



**FORTUNA**  
SILVER MINES INC.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

THREE AND SIX MONTHS ENDED  
JUNE 30, 2018 AND 2017

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

# Fortuna Silver Mines Inc.

## Condensed Interim Consolidated Income Statements

(Unaudited - Presented in thousands of US dollars, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Sales (note 20)	\$ 73,666	\$ 63,911	\$ 144,108	\$ 128,745
Cost of sales (note 21)	42,274	41,700	81,379	79,351
Mine operating income	31,392	22,211	62,729	49,394
<b>Other expenses (income)</b>				
Selling, general and administration (note 22)	8,040	5,852	14,935	11,197
Exploration and evaluation	284	63	353	152
Share of loss (income) of equity-accounted investee	46	(24)	(195)	41
Foreign exchange (gain) loss	(465)	1,095	1,711	3,227
Other expenses	1,115	1,011	1,125	1,007
	9,020	7,997	17,929	15,624
Operating Income	22,372	14,214	44,800	33,770
<b>Finance items</b>				
Interest income	(923)	(516)	(1,562)	(800)
Interest expense	514	457	990	936
Other finance cost (note 15)	-	-	465	-
Accretion of provisions	194	162	372	325
(Gain) loss on financial assets and liabilities carried at fair value	(2,497)	(605)	(2,869)	1,017
	(2,712)	(502)	(2,604)	1,478
Income before taxes	25,084	14,716	47,404	32,292
<b>Income tax</b>				
Current income tax expense	12,218	8,798	21,964	16,801
Deferred income tax expense (recovery)	1,715	(2,980)	535	(6,406)
	13,933	5,818	22,499	10,395
Net income for the period	\$ 11,151	\$ 8,898	\$ 24,905	\$ 21,897
<b>Earnings per share (note 19)</b>				
Basic	\$ 0.07	\$ 0.06	\$ 0.16	\$ 0.14
Diluted	\$ 0.07	\$ 0.06	\$ 0.16	\$ 0.14
<b>Weighted average number of common shares outstanding during the period (000's)</b>				
Basic	159,679	159,223	159,658	156,544
Diluted	160,194	159,523	159,975	156,976

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

## Fortuna Silver Mines Inc.

### Condensed Interim Consolidated Statements of Comprehensive Income

(Unaudited - Presented in thousands of US dollars)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income for the period	\$ 11,151	\$ 8,898	\$ 24,905	\$ 21,897
Items that will remain permanently in other comprehensive income:				
Change in fair value of marketable securities, net of \$nil tax	-	-	(69)	-
Items that may in the future be reclassified to profit or loss:				
Change in fair value of marketable securities, net of \$nil tax	-	(62)	-	186
Change in fair value of hedging instruments, net of \$nil tax	286	26	180	180
Total other comprehensive income (loss) for the period	286	(36)	111	366
Comprehensive income for the period	\$ 11,437	\$ 8,862	\$ 25,016	\$ 22,263

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

# Fortuna Silver Mines Inc.

## Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Presented in thousands of US dollars)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 102,455	\$ 183,074
Short term investments (note 5)	95,886	29,500
Accounts and other receivables (note 7)	30,353	36,370
Inventories (note 8)	17,328	17,753
Derivative assets (note 9)	1,934	140
Marketable securities	-	556
Income tax receivable	145	130
Prepaid expenses	2,662	3,231
Assets held for sale	1,869	1,701
	252,632	272,455
<b>NON-CURRENT ASSETS</b>		
Mineral properties and exploration and evaluation assets (note 10)	303,658	296,612
Plant and equipment (note 11)	134,120	133,664
Investment in associates (note 6)	3,970	2,694
Other non-current receivables	3,571	1,223
Deposits on non-current assets (note 12)	23,196	-
<b>Total assets</b>	<b>\$ 721,147</b>	<b>\$ 706,648</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables (note 13)	\$ 33,828	\$ 41,476
Current portion of closure and rehabilitation provisions (note 16)	2,411	1,656
Income taxes payable	13,335	14,237
Current portion of finance lease obligations	-	906
Derivative liabilities (note 9)	-	2,328
	49,574	60,603
<b>NON-CURRENT LIABILITIES</b>		
Credit facility (note 15)	39,603	39,871
Other liabilities	224	1,356
Closure and rehabilitation provisions (note 16)	11,393	12,577
Deferred tax liabilities	29,191	28,657
<b>Total liabilities</b>	<b>129,985</b>	<b>143,064</b>
<b>EQUITY</b>		
Share capital (note 18)	419,350	418,168
Reserves	17,506	16,015
Retained earnings	154,306	129,401
<b>Total equity</b>	<b>591,162</b>	<b>563,584</b>
<b>Total liabilities and equity</b>	<b>\$ 721,147</b>	<b>\$ 706,648</b>

