jose Mine 4.4 million ounces of silver and 33,496 ounces of gold, an increase over 2013 of 74% and 76%, respectively. The increases are the result of higher throughput of 48% and of higher head grade for silver and gold of 16% and 18%, respectively. The San Jose Mine and processing plant were expanded to 2,000 tpd in April 2014. Compared to guidance for the year, silver and gold production were 10% and 9% higher, respectively.

Cash cost per tonne of processed ore at the San Jose Mine for 2014 was $62.99/t, or 12% below the cost in the prior year due mainly to higher throughput, a 4% devaluation of the peso, and lower mining cost related to support and preparation, and below the annual guidance of $67.10/t. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $12.07 for 2014, below the annual guidance of $14.43.

Capital expenditures at the San Jose Mine were $29.0 million in 2014, in line with forecast. Main capital projects for 2014 included $12.3 million for tailings dam expansion and evaporation control, $6.0 million for brownfields exploration, and $4.8 million for mine development.

In 2015, the Company produced at the San Jose Mine 4.9 million ounces of silver and 38,526 ounces of gold, an increase over 2014 of 12% and 15%, respectively. The increase in metal production is the result of 6% higher throughput; 4% and 6% higher head grades for silver and gold, respectively; and 2% higher metallurgical recovery for both silver and gold. Annual average head grades for silver and gold were 234 g/t and 1.83 g/t or 9 percent and 10 percent above plan.

Cash cost per tonne of processed ore at the San Jose Mine for 2015 was $58.83/t, or 7% below the cost in the prior year and 6% below the annual guidance of $62.70/t. The devaluation of the Mexican peso throughout the year had a positive effect of $4.43/t on costs. Excluding this effect, cash cost was 1% above 2014. All-in sustaining cash cost per payable ounce of silver, net of by-product credits for 2015, was $12.86 or 21% below the annual guidance of $16.27/oz, as a result of lower unit costs and lower sustaining capital expenditures.

In 2016, the Company produced at the San Jose Mine 6.1 million ounces of silver and 46,018 ounces of gold, an increase over 2015 of 24% and 19%, respectively. The increases were the result of higher throughput of 26% and higher recoveries of 1 percentage point for both silver and gold offset by lower head grades of 3% for silver and 6% for gold. Silver and gold annual production were 4% and 10% above 2016 guidance. Annual average head grades for silver and gold were 228 g/t and 1.72 g/t or 1% below plan and 3% above plan respectively. Increased silver and gold production was the result of higher contributions in ore tonnage and grade from Level 1,100 relative to the mine plan.

The expansion of the mill capacity to 3,000 tpd from 2,000 tpd was completed successfully on time and under budget. As of July 1, 2016, the processing plant and mine were fully operational at 3,000 tpd, allowing for an anticipated annual production rate of 7-8 million ounces of silver and 50-53 thousand ounces of gold. The capital expenditure of the plant expansion was $27.5 million, 16% below budget.

Cash cost per tonne of processed ore for 2016 was $56.90, or 3% below the cost in 2015. Cash cost in the second half of 2016 was $55.0 compared to $59.8 in the first half of the year reflecting the positive impact on unit costs of the expanded plant capacity commissioned in July. The cash cost per tonne for 2016 was in line with guidance for the year as a result of an average exchange rate of the Mexican peso to United States dollars being 19% above our assumption for cost guidance, offset by higher costs related to the filtration plant. Excluding this effect, the cash cost would have been 7% above guidance. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $7.6 for 2016, and below the annual guidance of $9.10 as a result of higher by-product credits.

During 2017, the Company plans to process at the San Jose Mine 1,050,000 tonnes of ore averaging 230 g/t Ag and 1.67 g/t Au. Capital investments for 2017 are estimated to be $23.2 million. Of this amount, the major investments are anticipated to include $6.5 million for tailings filtration plant expansion), $6.5 million for mine development; $2.2 for mine development, and $7.0 million for brownfields exploration.

Caylloma Mine, Peru

The Company owns a 100% interest in the Caylloma Mine and related mining concessions located in southern Peru.

In 2014, the Company produced at the Caylloma Mine 2.2 million ounces of silver and 1,820 ounces of gold. Silver production was 5% above production in the prior year due to higher metallurgical recovery and slightly higher head grade. Zinc production increased 9% as a result of higher head grade and higher metallurgical recoveries. Lead production decreased 9% because of reduced head grade. The Caylloma Mine exceeded its annual production guidance of 2.0 million ounces of silver.

Cash cost per tonne at the Caylloma Mine for 2014 was $90.57/t of processed ore, a decrease of 1% from the prior year and 3% above annual guidance. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, at the Caylloma Mine for 2014 was $14.13/oz, 17% below the annual guidance of $17.01/oz.

Capital expenditures at the Caylloma Mine were $9.9 million in 2014, in line with forecast. Main capital projects for 2014 included $5.1 million for mine development, $4.0 million for equipment and infrastructure, and $0.8 million for brownfields exploration.

In 2015, the Company produced at the Caylloma Mine 1.7 million ounces of silver and 1,163 ounces of gold. Silver production was 23% below production in the prior year due to the decision to shift mining to base metal-rich zones in the polymetallic Animas Vein. Mining at the high-grade Bateas Vein stopped in the fourth quarter of 2015. Decrease in silver production was the result of lower production from the Bateas high-grade silver vein and from Level 6 of the Animas Vein. Zinc and lead production increased 31% and 48%, respectively, year-over-year. The Caylloma Mine's silver production was 11% below the revised guidance of 1.9 million ounces.

Cash cost per tonne of processed ore at the Caylloma Mine for 2015 was $85.76/t, or 5% below the cost in the prior year and 5% below the annual guidance of $90.30/t, due to lower indirect costs related to headcount, lower distribution costs related to zinc concentrate transport tariffs, and a 14% devaluation of the Peruvian Nuevo Sol. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, for 2015 was $13.56/oz, above the annual guidance of $12.78/oz.

In 2016, the Company produced at the Caylloma Mine 1.3 million ounces of silver and 533 ounces of gold. Silver production was 26% below production in the prior year due to the decision to shift mining to base metal-rich zones in the polymetallic Animas Vein. Mining at the Bateas high-grade silver vein stopped at the beginning of the fourth quarter of 2015. Decrease in silver production was the result of lower production from the Bateas high-grade silver vein and from Level 6 of the Animas Vein. Lead and zinc production increased 37% and 21%, respectively, year-over-year.

Cash cost per tonne of processed ore at Caylloma for 2016 was $71.89, a decrease of 16% from 2015 resulting from lower mining costs due to the cessation of mining in the narrow high grade silver veins, lower indirect costs related to headcount, and the plant optimization. The cash cost per tonne for 2016 was 9% below our guidance, as a result of lower mining costs and lower distribution costs related to lower lead concentrate production. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $4.3 for 2016, and below the annual guidance of $12.50 as a result of higher by-product credits and lower unit cash cost.

During 2017, the Company plans to process at the Caylloma Mine 535,000 tonnes averaging 71 g/t silver, 2.73% Pb and 3.86% Zn. Capital expenditures for 2017 are estimated to be $14.1 million. Of this amount, the major investments are anticipated to include $6.9 million for mine development, $3.3 million for equipment and infrastructure; and $3.9 million for brownfields exploration.

Credit Facility

In March 2015, the Company entered into an amended and restated credit agreement with the Bank of Nova Scotia for a $60 million senior secured financing (the "**2015 Credit Facility**") consisting of a $40 million credit facility with a 4 year term and a $20 million revolving credit facility for a two year period. The 2015 Credit Facility is secured by a first ranking lien on the Company's material subsidiaries and their assets, and bears interest and fees at prevailing market rates. The Company drew down the $40 million credit facility on April 1, 2015.

The proceeds of the credit facility may be used for working capital requirements and general corporate purposes. The facility is intended to complement Fortuna's strong cash position and provide additional financing flexibility during the expansion to 3,000 tpd of the San Jose mine.

Along with the $40 million term loan, the Company entered into an interest rate swap of $40 million and notional amount of $40 million which expires at the same time as the maturity of the bank loan. The interest rate swap was entered into to hedge the variable interest rate risk on the bank loan, and is designated as a cash flow hedge for forecasted variable interest rate payments.

Acquisition of Goldrock and the Lindero Project

On July 28, 2016, the Company completed the acquisition of all of the issued and outstanding shares of Goldrock Mines Corp. ("**Goldrock**") by way of plan of arrangement (the "**Arrangement**"). Goldrock is now a wholly-owned subsidiary of Fortuna. Pursuant to the Arrangement, Goldrock shareholders received 0.1331 of a Common Share for each common share of Goldrock held. Outstanding warrants to purchase Goldrock common shares became exercisable for Common Shares based on the same exchange ratio. The Company has filed a Form 51-102F4, Business Acquisition Report, on www.sedar.com.

As a result of the Arrangement, the Company acquired a 100% interest in the Lindero Project. The Lindero Project is a porphyry gold deposit located in northwestern Argentina 260 km due west of Salta City. Mineral tenements to the Lindero Project cover 3,500 hectares comprising 35 legally surveyed *pertenecias*, each 100 hectares in size. A 3% provincial royalty is payable on revenue after deduction of direct processing, commercial and general and administrative costs. There are no royalties payable to any other third party in respect of the Lindero Project.

Mineralization was initially discovered in September 1999. To date, exploration work at the Lindero Project has included geologic mapping, soil geochemistry, metallurgy testing, trenching and diamond drilling which has identified two known porphyry gold-copper deposits. Initially an independent resource estimate was calculated in 2003, followed by a Prefeasibility Study completed in 2010 and a Feasibility Study completed in 2013.

Goldrock commissioned the preparation of the *Technical Report Update on the Lindero Heap Leach Project, Salta Province, Argentina*, dated February 23, 2016 (the "**Lindero Report**") in order to update the 2013 Feasibility Study. The Lindero Report was filed on SEDAR on March 2, 2016 by Goldrock. The Lindero Report indicated that the Lindero Project represents a robust twelve year open pit mining and heap leach project. The Lindero Project has all required surface rights and has been granted all environmental and other major permits necessary for development. See "Updated Mineral Reserve and Mineral Resource Estimates" below.

Changes in Board and Management

In mid-2016, Michael Iverson and Thomas Kelly retired from the board of directors of the Company (the "**Board**"). On September 26, 2016, David Laing was appointed as an independent member of the Board and the audit committee. Alfredo Sillau was appointed as an independent member of the Board on November 29, 2016. On December 21, 2016, Mr. Sillau was appointed to the audit committee in the place of Mr. Laing, and Mr. Laing was appointed to the Company's compensation committee.

David Volkert was appointed as Vice-President, Exploration as of August 8, 2016 to replace Thomas Vehrs following Mr. Vehrs' retirement in July 2016. Effective January 1, 2017, Eric Chapman, Corporate Head of Technical Services of Fortuna, was promoted to the new position of Vice President of Technical Services. Effective April 5, 2017, Gordon Jang was appointed to the new position of Vice-President of Finance and Accounting.

Financing

On February 9, 2017, the Company completed a bought-deal public financing with a syndicate of underwriters co-led by Raymond James Ltd., BMO Nesbitt Burns Inc. and Scotia Capital Inc., and including CIBC World Markets Inc. and National Bank Financial Inc., pursuant to which the Company issued 11,873,750 Common Shares at a price of $6.30 per Common Share, for gross proceeds of $74.8 million. Net proceeds were $70.9 million after deduction of underwriting fees and expenses. The Company intends to use the net proceeds from the financing for general working capital purposes.

Updated Mineral Reserve and Mineral Resource Estimates

The Company released Mineral Reserve and Mineral Resource estimates for Caylloma in March 2013 and for San Jose in October 2013. Updated Mineral Reserve and Mineral Resource estimates for San Jose as at June 30, 2014 were released on September 30, 2014; for both Caylloma and San Jose as at December 31, 2014 were released in March 2015; and for both Caylloma and San Jose as at December 31, 2015 were released on March 24, 2016. Updated Mineral Reserve and Mineral Resource estimates for Caylloma and San Jose as at December 31, 2016, combined with Mineral Reserve and Mineral Resource estimates for the Lindero Project, were released on February 27, 2017. A summary of the December 31, 2016 estimates is as follows:

Highlights of Reserve and Resource Update

- Combined Proven and Probable Reserves are reported at 89.2 Mt containing 45.8 Moz silver and 2.0 Moz gold, representing year-over-year increases of 28 percent in contained silver ounces and 762 percent in contained gold ounces

- Combined Inferred Resources are reported at 52.6 Mt containing 37.4 Moz silver and 0.8 Moz gold, representing a year-over-year decrease of 46 percent in contained silver ounces and an increase of 108 percent in contained gold ounces

- Combined Proven and Probable Reserves for the Caylloma and San Jose Mines are reported at 6.6 Mt containing 45.8 Moz silver and 293 koz gold, representing year-over-year increases of 28 percent in contained silver and gold ounces

- Combined Inferred Resources for the Caylloma and San Jose Mines are reported at 6.1 Mt containing an estimated 37.4 Moz silver and 232 koz gold, reflecting year-over-year decreases of 46 percent in contained silver ounces and 43 percent in contained gold ounces

Mineral Reserves - Proven and Probable									**Contained Metal**	
Property		**Classification**	**Tonnes (000)**	**Ag (g/t)**	**Au (g/t)**	**Pb (%)**	**Zn (%)**	**Ag (Moz)**	**Au (koz)**
Mines	**Caylloma, Peru**	Proven	152	120	0.41	1.70	2.68	0.6	2
		Probable	1,445	108	0.26	2.46	3.30	5.0	12
		Proven + Probable	1,596	109	0.28	2.39	3.24	5.6	14
	San Jose, Mexico	Proven	64	186	1.51	N/A	N/A	0.4	3
		Probable	4,957	250	1.73	N/A	N/A	39.8	275
		Proven + Probable	5,021	249	1.72	N/A	N/A	40.2	278
	Total	***Proven + Probable***	***6,617***	***215***	***1.38***	***N/A***	***N/A***	***45.8***	***293***
Projects	**Lindero, Argentina**	Proven	26,349	N/A	0.78	N/A	N/A	0.0	661
		Probable	56,184	N/A	0.57	N/A	N/A	0.0	1,022
		Proven + Probable	***82,533***	***N/A***	***0.63***	***N/A***	***N/A***	***0.0***	***1,684***
Total		**Proven + Probable**						**45.8**	**1,977**

Mineral Resources - Measured and Indicated									Contained Metal	
Property		Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)		Ag (Moz)	Au (koz)
Mines	**Caylloma, Peru**	Measured	565	82	0.35	1.16	2.42		1.5	6
		Indicated	1,449	89	0.34	1.23	2.26		4.2	16
		Measured + Indicated	2,014	87	0.34	1.21	2.31		5.6	22
	San Jose, Mexico	Measured	112	83	0.65	N/A	N/A		0.3	2
		Indicated	734	77	0.61	N/A	N/A		1.8	14
		Measured + Indicated	846	78	0.61	N/A	N/A		2.1	17
	Total	***Measured + Indicated***	***2,860***	***84***	***0.42***	***N/A***	***N/A***		***7.8***	***39***
Projects	**Lindero, Argentina**	Measured	2,051	N/A	0.59	N/A	N/A		0.0	39
		Indicated	32,716	N/A	0.40	N/A	N/A		0.0	418
		Measured + Indicated	***34,767***	***N/A***	***0.41***	***N/A***	***N/A***		***0.0***	***456***
Total		**Measured + Indicated**							**7.8**	**495**

Mineral Resources – Inferred								Contained Metal	
Property		Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (Moz)	Au (koz)
Mines	**Caylloma, Peru**	Inferred	3,003	128	0.69	1.67	2.96	12.3	66
	San Jose, Mexico	Inferred	3,101	252	1.66	N/A	N/A	25.1	165
	Total	***Inferred***	***6,104***	***191***	***1.18***	***N/A***	***N/A***	***37.4***	***232***
Projects	**Lindero, Argentina**	***Inferred***	***46,500***	***N/A***	***0.41***	***N/A***	***N/A***	***0.0***	***610***
Total		**Inferred**						**37.4**	**842**

Notes:

1. Mineral Reserves and Mineral Resources are as defined by CIM Definition Standards on Mineral Resources and Mineral Reserves
2. Mineral Resources are exclusive of Mineral Reserves
3. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability
4. There are no known legal, political, environmental, or other risks that could materially affect potential development of the Mineral Resources or Mineral Reserves at Caylloma, San Jose or Lindero
5. Mineral Resources and Mineral Reserves for Caylloma and San Jose are estimated as of June 30, 2016 and reported as of December 31, 2016 taking into account production-related depletion for the period through December 31, 2016. Mineral Resources and Mineral Reserves for Lindero are reported as of October 23, 2015
6. Mineral Reserves for San Jose are estimated using a break-even cut-off grade of 127 Ag Eq g/t based on assumed metal prices of US$ 19/oz Ag and US$ 1,140/oz Au; estimated metallurgical recovery rates of 90.5% for Ag and 90.5% for Au and projected operating costs. Mineral Resources are estimated at a Ag Eq cut-off grade of 100 g/t, with Ag Eq in g/t = Ag (g/t) + Au (g/t)* ((US$1,140/US$19) * (90.5/90.5))
7. Mineral Reserves for Caylloma are estimated using break-even cut-off grades based on estimated NSR values using assumed metal prices of US$19/oz Ag, US$1,140/oz Au, US$2,150/t Pb and US$2300/t Zn; metallurgical recovery rates of 85% for Ag, 22% for Au, 94% for Pb and 90% for Zn; and projected operating costs. Caylloma Mineral Resource are reported based on NSR values using the same metal prices and metallurgical recovery rates as detailed for Mineral Reserves; and an NSR cut-off grade of US$50/t for veins classified as wide (Animas, Animas NE, Nancy, San Cristobal) and US$100/t for veins classified as narrow (all other veins)

8.Mineral Reserves for Lindero are reported based on open pit mining within designed pit shells based on variable gold cut-off grades and gold recoveries by metallurgical type. Met type 1 cut-off 0.25 g/t Au, recovery 67.9%; Met type 2 cut-off 0.23 g/t Au, recovery 73.6%; Met type 3 cut-off 0.24 g/t Au, recovery 69.3%; and Met type 4 cut-off 0.27 g/t Au, recovery 61.7%. The cut-off grades and pit designs are considered appropriate for long term gold prices of US$1,200/oz. Lindero Mineral Resources are reported within a conceptual pit shell above a 0.2 g/t Au cut-off grade with internal dilution appropriate for a 10 x 10 x 8 m selective mining unit and no external dilution. Mineral Resources are reported using a long-term gold price of US$1,350/oz, mining costs at US$1.80 per tonne of material, with total processing and process G&A costs of US$5.72 per tonne of ore and an average process recovery of 70%. The refinery costs net of pay factor were estimated to be US$10.21 per ounce gold
9. Total may not add due to rounding procedures
10. N/A = Not Applicable

San Jose Mine, Mexico

As of December 31, 2016, the San Jose Mine has Proven and Probable Mineral Reserves of 5.0 Mt containing 40.2 Moz of silver and 278 koz of gold, in addition to Inferred Resources of 3.1 Mt containing a further 25.1 Moz of silver and 165 koz of gold.

Year-over-year, Mineral Reserves increased 33% in tonnes, 43% in contained silver and 33% in contained gold after net changes resulting from production-related depletion and the upgrading and conversion of Inferred Resources to Mineral Reserves due to a successful infill drill program focused on the Trinidad North Discovery adding 2.4 Mt of new reserves averaging 305 g/t Ag and 1.91 g/t Au. Silver grades increased 7% at 249 g/t and gold grades remained at 1.72 g/t.

Measured and Indicated Resources exclusive of Mineral Reserves remained year-over-year at 0.8 Mt.

Year-over-year, Inferred Resources decreased 54% and 51% in contained silver and gold ounces, respectively. Silver grade decreased by 3% and gold grade increased by 3%. The net variation is due to reductions resulting from the upgrading of Inferred Resources by infill drilling in the Trinidad North and Stockwork zones, as well as the geological reinterpretation of previously modeled veins.

Brownfields exploration program budget for 2017 at the San Jose Mine is $7.0 million, which includes 31,000 meters of diamond drilling and 600 meters of underground development for drilling to define future resources. Exploration drilling is in progress at the Trinidad Central zone and on the sub-parallel Ocotlan vein.

An infill drilling program of 10,200 meters for the upgrading of Inferred Resources into Measured or Indicated Resources is underway at the San Jose Mine. The budget of the infill drill program for 2017 is $1.5 million.

Caylloma Mine, Peru

As of December 31, 2016, the Caylloma Mine has Proven and Probable Mineral Reserves of 1.6 Mt containing 5.6 Moz of silver and 14 koz of gold, in addition to Inferred Resources of 3.0 Mt containing 12.3 Moz of silver and 66 koz of gold.

Year-over-year, Mineral Reserve tonnes and contained silver ounces decreased 19 percent and 28 percent, respectively. Silver grade decreased 10 percent to 109 g/t, lead grade decreased 16% to 2.39%, and zinc grade decreased 9% to 3.24%. Decreases are primarily due to mining related depletion and geological reinterpretation of the Animas NE vein.

Measured and Indicated Resources, exclusive of Mineral Reserves, increased by 9% year-over-year to 2.0 Mt as a consequence of the updated geological interpretation of the Animas and Animas NE veins.

Inferred Resources decreased by 0.4 Mt or 11% year-over-year to 3.0 Mt. Silver, lead and zinc grades decreased by 3%, 24% and 10%, respectively. The decrease in Inferred Resources is primarily due to upgrading of resources to reserves as a result of infill drilling, production related depletion and adjustments to the estimation methodology for lead grades in the Animas NE vein.

Brownfields exploration program budget for 2017 at the Caylloma Mine is $3.9 million, which includes 22,000 meters of diamond drilling. Drilling will focus on testing extensions of the principal Animas vein both northeast and southwest from current underground operations. Exploration drilling is in progress on extensions of ore-shoots immediately beneath current operations.

An infill drilling program of 12,600 meters for the upgrading of Inferred Resources into Measured or Indicated Resources is being presently conducted at the Caylloma Mine. The budget of the infill drill program for 2017 is $1.2 million.

Lindero Project, Argentina

The Lindero Project has Proven and Probable Mineral Reserves of 82.5 Mt containing 1.7 Moz of gold, in addition to Inferred Resources of 46.5 Mt containing 0.6 Moz of gold as detailed in the Lindero Report.

Fortuna continues to conduct tradeoff metallurgical tests and detailed engineering revisions to optimize the 2016 Feasibility Study to assist a construction decision in the third quarter of 2017. Preliminary results from this work announced by Fortuna in March 2017 include:

- Preliminary tall-column leach tests are consistently above 76% gold extraction for the four metallurgical types of ore.
- Cyanide cure during agglomeration allows over 70% gold extraction in the first 30 days of leaching for the four metallurgical types of ore.
- Copper concentration in solution is amenable to treatment with sulfidization, acidification, recycling and thickening (“SART”) plant technology.
- Agglomeration with modest cement addition is expected to achieve heap heights of approximately 80 meters for 9 millimeter high pressure grinding rolls (“HPGR”) crushed ore.

The 2017 Brownfields exploration budget at Lindero is $450,000 which includes investigating the economic potential of the Arizaro gold-copper porphyry target that lies within the concession block. The work program includes surface mapping, re-logging of approximately 8,000 meters of core and preliminary metallurgical tests.

Qualified Persons

The Mineral Resource estimates for the San Jose Mine and the Caylloma Mine have been prepared under the supervision of Eric Chapman, Vice President of Technical Services of the Company. The Mineral Reserve estimate and the Mineral Resource estimate exclusive of Mineral Reserves for the San Jose Mine and the Caylloma Mine were prepared under the supervision of Edwin Gutierrez, Technical Services Corporate Manager of the Company.

E. Chapman and E. Gutierrez are Qualified Persons as defined by the National Instrument 43-101. Mr. Chapman is a Professional Geoscientist of the Association of Professional Engineers and Geoscientists of the Province of British Columbia (Registration Number 36328) and is responsible for ensuring that the information contained in this AIF is an accurate summary of the original reports and data provided to or developed by the Company.

DESCRIPTION OF THE BUSINESS

General

Summary. The Company is engaged in silver and gold mining and related activities, including exploration, extraction, and processing. The Company operates the Caylloma Mine in Peru and the San Jose Mine in Mexico, and is developing the Lindero Project in Argentina.

The lead-silver, zinc, and gold-silver concentrates produced by the Company at its Caylloma Mine and its San Jose Mine are sold to international metals traders who in turn deliver the products to different clients around the world. The material sources of revenue for 2016 and 2015 are as follows:

	2016	2015
By type of concentrate:		
• Lead-silver concentrate	19%	24%
• Zinc concentrate	13%	11%
• Gold-silver concentrate	68%	65%
By metal contained in concentrate:		
• Silver	55%	58%
• Lead	10%	9%
• Zinc	13%	11%
• Gold	22%	22%

Production Methods. The method of production both at Caylloma and San Jose consists of underground mining principally through cut and fill mechanized operations. Extracted ore is trucked to a conventional crushing, milling and flotation processing plant which consists of zinc, and lead-silver flotation circuits for Caylloma, and a gold-silver circuit for San Jose.

Specialized Skill and Knowledge. All aspects of the Company's business require specialized skills and knowledge. Such skills and knowledge include the areas of geology, mining, metallurgy, engineering, environment issues, permitting, social issues, and accounting. While competition in the resource mining industry can make it difficult to locate and retain competent employees in such fields, the Company has been successful in finding and retaining personnel for the majority of its key processes. Management considers training and re-training of its staff to be a priority.

Competitive Conditions. The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral property interests, as well as for the recruitment and retention of qualified employees.

Environmental Protection. The Company is currently in compliance with all material environmental regulations applicable to its exploration, development, construction and operating activities. The financial and operational effects of environmental protection requirements on the Company's capital expenditures, earnings, and competitive position during the fiscal year ended December 31, 2016 were not material. The Company has recorded in its financial statements for the year 2016 a provision for decommissioning and restoration liabilities which reflects future environmental obligations associated with the Caylloma and San Jose mine closure plans.

Employees. The Company and its subsidiaries have 780 direct employees and 1042 indirect employees through contractors.

Foreign Operations. The Company's material mineral resource properties are located in Peru and Mexico, each of which has a stable government, and a mature mining industry and regulatory environment.

Health and Safety, Social and Environmental Policies. The Company is committed to maintaining the health and safety of its personnel by minimizing hazards and providing training and safe equipment. A strong safety culture is encouraged so that all employees are empowered to report and address safety issues.

The Company has built strong relationships with the communities in which it operates, and is dedicated to innovative, sustainable projects and partnerships that build company engagement in local communities while respecting their values, customs and traditions.

The Company is committed to complying in all material respects with all environmental laws and regulations applicable to its activities. It interacts proactively with authorities and communicates openly about its activities. The Company works directly and collaboratively with local communities to protect and preserve the environment.

Risk Factors

The Company's ability to generate revenues and profits from its natural resource properties is subject to a number of risks and uncertainties including, without limitation, the following:

Risks Relating to the Company's Business Operations

The Company's operations are subject to operating hazards and risks incidental to mining operations.

Mining operations generally involve a high degree of risk. Operations in which the Company has a direct or indirect interest, including the Caylloma Mine, the San Jose Mine and the Lindero Project, will be subject to all of the hazards and risks normally incidental to exploration, development and operational activities, including fire, explosions, floods, structural collapses, industrial accidents, unusual or unexpected geological conditions, ground control problems, power outages, pollution, industrial water shortages, inclement weather, cave-ins and mechanical equipment failure. Any such hazards could result in work stoppages, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damages. The Company may become subject to liability for hazards against which it cannot insure or against which it may elect not to insure. Any compensation for such liabilities may have a material adverse effect on the Company's financial position.

Mineral Resources, Mineral Reserves and precious metal recoveries are estimated.

There is a degree of uncertainty attributable to the estimation of Mineral Resources, Mineral Reserves and expected mineral grades. The Mineral Resource and Mineral Reserve estimates included or incorporated by reference in this AIF have been determined and valued based on assumed future prices, cut-off grades and operating costs. However, until mineral deposits are actually mined and processed, Mineral Resources and Mineral Reserves must be considered as estimates only. Any such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices.

Mineral Resources and Mineral Reserves may require revision based on actual production experience. Market fluctuations in the price of metals, as well as increased production costs and reduced recovery rates, may render certain Mineral Reserves uneconomic and may ultimately result in a restatement of Mineral Resources and/or Mineral Reserves. Short-term operating factors relating to the Mineral Resources and Mineral Reserves, such as the need for sequential development of ore bodies, may adversely affect the Company's profitability in any accounting period. Estimates of operating costs are based on assumptions including those relating to inflation and currency exchange, which may prove incorrect. Estimates of mineralization can be imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. In addition, the grade and/or quantity of precious metals ultimately recovered may differ from that indicated by drilling results. There can be no assurance that precious metals recovered in small scale tests will be duplicated in large scale tests under onsite conditions or in production scale. Amendments to mine plans and production profiles may be required as the amount of Mineral Resources changes or upon receipt of further information during the implementation phase of the project. Extended declines in market prices for gold, silver and other metals may render portions of the Company's mineralization uneconomic and result in reduced reported mineralization. Any material reduction in estimates of mineralization, or in the Company's ability to develop its properties and extract and sell such minerals, could have a material adverse effect on the Company's results of operations or financial condition.

The Company's capital and operating costs, production schedules and economic returns are based on certain assumptions which may prove to be inaccurate.

The Company's expected capital and operating costs, production estimates, anticipated economic returns and other projections, estimates and forecasts for its mineral properties that are included or incorporated by reference in this AIF or included in any technical reports, scoping studies, pre-feasibility studies and feasibility studies prepared for or by the Company are based on assumed or estimated future metals prices, cut-off grades, operating costs, capital costs, metallurgical recoveries, environmental considerations, labour volumes, permitting and other factors, any of which may prove to be inaccurate. As a result, technical reports, scoping studies, pre-feasibility studies and feasibility studies prepared for or by the Company may prove to be unreliable.

The Company's capital and operating costs are affected by the cost of commodities and goods such as steel, cement, explosives, fuel, electrical power and supplies, including reagents. Significant declines in market prices for gold, silver and other metals could have an adverse effect on the Company's economic projections. Management assumes that the materials and supplies required for operations will be available for purchase and that the Company will have access to the required amount of sufficiently skilled labour. As the Company relies on certain third-party suppliers and contractors, these factors can be outside its control and an increase in the costs of, or a lack of availability of, commodities, goods and labour may have an adverse impact on the Company's financial condition. The Company may experience difficulty in obtaining the necessary permits for its exploration, development or operational activities, if such permits are obtained at all, and may face penalties as a result of violations of permits or other environmental laws, which may cause delays and increases to projected budgets. Any of these discrepancies from the Company's expected capital and operating costs, production schedules and economic returns could cause a material adverse effect on the Company's business, financial condition and results of operations.

The development of the Company's properties requires substantial exploration, expenditure and the development of infrastructure.

Development of the Company's non-producing properties, including the Lindero Project, will only follow upon obtaining satisfactory exploration and engineering results that confirm economically recoverable and saleable volumes of minerals and metal as well as the legality of such development. The business of mineral exploration and development is speculative in nature and involves a high degree of risk, as few properties which are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of Mineral Reserves. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

Development of the Company's non-producing projects will require the construction and operation of mines, processing plants and related infrastructure. As a result, the Company is and will continue to be subject to all of the risks associated with establishing new mining operations, including:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the availability and cost of skilled labour, mining equipment and principal supplies needed for operations;
- the availability and cost of appropriate smelting and refining arrangements;
- the need to maintain necessary environmental and other governmental approvals and permits;
- the availability of funds to finance construction and development activities;
- potential opposition from non-governmental organizations, environmental groups, local groups or other stakeholders which may delay or prevent development activities; and
- potential increases in construction and operating costs due to changes in the cost of labour, fuel, power, materials and supplies.

Substantial expenditures are required to establish Mineral Resources and Mineral Reserves through drilling and development and for mining and processing facilities and infrastructure. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis. Economic feasibility of a project is based on several other factors including anticipated metallurgical recoveries, environmental considerations and permitting, future metal prices, and timely completion of the development plan.

Completion of the development of the Company's advanced projects is subject to various requirements, including the availability and timing of acceptable arrangements for power, water, transportation, access and facilities. The lack of, or delay in, availability of any one or more of these items could prevent or delay development of the Company's advanced projects. There can be no assurance that adequate infrastructure, including road access, will be built, that it will be built in a timely manner or that the cost of such infrastructure will be reasonable or that it will sufficiently satisfy the requirements of the advanced projects. As well, accidents or sabotage could affect the provision or maintenance of adequate infrastructure.

The Company's operations require water, and the San Jose Mine is located in a region where water is scarce. While the Company believes it holds sufficient water rights to support its current operations, future developments could limit the amount of water available to the Company. New water development projects, or climatic conditions such as extended drought, could adversely affect the Company. There can be no guarantee that the Company will be successful in maintaining adequate supplies of water for its operations.

The Company's operations are subject to extensive environmental regulation.

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These laws address emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. The Company’s operations generate chemical and metals depositions in the form of tailings. The Company’s ability to obtain, maintain and renew permits and approvals and to successfully develop and operate mines may be adversely affected by real or perceived impacts associated with the Company’s activities or of other mining companies that affect the environment, human health and safety. Environmental hazards may exist on the Company’s properties which are unknown to the Company at present and were caused by previous or existing owners or operators of the properties, for which the Company could be held liable.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations may require significant capital outlays on behalf of the Company and may cause material changes or delays in the Company's intended activities. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities, causing operations to cease or be curtailed. Such enforcement actions may include the imposition of corrective measures requiring capital expenditure, installation of new equipment or remedial action. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company’s operations.

The Company’s business is sensitive to nature and climate conditions.

The Company and the mining industry are facing continued geotechnical challenges, which could adversely impact the Company’s production and profitability. Unanticipated adverse geotechnical and hydrological conditions, such as landslides, floods, seismic activity, droughts and pit wall failures, may occur in the future and such events may not be detected in advance. Geotechnical instabilities and adverse climatic conditions can be difficult to predict and are often affected by risks and hazards outside of the Company’s control, such as severe weather and considerable rainfall. Geotechnical failures could result in limited or restricted access to mine sites, suspension of operations, government investigations, increased monitoring costs, remediation costs, loss of ore and other impacts, which could cause one or more of the Company’s projects to be less profitable than currently anticipated and could result in a material adverse effect on the Company’s business results of operations and financial position.

The Company’s operations are subject to political and other risks in the countries in which it operates.

The Company currently conducts, or plans to conduct, exploration, development and production activity in a number of countries, including Peru, Mexico and Argentina. There are uncertainties in these regions regarding future changes in applicable laws related to exploration, development and mining operations. For instance, in January 2014, amendments to the Mexican federal corporate income tax law required titleholders of mining concessions to pay annually a 7.5% duty on their mining related profits and a 0.5% duty on revenues obtained from the sale of gold, silver and platinum, effective March 2015. Additionally, the State of Oaxaca in Mexico has a history of social conflicts and political agitation which can lead to public demonstrations and blockades that can from time to time affect the Company’s operations. On December 7, 2016, the House of Representatives in Argentina approved a package of bills to introduce a series of amendments to the income tax law. Among the new taxes imposed, the House of Representatives restored export duties to minerals which had been abrogated by the recently elected government of President Mauricio Macri. The Senate approved certain amendments to the package of bills but in particular did not approve the restoration of export duties to minerals. There is no guarantee that future attempts to restore such export duties will not be made. The Company is not able to determine the impact of other potential political and country risks on its future financial position, which include:

- cancellation or renegotiation of contracts;
- changes in foreign laws or regulations;
- changes in tax laws;
- royalty and tax increases or claims by governmental entities;
- retroactive tax or royalty claims;
- expropriation or nationalization of property;
- inflation of costs that is not compensated by a currency devaluation;
- restrictions on the remittance of dividend and interest payments offshore;
- environmental controls and permitting;
- opposition from local community members or non-governmental organizations;
- civil strife, acts of war, guerrilla activities, insurrection and terrorism; and

- other risks arising out of foreign sovereignty over the areas in which the Company's operations are conducted.

Such risks could potentially arise in any country in which the Company operates. The Company may also evaluate business opportunities in other jurisdictions where such risks may exist. Furthermore, in the event of a dispute arising from such activities, the Company may be subject to the exclusive jurisdiction of courts outside North America or may not be successful in subjecting persons to the jurisdiction of the courts in North America, which could adversely affect the outcome of a dispute.

The Company is subject to extensive government regulations and permit requirements.

Operations, development and exploration on the Company's properties are affected to varying degrees by political stability and government regulations relating to such matters as environmental protection, health, safety and labour, mining law reform, restrictions on production, price controls, tax increases, maintenance of claims, tenure, and expropriation of property. Failure to comply with applicable laws and regulations may result in fines or administrative penalties or enforcement actions, including orders issued by regulatory or judicial authorities enjoining or curtailing operations or requiring corrective measures, installation of additional equipment or remedial actions, any of which could result in the Company incurring significant expenditures.

The activities of the Company require licences and permits from various governmental authorities. The Company currently has been granted the requisite licences and permits to enable it to carry on its existing business and operations. The Company has also been granted the principal licenses and permits necessary for exploration and construction of the Lindero Project. Pending licences for the Lindero Project are standard municipal permits to initiate earthworks and construction activities. There can be no assurance that the Company will be able to obtain all the necessary licences and permits which may be required to carry out exploration, development and mining operations for its projects in the future. The Company might find itself in situations where the state of compliance with regulation and permits can be subject to interpretation and challenge from authorities that could carry risk of fines or temporary stoppage.

The Company's mining concessions may be terminated in certain circumstances.

Under the laws of the jurisdictions where the Company's operations, exploration and development projects and prospects are located, Mineral Resources belong to the state and governmental concessions are required to explore for, and exploit, Mineral Reserves. The Company holds mining, exploration and other related concessions in each of the jurisdictions where it is operating and where it is carrying on development projects and prospects. The concessions held by the Company in respect of its operations, exploration and development projects and prospects may be terminated under certain circumstances, including where minimum production levels are not achieved by the Company (or a corresponding penalty is not paid), if certain fees are not paid or if environmental and safety standards are not met. Termination of any of the Company's concessions could have a material adverse effect on the Company's business, financial condition or results of operations.

Opposition of the Company's exploration, development and operational activities may adversely affect the Company's reputation, its ability to receive mining rights or permits and its current or future activities.

Maintaining a positive relationship with the communities in which the Company operates, including with respect to the Caylloma Mine, the San Jose Mine and the Lindero Project, is critical to continuing successful exploration and development. Community support for operations is a key component of a successful exploration or development project. Various international and national laws, codes, resolutions, conventions, guidelines and other materials relating to corporate social responsibility (including rights with respect to health and safety and the environment) may also require government consultation with communities on a variety of issues affecting local stakeholders, including the approval of mining rights or permits.

The Company may come under pressure in the jurisdictions in which it explores or develops to demonstrate that other stakeholders benefit and will continue to benefit from its commercial activities. Local stakeholders and other groups may oppose the Company's current and future exploration, development and operational activities through legal or administrative proceedings, protests, roadblocks or other forms of public expression against the Company's activities. Opposition by such groups may have a negative impact on the Company's reputation and its ability to receive necessary mining rights or permits. Opposition may also require the Company to modify its exploration, development or operational plans or enter into agreements with local stakeholders or governments with respect to its projects, in some cases causing considerable project delays. Any of these outcomes could have a material adverse effect on the Company's business, financial condition, results of operations and Common Share price.

The Company is faced with uncertainty of funding for exploration and development.

The Company's operating cash flow from the Caylloma Mine and the San Jose Mine may not be sufficient to cover the current and future costs of exploration and development of the Company's other, non-producing properties, including the Lindero Project. Exploration and development activities may be dependent upon the Company's ability to obtain financing through joint ventures, equity or debt financing or other means. There can be no assurance that the Company will be able to obtain additional financing or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of some of its projects.

***The Company is substantially reliant on the Caylloma Mine and the San Jose Mine*.**

All of the Company's revenues were generated by the Caylloma Mine until September 2011, when commercial production commenced at the San Jose Mine. For 2017, the Company anticipates that all of its revenue will come from the Caylloma Mine and the San Jose Mine. Unless the Company develops the Lindero Project or acquires or develops additional properties or projects, the Company will remain largely dependent upon the operation of the Caylloma Mine and the San Jose Mine for its future revenue and profits, if any. If for any reason production at either mine was reduced or stopped, the Company's revenues and profits would decrease significantly.

The title to the Company's properties could be challenged or impugned.

Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and, therefore the precise area and location of the properties may be in doubt. The Company's properties may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by unidentified or unknown defects. Title insurance is generally not available for mineral properties and the Company's ability to ensure that it has obtained secure claims to individual mineral properties or mining concessions may be constrained. A successful challenge to the Company's title to a property or to the precise area and location of a property could cause delays or stoppages to the Company's exploration, development or operating activities without reimbursement to the Company. Any such delays or stoppages could have a material adverse effect on the Company's business, financial condition and results of operations.

Additional businesses and assets that the Company acquires may not be successfully integrated.

The Company undertakes evaluations from time to time of opportunities to acquire additional mining assets and businesses. In particular, the Company completed its acquisition of Goldrock in July 2016. Any such acquisitions may be significant in size, may change the scale of the Company's business, may require additional capital, and/or may expose the Company to new geographic, political, operating, financial and geological risks. The Company's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, acquire them on acceptable terms, and integrate their operations successfully. Any acquisitions would be accompanied by risks such as:

- a significant decline in the relevant metal price after the Company commits to complete an acquisition on certain terms;
- the quality of the mineral deposit acquired proving to be lower than expected;
- the difficulty of assimilating the operations and personnel of any acquired companies;
- the potential disruption of the Company's ongoing business;
- the inability of management to realize anticipated synergies and maximize the financial and strategic position of the Company;
- the failure to maintain uniform standards, controls, procedures and policies;
- the impairment of relationships with employees, customers and contractors as a result of any integration of new management personnel; and
- the potential unknown liabilities associated with acquired assets and businesses.

There can be no assurance that any assets or business acquired will prove to be profitable or that the Company will be able to integrate the required businesses successfully, which could slow the Company's rate of expansion and cause the Company's business, results of operations and financial condition to suffer.

The Company may need additional capital to finance future acquisitions. There can be no assurance that such financing would be available, on favourable terms or at all. If the Company obtains further debt financing, it will be exposed to the risk of leverage and its operations could become subject to restrictive loan and lease covenants and undertakings. If the Company obtains equity financing, existing shareholders may suffer dilution. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such financings.

The Company is dependent on key personnel.

The Company is dependent on a number of key management and employee personnel. The Company’s ability to manage its exploration, development, construction and operating activities, and hence its success, will depend in large part on the ability to retain current personnel and attract and retain new personnel, including management, technical and unskilled employees. The loss of the services of one or more key management personnel, as well as a prolonged labor disruption, could have a material adverse effect on the Company’s ability to successfully manage and expand its affairs.

The Company will be required to recruit additional personnel and to train, motivate and manage its employees. The international mining industry is very active and the Company is facing increased competition for personnel in all disciplines and areas of operation, including geology and project management, and there can be no assurance that it will be able to retain current personnel and attract and retain new personnel. Incentive provisions for the Company’s key executives include the granting of stock options and various share units that vest over time, which are designed to encourage such individuals to stay with the Company. However, a low Common Share price, whether as a result of disappointing progress in the Company's exploration, development, construction or operating activities or as a result of market conditions generally, could render such agreements of little value to the Company’s key executives. In such event, the Company’s key executives could be susceptible to being hired away by the Company's competitors who could offer a better compensation package. If the Company is unable to attract and retain key personnel, its business, financial conditions and results of operations may be adversely affected.

