

FORTUNA SILVER MINES INC.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Second Quarter Ended June 30, 2009

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

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

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

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

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

	Notes	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 31,165	\$ 29,454
Derivatives	4	-	1,418
Accounts receivable and prepaid expenses	5	8,315	1,865
GST and value added tax		1,473	5,127
Inventories	6	1,520	1,727
		42,473	39,591
LONG TERM RECEIVABLES		78	114
LONG TERM INVESTMENT AND RECEIVABLE	7	-	3,093
PROPERTY, PLANT & EQUIPMENT	8	15,445	13,285
MINERAL PROPERTIES	9	64,975	59,285
		\$ 122,971	\$ 115,368
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 4,314	\$ 4,735
Due to related parties, net	10	24	38
Derivatives	4	1,100	-
Current portion of obligation under capital lease	11	1,024	682
Current portion of long term liability	11	-	80
		6,462	5,535
OBLIGATIONS UNDER CAPITAL LEASE	11	1,125	717
LONG TERM LIABILITY	11	616	665
ASSET RETIREMENT OBLIGATION	12	1,442	1,066
FUTURE INCOME TAX LIABILITY		11,213	9,410
NON-CONTROLLING INTEREST		-	9,007
		20,858	26,400
SHAREHOLDERS' EQUITY			
SHARE CAPITAL		103,613	98,206
CONTRIBUTED SURPLUS		12,076	11,798
DEFICIT		(9,838)	(9,980)
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME		(3,738)	(11,056)
		102,113	88,968
		\$ 122,971	\$ 115,368
Nature and continuance of operations	1		
Commitments and contingencies	15		
Subsequent events	18		

APPROVED BY THE DIRECTORS:

"Jorge Ganoza Durant" , Director
Jorge Ganoza Durant

"Simon Ridgway" , Director
Simon Ridgway

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

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2009	2008	2009	2008
Sales		\$ 12,862	\$ 7,772	\$ 21,842	\$ 14,580
Cost of sales (including depletion, depreciation and accretion of \$2,979 (2008: \$2,155))		6,070	4,923	11,563	9,428
MINE OPERATING INCOME		6,792	2,849	10,279	5,152
Selling, general and administrative expenses (includes depreciation of \$31 (2008: \$21))	10	2,426	1,925	4,406	3,510
Stock-based compensation	13 d)	11	95	360	623
Write-off of deferred exploration costs		-	-	1,081	-
		2,437	2,020	5,847	4,133
OPERATING INCOME		4,355	829	4,432	1,019
Interest and other income and expenses		141	232	399	681
Interest and finance expenses		(42)	(28)	(72)	(45)
Net (loss) on commodity contracts		(1,356)	2,215	(1,772)	1,628
(Loss) on disposal of property, plant and equipment		(6)	(3)	(6)	(23)
(Loss) on disposal of investment		226	-	(236)	-
Foreign exchange (loss) gain		(399)	411	(372)	423
		(1,436)	2,827	(2,059)	2,664
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST		2,919	3,656	2,373	3,683
Income tax provision		1,723	1,144	2,411	1,754
Non-controlling interest		-	19	(180)	74
NET INCOME FOR THE PERIOD		\$ 1,196	\$ 2,493	\$ 142	\$ 1,855
Earnings per Share - Basic and Diluted		\$ 0.01	\$ 0.03	\$ 0.00	\$ 0.02
Weighted average number of shares outstanding - Basic		92,253,419	85,329,901	89,750,592	83,460,052
Weighted average number of shares outstanding - Fully Diluted		92,253,419	86,559,462	89,750,592	85,636,347

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

FORTUNA SILVER MINES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited - Expressed in thousands of US Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income (loss) for the period	\$ 1,196	\$ 2,493	\$ 142	\$ 1,855
Other comprehensive income (loss), net of taxes				
Unrealized gain (loss) on available for sale long-term investments	-	(254)	148	(621)
Transfer of unrealized loss to realized loss upon derecognition of available for sale long-term investment	-	-	462	-
Unrealized gain/(loss) on translation of functional currency to reporting currency	5,323	1,270	6,708	(3,018)
Other comprehensive income (loss)	5,323	1,016	7,318	(3,639)
Comprehensive income (loss)	\$ 6,519	\$ 3,509	\$ 7,460	\$ (1,784)