/s/ Jorge Ganoza Durant  
Jorge Ganoza Durant  
Director

/s/ Kylie Dickson  
Kylie Dickson  
Director

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

# Fortuna Silver Mines Inc.

## Condensed Interim Consolidated Statements of Cashflows

(Unaudited - Presented in thousands of US dollars)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<b>OPERATING ACTIVITIES</b>				
Net income for the period	\$ 11,151	\$ 8,898	\$ 24,905	\$ 21,897
Items not involving cash				
Depletion and depreciation	11,947	11,299	22,591	22,037
Accretion of provisions	194	162	372	325
Income taxes	13,933	5,818	22,499	10,395
Share based payments expense, net of cash	1,112	697	(2,040)	(3,046)
Share of loss (income) of equity-accounted investee (note 6)	46	(24)	(195)	41
(Loss) gain on disposal of mineral properties, plant	(8)	445	(8)	439
Loss on debt modification	-	-	465	-
Unrealized foreign exchange (gain) loss	(376)	1,347	548	799
Unrealized (gain) loss on financial assets carried at fair value	(2,787)	(196)	(4,153)	1,081
Other	1,208	974	1,416	561
	36,420	29,420	66,400	54,529
Accounts and other receivables	(2,232)	1,246	5,003	(5,227)
Prepaid expenses	282	(9)	569	573
Inventories	213	(1,079)	(586)	(1,826)
Trade and other payables	(5,592)	(5,262)	(7,046)	(4,228)
Rehabilitation payments	(97)	(149)	(200)	(235)
Cash provided by operating activities	28,994	24,167	64,140	43,586
Income taxes paid	(7,518)	(11,849)	(22,698)	(22,056)
Interest paid	(359)	(455)	(738)	(905)
Interest received	772	146	1,540	266
Net cash provided by operating activities	21,889	12,009	42,244	20,891
<b>INVESTING ACTIVITIES</b>				
Purchases of short term investments	(96,032)	(65,844)	(142,328)	(149,434)
Redemptions of short-term investments	45,669	20,900	74,401	36,600
Investments in marketable securities	(624)	(1,094)	(624)	(2,233)
Purchases of mineral properties, plant and equipment	(16,263)	(11,480)	(27,468)	(20,742)
Deposits on long term assets, net	(21,063)	(1,613)	(23,196)	(3,630)
Proceeds from sale of assets	8	-	8	15
Changes in long term receivables	(2,073)	-	(2,348)	-
Cash used in investing activities	(90,378)	(59,131)	(121,555)	(139,424)
<b>FINANCING ACTIVITIES</b>				
Transaction costs on debt modification (note 15)	-	-	(792)	-
Proceeds from issuance of common shares	396	-	396	76,409
Share issuance costs	-	(49)	-	(5,023)
Repayments of finance lease obligations	(363)	(529)	(906)	(1,057)
Cash provided (used in) by financing activities	33	(578)	(1,302)	70,329
Effect of exchange rate changes on cash and cash equivalents	(72)	(417)	(6)	(186)
Decrease in cash and cash equivalents during the period	(68,528)	(48,117)	(80,619)	(48,390)
Cash and cash equivalents, beginning of the period	170,983	82,211	183,074	82,484
Cash and cash equivalents, end of the period	\$ 102,455	\$ 34,094	\$ 102,455	\$ 34,094
Cash and cash equivalents consist of:				
Cash	\$ 22,219	\$ 18,054	\$ 22,219	\$ 18,054
Cash equivalents	80,236	16,040	80,236	16,040
Cash and cash equivalents, end of the period	\$ 102,455	\$ 34,094	\$ 102,455	\$ 34,094

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

# Fortuna Silver Mines Inc.

## Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited - Presented in thousands of US dollars, except for share amounts)

	Share capital		Reserves				Retained earnings	Total equity
	Number of common shares	Amount	Equity reserve	Hedging reserve	Fair value reserve	Foreign currency reserve		
Balance at January 1, 2018	159,636,983	\$ 418,168	\$ 14,726	\$ 147	\$ 27	\$ 1,115	\$ 129,401	\$ 563,584
<b>Total comprehensive income</b>								
Net income for the period	-	-	-	-	-	-	24,905	24,905
Other comprehensive income	-	-	-	180	(69)	-	-	111
<b>Total comprehensive income</b>	-	-	-	180	(69)	-	24,905	25,016
<b>Transactions with owners of the Company</b>								
Exercise of warrants (note 18b)	85,184	793	(396)	-	-	-	-	397
Shares issued for share units	78,150	389	(389)	-	-	-	-	-
Share-based payments (note 17)	-	-	2,165	-	-	-	-	2,165
	163,334	1,182	1,380	-	-	-	-	2,562
<b>Balance at June 30, 2018</b>	<b>159,800,317</b>	<b>\$ 419,350</b>	<b>\$ 16,106</b>	<b>\$ 327</b>	<b>\$ (42)</b>	<b>\$ 1,115</b>	<b>\$ 154,306</b>	<b>\$ 591,162</b>
Balance at January 1, 2017	146,978,173	\$ 343,963	\$ 14,865	\$ (222)	\$ 334	\$ 1,115	\$ 63,096	\$ 423,151
<b>Total comprehensive income</b>								
Net income for the period	-	-	-	-	-	-	21,897	21,897
Other comprehensive income	-	-	-	180	186	-	-	366
<b>Total comprehensive income</b>	-	-	-	180	186	-	21,897	22,263
<b>Transactions with owners of the Company</b>								
Issuance of common shares	11,873,750	69,783	-	-	-	-	-	69,783
Exercise of stock options	133,060	718	(198)	-	-	-	-	520
Exercise of warrants	238,515	2,167	(1,084)	-	-	-	-	1,083
Share-based payments (note 17)	-	-	280	-	-	-	-	280
	12,245,325	72,668	(1,002)	-	-	-	-	71,666
<b>Balance at June 30, 2017</b>	<b>159,223,498</b>	<b>\$ 416,631</b>	<b>\$ 13,863</b>	<b>\$ (42)</b>	<b>\$ 520</b>	<b>\$ 1,115</b>	<b>\$ 84,993</b>	<b>\$ 517,080</b>

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

# Fortuna Silver Mines Inc.

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

---

### 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 Presentation

#### Statement of Compliance

These unaudited condensed interim consolidated financial statements ("interim financial statements") were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 -Interim Financial Reporting. They do not include all the information required for full annual financial statements. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017, which includes information necessary for understanding the Company's business and financial presentation.

The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements, except for the adoption of new standards effective as of January 1, 2018 (Note 3). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not effective yet.

On August 7, 2018, the Company's Board of Directors approved these interim financial statements for issuance.

#### Presentation and Functional Currency

These financial statements are presented in United States Dollars ("\$" or "US\$"), which is the functional currency of the Company. Reference to C\$ are to Canadian dollars. All amounts in these financial statements have been rounded to the nearest thousand US dollars, unless otherwise stated.

#### Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for those assets and liabilities that are measured at fair value (Note 24).

### 3. Significant Accounting Policies and Changes to Accounting Policies

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

The Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as of January 1, 2018. The Company elected to apply IFRS 15 using a modified retroactive approach by recognizing the cumulative effect of initially adopting this standard at the date of initial recognition. Comparative information has not been restated and continues to be reported under IAS 18 Revenue ("IAS 18"). The Company has concluded that there was no cumulative effect adjustment required to be recognized at January 1, 2018. The details of the accounting policy changes and the quantitative impact of these changes are described below.

# Fortuna Silver Mines Inc.

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

---

### Concentrate Sales

The Company earns revenue from contracts with customers related to its concentrate sales. Revenue from contracts with customers is recognized when a customer obtains control of the concentrate and the Company satisfies its performance obligation. The Company considers the terms of the contract in determining the transaction price, which is the amount the entity expects to be entitled to in exchange for the transferring of the concentrates. The transaction price of a contract is allocated to each performance obligation based on its stand-alone selling price.