The Company relies on local counsel and advisors and the experience of its management and board of directors in foreign jurisdictions.

The Company holds interests in mining or exploration properties in Peru, Mexico, Argentina, Serbia and the United States. The legal and regulatory requirements in certain of these countries with respect to mineral exploration and mining activities, as well as local business customs and practices, are different from those in Canada and the United States. The officers and directors of the Company must rely, to a great extent, on the Company’s local legal counsel and local consultants retained by the Company in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect the Company’s business operations, and to assist the Company with its governmental relations. The Company must rely, to some extent, on those members of management and the Company’s board of directors who have previous experience working and conducting business in these countries in order to enhance its understanding of and appreciation for the local business customs and practices. The Company also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of banking, financing, labour, litigation and tax matters in these countries. There can be no guarantee that reliance on such local counsel and advisors and the Company’s management and board of directors will result in compliance at all times with such legal and regulatory requirements and business customs and practices. Any such violations could result in a material adverse effect on the Company’s business, financial condition and results of operations.

Certain of the Company’s directors and officers may have conflicts of interest.

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. To the extent that such other companies may participate in ventures that the Company may also participate in, or in ventures that the Company may seek to participate in, the Company’s directors and officers may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. As a result of these potential conflicts of interests, the Company may miss the opportunity to participate in certain transactions. In all cases where the Company’s directors and officers have an interest in other companies, such other companies may also compete with the Company for the acquisition of mineral property investments. Such conflicts of the Company's directors and officers may result in a material and adverse effect on its business, financial condition and results of operations.

The insurance coverage on the Company’s operations may be inadequate.

Insurance against certain environmental risks, including potential liability for pollution and other hazards as a result of the disposal of waste products occurring from production, is not generally available to companies within the mining industry. As well, the Company does not currently have any insurance that specifically covers its activities involving the Lindero Project. There is no assurance that the Company's insurance will be adequate to cover all liabilities or that it will continue to be available and at terms that are economically acceptable. Losses from un-insured or under-insured events may cause the Company to incur significant costs that could have a material adverse effect on its business and financial condition.

In connection with the preparation and audit of our financial statements for the year ended December 31, 2016, material weaknesses in our internal control over financial reporting were identified, which means that a reasonable possibility exists that material misstatements in the Company's financial statements will not be prevented or detected on a timely basis.

The Sarbanes-Oxley Act of 2002 ("SOX") and applicable Canadian securities laws require an annual assessment by management of the effectiveness of the Company's internal control over financial reporting. Beginning with the Company's 2016 fiscal year, its independent auditors are also required to attest to the effectiveness of the Company's internal control over financial reporting. The Company's management, under the supervision and with the participation of its President and Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting. As a result of this evaluation, management concluded that it did not have sufficient resources with the relevant expertise to perform an effective risk assessment process, to design and implement controls supported by documentation and to provide evidence that such controls were designed and operating effectively, which contributed to the following material weaknesses: (1) the Company did not complete a documented fraud risk assessment; (2) the Company did not identify all risks and design relevant controls related to significant unusual transactions and complex accounting matters; (3) the Company's controls related to revenue recognition did not address all risks and relevant assertions; (4) the Company's controls related to tax provisions were not sufficiently precise; and (5) the Company did not implement effective general information technology controls related to user access privileges, unauthorized access and segregation of duties. A material weakness, as defined in National Instrument 52-109 of the Canadian Securities Administrators and Rule 12b-2 under the U.S. Exchange Act, is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

In light of the identified material weaknesses, the Company was unable to conclude that it had effective internal control over financial reporting as of December 31, 2016 in accordance with Section 404 of SOX and applicable Canadian securities laws, and the Company's independent auditors have issued an adverse opinion on the effectiveness of the Company's internal control over financial reporting. While the Company has concluded that its financial statements for the year ended December 31, 2016 fairly present in all material respects its financial position, results of operations and cash flows for the periods presented in accordance with IFRS, the Company's inability to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of the Company's financial statements, which in turn could harm its business and negatively impact the trading price or the market value of its securities. The Company has commenced taking measures, and plans to continue to take measures, to remediate these material weaknesses. However, the implementation of these measures may not fully address these material weaknesses in its internal control over financial reporting, and, if so, it would not be able to conclude that they have been fully remedied. In addition, the material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. If the Company is unable to correct these material weaknesses on a timely basis or to discover and address any other control deficiencies, this could result in inaccuracies in its financial statements and could also impair its ability to comply with applicable financial reporting requirements and make related regulatory filings on a timely basis. No evaluation can provide complete assurance that the Company's internal control over financial reporting will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be reported. The effectiveness of the Company's processes, procedures and controls could also be limited by simple errors or faulty judgments. As the Company continues to expand, the challenges involved in implementing appropriate internal control over financial reporting will increase and will require that the Company continue to monitor its internal control over financial reporting. Although the Company intends to expend substantial time and incur substantial costs, as necessary, to remediate the material weaknesses and ensure ongoing compliance, it cannot be certain that it will be successful in complying with Section 404 of SOX and similar Canadian securities law requirements.

The Company may be responsible for corruption and anti-bribery law violations.

The Company's business is subject to the Foreign Corrupt Practices Act (the "**FCPA**") and the Corrupt Foreign Public Officials Act (the "**CFPOA**"), which generally prohibit companies and company employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. The FCPA also requires companies to maintain accurate books and records and internal controls, including at foreign-controlled subsidiaries. Since all of the Company's presently held interests are located in Peru, Mexico and Argentina, there is a risk of potential FCPA violations. In addition, the Company is subject to the anti-bribery laws of Peru, Mexico, and Argentina and of any other countries in which it conducts business in the future. The Company's employees or other agents may, without its knowledge and despite its efforts, engage in prohibited conduct under the Company's policies and procedures and the FCPA, the CFPOA or other anti-bribery laws for which the Company may be held responsible. If the Company's employees or other agents are found to have engaged in such practices, the Company could suffer severe penalties and other consequences that may have a material adverse effect on its business, financial condition and results of operations.

The Company may be subject to legal proceedings that arise in the ordinary course of business.

Due to the nature of its business, the Company may be subject to regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of its business. The Company's operations are subject to the risk of legal claims by employees, unions, contractors, lenders, suppliers, joint venture partners, shareholders, governmental agencies or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. Plaintiffs may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. Defense and settlement costs can be substantial, even with respect to claims that have no merit. The results of these legal proceedings cannot be predicted with certainty due to the uncertainty inherent in litigation, including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and juries and the possibility that decisions may be reversed on appeal. The litigation process could, as a result, take away from the time and effort of the Company's management and could force the Company to pay substantial legal fees or penalties. There can be no assurances that the resolutions of any such matters will not have a material adverse effect on the Company's business, financial condition and results of operations.

General economic conditions could impact the Company's business.

Turmoil in global financial markets in recent years has had a profound impact on the global economy. Many industries, including the precious and base metals mining industry, have been impacted by these market conditions. Some of the key impacts have included contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. The sovereign debt crisis in Europe and the recent economic slowdown in China have been some of the most visible risks to world financial stability. A continued or worsened slowdown in economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's growth and profitability. Specifically:

- a new global credit/liquidity crisis could impact the cost and availability of financing and the Company's overall market liquidity;
- the volatility of metal prices could impact the Company's revenues, profits, losses and cash flow;
- volatile energy prices, commodity and consumables prices and currency exchange rates could impact the Company's production costs or projected economic returns; and
- the devaluation and volatility of global stock markets, which are not related to the Company's operations or assets, could impact the valuation of the Company's equity and other securities.

These factors could have a material adverse effect on the Company's financial condition and results of operations.

The Company faces intense competition.

The mining industry is intensely competitive in all of its phases. Much of the Company's competition is from larger mining companies with greater liquidity, greater access to credit and other financial resources, and that may have newer or more efficient equipment, lower cost structures, more effective risk management policies and procedures and/or greater ability than the Company to withstand losses. The Company's competitors may be able to respond more quickly to new laws, regulations or emerging technologies, or devote greater resources to the expansion of their operations, than the Company can. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties. Competition could adversely affect the Company's ability to acquire suitable new producing properties or properties for exploration and development in the future. Competition could also affect the Company's ability to raise financing to fund the exploration and development of its properties or to hire qualified personnel. The Company may not be able to compete successfully against current and future competitors, and any failure to do so could have a material adverse effect on the Company's business, financial condition or results of operations.

Metal prices and the marketability of metals acquired or discovered by the Company may be affected by factors beyond the Company’s control.

The marketability of metals acquired or discovered by the Company may be affected by numerous factors which are beyond the Company’s control and which cannot be accurately foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling facilities, metal markets and processing equipment and government regulations, including regulations relating to royalties, allowable production, importing and exporting metals and environmental protection.

The price of silver, gold or other metals fluctuates widely and is affected by numerous factors beyond the Company’s control, such as the sale or purchase of metals by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, the political and economic conditions of major metal-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges.

The price of the Common Shares and the Company’s financial results and exploration, development and mining activities may in the future be significantly adversely affected by declines in the price of silver, gold or other metals. Declining metal prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. The continued exploration and development of or commercial production from the Company’s properties may no longer be economically viable if serious price declines in the market value of silver, gold or other metals occur. Even if exploration, development or production is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed. Depending on the price of silver, gold and other metals, cash flow from mining operations may not be sufficient and the Company’s financial condition and results of operations may be adversely affected. The Company may lose its interest in, or may be forced to sell, some of its properties as a result. If any such circumstances occur, the price of the Common Shares may be significantly adversely affected.

The Company may suffer adverse effects arising from fixed price commodity forward and option contracts for base metals production.

From time to time the Company may enter into agreements to receive fixed prices on any metal production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases and could suffer adverse effects to its business, financial position and results of operations as a result.

The Company may be adversely affected by operating expense exchange rate fluctuations.

The Company’s activities and operations in Mexico, Peru and Argentina make it subject to foreign currency fluctuations. Although the Company uses U.S. dollars as the currency for the presentation of its financial statements, the Company’s operating expenses are incurred in Mexican and Argentine Pesos and Peruvian Sol in proportions that will typically range between 40% and 60% of total expenses, depending on the country. The fluctuation of these currencies in relation to the U.S. dollar will consequently have an impact upon the profitability of the Company’s mineral properties and therefore its ability to continue to finance its exploration, development and operations. Such fluctuations may also affect the value of the Company’s assets and shareholders’ equity. Future exploration, development and operational plans may need to be altered or abandoned if actual exchange rates for these currencies are less than or more than the rates estimated in any such future plans. To date, the Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. The Company cannot be sure that any hedging techniques it may implement in the future will be successful or that its business, financial condition, and results of operations will not be materially adversely affected by exchange rate fluctuations.

The Company is subject to fluctuating concentrate treatment charges and transportation costs.

The Company has entered into agreements to sell its concentrate production from the Caylloma Mine and the San Jose Mine for 2017. Smelting and refining rates are similar to contract rates established for 2016. There is no assurance that the Company will be able to enter into smelting and refining contracts at similar competitive terms beyond 2017. The cost of transporting concentrate from the mines to the smelters is dependent on, among other things, the concentrate destination. Transportation-related costs have been volatile over the last several years and could continue to be volatile due to a number of factors, including changes in the price of oil or a shortage in the number of vessels available to ship concentrate to smelters. Increases in these rates would have an adverse impact on the Company's results of operations and financial condition.

The Company may not have reserved sufficient monies to cover the costs associated with reclamation.

Land reclamation requirements are generally imposed on companies with mineral exploration, development and operations activity in order to minimize long-term effects of land disturbance. Reclamation may include requirements to treat ground and surface water to drinking water standards, control dispersion of potentially deleterious effluent and reasonably re-establish pre-disturbance land forms and vegetation. In order to carry out reclamation obligations imposed on the Company in connection with exploration, development and production activities, the Company must allocate financial resources that might otherwise be spent on further exploration and development programs. The actual costs of reclamation and mine closure are uncertain and planned expenditures may differ from the actual expenditures required. There is a risk that monies allotted for land reclamation may not be sufficient to cover all risks, due to changes in the nature of the waste rock or tailings and/or revisions to government regulations. Therefore, additional funds, or reclamation bonds or other forms of financial assurance, may be required over the tenure of any of the Company's projects to cover potential risks. These additional costs may have material adverse impact on the Company's business, financial condition and results of operations.

Risks Relating to the Common Shares

The market price of the Company's Common Shares is volatile.

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many mining companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. In particular, the price of the Common Shares on the TSX and NYSE fluctuated significantly during the past year. There can be no assurance that continual fluctuations in price will not occur.

There are many factors that may influence such volatility. Macroeconomic conditions in North America, Peru, Mexico or Argentina and changes in the laws and regulations of these regions may have a negative effect on the development prospects, timelines or relationships for the Company's properties. Negative changes in the public's perception of the Company's prospects or of mining companies in general could cause the price of the Company's securities, including the price of the Common Shares, to decrease dramatically. The price of the Common Shares is also likely to be affected by short-term changes in precious metal prices or other mineral prices, currency exchange fluctuations, the Company's financial condition or results of operations and the extent of research analyst coverage of its securities.

Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Shareholders may suffer dilution as a result of future offerings of the Common Shares or securities convertible into Common Shares.

The Company may sell equity securities in future offerings (including through the sale of securities convertible into equity securities) and may issue additional equity securities to finance operations, exploration, development, acquisitions or other projects. The Company may also issue Common Shares as a result of exercises of the Company's outstanding stock options or Common Share purchase warrants, or the vesting of the Company's outstanding share units. The Company cannot predict the size of future issuances of equity securities or the size and terms of future issuances of debt instruments or other securities convertible into equity securities. The board of directors of the Company has the authority to authorize certain offers and sales of additional securities without the vote of, or prior notice to, shareholders. It is likely that the Company will issue additional securities to provide capital to fund expected expenditures and growth. Any transaction involving the issuance of previously authorized but unissued Common Shares, or securities convertible into Common Shares, would result in potentially substantial dilution to shareholders.

The market price of the Common Shares could decline as a result of future issuances or sales of the Company's securities, which could result in insufficient liquidity.

The market price of the Common Shares could decline as a result of issuances of securities by the Company or sales by its existing shareholders of Common Shares in the market, or the perception that these sales could occur. The issuance of Common Shares upon the exercise of the Company's outstanding stock options and Common Share purchase warrants or the vesting of the Company's outstanding share units may also reduce the market price of the

Common Shares. Additional Common Shares, stock options, Common Share purchase warrants and share units may be issued in the future. A decrease in the market price of the Common Shares could adversely affect the liquidity of the Common Shares on the TSX and the NYSE. The Company's shareholders may be unable, as a result, to sell significant quantities of the Common Shares into the public trading markets. The Company may not, as a result, have sufficient liquidity to meet the continued listing requirements of the TSX and the NYSE. Sales of the Common Shares by shareholders might also make it more difficult for the Company to sell equity securities at a time and price that it deems appropriate, which may have a material adverse effect on the Company's business, financial conditions and results of operations.

The Company has never paid, and does not currently anticipate paying, dividends.

The Company has paid no dividends on the Common Shares since incorporation and does not anticipate paying dividends in the immediate future. The payment of future dividends, if any, will be reviewed periodically by the Company's board of directors and will depend upon, among other things, conditions then existing including earnings, financial conditions, cash on hand, financial requirements to fund its commercial activities, development and growth, and other factors that the Company's board of directors may consider appropriate in the circumstances.

U.S. investors may find it difficult to enforce U.S. judgments against the Company.

The Company is incorporated under the laws of British Columbia, Canada and the majority of the Company's directors and officers are not residents of the United States. Because all or a substantial portion of the Company's assets and the assets of these persons are located outside of the United States, it may be difficult for U.S. investors to effect service of process within the United States upon the Company or upon such persons who are not residents of the United States, or to realize in the United States upon judgments of U.S. courts predicated upon civil liabilities under U.S. securities laws. A judgment of a U.S. court predicated solely upon such civil liabilities may be enforceable in Canada by a Canadian court if the U.S. court in which the judgment was obtained had jurisdiction, as determined by the Canadian court, in the matter. There is substantial doubt whether an original action could be brought successfully in Canada against any of such persons or the Company predicated solely upon such civil liabilities.

Material Mineral Properties

The Company has two 100% owned material mineral projects, described below. On February 1, 2017, the Company filed an updated technical report on the Caylloma Mine and an updated technical report on the San Jose Mine, both of which are summarized below.

For a complete description of the Caylloma Mine, see the technical report entitled *Fortuna Silver Mines Inc.: Caylloma Property, Caylloma District, Peru*, dated effective August 31, 2016, as amended January 30, 2017 (the "**Caylloma Technical Report**"), and for further information on the San Jose Mine, see the technical report entitled *Fortuna Silver Mines Inc.: San Jose Property, Oaxaca, Mexico,* dated effective August 20, 2016, as amended January 30, 2017 (the "**San Jose Technical Report**"), each prepared by Eric Chapman, P.Geo, and Edwin Gutierrez, SME Registered Member. The Caylloma Technical Report and the San Jose Technical Report (together, the "**Technical Reports**") have each been filed with Canadian securities regulatory authorities on SEDAR (available at www.sedar.com) and with the SEC on EDGAR (available at www.sec.gov).

Defined terms and abbreviations used in this section and not otherwise defined shall have the meanings ascribed to such terms in the Technical Reports. The information contained in this section regarding the Caylloma Mine and the San Jose Mine has been derived from the Technical Reports, is subject to certain assumptions, qualifications and procedures described in the Technical Reports and is qualified in its entirety by the full text of the Technical Reports. Reference should be made to the full text of the Technical Reports.

Caylloma Mine, Peru

Property Description, Location and Access

The Caylloma Mine is an operating underground mine located in the Caylloma mining district, 14 kilometers northwest of the town of Caylloma at the Universal Transverse Mercator ("**UTM**") grid location of 8192263E, 8321387N, (WGS84, UTM Zone 19S). The Caylloma Mine consists of mineral rights for 75 mining concessions covering a total of 35,022.24 hectares, of which six concessions, that contain no known Mineral Resources or Mineral Reserves, are subject to an earn-in agreement with Buenaventura. Sixty concessions are subject to a US$60 million lien in favour of Scotiabank Peru S.A.A. In addition to these mineral rights, the Huayllacho mill-site (processing plant) is a granted concession covering 91.12 hectares.

In Peru, a mining concession does not have an expiration date but an annual fee must be paid to maintain the concession in good standing. All of the Caylloma Mine concessions are in good standing. Pursuant to the General Mining Law approved by Supreme Decree N° 014-92-EM, Minera Bateas S.A.C. ("**Minera Bateas**") has six years from the date of grant of the mining concessions title to reach the minimum annual production (US$100 per hectare, per year). If Minera Bateas does not reach the minimum annual production within the six-year period, Minera Bateas is required to make a payment of US$6 per hectare, per year, in addition to the fees required to keep the mineral concessions in good standing in each additional year where the minimum annual production requirement is not met.

Minera Bateas hold surface rights to the Caylloma Mine via agreements with various landowners. Access to the Caylloma Mine is an approximate 5 hour drive from Arequipa, Peru over a combination of sealed and gravel roads covering a driving distance of 225 road kilometers.

The Caylloma Mine is subject to the following royalty rights:

(a) Pursuant to a royalty contract signed in May 2005, Minera Bateas granted to Compania Minera Arcata, S.A. ("CMA"), a wholly owned subsidiary of Hochschild Mining plc, a 2.0% NSR royalty which will apply after not less than a total of 21 million ounces of silver have been recovered from the Huayllacho beneficio (mill site) concession right. In June 2016, CMA assigned its NSR royalty to Lemuria Royalties Corp. As of June 30, 2016, Minera Bateas has produced a total of 15.6 million troy ounces of silver; therefore, this royalty condition has not yet been met.

(b) Government royalty payments are set at a base rate of 1% up to US$60 million, 2% on the excess of US$60 million and up to US$120 million and 3% on the excess of US$120 million. Fortuna is on the scales of 1% and 2% and is current on payment of royalties. Additionally, and in accordance with *Mining Special Royalty Act* approved by Peruvian Law No. 29790 (the "*Mining Special Royalty Act*") in 2011, royalties are determined by applying quarterly rates ranging from 4% to 12% (scales provided by the regulations of the *Mining Royalty Act* approved by Peruvian Law No. 28258 (the "*Mining Royalty Act*") on operating income. Any royalties due resulting from the application of the *Mining Special Royalty Act* are only paid in excess of royalties already paid under the original *Mining Royalty Act*.

Minera Bateas is in compliance with environmental regulations and standards set in Peruvian law and has complied with all material laws, regulations, norms and standards at every stage of operation of the mine. To the extent known, all permits that are required by Peruvian law for the mining operation have been obtained.

History

The earliest documented mining activity in the Caylloma district dates back to that of Spanish miners in 1620. English miners carried out activities in the late 1800s and early 1900s. Numerous companies have been involved in mining the district of Caylloma but limited records are available to detail these activities. The Caylloma Mine was acquired by CMA in 1981. Fortuna acquired the property from CMA in 2005.

CMA focused its exploration activities at the Caylloma Mine on identifying high-grade silver vein structures. Exploration was concentrated in the northern portion of the district and focused on investigating the potential of numerous veins including Bateas, El Toro, Parallel, San Pedro, San Cristobal, San Carlos, Don Luis, La Plata, Apostles and Trinidad.

Extensive exploration and development were conducted on the Bateas vein due to its high silver content; however, exploration did not extend to the northeast due to the identification of a fault structure that was thought to truncate the mineralized vein. Animas was one of the first vein structures identified by CMA, however the mineralization style was identified as polymetallic in nature, rather than the high-grade silver veins CMA were hoping to exploit. Subsequently, no further exploration or development was undertaken of this vein until Fortuna took ownership in 2005.

The most recent Mineral Reserve and Mineral Resource estimate prior to Fortuna's purchase of the property was conducted in June 2004. Since Minera Bateas took ownership of the property, three independent NI 43-101 technical reports have been published reporting Mineral Resources and Mineral Reserves in 2005, 2006 and 2009.

Production at the Caylloma Mine prior to 2005 came primarily from the San Cristobal vein, as well as from the Minera Bateas, Santa Catalina and the northern silver veins (including Paralela, San Pedro and San Carlos) with production focused on silver ores and no payable credits for base metals. During CMA management production parameters fluctuated during the late 1990’s as reserves were depleted. Owing to low metal prices, funds were not available to develop the Mineral Resources at depth or extend along the strike of the veins. Ultimately, this resulted in production being halted in 2002.

The Caylloma Mine was reopened in October 2006 and production under Minera Bateas management focused on the development of polymetallic veins producing lead and zinc concentrates with silver and gold credits. Production rates increased in 2011 from 1,000 tpd to 1,300 tpd, and again in May 2016 to approximately 1,430 tpd.

Geology

The Caylloma district is located in the Neogene volcanic arc that forms part of the Cordillera Occidental of southern Peru. The volcanic belt in the Caylloma district contains large, locally superimposed calderas of early Miocene to Pliocene age comprised of calc-alkaline andesitic to rhyolitic flows, ignimbrites, laharic deposits, and volcanic domes that unconformably overlie a folded marine sequence of quartzite, shale, and limestone of the Jurassic Yura Group.

The mining district of Caylloma is located northwest of the Caylloma caldera complex. The host rock of the mineralized veins is volcanic in nature, belonging to the Tacaza Group. The volcanics of the Tacaza Group lie unconformably over a sedimentary sequence of orthoquartzites and lutites of the Jurassic Yura Group. Portions of the property are covered by variable thicknesses of post-mineral Pliocene-Pleistocene volcanics of the Barroso Group and recent glacial and alluvial sediments.

The Caylloma Mine is within the historical mining district of Caylloma, northwest of the Caylloma caldera complex and southwest of the Chonta caldera complex. Host rocks at the Caylloma Mine are volcanic in nature, belonging to the Tacaza Group. Mineralization is in the form of low to intermediate sulfidation epithermal vein systems.

Epithermal veins at the Caylloma Mine are characterized by minerals such as pyrite, sphalerite, galena, chalcopyrite, marcasite, native gold, stibnite, argentopyrite and silver-bearing sulfosalts (tetrahedrite, polybasite, pyrargyrite, stephanite, stromeyerite, jalpite, miargyrite and bournonite). These are accompanied by gangue minerals, such as quartz, rhodonite, rhodochrosite, johannsenite (manganese-pyroxene) and calcite.

Mineralization

There are two different types of mineralization at the Caylloma Mine; the first is comprised of silver-rich veins with low concentrations of base metals and includes the Bateas, Bateas Techo, La Plata, Cimoide La Plata, San Cristobal, San Pedro, San Carlos, Paralela and Ramal Paralela veins. The second type of vein is polymetallic in nature with elevated lead, zinc, copper, silver and gold grades and includes the Animas, Animas NE, Santa Catalina, Soledad, Silvia, Pilar, Patricia and Nancy veins.

Mineralization in these vein systems occurs in steeply dipping ore shoots ranging up to several hundred meters (“**m**”) long with vertical extents of over 400 m. Veins range in thickness from a few centimeters (“**cm**”) to 20 m, averaging approximately 1.5 m for silver veins and 2.5 m for polymetallic veins.

Deposit Types

The Caylloma Mine polymetallic and silver-gold rich veins are characteristic of a typical low sulfidation epithermal deposit having formed in a relatively low temperature, shallow crustal environment.

The characteristics described above have resulted in the Caylloma Mine veins being classified as belonging to the low sulfidation epithermal group of precious metals in quartzadularia veins similar to those at Creede, Colorado; Casapalca, Peru; Pachuca, Mexico and other volcanic districts of the late Tertiary period. They are characterized by Ag sulfosalts and base metal sulfides in a banded gangue of colloform quartz, adularia with carbonates, rhodonite and rhodochrosite. Host rock alteration adjacent to the veins is characterized by illite and widespread propylitic alteration.

Exploration

In 2007, induced polarization (“**IP**”) and resistivity studies were conducted over the Nancy and Animas NE veins covering an area of seven square kilometers. The survey was performed using an IRIS ELREC Pro receptor with a symmetrical configuration poly pole array with spacing of 50 m between electrodes. Results of the geophysical studies identified three coincident zones of low IP potential associated with high chargeability and resistivity. The three geophysical anomalies were investigated through a targeted drilling campaign.

In 2012, magnetometry, IP and resistivity studies were carried out over Cerro Vilafro and Vilafro South, covering an area of 17 square kilometers in IP/resistivity studies with a pole-dipole array configuration with spacing of 50 m between electrodes and 31.6 line kilometers in magnetometry studies. The surveys successfully identified coincident chargeability and resistivity anomalies in the Cerro Vilafro area.

In 2015, Controlled-source Audio-frequency Magnetotellurics ("**CSAMT**") geophysical surveys were completed covering the northeastern projection of the San Pedro and Paralela veins. Similar CSAMT geophysical surveys were completed in 2016 covering the Pisacca exploration target area. In both areas, the CSAMT surveys were successful in identifying resistivity anomalies spatially associated with the projections of mapped vein structures.

Extensive surface channel samples have been taken along all principal mineralized structures identified in the Caylloma district. Exploration has focused on the delineation of major vein structures such as the Animas, Bateas, Santa Catalina, Soledad and Silvia veins. Additional exploration has also been conducted to define the mineral potential of other veins on the property such as the Carolina, Don Luis and Nancy veins. Surface channel samples are not used for Mineral Resource estimation but as a guide for exploration drilling and to identify the vein structure on surface.

Extensive mapping activities have been conducted by Fortuna since 2006 focusing on mapping the surface structures associated with the Animas, Antimonio, Bateas, Silvia, Soledad, San Cristobal, Nancy, La Plata, Vilafro, Cerro Vilafro, Vilafro Sur and Cailloma 6 veins.

Drilling

Exploration and definition drilling has been conducted at the Caylloma Mine by both CMA and Minera Bateas. Diamond drilling has been the preferred methodology.

Minera Bateas was able to recover and validate information on 43 diamond drill holes totaling 7,159.32 m drilled by CMA between 1981 and 2003. As of June 30, 2015, Minera Bateas completed 879 drill holes on the Caylloma Mine totaling 141,100.65 m since Fortuna took ownership in 2005. All holes are diamond drill holes and include 424 from the surface totaling 101,608.55 m, and 455 from underground totaling 39,492.10 m. The extent of drilling varies for each vein with those having the greatest coverage having drill holes extending over 4,000 m of the vein's strike length (Animas), to the least having only a couple of drill holes extending over 50 m (Antimonio).

As of the effective date of the Caylloma Technical Report an additional 67 infill drill holes totaling 9,792.95 m have been completed after the June 30, 2015 cut-off date. All of the drill holes were designed for purposes of upgrading of Inferred Mineral Resources of the Animas and Animas NE veins.

Sample Preparation and Analysis

All samples at the Caylloma Mine are collected by geological staff of Minera Bateas with sample preparation and analysis being conducted either at the onsite Minera Bateas laboratory (channel samples and underground development drill core) or the ALS Chemex laboratory in Lima (exploration drill core). The Minera Bateas on-site laboratory is not a certified laboratory. Therefore, pulp splits and preparation duplicates, along with reference standards and blanks are routinely sent to the International Organization for Standardization ("**ISO**") certified ALS Chemex laboratory in Lima to monitor the performance of the Minera Bateas laboratory.

Channel Chip Sampling

Since February 2011 the location of each channel has been surveyed using Total Station equipment. Surveyors use an underground survey reference point to locate the starting coordinates of each channel.

Sampling is carried out at 2 m intervals within the drifts of all veins and 3 m intervals in stopes (except for Bateas and Soledad, where due to the thickness of the vein sampling is carried out every 2 m in stopes).

Sample collection is normally performed by two samplers, one using the hammer and pick while the other holds the receptacle (cradle) to collect rock and ore fragments. A sample mass of between 3 kilograms ("**kg**") and 6 kg is generally collected.

Since August 2012, the entire sample is placed in a plastic sample bag with a sampling card and assigned sample ID and taken to the laboratory for homogenization and splitting.

Core Sampling

A geologist is responsible for determining and marking the intervals to be sampled, selecting them based on geological and structural logging. The sample length must not exceed 1 m or be less than 10 cm.

Splitting of the core is performed by diamond saw. Once the core has been split, half the sample is placed in a sample bag. A sampling card with the appropriate information is inserted with the core.

Bulk Density Determination

Samples for density analysis are collected underground using a hammer and chisel to obtain a single large sample of approximately 6 kg. The sample is always taken of mineralized material in the same locality as a channel sample. The coordinates of the closest channel sample are assigned to the density sample. The sample is brought to the surface and delivered to the core cutting shed where each side of the sample is cut using a diamond saw to produce a smooth sided cube. The sample is labeled and bagged prior to being stored in the storage facilities to await transportation with other samples to the ALS Chemex laboratory in Arequipa.

Density tests are performed at the ALS Chemex laboratory in Lima.

Sample Dispatch

Once samples have been collected they are assigned a batch number and either submitted to the Minera Bateas onsite laboratory, or sent to the mine warehouse to await transportation (three times a week) to the ALS Chemex facility in Arequipa, and then on to the ALS Chemex laboratory in Lima for analysis.

Sample Preparation

Upon receipt of a sample batch, the laboratory staff immediately verifies that sample bags are sealed and undamaged. Sample numbers and identifications are checked to ensure they match that as detailed in the submittal form provided by the geology department. If any damaged, missing or extra samples are detected the sample batch is rejected and the geology department is contacted to investigate the discrepancy. If the sample batch is accepted, the samples are sequentially coded and registered as received.

Accepted samples are then transferred to individual stainless steel trays with their corresponding sample identifications for drying.

Once samples have been dried, they are transferred to a separate ventilated room for crushing using a two stage process. Firstly, the sample is fed into a terminator crusher to reduce the original particle size so that approximately 90% passes ½ inch mesh sieve size. The entire sample is then fed to the secondary Rhino crusher so that the particle size is reduced to approximately 85% passing a 10 mesh sieve size. The percent passing is monitored daily to ensure these specifications are maintained. The crushing equipment is cleaned using compressed air and a barren quartz flush after each sample.

Once the sampling has been crushed it is reduced in size to 150 grams ("**g**") ± 20 g using a single tier Jones riffle splitter. The reduced sample is returned to the sampling tray for pulverizing whereas the coarse reject material is returned to a labeled sample bag and temporarily placed in a separate storage room for transferal to the long term storage facilities located adjacent to the core logging facilities.

Crushed samples are pulverized using a Rocklab standard ring mill so that 90% of particles pass a 200 mesh sieve size. The pulp sample is carefully placed in an envelope along with the sample identification label. Envelopes are taken to the balance room where they are checked to ensure the samples registered as having being received and processed match those provided in the envelopes.

Assaying of Gold, Silver, Lead, Copper and Zinc

Upon receipt of samples in the analytical laboratory, all pulps are re-checked to ensure they match the list in the submittal form.

The elements of gold, silver, copper, lead and zinc are assayed using atomic absorption techniques. An initial and duplicate reading is taken and an internal standard is inserted every ten samples to monitor and calibrate the equipment.

Sample Security

Core boxes are sealed and carefully transported to the core logging facility constructed in 2012 where there is sufficient room to layout and examine several holes at a time. The core logging facility is located at the mine site and is locked when not in use. Once logging and sampling have been performed, the remaining core is transferred to the core storage facilities located adjacent to the logging facilities. The storage facility is managed by the Brownfields Exploration Manager and the Superintendent of Geology and any removal of material must receive their approval.

Quality Control Measures

Minera Bateas routinely inserts certified standards, blanks and field duplicates to the Minera Bateas laboratory and regularly sends preparation (coarse reject) and pulp duplicates along with standards and blanks to the umpire ALS Chemex laboratory.

Standard Reference Material

Standard reference material ("**SRM**") are samples that are used to measure the accuracy of analytical processes and are composed of material that has been thoroughly analyzed to accurately determine its grade within known error limits. SRMs are inserted by the geologist into the sample stream, and the expected value is concealed from the laboratory, even though the laboratory will inevitably know that the sample is a SRM of some sort. By comparing the results of a laboratory's analysis of a SRM to its certified value, the accuracy of the result is monitored.

Minera Bateas Laboratory

This analysis focuses on the submission of 8,093 standards submitted with 183,694 channel samples as of June 30, 2015 to the Minera Bateas laboratory which represents a submission rate of 1 in 23 samples. As described above, the Minera Bateas laboratory employs a four acid digestion methodology with atomic absorption ("**AA**") for assaying silver, lead and zinc, unless the grade is greater than 1,500 grams per metric tonne ("**g/t**") for silver, or 13% for lead or 13% for zinc. If the silver grade was found to be greater than 1,500 g/t, it was re-assayed by fire assay using a gravimetric finish ("**FA-GRAV**"). If the lead or zinc grades were found to be higher than their upper limits, they were re-assayed by volumetric methods. For gold, the sample is assayed using fire assay with atomic absorption finish ("**FA-AA**") unless the gold grade is greater than 5 g/t Au, in which case the sample is re-assayed with a FA-GRAV.

Submitted certified standards indicate the Minera Bateas laboratory has acceptable levels of accuracy for silver, lead, zinc, and gold with all elements reporting greater than 99% pass rates. The assay results for most standards demonstrate little or no bias.

ALS Chemex Laboratory

Drill core (exploration and infill) is sent to ALS Chemex for assaying. Silver, zinc and lead are assayed by inductively coupled plasma atomic emission spectroscopy ("**ICP-AES**"), unless the grade is greater than 100 g/t for silver, or 1% for lead or zinc, in which case the sample is re-assayed by aqua regia digestion with an ICP-AES or atomic absorption finish up to a maximum of 1,500 g/t silver, 30% lead or 60% zinc. If the silver grade was found to be greater than 1,500 g/t it was re-assayed by fire assay using a gravimetric finish. If the lead or zinc grades were found to be higher than their upper limits, they were re-assayed by titration. A total of 1,560 standards have been submitted by Minera Bateas with drill core as of June 30, 2015 to the ALS Chemex facilities representing a submission rate of 1 in 19 samples.

Results for SRMs submitted to the ALS Chemex laboratory indicate a reasonable level of accuracy is maintained by the laboratory for the four elements of interest with all reporting a pass rate of greater than 93%.

Blanks

Field blank samples are composed of material that is known to contain grades that are less than the detection limit of the analytical method in use (or, in the case of Pb and Zn, that are known to be very low) and are inserted by the geologist in the field. Blank sample analysis is a method of determining sample switching and cross-contamination of samples during the sample preparation or analysis processes. Minera Bateas uses coarse quartz sourced from outside the area and provided by an external supplier as their blank sample material. The blank is tested to ensure the material does not contain elevated values for the elements of interest.

Minera Bateas Laboratory

The analysis focuses on the submission of 7,045 blanks with channel samples as of June 30, 2015 representing a submission rate of 1 in 26 samples.

The results of the blanks submitted indicate that cross contamination and mislabeling are not material issues at the Minera Bateas laboratory.

ALS Chemex Laboratory

A total of 1,521 blanks were submitted with drill core as of June 30, 2015 to the ALS Chemex facilities representing a submission rate of 1 in 19 samples.

The results of blanks used to monitor the ALS Chemex preparation and analytical facilities are regarded as acceptable and indicate that contamination and sample switching is not a significant issue at the laboratory.

Duplicates

The precision of sampling and analytical results can be measured by re-analyzing the same sample using the same methodology. The variance between the measured results is a measure of their precision. Precision is affected by mineralogical factors such as grain size and distribution and inconsistencies in the sample preparation and analysis processes. There are a number of different duplicate sample types which can be used to determine the precision for the entire sampling process.

Numerous plots and graphs, such as absolute relative difference (“**ARD**”) are used on a monthly basis to monitor precision and bias levels as part of an extensive quality assurance program with results regarded as demonstrating acceptable levels of precision.

Minera Bateas Laboratory

Minera Bateas inserts field, preparation and laboratory duplicates as part of a comprehensive quality assurance/quality control (“**QAQC**”) program. Reject assays and check assays are sent to the certified laboratory of ALS Chemex to provide an external monitor to the precision of the Minera Bateas laboratory. Standards and blanks are also submitted with the reject and check assays to monitor the accuracy of the ALS Chemex results.

In general, precision levels are reasonable with the majority of ARD values being greater than 90%. Field duplicate results are generally slightly lower than the accepted 90% threshold level but have improved over time through closer supervision of the sampling process, increasing the sampling mass and estimation of the fundamental sampling error. With the implementation of these measures, the ARD values of field duplicates have generally been greater than 90% over the last few years.

It should also be noted that precision levels for gold assays are lower than for the other elements, particularly for the duplicate assays. This is because gold concentrations are much lower and variability is higher. Gold is not an economic driver in the operation and therefore the cost associated with increasing sample mass to ensure higher precision levels is not justified.

Duplicates sent to the umpire laboratory showed reasonable levels of precision between the two laboratories. Quality control samples included with the duplicates sent to the umpire laboratory showed acceptable levels of accuracy and no issues with sample switching or contamination.

ALS Chemex Laboratory

Prior to 2013, Minera Bateas relied only on the insertion of preparation and laboratory duplicates by ALS Chemex to monitor precision levels of drill core samples submitted to the ALS Chemex facilities. The QAQC policy was revised in late 2012 and brownfields exploration have since submitted the full array of blind duplicates with drill core since January 2013. The high levels of accuracy, precision and lack of contamination indicate that grades reported from the Minera Bateas and ALS Chemex laboratories are suitable for Mineral Resource estimation.

Results for duplicates submitted with drill core to the ALS Chemex laboratory that show acceptable levels of precision are maintained at the laboratory, with the exception of the field duplicates, which are slightly below the acceptance levels and tend to be related to the insertion of low grade or low mass samples.

Data Verification

Data used for Mineral Resource estimation are stored in three databases. Minera Bateas information is stored in two of these databases, one storing data relating to the mine (including channel samples) and the other for storing drilling results.

The databases are fully validated annually by Fortuna as part of the Mineral Resource estimation process. The database storing CMA information was not validated in 2015 based on the fact that no new information has been acquired since the previous validation in 2010.

Both databases were then reviewed and validated by Mr. Eric Chapman, P. Geo. The data verification procedure involved the following:

- Inspection of selected drill core to assess the nature of the mineralization and to confirm geological descriptions;
- Inspection of geology and mineralization in underground workings of the Animas and Bateas veins;

- Verification that collar coordinates coincide with underground workings or the topographic surface;
- Verification that downhole survey bearing and inclination values display consistency;
- Evaluation of minimum and maximum grade values;
- Investigation of minimum and maximum sample lengths;
- Randomly selecting assay data from the databases and comparing the stored grades to the original assay certificates;
- Assessing for inconsistencies in spelling or coding (typographic and case sensitivity errors);
- Ensuring full data entry and that a specific data type (collar, survey, lithology, and assay) is not missing; and
- Assessing for sample gaps or overlaps.

After correcting all inconsistencies, the databases were accepted as validated on June 30, 2015. Based on the data verification detailed above, Fortuna’s Corporate Head of Technical Services Mr. Eric Chapman, P. Geo., considers the Minera Bateas and CMA data to be suitable for the estimation of classified Mineral Resources and Mineral Reserves.

Mineral Processing and Metallurgical Testing

Metallurgical recoveries for 2015 were 83.03%, 93.98% and 90.79% for silver, lead and zinc respectively, an important improvement compared to those achieved in 2012 (77.33%, 88.12% and 85.77%, respectively). Minera Bateas continues to work on optimizing the mineral processing operation focusing on metallurgical recoveries and processing capacity. The studies or tests developed to achieve these goals include:

1. Plant test work for oxides

   Until 2012 ore identified as containing high lead oxide and zinc oxide (“ZnOx”) content was classified as oxides not amenable for flotation processing.

   Different plant and laboratory tests were carried out during 2012. The maximum metallurgical recoveries achieved during the plant test work were 63.98% for silver, 46.45% for lead and 32.35% for zinc.

   More laboratory and plant tests were conducted in 2013 including the metallurgical testing of the different levels of the Animas vein. The main conclusion was that ZnOx contents greater than 0.20% within the ore were related to the lower metallurgical recoveries. In order to include this type of ore without affecting the metallurgical recoveries, blending has to be performed to limit the high ZnOx ore content.

2. Mineralogical balancing of products for the lead circuit

   Based on the studies and testing developed between 2013 and 2015 for the different stages of the process some changes or adjustments have been implemented in the processing plant aimed at improving the metallurgical performance including:

   - Adjustments to the grinding medium and size selection were made in order to achieve 60% passing 75 microns as the final grinding product;

   - The Z-11 and Z-6 collectors in the lead flotation circuit, which were previously added as a mixed solution, are now added independently ensuring a superior effect and avoiding alteration in their properties;

   - The Sodium cyanide consumption, which is used as a Fe and Zn depressor in the Ag-Pb flotation circuit, is reduced from 20 to 10 g/t aiming to promote the Ag and Au flotation;

   - The Denver mill critical speed was increased from 69% to 76% increasing the reduction ratio, resulting in an increase in the treatment capacity of 10 tpd;

   - The Magensa (6 foot by 6 foot) mill steel shell liners were changed to rubber increasing the reduction ratio from 1.20 to 1.60; and

   - Automatic pH control was installed to stabilize the process, particularly in the Zn circuit, reducing lime consumption by 200 g/t.

3. Processing plant optimization

Aiming to reduce the recirculating load within the grinding circuit by improving the size selection, pilot tests to replace cyclones with high frequency vibrating wet screens were run in November 2014.

Results indicated a circulating load reduction from 250 to 170% thanks to a more efficient size classification thereby allowing improved grinding, and ultimately, an increase in the plant processing capacity.