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

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2009	2008	2009	2008
OPERATING ACTIVITIES					
Net income for the period		\$ 1,196	\$ 2,493	\$ 142	\$ 1,855
Items not involving cash					
Depletion and depreciation		1,565	1,180	2,949	2,237
Accretion expense		31	26	61	52
Future income tax		2,146	1,423	2,411	1,590
Stock based compensation		11	95	360	623
Unrealized loss(gain)on commodity contracts		621	(2,053)	2,518	(1,316)
Non-controlling interest		-	19	(180)	74
Write-off of deferred exploration costs		-	-	1,081	-
Non-cash loss on disposal of equipment		6	3	6	23
Non-cash gain on disposal of investment		(226)	-	236	-
Other		10	-	18	-
Unrealized foreign exchange loss (gain)		331	(712)	319	(56)
		5,691	2,474	9,921	5,082
Changes in non-cash working capital items					
Accounts receivable and prepaid expenses		(845)	451	(4,335)	(2,149)
Inventories		9	63	381	(143)
Accounts payable		(162)	1,110	(815)	(407)
Payments from (to) related parties	10	6	4	(16)	16
Net cash from (used in) operating activities		4,699	4,102	5,136	2,399
FINANCING ACTIVITIES					
Net proceeds on issuance of common shares		141	4	141	8,004
Capital lease obligations		(180)	(15)	(360)	(129)
Net cash provided by (used in) financing activities		(39)	(11)	(219)	7,875
INVESTING ACTIVITIES					
Costs relating to the acquisition of Continuum		(43)	-	(163)	-
Mineral property expenditures		(2,643)	(6,479)	(4,814)	(8,994)
Value added taxes on purchase of property, plant & equipment		878	(447)	1,973	(606)
Property, plant & equipment		(41)	(921)	(940)	(1,295)
Long term receivable		241	-	269	-
Proceeds on disposal of equipment		-	2	-	10
Net cash (used in) provided by investing activities		(1,608)	(7,845)	(3,675)	(10,885)
Effect of exchange rate changes on cash and cash equivalents		1,091	591	469	(1,406)
INCREASE (DECREASE) IN CASH		3,052	(3,754)	1,242	(611)
Cash - beginning of period		27,022	49,302	29,454	48,156
CASH AND CASH EQUIVALENTS - END OF PERIOD		\$ 31,165	\$ 46,139	\$ 31,165	\$ 46,139
Supplementary disclosure of cash flow information:					
Cash received for interest		\$ 5	\$ (1,291)	\$ 67	\$ (803)
Cash paid for income taxes		\$ 50	\$ 128	\$ 143	\$ 276
Non-cash Transactions:					
Issue of shares on purchase of resource property	9	\$ -	\$ -	\$ 5,194	\$ -
Reassessment of asset retirement obligation	9, 12	\$ -	\$ -	\$ 288	\$ -
Cancellation of Minera Condor liability	11	\$ -	\$ -	\$ 156	\$ -
Equipment purchased through capital lease		\$ 1,026	\$ -	\$ 1,127	\$ -
Purchase of resource property on a deferred payment plan		\$ -	\$ -	\$ -	\$ -
Sale of equipment for a long-term receivable		\$ -	\$ -	\$ -	\$ -
Fair value of options exercised		\$ 61	\$ 1	\$ 71	\$ 27