The Company satisfies its performance obligations for its concentrate sales based upon specified contract terms which are generally upon delivery to the customer at a specified warehouse or upon loading of the concentrate onto a vessel. The Company typically receives payment within one to four weeks of delivery.

Revenue from concentrate sales is recorded based upon forward market price of the expected final sales price date. IFRS 15 does not consider provisional price adjustments associated with concentrate sales to be revenue from contracts with customers as they arise from changes in market pricing for silver, gold, lead and zinc between the delivery date and settlement date. As such, the provisional price adjustments are accounted for as derivatives and presented separately in Note 20 of these financial statements.

The Company has concluded that there were no significant changes in the accounting for concentrate sales as a result of the transition to IFRS 15, as the timing of control of the concentrate passing to the customer and the treatment of provisional pricing adjustments are unchanged from policies applied prior to the adoption of IFRS 15.

### IFRS 9 Financial Instruments

The Company has adopted IFRS 9 Financial Instruments (“IFRS 9”) as of January 1, 2018. Prior periods were not restated and no material changes resulted from adopting this new standard. IFRS 9 introduced a revised model for classification and measurement, and while this has resulted in several financial instrument classification changes, as presented in Note 24, there were no quantitative impacts from adoption.

The details of accounting policy changes as a result of the adoption of IFRS 9 are described below:

#### (a) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale.

Under IFRS 9, a financial asset is measured as either: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). All non-derivative financial liabilities are measured at amortized cost. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated, and instead the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and



## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

The following accounting policies apply to the subsequent measurement of financial assets:

- Financial assets at FVTPL - These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
- Financial assets at amortized cost - These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Equity investments at FVOCI - These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Gains or losses recognized on the sale of the equity investment are recognized in OCI and are never reclassified to profit or loss.

Upon adoption of IFRS 9, the Company made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of its investments in marketable securities, which is substantially consistent with the accounting treatment prior to adoption. These financial assets are classified as FVOCI.

The original measurement categories under IAS 39 and the new measurement categories under IFRS 9 are summarized in the following table:

	Original (IAS 39)	New (IFRS 9)
<b>Financial assets</b>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Term deposits	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Marketable securities	Available for sale	FVOCI
Trade receivables from concentrate sales	FVTPL	FVTPL
Interest rate swap asset	Fair Value (hedging)	Fair Value (hedging)
<b>Financial liabilities</b>		
Trade payables	Other liabilities	Amortized cost
Payroll payable	Other liabilities	Amortized cost
Share units payable	Other liabilities	Amortized cost
Credit facility	Other liabilities	Amortized cost
Other payables	Other liabilities	Amortized cost
Metal forward sales and zero cost collar contracts	FVTPL	FVTPL

#### (b) Impairment of financial assets

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

# Fortuna Silver Mines Inc.

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

---

For our trade receivables, we apply the simplified approach for determining expected credit losses which requires us to determine the lifetime expected losses for all our trade receivables. The expected lifetime credit loss provision for our trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, when required. We did not record an adjustment relating to the implementation of the expected credit loss model for our trade receivables.

### (c) Hedge accounting

The Company has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Company has established a strategy, in accordance with its current risk management policies, to use interest rate swaps to hedge against the variability in cash flows arising from changes in USD LIBOR based floating interest rate borrowing relating to its credit facility.

As per IFRS 9, hedging relationships that qualified for hedge accounting in accordance with IAS 39, that also qualify for hedge accounting in accordance with IFRS 9 (after taking into account any rebalancing of the hedging relationship on transition), are regarded as continuing hedging relationships. Hence, the original hedge relationship continues from the trade inception date of the interest rate swap to the maturity date of the interest rate swap associated with the hedged exposure, unless the hedging relationship is required to be terminated earlier.

Management qualitatively assess that the changes in value of the hedging instrument and the hedged item will move in opposite directions and will be perfectly offset. As both counterparties to the derivative are investment grade, the effect of credit risk is considered as neither material nor dominant in the economic relationship. The hedge was highly effective at transition date under IFRS 9. The portion of the gain or loss on the hedging instrument that is determined to be effective will be recognized directly in other comprehensive income while the amount that is determined to be ineffective, if any, will be recorded in the profit or loss during the life of the hedging relationship.

### New Accounting Standards Issued but not yet Effective

In 2016, the IASB issued IFRS 16 Leases (“IFRS 16”), which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with earlier adoption permitted. The new standard is likely to result in increases to both the asset and liability positions of lessees, as well as affect the reported depreciation expense and finance costs of these entities in the statement of profit or loss. The Company is currently evaluating the impact the new standard will have on its financial results.

### 4. Use of Judgements and Estimates

The preparation of these interim financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the balance sheet date and reported amounts of expenses during the reporting period. Such judgements and estimates are, by their nature, uncertain. Actual outcomes could differ from these estimates.

The impacts of such judgements and estimates are pervasive throughout the interim financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and are accounted for prospectively.

In preparing these interim consolidated financial statements for the three and six months ended June 30, 2018, the Company applied the critical judgements and estimates as disclosed in note 4 of its audited consolidated financial statements for the year ended December 31, 2017.

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### 5. Short Term Investments

	June 30, 2018	December 31, 2017
Term deposits and similar instruments	\$ 95,886	\$ 29,500

The term deposits have maturities in excess of 90 days and less than one year on the date of acquisition.

#### 6. Investment in Associates

On May 18, 2018, the Company exercised its share purchase warrants to purchase 5.3 million common shares of Prospero Silver Corp. ("Prospero") Upon the exercise of these warrants, the Company held a 20% interest in Prospero and determined that it had the ability to exercise significant influence over Prospero. Accordingly, the Company commenced accounting for its investment using the equity method as of May 18, 2018.

Investments in associates as at June 30, 2018 were comprised of:

Name	Principal Activity	Incorporation and principal place of business	Proportion of ownership held		Market Value (\$C)	
			June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Medgold Resources Corp.	Acquisition and exploration of resource properties	Canada - Serbia	22%	22%	\$ 8,700	\$ 3,200
Prospero Silver Corp.	Acquisition and exploration of resource properties	Canada - Mexico	20%	15%	\$ 1,500	\$ 696

The Company is related to Medgold by virtue of a director in common.