To achieve that goal and based on laboratory testing, the flotation time was increased from 14 to 38 minutes by increasing the Ag-Pb flotation circuit capacity. In March 2015, the processing plant optimization project was initiated. The optimization project was aimed at increasing the processing capacity from 1,300 to a potential maximum of 1,500 tpd by improvements in the grinding and flotation circuits. The total investment in the project was US$4.6 million with project completion in March 2016.

Mineral Resources and Mineral Reserve Estimates

Mineral Resource and Mineral Reserve estimates for the Caylloma Mine are reported as of December 31, 2015 in the following tables:

Caylloma Mineral Reserves as of December 31, 2015

Category	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal	
						Ag (Moz)	Au (koz)
Proven	**254**	**138**	**0.47**	**2.05**	**2.34**	**1.1**	**3.8**
Probable	**1,724**	**119**	**0.28**	**2.95**	**3.73**	**6.6**	**15.4**
Proven + Probable	**1,979**	**121**	**0.30**	**2.83**	**3.55**	**7.7**	**19.3**

Notes:

- There are no known legal, political, environmental or other risks that could materially affect the potential development of the Mineral Reserves.
- Mineral Reserves are estimated as of June 30, 2015 and reported as of December 31, 2015, taking into account production-related depletion for the period of July 1, 2015 through December 31, 2015.
- Mineral Reserves are reported above a Net Smelter Return ("NSR") breakeven cut-off value of US$82.73/t for Animas, US$82.53/t for Animas NE, US$97.07/t San Cristóbal and US$173.74/t for Bateas, Cimoide La Plata, La Plata, and Soledad.
- Metal prices used in the NSR evaluation are US$19/oz for silver, US$1,140/oz for gold, US$2,150/t for lead and US$2,300/t for zinc.
- Metallurgical recovery values used in the NSR evaluation are 84.5% for silver, 39.5% for gold, 92.6% for lead, and 89.9% for zinc with the exception of the Ramal Piso Carolina vein that uses metallurgical recovery rates of 84% for Ag and 75% for Au.
- Operating costs were estimated based on actual operating costs incurred from July 2014 through June 2015.
- Tonnes are rounded to the nearest thousand.
- Totals may not add due to rounding.

Caylloma Mineral Resources as of December 31, 2015

Category	Tonnes (000)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Contained Metal	
						Ag (Moz)	Ag (Moz)
Measured	**582**	**82**	**0.36**	**1.11**	**2.16**	**1.5**	**6.7**
Indicated	**1,269**	**84**	**0.31**	**1.14**	**2.10**	**3.4**	**12.7**
Measured + Indicated	**1,851**	**84**	**0.32**	**1.13**	**2.12**	**5.0**	**19.3**
Inferred	**3,392**	**132**	**0.59**	**2.20**	**3.30**	**14.3**	**64.7**

Notes:

- Mineral Resources are exclusive of Mineral Reserves.
- Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability.
- There are no known legal, political, environmental or other risks that could materially affect the potential development of the Mineral Resources.
- Mineral Resources are estimated as of June 30, 2015 and reported as of December 31, 2015, taking into account production-related depletion for the period of July 1, 2015 through December 31, 2015.
- Mineral Resources are reported based on a NSR cut-off grade of US$50/t for wide veins and US$100/t for narrow veins.
- Metal prices used in the NSR evaluation are US$19/oz for silver, US$1,140/oz for gold, US$2,150/t for lead and US$2,300/t for zinc.
- Metallurgical recovery values used in the NSR evaluation are 84.5% for silver, 39.5% for gold, 92.6% for lead, and 89.9% for zinc with the exception of the Ramal Piso Carolina vein that uses metallurgical recovery rates of 84% for Ag and 75% for Au.
- Operating costs were estimated based on actual operating costs incurred from July 2014 through June 2015.
- Tonnes are rounded to the nearest thousand.
- Totals may not add due to rounding.

Mining Operations

The mining method applied in the exploitation of the two main veins (Animas and Bateas) at the Caylloma Mine is overhand cut-and-fill using either mechanized, semi-mechanized or conventional extraction methods. The cut-and-fill method is used in mining steeply dipping orebodies in stable rock masses. Cut-and-fill is a bottom up mining method that consists of removing ore in horizontal slices, starting from a bottom undercut and advancing upwards.

Breakeven cut-off values were determined for each vein based on actual operating costs incurred in the period July 2014 to June 2015. These include exploitation and treatment costs, general expenses and administrative and commercialization costs (including concentrate transportation). As operations are not centralized, each vein has a different operating cost, mainly due to the mining method employed, transportation (mine to plant), support and power consumption. Breakeven cut-off values used for Mineral Reserve estimation are detailed in the following table.

Breakeven Cut-off Values Applied to each Vein

Mining Method	Vein	Breakeven cut-off value(US$/t)
Mechanized	Animas	82.40
	Animas NE	82.40
Conventional	Bateas, Bateas Piso, Bateas Techo	173.74
	Soledad	173.74
	La Plata, Cimoide La Plata	173.74
	Silvia	173.74
	Santa Catalina	173.74
Semi-mechanized	Animas	95.63
	Animas NE	97.63
	San Cristóbal	97.07

NSR values depend on various parameters including metal prices, metallurgical recovery, price deductions, refining charges and penalties. NSR values used for Mineral Reserve estimation are detailed in the following table.

NSR Values

Metal	NSR Value
Silver (US$/g)	0.45
Gold (US$/g)	13.53
Lead (US$/%)	14.85
Zinc (US$/%)	12.68

Blocks whose NSR values are higher than the operating cost (breakeven cut-off value) after the application of appropriate dilution and recovery factors are reported as Mineral Reserves and are regarded as being amenable to the proposed method of mining. Measured Mineral Resources are converted to Proven Mineral Reserves and Indicated Mineral Resources to Probable Mineral Reserves.

Processing and Recovery Operations

The Caylloma Mine processing plant is a typical flotation operation and consists of five stages: crushing; milling; flotation; thickening and filtering and tailings disposal. Each of the main stages is comprised of multiple sub-stages.

The Caylloma Mine concentrator plant resumed operations in September 2006, treating 600 tpd of polymetallic mineral. Capacity increased progressively, with the installation of a 1.8 m by 2.4 m ball mill in 2009 the plant reached a treatment capacity of 1,300 tpd, and with the installation of two Derrick Stack Sizer vibrating wet screens the plant achieved a treatment capacity of 1,500 tpd at the end of March 2016, although this has since been reduced to 1,430 tpd for the rest of 2016. The treatment process is differential flotation. Initially, two concentrates were obtained: lead-silver and zinc. From late 2009 to January of 2011, a copper-silver concentrate was also produced, but due to unfavorable commercial terms the production of copper concentrate was suspended and the copper circuit put on standby.

Infrastructure, Permitting and Compliance Activities

The Caylloma Mine has a well-established infrastructure used to sustain the operation. The infrastructure includes a main access road from the city of Arequipa, property access roads, tailing storage facilities, mine waste storage facilities, mine ore stockpiles, camp facilities, concentrate transportation, power generation and communications systems.

Minera Bateas is in compliance with environmental regulations and standards set in Peruvian law and has complied with all laws, regulations, norms and standards at every stage of operation of the mine. Minera Bateas obtained its ISO 14001 Environmental Management Certification in 2008 and continues to maintain this designation. The mine works continually to improve its operational standards.

The Company has a very strong commitment to the development of neighboring communities of the Caylloma Mine. In this respect, the Company is committed to sustainable projects, direct support and partnerships that build company engagement in local communities while respecting local values, customs and traditions. The Company aims to develop projects or programs based on respect for ethno-cultural diversity, open communication and effective interaction with local stakeholders that improve education, health and infrastructure.

Capital and Operating Costs

Minera Bateas capital and operating cost estimates for the Caylloma Mine (summarized in the following tables) are based on 2015 costs. The analysis includes forward estimates for sustaining capital. Inflation is not included in the cost projections and exchange rates were estimated at S/3.30 (Peruvian Soles) to US$1. Capital costs include all investments in mine development, equipment and infrastructure necessary to upgrade the mine facilities and sustain the continuity of the operation.

As disclosed in the Caylloma Technical Report, a total of US$9.39 million was budgeted for 2016 to sustain the operation. Capital costs are split into two areas, 1) mine development and 2) equipment and infrastructure, as set out in the following table:

Caylloma Summary of Projected Major Capital Budget for 2016

Capital Item	Cost (US$ in millions)
Mine Development	
Development & Infrastructure	6.39
Total Mine Development	**6.39**
Equipment and Infrastructure	
Mine	0.64
Plant	0.98
Maintenance & Energy	0.85
IT	0.04
Logistics, Camp, Geology, Exploration, Planning	0.11
Laboratory	0.17
Environment	0.47
Total Equipment and Infrastructure	**3.00**
Total Capital Expenditure	**9.39**

As disclosed in the Caylloma Technical Report, projected operating costs for 2016 included the cash costs (US$67.47/t) and mine operating expenses (US$12.16/t) for the operation, as set out in the following table:

Caylloma Summary of Projected Major Operating Costs for 2016

Operating Item	Cost US$/t
Cash Cost	
Mine (*calculated using extracted ore*)	**40.17**
Plant	**12.48**
General Services	**9.07**
Administration	**5.75**
Total Cash Cost	**67.47**
Mine Operating Expenses	
Distribution	**11.54**
Management Fees	**0.21**
Community Support Activities	**0.41**
Total Mine Operating Expenses	**12.16**
Total Cash Cost and Mine Operating Expenses	**79.63**

Exploration, Development, and Production

Minera Bateas continues to successfully manage the Caylloma Mine operation, mining 466,286 tonnes of ore from underground to produce 1.7 Moz of silver, 1.2 koz of gold, 23.8 million pounds ("**Mlbs**") of lead and 35.8 Mlbs of zinc in 2015 while continuing to improve the mine infrastructure.

Fortuna believes there is good potential for a significant increase of the Mineral Resources at the Caylloma Mine particularly from the continuity of the current veins in operation as well as from the discovery of new veins. Minera Bateas continues to investigate cost effective ways to improve productivity and reduce costs. As disclosed in the Caylloma Technical Report, work programs conducted in 2016 to improve the operation included the following:

1. **Brownfields exploration**. Fortuna assigned US$2.9 million in 2016 for Brownfields exploration of the Caylloma district. This was planned to include 17,000 m of diamond drilling focused on testing new exploration targets in the northern portion of Pisacca prospect area located a short distance to the southwest of the mine plant as well as further exploring the northeastern extension of the Animas vein.

2. **Underground development.** The most important recommended project for the Caylloma Mine was the integration of the different levels of the Animas vein with underground ramps. An important effort in 2012 was made to improve ventilation which has allowed the operation to introduce the use of ammonium nitrate/fuel oil for stoping and drifting. The mine plan for 2016 proposed 1,053 m of raise boring in order to comply with the ventilation requirements, 1,904 m horizontal and 5,158 m decline drift associated with the development of the mine especially in the case of the Animas vein. The budgeted cost of this work program in 2016 was US$9.29 million.

3. **Metallurgical studies to improve silver recovery.** Important efforts were made in 2015 in order to optimize the metallurgical performance and throughput capacity of the plant, especially to increase silver recovery. It was recommended that an expansion to the lead flotation capacity be considered with the objective of increasing silver recovery by 2% to 4%. The budgeted cost for these metallurgical studies in 2016 was US$1 million.

4. **Metallurgical studies to improve oxide recovery.** The response of "oxide" material to the flotation process required additional testwork. The plant test conducted in 2012 demonstrated this material could be processed through flotation albeit at reduced recoveries. Results could help to adjust plant operating parameters to improve metallurgical response.

5. **Metallurgical studies in gold recovery.** Mineral Bateas applies a higher gold metallurgical recovery for the calculation of the NSR values for the estimate of blocks in the Ramal Piso Carolina vein based on metallurgical testwork conducted in the plant. There are, however, other veins that have elevated gold grades that could benefit from the application of a higher metallurgical gold recovery including the San Carlos, San Pedro, Don Luis II, La Plata and Cimoide La Plata veins. It was recommended that Minera

Bateas conduct metallurgical testwork on mineralized samples from these veins to ascertain if the gold recoveries could be improved.

San Jose Mine, Mexico

Property Description, Location and Access

The San Jose Mine is located in the central portion of the state of Oaxaca, Mexico (latitude 16^{0}41'39.10" N, longitude 96^{0}42'06.32" W; UTM coordinates NAD27, UTM Zone 14N: 745100E, 1846925N). The San Jose Mine is 47 km by road from the city of Oaxaca and 12 km from Ocotlan de Morelos, a town of approximately 10,000 people and the nearest commercial center.

The San Jose Mine consists of mineral rights for mining concessions held by Compania Minera Cuzcatlan S.A. de C.V. ("**Minera Cuzcatlan**"), covering a total surface area of approximately 51,300 hectares with an additional 13,128 hectares under options. The concessions have expiry dates ranging from 2023 to 2061. Minera Cuzcatlan has signed 39 usufruct contracts with land owners to cover the surface area needed for the operation of the San Jose Mine, with some of these contracts pending registration with the local authority. Minera Cuzcatlan has also applied for additional concessions in the region of the San Jose Mine and has the right to acquire additional concessions in the region of the San Jose Mine under option agreements with third parties.

The San Jose Mine is subject to the following royalty rights:

(a) Royalty agreement between Minera Cuzcatlan and Beremundo Tomas de Aquino Antonio granting a 1% NSR royalty to a maximum of US$800,000 in regard to the mining concession "El Pochotle". To date, no mineralized material has been extracted from the El Pochotle concession and no Mineral Resources or Mineral Reserves have been identified on the El Pochotle concession. Minera Cuzcatlan has a buyout provision where it can purchase this royalty right for US$200,000.

(b) Royalty agreement between Minera Cuzcatlan and Underwood y Calvo Compania, S.N.C granting a 1% NSR royalty to a maximum of US$2,000,000 in regard to the mining concessions "La Voluntad", "Bonita Fraccion I" and "Bonita Fraccion II". To date, no mineralized material has been extracted from these concessions and no Mineral Resources or Mineral Reserves have been identified on these concessions. Minera Cuzcatlan has a buyout provision where it can purchase this royalty right for US$400,000.

(c) Royalty agreement between Minera Cuzcatlan and Pan American Silver Corp., which was transferred from Pan American Silver Corp. to Maverix Minerals Inc. on July 12, 2016, whereby Maverix Minerals Inc. holds a 1.5% NSR royalty; and Mexican Geological Service holds a 1% royalty as a discovery royalty in regard to the mining concession "Reduccion Taviche Oeste".

Minera Cuzcatlan is in compliance with environmental regulations and standards as set out in Mexican law and has complied with all material laws, regulations, norms and standards at every stage of operation of the mine.

History

The earliest recorded activity in the San Jose del Progreso area dates to the 1850's when the mines were exploited on a small scale by the local hacienda. By the early 1900's, a large number of silver and gold-bearing deposits were being exploited in the San Jeronimo Taviche and San Pedro Taviche areas, aided by a new mining law enacted in 1892 and with support from foreign investment capital. Mining activity in the district diminished drastically with the onset of the Mexican Revolution in 1910, only to resume sporadically in the 1920's. Mining in the San Jose area was re-activated on a small scale in the 1960's and again in 1980 when the San Jose Mine was acquired by Ing. Ricardo Ibarra. The mine was worked intermittingly by Ibarra through his company, Minerales de Oaxaca S.A. ("**MIOXSA**"), through the end of 2006 when the property was purchased by Minera Cuzcatlan.

In 1999, the San Jose Mine was optioned by Pan American Silver Corp., who completed surface and underground mapping and sampling and drilled five diamond drill holes totaling 1,093.5 m in the San Jose Mine vein system. In March 2004, Continuum Resource Ltd ("**Continuum**") signed an option agreement with MIOXSA covering 19 concessions in the San Jose and San Jeronimo Taviche areas. Continuum completed detailed mapping of the surface, extensive chip-channel sampling in the underground workings of the Trinidad deposit as well as 15 surface diamond drill holes totaling 4,877 m. In November 2005, Fortuna reached an agreement with Continuum to earn a 70% interest in Continuum's interests in the properties optioned from MIOXSA, and assumed management of the project.

During 2006, Fortuna completed the drilling of 38 diamond drill holes totaling 12,182 m in the San Jose Mine area, with 25 of the drill holes being located in the Trinidad zone and 13 of the drill holes being located in the San Ignacio area. The drilling in the Trinidad area confirmed the results of the prior drilling and expanded the mineralization along strike and to depth. Drilling in the San Ignacio area by Fortuna identified significant zones of silver-gold mineralization over generally narrow vein widths. In November of 2006, Fortuna and Continuum purchased a 100% interest in the properties from MIOXSA and simultaneously restructured their joint operating agreement to a 76% interest for Fortuna and a 24% interest for Continuum.

During 2007, Fortuna (operating via Minera Cuzcatlan) drilled 67 diamond drill holes totaling 26,605 m. Drilling in the Trinidad area continued to confirm the potential of the deposit and further expanded the mineralization along strike to the south and to depth. Drilling continued throughout 2008 and 2009, and in March 2009, Fortuna completed the acquisition of all issued and outstanding shares of Continuum, thereby acquiring a 100% ownership in the San Jose Mine.

From 1980 through 2004, production by MIOXSA was intermittent and came primarily from existing stopes and from development of the fourth and fifth levels of the San Jose Mine. In 2005 and 2006, the sixth level was developed and mined with grades reported to range between 350 to 500 g/t Ag and 1.8 to 3.5 g/t Au. The ore was mined primarily from the Bonanza and Trinidad veins, and extracted at rates of approximately 100 tpd through the Trinidad shaft. Reliable estimates of the total production during MIOXSA's tenure are not available.

In March 2006, a technical report prepared in accordance with NI 43-101 was filed summarizing the results of the exploration completed by Continuum and reporting an initial Mineral Resource estimate. At a 5 g/t gold equivalent cut-off, Inferred Mineral Resources were estimated at 527,283 tonnes with an average grade of 3.50 g/t Au and 396 g/t Ag. In March 2007, an updated Mineral Resource estimate prepared in accordance with NI 43-101 was filed. At a 150 g/t Ag Eq cut-off, Indicated Mineral Resources were estimated at 1.47 million metric tonnes ("**Mt**") averaging 263 g/t Ag and 2.19 g/t Au and Inferred Mineral Resources were estimated at 3.9 Mt averaging 261 g/t Ag and 2.57 g/t Au.

Following extensive exploration drilling in 2007, 2008 and 2009, Fortuna filed, in December, 2009, an updated technical report prepared in accordance with NI 43-101. In June 2010, a Pre-Feasibility Study was prepared, and updated Mineral Resources and Mineral Reserves were reported. Subsequently, Fortuna has conducted annual updated Mineral Resource and Mineral Reserve estimations. Commercial production commenced under the management of Minera Cuzcatlan on September 1, 2011. Underground mining has focused on the Bonanza, Trinidad and Stockwork primary veins.

Geological Setting, Mineralization and Deposit Types

The San Jose Mine is hosted by an andesitic to dacitic effusive volcanic sequence of presumed Paleogene age. Further to the east, these andesites and dacites are overlain by silicic crystalline and lithic tuffs and ignimbrites corresponding to the Mitla Tuff Formation of Miocene age. The San Jose Mine area is underlain by a thick sequence of presumed Paleogene-age andesitic to dacitic volcanic and volcaniclastic rocks, which in turn discordantly overlie units ranging from orthogneisses and paragneisses of Mesoproterozoic age, limestones and calcareous sedimentary rocks of Cretaceous age and continental conglomerates of the Early Tertiary Tamazulapan Formation. These units have been significantly displaced along major north and northwest-trending extensional fault systems, with the precious metal mineralization being hosted in hydrothermal breccias, crackle breccias and sheeted stockwork-like zones of quartz/carbonate veins emplaced within zones of high paleo permeability associated with the extensional structures.

In general, the upper 650 to 700 m of the volcanic sequence is characterized by a series of distinct effusive andesitic to dacitic lava flow units intercalated with thin but laterally extensive horizons of reddish-brown to grayish-brown volcaniclastic rocks. The lower 250 to 300 m of the volcanic sequence is characterized by a sequence of intercalated pyroclastic deposits, stratified volcaniclastic sedimentary rocks and local coherent facies lava flows.

Precious metal mineralization at the San Jose Mine is hosted by hydrothermal breccias, crackle breccias, quartz-carbonate veins and zones of sheeted and stockwork-like quartz-carbonate veins emplaced along steeply dipping north and north-northwest trending fault structures. The mineralized structural corridor extends for greater than 3 km in a north-south direction and has been divided into two parts: the Trinidad deposit area and the San Ignacio area. The major mineralized structures or vein systems recognized in the Trinidad deposit area are the Trinidad and

Bonanza structures and the Stockwork system. To date, drilling has defined the Trinidad and Bonanza mineralized structures over a strike length of approximately 1,300 m and to depths exceeding 600 m from the surface.

Acanthite and silver-rich electrum are the primary silver and gold-bearing minerals in the Trinidad deposit. These minerals, along with pyrite, are discontinuously interlayered with distinctively banded crustiform and colloform textured quartz, calcite and locally adularia. Principal gangue minerals are quartz and calcite, locally accompanied by iron or iron/magnesium-bearing carbonates. Amethyst and chalcedonic quartz are commonly present as late infillings of the veins and hydrothermal breccias. Pale greenish-colored fluorite is present locally as vein and breccia fillings. Hydrothermal alteration at the Trinidad deposit is characterized by a well-developed alteration zonation with well crystallized kaolinite being present in the mineralized zones grading outwards to kaolinite-illite, illite, and illite-smectite-chlorite assemblages. Locally Fe-carbonates and Fe/Mg-carbonates are also present as a halo to the mineralized zones. Regionally, the andesitic volcanics and volcanoclastic units are weakly to moderately propylitically altered to epidote-chlorite-smectite assemblages.

The Trinidad vein system is emplaced in the footwall fault zone of the extensional system hosting the mineralized vein systems at the San Jose Mine. The Trinidad vein system strikes 355˚ and dips 70˚ to 80˚ to the east-northeast. The vein system ranges from less than 1 m to locally over 15 m in true width, with higher grade mineralization generally being present in zones with greater widths. Significant portions of the Trinidad structure are characterized by late black matrix silicified fault breccias with only trace to weak mineralization. Higher grade precious metal zones in the Trinidad vein system range up to approximately 1,300 g/t Ag Eq across the width of the vein. The Trinidad hanging wall splays and the Trinidad footwall veins are considered to be part of the Trinidad mineralized structure.

The Bonanza vein system is emplaced in the hanging wall zone of the structural corridor hosting the mineralized vein systems in the Trinidad deposit. The Bonanza vein system generally strikes 350˚ and dips steeply to the east to sub-vertical. Mineralization within the Bonanza vein system is present in the form of shoots plunging shallowly to moderately to the north-northwest, reflecting the dominant dip-slip movement of the controlling fault structures. Combined copper, lead and zinc values for the Bonanza vein range from negligible in the upper portions of the vein system to approximately 0.1% to 0.5% at depth.

The main Stockwork Zone is located between 1846550N to 1847200N and 1,000 meters above sea level ("**masl**") to 1,300 masl (the "**Stockwork Zone**") and located in an extensional environment between the principal Bonanza and Trinidad structures. The main Stockwork Zone is present over 650 horizontal m and 300 vertical m, being elliptical in shape, with a variable thickness ranging to greater than 50 m. The primary silver bearing mineral in the Stockwork Zone is acanthite, usually in association with traces of pyrite. Secondary minerals accompanying the acanthite are silver-rich electrum, fine grained galena, sphalerite, chalcopyrite and gangue minerals including hyaline quartz, white quartz and calcite along with minor concentrations of adularia and fluorite.

The mineralization at the San Jose Mine is hosted by structurally controlled hydrothermal breccias, crackle breccias and quartz-carbonate veins. Epithermal-style alteration and mineralization are widespread within the Middle to Late Tertiary volcanic package exposed throughout the central portion of the state of Oaxaca. Host structures to the mineralization are normal faults and subsidiary structural features common to extension-related pull-apart basins.

Exploration

For exploration work completed prior to 2007, see "Technical Information – San Jose Mine – History".

Subsequent to 2007, the principal exploration conducted by Fortuna at the San Jose Mine has been surface and underground drilling, both to extend the deposit to the north and to depth, and for infill purposes to increase the confidence level of the Mineral Resources. The results of a Pre-Feasibility Study of the San Jose Mine were filed in June of 2010 and included an estimate of Probable Mineral Reserves of 3.5 Mt averaging 205 g/t Ag and 1.5 g/t. As of December 31, 2012, Proven Mineral Reserves were estimated at 0.05 Mt averaging 246 g/t Ag and 2.31 g/t Au and Probable Mineral Reserves were estimated at 3.3 Mt averaging 189 g/t Ag and 1.57 g/t Au at a 96 g/t Ag Eq cut-off and Inferred Mineral Resources were estimated at 4.3 Mt averaging 185 g/t Ag and 1.58 g/t Au at a 70 g/t Ag Eq cut-off.

Subsequent to the cut-off date for the *Fortuna Silver Mines Inc.: San Jose Property, Oaxaca, Mexico* technical report dated November 22, 2013, Fortuna acquired the Taviche Oeste concession from Pan American Silver Corp. The acquisition of the 6,254 hectare Taviche Oeste concession allowed for the continued brownfields exploration of the northern extension of the Trinidad deposit and the discovery of the Trinidad North zone. As of the date of the San Jose Technical Report, Fortuna's current brownfields exploration continues to explore the northern projections of the Trinidad mineralized system.

Drilling

For drilling completed prior to 2007, see "Technical Information – San Jose Mine - History".

As of June 30, 2015, a total of 510 drill holes totaling 182,294.75 m have been completed in the San Jose Mine area (see Table 16 below) with the drilling being concentrated in the Trinidad deposit area and extensions to the south of the mineralized structural system. Wide-spaced exploration drilling has also been completed in the San Ignacio area along the southern extension of the structurally controlled mineralized corridor and the Trinidad North discovery located north of 1847200N. All of the drilling was conducted by diamond core drilling methods with the exception of 1,476 m of reverse circulation pre-collars in six of the 510 diamond drill holes.

Drilling of the Trinidad Deposit

Company	Period	Trinidad Area		San Ignacio Area	
		Drill Holes	Meters	Drill Holes	Meters
Pan American Silver Corp.	2001	3	851.50	2	242.00
Continuum	2004/05	13	4,370.00	2	506.85
Fortuna	2006	25	8,392.10	13	3,790.30
Minera Cuzcatlan	2007	44	17,694.35	23	8,910.20
Minera Cuzcatlan	2008/09	113	32,925.50	0	0.00
Minera Cuzcatlan	2011	0	0.00	17	8,307.25
Minera Cuzcatlan	2012	15	8,574.30	9	3,970.60
Minera Cuzcatlan	2013	69	27,552.65	0	0.00
Minera Cuzcatlan	2014	96	36,650.65	0	0.00
Minera Cuzcatlan	2015*	66	19,556.50	0	0.00
Totals	2001-2015*	444	156,567.55	66	25,727.20
*as of June 30, 2015					

The majority of the diamond core holes drilled in the Trinidad deposit area were drilled from the east to the west to cross-cut the steeply east-dipping mineralized zone at high angles. Of the 444 holes, 250 have been drilled from the surface while 194 drill holes were drilled from underground. The diamond drilling typically commences with HQ-diameter core and continues to the maximum depth allowable based on the mechanical capabilities of the drill equipment. Once this point is reached, or poor ground conditions are encountered, the hole is cased and further drilling is undertaken with a smaller diameter drilling tools with the core diameter being reduced to NQ2 or NQ-size to completion of the hole. In five of the drill holes, a further reduction to BQ-size drill core was required in order to complete the drill holes to the target depths.

Based on the combined results of the drilling completed in the Trinidad deposit area through 2007 and on the results of preliminary Mineral Resource classification studies, an infill drill program was designed and carried out to permit conversion of a majority of the Inferred Mineral Resources above the 1,300 m elevation to Indicated Mineral Resources. The majority of the drilling from the 2008/2009 campaign was directed towards the upper portions of the Trinidad deposit. The results of the infill drilling confirmed the presence of high-grade silver-gold mineralization in the Trinidad deposit area, and led to the development of a detailed geologic and mineralization model of the deposit. While some of the 2011 drill holes located in the San Ignacio area encountered significant mineralized intervals, additional drilling is required in this area in order to demonstrate the continuity of mineralization. 2012 drilling completed in the Trinidad North discovery area was successful in demonstrating the extension of significant silver and gold mineralization to the north and to depth, and resulted in the continuation of the drill program into 2013. Underground drilling commenced at the end of 2012 with the completion of a single drill hole intersecting the Stockwork Zone.

From January 1, 2013 to the data cut-off date of June 30, 2015, Minera Cuzcatlan completed 231 drill holes totaling 83,759.80 m in the Trinidad deposit area. Surface and underground exploration drilling, focused on expanding the Trinidad North discovery, comprised 117 drill holes totaling 54,310.55 m. Underground infill drilling focused on upgrading Inferred Mineral Resources and refining geologic interpretations in the Central Stockwork Zone and in the Trinidad North area comprised 114 drill holes totaling 29,449.25 m. As of the effective date of the San Jose Technical Report, an additional 22 exploration drill holes totaling 14,411.25 m have been completed after the June

30, 2015 cut-off date with two additional drill holes being in-progress. All drilling was carried out from underground drill stations. Twelve of the exploration drill holes are located in the Trinidad North Extension area and ten are located in the Trinidad Central Deep area. All twenty-two of the drill holes are located beyond the influence of the resource and reserve estimates.

Sampling, Analysis and Data Verification

Sample Preparation Methods Prior to Dispatch

Channel chip samples are generally collected from the face of newly exposed underground workings. Samples, comprised of fragments, chips and mineral dust, are extracted using a chisel and hammer along the channel's length on a representative basis. Sample collection is normally performed by two samplers, one using the hammer and chisel, and the other holding the receptacle (cradle) to collect rock and ore fragments. Fragments greater than 6 cm in diameter are not accepted. The obtained sample is deposited into a plastic sample bag with a sampling card and the assigned sample ID. Once all the samples in the channel have been collected, the sample bags are transported to the surface and sorted with quality control samples being inserted at industry standard insertion rates prior to delivery to the Minera Cuzcatlan laboratory.

A geologist is responsible for determining and marking the drill core intervals to be sampled. The sample length must not exceed 2 m or be less than 20 cm. Splitting of the core is performed by diamond saw. The core cutting process is performed in a separate building adjacent to the core logging facilities. Once the core has been split, half the sample is placed in a sample bag. A sampling card with the appropriate information is inserted with the core.

Bulk density samples have been primarily sourced from drill core, with a limited number being sampled from underground workings. Density tests are performed at the ALS Chemex laboratory in Vancouver.

Following sample collection, samples were placed in polyethylene sample bags with a sample tag detailing a unique sample identifier. The same sample identifier is marked on the outside of the bag and it is sealed with a cable tie. Secured sample bags are then placed in rice sacks and stored in a secure, dry, clean location. If the samples are from the underground channels they are delivered each day to the onsite Minera Cuzcatlan laboratory for preparation and analyses. If the samples are drill core, the rice sacks are subsequently transported by authorized company personnel to commercial freight shipment offices in Oaxaca for air transport to the independent ALS Chemex sample preparation facility in Guadalajara, Jalisco, Mexico.

Analytical Procedures Used at the Laboratories

Upon receipt of a sample batch at the Minera Cuzcatlan laboratory, the laboratory staff immediately verifies that the sample bags are sealed and undamaged. If any damaged, missing or extra samples are detected, the sample batch is rejected and the geology department is contacted immediately to investigate and resolve the discrepancy. Accepted samples are then transferred to individual stainless steel trays for drying.

Once samples have been dried, they are transferred to a separate ventilated room for crushing. Each sample is fed into a terminator crusher, in turn, to reduce the original particle size so that 75% passes a 10 mesh sieve size (2 millimeters ("mm")). Once the sample has been crushed, it is homogenized and reduced in size to approximately 1,000 g using a single tier Jones riffle splitter. The reduced sample is returned to the sampling tray for pulverizing, whereas the coarse reject material is returned to a labeled sample bag. Crushed samples are pulverized so that 85% of particles pass a 200 mesh sieve size. The pulp sample is carefully placed in envelopes, which are taken to the balance room where they are checked to ensure the samples registered as having being received and processed match those provided in the envelopes.

Upon receipt of samples in the analytical laboratory, two samples from the pulp envelope are taken. One sample is analyzed using atomic absorption spectroscopy and the other by fire assay with gravimetric finish. Atomic absorption results are recorded when silver grades are less than 500 g/t or when gold grades are less than 6.5 g/t, otherwise the gravimetric results are recorded.

All exploration core samples are sent to the ALS Chemex sample preparation facility in Guadalajara, Mexico. Following drying, the samples are weighed and the entire sample is crushed to a minimum of 70%, passing a 10 mesh sieve size. The crushed sample is then reduced in size by passing the entire sample through a riffle splitter until a 250 g split is obtained. The 250 g split is then pulverized to a minimum of 85%, passing a 200 mesh sieve size. The pulverized samples are subsequently grouped by sample lot and shipped by commercial air freight to ALS Chemex's analytical facility in Vancouver, British Columbia for analysis.

Analysis at ALS Chemex's analytical facility in Vancouver, British Columbia includes analysis for silver by ALS-Chemex Methods with Aqua regia digestion and ICP-AES finish; fire assay for gold with gravimetric finish and absorption spectroscopy in some cases.

Sample Security

Sample collection and transportation of drill core and channel samples is the responsibility of brownfields exploration and the Minera Cuzcatlan mine geology departments. Exploration core boxes are sealed and carefully transported to the core logging facilities located adjacent to the mine offices where there is sufficient room to layout and examine several holes at a time. Once logging and sampling have been performed, the core is transferred to the permanent storage facility at the mine site. The drill core from the infill drilling program is stored in the same warehouse as the exploration core. Any removal of material must receive the approval of the Minera Cuzcatlan geology department.

Coarse reject material from exploration and infill drill core is presently being stored securely in a separate warehouse. Pulps from the exploration and infill drill programs are stored in a secure and dry pulp storage facility. Coarse reject material from channel samples are collected from the Minera Cuzcatlan laboratory every day and stored in a storage facility located in a secure building 0.5 km from the main operation. Pulps of channel samples analyzed by ALS Chemex are also stored in the same storage facility as the coarse reject material. Pulps of channel samples analyzed by the Minera Cuzcatlan laboratory are stored in a secure storage facility at the operation.

All drill core, coarse rejects and pulps from the drill core are stored for the LOM. Disposal of coarse rejects from surface samples is performed after 90 days and is controlled by the exploration department. Disposal of coarse rejects from underground channel samples is performed after 90 days and is the responsibility of the Geology Superintendent.

Quality Control Measures

Standard Reference Material

SRMs are samples that are used to measure the accuracy of analytical processes and are composed of material that has been thoroughly analyzed to accurately determine its grade within known error limits. SRMs are inserted by the geologist into the sample stream, and the expected value is concealed from the laboratory, even though the laboratory will inevitably know that the sample is a SRM of some sort. By comparing the results of a laboratory's analysis of a SRM to its certified value, the accuracy of the result is monitored. SRMs have been used to assess the accuracy of the assay results from both the Minera Cuzcatlan and the independent ALS Chemex laboratories, having been placed into the sample stream by Minera Cuzcatlan geologists to monitor the accuracy of the analytical process.

The analysis at the Minera Cuzcatlan laboratory involved the submission of 2,231 standards with 34,640 channel samples (submission rate of 1 in 16 samples) between February, 2012 and June 30, 2015 to the Minera Cuzcatlan laboratory, corresponding to the majority of channel samples taken at the operation. Nine of the twelve different SRMs used since February 2012 have been generated from in-house coarse reject material. In addition to statistical analysis, graphical analysis of the results was also conducted to assess for trends and bias in the data.

Pass rates reported for standards submitted with channel samples since mining commenced to the data cut-off date for silver and gold values are 97% and 94% respectively. The accuracy levels for silver and gold can be regarded as acceptable.

A total of 2,306 standards to monitor the accuracy of silver assays were submitted to the ALS Chemex laboratories with 52,966 drill core samples, representing a submission rate of 1 in 23 samples between 2006 and June 30, 2015, of which 1,163 were submitted for assaying by ICP-AES. Of the 2,306 standards, 1,143 were submitted for assaying by FA-GRAV.

SRMs inserted to assess silver grades using ICP-AES returned a pass rate of 89%, whereas SRMs assessing silver grades using FA-GRAV had a pass rate of 95%. It should be noted that many of the failures (83 of the 126) observed in the ICP-AES can be attributed to standard CDN-HC-2, which was thought to be compromised and insertion ceased. If this standard is ignored the silver accuracy levels can be regarded as reasonable.

Gold is assayed by fire assay with atomic absorption finish unless the gold is greater than 10 g/t Au, in which case the sample is re-assayed with a FA-GRAV. A total of 2,861 standards to monitor the accuracy of gold assays were submitted with 52,966 drill core samples, representing a submission rate of 1 in 19 samples between 2006 and June 30, 2015, of which 2,784 were submitted for assaying by FA-AA. Of the 2,861 standards, 77 were submitted for assaying by FA-GRAV.

SRMs inserted to assess gold grades using FA-AA returned a pass rate of 93%, whereas SRMs assessing gold grades using FA-GRAV had a pass rate of 92%. It should be noted that the standards that tended to fail at a higher rate were those inserted at the beginning of the monitoring program, with results improving as time has progressed. The gold accuracy levels can be regarded as reasonable for estimation purposes.

Blanks

Field blank samples are composed of material that is known to contain grades that are less than the detection limit of the analytical method in use and are inserted by the geologist in the field. Blank sample analysis is a method of determining sample switching and cross-contamination of samples during the sample preparation or analysis processes. Minera Cuzcatlan uses coarse marble sourced from a local quarry and provided by an external supplier as their blank sample material.

At the Minera Cuzcatlan laboratory, 2,222 blanks have been submitted since February 2012, representing a submission rate of 1 in 16 samples. Results of the blanks submitted indicate that cross contamination and mislabeling are not material issues at the Minera Cuzcatlan laboratory. Of the 2,222 blank samples submitted, six exceeded the fail line (set at two times the lower detection limit) for silver assays and fourteen for gold assays indicating an excellent result with pass rates greater than 99%.

A total of 2,755 blanks were submitted with core samples to the ALS Chemex laboratory by Fortuna and Minera Cuzcatlan covering all core submitted since 2006, representing a submission rate of 1 in 18 samples. Of the 2,755 blank samples submitted, 31 exceeded the fail line (set at two times the lower detection limit) for silver and 10 exceeded the fail line for gold assays. This represents a pass rate of greater than 99% for both silver and gold blank submissions. If two blanks failed in succession, all assay results for the batch were automatically reviewed and re-analyzed if deemed necessary. Blank results from ALS Chemex are regarded as acceptable indicating no significant sample switching or contamination.

Duplicates

Duplicates were submitted to both the Minera Cuzcatlan laboratory (with channel samples) and the ALS Chemex laboratory (with drill core). The ALS Chemex laboratory also acts as the umpire laboratory, analyzing reject assays and check assays (pulps) from the Minera Cuzcatlan laboratory.

Minera Cuzcatlan inserts field duplicates with channel samples as part of its QAQC program. Preparation and laboratory duplicates are inserted by the laboratory, whereas reject assays and duplicate assays are inserted blind by the geology department. Check assays (both coarse rejects and pulps) from the Minera Cuzcatlan laboratory are sent to the certified laboratory of ALS Chemex to provide an external monitor of precision. Standards and blanks are also submitted with the check assays to ensure the accuracy of the ALS Chemex results.

In general, precision levels are reasonable with the majority of ARD values being greater than 80%. However, field duplicate results are poor for both silver and gold. The operation has tested numerous practices to improve the sampling procedure, such as including closer supervision of the sampling process, increasing the sampling mass and trying alternative sampling methods, with limited success. In addition, several adjustments have been made by the laboratory to improve the gold analytical techniques, with improvements seen over the years. Results from the umpire laboratory also indicate reasonable precision levels suggesting the issue with the field duplicates is not a Minera Cuzcatalan laboratory issue. The poor precision levels for the field duplicates have been attributed to the heterogeneous nature of the mineralization with the presence of a moderate to high nugget effect. It is worth noting that the results observed for the precision levels for the channel samples is similar to that of the drill core, suggesting that sampling error is not the problem.

Minera Cuzcatlan has primarily relied on the insertion of field duplicates, reject assays (coarse rejects) and duplicate assays (pulps) to assess the precision of drill core results from the ALS Chemex laboratory. The operation also monitors the results of the in-house preparation and laboratory duplicates inserted by ALS Chemex. Minera Cuzcutlan also regularly sends check assays (both coarse rejects and pulps) to the umpire laboratory of SGS Mineral Services in Oaxaca to provide an external monitor of precision. Standards and blanks are also submitted with the check assays to ensure the accuracy of the SGS laboratory.

Precision results for exploration core samples evaluated by ALS Chemex demonstrate the highly variable nature of the mineralization, with poor precision results for the field duplicates, reject assays and duplicate assays. However, it was discovered during an audit of the results that the exploration team had been tending to insert low grade samples (<60 g/t Ag) and that this has had a detrimental effect on the results. When higher grade values were assessed, the precision levels improved and were seen to be acceptable, which is reflected in the superior results observed for the samples assayed with a gravimetric finish.

Precision levels of field duplicates for infill and exploration drill core samples submitted to ALS Chemex are poor. The results are indicative of the highly variable, 'nuggety' nature of the mineralization that reduces precision levels. The operation is attempting to assess and remove the nugget effect by crushing and splitting the core to obtain a 'field split' prior to submission to ALS Chemex rather than using the other half of the core. Minera Cuzcatlan continues to monitor and attempt to improve the precision of the sampled drill core, however the results indicate the difficulty the variable grades present for grade estimation, particularly for gold.

Data Verification

Minera Cuzcatlan staff follow a stringent set of procedures for data storage and validation, performing verification of data on a monthly basis. The operation employs a database manager who is responsible for overseeing data entry, verification and database maintenance.

Both databases were reviewed and validated by Mr. Eric Chapman, P. Geo. The data verification procedure involved the following:

- Inspection of selected drill core to assess the nature of the mineralization and to confirm geological descriptions;
- Inspection of geology and mineralization in the underground workings of the Trinidad and Bonanza veins;
- Verification that collar coordinates coincide with underground workings or the topographic surface;
- Verification that downhole survey bearing and inclination values display consistency;
- Evaluation of minimum and maximum grade values;
- Investigation of minimum and maximum sample lengths;
- Randomly selecting assay data from the databases and comparing the stored grades to the original assay certificates;
- Assessing for inconsistencies in spelling or coding (typographic and case sensitivity errors);
- Ensuring full data entry and that a specific data type (collar, survey, lithology, and assay) is not missing; and
- Assessing for sample gaps or overlaps.

Based on the data verification detailed above, Fortuna's Vice President of Technical Services, Mr. Eric Chapman, P. Geo., considers the Minera Cuzcatlan data to be suitable for the estimation of classified Mineral Resources and Mineral Reserves.