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

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

	Notes	Share Capital		Contributed Surplus	(Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
		Shares	Amount				
Balance - December 31, 2008		85,331,659	\$ 98,206	\$ 11,798	\$ (9,980)	\$ (610)	\$ 99,414
Translation adjustment due to change of Minera Bateas from integrated to self-sustaining foreign subsidiary		-	-	-	-	(3,941)	(3,941)
Translation adjustment due to change in reporting currency		-	-	-	-	(6,505)	(6,505)
		85,331,659	98,206	11,798	(9,980)	(11,056)	\$ 88,968
Exercise of options		200,000	144	-	-	-	144
Issuance of shares for property		6,786,706	5,192	-	-	-	5,192
Cancellation of fractional shares		(36)	-	-	-	-	-
Transfer of contributed surplus on exercise of options		-	71	(71)	-	-	-
Stock based compensation		-	-	349	-	-	349
Loss for the period		-	-	-	142	-	142
Unrealized gain on available for sale long term investments		-	-	-	-	148	148
Transfer of unrealized loss to realized loss upon derecognition of available for sale long-term investment		-	-	-	-	462	462
Unrealized gain/(loss) on translation of functional currency to reporting currency		-	-	-	-	6,708	6,708
Balance June 30, 2009		92,318,329	\$ 103,613	\$ 12,076	\$ (9,838)	\$ (3,738)	\$ 102,113

	Notes	Share Capital		Contributed Surplus	(Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
		Shares	Amount				
Balance - December 31, 2007		80,977,663	\$ 90,176	\$ 10,533	\$ (9,070)	\$ 135	\$ 91,774
Effect of change in reporting currency		-	-	-	-	11,252	11,252
Exercise of options		31,400	38	-	-	-	38
Exercise of warrants		4,322,596	7,966	-	-	-	7,966
Transfer of contributed surplus on exercise of options		-	27	(27)	-	-	-
Stock based compensation		-	-	623	-	-	623
Loss for the period		-	-	-	1,855	-	1,855
Unrealized loss of AFS shares		-	-	-	-	(621)	(621)
Unrealized gain/(loss) on translation of functional currency to reporting currency		-	-	-	-	(3,018)	(3,018)
Balance June 30, 2008		85,331,659	\$ 98,207	\$ 11,129	\$ (7,215)	\$ 7,748	\$ 109,869

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

FORTUNA SILVER MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

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

1. Nature and Continuation of Operations

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

These unaudited interim consolidated financial statements have been prepared using Canadian generally accepted accounting standards (“Canadian GAAP”) applicable to going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the three and six months ended June 30, 2009 and 2008, the Company had a net income of \$1,196 (2008: \$2,493) and \$142 (2008: \$1,855), respectively, and as at June 30, 2009, had an accumulated deficit of \$9,838. The Company’s continuing operations as a going concern and the recoverability of amounts shown for its exploration stage mineral properties are dependent upon the availability of the necessary financing to complete the exploration and development of such mineral property interests, and upon future profitable production or proceeds from the disposition of its mineral property interests.

2. Summary of Significant Accounting Policies

a) Basis of presentation and principles of consolidation

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

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

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

b) Change in Reporting Currency

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

FORTUNA SILVER MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

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

2. Summary of Significant Accounting Policies (continued)

b) Change in Reporting Currency (continued)

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

c) Adoption of New Accounting Standards

Goodwill and Intangible Assets (Section 3064)

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

FORTUNA SILVER MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

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

2. Summary of Significant Accounting Policies (continued)

c) Adoption of New Accounting Standards (continued)

Credit risk and fair value of financial assets and financial liabilities

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

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

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

Mining Exploration Costs

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

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

d) Foreign currency translation

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

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

FORTUNA SILVER MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

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

2. Summary of Significant Accounting Policies (continued)

d) Foreign currency translation (continued)

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

3. Recently released Canadian Accounting Standards

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

Convergence with International Financial Reporting Standards ("IFRS")

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

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

The Company has begun planning its transition to IFRS but the impact on its consolidated financial position and results of operations has not yet been determined. The process will consist of three phases: Scoping and Diagnostics, Analysis and Development, and Implementation and Review. The Company has begun the first phase which includes a diagnostic assessment of its current accounting policies systems and processes in order to identify differences between current Canadian GAAP and IFRS treatment. The Company will continue to monitor changes in IFRS during implementation process and intends to update the critical accounting policies and procedures to incorporate the changes required by converting to IFRS and the impact of these changes on its financial reporting.

3. Recently released Canadian Accounting Standards (continued)

Business Combinations

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

4. Derivatives

Forward Sales Contracts - Swap Basis

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

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

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

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

As at June 30, 2009, the Company had two open positions on each of these arrangements. Additionally, the Company will occasionally enter into forward lead and zinc contracts with banks to fix the final settlement price of metal delivered in concentrates, where the final settlement price is yet to be set at a future quotational period according to contract terms.