The following table shows the activity as at June 30, 2018:

	Medgold	Prospero	Total
Medgold shares and warrants presented as marketable securities, January 1, 2017	\$ 1,579	\$ -	\$ 1,579
Fair value adjustments prior to February 7, 2017	(65)	-	(65)
Cash paid upon exercise of warrants	1,372	-	1,372
Share of Medgold's net loss	(192)	-	(192)
Balance at December 31, 2017	2,694	-	2,694
Prospero shares and warrants presented as marketable securities, January 1, 2018	-	556	556
Fair value adjustments prior to May 18, 2018	-	(99)	(99)
Cash paid upon exercise of warrants	-	624	624
Share of net income (loss)	207	(12)	195
Balance at June 30, 2018	\$ 2,901	\$ 1,069	\$ 3,970

#### 7. Accounts and Other Receivables

	June 30, 2018	December 31, 2017
Trade receivables from concentrate sales	\$ 26,515	\$ 34,250
Advances and other receivables	1,140	1,249
Value added taxes recoverable	2,698	871
Accounts and other receivables	\$ 30,353	\$ 36,370

# Fortuna Silver Mines Inc.

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

The Company's trade receivables from concentrate sales are expected to be collected in accordance with the terms of the existing concentrate sales contracts with its customers and no amounts were past due at June 30, 2018 or December 31, 2017.

### 8. Inventories

	June 30, 2018	December 31, 2017
Concentrate stockpiles	\$ 2,719	\$ 2,594
Ore stockpiles	3,430	4,144
Materials and supplies	11,179	11,015
<b>Inventories</b>	<b>\$ 17,328</b>	<b>\$ 17,753</b>

During the three and six months ended June 30, 2018, the Company expensed \$41,846 and \$80,319 (three and six months ended June 30, 2017 – \$41,127 and \$78,599) respectively, of inventories to cost of sales.

### 9. Derivative Assets and Derivative Liabilities

	June 30, 2018	December 31, 2017
<b>Assets</b>		
Interest rate swap	\$ 110	\$ 140
Commodity derivative contracts	1,824	-
<b>Derivative assets</b>	<b>\$ 1,934</b>	<b>\$ 140</b>
<b>Liabilities</b>		
Interest rate swap	\$ -	\$ -
Commodity derivative contracts	-	2,328
<b>Derivative liabilities</b>	<b>\$ -</b>	<b>\$ 2,328</b>

#### (a) Commodity derivative contracts

As at June 30, 2018, the Company has zero cost collars for an aggregate 2,400 tonnes of lead with a floor price of \$2,300 per tonne and a cap price of \$2,689 per tonne, maturing between July and November 2018, and zero cost collars for an aggregate 8,600 tonnes of zinc with a floor price of \$2,800 per tonne and a cap price of \$3,300 per tonne, maturing between July 2018 and June 2019.

The zinc and lead contracts are derivative financial instruments and are not accounted for as designated hedges. They were initially recognized at fair value on the date on which the related derivative contracts were entered into and are subsequently re-measured to estimated fair value. Any gains or losses arising from changes in the fair value of the derivatives are credited or charged to profit or loss.

#### (b) Interest rate swap

In January 2018, the Company entered into an interest rate swap ("Swap") for a term of four years in connection with the amended credit facility (Note 15) to hedge the variable interest rate risk on the Company's Amended Credit Facility. The fixed interest rate on the Swap is 2.61% 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 rates. The Swap has been designated as a hedge for accounting purposes.

During the three and six months ended June 30, 2018, the Company recognized an unrealized loss of \$105 and unrealized gain of \$286 (three and six months ended June 30, 2017 – gains of \$26 and \$180), related to the changes in the fair value of the swaps through other comprehensive income. The Swap was determined to be an effective hedge for the period ended June 30, 2018.

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### 10. Mineral Properties and Exploration and Evaluation Assets

	Depletable		Not depleted		Total
	Caylloma	San Jose	Lindero	Other	
<b>COST</b>					
Balance, January 1, 2018	\$ 112,669	\$ 164,198	\$ 140,154	\$ 4,150	\$ 421,171
Additions	4,332	6,438	7,185	1,704	19,659
Disposals	-	-	-	(170)	(170)
Change in rehabilitation provision	(96)	(302)	(124)	-	(522)
Balance, June 30, 2018	\$ 116,905	\$ 170,334	\$ 147,215	\$ 5,684	\$ 440,138
<b>ACCUMULATED DEPLETION</b>					
Balance, January 1, 2018	\$ 61,053	\$ 63,506	\$ -	\$ -	\$ 124,559
Depletion	3,655	8,266	-	-	11,921
Balance, June 30, 2018	\$ 64,708	\$ 71,772	\$ -	\$ -	\$ 136,480
NET BOOK VALUE, June 30, 2018	\$ 52,197	\$ 98,562	\$ 147,215	\$ 5,684	\$ 303,658

	Depletable		Not depleted		Total
	Caylloma	San Jose	Lindero	Other	
<b>COST</b>					
Balance, January 1, 2017	\$ 100,630	\$ 151,259	\$ 130,590	\$ 1,844	\$ 384,323
Additions	10,599	13,888	9,234	2,508	36,229
Change in rehabilitation provision	1,448	(931)	301	-	818
Disposals	-	-	-	(202)	(202)
Reclassifications	(8)	(18)	29	-	3
Balance, December 31, 2017	\$ 112,669	\$ 164,198	\$ 140,154	\$ 4,150	\$ 421,171
<b>ACCUMULATED IMPAIRMENT</b>					
Balance, January 1, 2017	\$ 31,900	\$ -	\$ -	\$ -	\$ 31,900
Impairment reversal	(31,900)	-	-	-	(31,900)
Balance, December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ -
<b>ACCUMULATED DEPLETION</b>					
Balance, January 1, 2017	\$ 42,059	\$ 46,829	\$ -	\$ -	\$ 88,888
Impairment reversal	13,038	-	-	-	13,038
Depletion	5,956	16,677	-	-	22,633
Balance, December 31, 2017	\$ 61,053	\$ 63,506	\$ -	\$ -	\$ 124,559
NET BOOK VALUE, December 31, 2017	\$ 51,616	\$ 100,692	\$ 140,154	\$ 4,150	\$ 296,612