Mineral Processing and Metallurgical Testing

Initial metallurgical test work to assess the optimum processing methodology for treating ore from the Trinidad deposit was conducted in 2009 and reported in the Pre-Feasibility Study. The metallurgical study was conducted on ten composite samples representing a variety of potential ore types. The following provides a summary of the metallurgical work conducted and includes comments regarding the most recent studies and findings from the processing plant. The test work included the following:

- Whole rock analysis – demonstrated that (SiO_2) quartz is the main gangue mineral and that the samples are amenable to gold and silver recoveries by the flotation process;
- Bond ball mill work index – indicates that the average bond work index ("**BWI**") is lower than the plant design and should result in less power being required than was predicted, and that there are some cases

where BWI is equal to the design so that the plant is prepared to treat all material without any losses in the process;

- Grind calibration;
- Rougher flotation test work with three stages of cleaning;
- Locked cycle flotation test work – produced average recovery results of 90.6% gold and 91.9% silver, allowing the technical department to predict estimated recoveries of 89% for both elements of the LOM plan; and
- Rougher kinetics flotation.

A further difference between the plant design and functionality has been in the amount of flocculent required for the thickening and filtering process of the tailings and concentrate. The Pre-Feasibility Study had recommended the usage of 40 g/t to 60 g/t of the reagent HychemAF304 for thickening of tailings to achieve solid content of 47% to 51%. Minera Cuzcatlan has performed the thickening of tailings using the reagent Magnafloc 336 at the lower concentrations of 15 g/t to 25 g/t and producing tailings with approximately 55% solid content.

The reagent HychemAF304 (recommended at 25 g/t to 40 g/t concentrations) was also replaced with Magnafloc 336 (5 g/t to 10 g/t concentrations) for thickening the concentrate with no detrimental effect to the solid content percentage. In this way, the plant has made significant cost savings by reducing the quantity of flocculants used in the plant.

For additional information, see “Technical Information – San Jose Mine – Processing and Recovery Methods”.

Mineral Resources and Mineral Reserves

Mineral Resource and Mineral Reserve estimates for the San Jose Mine are reported as of December 31, 2015 in the following tables:

San Jose Mineral Reserves as of December 31, 2015

Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Contained Metal	
				Ag (Moz)	Au (koz)
Proven	**282**	**237**	**1.84**	**2.1**	**16.7**
Probable	**3,498**	**232**	**1.72**	**26.0**	**193.3**
Proven + Probable	**3,780**	**232**	**1.73**	**28.2**	**209.9**

Notes:
- There are no known legal, political, environmental or other risks that could materially affect the estimate of the Mineral Reserves at the San Jose Mine.
- Mineral Reserves are estimated as of June 30, 2015 and reported as of December 31, 2015, taking into account production related depletion for the period through December 31, 2015.
- Mineral Reserves are estimated using break-even cut-off grades based on assumed metal prices of US$19.00/oz Ag and US$1,140.00/oz Au, estimated metallurgical recovery rates of 89% for Ag and 89% for Au and projected operating costs.
- Mining, processing and administrative costs were estimated based on first half of 2015 actual costs.
- Totals may not add due to rounding.

San Jose Mineral Resources as of December 31, 2015

Classification	Tonnes (000)	Ag (g/t)	Au (g/t)	Contained Metal	
				Ag (Moz)	Au (koz)
Measured	**64**	**89**	**0.71**	**0.2**	**1.5**
Indicated	**780**	**84**	**0.72**	**2.1**	**18.1**
Measured + Indicated	**844**	**84**	**0.72**	**2.3**	**19.6**
Inferred	**6,561**	**261**	**1.61**	**55.0**	**339.9**

Notes:
- Mineral Resources are exclusive of Mineral Reserves.
- Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability.
- There are no known legal, political, environmental or other risks that could materially affect the potential development of the Mineral Resources.
- Mineral Resources are estimated as of June 30, 2015 and reported as of December 31, 2015, taking into account production related depletion for the period through December 31, 2015.
- Mineral Resources are estimated at a silver equivalent ("Ag Eq") cut-off grade of 100 g/t, with Ag Eq in g/t = Ag (g/t) + Au (g/t) x ((US$1,140/US$19) x (89/89)).
- Mining, processing and administrative costs were estimated based on first half of 2015 actual costs.
- Totals may not add due to rounding.

Mineral Resource estimation involved the usage of drill hole and channel samples in conjunction with underground mapping to construct three-dimensional wireframes to define individual vein structures. Samples were selected inside these wireframes, coded, composited and top cuts were applied, if applicable. Boundaries were treated as hard, with statistical and geostatistical analysis conducted on composites identified in individual veins. Silver and gold grades were estimated into a geological block model consisting of 4 m x 4 m x 4 m selective mining units ("**SMUs**") representing each vein. Primary veins including Bonanza, Trinidad, Fortuna and the Stockwork Zone, were estimated by Sequential Gaussian Simulation. Secondary veins were estimated by inverse power of distance. Estimated grades were validated globally, locally, visually and through production reconciliation prior to tabulation of the Mineral Resources.

The Mineral Reserve estimation procedure for the San Jose Mine is defined as follows:

- Review of Mineral Resources in longitudinal sections and grade tonnage curves;
- Evaluate location and dimensions of potential bridges and pillars based on mining methodology;
- Identification of accessible Mineral Resources using current mining practices and based on the mine architecture;
- Removal of inaccessible areas and material identified as pillars or bridges;
- Removal of Inferred Mineral Resources;
- Dilution of tonnes and grades based on factors estimated by the San Jose Mine planning department and determined from the six to twelve months of production preceding the Mineral Reserve estimation;
- After obtaining the resources with diluted tonnages and grades, the value per tonne of each SMU is determined based on metal prices and metallurgical recoveries for each metal;
- A breakeven cut-off grade is determined based on operational costs of production, processing, administration, commercial and general administrative costs (total operating cost in US$/t) and converted into a silver equivalent grade. If the silver equivalent grade of a SMU is higher than the breakeven cut-off grade, the SMU is considered as part of the Mineral Reserve; otherwise, the SMU is regarded as part of the Mineral Resource;
- Depletion of Mineral Reserves and Mineral Resources exclusive of reserves relating to operational extraction between July 1 and December 31, 2015; and
- Reconciliation of the reserve block model against mine production between July 1 and December 31, 2015 to confirm estimation parameters.

Mining Operations

The method chosen for underground mining at the San Jose Mine is overhand cut-and-fill which removes ore in horizontal slices starting from the bottom undercut and advancing upwards. When ore widths are greater than 8 m, a combination of overhand cut-and-fill and room-and-pillars has been selected as the best method for the conditions encountered. Mechanized mining is regarded as the only methodology suitable in all veins based on the geological structure and geotechnical studies, and utilizes a jumbo drill rig to drill blast holes, scoop trams for loading and trucks for ore haulage. Rock support is provided through rock bolts and shotcrete.

A break-even cut-off grade for the deposit was determined as 137 g/t Ag Eq based on existing operating costs (including exploitation and treatment costs, general expenses and administrative and commercialization costs), projected metal prices (gold at US$1,140/oz and silver at US$19/oz) and metallurgical recoveries (gold and silver recovery at 89%) and expected commercial terms. For the Taviche Oeste concession, an extra royalty was applied resulting in a cut-off grade of 140 g/t Ag Eq.

Applying the above cut-off grades, Datamine's Minable Shape Optimizer ("**MSO**") was used to develop indicative mineable envelopes to identify economically viable areas amenable to the proposed mining method. MSO utilizes key inputs to generate stope shape whereby the mined metal in relation to tonnage is optimized. The optimization is driven by the cut-off grade, mining extents, minimum and maximum stope widths, level spacing and minimum and maximum dip angles.

The stope design is optimized through the generation of minable areas, based on the following inputs:

(a) Height of the operational slice; 6 m high has been considered for the optimization;

(b) Width of the operational slice; a minimal operational width of 4 m was applied;

(c) A breakeven cut-off equivalent to US$67.10/t;

(d) Dip and strike of the vein; and

(e) The resource block model.

MSO outputs were imported into Datamine's 5D planner to evaluate and remove extraneous satellite stopes that are not conducive to practical and/or economic extraction. A mineable tonnage at a specific cut-off grade and three-dimensional wireframe are obtained which represent the mineable Mineral Reserves to be extracted. The result is used as an input for production and related development infrastructure planning and sequencing.

Processing and Recovery Operations

Expansion of the concentrate plant was successfully completed in June of 2016, taking the ore throughput capacity from 2,000 dry tpd to 3,000 dry tpd. The principal stages are as follows:

i Crushing - Ore extracted from the mine is reduced in size to be fed to the mill. The ore is fed from the bottom of the hopper via a plate feeder into a jaw crusher that crushes the ore prior to it being transported via conveyors to the primary screen deck. Ore is continually crushed until it is fine ore capable of passing through 12.7 mm mesh, and is then sent to fine ore storage where it is stockpiled before being fed into the milling circuit.

ii Milling – The fine ore is sent to ball mills used to further reduce the ore size. The ore is then classified using hydro-cyclones, generating fine ore and course ore. Coarse ore is recycled back into the mills for further grinding until it is finely ground.

iii Flotation – Fine ore is put through two floatation stages which generate primary concentrate. Primary concentrate is cleaned in several stages to remove impurities before passing to the thickening stage.

iv Thickening, filtering and shipping – Cleaned concentrate is sent to a thickening tank where particles are agglomerated and sediment is generated. The thickened solid is then pumped into a two-press type pressure filter where part of the water is eliminated and re-circulated into the process. The remaining concentrate cake is discharged into the concentrate storage for transportation. The underflow of the final bank of the second flotation (exhaustion) is sent to a thickening tank where a solid-liquid separation is performed through the application of a flocculating reagent that agglomerates fine particles into sediment. The pulp is pumped to a three press-type pressure filter where most of the water is eliminated and re-circulated back into the process. The remaining tailings cake is discharged to the tailings stock for transportation to the dry stack disposal area.

Project Infrastructure

The operation has a relatively small surface infrastructure consisting primarily of the concentration plant, electrical power station, water storage facilities, filtered dry stack tailings facility, stockpiles and workshop facilities, all connected by unsealed roads. Additional structures located at the property include offices, a dining hall, a laboratory and core logging and core storage warehouses. The tailings storage facility is located approximately 1,500 m to the southwest of the concentration plant.

Experienced underground miners live in the nearby towns of Ocotlan and Oaxaca, in addition to other local towns in the district, and are transported to the property by bus. Water for the process plant and mining operations is sourced from the tailings storage facility and, since 2010, from a waste water treatment plant operated by Minera Cuzcatlan, located in the town of Ocotlan de Morelos.

Minera Cuzcatlan is in compliance with environmental regulations and standards set in Mexican law, and has complied with all laws, regulations, norms and standards at every stage of operation of the mine. Minera Cuzcatlan has an environmental commitment related to the remediation of the current mining facilities located on the Progreso and Reduccion Taviche Oeste concessions. Minera Cuzcatlan is obligated to set aside US$6.7 million over a 10-year period to cover remediation and closure requirements. These programs are ongoing with funds assigned to various projects on an annual basis. To the extent known, all permits that are required by Mexican law for the mining operation have been obtained.

Minera Cuzcatlan’s Community Relations department promotes the sustainable development of the San Jose Mine’s neighboring communities. From 2011 to 2015, Minera Cuzcatlan has signed an economic agreement with the community of San Jose del Progreso in which US$3.8 million has been invested in sustainable development, health and nutrition, education, culture, communication and dialogue.

Capital and Operating Costs

Minera Cuzcatlan capital and operating cost estimates for 2016 for the San Jose Mine were based on predictions of costs for 2016 and the long term. Capital costs include all investments in mine development, equipment and infrastructure necessary to upgrade the mine facilities and sustain the continuity of the operation. Projected capital costs for 2016, as set out in the San Jose Technical Report, are summarized in the table below.

As disclosed in the San Jose Technical Report, a total of US$37.40 million was estimated for 2016 in order to improve the mine facilities and sustain the operation. The capital costs beyond 2016 are expected to decrease significantly to ranges between US$5 million and US$10 million annually. The capital costs are split into three areas: 1) mine development, 2) equipment and infrastructure, and (3) principal projects, as set out in the following table:

San Jose Summary of Projected Major Capital Costs for 2016

Capital Item	Cost (MUS$)*
Development	5.30
Mine Geology	2.30
Mine Development	**7.60**
Mine	2.33
Plant	0.49
Maintenance & Energy	0.01
Safety	0.01
Planning and Geology	0.16
Laboratory	0.18
Other Investment	0.28
Equipment and Infrastructure	**3.45**
Plant Expansion	21.86
Tailing Filtration Plant	0.30
Paste Fill Plant	0.70
Dry Tailing Deposit	3.50
Principal Projects	**26.36**
Total Capital Expenditure	**37.40**
*Numbers may not total due to rounding	

Operating costs include the site costs and other operating expenses for the operation. The site costs relate to activities that are performed on the property including mine, plant, general services and administrative service costs. The other operating expenses include costs associated with distribution, general and administrative services and community support activities. As disclosed in the San Jose Technical Report, projected operating costs for 2016 are set out in the following table:

San Jose Summary of Projected Major Operating Costs for 2016

Operating Item	Cost US$/t
Mine	31.14
Plant	14.38
General Services	4.85
Administration Mine	1.84
Site Costs	**52.22**
Concentrate Transportation	4.24
Sales and Administration Expenses	5.74
Community Support Activities	0.97
Other Operating Expenses	**10.94**
Total Site Cost & Operating Expenses	**63.16**

Based on a mineable Proven and Probable Mineral Reserve of 3.78 million tonnes, a project life of over four years is projected. The estimates of metal production, capital costs and operating costs are combined into the discounted cash flow evaluation. The economic evaluation is treated on a project basis using a silver price of US$19 per troy ounce and a gold price of US$1,140 per troy ounce. Income taxes have been accounted for in the cash flow analysis.

The start date for the economic analysis was January 1, 2016. The financial results are presented based on future metal production, operating expenses and capital expenditure to completion basis from this date. This represents the total project costs without the production and expenditures to that date. The economic analysis is based on an annual production plan for the life of mine ("**LOM**") and associated operating and capital costs. The results of the cash flow evaluation are summarized in the following table:

San Jose Economic Evaluation Summary

Item	**Value**
Payable Silver	24.0 Moz
Payable Gold	181.0 koz
Undiscounted Free Cash Flow (After-tax)	US$181 M
Pre-tax Net Present Value at 5%	US$291 M
After-tax Net Present Value at 5%	US$180 M
Pre-tax Internal Rate of Return*	N/A
After-tax Internal Rate of Return*	N/A
* Internal Rate of Return cannot be estimated since all cash flows from the evaluation day onwards are positive	

It should be noted that the economic analysis is performed utilizing only Measured and Indicated Mineral Resources, which have been converted to Proven and Probable Mineral Reserves; however, Inferred Mineral Resources which are not included in the cash flow estimate, can potentially have a positive impact on the project economics and the LOM.

Exploration, Development, and Production

Since September 2011, Minera Cuzcatlan has successfully managed the operation of the San Jose Mine, processing over 2.7 Mt of ore from its underground mining operation and producing 16.8 Moz of silver and 132 koz of gold. During this period considerable investment was made to expand the processing plant and increase the capacity of the tailings dam.

Minera Cuzcatlan continues developing sustainable annual programs for the benefit of local communities, including educational, nutritional and economic programs. The above mentioned social and environmental responsibilities support a good relationship between the company and local communities. This will aid the development and continuity of the mining operation and improve the standard of living and economies of local communities.

Short-term mine plans must be developed in accordance with long-term plans to ensure the mine's production results are consistent with its budget. As disclosed in the San Jose Technical Report, recommended work programs for 2016 included:

1) **Plant expansion**. This project involved the expansion of the production plant, consisting of equipment and construction to increase production to 3,000 tpd. The estimated cost of this project was US$21.86 million.

2) **Mine Development Program**. This activity was designed to prepare the high-grade mineralized Stockwork Zone at the 1,100 level in order to sustain production in 2016. Additionally, the development will aim to reach the 1,100 and 1,000 level to complete the access and to commence the required infrastructure in the Trinidad North discovery area at the 1,100 level.

3) **Tailings handling facility**. This project was divided into three areas: (i) the paste fill plant, (ii) the tailing filtration plant and (iii) the dry tailing deposit. The purpose of the paste fill plant is to re-utilize part of the tailings (comprising 30% of the fill) in order to backfill the mine. The tailing filtration plant will mainly serve two purposes: (i) to help recover approximately 86% of the water from the tailings to be re-used in the plants flotation cycle and (ii) to create a better quality of dry tailings which will have a lesser impact on the environment. The dry tailings deposit will consist

of platforms at different levels, for the stacking, laying and compaction of dry tailings. The project was budgeted to cost US$4.5 million.

4) **Delineation (infill) drilling**. In 2016, Minera Cuzcatlan planned to continue the delineation drilling from underground mainly in the Trinidad North area. The goal of the program was to convert a total of 1.6 Mt of Inferred Mineral Resource to the category of Indicated Mineral Resource, representing an estimated 21 Moz Ag Eq. To achieve this, 64 drill holes totaling 11,000 m were planned at a budgeted cost of US$1.7 million.

5) **Brownfields exploration**. Fortuna assigned US$8.2 million in 2016 for brownfields exploration of the San Jose district. This was planned to include 22,000 m of diamond drilling and the development of a 1,500 m underground exploration drift that will allow better access to explore the northern extension of the Trinidad North vein system.

DIVIDENDS

The Company has not to date paid any dividends on its Common Shares nor does it intend to pay any dividends on its shares in the immediate future as management anticipates that all available funds will be invested to finance further acquisition, exploration and development of its mineral properties.

DESCRIPTION OF CAPITAL STRUCTURE

The Company's authorized share capital is an unlimited number of Common Shares without par value. All Common Shares of the Company rank equally as to dividends, voting powers and participation in assets and in all other respects.

Voting. The holders of Common Shares are entitled to receive notice of, attend and vote at any meeting of the shareholders of the Company. Each Common Share carries one vote per share.

Dividends. The holders of Common Shares are entitled to receive on a pro-rata basis such dividends as the Board from time to time may declare, out of funds legally available therefor.

Rights on Dissolution. In the event of a liquidation, winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, the holders of the Common Shares have the right to receive on a pro-rata basis all of the assets of the Company remaining after payment of all of the Company's liabilities.

Pre-emptive, Conversion and Other Rights. No pre-emptive, redemption, retraction, exchange, sinking fund or conversion rights are attached to the Common Shares, and the Common Shares, when fully paid, will not be liable to further call or assessment. No other class of shares may be created without the approval of the holders of the Common Shares.

MARKET FOR SECURITIES

The Company's Common Shares were listed and posted for trading on the TSX Venture Exchange ("TSXV") until January 18, 2010 when the Company graduated to the Toronto Stock Exchange ("TSX"). On September 19, 2011, the Company's Common Shares were listed and posted for trading on the New York Stock Exchange ("NYSE"). The Company's shares currently trade on the NYSE under the symbol "FSM", on the TSX under the symbol "FVI", and on the Frankfurt Open Market, the unofficial market organized by Deutsche Börse in Germany, under the symbol "F4S". On May 14, 2015, the Company voluntarily delisted its Common Shares from the Lima Stock Exchange as a very limited amount of trading of the Company's Common Shares occurred on such Exchange.

Trading Prices and Volume

The following table sets forth the high and low sale prices and trading volumes of the Common Shares on the TSX and the NYSE during the fiscal year ended December 31, 2016:

Toronto Stock Exchange

Month	**High (C$)**	**Low (C$)**	**Volume**
December 2016	8.74	6.78	19,792,151
November 2016	9.88	8.01	16,917,970
October 2016	9.34	8.10	11,987,253
September 2016	11.67	9.38	15,699,582
August 2016	12.28	9.79	17,113,776
July 2016	11.62	10.00	13,339,685
June 2016	9.03	7.07	24,271,625
May 2016	8.56	7.13	11,884,277
April 2016	8.03	5.03	8,713,709
March 2016	5.50	4.52	12,467,281
February 2016	4.96	3.60	9,874,224
January 2016	3.58	2.96	8,433,826

New York Stock Exchange

Month	**High (US$)**	**Low (US$)**	**Volume**
December 2016	6.73	5.00	33,602,306
November 2016	7.73	5.70	35,311,314
October 2016	7.37	6.02	24,211,369
September 2016	9.09	6.90	36,276,630
August 2016	9.75	7.25	37,238,182
July 2016	9.03	7.19	27,595,252
June 2016	7.03	5.35	37,338,963
May 2016	6.69	5.38	18,787,309
April 2016	6.49	3.70	14,761,824
March 2016	4.30	3.32	17,024,208
February 2016	3.65	2.51	9,174,715
January 2016	2.55	2.03	6,245,432

DIRECTORS AND EXECUTIVE OFFICERS

Name, Occupation and Shareholding

The Board presently consists of seven directors. Each director will hold office until the next annual general meeting of the Company or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the Articles of the Company, or with the provisions of the British Columbia *Business Corporations Act*.

The following are the full name, place of residence, position with the Company, and principal occupation within the preceding five years of each of the directors and executive officers of the Company:

Name, Position and Residency [(1)]	Principal Occupation or Employment [(1)]	Period as a Director of the Company
JORGE GANOZA DURANT President, Chief Executive Officer & Director Lima, Peru	President & CEO of the Company.	December 2, 2004 to present
SIMON RIDGWAY Chairman and Director British Columbia, Canada	Chairman of the Company; President & CEO of Radius Gold Inc. (mineral exploration).	January 25, 2005 to present
MARIO SZOTLENDER [(3) (4)] Director Caracas, Venezuela	Independent Consultant and Director of several public mineral exploration companies.	June 16, 2008 to present
ROBERT GILMORE [(2) (4)] Director Colorado, USA	Independent Certified Public Accountant; Independent Financial Consultant; Director of Eldorado Gold Corporation (mining); Director of Layne Christensen Company (diversified water and mineral services).	June 23, 2010 to present
DAVID FARRELL [(2) (3) (4)] Director British Columbia, Canada	President of Davisa Consulting (a private consulting company).	July 15, 2013 to present
DAVID LAING [(3)] Director British Columbia, Canada	Mining Engineer; Chief Operating Officer of Trek Mining Inc. and predecessor, Luna Gold Corp. (mining), August 2016 to present; Chief Operating Officer of True Gold Mining Inc. (mining), June 2015 to April 2016; Chief Operating Officer of Quintana Resources Inc. (resource industry management) from 2014 to 2015; Executive at Endeavour Mining Corporation (mining), October 2010 to February 2014.	September 26, 2016 to present
ALFREDO SILLAU [(2)] Director Lima, Peru	Managing Partner, CEO and Director of Faro Capital (investment management).	November 29, 2016 to present
LUIS GANOZA DURANT Chief Financial Officer Lima, Peru	Chief Financial Officer of the Company.	N/A
MANUEL RUIZ-CONEJO Vice-President of Operations Lima, Peru	Vice-President of Operations of the Company.	N/A
JOSE PACORA Vice-President of Project Development Lima, Peru	Vice-President of Project Development of the Company, November 2014 to present; Corporate Project Manager of the Company, February 2012 to November 2014.	N/A
DAVID VOLKERT Vice-President, Exploration British Columbia, Canada	Vice-President, Operations of the Company, August 2016 to present; President / Chief Executive Officer of Paget Minerals Corp. (mineral exploration), January 2010 to August 2016.	N/A

ERIC CHAPMAN Vice-President of Technical Services British Columbia, Canada	Vice-President of Technical Services of the Company, January 2017 to present; Corporate Head of Technical Services of the Company, July 2016 to December 2016; Mineral Resource Manager of the Company, April 2011 to July 2016.	N/A
GORDON JANG Vice-President of Finance and Accounting British Columbia, Canada	Vice-President of Finance and Accounting of the Company, April 2017 to present; Consultant, Hudbay Minerals Inc. (mining), July 2014 to March 2017; Vice-President, Corporate Controller of Augusta Resource Corporation (mining), February 2009 to July 2014.	N/A

Notes:

(1) The information as to country of residence, principal occupation, and Common Shares held is not within the knowledge of the management of the Company and has been furnished by the respective individuals.
(2) Member of the Audit Committee of the Company.
(3) Member of the Compensation Committee of the Company.
(4) Member of the Corporate Governance and Nominating Committee of the Company.

As at the date hereof, the directors and executive officers of the Company beneficially own or have control or direction over, directly or indirectly, an aggregate of 304,260 Common Shares, representing approximately 0.2% of the issued Common Shares of the Company.

Cease Trade Orders or Bankruptcies

As at the date of the AIF and during the 10 years prior to the date of the AIF, none of the directors or executive officers of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

(a) is or has been a director or executive officer of any company (including the Company), that while that person was acting in that capacity:

(i) was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

(ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or

(iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer and shareholder.

On April 3, 2017, a management cease trade order ("MCTO") was issued by the British Columbia Securities Commission and other Canadian provincial securities regulatory authorities pursuant to National Policy 12-203 Management Cease Trade Orders in connection with the late filing of the Company's annual audited financial statements and related MD&A for the years ended December 31, 2016 and 2015 and this AIF for the year ended December 31, 2016 (the "**Annual Documents**"). The MCTO prohibits the Chief Executive Officer and the Chief Financial Officer of the Company from trading in securities of the Company until the Company completes the required filing of the Annual Documents as well as its interim financial documents for the first quarter of 2017, and the regulator revokes the MCTO.

Penalties or Sanctions

As at the date of the AIF and during the 10 years prior to the date of the AIF, none of the directors or officers of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

There are no existing or potential material conflicts of interest between the Company or any of its subsidiaries and a director or officer of the Company or any subsidiary.

AUDIT COMMITTEE

Pursuant to the provisions of National Instrument 52-110 (the "Instrument"), the Company's Audit Committee has adopted a written charter (the "Charter") that sets out its mandate and responsibilities. The Charter is attached hereto as Schedule "A".

The Audit Committee is presently comprised of Robert Gilmore, David Farrell and Alfredo Sillau. All members of the Committee are "independent" and "financially literate", within the meanings given to those terms in the Instrument.

The education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an audit committee member is as follows:

Audit Committee Member	Education and Experience
Robert Gilmore	Mr. Gilmore is a Certified Public Accountant and independent financial consultant with more than 35 years' experience working with resource companies. He is a graduate of the University of Denver with a Bachelor of Science degree in Business Administration, Accounting. He is Chairman of the Board and a member of the Audit and Compensation Committees of Eldorado Gold Corporation, and is a director and Audit Committee Chairman of Layne Christensen Company. Mr. Gilmore has also served as Chairman of the Audit Committees of Global Med Technologies, MK Resources, Inc., Frontera Copper Corporation and Ram Power Corporation.

David Farrell	David Farrell is President of Davisa Consulting, a private consulting firm working with junior to mid-tier global mining companies. He formerly was Managing Director, Mergers & Acquisitions at Endeavour Financial where he successfully closed over US$25 billion worth of mergers and acquisitions transactions for junior and mid-tier natural resource companies. Before his 12 years at Endeavour Financial, Mr. Farrell was a lawyer at Stikeman Elliott, working in Vancouver, Budapest and London. He graduated from the University of British Columbia with a B.Comm (Honours, Finance) and an LL.B and was called to the bar in both British Columbia and England. Mr. Farrell is currently a director and member of the audit committee for two other junior public companies. His background has given him the required experience to understand and assess the general application of the accounting principles used by the Company and to understand internal controls and procedures for financial reporting.
Alfredo Sillau	Mr. Sillau is Managing Partner, CEO and Director of Faro Capital, an investment management firm that manages private equity and real estate funds. Previously, Alfredo headed the business development in Peru for Compass Group, a regional investment management firm, until late 2011. As CEO of Compass, Mr. Sillau actively took part in the structuring, promoting and management of investment funds with approximately US$500 million in assets under management. Mr. Sillau is a Harvard graduate and board member of Cosapi S.A., the second largest engineering and construction firm in Peru, and of Pecsa S.A., a company that operates gas stations in Peru. His background has given him the required experience to understand and assess the general application of the accounting principles used by the Company and to understand internal controls and procedures for financial reporting.

The auditors of the Company, Deloitte LLP, obtain, as necessary, the pre-approval of the Audit Committee for any anticipated additional services required of the auditors for the coming fiscal year. If other service requirements arise during the year, the Audit Committee pre-approves such services at that time, prior to the commencement of such services. No services were performed by the auditors pursuant to the *De-Minimus Non-audit Services* exemption contained in the Instrument.

During the Company's most recently completed fiscal year, the Company's auditors performed certain non-audit services. Fees charged (in Canadian dollars) by the auditors during the last two fiscal years are as follows:

	2016	**2015**
Audit Fees	$915,813	$661,970
Audit-Related Fees	$126,742	$72,774
Tax Fees	$142,746	$129,988
All Other Fees	Nil	Nil
	$1,185,301	$864,732

"Audit Fees" are the aggregate fees billed for the audit of the Company's consolidated annual financial statements, and review of the interim financial statements.

"Audit-Related Fees" are fees charged for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees". These fees include services for securities and prospectus engagements.

"Tax Fees" are fees for professional services rendered for tax compliance and tax advice on actual or contemplated transactions.

"All Other Fees" are amounts not included in the categories above.

LEGAL PROCEEDINGS

There are no known legal proceedings involving an amount exceeding 10% of the current assets of the Company to which the Company is a party or which any of its properties is the subject during the most recently completed financial year, or any such proceedings known to the Company to be contemplated.

TRANSFER AGENT AND REGISTRAR

The Company's transfer agent and registrar is Computershare Trust Company, at its offices in Vancouver, BC and Toronto, ON. The Company's co-transfer agent and registrar in the United States is Computershare Trust Company, N.A. at its office in Golden, Colorado.

MATERIAL CONTRACTS

There are no contracts, other than those herein disclosed in this AIF and other than those entered into in the ordinary course of the Company's business, that are material to the Company and that were entered into during the most recently completed fiscal year ended December 31, 2016 or before the most recently completed financial year, but are still in effect as of the date of this AIF.

INTERESTS OF EXPERTS

Names of Experts

The updated Mineral Resource estimates for the Caylloma Mine and the San Jose Mine as at December 31, 2016 described in this AIF under the heading "General Development of the Business – Three-Year History and Recent Developments" have been prepared under the supervision of Eric Chapman, Vice President of Technical Services of the Company. The Mineral Reserve estimate and the Mineral Resource estimate exclusive of Mineral Reserves for the Caylloma Mine and the San Jose Mine were prepared under the supervision of Edwin Gutierrez, Technical Services Corporate Manager of the Company.

Eric Chapman and Edwin Gutierrez, each a Qualified Person as defined by NI 43-101, are the authors of the Caylloma Report and the San Jose Report.

Eric Chapman, a Qualified Person, is responsible for ensuring that the technical information contained in this AIF is an accurate summary of the original reports and data provided to or developed by the Company.

Interests of Experts

To the knowledge of the Company, the experts named above did not have any registered or beneficial interest, direct or indirect, in any securities or other property of the Company when the experts prepared their reports.

Deloitte LLP is the independent registered public accounting firm of the Company and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information relating to the Company is available for viewing on SEDAR at www.sedar.com. Information regarding directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company's Information Circular pertaining to its Annual General Meeting held on June 16, 2016. Additional financial information is provided in the Company's audited financial statements for the fiscal year ended December 31, 2016 and the management's discussion and analysis thereon.

SCHEDULE “A”

FORTUNA SILVER MINES INC.
(the “Company”)

AUDIT COMMITTEE CHARTER

PURPOSE

The primary function of the Audit Committee is to assist the Board of Directors of the Company (the ‘Board”) in fulfilling its oversight responsibilities by reviewing the financial information to be provided to the shareholders and others, the systems of internal controls and management information systems established by the senior officers of the Company (“Management”) and the Company’s internal and external audit process and monitoring compliance with the Company's legal and regulatory requirements with respect to its financial statements.

The Audit Committee is accountable to the Board. In the course of fulfilling its specific responsibilities hereunder, the Audit Committee is expected to maintain an open communication between the Company’s external auditors and the Board.

The Audit Committee does not plan or perform audits or warrant the accuracy or completeness of the Company's financial statements or financial disclosure or compliance with generally accepted accounting procedures as these are the responsibility of Management.

RESPONSIBILITIES

Subject to the powers and duties of the Board, the Board hereby delegates to the Audit Committee the following powers and duties to be performed by the Audit Committee on behalf of and for the Board. Nothing in this Charter is intended to or does confer on any member a higher standard of care or diligence than that which applies to the directors as a whole.

External Auditors

The Audit Committee has primary responsibility for the selection, appointment, dismissal, compensation and oversight of the external auditors, subject to the overall approval of the Board. For this purpose, the Audit Committee may consult with Management.

The external auditors shall report directly to the Audit Committee.

Also, the Audit Committee:

a. recommends to the Board:

   i. whether the current external auditors should be nominated for reappointment for the ensuing year and if applicable, select and recommend a suitable alternative for nomination; and

   ii. the amount of compensation payable to the external auditors;

b. resolves disagreements, if any, between Management and the external auditors regarding financial reporting;

c. provides the Board with such recommendations and reports with respect to the financial statements of the Company as it deems advisable;

d. takes reasonable steps to confirm the independence of the external auditors, including but not limited to pre-approving any non-audit related services provided by the external auditors to the Company or the Company's subsidiaries, if any;

e. confirms that the external auditors are a 'participating audit' firm for the purpose of National Instrument 52-108 *Auditor Oversight* and are in compliance with governing regulations;

f. reviews the plan and scope of the audit to be conducted by the external auditors of the Company;

g. reviews and evaluates the performance of the external auditors; and

h. reviews and approves the Company's hiring policy regarding partners, employees and former partners and employees of the Company's present and former external auditors.

Audit and Review Process and Results

The Audit Committee has a duty to receive, review and make any inquiry regarding the completeness, accuracy and presentation of the Company's financial statements to ensure that the financial statements fairly present the financial position and risks of the organization and that they are prepared in accordance with generally accepted accounting principles. To accomplish this, the Audit Committee:

a. considers the scope and general extent of the external auditors' review, including their engagement letter and major changes to the Company's auditing and accounting principles and practices;

b. consults with management regarding the sufficiency of the Company's internal system of audit and financial controls, internal audit procedures and results of such audits;

c. ensures the external auditors have full, unrestricted access to required information and have the cooperation of management;

d. reviews with the external auditors the audit process and standards, as well as regulatory or Company-initiated changes in accounting practices and policies and the financial impact thereof, and selection or application of appropriate accounting principles;

e. reviews with the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company and the manner in which these matters are being disclosed in the financial statements;

f. reviews the appropriateness and disclosure of any off-balance sheet matters;

g. reviews disclosure of related-party transactions;

h. receives and reviews with the external auditors, the external auditors' audit report and the audited financial statements;

i. makes recommendations to the Board respecting approval of the audited financial statements;

j. meets with the external auditors separately from management to review the integrity of the Company's financial reporting, including the clarity of financial disclosure and the degree of conservatism or aggressiveness of the accounting policies and estimates, any significant disagreements or difficulties in obtaining information, adequacy of internal controls over financial reporting, adequacy of disclosure controls and procedures, and the degree of compliance by the Company with prior recommendations of the external auditors;

k. directs management to implement such changes as the Audit Committee considers appropriate, subject to any required approvals of the Board arising out of the review; and

l. meets at least annually with the external auditors, independent of management, and reports to the Board on such meetings.

Interim Financial Statements

The Audit Committee:

a. reviews and determines the Company's practice with respect to review of interim financial statements by the external auditors;

b. conducts all such reviews and discussions with the external auditors and Management as it deems appropriate; and

c. makes recommendations to the Board respecting approval of the interim financial statements.

Involvement with Management

The Audit Committee has primary responsibility for overseeing the actions of management in all aspects of financial management and reporting. The Audit Committee:

a. reviews the Company’s annual and interim financial statements, Management’s Discussion and Analysis and earnings press releases, if any, before the Company publicly discloses this information;

b. reviews all of the Company’s public disclosure of financial information extracted from the Company's financial statements, if such financial statements have not previously been reviewed by the Committee, prior to such information being made public by the Company and for such purpose, the CFO assumes responsibility for providing the information to the Audit Committee for its review;

c. reviews material financial risks with Management, the plan that Management has implemented to monitor and deal with such risks and the success of Management in following the plan;

d. consults annually and otherwise as required with the Company's CEO and CFO respecting the adequacy of the internal controls over financial reporting and disclosure controls and procedures and reviews any breaches or deficiencies;

e. obtains such certifications of annual and interim filings by the CEO and CFO attesting to internal controls over financial reporting and disclosure controls and procedures as deemed advisable;

f. reviews Management's response to significant written reports and recommendations issued by the external auditors and the extent to which such recommendations have been implemented by Management;

g. reviews with Management the Company's compliance with applicable laws and regulations respecting financial reporting matters, and any proposed regulatory changes and their impact on the Company; and

h. reviews as required with Management and approves disclosure of the Audit Committee Charter, and Audit Committee disclosure required in the Company's Annual Information Form, Information Circular and on the Company's website.

PROCEDURAL MATTERS

The Audit Committee:

a. invites the Company's external auditors, the CFO, and such other persons as deemed appropriate by the Audit Committee to attend meetings of the Audit Committee;

b. reports material decisions and actions of the Audit Committee to the Board, together with such recommendations as the Committee may deem appropriate;

c. has the power to conduct or authorize investigations into any matter within the scope of its responsibilities;

d. has the right to engage independent counsel and other advisors as it determines necessary to carry out its duties and the right to set the compensation for any advisors employed by the Audit Committee;

e. has the right to communicate directly with the CFO and other members of Management who have responsibility for the internal and external audit process, as well as to communicate directly with the internal and external auditors; and

f. pre-approves non-audit services to be performed by the external auditors.

COMPOSITION

The Audit Committee is composed of a minimum of three directors, all of whom are independent and have relevant skills and/or experience in the Audit Committee's areas of responsibility as may be required by the securities laws applicable to the Company, including those of any stock exchange on which the Company’s securities are traded.

Appointment of Committee Members and Vacancies

Members of the Audit Committee are appointed or confirmed by the Board annually and hold office at the pleasure of the Board. The Board fills any vacancy on, or any additional members to, the Audit Committee.

Committee Chair

The Board appoints a Chair for the Audit Committee.

STRUCTURE AND OPERATIONS

Meetings

The Chair of the Audit Committee or the Chair of the Board or any two of its members may call a meeting of the Audit Committee. The Audit Committee meets at least four times each fiscal year, and at such other times during each year as it deems appropriate.

Quorum

A majority of the members appointed to the Audit Committee constitutes a quorum.

Notice of Meetings

The Chair of the Audit Committee arranges to provide notice of the time and place of every meeting in writing (including by facsimile) to each member of the Audit Committee at least two (2) business days prior to the time fixed for such meeting, provided, however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. The Chair also ensures that an agenda for the meeting and all required materials for review by the members of the Audit Committee are delivered to the members with sufficient time for their review, or that such requirement is waived.

Absence of Committee Chair

If the Chair of the Audit Committee is not present at any meeting of the Audit Committee, the other members of the Audit Committee will be chose a Chair to preside at the meeting.

Secretary of Committee

At each meeting the Audit Committee appoints a secretary who need not be a director of the Company.

Attendance of the Company's Officers at Meetings

The Chair of the Audit Committee or any two members of the Audit Committee may invite one or more officers of the Company to attend any meeting of the Audit Committee.

Delegation

The Audit Committee may, in its discretion and where permitted by National Instrument 52-110 – Audit Committees, delegate all or a portion of its duties and responsibilities to a subcommittee, management or, to the extent otherwise permitted by applicable plans, laws or regulations, to any other body or individual.

Procedure and Records

Subject to any statute or constating documents of the Company, the Audit Committee determines its own procedures at meetings and may conduct meetings by telephone and keeps records of its proceedings.

COMPLAINTS

The Audit Committee has established a Whistle Blower Policy which sets out the procedures for:

a. the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and

b. the confidential, anonymous submission to the Company of concerns regarding questionable accounting or auditing matters.

The Audit Committee reviews the Whistle Blower Policy annually.

REPORTING AND ASSESSMENT

The Audit Committee reports to the Board of Directors, and on an annual basis, presents to the Board a Committee Annual Report consisting of the Audit Committee's review of its charter, the Committee's and its Chair's performance over the past year, and any recommendations the Audit Committee makes in respect thereto.

EXHIBIT 99.2

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FORTUNA
SILVER MINES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED
DECEMBER 31, 2016 AND 2015

(Presented in thousands of United States dollars, unless otherwise stated)

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of Fortuna Silver Mines Inc. (the "Company") ("we", "us" or "our") have prepared the consolidated financial statements and the accompanying Management's Discussion and Analysis ("MD&A"), and are responsible for their content. The financial information presented in the MD&A is consistent with the information that is contained in the consolidated financial statements. The consolidated financial statements include, where necessary, amounts based on our estimates and judgement.

In order to discharge our responsibility for the integrity of the financial statements, the Company maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the Company's assets are safeguarded, transactions are executed and recorded in accordance with our authorization, proper records are maintained and relevant and reliable financial information is produced. These controls include maintaining quality standards in the hiring and training of employees, policies and procedures manuals, a corporate code of conduct and ensuring that there is proper accountability for performance within appropriate and well defined areas of responsibility.

The Board of Directors is responsible for overseeing the performance of our responsibilities for financial reporting and internal control. The Audit Committee, which is composed of non-executive directors, meets with us as well as the external auditors to ensure that we are properly fulfilling our financial reporting responsibilities to the Directors who approve the consolidated financial statements. The external auditors have full and unrestricted access to the Audit Committee to discuss the scope of their audits, and the adequacy of the system of internal controls, and to review financial reporting issues.

The consolidated financial statements have been audited by Deloitte LLP, the Company's independent registered public accounting firm, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States).

/s/ Jorge Ganoza Durant	*/s/ Luis Ganoza Durant*
Jorge Ganoza Durant President and Chief Executive Officer	Luis Ganoza Durant Chief Financial Officer

Vancouver, Canada
May 12, 2017

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated financial statements of Fortuna Silver Mines Inc. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fortuna Silver Mines Inc. and subsidiaries as at December 31, 2016 and December 31, 2015, and their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 12, 2017 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of material weaknesses.

/s/ Deloitte LLP

Chartered Professional Accountants
May 12, 2017
Vancouver, Canada

Report of Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of Fortuna Silver Mines Inc. and subsidiaries (the “Company”) as December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment: material weaknesses related to insufficient qualified resources, the risk assessment process, design and implementation of control activities and monitoring activities. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audits of the consolidated statements of financial position of Fortuna Silver Mines Inc. and subsidiaries as at December 31, 2016 and 2015, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended of the Company and this report does not affect our report on such consolidated financial statements dated May 12, 2017.

In our opinion, because of the effect of material weaknesses identified above on the achievement of the objectives of the control criteria, the Company has not maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the years ended December 31, 2016 and December 31, 2015 of the Company and our report dated May 12, 2017 expressed an unmodified/unqualified opinion on those financial statements.

/s/ Deloitte LLP

Chartered Professional Accountants
May 12, 2017
Vancouver, Canada

Fortuna Silver Mines Inc.