The estimated fair value of the outstanding derivative contracts of (\$1,100) was determined with reference to the published market prices for underlying commodities quoted at the London Metal Exchange.

Subsequent to June 30, 2009, the Company entered into the following contracts on a SWAP: lead forward contracts of \$1,645/t for a total of 2,675 tons; and zinc forward contracts \$1,561/t for a total of 3,000 tons.

FORTUNA SILVER MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

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

5. Accounts receivable and prepaid expenses

	June 30, 2009	December 31, 2008
Trade accounts receivable	\$ 7,113	\$ -
Advances and other receivables	925	1,701
Prepaid expenses and deposits	277	164
	\$ 8,315	\$ 1,865

Advances and other receivables include prepaid income tax of \$9 and the \$116 short term portion of the long term receivable.

6. Inventories

Inventories consist of the following:

	June 30, 2009	December 31, 2008
Stockpile ore	\$ 238	\$ 322
Concentrate inventory	24	90
Materials and supplies	1,258	1,315
	\$ 1,520	\$ 1,727

7. Long term investment and receivable

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

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

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

FORTUNA SILVER MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

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

8. Property, Plant & Equipment

Property, plant and equipment are comprised of the following:

	June 30, 2009			December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 244	\$ -	\$ 244	\$ 231	\$ -	\$ 231
Machinery & equipment	8,695	2,322	6,373	7,867	1,704	6,163
Buildings	3,698	856	2,842	3,410	602	2,808
Furniture & other equipment	1,410	330	1,080	1,193	218	975
Transport units	451	197	254	526	171	355
Equipment under capital lease	2,992	368	2,624	1,615	216	1,399
Work in progress	2,028	-	2,028	1,354	-	1,354
	\$ 19,518	\$ 4,073	\$ 15,445	\$ 16,196	\$ 2,911	\$ 13,285

9. Mineral Properties

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

	June 30, 2009				December 31, 2008			
	Cost	Depletion	Write-off	Net Book Value	Cost	Depletion	Write-off	Net Book Value
Caylloma, Peru	\$ 38,187	\$ 9,589	\$ 318	\$ 28,280	\$ 32,915	\$ 7,154	\$ -	\$ 25,761
San Jose, Mexico	37,648	63	990	36,595	33,843	34	285	33,524
Predilecta, Mexico	100	-	-	100	-	-	-	-
	\$ 75,935	\$ 9,652	\$ 1,308	\$ 64,975	\$ 66,758	\$ 7,188	\$ 285	\$ 59,285

Caylloma Project, Peru

For the six months ending June 30, 2009, additions to the Caylloma mineral property includes development and exploration costs of \$2,482 and an increase of \$288 resulting from a revision to the estimate for the asset retirement obligation.

San Jose Project, Mexico

For the six months ending June 30, 2009, additions to the San Jose mineral property consist of development and exploration costs capitalized of \$1,288. Included in the additions for the San Jose property is \$27 relating to the accretion of the payable for the Monte Alban II concession. This property was acquired for a total of \$1,900 and consists of a payment of \$1,100 made in May 2008 and a future payment of \$800 is to be made in May 2012 (Note 11). The present value of the \$800 was \$589 and this is being accreted monthly with the accretion amount being capitalized to the mineral property.

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9. Mineral Properties (continued)

San Jose Project, Mexico (continued)

Also included in additions to the San Jose mineral property is depreciation of equipment involved in construction work of \$82 (2008: \$181), and general and administrative costs to develop the mine of \$719 (2008: \$1,087), and \$121 received as interest on VAT recovered. There was also a decrease of \$307 resulting from the purchase price discrepancy upon the acquisition of Continuum. The San Jose Project is owned and operated by Compañía Minera Cuzcatlan (“Cuzcatlan”), a company wholly owned by the Company.

In February 2009, the Company made effective a reduction of 8,344 ha out of the approximately 49,000 ha surrounding the San Jose project for which it holds exploration and mining rights. This is equivalent to a write-down of \$990. This decision was based on existing geological information and is part of an effort to prioritize capital expenditures.