# Fortuna Silver Mines Inc.

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

### 11. Plant and Equipment

	Machinery and equipment	Buildings and leasehold improvements	Furniture and other equipment	Transport units	Equipment under finance lease	Capital work in progress	Total
<b>COST</b>							
Balance, January 1, 2018	\$ 62,217	\$ 131,738	\$ 6,315	\$ 1,163	\$ 7,295	\$ 12,921	\$ 221,649
Additions	537	790	864	307	-	8,400	10,898
Change in rehabilitation	(79)	-	-	-	-	-	(79)
Disposals	(386)	-	-	-	(31)	-	(417)
Reclassifications	9,415	7,452	131	37	(7,264)	(9,771)	-
Balance, June 30, 2018	\$ 71,704	\$ 139,980	\$ 7,310	\$ 1,507	\$ -	\$ 11,550	\$ 232,051
<b>ACCUMULATED DEPRECIATION</b>							
Balance, January 1, 2018	\$ 27,570	\$ 52,353	\$ 3,890	\$ 662	\$ 3,510	\$ -	\$ 87,985
Disposals	(386)	-	-	-	(30)	-	(416)
Reclassifications	3,152	538	35	37	(3,762)	-	-
Depreciation	3,258	6,397	317	108	282	-	10,362
Balance, June 30, 2018	\$ 33,594	\$ 59,288	\$ 4,242	\$ 807	\$ -	\$ -	\$ 97,931
NET BOOK VALUE, June 30, 2018	\$ 38,110	\$ 80,692	\$ 3,068	\$ 700	\$ -	\$ 11,550	\$ 134,120

	Machinery and equipment	Buildings and leasehold improvements	Furniture and other equipment	Transport units	Equipment under finance lease	Capital work in progress	Total
<b>COST</b>							
Balance, January 1, 2017	\$ 57,685	\$ 132,067	\$ 15,848	\$ 1,095	\$ 7,810	\$ 941	\$ 215,446
Additions	2,978	276	726	108	-	10,812	14,900
Change in rehabilitation	312	-	-	-	-	-	312
Disposals	(3,461)	(1,184)	(3,006)	(110)	(515)	(730)	(9,006)
Reclassifications	4,703	579	(7,253)	70	-	1,898	(3)
Balance, December 31, 2017	\$ 62,217	\$ 131,738	\$ 6,315	\$ 1,163	\$ 7,295	\$ 12,921	\$ 221,649
<b>ACCUMULATED IMPAIRMENT</b>							
Balance, January 1, 2017	\$ 3,776	\$ 16,154	\$ 2,365	\$ -	\$ 475	\$ -	\$ 22,770
Disposals	(1)	-	-	-	(75)	-	(76)
Impairment reversal	(3,775)	(16,154)	(2,365)	-	(400)	-	(22,694)
Balance, December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>ACCUMULATED DEPRECIATION</b>							
Balance, January 1, 2017	\$ 17,864	\$ 33,479	\$ 6,748	\$ 576	\$ 3,146	\$ -	\$ 61,813
Disposals	(2,549)	(448)	(1,507)	(101)	(440)	-	(5,045)
Reclassifications	3,907	-	(3,920)	13	-	-	-
Impairment reversal	2,449	6,484	1,253	-	251	-	10,437
Depreciation	5,899	12,838	1,316	174	553	-	20,780
Balance, December 31, 2017	\$ 27,570	\$ 52,353	\$ 3,890	\$ 662	\$ 3,510	\$ -	\$ 87,985
NET BOOK VALUE, December 31, 2017	\$ 34,647	\$ 79,385	\$ 2,425	\$ 501	\$ 3,785	\$ 12,921	\$ 133,664

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### 12. Deposits on Non-Current Assets

As at June 30, 2018, the Company has provided advances of \$22,458 (2017 – nil) to contractors related to the construction of the Lindero project and \$738 on other capital projects at the San Jose Mine.

#### 13. Trade and Other Payables

	June 30, 2018	December 31, 2017
Trade accounts payable	\$ 13,331	\$ 13,576
Refundable deposits to contractors	863	686
Payroll payable	11,135	13,894
Mining royalty	557	1,023
Value added taxes payable	219	1,285
Interest payable	159	137
Due to related parties (note 14(a))	15	-
Other payables	159	411
	<u>26,438</u>	<u>31,012</u>
Deferred share units payable	4,829	5,094
Restricted share units payable	2,561	2,679
Performance share units payable	-	2,691
Total current share units payable	7,390	10,464
	<u>33,828</u>	<u>41,476</u>
Total trade and other payables	\$ 33,828	\$ 41,476

#### 14. Related Party Transactions

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following related party transactions:

##### (a) Purchase of goods and services

During the three and six months ended June 30, 2018 and 2017, the Company entered into the following related party transactions with Gold Group Management Inc. and Mill Street Services Ltd., companies with directors in common with the Company.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Personnel costs	\$ 21	\$ 33	\$ 93	\$ 104
General and administrative expenses	14	39	159	131
	<u>\$ 35</u>	<u>\$ 72</u>	<u>\$ 252</u>	<u>\$ 235</u>

The Company has outstanding balances payable with Gold Group Management Inc. of \$15 as at June 30, 2018 (December 31, 2017 - \$nil). Amounts due to related parties are due on demand and are unsecured.

##### (b) Key management personnel

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Salaries and benefits	\$ 1,102	\$ 1,731	\$ 1,937	\$ 2,568
Directors fees	101	138	369	237
Consulting fees	36	33	70	67
Share-based payments	2,331	690	3,578	781
	<u>\$ 3,570</u>	<u>\$ 2,592</u>	<u>\$ 5,954</u>	<u>\$ 3,653</u>

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### 15. Credit Facility

On January 26, 2018, the Company entered into an amended and restated four-year term credit facility with the Bank of Nova Scotia (“Amended Credit Facility”). The Amended Credit Facility consists of a \$40,000 non-revolving credit facility, which has been fully drawn and an \$80,000 revolving credit facility, which has not been drawn. The interest rate on the Amended Credit Facility is on a sliding scale at one-month LIBOR plus an applicable margin ranging from 2.5% to 3.5%, based on a Total Debt to EBITDA ratio, as defined in the Amended Credit Facility. The Amended Credit Facility is secured by a first ranking lien on the assets of Minera Bateas S.A.C. (“Bateas”), Compania Minera Cuzcatlan S.A. de C.V. (“Cuzcatlan”), Mansfield Minera S.A. (“Mansfield”) and their holding companies. The Company must comply with the terms in the Amended Credit Facility relating to, among other matters, reporting requirements, conduct of business, insurance, notices, and must comply with certain financial covenants, including a maximum debt to EBITDA ratio and a minimum tangible net worth, each as defined in the Amended Credit Facility. The Company is in compliance with all of the covenants as at June 30, 2018.