Consolidated Income Statements

For the years ended December 31 (Presented in thousands of US dollars)

	Year ended December 31	
	2016	**2015**
Sales (note 23)	$ 210,255	$ 154,729
Cost of sales (note 24)	129,649	111,081
Mine operating earnings	80,606	43,648
Other expenses		
Selling, general and administrative (note 25)	31,117	17,863
Exploration and evaluation	177	320
Foreign exchange (gain) loss	(649)	1,564
Impairment of mineral properties and plant and equipment	–	25,000
Impairment of inventories	280	–
Write off of mineral properties (note 12)	1,143	–
Other (income) expenses	(3)	741
	32,065	45,488
Operating income (loss)	48,541	(1,840)
Finance items		
Interest income	(328)	(381)
Interest expense	2,147	1,758
Accretion of provisions	665	–
Gain on financial assets and liabilities carried at fair value	(1,053)	–
	1,431	1,377
Income (loss) before income taxes	47,110	(3,217)
Income tax expense (note 29)		
Current	29,063	11,606
Deferred	189	(4,215)
	29,252	7,391
Net income (loss) for the year	**$ 17,858**	**$ (10,608)**
Earnings (loss) per share (note 22)		
Basic	$ 0.13	$ (0.08)
Diluted	$ 0.13	$ (0.08)
Weighted average number of common shares outstanding during the year (000's)		
Basic	136,888	129,001
Diluted	138,053	129,001

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

Fortuna Silver Mines Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31 (Presented in thousands of US dollars)

	Year ended December 31	
	2016	2015
Net income (loss) for the year	$ 17,858	$ (10,608)
Items that may in future be reclassified to profit or loss:		
Change in fair value of hedging instruments, net of nil tax	85	(307)
Change in fair value of available for sale securities, net of nil taxes	334	–
Unrealized loss on translation of net investment, net of nil tax	–	(2,324)
Translation of foreign operations to presentation currency	–	1,430
Total other comprehensive income (loss)	419	(1,201)
Total Comprehensive income (loss) for the year	$ 18,277	$ (11,809)

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

Fortuna Silver Mines Inc.
Consolidated Statements of Financial Position
As at December 31 (Presented in thousands of US dollars)

	December 31 2016	December 31 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 82,484	$ 72,218
Short term investments (note 6)	41,100	36,031
Marketable securities (note 7)	1,579	–
Derivative assets (note 10)	973	–
Accounts receivable and other assets (note 8)	24,987	7,068
Income taxes receivable	72	780
Prepaid expenses	2,145	1,512
Inventories (note 9)	13,572	10,434
	166,912	128,043
NON-CURRENT ASSETS		
Deposits on long term assets (note 11)	572	8,716
Other long term receivables	562	–
Deferred income tax assets (note 29)	471	492
Mineral properties (note 12)	263,535	128,720
Plant and equipment (note 13)	130,863	113,683
	396,003	251,611
Total assets	$ 562,915	$ 379,654
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables (note 14)	$ 40,160	$ 28,970
Derivative liabilities (note 10)	254	351
Current portion of obligations under finance lease (note 17)	2,128	772
Closure and rehabilitation provisions (note 19)	1,121	453
Income taxes payable	14,447	3,605
	58,110	34,151
NON-CURRENT LIABILITIES		
Bank loan (note 16)	39,768	39,486
Finance lease obligations (note 17)	906	1,112
Other liabilities (note 18)	3,544	3,508
Closure and rehabilitation provisions (note 19)	12,091	12,052
Deferred income taxes (note 29)	25,345	25,177
	81,654	81,335
Total liabilities	139,764	115,486
EQUITY		
Share capital	343,963	203,953
Reserves	16,092	14,977
Retained earnings	63,096	45,238
Total equity	423,151	264,168
Total liabilities and equity	$ 562,915	$ 379,654

Events after the reporting period (note 31)

/s/ Jorge Ganoza Durant	*/s/ Robert R. Gilmore*
Jorge Ganoza Durant	Robert R. Gilmore
Director	Director

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

Fortuna Silver Mines Inc.
Consolidated Statements of Cash Flows
For the years ended December 31 (Presented in thousands of US dollars)

	Year ended December 31	
	2016	2015
OPERATING ACTIVITIES		
Income (loss) for the year	$ 17,858	$ (10,608)
Adjustments for:		
Depletion, depreciation, and amortization	33,024	25,739
Accretion	665	310
Income taxes	29,252	7,391
Share based payments	468	761
Impairment of mineral properties, and plant and equipment	–	25,000
Impairment of inventories	280	585
Write-off of mineral properties	1,143	46
Gain on financial assets carried at fair value	(1,053)	–
Accrued interest on long term loans	(10)	39
Other	(76)	(75)
Cash generated from operations before working capital changes	81,551	49,188
Accounts receivable and other assets	(18,521)	13,233
Prepaid expenses	(630)	(208)
Inventories	(2,922)	3,324
Trade and other payables	4,861	8,106
Share units payable	7,962	–
Provisions	(349)	(273)
Cash generated from operations	71,952	73,370
Income taxes paid	(17,513)	(17,846)
Interest paid	(2,028)	(1,110)
Interest received	289	354
Cash provided by operating activities	52,700	54,768
INVESTING ACTIVITIES		
Purchase of Lindero Project (note 12(a))	(4,876)	–
Purchase of short term investments	(46,914)	(95,453)
Disposition of short term investments	41,845	92,927
Purchase of marketable securities	(1,165)	–
Purchase of mineral properties and plant and equipment	(40,229)	(57,130)
Deposits to contractors and suppliers, net	–	(6,746)
Disposition of mineral properties and plant and equipment	10	13
Cash used for investing activities	(51,329)	(66,389)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares, net of costs	10,025	2,026
Proceeds from drawdown of bank loan, net of costs	(6)	39,316
Repayments of finance lease obligation	(1,213)	–
Cash provided by financing activities	8,806	41,342
Increase in cash and cash equivalents	10,177	29,721
Effect of exchange rate changes	89	(370)
	10,266	29,351
Cash and cash equivalents, beginning of year	72,218	42,867
Cash and cash equivalents, end of year	$ 82,484	$ 72,218
Cash and cash equivalents consists of:		
Cash	$ 78,029	$ 70,268
Cash equivalents	4,455	1,950
Cash and cash equivalents, end of year	$ 82,484	$ 72,218

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

Fortuna Silver Mines Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31 (Presented in thousands of US dollars, except for number of common shares)

	Share capital		Reserves					
	Number of common shares	Amount	Equity reserve	Hedging reserve	Fair value reserve	Foreign currency reserve	Retained earnings	Total equity
Balance at January 1, 2015	128,537,742	$ 201,057	$ 13,800	$ –	$ –	$ 2,010	$ 55,846	$ 272,713
Total comprehensive loss								
Net loss for the year	–	–	–	–	–	–	(10,608)	(10,608)
Other comprehensive loss	–	–	–	(307)	–	(895)	–	(1,202)
Total comprehensive loss	–	–	–	(307)	–	(895)	(10,608)	(11,810)
Transactions with owners of the Company								
Cancellation of treasury shares	(38,035)	–	–	–	–	–	–	–
Exercise of stock options	740,860	2,026	–	–	–	–	–	2,026
Transfer upon exercise of stock options	–	870	(870)	–	–	–	–	–
Share-based payments (note 20)	–	–	1,239	–	–	–	–	1,239
	702,825	2,896	369	–	–	–	–	3,265
Balance at December 31, 2015	129,240,567	$ 203,953	$ 14,169	$ (307)	$ –	$ 1,115	$ 45,238	$ 264,168
Total comprehensive income								
Net income for the year	–	–	–	–	–	–	17,858	17,858
Other comprehensive income	–	–	–	85	334	–	–	419
Total comprehensive income	–	–	–	85	334	–	17,858	18,277
Transactions with owners of the Company								
Issuance of common shares (note 12)	14,569,045	122,813	–	–	–	–	–	122,813
Issuance of warrants (note 12)		–	7,401	–	–	–	–	7,401
Exercise of stock options	2,236,861	5,843	–	–	–	–	–	5,843
Exercise of warrants	931,700	8,733	(4,552)	–	–	–	–	4,181
Transfer upon exercise of stock options	–	2,621	(2,621)	–	–	–	–	–
Share-based payments (note 20)	–	–	468	–	–	–	–	468
	17,737,606	140,010	696	–	–	–	–	140,706
Balance at December 31, 2016	146,978,173	$ 343,963	$ 14,865	$ (222)	$ 334	$ 1,115	$ 63,096	$ 423,151

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

1. Reporting Entity

Fortuna Silver Mines Inc. and its subsidiaries (the "Company") is a publicly traded company incorporated and domiciled in British Columbia, Canada.

The Company is engaged in precious and base metal mining and related activities in Latin America, including exploration, extraction, and processing. The Company operates the Caylloma silver, lead, and zinc mine ("Caylloma") in southern Peru and the San Jose silver and gold mine ("San Jose") in southern Mexico, and is developing the Lindero Gold Project in northern Argentina.

Its common shares are listed on the New York Stock Exchange under the trading symbol FSM, and on the Toronto Stock Exchange under the trading symbol FVI.

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

2. Basis of Accounting

These consolidated financial statements have been prepared by management of the Company in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). On May 11, 2017, the Company's Board of Directors approved these financial statements for issuance.

3. Functional and Presentation Currency

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

Effective April 1, 2015, the functional currency of the parent entity and all its subsidiaries was determined to be the United States Dollar.

Prior to April 1, 2015, the functional currency of each of the entities in the group was the US$, with the exception of the parent entity and certain holding companies which had a Canadian dollar ("C$") functional currency.

All amounts in these financial statements have been rounded to the nearest thousand US dollars, unless otherwise stated.

4. Significant Accounting Policies

The Company has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of Consolidation

These financial statements include the accounts of the Company. All significant inter-company transactions, balances, revenues, and expenses have been eliminated upon consolidation.

Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition or control and up to the effective date of disposition or loss of control. Control is achieved when the Company has power over the investee, is exposed to or has rights to variable returns from its involvement with an investee, and has the ability to affect those returns through its power over the investee.

(Presented in thousands of US dollars)

Fortuna Silver Mines Inc. is the ultimate parent entity of the group. At December 31, 2016, the principal subsidiaries of the Company, their geographic locations, and the ownership interests held by the Company, were as follows:

Name	**Location**	**Ownership**	**Principal Activity**
Fortuna Silver Mines Peru S.A.C.	Peru	100%	Services company
Minera Bateas S.A.C.	Peru	100%	Caylloma Mine
Compania Minera Cuzcatlan S.A. de C.V.	Mexico	100%	San Jose Mine
Fortuna Silver Mexico S.A. de C.V.	Mexico	100%	Exploration company
Fortuna Silver (Barbados) Inc.	Barbados	100%	Holding company
Continuum Resources Ltd.	Canada	100%	Holding company
Goldrock Mines Corp.	Canada	100%	Holding company
Mansfield Bermuda Ltd.	Bermuda	100%	Holding company
Argex Mining Barbados Ltd.	Barbados	100%	Holding company
Mansfield Minera S.A.	Argentina	100%	Lindero Project

In these financial statements,

- Minera Bateas S.A.C. is referred to as "Bateas"
- Compania Minera Cuzcatlan S.A. de C.V. is referred to as "Cuzcatlan"
- Continuum Resources Ltd. is referred to as "Continuum"
- Fortuna Silver (Barbados) Inc. is referred to as "Barbados"
- Goldrock Mines Corp. is referred to as "Goldrock"
- Mansfield Minera S.A. is referred to as "Mansfield"

(b) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at each financial position date. Foreign exchange gains or losses on translation to the functional currency of an entity are recorded in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(c) Financial Instruments

i. Financial Assets

The Company classifies all financial assets as either fair value through profit or loss (“FVTPL”), held-to-maturity (“HTM”), loans and receivables, or available-for-sale “(AFS”). The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is a designated FVTPL on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in profit or loss in the period in which they arise. Transaction costs related to financial assets classified as FVTPL are recognized immediately in profit or loss.

Held-to-Maturity ("HTM")

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as HTM investments.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value, net of transaction costs and are classified as current or non-current assets based on their maturity date, and subsequently measured at amortized cost, using the effective interest method, less any impairment. The impairment loss of receivables is based on a review of all outstanding amounts at each reporting period. Interest income is recognized by applying the effective interest rate.

Available-For-Sale ("AFS") Assets

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

AFS financial assets are measured at fair value, determined by published market prices in an active market, except for investments in equity instruments that do not have quoted market prices in an active market which are measured at cost. Changes in fair value are recorded in other comprehensive income (loss) until realized through disposal or impairment. Investments classified as AFS are written down to fair value through profit or loss whenever it is necessary to reflect prolonged or significant decline in the value of the assets. Realized gains and losses on the disposal of AFS securities are recognized in profit or loss.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets at amortized cost, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had an impairment not been recognized.

Derecognition of Financial Assets

A financial asset is derecognized when:

- the contractual right of the asset's cash flows expire; or
- if the Company transfers the financial asset and substantially all risks and reward of ownership to another entity.

ii. Financial Liabilities

Long term debt and other financial liabilities are recognized initially at the fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received (net of transaction costs) and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

iii. Derivative Instruments

Derivatives instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in profit or loss with exception of derivatives designated as effective cash flow hedges.

Derivatives not being accounted for as hedges are categorized as held-for-trading. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Fair value of the Company's recognized commodity-based derivatives are based on the forward prices of the associated market index. Gains or losses are recorded in profit or loss.

For cash flow hedges that qualify under the hedging requirements of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), the effective portion of any gain or loss on the hedging instrument is recognized in other comprehensive income ("OCI") and the ineffective portion is reported as a gain (loss) on derivatives in profit or loss.

Hedge accounting is discontinued prospectively when:

- the hedge instrument expires or is sold, terminated, or exercised;
- the hedge no longer meets the criteria for hedge accounting; and,
- the Company revokes the designation.

The Company considers derecognition of a cash flow hedge when the related forecast transaction is no longer expected to occur. If the Company revokes the designation, the cumulative gain or loss on the hedging instrument that has been recognized in OCI from the period when the hedge was effective remains separately in equity until the forecast transaction occurs or is no longer expected to occur. Otherwise, the cumulative gain or loss on the hedge instrument that has been recognized in OCI from the period when the hedge was effective is reclassified from equity to profit or loss.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

iv. Effective Interest Method

The effective interest method calculates the amortized cost of a financial instrument and allocates interest income or expense over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts or payments over the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognized on an effective interest basis for instruments other than those financial instruments classified as FVTPL.

(d) Cash and Cash Equivalents

Cash and cash equivalents are designated as loans and receivables. Cash and cash equivalents include cash on hand, demand deposits, and money market instruments, with maturities from the date of acquisition of 90 days or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value.

(e) Inventories

Inventories include metals contained in concentrates, stockpiled ore, materials, and supplies. The classification of metals inventory is determined by the stage in the production process. Product inventories are sampled for metal content and are valued based on the lower of actual production costs incurred or estimated net realizable value based upon the period ending prices of contained metal.

Ore stockpile and finished goods inventories are valued at the lower of production cost and net realizable value. Materials and supplies are valued at the lower of average cost and net realizable value. Production costs include all mine site costs.

(f) Exploration and Evaluation Assets

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

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

If a mineable ore body is discovered, exploration and evaluation costs are reclassified to mining properties. The Company uses the following criteria in its assessment:

- the property has mineral reserves as referred to in Canadian National Instrument 43-101, and

- when legal, permitting and social matters have been resolved sufficiently to allow mining of the body.

If no mineable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value.

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

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

(g) Mineral Properties, and Plant and Equipment

Costs directly related to construction projects are capitalized to work in progress until the asset is available for use in the manner intended by management. Completed property, plant and equipment are recorded at cost, net of accumulated depreciation and impairments. Assets, other than capital work in progress, will be depreciated to their residual values over their estimated useful lives as follows:

Land and buildings		
Land	Not depreciated	
Mineral properties	Units of production	Declining balance
Buildings, located at the mine	Units of production	Declining balance
Buildings, others	6 - 20 years	Straight line
Leasehold improvements	4 - 8 years	Straight line
Plant and equipment		
Machinery and equipment	3 - 15 years	Straight line
Furniture and other equipment	2 - 13 years	Straight line
Transport units	4 - 5 years	Straight line
Capital work in progress	Not depreciated	

Equipment under finance lease is initially recorded at the present value of minimum lease payments at the inception of the lease and depreciated over the shorter of the lease term or useful life. Spare parts and components included in machinery and equipment, depending on the replacement period of the initial component, are depreciated over 8 to 18 months.

Borrowing costs attributed to the construction of qualifying assets are capitalized to mineral properties, plant and equipment and are included in the carrying amounts of related assets until the asset is available for use in the manner intended by management.

Costs associated with commissioning activities on constructed plants are deferred from the date of mechanical completion of the facilities until the date the assets are ready for use in the manner intended by management.

On an annual basis, the depreciation method, useful economic life and the residual value of each component asset is reviewed, with any changes recognized prospectively over its remaining useful economic life.

i. *Operational Mining Properties and Mine Development*

For operating mines, all mineral property expenditures are capitalized and amortized based on the unit-of-production method considering the expected production to be obtained over the life of the mineral property. The expected production includes proven and probable reserves and the portion of inferred resources expected to be extracted economically as part of the production cost.

Costs of producing properties are amortized on a unit-of-production basis over proven and probable reserves and the portion of inferred resources where it is considered highly probable that those resources are expected to be extracted economically.

The expected production to be obtained over the life of the mineral property is based on our life-of-mine production plans which typically include a portion of inferred resources, and therefore differ from the life-of-mine plans we publish as part of our 43-101 compliant technical reports which are based on reserves only. The decision to use inferred resources, and the portion of inferred resources to be included varies for each operation and is based on the geological characteristics of the ore body, the quality and predictability of inferred resources, and the conversion of inferred resources into measured and indicated ("M&I") that we have historically achieved in the past.

Many factors are taken into account during resource classification including; the quality of drilling and sampling, drill/sample spacing, sample preparation and analysis, geological logging and modelling, database construction, geological interpretation and modelling, statistical/geostatistical analysis, interpolation method, local estimation, engineering studies, economic parameters, and reconciliation with actual results.

Once the integrity of the data has been established, two important considerations around classification of resources are geologic continuity and possible variation of thickness and grade between samples. For our inferred resources at San Jose and Caylloma we are able to achieve a significant level of confidence on the existence of mineable material as geological continuity has been established by consistent drill hole intercepts both along strike and down-dip which provides us with reasonable confidence in the location of the structures. The vast majority of the inferred resources are interpolated, estimated between existing drill hole intercepts, as opposed to extrapolated where the grades are estimated beyond the furthest sample point, adding to our confidence in the geologic continuity of the veins. Furthermore, San Jose and Caylloma are not structurally complex deposits where faulting has disrupted geologic continuity.

With regards to the variation of thickness and grade between samples, we use statistical means to calculate the probability that tonnage and grade content falls within a certain accuracy over a given timeframe. If the potential variation is estimated to be within ± 25 % at 90 percent confidence globally, we classify it as an inferred resource. This is equivalent to stating that we have 95 percent confidence that greater than 75 % of the inferred tonnes, grade, and metal content will ultimately be recovered by the mine and hence that the same percentage or higher will be converted from an inferred resource to an indicated resource through infill drilling as per our policy of upgrading prior to production.

As part of our process to include inferred resources into our life-of-mine production plans we apply an economic cut-off to identify only the material that can be considered profitable to mine within our mine designs and at this time we apply a conversion or "risk" factor to the mining blocks comprised of inferred resources we include in such mine production plans. This conversion factor is based on the predictability of conversion derived from statistical estimates of confidence as described above and the support from historic conversion rates of inferred resources into M&I at each of our mines. The conversion factors used in our 2016 and 2015 life-of-mine plans were 90% at San Jose and between 79% and 87% at Caylloma, depending on the veins being mined.

The percentage of inferred resources included as a component of the total mineable inventory (reserve + resource) considered in the 2016 life-of-mine evaluation for each operation as of December 31, 2015 was: San Jose 53% (2014: 55%); Caylloma 33% (2014: 18%).

The Company reviews the conversion factors including past experience in assessing the future expected conversion of inferred resources to be used in the life-of-mine plans for inclusion of inferred resources once a year in light of new geologic information and conversion data and when events or circumstances indicate that a review should be made. The Company continually monitors expected conversion and any changes in estimates that arise from this review are accounted for prospectively.

Significant estimation is involved in determining resources and in determining the percentage of resources ultimately expected to be converted to reserves, which we determine based on careful consideration of both internal and external technical and economic data. Estimation of future conversion of resources is inherently uncertain and involves significant judgment and actual outcomes may vary from these judgments and estimates and such outcomes may have a material impact on the results. Some of the key judgements in the estimation process include; geological continuity; stationarity in the grades within defined domains; reasonable geotechnical and metallurgical conditions; treatment of outlier (extreme) values; cut-off grade determination, and the establishment of geostatistical and search parameters. Revisions to these estimates are accounted for in the period in which the change in estimate arises.

Costs of abandoned properties are written-off.

ii. Commercial Production

Capital work in progress consists of expenditures for the construction of future mines and includes pre-production revenues and expenses prior to achieving commercial production. Commercial production is a convention for determining the point in time in which a mine and plant has completed the operational commissioning and has operational results that are expected to remain at a sustainable commercial level over a period of time, after which production costs are no longer capitalized and are reported as operating costs. The determination of when commercial production commences is based on several qualitative and quantitative factors including but not limited to the following:

- all major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed;
- the mine or mill is operating within eighty percent of design capacity;
- metallurgical recoveries are achieved within eighty percent of projections; and,
- the ability to sustain ongoing production of ore at a steady or increasing level.

On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis. Any costs incurred after the commencement of production are capitalized to the extent they give rise to a future economic benefit.

(h) Asset Impairment

At the end of each reporting period, the Company makes an assessment of impairment indicators and if there are such indicators, then the Company performs a test of impairment.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows or cash generating units. These are typically individual mines or development projects. Brownfields exploration projects, located close to existing mine infrastructure, are assessed for impairment as part of the associated mine cash generating unit.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell ("FVLCTS") and value in use.

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

Where a FVLCTS model is used the cash flow forecast includes net cash flows expected to be realized from extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proven or probable reserves and the portion of resources expected to be extracted economically.

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

(i) Borrowing Costs

Interest and other financing costs incurred that are attributable to acquiring and developing exploration and development stage mining properties and constructing new facilities ("qualifying assets") are capitalized and included in the carrying amounts of qualifying assets until those qualifying assets are ready for their intended use.

Capitalization of borrowing costs incurred commences on the date the following three conditions are met:

- expenditures for the qualifying asset are being incurred;
- borrowing costs are being incurred; and,
- activities that are necessary to prepare the qualifying asset for its intended use are being undertaken.

Borrowing costs incurred after the qualifying assets are ready for their intended use are expensed in the period in which they are incurred.

Transaction costs, comprised of legal fees and upfront commitment fee, associated with the credit facility for general working capital and future expansion are recorded as a debit to the bank loan and are amortized over the term of the credit facility.

All other borrowing costs are expensed in the period in which they are incurred.

(j) Assets Held for Sale

A non-current asset is classified as held for sale when it meets the following criteria:

- the non-current asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; and,
- the sale of the non-current asset is highly probable. For the sale to be highly probable:
    - the appropriate level of management must be committed to a plan to sell the asset;
    - an active program to locate a buyer and complete the plan must have been initiated;
    - the non-current asset or disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
    - the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale (with certain exceptions); and,
    - actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets held for sale are not depreciated. Any gain or loss from initial measurement and subsequent measurement are recorded in income but not in excess of cumulative impairment losses.

(k) Leases

A lease is a finance lease when substantially all of the risks and rewards incidental to ownership of the leased asset are transferred from the lessor to the lessee by the agreement. The leased assets are initially recorded at the lower of the fair value and the present value of the minimum lease payments and are depreciated over the shorter of the asset's useful lives and the term of the lease. Interest on the lease instalments is recognized as interest expense over the lease term using the effective interest method. Leases for land and buildings are recorded separately if the lease payments can be allocated accordingly.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments are recorded in profit or loss using the straight line method over their estimated useful lives.

(l) Income Taxes

Income tax expense consists of current and deferred tax expense.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to unused tax loss carry forwards, unused tax credits and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that deferred tax asset will be recovered, the deferred tax asset is reduced.

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

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

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

(m) Provisions

i. Closure and Rehabilitation Provisions

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based on estimated future cash flows discounted at the risk-free rate.

The closure and reclamation provision ("CRP") is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free discount rate.

The liability is accreted to full value over time through periodic charges to profit or loss.

The amount of the CRP initially recognized is capitalized as part of the related asset's carrying value and amortized to profit or loss. The method of amortization follows that of the underlying asset. The costs related to a CRP are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit. For a closed site or where the asset which generated a CRP no longer exists, there is no longer future benefit related to the costs and as such, the amounts are expensed. For operating sites, a revision in estimates or a new disturbance will result in an adjustment to the CRP with an offsetting adjustment to the capitalized closure and rehabilitation cost.

ii. Environmental Disturbance Restoration Provisions

During the operating life of an asset, events such as infractions of environmental laws or regulations may occur. These events are not related to the normal operation of the asset and are referred to as environmental disturbance restoration provisions ("EDRP"). The costs associated with an EDRP are accrued and charged to earnings in the period in which the event giving rise to the liability occurs. Any subsequent adjustments to an EDRP due to changes in estimates are also charged to earnings in the period of adjustment. These costs are not capitalized as part of the long-lived asset's carrying value.

iii. Other Provisions

Provisions are recognized when a present legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect of the time value of money is material, the provision is discounted using an appropriate current market-based pre-tax discount rate.

(n) Share Capital

Common shares are classified as equity. Costs directly attributable to the issuance of common shares are shown in equity as a deduction from the proceeds.

(o) Revenue Recognition

Revenue arising from the sale of metal concentrates is recognized when all significant risks and rewards of ownership of the concentrates have been transferred to the buyer. This usually occurs when title passes to the customer and all insurance risk has been transferred. The passing of title to the customer is based on the terms of the sales contract. Final commodity prices are set in a period subsequent to the date of sale based on a specified quotational period, either one, two, or three months after delivery. The Company's metal concentrates are provisionally priced at the time of sale based on the prevailing market price.

Variations between the price recorded at the delivery date and the final price set under the sales contracts are caused by changes in market prices, and result in an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as provisional price adjustments and included in sales in the consolidated income statement. Sales of metal concentrates are net of refining and treatment charges.

Revenues from metal concentrate sales are subject to adjustment upon final settlement of metals prices, weights, and assays as of a date that is typically one, two, or three months after the delivery date. Typically, the adjustment is based on an inspection of the concentrate by the customer and in certain cases an inspection by a third party. The Company records adjustments to revenues monthly based on quoted spot prices for the expected settlement period. Adjustments for weights and assays are recorded when results are determinable or on final settlement.

(p) Share-Based Payments

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

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

Equity settled share based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counter party renders the services.

i. Stock Option Plan

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

ii. Deferred Share Unit ("DSU") Plan

The Company's DSUs are cash settled. The DSU compensation liability is accounted for based on the number of DSUs outstanding and the quoted market value of the Company's common shares at the financial position date. The year-over-year change in the DSU compensation liability is recognized in profit or loss.

iii. Share Unit Plans

The Company's amended and restated share unit plan (the "SU Plan") covers all restricted share units ("RSUs") and performance share units ("PSUs") granted by the Company on and after March 1, 2015. All RSUs granted prior to March 1, 2015, are governed under the restricted share unit plan dated November 12, 2010.

Restricted Share Units ("RSUs")

The Company's RSUs are settled in cash. The RSUs compensation liability is accounted for based on the number of RSUs outstanding and the quoted market value of the Company's common shares at the financial position date. The Company recognizes a compensation cost in operating income on a graded vesting basis for each RSUs granted equal to the quoted market value of the Company's common shares at the date of which RSUs are awarded to each participant prorated over a specified period of time and adjusts for changes in the fair value until the end of the term of the RSUs. The cumulative effect of the change in fair value is recognized in profit or loss in the period of change.

Performance Share Units ("PSUs")

The Company's PSUs are settled in cash. The fair value of the estimated number of PSUs awarded that will eventually vest, determined as of the date of grant, is recognized as share-based payments expense within selling, general and administrative expenses in the consolidated income statement over the vesting period, with a corresponding amount recorded as a liability. Until the liability is settled, the fair value of the PSUs is re-measured at the end of each reporting period and at the date of settlement, with changes in fair value recognized as share-based payments expense or recovery over the vesting period. The fair value of PSUs are estimated on a graded vesting basis for each PSUs granted equal to the quoted market value, up to a maximum of two times the grant price, of the Company's common shares.

(q) Related Party Transactions

Parties are considered to be related if one party has the ability directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(r) Earnings per Share

Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year.

The diluted earnings per share calculation is based on the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options issued should be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the year, but only if dilutive.

(s) Segment Reporting

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

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

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

(t) Adoption of New Accounting Standards

The following standards or amendments were adopted effective January 1, 2016. They had no significant impact on the financial position, results of operations, or cash flows of the Company previously reported.

- IAS 1 «Presentation of Financial Statements» (Amendment)
- IFRS 11 «Joint Arrangements» (Amendment)
- IAS 16 «Property, Plant and Equipment» (Amendment)
- IAS 38 «Intangible Assets» (Amendment)
- Annual Improvements 2012-2014 Cycle

The following are new or revised standards which we expect may be applicable to the Company. We are currently assessing the impact on the financial position, results of operations, and cash flows of the Company resulting from these new or revised standards.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses Applicable to the Company commencing in the 2017 fiscal year.	Amends IAS 12 «Income Taxes» to clarify the following aspects: • Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
Amendments to IAS 7 Disclosure Initiative Applicable to the Company commencing in the 2017 fiscal year.	Amends IAS 7 «Statement of Cash Flows» to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
IFRS 9 «Financial Instruments» Applicable to the Company commencing in the 2018 fiscal year.	Contains accounting requirements for financial instruments, and replaces IAS 39 «Financial Instruments: Recognition and Measurement». The new standard contains requirements in the following areas: • Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The new standard introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment. The new standard introduces an 'expected credit loss' model for the measurement of the

(Presented in thousands of US dollars)

	impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized • Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures • Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.
IFRS 15 «Revenue from Contracts with Customers» Applicable to the Company commencing in the 2018 fiscal year.	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The new standard provides guidance on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue and contract costs are also introduced.
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions Applicable to the Company commencing in the 2018 fiscal year.	Amends IFRS 2 «Share-based Payment» to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.
IFRS 16 «Leases» Applicable to the Company commencing in the 2019 fiscal year.	IFRS 16 specifies how the Company should recognize, measure, present and disclose leases. The new standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.
IFRIC 22 «Foreign Currency Transactions and Advance Consideration» Applicable to the Company commencing in the 2018 fiscal year.	Addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.

(Presented in thousands of US dollars)

(u) Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the years ended December 31, 2016 and 2015. To provide more relevant or detailed information to users of the financial statements, mineral properties and plant and equipment are now presented separately.

Consolidated statement of financial position	December 31 2015
Mineral properties, plant and equipment, as previously reported	$ 242,403
Reallocated to mineral properties	(128,720)
Reallocated to plant and equipment	(113,683)
Mineral properties, plant and equipment	$ –
Mineral properties, as previously reported	$ –
Reallocated from mineral properties, plant and equipment	128,720
Mineral properties	$ 128,720
Plant and equipment, as previously reported	$ –
Reallocated from mineral properties, plant and equipment	113,683
Plant and equipment	$ 113,683

There has been no effect on profit or loss, earnings per share, cash flows, total assets, or total liabilities, for any of the periods presented as a result of these changes.

5. Use of Judgements and Estimates

(a) Critical Accounting Estimates and Assumptions

Many of the amounts included in the consolidated financial statements require management to make judgments and/or estimates. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Areas where critical accounting estimates and assumptions have the most significant effect on the amounts recognized in the consolidated financial statements include:

Mineral Reserves and Resources and the Life of Mine Plan

We estimate our mineral reserves and mineral resources in accordance with the Canadian Securities Administrators' National Instrument 43-101 Standards of Disclosure for Mineral Projects requirements. Estimates of the quantities of mineral reserves and mineral resources form the basis for our life of mine plans, which are used for the calculation of depletion expense under the units of production method, impairment tests, and forecasting the timing of the payments related to the environmental rehabilitation provision.

Significant estimation is involved in determining the reserves and resources included within our life of mine plans. Changes in forecast prices of commodities, exchange rates, production costs or recovery rates may result in our life of mine plan being revised and such changes could impact depletion rates, asset carrying values and our environmental rehabilitation provision. As at December 31, 2016 we have used the following long term prices for our reserve and resource estimations and life of mine plans: Gold $1,150/oz, Silver $19/oz.

In addition to the estimates above, estimation is involved in determining the percentage of resources ultimately expected to be converted to reserves and hence included in our life of mine plans. Our life of mine plans include a portion of inferred resources as we believe this provides a better estimate of the expected life of mine for certain type of deposits, in particular for vein type structures. The percentage of inferred resources out of the total tonnage included in the life of mine plans is based on site specific geological, technical, and economic considerations. Estimation of future conversion of resources is inherently uncertain and involves judgement and actual outcomes may vary from these judgments and estimates and such changes could have a material impact on the financial results. Some of the key judgements in the estimation process include; geological continuity; stationarity in the grades within defined domains; reasonable geotechnical and metallurgical conditions; treatment of outlier (extreme) values; cut-off grade determination, and the establishment of geostatistical and search parameters. Revisions to these estimates are accounted for prospectively in the period in which the change in estimate arises.

See note 4(g)(i).

Valuation of Mineral Properties and Exploration Properties

The Company carries its mineral properties at cost less accumulated depletion and any accumulated provision for impairment. The costs of each property and related capitalized expenditures are depleted over the economic life of the property on a units-of-production basis. Costs are charged to the consolidated statement of income (loss) when a property is abandoned or when there is a recognized impairment in value.

The Company undertakes a review of the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. Where previous impairment has been recorded, the Company analyzes any impairment reversal indicators. An impairment loss is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, future production and sale volumes, metal prices, foreign exchange rates, Mineral Resource and Reserve quantities, future operating and capital costs and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying values of the mining properties and related expenditures.

The Company, from time to time, acquires exploration and development properties. When properties are acquired, the Company must determine the fair value attributable to each of the properties. When the Company conducts exploration on a mineral property and the results from the exploration do not support the carrying value, the property is written down to its new fair value which could have a material effect on the consolidated statement of financial position and the consolidated statement of income (loss).

Reclamation and Other Closure Provisions

The Company has obligations for reclamation and other closure activities related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of the obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of closure provisions.

Revenue Recognition

Revenue from the sale of concentrate to independent smelters is recorded at the time the risks and rewards of ownership pass to the buyer using forward market prices on the expected date that final sales prices will be fixed. Variations between the prices set under the smelting contracts may be caused by changes in market prices and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in the fair value classified in revenue. For changes in metal quantities upon receipt of new information and assay, the provisional sales quantities are adjusted.

Contingencies

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will only be resolved when one or more future events not within our control occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings or regulatory or government actions that may negatively impact our business or operations, the Company with assistance from its legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims or actions.

A liability is recognized in the consolidated financial statements when the outcome of the legal proceedings is probable and the estimated settlement amount can be estimated reliably. Contingent assets are not recognized in the consolidated financial statements until virtually certain.

(b) Critical accounting judgments in applying the entity's accounting policies

Judgements that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

Income taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary differences") and losses carried forward. The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company.

(Presented in thousands of US dollars)

Management is required to assess whether it is "probable" that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilization of the losses.

Assessment of impairment and reverse impairment indicators

Management applies significant judgement in assessing whether indicators of impairment or reverse impairment exist for an asset or a group of assets which could result in a testing for impairment. Internal and external factors such as significant changes in the use of the asset, commodity prices, tax laws or regulations in the countries that our mines operate in and interest rates are used by management in determining whether there are any indicators of impairment or reversal of a previous impairment.

Functional currency

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The Company has determined that its functional currency and that of its subsidiaries is the U.S. dollar. The determination of functional currency may require certain judgements to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.

6. Short Term Investments

	December 31 2016	December 31 2015
Term deposits and similar instruments	$ 41,100	$ 36,031

7. Marketable Securities

	December 31 2016	December 31 2015
Common shares of Medgold Resources Corp.	$ 1,266	$ –
Warrants of Medgold Resources Corp.	313	–
	$ 1,579	$ –

(Presented in thousands of US dollars)

As part of the acquisition by the Company of 10 million common shares and 10 million warrants of Medgold (note 15), the warrants were each exercisable for one common share of Medgold at C$0.15 until June 17, 2017. These warrants are a derivative asset, and are categorized as fair value through profit or loss. Accordingly, changes in the fair value of these warrants during the period are recorded to profit or loss.

Subsequent to the reporting period, the Company exercised all the Medgold warrants it held. Upon exercise, the Company held 24.0% of the common shares of Medgold (20.4% on a fully diluted basis).

8. Accounts Receivable and Other Assets

	December 31 2016	December 31 2015
Trade receivables from concentrate sales	$ 23,185	$ 5,172
Advances and other receivables	1,095	1,350
Value added taxes recoverable	707	546
Accounts receivable and other assets	$ 24,987	$ 7,068

The aging of trade receivables from concentrate sales is as follows

	December 31 2016	December 31 2015
0-30 days	$ 22,312	$ 5,172
31-60 days	101	–
61-90 days	772	–
over 90 days	–	–
	$ 23,185	$ 5,172

9. Inventories

	December 31 2016	December 31 2015
Concentrate stockpiles	$ 1,285	$ 1,457
Ore stockpiles	2,659	1,912
Materials and supplies	9,628	7,065
Inventories	$ 13,572	$ 10,434

(Presented in thousands of US dollars)

During the year ended December 31, 2016, $127,984 (2015 – $109,685) of inventories was expensed to cost of sales.

During the year ended December 31, 2016, certain materials and supplies were written down to net realizable value and a charge of $280 (2015 – $585) was recorded as an impairment and charged to profit or loss.

10. Derivative Assets and Derivative Liabilities

	Derivative assets	
	December 31 2016	December 31 2015
Zinc swaps (note 10(b))	$ 973	$ –
Derivative assets	$ 973	$ –

	Derivative liabilities	
Interest rate swap (note 10(a))	$ 254	$ 351
Derivative liabilities	$ 254	$ 351

(a) Interest rate swap

Effective April 1, 2015, the Company entered into an interest rate swap ("swap") of $40,000, which expires on March 25, 2019 and matches the maturity of the bank loan (note 16). The swap was entered into to hedge the variable interest rate risk on the bank loan. The swap is designated as a cash flow hedge for forecasted variable interest rate payments. The interest rate swap is carried on the statement of financial position at fair value, with periodic changes in the fair value being recorded in other comprehensive income, to the extent that it is determined to be an effective hedge. The ineffective portion is recorded to profit or loss. Interest expense on the bank loan is recorded to profit or loss.

The fixed rate on the swap is 1.52% and the floating amount is based on the one month LIBOR rate. The swap is settled on a monthly basis, with settlement being the net difference between the fixed and floating interest.

(b) Zinc swaps

In December 2016, the Company entered into two sets of zinc swaps with Scotiabank, to mitigate its commodity price risks. The zinc swaps consist of a total of 3900 tonnes of zinc at $2,650 per tonne and 3900 tonnes of zinc at $2,750 per tonne (average of 650 tonnes per month).

(Presented in thousands of US dollars)

These contracts are not accounted for as designated hedges under IAS 39. Such derivative financial instruments were initially recognized at fair value on the date on which the related derivative contracts were entered into and are subsequently re-measured at estimated fair value. A gain of $973 arising from changes in the fair value of the zinc swaps was credited to profit or loss.

11. Deposits on Long Term Assets

	December 31 2016	December 31 2015
Deposits on equipment	$ 119	$ 8,183
Deposits paid to contractors	453	533
Deposits on long term assets	$ 572	$ 8,716

12. Mineral Properties

Year ended	Depletable		Not depleted		
December 31, 2016	Caylloma	San Jose	Lindero	Other	Total
COST					
Balance, January 1, 2016	$ 92,973	$ 136,666	$ –	$ 1,533	$ 231,172
Acquisition of subsidiary (note 12(a))	–	–	128,687	–	128,687
Additions	7,060	14,643	1,795	942	24,440
Change in rehabilitation provision	597	(414)	108	–	291
Write-offs	–	(512)	–	(631)	(1,143)
Reclassifications	–	876	–	–	876
Balance, December 31, 2016	$ 100,630	$ 151,259	$ 130,590	$ 1,844	$ 384,323
ACCUMULATED IMPAIRMENT					
Balance, January 1, 2016	$ 31,900	$ –	$ –	$ –	$ 31,900
Balance, December 31, 2016	$ 31,900	$ –	$ –	$ –	$ 31,900
ACCUMULATED DEPLETION					
Balance, January 1, 2016	$ 37,552	$ 33,000	$ –	$ –	$ 70,552
Depletion	4,507	13,829	–	–	18,336
Balance, December 31, 2016	$ 42,059	$ 46,829	$ –	$ –	$ 88,888
BOOK VALUE, December 31, 2016	$ 26,671	$ 104,430	$ 130,590	$ 1,844	$ 263,535

(Presented in thousands of US dollars)

	Depletable		Not depleted		
Year ended December 31, 2015	Caylloma	San Jose	Lindero	Other	Total
COST					
Cost, January 1, 2015	$ 87,953	$ 125,007	$ –	$ 1,348	$ 214,308
Additions	5,347	11,781	–	185	17,313
Currency translation	(327)	(122)	–	–	(449)
Balance, December 31, 2015	$ 92,973	$ 136,666	$ –	$ 1,533	$ 231,172
ACCUMULATED IMPAIRMENT					
Balance, January 1, 2015	$ 16,868	$ –	$ –	$ –	$ 16,868
Impairment	15,032	–	–	–	15,032
Balance, December 31, 2015	$ 31,900	$ –	$ –	$ –	$ 31,900
ACCUMULATED DEPLETION					
Balance, January 1, 2015	$ 32,913	$ 23,988	$ –	$ –	$ 56,901
Currency translation	(252)	(31)	–	–	(283)
Depletion	4,891	9,043	–	–	13,934
Balance, December 31, 2015	$ 37,552	$ 33,000	$ –	$ –	$ 70,552
BOOK VALUE, December 31, 2015	$ 23,521	$ 103,666	$ –	$ 1,533	$ 128,720

(a) Lindero Project

On July 28, 2016, Fortuna Silver Mines Inc. acquired all the issued and outstanding common shares of Goldrock Mines Corp. ("Goldrock"), a public company listed on the TSX Venture Exchange, by issuing 14,569,045 common shares and 1,514,677 warrants, exercisable at C$6.01 per common share and expiring on October 31, 2018. Goldrock's principal asset is the 100% owned Lindero Gold Project located in Salta Province, Argentina.

This acquisition has been accounted for as an asset purchase, as Goldrock Mines Corp. and its subsidiaries did not meet the definition of a business as defined in IFRS 3 «Business Combinations».

(Presented in thousands of US dollars)

The following summarizes the consideration paid and estimates of fair value of assets acquired and liabilities assumed:

Consideration:		
14,569,045 common shares of the Company		$ 122,813
1,514,677 warrants		7,401
Costs of the transaction	8,226	
Cash of Goldrock received	(528)	
Costs of the transaction paid by Goldrock prior to closing	(2,822)	4,876
		$ 135,090

Assets acquired and liabilities assumed:	
Accounts receivable	$ 249
Machinery and Equipment	6,954
Accounts payable	(700)
Closure and rehabilitation provisions	(100)
Lindero Gold Project	128,687
	$ 135,090

The cash used for the purchase of the Lindero Project was as follows:

Total consideration	$ 135,090
less: Non-cash issuance of common shares	(122,813)
less: Non-cash issuance of warrants	(7,401)
	$ 4,876

Comprising:	
Cash transaction costs	$ 5,404
less: Cash of Goldrock received	(528)
	$ 4,876

The consideration was determined based on the fair value of the Goldrock shares at the date of the acquisition, plus the estimated fair value of warrants issued and transaction costs incurred. The warrants were accounted for under IFRS 2 «Share-based Payment», and are treated as equity settled share-based payments. The corresponding credit has been recorded in equity. The purchase price was allocated to the assets acquired and liabilities assumed on a relative fair value basis.

The Company has corrected an immaterial allocation error previously reported in the financial statements for the three and nine months ended September 30, 2016. This reclassification resulted in an increase of $3,141 in machinery and equipment and a corresponding decrease in Lindero Gold Project.