Acquisition of Continuum Resources Ltd. (“Continuum”)

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

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

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

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9. Mineral Properties (continued)*Acquisition of Continuum Resources Ltd. (“Continuum”)(continued)*

The purchase price allocation is as follows:

Purchase price		
6,786,706 common shares of Fortuna	\$	5,194
Acquisition costs		113
Loan to Continuum		3,182
Cost of shares previously acquired		130
Total purchase price	\$	8,619

Purchase price allocation

Net assets acquired:

Cash received	\$	5
Property, plant & equipment		6
Mineral property interests		8,747
Accounts payable and accrued liabilities		(139)
Net identifiable assets of Continuum	\$	8,619

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

10. Related Party Transactions

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

Transactions with related parties	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Consulting fees ¹	\$ 34	\$ 7	\$ 65	\$ 15
Salaries and wages ²	37	-	60	13
Other ³	45	-	66	-
	\$ 116	\$ 7	\$ 191	\$ 28

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

^{2,3} Radius Gold Inc. (“RDU”) has directors in common with the Company and shares office space, and is reimbursed for various general and administrative costs incurred on behalf of the Company.

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

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10. Related Party Transactions (continued)

Amounts due to/(from) related parties	June 30, 2009	December 31, 2008
Owing to a company with common directors ³	\$ 24	\$ 38

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

11. Leases and Long Term Liabilities*Obligations under capital lease*

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

	Interest Rate	Maturity Date	June 30, 2009	December 31, 2008
Scotia Bank	9.29%	2009	\$ 6	\$ 14
Interamericano de Finanzas	8.50%	2009	15	38
Scotia Bank	8.20%	2009	68	134
Scotia Bank	8.66%	2010	165	226
Scotia Bank	8.20%	2010	396	26
Scotia Bank	8.49%	2010	84	534
Scotia Bank	8.34%	2010	20	110
Scotia Bank	8.49%	2011	133	248
Interbank	9.12%	2011	210	69
Interbank	9.75%	2012	108	-
Interbank	9.75%	2012	944	-
Lease payments			\$ 2,149	\$ 1,399
Less current amount			(1,024)	(682)
			\$ 1,125	\$ 717

Long term liability

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

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

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11. Leases and Long Term Liabilities (continued)*Long term liability (continued)*

	June 30,	December 31,
	2009	2008
Face value of long term liability	\$ 970	\$ 1,000
Less: adjustment to amortized cost	(225)	(271)
Opening fair value of liability measured at amortized cost	745	729
Cancellation of contract	(156)	-
Add: accretion to period end	27	46
Less: payments	-	(30)
Liability at period end	616	745
Less: current portion of long term liability	-	(80)
	\$ 616	\$ 665

Principal minimum repayment terms will be :

2009	\$ -
2010	-
2011	-
2012	800
\$	800

Contingent liability

Interbank bank, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian mining regulatory agency in compliance with local regulation associated with the approval procedures of Bateas' mine closure plan, for the sum of \$600. This letter is available against first and simple demand and will expire on July 27, 2009. At this point it will be renewed until the end of 2009 when a new guarantee will be set up according to an approved mine closure plan for an amount corresponding to the work to be executed during 2010. This amount is yet to be established but it is expected to be less than the current guarantee.

12. Asset Retirement Obligation

The Company has recorded an asset retirement obligation of \$1,442 as of June 30, 2009 consisting of accretion of the previously recorded asset retirement obligation of \$1,066 as of December 31, 2008 by \$61, an increase in the estimated amount of the asset retirement obligation of \$288, and a translation adjustment of \$26. The accretion expense was calculated over the year using a rate of 9%. The Company has reviewed its reclamation obligations at the property in light of changing regulations and on the basis of further data in respect of the mine life and has made an increase to the estimated amount of the asset retirement obligation of \$288.

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12. Asset Retirement Obligation (continued)

In view of the uncertainties concerning environmental reclamation, the ultimate cost of reclamation activities could differ materially from the estimated amount recorded. The estimate of the Company's asset retirement obligation relating to the Caylloma mine is subject to change based on amendments to laws and regulations and as new information regarding the Company's operations becomes available.