The amendment to the credit facility was accounted for as a modification under IFRS 9 and a loss of \$465 was recognized in other finance cost in the consolidated income statement.

Balance January 1, 2018	\$	39,871
Amortization of transaction costs		9
Balance immediately prior to modification		39,880
Loss on modification		465
Transaction costs paid		(792)
Balance post modification		39,552
Amortization of transaction costs		51
Balance, June 30, 2018	\$	39,603

#### 16. Closure and Rehabilitation Provisions

	Closure and rehabilitation provisions				Total
	Caylloma Mine	San Jose Mine	Lindero Gold Project		
Balance January 1, 2018	\$ 9,624	\$ 4,100	\$ 509	\$	14,233
Changes in estimate	(175)	(268)	(140)		(583)
Accretion expense - capitalized	-	-	16		16
Effect of foreign exchange changes	-	(34)	-		(34)
Net change in capitalized estimate	(175)	(302)	(124)		(601)
Incurred and charged against the provision	(159)	(41)	-		(200)
Accretion expense	208	164	-		372
Balance June 30, 2018	9,498	3,921	385		13,804
Current portion	2,290	121	-		2,411
Non-current portion	\$ 7,208	\$ 3,800	\$ 385	\$	\$11,393

Closure and reclamation provisions represent the present value of rehabilitation costs relating to mine and development sites. There have been no significant changes in requirements, laws, regulations, operating assumptions, estimated timing and amount of closure and rehabilitation obligations during the three and six months ended June 30, 2018.



## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### 17. Share Based Payments

During the three and six months ended June 30, 2018, the Company recognized \$2,031 and \$2,984 (three and six months ended June 30, 2017 - \$546 and \$627, respectively) of share-based payment expense related to the outstanding restricted, performance and deferred share units.

For the three and six months ended June 30, 2018, the Company recognized a share-based payment expense of \$381 and \$705 related to stock options (three and six months ended June 30, 2017 – \$46 and \$196).

##### (a) Deferred share units

	Number of Deferred Share Units	Fair Value
Outstanding, December 31, 2016	883,068	\$ 4,992
Grants	91,108	429
Change in fair value	-	(327)
Outstanding, December 31, 2017	974,176	5,094
Grants	101,612	482
Units paid out in cash	(225,724)	(1,251)
Change in fair value	-	504
Outstanding, June 30, 2018	850,064	\$ 4,829

##### (b) Restricted share units

The following table summarizes the activity of the cash and equity settled restricted share units:

	Cash Settled		Equity Settled
	Number of Restricted Share Units	Fair Value	Number of Restricted Share Units
Outstanding, December 31, 2016	1,337,720	\$ 4,489	-
Grants to officers	15,748	74	390,751
Grants to employees	38,037	181	-
Units paid out in cash	(406,022)	(2,114)	-
Forfeited or cancelled	(5,007)	(5)	-
Change in fair value and vesting	-	1,310	-
Outstanding, December 31, 2017	980,476	3,935	390,751
Grants to officers	16,129	76	417,135
Grants to employees	57,150	271	4,895
Units paid out in cash	(390,057)	(1,891)	-
Units paid out in shares	-	-	(78,150)
Forfeited or cancelled	(3,029)	(15)	-
Change in fair value and vesting	-	310	-
Outstanding, June 30, 2018	660,669	\$ 2,686	734,631
Current portion		2,561	
Non-current portion		125	
Outstanding, June 30, 2018		\$ 2,686	

During the three and six months ended June 30, 2018 the Company issued 4,895 and 422,030 equity settled restricted share units with a grant date fair value of \$27 and \$2,004, respectively (three and six months ended June 30, 2017 – nil and 390,751 units with a fair value of nil and \$1,845, respectively).

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### (c) Performance share units

The following table summarizes the activity of the cash settled performance share units:

	Cash Settled		Equity Settled
	Number of Performance Share Units	Fair Value	Number of Performance Share Units
Outstanding, December 31, 2016	885,535	\$ 3,545	-
Units paid out in cash	(332,076)	(1,770)	-
Forfeited or cancelled	-	-	-
Change in fair value and vesting	-	916	-
Outstanding, December 31, 2017	553,459	2,691	-
Grants	-	-	1,002,166
Units paid out in cash	(553,459)	(2,596)	-
Forfeited or cancelled	-	-	-
Change in fair value and vesting	-	(95)	-
Outstanding, June 30, 2018	-	\$ -	1,002,166

During the six months ended June 30, 2018 the Company issued 1,002,166 equity settled performance share units with a grant date fair value of \$4,751 (six months ended June 30, 2017 – nil).

#### (d) 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 June 30, 2018, a total of 1,574,403 common shares were available for issuance under the plan.

	Number of stock options	Weighted average exercise price	
		Canadian dollars	
Outstanding, December 31, 2016	844,993	\$	4.19
Exercised	(307,160)		3.39
Forfeited	617,694		6.35
Outstanding, December 31, 2017	1,155,527		5.56
Granted	648,502		6.21
Outstanding, June 30, 2018	1,804,029	\$	5.79
Vested and exercisable, December 31, 2017	537,833	\$	4.64
Vested and exercisable, June 30, 2018	846,680	\$	5.27

The assumptions used to estimate the fair value of the stock options granted during the six months ended June 30, 2018 were a risk-free interest rate of 1.79%, expected volatility of 68.16%, expected life of three years, expected forfeiture rate of 5.57%, and an expected dividend yield of nil. The fair value, as determined using the Black-Scholes Option Pricing Model, was C\$2.69 per option granted in the period.

## 18. Share Capital

#### (a) Authorized share capital

The Company has an unlimited number of common shares without par value authorized for issue.