Upon achievement of commercial production of a mine at Lindero, the Company has agreed to payments totaling C$480 to certain private companies controlled by former executives of Goldrock Mines Corp.

(b) Exploration and Evaluation Assets

There are several properties at which the Company is conducting exploration and evaluation activities. These are included as "non-depleted – other" within "mineral properties". Details of these properties are described below.

i. Tlacolula Property

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

The Company can earn the Interest by spending $2,000 on exploration of the property (which includes a commitment to drill 1,500 meters within 12 months after Cuzcatlan has received a permit to drill the property), making staged payments totaling $300 in cash, and providing $250 in common shares of the Company to Radius according to an agreed schedule.

- $20 in cash and $20 cash equivalent in shares upon stock exchange approval (completed),
- $30 in cash and $30 cash equivalent in shares by January 15, 2011 (completed),
- $50 in cash and $50 cash equivalent in shares by January 15, 2012 (completed),
- $50 in cash and $50 cash equivalent in shares by January 15, 2013 (completed),
- $50 in cash by January 19, 2015 (completed), and,
- $100 in cash and $100 cash equivalent in shares within 90 days after Cuzcatlan has completed the first 1,500 meters of drilling on the property.

Upon completion of the cash payments and share issuances and incurring the exploration expenditures as set forth above, the Company will be deemed to have exercised the Option and to have acquired a 60% interest in the property, whereupon a joint venture will be formed to further develop the property on the basis of the Company owning 60% and Radius 40%. Radius has the right to terminate the agreement if the Option is not exercised by January 31, 2017. As of the issuance date of these financial statements, the Company is in negotiations with Radius to purchase the Tlacolula Property, and accordingly, Radius has agreed not to terminate the option agreement.

To December 31, 2016, the Company had issued an aggregate of 34,589 (December 31, 2015 – 34,589) common shares of the Company to Radius, with a fair market value of $150 (December 31, 2015 – $150), and paid $200 (to December 31, 2015– $200) in cash according to the terms of the option agreement.

ii. Tabaconas Property

In June 2016, the Company entered into a Usufruct and Option Agreement pursuant to which it acquired an option to acquire 100% the issued and outstanding common shares of two private

(Presented in thousands of US dollars)

Peruvian companies which hold the mining rights to the 2983 hectare Tabaconas Property in northern Peru, by making staged cash payments totaling $3,000 over a period of up to approximately six years. The vendors retain a 1% net smelter return royalty on mineral products from these mining rights.

During the year ended December 31, 2016, the Company incurred $445 (2015 – $nil) in expenditures on the Tabaconas Property. In December 2016, the Company concluded no further work was warranted, and wrote off $445 (2015 – $nil).

iii. Northwest Nevada Initiative

In December 6, 2016, the Company entered into an option agreement with an unrelated party to acquire 6,756 mineral claims in north west Nevada, USA, totaling 239,128 acres (96,773 hectares).

To maintain this agreement, the Company is required to make the following payments and expenditures:

	Timing	Cash	Cash or shares	Exploration expenditures	Status
(a)	Upon signing of the agreement	$ 200	–	–	paid
(b)	The later of receipt of drill permit, or June 6, 2017	$ 250	–	–	–
(c)	The later of six months after receipt of drill permit, or December 6, 2017	$ 165	$ 335	–	–
(d)	December 6, 2018	$ 330	$ 670	–	–
(e)	Within 24 months after receipt of drill permit	–	–	$ 1,000	–
(f)	December 6, 2019	$ 495	$ 1,005	–	–
(g)	December 6, 2020	$ 900	$ 2,100	–	–
(h)	Before December 6, 2020	–	–	$ 1,000	
	TOTALS	$ 2,340	$ 4,110	$ 2,000	

A further success payment is required if the Company completes an economic study on a potential mine if certain minimum technical parameters based on resource size and rate of return are met.

(c) Impairment

At December 31, 2015, the Company determined there were several indicators of potential impairment on its non-current assets, including the decline in the Company's market capitalization, reduction in the market consensus on long term silver price forecasts during the year and the consequential impact on the Company's reserves and resources. Based on the Company's assessment of the recoverable amounts of its CGUs, the Company concluded that the Caylloma Mine had an estimated recoverable value, based on its FVLCTS, below its carrying value and an impairment charge was required. As a result, the Company recognized a $17,000, net of tax

(Presented in thousands of US dollars)

($25,000, before tax) impairment charge, on the carrying value of net assets of $65,187, in respect to the Company's investment in Caylloma. The impairment charge was allocated on a pro rata basis against the net book value of the mineral properties, plant and equipment.

13. Plant and Equipment

Year ended December 31, 2016	Machinery and equipment	Land, buildings and leasehold improvements	Furniture and other equipment	Transport units	Equipment under finance lease	Capital work in progress	Total
COST							
Balance, January 1, 2016	$ 28,462	$ 94,872	$ 15,476	$ 711	$ 5,215	$ 38,792	$ 183,528
Acquisition of subsidiary (note 12(a))	6,954	–	–	–	–	–	6,954
Additions	1,627	258	368	181	2,013	21,849	26,296
Disposals	(211)	–	(106)	(64)	(75)	–	(456)
Write-offs	–	–	–	–	–	–	–
Reclassifications	20,853	36,937	110	267	657	(59,700)	(876)
Balance, December 31, 2016	$ 57,685	$ 132,067	$ 15,848	$ 1,095	$ 7,810	$ 941	$ 215,446
ACCUM. IMPAIRMENT							
Balance, January 1, 2016	$ 3,784	$ 16,154	$ 2,405	$ –	$ 483	$ –	$ 22,826
Disposals	(8)	–	(40)	–	(8)	–	(56)
Balance, December 31, 2016	$ 3,776	$ 16,154	$ 2,365	$ –	$ 475	$ –	$ 22,770
ACCUM. DEPRECIATION							
Balance, January 1, 2016	$ 14,816	$ 24,466	$ 4,387	$ 505	$ 2,845	$ –	$ 47,019
Disposals	(199)	–	(64)	(60)	(67)	–	(390)
Reclassifications	12	2	(14)	–	–	–	–
Depreciation	3,235	9,011	2,439	131	368	–	15,184
Balance, December 31, 2016	$ 17,864	$ 33,479	$ 6,748	$ 576	$ 3,146	$ –	$ 61,813
BOOK VALUE, December 31, 2016	$ 36,045	$ 82,434	$ 6,735	$ 519	$ 4,189	$ 941	$ 130,863

(Presented in thousands of US dollars)

Year ended December 31, 2015	Machinery and equipment	Buildings and leasehold improvements	Furniture and other equipment	Transport units	Equipment under finance lease	Capital work in progress	Total
COST							
Cost, January 1, 2015	$ 27,976	$ 94,122	$ 13,537	$ 628	$ 4,308	$ 3,251	$ 143,822
Additions	1,011	128	1,924	179	1,577	36,343	41,162
Disposals	(525)	(14)	(134)	(96)	(670)	–	(1,439)
Reclassifications	–	647	155	–	–	(802)	–
Currency translation	–	(11)	(6)	–	–	–	(17)
Cost, December 31, 2015	$ 28,462	$ 94,872	$ 15,476	$ 711	$ 5,215	$ 38,792	$ 183,528
ACCUM. IMPAIRMENT							
Balance, January 1, 2015	$ 2,208	$ 8,175	$ 2,317	$ 1	$ 318	$ –	$ 13,019
Disposals	(54)	(4)	(78)	(1)	(24)	–	(161)
Impairment	1,630	7,983	166	–	189	–	9,968
Balance, December 31, 2015	$ 3,784	$ 16,154	$ 2,405	$ –	$ 483	$ –	$ 22,826
ACCUM. DEPRECIATION							
Balance, January 1, 2015	$ 12,422	$ 18,269	$ 3,211	$ 476	$ 3,115	$ –	$ 37,493
Disposals	(433)	(4)	(52)	(93)	(637)	–	(1,219)
Currency translation	–	(4)	(5)	–	–	–	(9)
Depreciation	2,827	6,205	1,233	122	367	–	10,754
Balance, December 31, 2015	$ 14,816	$ 24,466	$ 4,387	$ 505	$ 2,845	$ –	$ 47,019
BOOK VALUE, December 31, 2015	$ 9,862	$ 54,252	$ 8,684	$ 206	$ 1,887	$ 38,792	$ 113,683

(Presented in thousands of US dollars)

14. Trade and Other Payables

	December 31 2016	December 31 2015
Trade accounts payable	$ 15,251	$ 18,177
Refundable deposits to contractors	1,514	1,370
Payroll payable	10,755	6,607
Mining royalty	755	471
Value added taxes payable	1,866	–
Interest payable	114	104
Due to related parties (note 15(d))	10	8
Other payables	354	654
	30,619	27,391
Deferred share units payable	4,992	–
Restricted share units payable	2,870	1,117
Performance share units payable	1,679	462
	9,541	1,579
Total trade and other payables	$ 40,160	$ 28,970

Refer to note 20 for details on the Company's share units plans.

15. Related Party Transactions

The Company's related parties include:

Related party	**Nature of the relationship**
Key management personnel	Officers and directors of the Company.
Gold Group Management Inc. ("GGMI")	A private company owned by a director of the Company. The Company shares office space with GGMI, and reimburses GGMI for shared office and administrative costs and other related expenses. All charges from GGMI to the Company are at cost, plus a monthly administration fee to cover incidentals. Charges for salaries and benefits are based on estimates of the percentage of time worked by GGMI employees on the activities of the Company.
Mill Street Services Ltd. ("Mill Street")	A private company owned by a director of the Company, through which consulting fees of the director are paid.

Radius Gold Inc. ("Radius")	A Canadian public company which has certain directors in common with the Company. Radius shares office space with the Company, and reimburses the Company at cost for general overhead costs as they arise.
Medgold Resources Corp. ("Medgold")	A Canadian public company which has a director in common with the Company.

During the years ended December 31, 2016 and 2015, the Company entered into the following related party transactions:

(a) Purchase of Goods and Services

The following transactions are with GGMI. There were no purchases of goods or services from other related parties.

	December 31 2016	December 31 2015
Salaries and wages	$ 121	$ 88
General and administrative expenses	103	$ 104
Mineral property option payments	–	$ 50
Shared computer equipment	–	$ 6
	$ 224	$ 248

(b) Key Management Personnel

	December 31 2016	December 31 2015
Salaries and short term employee benefits	$ 3,987	$ 3,947
Directors fees	357	373
Consulting fees	127	141
Share-based payments	13,527	1,381
	$ 17,998	$ 5,842

Share-based payments consist primarily of DSUs, RSUs and PSUs (note 20).

(Presented in thousands of US dollars)

(c) Private Placement

On June 17, 2016, the Company acquired 10 million units of Medgold Resources Corp. (the "Medgold Units") for $1,165. Each unit consisted of one common share of Medgold and one warrant entitling Fortuna to purchase one additional common share of Medgold at C$0.15 until June 17, 2017.

Upon acquisition, the Medgold common shares and the Medgold warrants were accounted for as separate financial assets, and are presented on the statement of financial position within marketable securities (note 7). Fair value changes on the Medgold common shares are charged to other comprehensive income, and fair value changes on the Medgold warrants are charged to profit or loss.

(d) Outstanding Balances at the Reporting Date

Balances payable to:	December 31 2016	December 31 2015
Gold Group Management Inc.	$ 10	$ 8
	$ 10	$ 8

Amounts due to related parties are due on demand, and are unsecured.

16. Bank Loan

In March 2015, the Company entered into an amended and restated credit agreement with the Bank of Nova Scotia for a $60 million senior secured financing (the "Credit Facility") consisting of a $40 million term credit facility with a 4 year term and a $20 million revolving credit facility for a two year period. The Credit Facility is secured by a first ranking lien on the assets of Bateas, Cuzcatlan, and their holding companies. If the utilization of the Credit Facility is less than $10 million, a commitment fee of 1.0% per annum is payable quarterly on the unutilized portion of the available Credit Facility.

In April 2015, the $40 million term credit facility was drawn down. Interest on the term credit facility is calculated using the one, two, three, or six month US$ LIBOR rates plus a graduated margin based on the Company's leverage ratio. Interest is payable one month in arrears. The term credit facility bears a 4 year term and is repayable with a balloon payment on the maturity date of April 1, 2019.

While the term credit facility remains unpaid, the Company is required to maintain the following financial covenants:

- Total debt to EBITDA of not greater than 3:1 calculated on a rolling four fiscal quarter basis and measured at the end of each fiscal quarter of the Company; and,
- Minimum tangible net worth in an amount equal to the sum of (a) 85% of the tangible net worth as at June 30, 2014, (b) 50% of positive quarterly net income earned after June 30, 2014, and (c) 50% of the value of any equity interests issued by the Company after June 30, 2014.

(Presented in thousands of US dollars)

As at December 31, 2016, the Company was in compliance with all covenants required by the credit facility.

Unamortized transaction costs are comprised of legal fees and an upfront commitment fee arising upon inception of the loan in March 2015.

	December 31 2016	December 31 2015
Term credit facility, drawn	$ 40,000	$ 40,000
Unamortized transaction costs	(232)	(514)
	39,768	39,486
less: current portion	–	–
	$ 39,768	$ 39,486

Other than interest, no payments are required until April 2019.

17. Finance Lease Obligations

	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Less than one year	$ 2,189	$ 809	$ 2,128	$ 772
Between one and five years	912	1,132	906	1,112
More than five years	–	–	–	–
	3,101	1,941	3,034	1,884
Less: future finance charges	(67)	(57)	–	–
Present value of minimum lease payments	$ 3,034	$ 1,884	$ 3,034	$ 1,884
Presented as:				
Current portion			$ 2,128	$ 772
Non-current portion			906	1,112
			$ 3,034	$ 1,884

(Presented in thousands of US dollars)

18. Other Liabilities

	December 31 2016	December 31 2015
Deferred share units	$ –	$ 2,279
Restricted share units	1,619	453
Performance share units	1,866	732
Non-current liabilities	59	44
	$ 3,544	$ 3,508

Details of the share units plans are provided in note 20.

19. Closure and Rehabilitation Provisions

	December 31, 2016			December 31, 2015		
	Total	Current	Non-current	Total	Current	Non-current
Caylloma Mine	$ 8,182	$ 822	$ 7,360	$ 7,508	$ 335	$ 7,173
San Jose Mine	4,822	299	4,523	4,997	118	4,879
Lindero Project	208	–	208	–	–	–
	$ 13,212	$ 1,121	$ 12,091	$ 12,505	$ 453	$ 12,052

	Closure and rehabilitation provisions			
	Caylloma Mine	San Jose Mine	Lindero Project	Total
At January 1, 2016	$ 7,508	$ 4,997	$ –	$ 12,505
Acquisition of a subsidiary	–	–	100	100
Increase to existing provisions	641	444	108	1,193
Incurred and charged against the provision	(302)	(94)	–	(396)
Accretion of provisions	331	334	–	665
Foreign exchange differences	4	(859)	–	(855)
At December 31, 2016	$ 8,182	$ 4,822	$ 208	$ 13,212
Presented as:				
Current portion	$ 822	$ 299	$ –	$ 1,121
Non-current portion	7,360	4,523	208	12,091
	$ 8,182	$ 4,822	$ 208	$ 13,212

(Presented in thousands of US dollars)

	Closure and rehabilitation provisions			
	Caylloma Mine	San Jose Mine	Lindero Project	Total
At January 1, 2015	$ 7,187	$ 5,511	$ –	$ 12,698
Increase to existing provisions	1,165	471	–	1,636
Incurred and charged against the provision	(127)	(145)	–	(272)
Accretion of provisions	344	(34)	–	310
Foreign exchange differences	(1,061)	(806)	–	(1,867)
At December 31, 2015	$ 7,508	$ 4,997	$ –	$ 12,505
Presented as:				
Current portion	$ 335	$ 118	$ –	$ 453
Non-current portion	7,173	4,879	–	12,052
	$ 7,508	$ 4,997	$ –	$ 12,505

Closure and reclamation provisions represent the present value of rehabilitation costs relating to mine sites.

The major estimates and assumptions used in estimating these closure and reclamation provisions are:

	Closure and rehabilitation provisions			
	Caylloma Mine	San Jose Mine	Lindero Project	Total
Anticipated settlement date	2021	2030	2028	
Undiscounted estimated cash flow	$ 8,580	$ 5,190	$ 458	$ 14,228
Estimated life (years)	5	8	10	
Discount rate	4.1%	7.5%	10.0%	
Inflation rate	2.0%	4.1%	3.0%	

20. Share Based Payments

(a) Deferred Share Units ("DSUs")

Deferred share units are typically granted to non-executive directors of the Company. They are payable in cash, upon resignation, retirement, removal, failure to achieve re-election, or upon a change of control of the Company.

During the year ended December 31, 2016, the Company granted 201,319 (year ended December 31, 2015 – 187,890) DSUs with an aggregate market value of CAD$1,025 (year ended December 31, 2015 - CAD$900), at the dates of grant.

As at December 31, 2016, there were 883,071 (December 31, 2015 – 1,016,419) DSUs outstanding with an estimated fair value of $4,992 (December 31, 2015 – $2,279).

(b) Restricted Share Units ("RSUs")

Restricted share units are from time to time be granted to officers and employees of the Company. They are payable in cash and typically vest over three years, in tranches of 20%, 30%, and 50%. RSUs are payable in cash at each vesting date, or upon a change of control or termination without cause. The amount payable is calculated based on a five-day trailing average price.

During the year ended December 31, 2016, the Company granted 789,946 (year ended December 31, 2015 – 385,740) RSU with a market value of CAD$3,926 (2015 – CAD$1,848), at the date of grant, to an executive director and officer (317,276), officers (389,991), and employees (82,679), vesting and payable 20% after one year, 30% after two years, and the remaining 50% after three years from the date of grant.

During the year ended December 31, 2016, the Company paid $1,846 (year ended December 31, 2015 – $739) upon the vesting of 377,654 (year ended December 31, 2015 – 192,519) RSUs to an executive director and officer, officers, and employees. Also during the year ended December 31, 2016, the Company cancelled 49,043 RSUs (year ended December 31, 2015 – nil) and paid $257 (year ended December 31, 2015 - $nil) on 41,365 (year ended December 3, 2015 – nil) RSUs to a former officer and employee of the Company.

As at December 31, 2016, there were 1,337,720 (December 31, 2015 – 1,015,846) RSUs outstanding with a fair value of $4,489 (December 31, 2015 – $1,570).

(c) Performance Share Units ("PSUs")

Performance Share Units ("PSUs") are performance-based awards for the achievement of specified performance metrics by specified deadlines, which vest over a three year period. PSUs for which the performance metrics have not been achieved are forfeited and cancelled. The PSUs for which the performance metrics have been achieved vest and are paid in cash based on a five-day trailing average price.

During the year ended December 31, 2016, the Company granted nil (year ended December 31, 2015 – 1,236,620) PSU with a market value of $nil (year ended December 31, 2015 – CAD$5,923), at the date of grant, to an executive director and officer (nil) and officers (nil), vesting and payable 20% after one year, 30% after two years, and the remaining 50% after three years from the date of grant if certain performance metrics are achieved. For PSUs that vest under this grant, the payout will be paid up to a maximum of two times the grant price of CAD$4.79 per unit.

During the year ended December 31, 2016, the Company paid $961 (year ended December 31, 2015 – $nil) upon the vesting of 247,324 (year ended December 31, 2015 – nil) PSUs to an executive director and officer, and officers and cancelled 103,761 (year ended December 31, 2015 - nil) PSUs of a former officer.

As at December 31, 2016, a total of 885,535 (2015 – 1,236,620) PSUs were outstanding with a fair value of $3,545 (2015– $1,194).

(Presented in thousands of US dollars)

21. Share Capital

(a) Authorized share capital

The Company has an unlimited number of common shares without par value authorized for issue.

(b) Stock Options

The Company's Stock Option Plan, as amended and approved from time to time, permits the Company to issue up to 12,200,000 stock options. As at December 31, 2016, a total of 2,840,599 common shares were available for issuance under the plan.

	Number of stock options	Weighted average exercise price
		Canadian dollars
Outstanding, January 1, 2015	2,944,246	$ 3.25
Granted	901,969	$ 4.79
Exercised	(740,860)	$ 3.40
Outstanding, December 31, 2015	3,105,355	$ 3.66
Exercised	(2,236,861)	$ 3.45
Forfeited	(23,501)	$ 4.79
Outstanding, December 31, 2016	844,993	$ 4.19
Vested and exercisable, December 31, 2015	1,873,695	$ 3.01
Vested and exercisable, December 31, 2016	459,578	$ 3.68

During the year ended December 31, 2016, a total of $468 (2015 – $761) in share-based payments related to stock options was expensed.

No options were granted during 2016. The assumptions used to estimate the fair value of the stock options granted during the year ended December 31, 2015 were a risk free interest rate of 0.45%, expected volatility of 61%, expected term of 3 years, expected forfeiture rate of 5.25%, and an expected dividend yield of nil.

(Presented in thousands of US dollars)

22. Earnings per Share

	Year ended December 31	
	2016	2015
Income attributable to equity owners	$ 17,858	$ (10,608)
Weighted average number of shares (000's)	136,888	129,001
Earnings per share - basic	$ 0.13	$ (0.08)
Basic EPS from continuing operations	$ 0.13	$ (0.08)

	Year ended December 31	
	2016	2015
Adjusted income attributable to equity owners	$ 17,858	$ (10,608)
Weighted average number of shares ('000's)	136,888	129,001
Incremental shares from options	236	–
Incremental shares from warrants	929	–
Weighted average diluted number of shares (000's)	138,053	129,001
Diluted earnings per share	$ 0.13	$ (0.08)
Diluted EPS from continuing operations	$ 0.13	$ (0.08)

There were no anti-dilutive options or warrants excluded from the above calculation in respect of 2016. For the year ended December 31, 2015, excluded from the calculation were 1,417,685 anti-dilutive options with exercise prices ranging from CAD$4.79 to CAD$6.67.

(Presented in thousands of US dollars)

23. Sales

(a) By product and geographical area

	Year ended December 31, 2016				
	Canada	Peru	Mexico	Argentina	Total
Silver-gold concentrates	$ –	$ –	$ 143,151	$ –	$ 143,151
Silver-lead concentrates	–	40,442	–	–	40,442
Zinc concentrates	–	26,662	–	–	26,662
Sales to external customers	$ –	$ 67,104	$ 143,151	$ –	$ 210,255

	Year ended December 31, 2015				
	Canada	Peru	Mexico	Argentina	Total
Silver-gold concentrates	$ –	$ –	$ 100,926	$ –	$ 100,926
Silver-lead concentrates	–	36,962	–	–	36,962
Zinc concentrates	–	16,841	–	–	16,841
Sales to external customers	$ –	$ 53,803	$ 100,926	$ –	$ 154,729

(b) By major customer

	Year ended December 31	
	2016	2015
Customer 1	$ 71,967	$ 100,831
Customer 2	71,184	–
Customer 3	40,646	20,230
Customer 4	18,238	24,384
Other Customers	8,220	9,284
	$ 210,255	$ 154,729

For the year ended December 31, 2016, five (2015: nine) customers represented 100% of total sales to external customers. In 2016 and 2015, revenues from Customers 1 and 2 were realized by Cuzcatlan, and revenues from Customers 3 and 4 were realized from Bateas.

(Presented in thousands of US dollars)

24. Cost of Sales

	Year ended December 31, 2016		
	Caylloma	San Jose	Total
Direct mining costs	$ 32,047	$ 46,574	$ 78,621
Salaries and benefits	5,399	4,697	10,096
Workers' participation	973	4,742	5,715
Depletion and depreciation	7,958	24,759	32,717
Royalties	873	1,627	2,500
	$ 47,250	$ 82,399	$ 129,649

	Year ended December 31, 2015		
	Caylloma	San Jose	Total
Direct mining costs	$ 33,520	$ 38,010	$ 71,530
Salaries and benefits	6,161	4,492	10,653
Workers' participation	385	2,269	2,654
Depletion and depreciation	9,366	15,528	24,894
Royalties	681	669	1,350
	$ 50,113	$ 60,968	$ 111,081

25. Selling, General, and Administrative Costs

Selling, general and administrative costs for the years ended December 31, 2016 and 2015 are comprised of the following.

	Year ended December 31	
	2016	2015
General and administrative	$ 15,616	$ 15,700
Workers' participation	1,363	664
	16,979	16,364
Share-based payments	14,138	1,499
	$ 31,117	$ 17,863

26. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. «Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (interest rate, yield curves), or inputs that are derived principally from or corroborated observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The following sets up the methods and assumptions used to estimate the fair value of Level 2 and Level 3 financial instruments.

Financial asset or liability	Methods and assumptions used to estimate fair value
Trade receivables	Trade receivables arising from the sales of metal concentrates are subject to provisional pricing, and the final selling price is adjusted at the end of quotational period. We mark these to market at each reporting date based on a quoted spot price. The Company's trade receivables are valued using quoted market prices based on the spot price on the London Metal Exchange ("LME").
Medgold warrants (note 7)	Fair value is estimated using an option pricing model which uses a combination of quoted prices and market-derived inputs, such as volatility and interest rate estimates.
Interest rate swaps, and zinc swaps	Fair value is calculated as the present value of the estimated contractual cash flows. Estimates of future cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. These are discounted using a yield curve, and adjusted for credit risk of the Company and the counterparty.

During the years ended December 31, 2016, and 2015, there were no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy. The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. Fair value information for financial assets and financial liabilities not measured at fair value is not presented if the carrying amount is a reasonable approximation of fair value.

(Presented in thousands of US dollars)

	Carrying value						Fair value			
December 31, 2016	Available for sale	Fair value through profit or loss	FV (hedging)	Loans and receivables	Other liabilities	Total	Level 1	Level 2	Level 3	Carrying value approximates FV
Financial assets measured at FV										
Marketable securities - shares	$ 1,266	$ –	$ –	$ –	$ –	$ 1,266	$ 1,266	$ –	$ –	$ –
Marketable securities - warrants	–	313	–	–	–	313	–	313	–	–
Trade receivables concentrate sales	–	23,185	–	–	–	23,185	–	23,185	–	–
Zinc swaps	–	973	–	–	–	973	–	973	–	–
	$ 1,266	$ 24,471	$ –	$ –	$ –	$ 25,737	$ 1,266	$ 24,471	$ –	$ –
Financial assets not measured at FV										
Cash and cash equivalents	$ –	$ –	$ –	$ 82,484	$ –	$ 82,484	$ –	$ –	$ –	$ 82,484
Term deposits	–	–	–	41,100	–	41,100	–	–	–	41,100
Other receivables	–	–	–	72	–	72	–	–	–	72
Value added taxes recoverable	–	–	–	707	–	707	–	–	–	707
	$ –	$ –	$ –	$ 124,363	$ –	$ 124,363	$ –	$ –	$ –	$ 124,363
Financial liabilities measured at FV										
Interest rate swap liability	$ –	$ –	$ (254)	$ –	$ –	$ (254)	$ –	$ (254)	$ –	$ –
	$ –	$ –	$ (254)	$ –	$ –	$ (254)	$ –	$ (254)	$ –	$ –
Financial liabilities not measured at FV										
Trade payables	$ –	$ –	$ –	$ –	$ (15,251)	$ (15,251)	$ –	$ –	$ –	$ (15,251)
Payroll payable	–	–	–	–	(10,755)	(10,755)	–	–	–	(10,755)
Share units payable	–	–	–	–	(13,026)	(13,026)	(13,026)	–	–	–
Finance lease obligations	–	–	–	–	(3,034)	(3,034)	–	–	–	(3,034)
Bank loan payable	–	–	–	–	(39,768)	(39,768)	–	–	–	(39,768)
Other payables	–	–	–	–	(17,605)	(17,605)	–	–	–	(17,605)
	$ –	$ –	$ –	$ –	$ (99,439)	$ (99,439)	$ (13,026)	$ –	$ –	$ (86,413)

(Presented in thousands of US dollars)

	Carrying value						Fair value			
December 31, 2015	Available for sale	Fair value through profit or loss	FV (hedging)	Loans and receivables	Other liabilities	Total	Level 1	Level 2	Level 3	Carrying value approximates FV
Financial assets measured at FV										
Trade receivables concentrate sales	$ –	$ 5,172	$ –	$ –	$ –	$ 5,172	$ –	$ 5,172	$ –	$ –
	$ –	$ 5,172	$ –	$ –	$ –	$ 5,172	$ –	$ 5,172	$ –	$ –
Financial assets not measured at FV										
Cash and cash equivalents	$ –	$ –	$ –	$ 72,218	$ –	$ 72,218	$ –	$ –	$ –	$ 72,218
Term deposits	–	–	–	36,031	–	36,031	–	–	–	36,031
Other receivables	–	–	–	2,130	–	2,130	–	–	–	2,130
Value added taxes recoverable	–	–	–	546	–	546	–	–	–	546
	$ –	$ –	$ –	$ 110,925	$ –	$ 110,925	$ –	$ –	$ –	$ 110,925
Financial liabilities measured at FV										
Interest rate swap liability	$ –	$ –	$ (351)	$ –	$ –	$ (351)	$ –	$ (351)	$ –	$ –
	$ –	$ –	$ (351)	$ –	$ –	$ (351)	$ –	$ (351)	$ –	$ –
Financial liabilities not measured at FV										
Trade payables	$ –	$ –	$ –	$ –	$ (18,177)	$ (18,177)	$ –	$ –	$ –	$ (18,177)
Payroll payable	–	–	–	–	(6,607)	(6,607)	–	–	–	(6,607)
Share units payable	–	–	–	–	(5,043)	(5,043)	(5,043)	–	–	–
Finance lease obligations	–	–	–	–	(1,884)	(1,884)	–	–	–	(1,884)
Bank loan payable	–	–	–	–	(39,486)	(39,486)	–	–	–	(39,486)
Other payables	–	–	–	–	(4,886)	(4,886)	–	–	–	(4,886)
	$ –	$ –	$ –	$ –	$ (76,083)	$ (76,083)	$ (5,043)	$ –	$ –	$ (71,040)

(Presented in thousands of US dollars)

27. Management of Financial Risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

The Company is exposed to certain financial risks, including credit risk, liquidity risk, currency risk, metal price risk, and interest rate risk.

(a) 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. All of our trade accounts receivables from concentrate sales are held with large international metals trading companies.

The Company's cash and cash equivalents and short term investments are held through large financial institutions. These investments mature at various dates within one year.

The Company's maximum exposure to credit risk as at December 31, 2016 and 2015 is as follows.

	December 31 2016	December 31 2015
Cash and cash equivalents	$ 82,484	$ 72,218
Short term investments	41,100	36,031
Marketable securities	1,579	–
Derivative assets	973	–
Accounts receivable and other assets	24,987	7,068
Income tax receivable	72	780
Other non-current receivables	562	–
	$ 151,757	$ 116,097

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. We limit our exposure to counterparty credit risk on cash and term deposits by only dealing with financial institutions with high credit ratings and through our investment policy of purchasing only instruments with high credit ratings. Almost all of our concentrate is sold to large well-known concentrate buyers.

(b) Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they come due. We manage our liquidity risk by continually monitoring forecasted and actual cash flows. We have in place a planning and budgeting process to help determine the funds required to support our normal operating requirements and our development plans. We aim to maintain sufficient liquidity to meet our short term business requirements, taking into account our anticipated cash flows from operations, our holdings of cash and cash equivalents, and our committed and anticipated liabilities.

(Presented in thousands of US dollars)

The following are the remaining contractual maturities of financial liabilities at the reporting date. The tables include both interest and principal cash flows.

	Expected payments due by period as at December 31, 2016				
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Trade and other payables	$ 40,160	$ –	$ –	$ –	$ 40,160
Bank loan	–	40,000	–	–	40,000
Derivative liabilities	254	–	–	–	254
Income tax payable	14,447	–	–	–	14,447
Finance lease obligations	2,189	912	–	–	3,101
Other liabilities	–	3,544	–	–	3,544
Operating leases	431	360	82	–	873
Provisions	1,154	2,728	5,172	5,174	14,228
	$ 58,635	$ 47,544	$ 5,254	$ 5,174	$ 116,607

	Expected payments due by period as at December 31, 2015				
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Trade and other payables	$ 28,970	$ –	$ –	$ –	$ 28,970
Bank loan	–	–	40,000	–	40,000
Derivative liabilities	351	–	–	–	351
Income tax payable	3,605	–	–	–	3,605
Other liabilities	809	4,640	–	–	5,449
Operating leases	539	585	–	–	1,124
Provisions	447	1,134	1,239	11,052	13,872
	$ 34,721	$ 6,359	$ 41,239	$ 11,052	$ 93,371

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

(c) Currency risk

The functional and reporting currency for all of entities is the US dollar and we report our results US dollars. The majority of our operating and capital expenditures are denominated and settled in US dollars. We are exposed to fluctuations in foreign exchange rates as a portion of our expenses are incurred in Canadian dollars, Peruvian soles, Argentinean pesos 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 profit or loss, financial position, or cash flows. We have not hedged our exposure to currency fluctuations.

(Presented in thousands of US dollars)

As at December 31, 2016, the Company was exposed to currency risk through the following assets and liabilities denominated in foreign currencies.

	December 31, 2016			
(thousands)	Canada Dollars	Peru Soles	Mexico Pesos	Argentina Pesos
Cash and cash equivalents	9,436	4,098	7,788	16,502
Marketable securities	2,300	–	–	–
Accounts receivable and other assets	343	3,810	3,369	115
Income tax receivable	–	243	–	–
Deposits on non-current assets	–	–	4,325	8,419
Trade and other payables	(14,581)	(13,666)	(208,364)	(3,891)
Due to related parties	(14)	–	–	–
Provisions, current	–	(2,765)	(6,169)	–
Income tax payable	–	(7,564)	(202,804)	509
Other liabilities	(4,679)	–	(1,220)	–
Provisions	–	(24,719)	(93,520)	(7,283)
Total foreign currency exposure	(7,195)	(40,563)	(496,595)	14,371
US$ equivalent of foreign currency exposure	$ (5,359)	$ (12,072)	$ (24,032)	$ 904

	December 31, 2015			
(thousands)	Canada Dollars	Peru Soles	Mexico Pesos	Argentina Pesos
Cash and cash equivalents	10,023	983	46,405	–
Accounts receivable and other assets	83	4,035	6,805	–
Income tax receivable	–	2,663	–	–
Deposits on non-current assets	–	–	31,899	–
Trade and other payables	(2,921)	(10,931)	(163,699)	–
Provisions, current	–	(1,143)	(2,028)	–
Income tax payable	–	(15)	(61,960)	–
Other liabilities	(4,805)	–	(754)	–
Provisions	–	(24,475)	(83,978)	–
Total foreign currency exposure	2,380	(28,883)	(227,310)	–
US$ equivalent of foreign currency exposure	$ 1,716	$ (8,463)	$ (13,211)	$ –

Based on the above net exposure as at December 31, 2016, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the above currencies would result in an increase or decrease, as follows:

- impact to other comprehensive income of $nil (2015– $nil), and
- impact to net income before tax with a 10% appreciation of the US dollar of $3,687 (2015- $1,814) and with a 10% depreciation of the US dollar of $4,506 (2015– $2,217).

(d) Metal Price Risk

We are exposed to metal price risk with respect to our sales of silver, gold, zinc, and lead concentrates. As a matter of policy, we do not hedge our silver production.

A 10% change in silver prices would cause a $8,005 change in net earnings on an annualized basis.

A 10% change in gold prices would cause a $3,309 change in net earnings on an annualized basis.

A 10% change in zinc prices would cause a $1,456 change in net earnings on an annualized basis.

A 10% change in lead prices would cause a $1,232 change in net earnings on an annualized basis.

We mitigate the price risk of our base metal production from time to time by committing a portion of such production under forward sales or swap contracts. In December 2016, we entered into a series of zinc swaps representing approximately 50% of our expected zinc production in 2017 (note 10(b)).

(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. Currently, our interest rate exposure mainly relates to interest earned on our cash balances, and the mark-to-market value of derivative instruments which depend on interest rates. We have entered into an interest rate swap to mitigate the interest rate risk on our bank loan.

28. Segmented Information

All of our operations are within the mining sector, conducted through operations in four countries. Due to geographic and political diversity, our mining operations are decentralized whereby local management is responsible for achieving specified business results within a framework of overall corporate policies and standards. Local corporate offices provide support infrastructure to the mine in addressing local issues including financial, human resources, and exploration support.

The following summary describes the operations of each reportable segment

- Bateas – operates the Caylloma silver-zinc mine
- Cuzcatlan – operates the San Jose silver-gold mine
- Lindero – development of the Lindero Gold Project
- Corporate – corporate stewardship

Prior to the acquisition of Goldrock (note 12(a)), the Company had three reportable segments, namely Cuzcatlan, Bateas, and Corporate. Upon the acquisition of Goldrock and its Lindero project, effective July 28, 2016, another segment "Lindero" was added.

(Presented in thousands of US dollars)

	Year ended December 31, 2016				
	Corporate	Bateas	Cuzcatlan	Lindero	Total
Revenues from external customers	$ –	$ 67,104	$ 143,151	$ –	$ 210,255
Cost of sales	–	(47,250)	(82,399)	–	(129,649)
Selling, general, and administration	(23,684)	(2,616)	(4,817)	–	(31,117)
Other expenses (income)	195	(768)	(375)	–	(948)
Finance items	(1,847)	718	(302)	–	(1,431)
Segment profit (loss) before taxes	(25,338)	17,188	55,260	–	47,110
Income taxes	32	(4,411)	(24,695)	(178)	(29,252)
Segment profit (loss) after taxes	(25,306)	12,777	30,565	(178)	17,858
Intersegment revenues	7,390	–	–	–	7,390
Intersegment interest	(5,186)	–	5,049	137	–
Interest revenue	120	176	32	–	328
Interest expense	2,046	101	–	–	2,147
Depletion, depreciation, and amortization	155	7,978	24,891	–	33,024

	Year ended December 31, 2015				
	Corporate	Bateas	Cuzcatlan	Lindero	Total
Revenues from external customers	$ –	$ 53,803	$ 100,926	$ –	$ 154,729
Cost of sales	–	(50,113)	(60,968)	–	(111,081)
Selling, general, and administration	(10,818)	(2,561)	(4,484)	–	(17,863)
Impairment of mineral properties	–	(25,000)	–	–	(25,000)
Other expenses (income)	(488)	(905)	(1,232)	–	(2,625)
Finance items	(1,268)	(226)	117	–	(1,377)
Segment profit (loss) before taxes	(12,573)	(25,002)	34,358	–	(3,217)
Income taxes	(24)	3,921	(11,288)	–	(7,391)
Segment profit (loss) after taxes	(12,597)	(21,081)	23,070	–	(10,608)
Intersegment revenues	4,170	–	–	–	4,170
Intersegment interest	(5,049)	–	5,049	–	–
Interest revenue	(160)	(138)	(83)	–	(381)
Interest expense	1,738	20	–	–	1,758
Depletion, depreciation, and amortization	643	9,400	15,696	–	25,739

	December 31, 2016				
	Corporate	Bateas	Cuzcatlan	Lindero	Total
Total assets	$ 40,351	$ 105,001	$ 279,316	$ 138,247	$ 562,915
Total liabilities	57,132	23,622	57,962	1,048	139,764

	December 31, 2015				
	Corporate	Bateas	Cuzcatlan	Lindero	Total
Total assets	$ 51,061	$ 86,159	$ 242,434	$ –	$ 379,654
Total liabilities	47,681	17,015	50,790	–	115,486

(Presented in thousands of US dollars)

29. Income Taxes

(a) Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the applicable Canadian statutory income tax rate to income before income taxes. The significant reasons for the differences are as follows:

	December 31 2016	December 31, 2015
Income (loss) before tax	47,110	(3,216)
Statutory income tax rate	26.0%	26.0%
Expected income tax	12,249	(836)
Items not deductible for tax purposes	514	774
Differences between Canadian and foreign tax rates	2,995	(354)
Change in estimate	(511)	(2,009)
Effect of change in tax rates	(622)	860
Inflation adjustment	(933)	(613)
Impact of foreign exchange on local currencies	5,328	7,749
Change in deferred tax assets not recognized	4,839	(812)
Mining taxes	2,738	1,831
Withholding taxes	2,760	–
Other	(105)	801
Total income taxes	29,252	7,391
Effective tax rate	62%	–230%

In 2015, Peru underwent a tax reform that included an announced decrease in tax rates over a four year period. In December of 2016 the future decreases were halted and the tax rate was increased.

The Company’s Peruvian operating subsidiary, Minera Bateas, has an agreement with the Peruvian government that stabilizes its tax rate.

The above mentioned rate changes do not impact the Company's tax provision in 2016.

(Presented in thousands of US dollars)

(b) Tax amounts recognized in profit or loss

	2016	2015
Current tax expense		
Current year	$ 29,791	$ 11,606
Changes in estimates related to prior years	(728)	–
	$ 29,063	$ 11,606
Deferred tax expense		
Origination and reversal of temporary differences	$ 594	$ (3,066)
Changes in tax rates and imposition of new taxes	(622)	860
Changes in estimates related to prior years	217	(2,009)
	$ 189	$ (4,215)
Tax expense	$ 29,252	$ 7,391

(Presented in thousands of US dollars)

(c) Deferred tax balances

The significant components of deferred tax assets and liabilities are:

	December 31 2016	December 31 2015
Deferred tax assets:		
Provisions and other	$ 3,940	$ 1,546
Deferred mining taxes	–	2,877
Other	2,898	2,154
Total deferred tax assets	$ 6,838	$ 6,577

	December 31 2016	December 31 2015
Deferred tax liabilities:		
Mineral properties	$ 14,858	$ 18,000
Special mining taxes	3,336	7,211
Equipment and buildings	5,363	5,643
Other	8,155	408
Total deferred tax liabilities	$ 31,712	$ 31,262
Net deferred tax liabilities	(24,874)	(24,685)

The classification of the net deferred tax liability is:

	2016	2015
Non-current assets	$ 471	$ 492
Non-current liabilities	(25,345)	(25,177)
Net deferred tax liabilities	$ 24,874	$ 24,685

The Company's movement of net deferred tax liabilities is described below:

	2016	2015
At January 1	$ 24,685	$ 28,900
Deferred income tax recovery through income statement	189	(4,215)
At December 31	$ 24,874	$ 24,685

(Presented in thousands of US dollars)

(d) Unrecognized deferred tax assets and liabilities

We recognize tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts.

	December 31 2016	December 31 2015
Non capital losses	$ 55,500	$ 43,916
Provisions and other	13,074	5,042
Share issue costs	624	868
Mineral properties, plant and equipment	1,801	1,450
Derivative liabilities	254	351
Capital losses	846	839
Unrecognized deductible temporary differences	$ 72,099	$ 52,466

The Company has unremitted intercompany interest on which no withholding tax has been accrued as we do not intend to repatriate the funds in the foreseeable future. Additionally, the Company has not recognized taxable temporary differences related to unremitted earnings associated with investments in subsidiaries as the Company can control the timing of the reversal of the temporary differences and the Company is permanently reinvested in its foreign subsidiaries. Our intent is to continue focusing on developing mineral properties, with a current focus on Argentina.

	December 31	
	2016	2015
Unremitted intercompany interest - Mexico	$ –	$ 22,553
Unremitted intercompany interest - Argentina	17	–
Unremitted retained earnings – Peru	86,416	45,687
Unremitted retained earnings – Mexico	107,727	41,101
Unremitted retained earnings – Argentina	–	–

(e) Tax loss carryforwards

Our tax losses have the following expiry dates.