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

13. Share Capital

a) Authorized: Unlimited common shares without par value

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

b) Stock Options

The following is a summary of option transactions:

	Number of Shares	Weighted Average Exercised Price Per Share in CAD\$
Balance, December 31, 2007	6,686,400	\$ 2.24
Granted	2,655,000	1.03
Exercised	(31,400)	1.22
Expired	-	-
Forfeited	(1,576,000)	2.77
Balance, December 31, 2008	7,734,000	\$ 1.79
Granted	-	-
Exercised	(200,000)	0.85
Expired	(920,000)	2.38
Forfeited	-	-
Balance, June 30, 2009	6,614,000	\$ 1.74

During the period, 920,000 share purchase options with exercise prices ranging from CAD\$0.85 to CAD\$3.22 per share expired unexercised and 200,000 share purchase options were exercised at an exercise price of CAD\$0.85 per share.

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13. Share Capital (continued)

b) Stock Options (continued)

The following stock options were outstanding at June 30, 2009:

Number of shares	Exercise Price CAD\$	Expiry Date	Weighted Average Remaining Contractual Life - Years
29,000	\$ 0.37	December 2, 2009	0.4
30,000	\$ 0.80	July 24, 2010	1.1
270,000	\$ 1.35	February 5, 2016	6.6
250,000	\$ 2.29	March 30, 2016	6.8
60,000	\$ 1.75	May 8, 2016	6.9
200,000	\$ 1.75	May 22, 2016	6.9
35,000	\$ 0.85	July 5, 2016	7.0
245,000	\$ 1.55	July 5, 2016	7.0
860,000	\$ 1.66	July 10, 2016	7.0
225,000	\$ 1.61	September 13, 2016	7.2
110,000	\$ 0.85	January 11, 2017	7.5
730,000	\$ 2.22	January 11, 2017	7.5
50,000	\$ 2.75	February 6, 2017	7.6
15,000	\$ 0.85	April 22, 2017	7.8
50,000	\$ 0.85	May 31, 2017	7.9
50,000	\$ 0.85	June 27, 2017	8.0
50,000	\$ 0.85	July 2, 2017	8.0
1,075,000	\$ 3.22	July 2, 2017	8.0
25,000	\$ 0.85	October 24, 2017	8.3
250,000	\$ 2.52	February 5, 2018	8.6
150,000	\$ 1.25	August 25, 2018	9.2
1,205,000	\$ 0.85	October 5, 2018	9.3
650,000	\$ 0.85	November 5, 2018	9.4
6,614,000			7.95

6,614,000 options have vested as at June 30, 2009.

Subsequent to June 30, 2009, the Company granted to an officer and an employee an aggregate of 250,000 incentive stock options with an exercise price of CAD\$0.83 per share, exercisable for ten years, and vesting October 1, 2009.

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13. Share Capital (continued)

c) Warrants

The following is a summary of share purchase warrant transactions:

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

The following share purchase warrants were outstanding at June 30, 2009:

Number of warrants	Exercise Price per Share Purchase Warrant in CAD\$	Expiry Date
862,117	\$ 0.345	June 27, 2010
1,613,238	\$ 0.345	November 17, 2010
8,588,000	\$ 2.300	July 11, 2009
11,063,355		

Subsequent to June 30, 2009, 8,588,000 share purchase warrants with a strike price of CAD\$2.30 per share purchase warrant, expired unexercised.

d) Stock-Based Compensation

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

The Company uses the fair value based method of accounting for share options granted to consultants, directors, officers, and employees. The non-cash compensation charge of \$360 recognized for the six months ended June 30, 2009 (June 30, 2008: \$623) is associated with the granting of options to a consultant, directors and employees. These compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following assumptions:

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13. Share Capital (continued)

d) Stock-Based Compensation (continued)

	Six months ended June 30,	
	2009	2008
Risk-free interest rate	2.74% - 3.45%	3.78% - 4.58%
Expected stock price volatility	70% - 78%	59.0% - 72.8 %
Expected term in years	5 & 10	3, 5 & 10
Expected dividend yield	0%	0%

Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility, risk-free interest rate and expected life of the options. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