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### (b) Warrants

	Number of warrants	Weighted average exercise price Canadian dollars
Outstanding, December 31, 2016	582,977	\$ 6.01
Exercised	(238,515)	6.01
Outstanding, December 31, 2017	344,462	\$ 6.01
Exercised	(85,184)	6.01
Outstanding, June 30, 2018	259,278	\$ 6.01

#### 19. Earnings per Share

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Basic				
Net income for the period	\$ 11,151	\$ 8,898	\$ 24,905	\$ 21,897
Weighted average number of shares ('000's)	159,679	159,223	159,658	156,544
Earnings per share - basic	\$ 0.07	\$ 0.06	\$ 0.16	\$ 0.14

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Diluted				
Net income for the period	\$ 11,151	\$ 8,898	\$ 24,905	\$ 21,897
Weighted average number of shares ('000's)	159,679	159,223	159,658	156,544
Incremental shares from options	357	276	213	371
Incremental shares from share units	103	-	71	-
Incremental shares from warrants	55	24	33	61
Weighted average diluted number of shares ('000's)	160,194	159,523	159,975	156,976
Diluted earnings per share	\$ 0.07	\$ 0.06	\$ 0.16	\$ 0.14

As at June 30, 2018, there were no anti-dilutive options or warrants excluded from the above calculation (2017 – nil).

#### 20. Sales

##### (a) By product and geographical area

	Three months ended June 30, 2018			
	Peru	Switzerland	Mexico	Total
Silver-gold concentrates	\$ -	\$ 51,807	\$ -	\$ 51,807
Silver-lead concentrates	10,569	-	-	10,569
Zinc concentrates	13,143	-	-	13,143
Provisional pricing adjustments	(694)	830	(1,989)	(1,853)
Sales to external customers	\$ 23,018	\$ 52,637	\$ (1,989)	\$ 73,666

	Three months ended June 30, 2017			
	Peru	Switzerland	Mexico	Total
Silver-gold concentrates	\$ -	\$ -	\$ 44,999	\$ 44,999
Silver-lead concentrates	8,783	-	-	8,783
Zinc concentrates	11,210	-	-	11,210
Provisional pricing adjustments	(139)	-	(942)	(1,081)
Sales to external customers	\$ 19,854	\$ -	\$ 44,057	\$ 63,911

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

	Six months ended June 30, 2018			
	Peru	Switzerland	Mexico	Total
Silver-gold concentrates	\$ -	\$ 88,220	\$ 10,474	\$ 98,694
Silver-lead concentrates	21,683	-	-	21,683
Zinc concentrates	26,931	-	-	26,931
Provisional pricing adjustments	(820)	(764)	(1,616)	(3,200)
Sales to external customers	\$ 47,794	\$ 87,456	\$ 8,858	\$ 144,108

	Six months ended June 30, 2017			
	Peru	Switzerland	Mexico	Total
Silver-gold concentrates	\$ -	\$ -	\$ 87,667	\$ 87,667
Silver-lead concentrates	19,245	-	-	19,245
Zinc concentrates	20,892	-	-	20,892
Provisional pricing adjustments	518	-	423	941
Sales to external customers	\$ 40,655	\$ -	\$ 88,090	\$ 128,745

#### (b) By major customer

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Customer 1	\$ 52,637	\$ -	\$ 87,456	\$ -
Customer 2	23,018	16,338	47,794	32,062
Customer 3	-	21,004	-	44,184
Customer 4	-	23,053	-	43,906
Customer 5	(1,989)	3,516	8,858	8,593
	\$ 73,666	\$ 63,911	\$ 144,108	\$ 128,745

The Company is exposed to metal price risk with respect to our sales of silver, gold, zinc, and lead concentrates. A 10% change in metal prices from the prices used at June 30, 2018 would result in a change of \$5.6 million to sales and accounts receivable from concentrate sales which are marked-to-market at the end of each reporting period.

#### 21. Cost of Sales

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	Caylloma	San Jose	Total	Caylloma	San Jose	Total
Direct mining costs	\$ 8,439	\$ 15,454	\$ 23,893	\$ 17,139	\$ 29,861	\$ 47,000
Salaries and benefits	1,625	1,465	3,090	3,242	2,893	6,135
Workers' participation	591	2,029	2,620	1,140	2,973	4,113
Depletion and depreciation	3,157	8,713	11,870	6,458	15,977	22,435
Royalties	58	743	801	121	1,575	1,696
	\$ 13,870	\$ 28,404	\$ 42,274	\$ 28,100	\$ 53,279	\$ 81,379

	Three months ended June 30, 2017			Six months Ended June 30, 2017		
	Caylloma	San Jose	Total	Caylloma	San Jose	Total
Direct mining costs	\$ 9,695	\$ 15,136	\$ 24,831	\$ 17,572	\$ 29,179	\$ 46,751
Salaries and benefits	1,589	1,377	2,966	2,978	2,588	5,566
Workers' participation	227	1,581	1,808	549	2,726	3,275
Depletion and depreciation	2,742	8,448	11,190	4,986	16,822	21,808
Royalties	236	669	905	484	1,467	1,951
	\$ 14,489	\$ 27,211	\$ 41,700	\$ 26,569	\$ 52,782	\$ 79,351

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### 22. Selling, General, and Administration

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Selling, general and administrative	\$ 5,012	\$ 4,714	\$ 10,299	\$ 9,584
Workers' participation	616	442	946	790
	5,628	5,156	11,245	10,374
Share-based payments	2,412	696	3,690	823
	\$ 8,040	\$ 5,852	\$ 14,935	\$ 11,197

#### 23. Segmented Information

The following summary describes the operations of each reportable segment:

- Bateas – operates the Caylloma silver, lead, and zinc mine
- Cuzcatlan – operates the San Jose silver-gold mine
- Mansfield – construction of the Lindero Gold Project
- Corporate – corporate stewardship

	Three Months Ended June 30, 2018				
	Corporate	Bateas	Cuzcatlan	Mansfield	Total
Revenues from external customers	\$ -	\$ 23,018	\$ 50,648	\$ -	\$ 73,666
Cost of sales	-	(13,870)	(28,404)	-	(42,274)
Selling, general, and administration	(5,250)	(908)	(1,882)	-	(8,040)
Other expenses	(150)	2	(662)	(170)	(980)
Finance items	(354)	2,719	347	-	2,712
Segment (loss) profit before taxes	(5,754)	10,961	20,047	(170)	25,084
Income taxes	(1,468)	(3,817)	(7,567)	(1,081)	(13,933)
Segment (loss) profit after taxes	\$ (7,222)	\$ 7,144	\$ 12,480	\$ (1,251)	\$ 11,151