	Tax losses expire in years	December 31	
		2016	2015
Canada	2025 – 2036	$ 55,500	$ 43,281
Mexico	2021 – 2025	–	450
Barbados	2022 – 2024	–	185

30. Contingencies and Capital Commitments

(a) Bank Letter of Guarantee

The Caylloma Mine closure plan was updated in August 2015, with total closure costs of $7,770, consisting of progressive closure activities of $3,604, final closure activities of $3,594, and post-closure activities of $573. Pursuant to the closure regulations, the Company is required to lodge the following guarantees with the government:

- 2017 – $3,179
- 2018 – $3,908
- 2019 – $4,705
- 2020 – $5,641

Scotiabank Peru, a third party, has established a bank letter of guarantee in the amount of $3,179 (2015 – $2,495), on behalf of Bateas, in favor of the Peruvian mining regulatory agency in compliance with local regulation and to collateralize Bateas' mine closure plan. This bank letter of guarantee expires on December 31, 2017.

On November 21, 2016, we submitted to the Peruvian mining regulatory agency an update of the mine closure plan related to the San Cristobal mining unit and the Huayllacho processing plant, in order to incorporate new mining components. This update is currently pending approval.

(b) Capital Commitments

As at December 31, 2016, the Company had the following capital commitments, expected to be expended within one year:

- $2,172 for the tailing filtration plant expansion at the San Jose property,
- $175 for the plant at the Caylloma property,
- $532 for drilling at the Lindero property,
- $530 for testing, software, and consulting at the Lindero property.

(c) Other Commitments

The Company has a contract to guarantee the power supply at its Caylloma Mine. Under the contract, the seller is obligated to deliver a "maximum committed demand" (for the present term this stands at 5,200 kW) and the Company is obligated to purchase subject to exemptions under provisions of "Force Majeure". The contract period is 15 years and expires in 2022, after which it is automatically renewed for periods of two years. Renewal can be avoided without penalties by notification 10 months in advance of the renewal date.

Tariffs are established annually by the energy market regulator in accordance with applicable regulations in Peru. The minimum committed demand is $30 per month, and the average monthly charge for 2016 is $300.

The Company has a contract to guarantee the cement supply at its San Jose Mine up to $76 for a 6 month period, renewable for another equal period, prior written consent.

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business (note 27(c)).

(Presented in thousands of US dollars)

The expected payments due by period, as at December 31, 2016 are as follows:

	Expected payments due by period as at December 31, 2016			
	Less than 1 year	1 - 3 years	4 - 5 years	Total
Office premises - Canada	$ 65	$ 141	$ –	$ 206
Office premises - Peru	141	–	–	141
Office premises - Argentina	84	129	82	295
Total office premises	$ 290	$ 270	$ 82	$ 642
Computer equipment - Peru	72	27	–	99
Computer equipment - Mexico	69	45	–	114
Total computer equipment	$ 141	$ 72	$ –	$ 213
Machinery - Mexico	–	18	–	18
Total machinery	$ –	$ 18	$ –	$ 18
Total operating leases	$ 431	$ 360	$ 82	$ 873

(d) Tax Contingencies

Peru

The Company has been assessed taxes by the Peruvian tax authority, SUNAT, for tax years 2010 and 2011. Including related interest and penalties, these amount to $1,033 and $657, respectively, for a total of $1,690.

- The Company is appealing these assessments.
- The Company has provided a guarantee by way of a letter bond in the amount of $793.

Mexico

During 2015, the Company’s foreign trade operations for tax years 2011 to 2014 were reviewed by the Mexican Tax Administration Service ("SAT") and faced an administrative customs procedure ("PAMA") for specific temporary import documents (pediments). On October 27, 2015, the SAT issued an assessment regarding the Company’s foreign trade operations for tax years 2011 to 2014, and denied certain claims, which resulted in the following assessments totaling $198 (the "tax credit"):

- $30 in general import tax, $90 in VAT, and $5 custom management tax, and
- associated fines of $73

On December 11, 2015, the Company established a security bond in the amount of $211 in favor of PAMA to collateralize this tax credit of $198. This security bond was renewable annually, and has been renewed until February 2018. On January 21, 2016, the Company presented its arguments before the Mexican Federal Court for the nullification and voidance of the tax credit (the “Company claim”). On August 18, 2016, the Mexican Federal Court issued a first instance resolution declaring the nullity and voidance of the tax assessment. The tax authority has the right to appeal the first instance resolution, which appeal is still pending.

(e) Other Contingencies

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

31. Events after the Reporting Period

(a) Financing

Subsequent to December 31, 2016, the Company issued 11,873,750 common shares for gross proceeds of $74,804,625 pursuant to a public offering.

(b) Exercise of Warrants

Subsequent to December 31, 2016, a total of 238,515 warrants with an exercise price of CAD$6.01, were exercised.

(c) Exercise of Stock Options

Subsequent to December 31, 2016, a total of 133,060 options were exercised with exercise prices ranging from CAD$4.30 to CAD$6.67.

(d) Exercise of Medgold Warrants

Subsequent to December 31, 2016, the Company exercised all the Medgold warrants it held, for $1,139. This resulted in the Company owning 24.0% of the then-outstanding common shares of Medgold.

(e) Prospero shares

Subsequent to December 31, 2016, the Company acquired by way of a private placement 5,357,142 units of Prospero Silver Corp. ("Prospero") at a price of C$0.28 per unit for cash consideration of C$1.5 million. Each unit is comprised of one common share and one common share purchase warrant exercisable at C$0.35 per share for three years. Immediately following the transaction, the Company will own 14.91% of the issued and outstanding common shares of Prospero and 25.95%, if all of the warrants were exercised.

EXHIBIT 99.3

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2016

As of May 12, 2017

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

Fortuna Silver Mines Inc.
Management's Discussion and Analysis
For the year ended December 31, 2016
(Presented in US dollars)

Contents **Page**

(Presented in US dollars)

Business of the Company

Fortuna Silver Mines Inc. ("Fortuna" or the "Company") is engaged in precious and base metal mining and related activities in Latin America, including exploration, extraction, and processing. The Company

- operates the Caylloma silver, lead, and zinc mine ("Caylloma") in southern Peru,
- operates the San Jose silver and gold mine ("San Jose") in southern Mexico, and
- is developing the Lindero Gold Project ("Lindero") in northern Argentina.

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

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

The Company's material subsidiaries include –

Name	**Location**	**Ownership**	**Principal Activity**
Fortuna Silver Mines Peru S.A.C.	Peru	100%	Services company
Minera Bateas S.A.C.	Peru	100%	Caylloma Mine
Compania Minera Cuzcatlan S.A. de C.V.	Mexico	100%	San Jose Mine
Goldrock Mines Corp.	Canada	100%	Holding company
Mansfield Minera S.A.	Argentina	100%	Lindero Project

In this MD&A,

- Minera Bateas S.A.C. is referred to as "Bateas"
- Compania Minera Cuzcatlan S.A. de C.V. is referred to as "Cuzcatlan"
- Goldrock Mines Corp. is referred to as "Goldrock"
- Mansfield Minera S.A. is referred to as "Mansfield"

This Management's Discussion and Analysis ("MD&A") is intended to help readers understand the significant factors that have affected the performance of Fortuna and its subsidiaries, and those that may affect future performance. This MD&A has been prepared as of May 12, 2017 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2016, and 2015.

We report our annual financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

In this MD&A, we refer to various non-GAAP financial measures. These measures are used by us to manage and evaluate operating performance and the ability to generate cash, and are widely reported in the silver mining industry as benchmarks for performance.

More information about the Company, including our Annual Information Form, is available at SEDAR at www.sedar.com

This document contains Forward-Looking Statements. Refer to the cautionary language under the heading "Cautionary Statement on Forward-Looking Statements."

2016 Highlights

Financial and Operating Highlights

Operating highlights

Consolidated Metrics	2016	2015	% Change	2014	Q4 2016	Q4 2015	% Change
Key Indicators							
Silver							
Metal produced (oz)	7,380,217	6,624,635	11%	6,599,300	2,120,098	1,585,315	34%
Metal sold (oz)	7,377,509	6,618,784	11%	6,694,552	2,126,723	1,614,908	32%
Realized price ($/oz)	17.2	15.6	10%	18.9	17.1	13.1	30%
Gold							
Metal produced (oz)	46,551	39,689	17%	35,316	13,812	9,955	39%
Metal sold (oz)	45,958	39,209	17%	35,758.00	13,803	9,865	40%
Realized price ($/oz)	1,253	1,156	8%	1,260	1,217	1,106	10%
Lead							
Metal produced (000's lbs)	32,673	23,835	37%	16,152	7,290	8,361	-13%
Metal sold (000's lbs)	33,187	23,361	42%	16,244	7,361	8,156	-10%
Zinc							
Metal produced (000's lbs)	43,204	35,829	21%	27,361	11,006	9,599	15%
Metal sold (000's lbs)	43,041	35,934	20%	27,471	10,537	9,665	9%
All-in sustaining cash cost (US$/oz Ag)*	8.38	14.48	-42%	14.48	7.33	18.02	-59%
(net of by-product credits from gold, lead, and zinc)							
*(refer to non-GAAP financial measures)							

During the year ended December 31, 2016, the Company increased silver production by 11% over the year ended December 31, 2015 to 7.4 million ounces, and gold production by 17% to 46,551 ounces. The increase was a result of the 50% plant expansion at our San Jose mine which was finalized at the end of the second quarter of 2016. Production of lead and zinc increased 37% and 21%, respectively, as a result of higher zinc and lead head grades and higher throughput ore at our Caylloma mine. Silver and gold production were 5% and 9% above our guidance for the year.

During the three months ended December 31, 2016, the Company increased silver production by 34% over the three months ended December 31, 2015, to 2.1 million ounces, and gold production by 39% to 13,812 ounces. The increase was also the result of the 50% plant expansion at our San Jose mine which was finalized at the end of the second quarter of 2016. Production of zinc increased 15% and lead decreased 13%, respectively, as a result of higher zinc and lower lead head grades and higher throughput at our Caylloma mine.

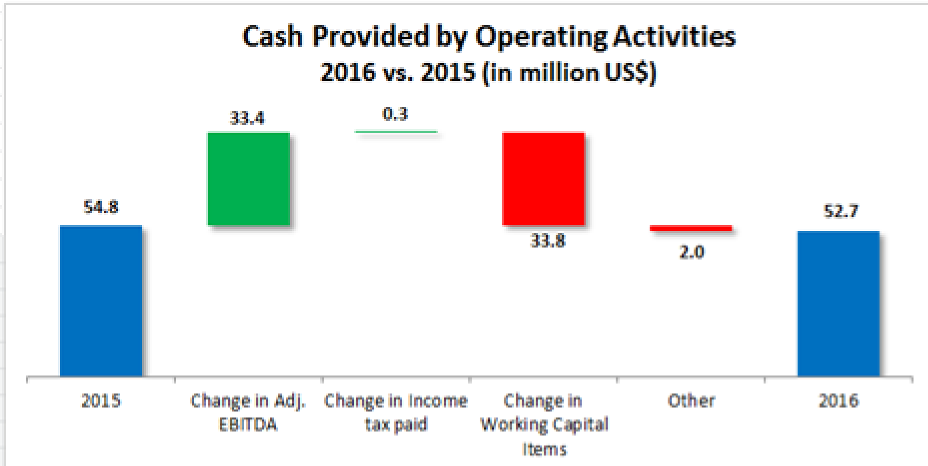
Consolidated all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $8.38, 42% below the prior year, and below our annual guidance of $11.10 for 2016 (refer to non-GAAP financial measures). The lower cost compared to guidance is mainly explained by higher by-product credits and lower sustaining capital expenditures compared to our budget for 2016.

Financial highlights

Consolidated Metrics	2016	2015	% Change	2014	Q4 2016	Q4 2015	% Change
Financial (Expressed in $ millions except per share information)							
Sales	$ 210.3	$ 154.7	36%	$ 174.0	$ 57.9	$ 37.0	56%
Mine operating earnings	80.6	43.6	85%	60.3	20.7	10.3	101%
Operating income	48.5	(1.7)	-	33.8	17.6	(20.6)	-
Net income (loss)	17.9	(10.6)	-	15.6	6.5	(17.3)	-
Earnings (loss) per share (basic)	0.13	(0.08)	-	0.12	0.04	(0.13)	-
Earnings (loss) per share (diluted)	0.13	(0.08)	-	0.12	0.05	(0.13)	-
Adj net income (loss)*	18.2	6.7	172%	15.7	8.8	(0.1)	
Adjusted EBITDA*	83.0	49.6	67%	64.1	29.4	11.0	167%
Cash provided by operating activities	52.7	54.8	-4%	60.2	25.8	23.2	11%
Cash provided by operating activities (before changes in working capital)*	62.3	30.6	104%	59.8	22.7	9.6	136%
Capex (sustaining)	19.9	43.0	-54%	30.4	5.3	18.0	-71%
Capex (non-sustaining)	22.9	11.7	96%	1.7	2.0	8.7	-77%
Capex (Brownfields)	7.9	4.0	98%	6.8	2.2	0.6	267%
Cash and cash equivalents, end of period	82.5	72.2	14%	42.9	82.5	72.2	14%
Total assets	562.9	379.7	48%	350.3	562.9	379.7	48%
Non-current bank loan	39.8	39.5	1%	–	39.8	39.5	1%
Other liabilities	3.5	3.5	0%	4.7	3.5	3.5	0%

* refer to non-GAAP financial measures

Net income for 2016 amounted to $17.9 million (2015 – $10.6 million loss), resulting in a basic earnings per share of $0.13 (2015 – $0.08 loss per share). Adjusted net income for 2016 amounted to $18.2 million compared to $6.7 million in 2015. The higher net income was driven mostly by higher metal sales across all our products and higher metal prices in the period. Silver and gold metal sales increased 11% and 17% while realized metal prices increased 10% for silver to $17.20 per ounce and 8% for gold to $1,253 per ounce. This increase in net income was partially offset by $13.4 million higher selling, general, and administrative expenses over 2015. This increase resulted from fluctuations in the recorded value of share-based compensation instruments which are marked-to-market based on the performance of our share price. The share-based compensation charge in 2016 was $14.1 million compared to $1.5 million in 2015.



Cash provided by operating activities was $52.7 million, slightly below the $54.8 million recorded in 2015. This reduction is explained by certain timing differences in the collection of accounts receivable from one year to the next offset by higher Adjusted EBITDA in 2016.

Net income for Q4 2016 amounted to $6.5 million (Q4 2015 – $17.3 million loss), resulting in a basic earnings per share of $0.04 (Q4 2015 – $0.13 loss per share). Adjusted net income for Q4 2016 amounted to $8.8 million compared to $0.1 million loss in Q4 2015. The higher income was driven by higher silver and gold metal sold of 32% and 40% as well as higher realized prices for silver, gold, zinc, and lead. Net income in the period was also positively impacted by $2.5 million lower selling, general and administrative expenses over 2015 related to lower stock based compensation charges.

Cash provided by operating activities was $25.8 million compared to $23.2 million in Q4 of 2015.

At December 31, 2016, the Company had cash and short-term investments totaling $123.6 million (December 31, 2015 – $108.2 million).

	Expressed in $ millions			
	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
NET INCOME FOR THE PERIOD	$ 6.5	$ (17.3)	$ 17.9	$ (10.6)
Adjustments, net of tax:				
Unrealized gain on financial instruments	1.3	–	(0.7)	–
Write-off of mineral properties	0.8	–	0.8	–
Impairment of mineral properties, plant and equipment	–	17.0	–	17.0
Impairment of inventories	0.2	0.3	0.2	0.4
Other operating income - other	–	(0.1)	–	(0.1)
Adjusted Net Income (a non-GAAP measure)	$ 8.8	$ (0.1)	$ 18.2	$ 6.7

(Presented in US dollars)

Corporate highlights

During the year ended December 31, 2016,

- the Company acquired the Lindero Gold Project by acquiring all the outstanding common shares of TSX-Venture listed Goldrock Mines Corp. Goldrock is now a wholly owned subsidiary of Fortuna.
- the mill expansion project of 50% at San Jose mine achieved commercial production in July 2016.
- the Company issued updated Technical Reports on the Caylloma and San Jose mines.

2017 Guidance and Outlook

2017 Production and Cash Cost Guidance

- For 2017, the production and cash cost guidance is noted in the table below:

Mine	Silver (Moz)	Gold (koz)	Lead (Mlbs)	Zinc (Mlbs)	Cash Cost ($/t)	AISCC ** ($/ oz Ag)
San Jose, Mexico	7.1	51.9	NA	NA	56.7	8.4
Caylloma, Peru	1.0	0.5	30.0	41.0	75.5	10.8
Total	**8.1**	**52.4**	**30.0**	**41.0**	--	--

- 2017 silver equivalent production guidance of 11.2 million ounces
- 2017 consolidated AISC of $9.8/oz Ag

Note:

1. Silver equivalent production does not include lead or zinc and is calculated using a silver to gold ratio of 60 to 1
2. All-in sustaining cash cost ("AISC") per ounce of silver is net of by-products gold, lead, and zinc
3. Total figures may not add due to rounding

(Presented in US dollars)

San Jose Mine, AISCC guidance:

Item	**2017 Guidance ($/oz Ag)**
Cash cost net of by-product credits	2.4
Commercial and government royalties and mining tax	1.2
Workers' participation	0.8
Selling, general and administrative expenses (operations)	0.7
Sustaining capital expenditures	2.3
Brownfields exploration expenditures	1.0
All-in sustaining cash cost per payable ounce of silver	**8.4**

(*) Total figures may not add up due to rounding

Caylloma Mine, AISCC guidance:

Item	2017 Guidance ($/oz Ag)
Cash cost net of by-product credits	(8.9)
Commercial and government royalties and mining tax	0.9
Workers' participation	0.2
Selling, general and administrative expenses (operations)	3.4
Sustaining capital expenditures	11.0
Brownfields exploration expenditures	4.2
All-in sustaining cash cost per payable ounce of silver	10.8

(*) Total figures may not add up due to rounding

Consolidated AISCC guidance:

Item	**2017 Guidance ($/oz Ag)**
Cash cost net of by-product credits	1.1
Commercial and government royalties and mining tax	1.1
Workers' participation	0.7
Selling, general and administrative expenses (operations)	1.0
Selling, general and administrative expenses (corporate)	1.1
Sustaining capital expenditures	3.4
Brownfields exploration expenditures	1.4
All-in sustaining cash cost per payable ounce of silver	**9.8**

(*) Total figures may not add up due to rounding

2017 Outlook

San Jose Mine, Mexico

San Jose plans to process 1,050,000 tonnes of ore averaging 230 g/t Ag and 1.67 g/t Au. Capital investment is estimated at $23.2 million.

Major capital investments include:

- Mine development: $6.5 million
- Equipment and infrastructure: $2.2 million
- Tailings filtration plant expansion: $6.5 million
- Brownfields exploration: $7.0 million

Caylloma Mine, Peru

Caylloma plans to process 535,000 tonnes of ore averaging 71 g/t Ag, 2.73% Pb and 3.86% Zn. Capital investment is estimated at $14.1 million.

Major capital investments include:

- Mine development: $6.9 million
- Equipment and infrastructure: $3.3 million
- Brownfields exploration: $3.9 million

Lindero Gold Project, Argentina

The Company continues advancing with the optimization of the 2016 Feasibility Study, including tradeoff metallurgical tests and detailed engineering revisions. In September 2016, the Company started a pre-construction review of the project with the objective of optimizing certain components of the Feasibility Study. This review includes the validation of the geological model and resource/reserve estimates, optimization of the mine design, review of the metallurgical process including key metallurgy laboratory tests, and an update of the infrastructure basic engineering. Mineral processing optimization highlights included:

- Preliminary tall-column leach tests consistently above 76% gold extraction for the four metallurgical types of ore
- Cyanide cure during agglomeration allows over 70% gold extraction in the first 30 days of leaching for the four metallurgical types of ore
- Copper concentration in solution amenable to treatment with sulfidization, acidification, recycling, and thickening (“SART”) plant technology
- Agglomeration with modest cement addition to achieve heap heights of approximately 80 meters for 9 millimeter high pressure grinding rolls (“HPGR”) crushed ore.

See Fortuna news release dated March 22, 2017.

Brownfields Exploration Highlights

San Jose Mine, Mexico

Brownfields exploration program budget for 2017 at the San Jose Mines is $7.0 million, which includes 31,000 meters of diamond drilling and 600 meters of underground development for drilling to define future resources. Exploration drilling is in progress at the Trinidad Central Zone and on the sub-parallel Ocotlan vein in the San Jose Mine.

Caylloma Mine, Peru

Brownfields exploration program budget for 2017 at the Caylloma Mine is $3.9 million, which includes 22,000 meters of diamond drilling. Drilling will focus on testing extensions of the principal Animas vein both northeast and southwest from current underground operations. Exploration drilling is in progress on extensions of ore-shoots immediately beneath current operations.

Lindero Gold Project, Argentina

The Arizaro gold-copper porphyry target lies within the Lindero Project concession block and contains a Mineral Resource as detailed in the 2016 Feasibility Study. We plan to investigate the economic potential of including the Arizaro target into the existing Lindero resource through surface mapping, re-logging of approximately 8,000 meters of core and initial metallurgical tests with a budget of $0.5 million

Greenfields Exploration Highlights

Serbia

Through two C$1.5 million equity investments in Medgold Resources Corp. (see Medgold's news release dated January 9, 2017), Fortuna is funding a Strategic Alliance with Medgold and has the option to nominate two Selected Properties over the course of 2017 to form joint ventures with Medgold. Exploration will center on high and low-sulfidation epithermal gold-silver mineralization in the western portion of the Tethyan orogenic system. Each joint venture, if formed, will allow Fortuna the right to earn a 51% interest by spending $3.0 million over three years, with a first-year commitment of $1.0 million, and gain an additional 19% interest by spending a further $5.0 million and completing a Preliminary Economic Assessment.

Changes in Management and Board

Thomas I. Vehrs voluntarily retired June 30, 2016 as Vice President of Exploration of the Company.

David Volkert was appointed as the new Vice President of Exploration effective August 8, 2016 (see Fortuna news release dated July 11, 2016).

Michael Iverson retired from the Board of Directors of the Company (see Fortuna news release dated July 27, 2016). Thomas Kelly resigned from the Board of Directors of the Company (see Fortuna news release dated October 3, 2016).

David Laing was appointed to the Board of Directors of the Company effective September 26, 2016 (see Fortuna news release dated October 3, 2016).

Alfredo Sillau was appointed to the Board of Directors of the Company effective November 29, 2016 (see Fortuna news release dated December 8, 2016).

Eric Chapman was promoted to Vice President of Technical Services of the Company effective January 1, 2017 (see Fortuna news release dated December 8, 2016).

Financial Results

Revenue

	YEAR TO DATE RESULTS Year ended December 31		
	2016	2015	% Change
Provisional sales ($ million)	209.1	158.1	32%
Caylloma	65.8	54.8	20%
San Jose	143.3	103.2	39%
Adjustments ($ million) *	1.2	(3.4)	135%
Sales ($ million)	210.3	154.7	36%
Silver			
Provisional sales ($ million)	114.4	92.0	24%
Metal produced (oz)	7,380,217	6,624,635	11%
Provisional Sales (oz)	7,377,509	6,618,784	11%
Realized Price ($/oz)**	17.23	15.65	10%
Net Realized Price ($/oz)***	15.51	13.90	12%
Gold			
Provisional sales ($ million)	47.6	35.1	36%
Metal produced (oz)	46,551	39,689	17%
Provisional Sales (oz)	45,958	39,209	17%
Realized Price ($/oz)**	1,253	1,156	8%
Net Realized Price ($/oz)***	1,035	896	16%
Lead			
Provisional sales ($ million)	21.4	13.5	59%
Metal produced (000's lbs)	32,673	23,835	37%
Provisional Sales (000's lb)	33,187	23,361	42%
Realized Price ($/lb)**	0.84	0.80	5%
Net Realized Price ($/lb)***	0.64	0.58	10%
Zinc			
Provisional sales ($ million)	25.8	17.4	48%
Metal produced (000's lbs)	43,204	35,829	21%
Provisional Sales (000's lb)	43,041	35,934	20%
Realized Price ($/lb)**	0.95	0.87	9%
Net Realized Price ($/lb)***	0.60	0.48	25%

*** Adjustments consists of mark to market and final price adjustments, and final assay adjustments**
**** Based on provisional sales before final price adjustments**
*****Net after payable metal deductions, treatment, and refining charges**
Treatment charges are allocated to the base metals in Caylloma and to gold in San Jose

Sales for year ended December 31, 2016 were $210.3 million, 36% above 2015 sales of $154.7 million. Silver ounces sold increased 11%, and gold ounces sold increased 17% while realized prices on provisional sales for silver increased 10% to $17.23 per ounce and for gold increased 8% to $1,253 per ounce.

Provisional sales at San Jose increased 39% to $143.3 million (2015 – $103.2 million) as a result of a 24% increase in silver ounces sold compared with the same period in the prior year. Provisional sales at Caylloma increased 20% to $65.8 million (2015 – $54.8 million) as a result of higher lead and zinc pounds sold of 42% and 20%, respectively. Silver ounces sold decreased 26%.

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

Operating income (loss) and Adjusted EBITDA

		YEAR TO DATE RESULTS		
		Year ended December 31		
(Expressed in $ millions)		2016	2015	% Change
Operating income (loss)				
Caylloma		$ 16.5	$ (24.8)	167%
	as a % of Sales	25%	-46%	
San Jose		55.6	34.2	63%
	as a % of Sales	39%	34%	
Corporate		(23.5)	(11.1)	-112%
Total		$ 48.5	$ (1.7)	2953%
	as a % of Sales	23%	-1%	
Adjusted EBITDA*				
Caylloma		$ 25.2	$ 10.0	152%
	as a % of Sales	38%	19%	
San Jose		81.2	50.1	62%
	as a % of Sales	57%	50%	
Corporate		(23.3)	(10.5)	122%
Total		$ 83.0	$ 49.6	67%
	as a % of Sales	39%	32%	

Note: figures may not add due to rounding

**refer to Non-GAAP financial measures*

During 2016, operating income was $48.5 million compared to a $1.7 million loss in 2015 related to an impairment charge of $25.0 million at the Caylloma mine. At San Jose, operating income increased 63% to $55.6 million mainly as a result of 42% higher sales. Operating margin increased five percentage points from 34% to 39% as a result of higher leverage from increased volume of sales and improved prices. At Caylloma, operating income was $16.5 million compared to an operating loss $24.8 million related to the impairment described above. Caylloma´s operating income was positively impacted by 25% higher sales and improved gross margin. Improved operating margin of 25% at Caylloma was the result of lower cash costs per tonne of 16% and higher metal prices.

During the fourth quarter ended December 31, 2016, the Company revised its Adjusted EBITDA calculation methodology to exclude share-based payments charge (refer to Non-GAAP financial measures section). Adjusted EBITDA in 2016 increased 67% over 2015 to $83.0 million, driven by a 62% increase of $31. million at San Jose and a 152% increase of $15.2 million at Caylloma.

Selling, General, and Administration

	Year ended December 31		
$ millions	2016	2015	% Change
Operating mines SG&A	$ 6.1	$ 6.4	-5%
Corporate SG&A	9.5	9.2	3%
Share-based payments	14.1	1.5	840%
Workers' participation	1.4	0.7	100%
Total	$ 31.1	$ 17.8	75%

Selling, general and administrative expenses for the year ended December 31, 2016 increased 75%, to $31.1 million (2015 – $17.8 million). The driver for the increase compared with the same period in the prior year was the increase in share-based payments to $14.1 million from $1.5 million. Most of this increase is related to mark-to-market effects on grants of restricted share units and deferred share units. Excluding this effect the charge for share-based payment in 2016 would have been $6.4 million (2015 – $5.0 million). Corporate SG&A increased 4% to $9.5 million.

Fourth Quarter 2016 Financial Results

Revenue

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

	QUARTERLY RESULTS Three months ended December 31 2016	2015	% Change
Provisional sales ($ million)	60.5	37.8	60%
Caylloma	18.2	12.0	52%
San Jose	42.3	25.8	64%
Adjustments ($ million) *	(2.6)	(0.8)	-225%
Sales ($ million)	57.9	37.0	56%
Silver			
Provisional sales ($ million)	32.8	21.2	55%
Metal produced (oz)	2,120,098	1,585,315	34%
Provisional Sales (oz)	2,126,723	1,614,908	32%
Realized Price ($/oz)**	17.10	14.80	16%
Net Realized Price ($/oz)***	15.42	13.13	17%
Gold			
Provisional sales ($ million)	13.9	8.6	62%
Metal produced (oz)	13,812	9,955	39%
Provisional Sales (oz)	13,803	9,865	40%
Realized Price ($/oz)**	1,217	1,106	10%
Net Realized Price ($/oz)***	1,004	876	15%
Lead			
Provisional sales ($ million)	5.7	4.4	30%
Metal produced (000's lbs)	7,290	8,361	-13%
Provisional Sales (000's lb)	7,361	8,156	-10%
Realized Price ($/lb)**	0.97	0.77	26%
Net Realized Price ($/lb)***	0.77	0.54	43%
Zinc			
Provisional sales ($ million)	8.1	3.6	125%
Metal produced (000's lbs)	11,006	9,599	15%
Provisional Sales (000's lb)	10,537	9,665	9%
Realized Price ($/lb)**	1.15	0.73	58%
Net Realized Price ($/lb)***	0.77	0.37	108%

* Adjustments consists of mark to market and final price adjustments, and final assay adjustments
** Based on provisional sales before final price adjustments
***Net after payable metal deductions, treatment, and refining charges
Treatment charges are allocated to the base metals in Caylloma and to gold in San Jose

Sales for Q4 2016 were $57.9 million, 56% above Q4 2015 sales of $37.0 million. Silver ounces sold increased 32%, and gold ounces sold increased 40%, while realized prices on provisional sales for silver increased 16% to $17.10 per ounce and gold increased 10% to $1,217 per ounce.

Provisional sales at San Jose increased 64% to $42.3 million (Q4 2015 – $25.8 million) as a result of increased silver and gold ounces sold of 42% and 40% respectively, compared with the same period in the prior year. Provisional sales at Caylloma increased 52% to $18.2 million (Q4 2015 – $12.0 million) as a result of higher realized prices, despite lower volumes of metal sold. For the Company, realized prices for silver, gold, lead, and zinc increased 16%, 10%, 26%, and 9% respectively.

The Company has not hedged its exposure to metal price risks, although it has entered into zinc swap contracts into 2017 for about half of its budgeted 2017 zinc production.

Operating income (loss) and Adjusted EBITDA

		QUARTERLY RESULTS		
		Three months ended December 31		
(Expressed in $ millions)		2016	2015	% Change
Operating income (loss)				
Caylloma		$ 4.5	$ (26.7)	117%
	as a % of Sales	25%	-224%	
San Jose		13.7	9.5	44%
	as a % of Sales	34%	38%	
Corporate		(0.5)	(3.4)	85%
Total		$ 17.6	$ (20.6)	185%
	as a % of Sales	30%	-56%	
Adjusted EBITDA*				
Caylloma		$ 7.4	$ 1.4	429%
	as a % of Sales	41%	12%	
San Jose		22.5	12.8	76%
	as a % of Sales	57%	51%	
Corporate		(0.5)	(3.3)	-85%
Total		$ 29.4	$ 11.0	167%
	as a % of Sales	51%	30%	

Note: figures may not add due to rounding

**refer to Non-GAAP financial measures*

During Q4 2016, operating income was $17.6 million compared to a $20.6 million loss in Q4 2015 related to an impairment charge of $25.0 million at the Caylloma mine. At San Jose, operating income increased 44% to $13.7 million mainly as a result of 59% higher sales. Operating margin decreased four percentage points from 38% to 34% as a result of higher depreciation and depletion charges. At Caylloma, operating income was $4.5 million compared to an operating loss of $26.7 million related to the impairment mentioned above. Operating income was positively impacted by 50% higher sales of $6.0 million and improved gross margin. Improved operating margin of 25% at Caylloma was the result of lower cash costs per tonne and higher metal prices.

(Presented in US dollars)

Adjusted EBITDA in Q4 2016 increased 167% over Q4 2015 to $29.4 million, driven by a 76% increase of $9.7 million at San Jose and a 429% increase of $6.0 million at Caylloma. Adjusted EBITDA margin increased significantly from 30% to 51% as a result of higher margins at both Caylloma and San Jose.

Results of Operations

San Jose Mine Review

San Jose is an underground silver-gold mine located in the state of Oaxaca in southern Mexico. The following table shows the main variables used to measure the operating performance of the mine – throughput, grade, recovery, gold and silver production, and unit costs.

	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
San Jose	Three months ended December 31		Year ended December 31	
Mine Production	2016	2015	2016	2015
Tonnes milled	273,036	172,789	905,467	717,505
Average tonnes milled per day	3,103	2,071	2,596	2,072
Silver				
Grade (g/t)	225	245	228	234
Recovery (%)	92	93	92	91
Production (oz)	1,828,110	1,261,495	6,124,235	4,928,893
Metal sold (oz)	1,832,298	1,292,443	6,102,667	4,903,658
Realized price ($/oz)	17.10	14.81	17.29	15.60
Gold				
Grade (g/t)	1.69	1.90	1.72	1.83
Recovery (%)	92	93	92	91
Production (oz)	13,660	9,762	46,018	38,526
Metal sold (oz)	13,746	9,792	45,901	38,140
Realized price ($/oz)	1,216.47	1,106.91	1,252.89	1,155.23
Unit Costs				
Production cash cost (US$/oz Ag)*	1.85	1.81	1.77	2.57
Production cash cost (US$/tonne)	55.09	55.45	56.90	58.83
Unit Net Smelter Return (US$/tonne)	154.21	146.65	158.76	144.77

(Presented in US dollars)

All-in sustaining cash cost (US$/oz Ag)*	6.73	16.80	7.58	12.86

* Net of by-product credits from gold

	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
	Three months ended December 31		Year ended December 31	
Financial Information	2016	2015	2016	2015
Sales	$ 39,843	$ 24,968	$ 143,151	$ 100,926
Operating income	13,685	9,516	55,561	34,242
Adjusted EBTIDA	22,525	12,885	81,146	50,088
Sustaining capital expenditures	2,522	15,719	12,260	35,840
Non-sustaining capital expenditures	206	6,506	17,808	9,397
Brownfields exploration expenditures	1,625	461	6,705	3,513

Annual results

Silver and gold annual production for 2016 increased 24% and 19% respectively to 6,124,235 and 46,018 ounces of silver and gold respectively above the prior year's production. The increases were the result of higher throughput of 26% and higher recoveries of 1 percentage point for both silver and gold offset by lower head grades of 3% for gold and 6% for silver. Silver and gold annual production were 4% and 10% above 2016 guidance.

Cash cost per tonne of processed ore for 2016 was $56.90 (refer to non-GAAP financial measures), or 3% below the cost in the prior year. Cash cost in the second half of 2016 was $55.0 compared to $59.8 in the first half of the year reflecting the positive impact on unit costs of the expanded plant capacity commissioned in July. Cash cost per tonne for 2016 of $56.90 was in line with guidance for the year as a result of an average exchange rate 19% above our assumption for cost guidance, offset by higher costs related to the filtration plant. Excluding this effect, the cash cost would have been 7% above guidance.

All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $7.58 for 2016 (refer to <u>non-GAAP financial measures</u>), and below the annual guidance of $9.10 as a result of by-product credits and lower execution of sustaining capital expenditures.

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

Quarterly results

Silver production increased 45% to 1,828,110 ounces, and gold production increased 40% to 13,660 ounces in Q4 2016 compared with the same period in the prior year. Throughput increased 58%, and head grades were 8% and 11% lower for silver and gold, respectively. See sales information for details on metal sold. Silver and gold production in Q4 2016 were 4% and 8% above budget, respectively.

Cash cost per tonne of processed ore for 4Q 2016 was $55.09 (refer to non-GAAP financial measures), in line with the cost in the same period in the prior year.

Processing plant expansion to 3,000 tonnes per day ("tpd")

The expansion of the mill capacity to 3,000 tpd from 2,000 tpd has concluded successfully on time and under budget. As of the first of July 2016, the processing plant and mine were fully operational at 3,000 tpd; allowing for an annual production rate of 7-8 million ounces of silver and 50-53 thousand ounces of gold. The capital expenditure of the plant expansion was $27.5 million, 16% below budget. (see Fortuna news releases dated December 17, 2014, August 12, 2015, October 15, 2015, December 16, 2015, April 13, 2016, and July 6, 2016).

Caylloma Mine Review

Caylloma is an underground silver, lead, and zinc mine located in the Arequipa Department in southern Peru. Its commercial products are silver-lead and zinc concentrates. The table below shows the main variables used to measure the operating performance of the mine.

	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
Caylloma	Three months ended December 31		Year ended December 31	
Mine Production	2016	2015	2016	2015
Tonnes milled	135,121	117,776	514,828	466,286
Average tonnes milled per day	1,501	1,309	1,438	1,306
Silver				
Grade (g/t)	82	103	90	136
Recovery (%)	82	83	84	83
Production (oz)	291,988	323,820	1,255,981	1,695,742
Metal sold (oz)	294,425	322,465	1,274,842	1,715,126
Realized price ($/oz)	17.11	14.75	16.96	15.80
Gold				
Grade (g/t)	0.21	0.22	0.20	0.26
Recovery (%)	17	23	16	30
Production (oz)	152	193	533	1,163
Metal sold (oz)	57	73	57	1,070
Realized price ($/oz)	1,277	1,031	1,277	1,192
Lead				
Grade (%)	2.60	3.38	3.06	2.47
Recovery (%)	94	95	94	94
Production (000's lbs)	7,290	8,361	32,673	23,835
Metal sold (000's lbs)	7,361	8,156	33,187	23,361
Realized price ($/lb)	0.97	0.77	0.84	0.80
Zinc				
Grade (%)	4.06	4.09	4.25	3.84
Recovery (%)	91	90	90	91
Production (000's lbs)	11,006	9,599	43,204	35,829
Metal sold (000's lbs)	10,537	9,665	43,041	35,934
Realized price ($/lb)	1.15	0.73	0.95	0.87
Unit Costs				
Production cash cost (US$/oz Ag)*	(14.59)	6.57	(6.78)	6.60
Production cash cost (US$/tonne)	71.15	81.77	71.89	85.76
Unit Net Smelter Return (US$/tonne)	136.92	103.17	126.91	117.58

(Presented in US dollars)

All-in sustaining cash cost (US$/oz Ag)*	1.72	16.47	4.34	13.56

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

	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
	Three months ended December 31		Year ended December 31	
Financial Information	2016	2015	2016	2015
Sales	$ 18,023	$ 12,045	$ 67,104	$ 53,803
Operating income (loss)	4,458	(26,718)	16,470	(24,776)
Adjusted EBTIDA	7,408	1,335	25,174	10,005
Sustaining capital expenditures	2,807	2,209	7,589	7,137
Non-sustaining capital expenditures	247	2,198	2,860	2,339
Brownfields exploration expenditures	605	100	1,216	452

Annual results

Lead and zinc annual production for 2016 increased 37% and 21% to 32.7 million and 43.2 million lbs respectively, offset by silver and gold annual production which decreased 26% and 54% respectively to 1.3 million and 533 ounces of silver and gold respectively below the prior year's production. The changes were the result of higher head grades of 24% for lead and 11% for zinc offset by lower head grades of 23% for gold and 34% for silver. Compared to 2016 guidance, silver was 5% above, while gold, lead, and zinc were 41%, 23%, and 1% below.

Cash cost per tonne of processed ore for 2016 was $71.89 (refer to non-GAAP financial measures), a decrease of 16% from the same period in the prior year mainly related to lower mining costs as result of the cessation of mining in the narrow high grade silver veins, lower indirect costs related to headcount, and the plant optimization.

Cash cost per tonne for 2016 of $71.89 was 9% below our guidance, as a result of lower mining costs and lower distribution costs related to lower lead concentrate production.

All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was $4.34 for 2016 (refer to non-GAAP financial measures), and below the annual guidance of $12.50 as a result of by-product credits and lower unit cash cost.

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

Quarterly results

Silver production in Q4 2016 was 0.29 million ounces compared with 0.32 million ounces in the same period of the prior year. Zinc production was 15% higher as a result of 14% higher throughput and lead production was 13% lower as a result of lower head grade. Silver production in Q4 2016 was 5% above forecast. Lead production was 26% below forecast due to lower head grade, and zinc production met our 2016 forecast.

Increase in throughput in Q4 2016 to 1,501 tpd compared to 1,309 tpd in Q4 2015, is a result of the plant optimization achieved at the end of March 2016.

Cash cost per tonne of processed ore at Caylloma for Q4 2016 was $71.15 (refer to non-GAAP financial measures), a decrease of 13% from the same period in the prior year mainly due to lower mining, processing, and distribution costs.

Acquisition of Goldrock

On July 28, 2016, Fortuna Silver Mines Inc. acquired all the issued and outstanding common shares of Goldrock Mines Corp. ("Goldrock"), a public company listed on the TSX Venture Exchange, by issuing 14,569,045 common shares, and 1,514,677 warrants exercisable at C$6.01 per common share and expiring on October 31, 2018.

Goldrock ceased to be a reporting issuer effective August 12, 2016.

The Lindero Project

Lindero is an open pit, heap leach gold project with a completed 2016 feasibility study that has been granted all environmental and other major permits necessary for development.

The Lindero Project is located in the Argentinian puna at an elevation of approximately 3,500 to 4,000 meters, 260 kilometers due west of Salta City. Drive time from Salta City to Lindero is approximately 7 to 7.5 hours over a road distance of 420 kilometers.

The Lindero deposit is a gold-rich porphyry system with minor content of copper. Based on the 2016 feasibility study Lindero is projected to be an 18,500 tpd open pit mine, with the following parameters for life-of-mine; head grade of 0.63 g/t, strip ratio of 1.22, and gold production of 1.15 million oz Au.

Fortuna is currently conducting additional metallurgical testing and process design review with the aim of optimizing the project and mitigating certain sources of potential design and operational risk. We are working to advance the project to a construction decision by the third quarter of 2017.

Quarterly Information

The following table provides information for eight fiscal quarters up to December 31, 2016:

	Expressed in $000's, except per share data							
	Quarters ended							
	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
		(restated)						
Sales	57,866	65,212	44,485	42,692	37,013	39,041	38,871	39,804
Mine operating earnings	20,721	28,414	15,917	15,554	10,332	10,333	10,402	12,581
Operating income (loss)	17,607	21,160	3,641	6,134	(20,572)	6,138	4,803	7,961
Net income (loss)	6,513	10,157	(1,390)	2,578	(17,290)	2,592	236	3,854
Basic EPS	0.04	0.08	(0.01)	0.02	(0.13)	0.02	0.00	0.03
Diluted EPS	0.05	0.07	(0.01)	0.02	(0.13)	0.02	0.00	0.03
Total assets	562,914	543,356	387,713	392,165	379,654	398,648	392,488	351,260
Long term bank loan	39,768	39,633	39,568	39,531	39,486	39,487	39,470	–
Other liabilities	3,544	5,241	4,798	2,889	4,620	4,353	5,701	4,578

The Company's total assets increased substantially the third quarter of 2016 as a result of our acquisition of the Lindero Project.

During the fourth quarter 2016, the Company had determined that the warrants issued as part of the consideration for the Goldrock acquisition was in classified as a liability in error when the warrants should have been classified as a Reserve, a component of shareholders' equity. As a result, the Company reclassified the initial fair value of the warrants of $7.4 million from liability to reserve and reduced its third quarter 2016 earnings by $1.7 million relating to the reversal of unrealized gain on financial assets carried at fair value. Basic earnings per share decreased $0.02 to $0.07 and there was no change to diluted earnings per share. There was no impact on the condensed consolidated interim statements of cash flows.