14. Segmented Information

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

	Canada	Peru	Mexico	Other	Total
Three months ended June 30, 2009					
Revenues	\$ -	\$ 12,862	\$ -	\$ -	\$ 12,862
Operating (loss) income	\$ (660)	\$ 5,063	\$ -	\$ (48)	\$ 4,355
Three months ended June 30, 2008					
Revenues	\$ -	\$ 7,772	\$ -	\$ -	\$ 7,772
Operating (loss) income	\$ (1,936)	\$ 2,763	\$ -	\$ 2	\$ 829
Six months ended June 30, 2009					
Revenues	\$ -	\$ 21,842	\$ -	\$ -	\$ 21,842
Operating income (loss)	\$ (1,666)	\$ 7,072	\$ (921)	\$ (53)	\$ 4,432
Six months ended June 30, 2008					
Revenues	\$ -	\$ 14,580	\$ -	\$ -	\$ 14,580
Operating (loss) income	\$ (3,082)	\$ 4,104	\$ -	\$ (3)	\$ 1,019
As at June 30, 2009					
Property, plant & equipment	\$ 9	\$ 10,934	\$ 4,499	\$ 3	\$ 15,445
Total assets	\$ 24,756	\$ 56,137	\$ 42,063	\$ 15	\$ 122,971
As at December 31, 2008					
Property, plant & equipment	\$ 4	\$ 9,105	\$ 4,174	\$ 2	\$ 13,285
Total assets	\$ 25,071	\$ 46,124	\$ 41,348	\$ 2,825	\$ 115,368

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15. Commitments and Contingencies

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

The Company acts as guarantor to capital lease obligations held by two of its mining contractors. These capital lease contracts are related to the acquisition of mining equipment deployed at the Caylloma mine. As at June 30, 2009, these obligations amounted to \$1,396 and mature in 2010.

Environmental Matters

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

Estimated future reclamation costs are based principally on legal and regulatory requirements. As of June 30, 2009 and December 31, 2008, \$1,442 and \$1,066, respectively, were accrued for reclamation costs relating to mineral properties in accordance with Section 3110, "Asset Retirement Obligations". See Note 12.

Income Taxes

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

Title Risk

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

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16. Management of capital risk

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

The Company is not subject to externally imposed capital requirements.

17. Management of financial risk

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

a) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Peru, Mexico and Barbados and a portion of its expenses are incurred in Canadian dollars, Nuevo Soles, and Mexican Pesos. A significant change in the currency exchange rates between the United States dollar relative to the other currencies could have a material effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At June 30, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, Nuevo Soles and Mexican Pesos (all amounts are expressed in thousands of Canadian dollars, thousands of Nuevo Soles or thousands of Mexican Pesos):

	June 30, 2009			December 31, 2008		
	Canadian Dollars	Nuevo Soles	Mexican Pesos	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	\$ 24,740	S/. 4,551	\$20,405	\$29,748	S/. 629	\$ 3,864
Accounts receivable	10	879	20,221	13	10,400	46,460
Accounts payable and accrued liabilities	(149)	(5,861)	(638)	(172)	(5,281)	(10,259)

Based on the above net exposure as at June 30, 2009, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the above currencies would result in an increase or decrease, expressed in US dollars, as follows:

Impact to other comprehensive income (loss)	\$	2,365				
Impact to net income (loss)			\$	(16)	\$	389

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17. Management of financial risk (continued)

b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash equivalents are held through large Canadian and international financial institutions. These investments mature at various dates over the current operating period. All of the Company's trade accounts receivables are held with large international metals trading companies. As at June 30, 2009, the Company has a Mexican value added tax of \$1,345 and Peruvian value added tax of \$118. The Company expects to recover the full amounts from the Mexican and Peruvian Governments.

c) Liquidity risk

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

Accounts payable and accrued liabilities, amounts due to related parties and the current portion of obligations under capital lease are due within the current operating period.

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the amounts in investments with maturities of 90 days or less included in cash and cash equivalents is limited because these investments, although available for sale, are generally held to maturity.

e) Price risk

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

18. Subsequent Events

There are no further subsequent events not reported above.