Non-GAAP Financial Measures

This MD&A refers to various non-GAAP financial measures, such as cash cost per tonne of processed ore; cash cost per payable ounce of silver; total production cost per tonne; all-in sustaining cash cost; all-in cash cost; adjusted net (loss) income; operating cash flow per share before changes in working capital, income taxes, and interest income; and adjusted EBITDA.

These measures are used by the Company to manage and evaluate operating performance and ability to generate cash and are widely reported in the silver mining industry as benchmarks for performance. However, the measures do not have a standardized meaning under IFRS and may differ from methods used by other companies with similar descriptions. The Company believes that certain investors use these non-GAAP financial measures to evaluate the Company's performance. Accordingly, non-GAAP financial measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with International Financial Reporting Standards as issued by the IASB ("GAAP" or "IFRS"). To facilitate a better understanding of these measures as calculated by the Company, descriptions and reconciliations are provided here.

Cash Cost per Payable Ounce of Silver and Cash Cost per Tonne of Processed Ore (Non-GAAP Financial Measures)

Cash cost per payable ounce of silver and cash cost per tonne of processed ore are key performance measures that management uses to monitor performance. Management believes that certain investors also use these non-GAAP financial measures to evaluate the Company's performance. Cash cost is an industry-standard method of comparing certain costs on a per unit basis; however, they do not have a standardized meaning or method of calculation, even though the descriptions of such measures may be similar. These performance measures have no meaning under International Financial Reporting Standards ("IFRS"), and, therefore, amounts presented may not be comparable with similar data presented by other mining companies.

The following tables present a reconciliation of cash cost per tonne of processed ore and cash cost per payable ounce of silver to the cost of sales in the consolidated financial statements for the three months and year ended December 31, 2016 and 2015 ("Q4 2016" and "2016", and "Q4 2015" and "2015", respectively):

US$ 000's		CONSOLIDATED MINE CASH COST			
		Q4 2016	YTD Q4 2016	Q4 2015	YTD Q4 2015
Cost of sales		37,145	129,649	26,681	111,081
Add (subtract):					
Change in concentrate inventory		245	(172)	(262)	57
Depletion and depreciation in concentrate inventory		(92)	(9)	64	(38)
Commercial and government royalties and mining taxes		(708)	(2,500)	(464)	(1,350)
Workers participation		(1,637)	(5,715)	(719)	(2,654)
Depletion and depreciation		(10,297)	(32,717)	(6,089)	(24,893)
Cash cost	A	24,656	88,536	19,211	82,203

Cash cost	A	24,656	88,536	19,211	82,203
Add (subtract):					
By-product credits from gold, lead and zinc		(27,812)	(94,577)	(16,676)	(66,600)
Refining charges		2,374	8,434	1,672	7,169
Cash cost applicable per payable ounce	B	(782)	2,393	4,207	22,772
Payable ounces of silver production	C	2,044,674	7,108,170	1,518,664	6,342,693
Cash cost per ounce of payable silver ($/oz)	=B/C	$ (0.38)	$ 0.34	$ 2.77	$ 3.59

US$ 000's		SAN JOSE MINE CASH COST Q4 2016	YTD Q4 2016	Q4 2015	YTD Q4 2015
Cost of sales		24,883	82,399	14,175	60,968
Add (subtract):					
Change in concentrate inventory		134	425	(292)	(396)
Depletion and depreciation in concentrate inventory		(55)	(172)	85	105
Commercial and government royalties and mining taxes		(435)	(1,627)	(318)	(669)
Workers participation		(1,407)	(4,742)	(670)	(2,269)
Depletion and depreciation		(8,078)	(24,759)	(3,399)	(15,527)
Cash cost	A	15,042	51,524	9,581	42,212
Total processed ore (tonnes)	B	273,036	905,468	172,789	717,505
Cash cost per tonne of processed ore ($/t)	=A/B	$ 55.09	$ 56.90	$ 55.45	$ 58.83
Cash cost	A	15,042	51,524	9,581	42,212
Add (subtract):					
By-product credits from gold, lead and zinc		(13,763)	(47,670)	(8,605)	(34,803)
Refining charges		1,986	6,623	1,211	4,732
Cash cost applicable per payable ounce	B	3,265	10,477	2,187	12,141
Payable ounces of silver production	C	1,767,286	5,914,989	1,211,035	4,731,738
Cash cost per ounce of payable silver ($/oz)	=B/C	$ 1.85	$ 1.77	$ 1.81	$ 2.57
Mining cost per tonne		29.81	30.41	33.20	32.37
Milling cost per tonne		15.81	15.42	8.34	13.02
Indirect cost per tonne		6.15	6.67	8.21	7.92
Community relations cost per tonne		0.39	1.08	1.33	1.15
Distribution cost per tonne		2.93	3.32	4.37	4.37
Total production cost per tonne		55.09	56.90	55.45	58.83

US$ 000's		CAYLLOMA MINE CASH COST			
		Q4 2016	YTD Q4 2016	Q4 2015	YTD Q4 2015
Cost of sales		12,262	47,250	12,506	50,113
Add (subtract):					
Change in concentrate inventory		111	(597)	30	453
Depletion and depreciation in concentrate inventory		(37)	163	(21)	(143)
Commercial and government royalties and mining taxes		(273)	(873)	(146)	(681)
Workers participation		(230)	(973)	(49)	(385)
Depletion and depreciation		(2,219)	(7,958)	(2,690)	(9,366)
Cash cost	A	9,614	37,012	9,630	39,991
Total processed ore (tonnes)	B	135,121	514,829	117,776	466,286
Cash cost per tonne of processed ore ($/t)	=A/B	$ 71.15	$ 71.89	$ 81.77	$ 85.76
Cash cost	A	9,614	37,012	9,630	39,991
Add (subtract):					
By-product credits from gold, lead and zinc		(14,049)	(46,907)	(8,071)	(31,797)
Refining charges		388	1,811	461	2,437
Cash cost applicable per payable ounce	B	(4,047)	(8,084)	2,020	10,631
Payable ounces of silver production	C	277,388	1,193,181	307,629	1,610,955
Cash cost per ounce of payable silver ($/oz)	=B/C	$ (14.59)	$ (6.78)	$ 6.57	$ 6.60
Mining cost per tonne		34.76	35.34	38.68	43.83
Milling cost per tonne		12.64	12.51	15.40	14.66
Indirect cost per tonne		16.18	15.27	17.23	18.80
Community relations cost per tonne		0.23	0.20	0.50	0.36
Distribution cost per tonne		7.34	8.57	9.96	8.11
Total production cost per tonne		71.15	71.89	81.77	85.76

All-in Sustaining Cash Cost and All-in Cash Cost per Payable Ounce of Silver (Non-GAAP Financial Measure)

We believe that “all-in sustaining cash cost” and “all-in cash cost” meet the needs of analysts, investors, and other stakeholders of the Company in understanding the cost associated with producing silver, the economics of silver mining, the Company’s operating performance, and the Company’s ability to generate free cash flow from current operations, and on an overall company basis.

The Company, in conjunction with an initiative undertaken within the gold mining industry, has adopted an all-in sustaining cost-performance measure; however, this performance measure has no standardized meaning. The Company conforms its all-in sustaining definition to that set out in the guidance issued by the World Gold Council (“WGC,” a non-regulatory market development organization for the gold industry whose members comprise global senior gold mining companies).

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

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

The following tables provide a reconciliation of all-in sustaining cash cost per ounce in the consolidated financial statements for the three months and year ended December 31, 2016 and 2015 –

US$ 000's	CONSOLIDATED MINE ALL-IN CASH COST			
	Q4 2016	YTD Q4 2016	Q4 2015	YTD Q4 2015
Cash cost applicable per payable ounce	(782)	2,393	4,207	22,772
Commercial and government royalties and mining tax	2,383	6,718	483	3,294
Workers' participation	2,036	7,085	904	3,318
Selling, general and administrative expenses (operations)	1,073	6,079	1,339	6,408
Adjusted operating cash cost	4,710	22,275	6,933	35,792
Selling, general and administrative expenses (corporate)	2,725	9,538	1,947	9,122
Sustaining capital expenditures[1]	5,329	19,849	17,928	42,977
Brownfields exploration expenditures[1]	2,230	7,921	561	3,965
All-in sustaining cash cost	14,994	59,583	27,369	91,856
Non-sustaining capital expenditures[1]	1,997	22,959	8,704	11,736
All-in cash cost	16,991	82,542	36,073	103,592
Payable ounces of silver operations	2,044,674	7,108,170	1,518,664	6,342,693
All-in sustaining cash cost per payable ounce of silver	7.33	8.38	18.02	14.48
All-in cash cost per payable ounce of silver	8.31	11.61	23.75	16.33

[1] presented on a cash basis

US$ 000's	SAN JOSE MINE ALL-IN CASH COST			
	Q4 2016	YTD Q4 2016	Q4 2015	YTD Q4 2015
Cash cost applicable per payable ounce	3,265	10,477	2,187	12,141
Commercial and government royalties and mining tax	2,110	5,845	337	2,613
Workers' participation	1,765	5,934	837	2,836
Selling, general and administrative expenses (operations)	600	3,632	803	3,917
Adjusted operating cash cost	7,740	25,888	4,164	21,507
Sustaining capital expenditures[1]	2,522	12,260	15,719	35,840
Brownfields exploration expenditures[1]	1,625	6,705	461	3,513
All-in sustaining cash cost	11,887	44,853	20,344	60,860
Non-sustaining capital expenditures[1]	206	17,808	6,506	9,397
All-in cash cost	12,093	62,661	26,850	70,257
Payable ounces of silver operations	1,767,286	5,914,989	1,211,035	4,731,738
All-in sustaining cash cost per payable ounce of silver	6.73	7.58	16.80	12.86
All-in cash cost per payable ounce of silver	6.84	10.59	22.17	14.85

[1] presented on a cash basis

US$ 000's	CAYLLOMA MINE ALL-IN CASH COST			
	Q4 2016	YTD Q4 2016	Q4 2015	YTD Q4 2015
Cash cost applicable per payable ounce	(4,047)	(8,084)	2,020	10,631
Commercial and government royalties and mining tax	273	873	146	681
Workers' participation	268	1,142	57	455
Selling, general and administrative expenses (operations)	572	2,447	536	2,491
Adjusted operating cash cost	(2,934)	(3,622)	2,759	14,258
Sustaining capital expenditures[1]	2,807	7,589	2,209	7,137
Brownfields exploration expenditures[1]	605	1,216	100	452
All-in sustaining cash cost	478	5,183	5,068	21,847
Non-sustaining capital expenditures[1]	247	2,860	2,198	2,339
All-in cash cost	725	8,043	7,266	24,186
Payable ounces of silver operations	277,388	1,193,181	307,629	1,610,955
All-in sustaining cash cost per payable ounce of silver	1.72	4.34	16.47	13.56
All-in cash cost per payable ounce of silver	2.61	6.74	23.62	15.01

[1] presented on a cash basis

Adjusted Net Income (Non-GAAP Financial Measures)

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

	ADJUSTED NET INCOME			
Expressed in $'000's	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
NET INCOME FOR THE PERIOD	$ 6,513	$ (17,290)	$ 17,858	$ (10,608)
Items of note, net of tax:				
Unrealized gain on financial instruments	1,264	–	(742)	–
Write-off of mineral properties	791	–	791	–
Impairment of mineral properties, plant and equipment	–	17,000	–	17,000
Impairment of inventories	190	398	190	398
Other operating income - other	–	(57)	–	(57)
Adjusted Net Income (a non-GAAP measure)	$ 8,758	$ 51	$ 18,097	$ 6,733

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

Operating Cash Flow per Share Before Changes in Working Capital (Non-GAAP Financial Measures)

	OPERATING CASH FLOW PER SHARE BEFORE CHANGES IN WORKING CAPITAL			
	Three months ended December 31		Year ended December 31	
$ 000's	2016	2015	2016	2015
Net income for the period	$ 6,513	$ (17,290)	$ 17,858	$ (10,608)
Items not involving cash	22,264	27,634	63,693	59,796
	28,777	10,344	81,551	49,188
Income taxes paid	(5,372)	(367)	(17,513)	(17,846)
Interest expense paid	(720)	(417)	(2,028)	(1,110)
Interest income received	49	86	289	354
Cash generated by operating activities before changes in working capital	$ 22,734	$ 9,646	$ 62,299	$ 30,586
Divided by				
Weighted average number of shares ('000's)	146,454	129,133	136,888	129,001
Operating cash flow per share before changes in working capital	$ 0.16	$ 0.07	$ 0.46	$ 0.24

Adjusted EBITDA (Non-GAAP Financial Measure)

	ADJUSTED EBITDA			
(a non-GAAP financial measure) $ 000's	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Net Income	$ 6,513	$ (17,290)	$ 17,858	$ (10,608)
Add back:				
Net finance items	69	667	1,431	1,547
Depreciation, depletion, and amortization	10,414	6,263	33,024	25,739
Income taxes	11,025	(3,949)	29,252	7,391
Impairment of mineral properties	–	25,000	–	25,000
Other operating expenses	1,424	321	1,420	550
Adjusted EBITDA	$ 29,445	$ 11,012	$ 82,985	$ 49,619

During the fourth quarter ended December 31, 2016, the Company revised its EBITDA calculation methodology to exclude share-based payments charges. For the three and twelve months ended December 31, 2015 the adjustments were $1.5 million, and $1.0 million, respectively; and for the three and twelve months ended December 31, 2016, the adjustments were $(2.2) million, and $14.1 million, respectively. The change in the calculation methodology will improve the comparability of our reported adjusted EBITDA with that of other mining companies.

Liquidity and Capital Resources

The capital of the Company consists of equity and an available credit facility, net of cash. The Board of Directors has not established a quantitative return-on-capital criteria for management, but manage the Company's capital structure and adjust it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company's cash and cash equivalents at December 31, 2016, totaled $82.5 million (December 31, 2015 – $72.2 million), and its short term investments totaled $41.1 million (December 31, 2015 – $36.0 million).

Fourth Quarter 2016 Liquidity and Capital Resources

During the three months ended December 31, 2016, cash and cash equivalents increased by $17.8 million (Q4 2015 – an increase of $5.0 million), and comprised the following:

(Expressed in $ millions)	Three months ended December 31			
	2016	2015	Change	Change %
Net cash provided by operating activities	$ 25.8	$ 23.2	$ 2.6	11%
Net cash used in by investing activities	(12.0)	(18.3)	6.3	-34%
Net cash provided by financing activities	4.0	0.1	3.9	3900%
Increase in cash and cash equivalents	$ 17.8	$ 5.0	$ 12.8	256%

Note: Figures may not add due to rounding

During the quarter ended December 31, 2016, the cash provided by our operating activities reflects the positive impact of our second full quarter at the expanded capacity of 3,000 tonnes per day at San Jose mine, higher silver and gold prices, and good cost execution at both our mines.

During the three months ended December 31, 2016 and 2015, net cash provided by or used in investing activities comprised the following:

	INVESTING ACTIVITIES			
(Expressed in $ millions)	Three months ended December 31			
	2016	2015	Change	Change %
Purchase of short term investments	$ (4.5)	$ (13.7)	$ 9.2	67%
Redemptions of short term investments	2.0	20.3	(18.3)	-90%
Expenditures on mineral properties, plant and equipment	(9.5)	(25.6)	16.1	63%
Deposits on non-current assets, net	–	0.8	(0.8)	-100%
Net cash used in by investing activities	$ (12.0)	$ (18.3)	$ 6.3	34%

Note: Figures may not add due to rounding

Expenditures on mineral properties, and plant and equipment during the quarter amounted to $9.5 million as follows:

(Expressed in $ millions)	EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT Three months ended December 31, 2016				
	Corporate	Caylloma	San Jose	Lindero	Consolidated
Plant and equipment	$ 0.2	$ 0.8	$ 0.9	$ –	$ 1.9
Dry stack tailings deposit project and disposal	–	–	0.2	–	0.2
Equipment and infrastructure	$ 0.2	$ 0.8	$ 1.1	$ –	$ 2.1
Plant expansion	–	–	0.1	–	0.1
Infill drilling	–	–	0.2	–	0.2
Mine development	–	2.1	1.2	–	3.3
Brownfields exploration	–	0.6	1.6	1.3	3.5
Greenfields exploration	–	0.2	0.1	–	0.3
Transfer from deposits on non-current assets	–	–	0.1	–	0.1
	$ 0.2	$ 3.7	$ 4.4	$ 1.3	$ 9.5

Note: Figures may not add due to rounding

The main financing activity during the quarter was $4.5 million related to the exercise of stock options and warrants, an increase of $4.3 million from Q3 2015.

2016 Liquidity and Capital Resources

Working capital during the year ended December 31, 2016 increased $18.7 million, to $112.6 million from $93.9 million at December 31, 2015.

For the year ended December 31, 2016 and 2015, cash and cash equivalents increased $10.2 million (2015 – increased $29.7 million) and comprised the following:

(Expressed in $ millions)	Year ended December 31			
	2016	2015	Change	Change %
Net cash provided by operating activities	$ 52.7	$ 54.8	$ (2.1)	-4%
Net cash used in by investing activities	(51.3)	(66.4)	15.1	-23%
Net cash provided by financing activities	8.8	41.3	(32.5)	-79%
Increase in cash and cash equivalents	$ 10.2	$ 29.7	$ (19.5)	-66%

Note: Figures may not add due to rounding

During the year ended December 31, 2016 and 2015, net cash provided by or used in investing activities comprised the following:

	INVESTING ACTIVITIES			
	Year ended December 31			
(Expressed in $ millions)	2016	2015	Change	Change %
Purchase of Lindero project	$ (4.9)	$ –	$ (4.9)	--
Purchase of short term investments	(46.9)	(95.5)	48.6	-51%
Redemptions of short term investments	41.8	92.9	(51.1)	-55%
Purchase of marketable securities	(1.2)	–	(1.2)	--
Expenditures on mineral properties, plant and equipment	(40.2)	(57.1)	16.9	-30%
Deposits on non-current assets, net	–	(6.7)	6.7	-100%
Net cash used in by investing activities	$ (51.3)	$ (66.4)	$ 15.1	-23%

Note: Figures may not add due to rounding

Cash expenditures directly related to the purchase of the Lindero project during the year amounted to $4.9 million.

Expenditures on mineral properties, and plant and equipment during the year amounted to $40.2 million as follows:

	EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT				
(Expressed in $ millions)	Year ended December 31, 2016				
	Corporate	Caylloma	San Jose	Lindero	Consolidated
Plant and equipment	$ 0.3	$ 1.5	$ 2.9	$ –	$ 4.7
Dry stack tailings deposit project and disposal	–	–	2.2	–	2.2
Equipment and infrastructure	$ 0.3	$ 1.5	$ 5.1	$ –	$ 6.8
Plant expansion	–	–	17.6	–	17.6
Infill drilling	–	–	1.7	–	1.7
Mine development	–	5.9	5.4	–	11.3
Brownfields exploration	–	1.2	6.7	2.0	9.9
Greenfields exploration	–	0.4	0.2	–	0.6
Transfer from deposits on non-current assets	–	–	(7.8)	–	(7.8)
	$ 0.3	$ 9.0	$ 28.9	$ 2.0	$ 40.2

Note: Figures may not add due to rounding

(Presented in US dollars)

Contractual Obligations

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

	Expected payments due by period as at December 31, 2016				
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Trade and other payables	$ 40,160	$ –	$ –	$ –	$ 40,160
Bank loan	–	40,000	–	–	40,000
Derivative liabilities	254	–	–	–	254
Income tax payable	14,447	–	–	–	14,447
Finance lease obligations	2,189	912	–	–	3,101
Other liabilities	–	3,544	–	–	3,544
Operating leases	431	360	82	–	873
Provisions	1,154	2,728	5,172	5,174	14,228
	$ 58,635	$ 47,544	$ 5,254	$ 5,174	$ 116,607

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

Bank Letter of Guarantee

The Caylloma Mine closure plan was updated in August 2015, with total closure costs of $7,770, consisting of progressive closure activities of $3,604, final closure activities of $3,594, and post-closure activities of $573. Pursuant to the closure regulations, the Company is required to lodge the following guarantees with the government:

- 2017 – $3,179
- 2018 – $3,908
- 2019 – $4,705
- 2020 – $5,641

Scotiabank Peru, a third party, has established a bank letter of guarantee in the amount of $3,179 (2015– $2,495), on behalf of Bateas in favor of the Peruvian mining regulatory agency, in compliance with local regulation and to collateralize Bateas' mine closure plan. This bank letter of guarantee expires on December 31, 2017.

On November 21, 2016, we submitted to the Peruvian mining regulatory agency an update of the mine closure plant related to the San Cristobal mining unit and the Huayllacho processing plan, in order to incorporate new mining components. This update is currently pending approval.

Capital Commitments

As at December 31, 2016, the Company had the following capital commitments, expected to be expended within one year:

- $2,172 for the dry stack tailing dam at the San Jose property,
- $175 for the plant at the Caylloma property,
- $532 for drilling at the Lindero property,
- $530 for testing, and consulting at the Lindero property.

Other Commitments

As at December 31, 2016, the expected payments due by period are as follows –

	Expressed in $'000's Expected payments due by period as at December 31, 2016			
	Less than 1 year	1 - 3 years	4 - 5 years	Total
Office premises - Canada	$ 65	$ 141	$ –	$ 206
Office premises - Peru	141	–	–	141
Office premises - Argentina	84	129	82	295
Total office premises	$ 290	$ 270	$ 82	$ 642
Computer equipment - Peru	72	27	–	99
Computer equipment - Mexico	69	45	–	114
Total computer equipment	$ 141	$ 72	$ –	$ 213
Machinery - Mexico	–	18	–	18
Total machinery	$ –	$ 18	$ –	$ 18
Total operating leases	$ 431	$ 360	$ 82	$ 873

Other Commitments

The Company has a contract to guarantee the power supply at its Caylloma Mine. Under the contract, the seller is obligated to deliver a "maximum committed demand" (for the present term this stands at 5,200 kW) and the Company is obligated to purchase subject to exemptions under provisions of "Force Majeure". The contract period is 15 years and expires in 2022, after which it is automatically renewed for periods of two years. Renewal can be avoided without penalties by notification 10 months in advance of the renewal date.

Tariffs are established annually by the energy market regulator in accordance with applicable regulations in Peru. The minimum committed demand is $30 per month, and the average monthly charge for 2016 is $300.

Tax Contingencies

Peru

The Company has been assessed taxes and related interest and penalties by the Peruvian tax authority, SUNAT, for tax years 2010 and 2011 in the amounts of $1,033 and $657, respectively, for a total of $1,690.

- The Company is appealing these assessments.
- The Company has provided a guarantee by way of a letter bond in the amount of $793.

Mexico

During 2015, the Company's foreign trade operations for tax years 2011 to 2014 were reviewed by the Mexican Tax Administration Service ("SAT") and faced an administrative customs procedure ("PAMA") for specific temporary import documents (pediments). On October 27, 2015, the SAT issued an assessment regarding the Company's foreign trade operations for tax years 2011 to 2014, and denied certain claims, which resulted in the following assessments totaling $198 (the "tax credit"):

- $30 in general import tax, $90 in VAT, and $5 custom management tax, and
- associated fines of $73

On December 11, 2015, the Company established a security bond in the amount of $211 in favor of PAMA to collateralize this tax credit of $198. This security bond has to be updated on December 10, 2016. On January 21, 2016, the Company presented its arguments before the Mexican Federal Court for the nullification and voidance of the tax credit (the "Company claim"). On August 18, 2016, the Mexican Federal Court issued a first instance resolution declaring the nullity and voidance of the tax assessment. The Tax authority has the right to appeal the first instance resolution, which appeal is still pending.

Other Contingencies

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

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on the financial condition, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

(Presented in US dollars)

Adoption of New Accounting Standards

The following standards or amendments were adopted effective January 1, 2016. They had no significant impact on the financial position, results of operations, or cash flows of the Company previously reported.

- IAS 1 «Presentation of Financial Statements» (Amendment)
- IFRS 11 «Joint Arrangements» (Amendment)
- IAS 16 «Property, Plant and Equipment» (Amendment)
- IAS 38 «Intangible Assets» (Amendment)
- Annual Improvements 2012-2014 Cycle

The following are new or revised standards which we expect may be applicable to the Company. We are currently assessing the impact on the financial position, results of operations, and cash flows of the Company resulting from these new or revised standards.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses Applicable to the Company commencing in the 2017 fiscal year.	Amends IAS 12 «Income Taxes» to clarify the following aspects: • Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
Amendments to IAS 7 Disclosure Initiative Applicable to the Company commencing in the 2017 fiscal year.	Amends IAS 7 «Statement of Cash Flows» to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
IFRS 9 «Financial Instruments» Applicable to the Company commencing in the 2018 fiscal year.	Contains accounting requirements for financial instruments, and replaces IAS 39 «Financial Instruments: Recognition and Measurement». The new standard contains requirements in the following areas: • Classification and measurement. Financial assets are classified

by reference to the business model within which they are held and their contractual cash flow characteristics. The new standard introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

- Impairment. The new standard introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 «Revenue from Contracts with Customers»

Applicable to the Company commencing in the 2018 fiscal year.

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The new standard provides guidance on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue and contract costs are also introduced.

Amendments to IFRS 2

Classification and Measurement of Share-based Payment Transactions

Applicable to the Company commencing in the 2018 fiscal year.

Amends IFRS 2 «Share-based Payment» to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

IFRS 16 «Leases»

Applicable to the Company commencing in the 2019 fiscal year.

IFRS 16 specifies how the Company should recognize, measure, present and disclose leases. The new standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

IFRIC 22 «Foreign Currency Transactions and Advance Consideration»

Addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a

Applicable to the Company commencing in the 2018 fiscal year.	foreign currency; • the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.

Critical Accounting Estimates and Assumptions

Many of the amounts included in the consolidated financial statements require management to make judgments and/or estimates. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Areas where critical accounting estimates and assumptions have the most significant effect on the amounts recognized in the consolidated financial statements include:

Mineral Reserves and Resources and the Life of Mine Plan

We estimate our mineral reserves and mineral resources in accordance with the Canadian Securities Administrators' National Instrument 43-101 Standards of Disclosure for Mineral Projects requirements. Estimates of the quantities of mineral reserves and mineral resources form the basis for our life of mine plans, which are used for the calculation of depletion expense under the units of production method, impairment tests, and forecasting the timing of the payments related to the environmental rehabilitation provision.

Significant estimation is involved in determining the reserves and resources included within our life of mine plans. Changes in forecast prices of commodities, exchange rates, production costs or recovery rates may result in our life of mine plan being revised and such changes could impact depletion rates, asset carrying values and our environmental rehabilitation provision. As at December 31, 2016 we have used the following long term prices for our reserve and resource estimations and life of mine plans: Gold $1,150/oz, Silver $19/oz.

In addition to the estimates above, estimation is involved in determining the percentage of resources ultimately expected to be converted to reserves and hence included in our life of mine plans. Our life of mine plans include a portion of inferred resources as we believe this provides a better estimate of the expected life of mine for certain type of deposits, in particular for vein type structures. The percentage of inferred resources out of the total tonnage included in the life of mine plans is based on site specific geological, technical, and economic considerations. Estimation of future conversion of resources is inherently uncertain and involves judgement and actual outcomes may vary from these judgments and estimates and such changes could have a material impact on the financial results. Some of the key judgements in the estimation process include; geological continuity; stationarity in the grades within defined domains; reasonable geotechnical and metallurgical conditions; treatment of outlier (extreme) values; cut-off grade determination, and the establishment of geostatistical and search parameters. Revisions to these estimates are accounted for prospectively in the period in which the change in estimate arises.

See note 4 (g)(i) of the consolidated financial statements.

Valuation of mineral properties and exploration properties

The Company carries its mineral properties at cost less accumulated depletion and any accumulated provision for impairment. The Company expenses exploration costs which are related to specific projects until commercial feasibility of the project is determinable. The costs of each property and related capitalized development expenditures are depleted over the economic life of the property on a units-of-production basis. Costs are charged to the consolidated statement of income (loss) when a property is abandoned or when there is a recognized impairment in value.

The Company undertakes a review of the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. Where previous impairment has been recorded, the Company analyzes any impairment reversal indicators. An impairment loss is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, future production and sale volumes, metal prices, foreign exchange rates, Mineral Resource and Reserve quantities, future operating and capital costs and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying values of the mining properties and related expenditures.

The Company, from time to time, acquires exploration and development properties. When properties are acquired, the Company must determine the fair value attributable to each of the properties. When the Company conducts exploration on a mineral property and the results from the exploration do not support the carrying value, the property is written down to its new fair value which could have a material effect on the consolidated balance sheet and the consolidated statement of income (loss).

Reclamation and other closure provisions

The Company has obligations for reclamation and other closure activities related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of the obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of closure provisions.

Revenue recognition

Revenue from the sale of concentrate to independent smelters is recorded at the time the risks and rewards of ownership pass to the buyer using forward market prices on the expected date that final sales prices will be fixed. Variations between the prices set under the smelting contracts may be caused by changes in market prices and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in the fair value classified in revenue. For changes in metal quantities upon receipt of new information and assay, the provisional sales quantities are adjusted.

Contingencies

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will only be resolved when one or more future events not within our control occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings or regulatory or government actions that may negatively impact our business or operations, the Company with assistance from its legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims or actions.

A liability is recognized in the consolidated financial statements when the outcome of the legal proceedings is highly probable and the estimated settlement amount can be estimated reliably. Contingent assets are not recognized in the consolidated financial statements until the future events are settled.

Critical Accounting Judgements in Applying the Entity’s Accounting Policies

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (“temporary differences”) and losses carried forward. The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is “probable” that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilization of the losses.

Assessment of impairment and reverse impairment indicators

Management applies significant judgement in assessing whether indicators of impairment or reverse impairment exist for an asset or a group of assets which could result in a testing for impairment. Internal and external factors such as significant changes in the use of the asset, commodity prices, tax laws or regulations in the countries that our mines operate in and interest rates are used by management in determining whether there are any indicators of impairment or reversal of a previous impairment.

Functional currency

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The Company has determined that its functional currency and that of its subsidiaries is the U.S. dollar. The determination of functional currency may require certain judgements to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.

(Presented in US dollars)

Share Position and Outstanding Warrants and Options

The Company's outstanding share position as at May 12, 2017 is 159,223,498 common shares. In addition, 1,056,395 incentive stock options and warrants are currently outstanding as follows:

Type of Security	No. of Shares	Exercise Price (CAD$)	Expiry Date
Warrants	344,462	$6.01	October 31, 2018
Incentive Stock Options:	122,000	$0.85	October 5, 2018
	20,000	$0.85	November 5, 2018
	569,933	$4.79	March 18, 2020
	711,933		
Total outstanding	1,056,395		

Other Risks and Uncertainties

For further information regarding the Company's operational risks, please refer to the section entitled "Description of the Business - Risk Factors" in the Annual Information Form for the year ended December 31, 2016 available at www.sedar.com and www.sec.gov/edgar.shtml.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that all material information related to the Company is identified and communicated to management on a timely basis. Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operation of disclosure controls and procedures in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators ("National Instrument 52-109") and as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act").

Based on management's evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2016 as a result of the material weaknesses in the Company's internal control over financial reporting, as further described below.

Notwithstanding these material weaknesses, the Company has concluded that the financial statements included in this report fairly present in all material respects its financial position, results of operations, capital position, and cash flows for the periods presented, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting in accordance with the requirements of National Instrument 52-109 and as defined in Rule 13a-15(f) or 15d – 15(f) under the *U.S. Exchange Act*. internal control over financial reporting is a process designed by, or under the supervision of, the President and Chief Executive Officer and Chief Financial Officer and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflects the transactions and dispositions of the Company's assets and consolidated entities;
2. provide reasonable assurance that transactions are recorded as necessary to permit the preparation of consolidated financial statements in accordance with IFRS and that receipts and expenditures by the Company and its subsidiaries are being made in accordance with authorization of management and our directors; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving their control objectives.

A material weakness, as defined in National Instrument 52-109 of the Canadian Securities Administrators and Rule 12b-2 under the Exchange Act, is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The Company's management, under the supervision and with the participation of its President and Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company´s internal control over financial reporting as of December 31, 2016, using the criteria set forth by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control –*

Integrated Framework (2013 (the "COSO 2013 Framework"). Based on the evaluation performed, management concluded that material weaknesses existed as of December 31, 2016, as described below.

Material Weaknesses Relating to Insufficient Qualified Resources, the Effectiveness of Risk Assessment, Design and Implementation of Control Activities and Monitoring Activities as of December 31, 2016

The Company did not have sufficient resources with the relevant expertise to perform an effective risk assessment process, design and implement controls supported by documentation and provide evidence that such controls were designed and operating effectively.

The material weaknesses in risk assessment, control activities and monitoring activities contributed to the following material weaknesses:

1. The Company did not complete a documented fraud risk assessment;
2. The Company did not identify all risks and design relevant controls related to significant unusual transactions and complex accounting matters;
3. The Company´s controls related to revenue recognition did not address all risks and relevant assertions;
4. The Company´s controls related to tax provisions were not sufficiently precise; and
5. The Company did not implement effective general information technology controls related to user access privileges, unauthorized access and segregation of duties.

Accordingly, a reasonable possibility exists that material misstatements in the Company's financial statements will not be prevented or detected on a timely basis.

Because of the above described material weaknesses in internal control over financial reporting, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2016.

Deloitte LLP, the Company's independent registered public accounting firm, that audited the Company's consolidated financial statements as at and for the year ended December 31, 2016 has issued an audit report on the effectiveness of the Company's internal control over financial reporting.

Remediation Plan and Activities

Management has commenced remediation of these material weaknesses in 2017, and its remediation plan includes the following actions:

- Hiring of additional resources to enhance the accounting and tax controls, including a Vice-President of Finance and Accounting, an Internal Controls Manager and a Tax Manager;
- Engaging third party resources to assist the Company in its risk assessment process and in completing the design and implementation of certain internal controls over financial reporting pursuant to the COSO 2013 Framework; and
- Engaging specialists to assist us in the evaluation and redesign of our general information technology controls over user access privileges, unauthorized access and segregation of duties.

Senior management has discussed the aforementioned material weaknesses with the Audit Committee, and the Board will continue to review progress on these remediation activities on a regular and ongoing basis.

The material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

No assurance can be provided at this time that the actions and remediation efforts will effectively remediate the material weaknesses described above or prevent the incidence of other material weaknesses in the Company's internal control over financial reporting in the future. Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that disclosure controls and procedures or internal control over financial reporting will prevent all errors, even as the remediation measures are implemented and further improved to address the material weaknesses. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

Other than those described above, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a – 15(f) and 15d- 15(d) under the U.S. Exchange Act) during the year ended December 31, 2016, that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

Qualified Persons

Eric N. Chapman, M.Sc., Vice President of Technical Services, is a Qualified Person for Fortuna Silver Mines Inc. as defined by National Instrument 43-101. Mr. Chapman is a Professional Geoscientist of the Association of Professional Engineers and Geoscientists of the Province of British Columbia (Registration Number 36328) and is responsible for ensuring that the technical information contained in this Management's Discussion and Analysis is an accurate summary of the original reports and data provided to or developed by Fortuna Silver Mines Inc.

Cautionary Statement on Forward-Looking Statements

This MD&A and any documents incorporated by reference into this MD&A contain forward-looking statements which constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Section 21E of the United States Securities Exchange Act of 1934, as amended, and forward-looking information within the meaning of applicable Canadian securities legislation (collectively, "Forward-looking Statements"). All statements included herein, other than statements of historical fact, are Forward-looking Statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the Forward-Looking Statements. The Forward-looking Statements in this MD&A

include, without limitation, statements relating to:

- mineral “reserves” and “resources” as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future;
- production rates at the Company’s properties;
- cash cost estimates;
- timing for delivery of materials and equipment for the Company’s properties;
- the sufficiency of the Company’s cash position and its ability to raise equity capital or access debt facilities;
- the Company’s planned processing and estimated major investments for mine development and brownfields exploration at the San Jose Mine during 2017;
- the Company’s planned processing and estimated major investments for mine development, plant optimization and brownfields exploration at the Caylloma Mine during 2017;
- the Company’s plans for development of the Lindero Project;
- maturities of the Company’s financial liabilities, finance leases and other contractual commitments;
- expiry dates of bank letters of guarantee;
- estimated mine closure costs; and
- management’s expectation that any investigations, claims, and legal, labor and tax proceedings arising in the ordinary course of business will not have a material effect on the results of operations or financial condition of the Company.

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

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

- uncertainty of mineral resource and reserve estimates;
- risks associated with mineral exploration and project development;
- operational risks associated with mining and mineral processing;
- uncertainty relating to concentrate treatment charges and transportation costs;
- uncertainty relating to capital and operating costs, production schedules, and economic returns;
- uncertainties relating to general economic conditions;
- competition;
- substantial reliance on the Caylloma and San Jose mines for revenues;
- risks related to the integration of businesses and assets acquired by the Company;
- risks associated with potential legal proceedings;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- fluctuations in metal prices;

- risks associated with entering into commodity forward and option contracts for base metals production;
- environmental matters including potential liability claims;
- reliance on key personnel;
- potential conflicts of interest involving the Company's directors and officers;
- property title matters;
- dilution from further equity financing;
- currency exchange rate fluctuations;
- adequacy of insurance coverage;
- sufficiency of monies allotted for land reclamation; and
- potential legal proceedings;

as well as those factors referred to in the "Risks and Uncertainties" section in this MD&A and in the "Risk Factors" section in our Annual Information Form filed with the Canadian Securities Administrators and available at www.sedar.com and filed with the U.S. Securities and Exchange Commission as part of the Company's Form 40-F and available at www.sec.gov/edgar.shtml. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in Forward-looking Statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

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

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

These Forward-looking Statements are made as of the date of this MD&A. There can be no assurance that Forward-looking Statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers are cautioned not to place undue reliance on Forward-looking Statements. Except as required by law, the Company does not assume the obligation to revise or update these forward looking-statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events.

Cautionary Note to United States Investors Concerning Estimates of Reserves and Resources

Reserve and resource estimates included in this MD&A have been prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining, Metallurgy, and Petroleum Definition Standards on Mineral Resources and Mineral Reserves. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for public disclosure by a Canadian company of scientific and technical information concerning mineral projects. Canadian standards, including

NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and reserve and resource information contained in this news release may not be comparable to similar information disclosed by U.S. companies. In particular, the term "resource" does not equate to the term "reserves". Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made.

The SEC's disclosure standards normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by U.S. standards in documents filed with the SEC. Readers are cautioned not to assume that resources will ever be converted into reserves. Readers should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. Readers should also not assume that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies except in rare cases. Readers are cautioned not to assume that all or any part of an "inferred mineral resource" exists or is economically or legally mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in-place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the SEC, and reserves reported in compliance with NI 43-101 may not qualify as "reserves" under SEC standards. Accordingly, information concerning mineral deposits set forth in this news release may not be comparable with information made public by companies that report in accordance with U.S. standards.

EXHIBIT 99.4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use of our reports dated May 12, 2017 relating to the consolidated financial statements of Fortuna Silver Mines Inc. and subsidiaries (the “Company”) and the Company’s internal control over financial reporting (which report expresses an adverse opinion on the effectiveness of the Company’s internal control over financial reporting because of material weaknesses) appearing in this Annual Report on Form 40-F of Fortuna Silver Mines Inc. for the year ended December 31, 2016.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, Canada
May 15, 2017

EXHIBIT 99.5

CONSENT OF ERIC CHAPMAN

CONSENT OF AUTHOR / EXPERT

I hereby consent to:

1. the use of my name, Eric Chapman, and reference to my name, the technical report entitled “Fortuna Silver Mines Inc.: Caylloma Property, Caylloma District, Peru” dated effective August 31, 2016, as amended January 30, 2017 (the “Caylloma Report”), evaluating the Caylloma Property of Fortuna Silver Mines Inc. (the “Company”), the technical report entitled “Fortuna Silver Mines Inc.: San Jose Property, Oaxaca, Mexico” dated effective August 20, 2016, as amended January 30, 2017, evaluating the San Jose Property of the Company (together with the Caylloma Report, the “Reports”), and the information contained in the Reports described or incorporated by reference in the Company’s Annual Report on Form 40-F for the year ended December 31, 2016 filed with the United States Securities and Exchange Commission;

2. the use of my name, Eric Chapman, and reference to my name, and the technical information relating to the updated Mineral Resource estimates for the Caylloma Mine and the San Jose Mine contained under the heading “General Development of the Business – Three-Year History and Recent Developments” in the Annual Information Form of the Company for the year ended December 31, 2016 included in the Company’s Annual Report on Form 40-F for the year ended December 31, 2016 filed with the United States Securities and Exchange Commission; and

3. the use of my name, Eric Chapman, and reference to my name, and the technical information contained in the Annual Information Form of the Company for the year ended December 31, 2016 included in the Company’s Annual Report on Form 40-F for the year ended December 31, 2016 filed with the United States Securities and Exchange Commission.

Dated: May 15, 2017

“Eric N. Chapman”

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

EXHIBIT 99.6

CONSENT OF EDWIN GUTIERREZ

CONSENT OF AUTHOR / EXPERT

I hereby consent to:

1. the use of my name, Edwin Gutierrez, and reference to my name, the technical report entitled “Fortuna Silver Mines Inc.: Caylloma Property, Caylloma District, Peru” dated effective August 31, 2016, as amended January 30, 2017 (the “Caylloma Report”), evaluating the Caylloma Property of Fortuna Silver Mines Inc. (the “Company”), the technical report entitled “Fortuna Silver Mines Inc.: San Jose Property, Oaxaca, Mexico” dated effective August 20, 2016, as amended January 30, 2017, evaluating the San Jose Property of the Company (together with the Caylloma Report, the “Reports”), and the information contained in the Reports described or incorporated by reference in the Company’s Annual Report on Form 40-F for the year ended December 31, 2016 filed with the United States Securities and Exchange Commission; and

2. the use of my name, Edwin Gutierrez, and reference to my name, and the technical information relating to the updated Mineral Reserve estimate and the Mineral Resource estimate exclusive of Mineral Reserves for the Caylloma Mine and the San Jose Mine contained under the heading “General Development of the Business – Three-Year History and Recent Developments” in the Annual Information Form of the Company for the year ended December 31, 2016 included in the Company’s Annual Report on Form 40-F for the year ended December 31, 2016 filed with the United States Securities and Exchange Commission.

Dated: May 15, 2017

“Edwin Gutierrez”
Edwin Gutierrez,
Registered Member of the Society for Mining, Metallurgy and Exploration, Inc. (SME Registered Member Number 4119110RM)

EXHIBIT 99.7

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jorge Ganoza Durant, certify that:

1. I have reviewed this annual report on Form 40-F of Fortuna Silver Mines Inc. (the "issuer");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: May 15, 2017

"Jorge Ganoza Durant"

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

EXHIBIT 99.8

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Luis Ganoza Durant, certify that:

1. I have reviewed this annual report on Form 40-F of Fortuna Silver Mines Inc. (the “issuer”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer’s internal control over financial reporting; and

5. The issuer’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer’s auditors and the audit committee of the issuer’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer’s internal control over financial reporting.

Dated: May 15, 2017

“Luis Ganoza Durant”

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

EXHIBIT 99.9

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Fortuna Silver Mines Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jorge Ganoza Durant, President, Chief Executive Officer & Director of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2017

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

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

EXHIBIT 99.10

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Fortuna Silver Mines Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Luis Ganoza Durant, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2017

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

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.