	Three Months Ended June 30, 2017				
	Corporate	Bateas	Cuzcatlan	Mansfield	Total
Revenues from external customers	\$ -	\$ 19,854	\$ 44,057	\$ -	\$ 63,911
Cost of sales	-	(14,489)	(27,211)	-	(41,700)
Selling, general, and administration	(4,061)	(641)	(1,150)	-	(5,852)
Other income (expenses)	2	(11)	(2,136)	-	(2,145)
Finance items	(165)	655	12	-	502
Segment (loss) profit before taxes	(4,224)	5,368	13,572	-	14,716
Income taxes	(280)	(1,767)	(3,771)	-	(5,818)
Segment (loss) profit after taxes	\$ (4,504)	\$ 3,601	\$ 9,801	\$ -	\$ 8,898

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

	Six months ended June 30, 2018				
	Corporate	Bateas	Cuzcatlan	Mansfield	Total
Revenues from external customers	\$ -	\$ 47,794	\$ 96,314	\$ -	\$ 144,108
Cost of sales	-	(28,100)	(53,279)	-	(81,379)
Selling, general, and administration	(9,311)	(1,986)	(3,638)	-	(14,935)
Other expenses	(51)	(15)	(2,758)	(170)	(2,994)
Finance items	(1,171)	3,207	568	-	2,604
Segment (loss) profit before taxes	(10,533)	20,900	37,207	(170)	47,404
Income taxes	(1,654)	(7,328)	(12,248)	(1,269)	(22,499)
Segment (loss) profit after taxes	\$ (12,187)	\$ 13,572	\$ 24,959	\$ (1,439)	\$ 24,905

	Six months ended June 30, 2017				
	Corporate	Bateas	Cuzcatlan	Mansfield	Total
Revenues from external customers	\$ -	\$ 40,655	\$ 88,090	\$ -	\$ 128,745
Cost of sales	-	(26,569)	(52,782)	-	(79,351)
Selling, general, and administration	(7,375)	(1,298)	(2,524)	-	(11,197)
Other income (expenses)	(31)	(44)	(4,352)	-	(4,427)
Finance items	(513)	(913)	(52)	-	(1,478)
Segment (loss) profit before taxes	(7,919)	11,832	28,380	-	32,292
Income taxes	(315)	(3,318)	(6,762)	-	(10,395)
Segment (loss) profit after taxes	\$ (8,234)	\$ 8,514	\$ 21,617	\$ -	\$ 21,897

	June 30, 2018				
	Corporate	Bateas	Cuzcatlan	Mansfield	Total
Total assets	\$ 27,807	\$ 166,550	\$ 329,410	\$ 197,380	\$ 721,147
Total liabilities	\$ 55,576	\$ 31,886	\$ 36,456	\$ 6,067	\$ 129,985
Capital expenditures	\$ 1,070	\$ 5,537	\$ 8,264	\$ 17,693	\$ 32,564

	December 31, 2017				
	Corporate	Bateas	Cuzcatlan	Mansfield	Total
Total assets	\$ 82,978	\$ 156,513	\$ 316,692	\$ 150,465	\$ 706,648
Total liabilities	\$ 57,889	\$ 35,169	\$ 48,441	\$ 1,565	\$ 143,064
Capital expenditures	\$ 540	\$ 13,184	\$ 22,577	\$ 10,757	\$ 47,058

Capital expenditures for the three and six months ended June 30, 2018 were \$21,152 and \$32,564, respectively (three and six months ended June 30, 2017 - \$10,952 and \$20,742, respectively).

#### 24. 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.

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

---

The following sets up the methods and assumptions used to estimate the fair value of Level 2 and Level 3 financial instruments.

<u>Financial asset or liability</u>	<u>Methods and assumptions used to estimate fair value</u>
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 a quotational period. We mark these to market at each reporting date based on the forward price corresponding to the expected settlement date.
Interest rate swaps, and metal contracts	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 or the counterparty.
Marketable securities – warrants	The Company determines the value of the warrants using a Black-Scholes valuation model which uses a combination of quoted prices and market-derived inputs, such as volatility and interest rate estimates. Fair value changes on the warrants are charged to profit and loss.

During the period ended June 30, 2018, and 2017, 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.

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

	Carrying value				Fair value			Carrying value approximates Fair Value
	Fair value through OCI	Fair value through profit or loss	Amortized cost	Total	Level 1	Level 2	Level 3	
<b>June 30, 2018</b>								
<b>Financial assets measured at Fair Value</b>								
Trade receivables concentrate sales	\$ -	\$ 26,515	\$ -	\$ 26,515	\$ -	\$ 26,515	\$ -	\$ -
Interest rate swap asset	110	-	-	110	-	110	-	-
Metal forward sales contracts	-	1,824	-	1,824	-	1,824	-	-
	\$ 110	\$ 28,339	\$ -	\$ 28,449	\$ -	\$ 28,449	\$ -	\$ -
<b>Financial assets not measured at Fair Value</b>								
Cash and cash equivalents	\$ -	\$ -	\$ 102,455	\$ 102,455	\$ -	\$ -	\$ -	\$ 102,455
Term deposits	-	-	95,886	95,886	-	-	-	95,886
Other receivables	-	-	1,140	1,140	-	-	-	1,140
	\$ -	\$ -	\$ 199,481	\$ 199,481	\$ -	\$ -	\$ -	\$ 199,481
<b>Financial liabilities not measured at Fair Value</b>								
Trade payables	\$ -	\$ -	\$ (13,331)	\$ (13,331)	\$ -	\$ -	\$ -	\$ (13,331)
Payroll payable	-	-	(11,135)	(11,135)	-	-	-	(11,135)
Share units payable	-	-	(7,515)	(7,515)	-	(7,515)	-	-
Bank loan payable	-	-	(39,603)	(39,603)	-	(40,000)	-	-
Other payables	-	-	(989)	(989)	-	-	-	(989)
	\$ -	\$ -	\$ (72,573)	\$ (72,573)	\$ -	\$ (47,515)	\$ -	\$ (25,455)



# Fortuna Silver Mines Inc.

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

	Carrying value						Fair value			Carrying value approximates Fair Value
	Available for sale	Fair value through profit or loss	Fair Value (hedging)	Loans and receivables	Other liabilities	Total	Level 1	Level 2	Level 3	
<b>December 31, 2017</b>										
<b>Financial assets measured at Fair Value</b>										
Marketable securities - shares	\$ 555	\$ -	\$ -	\$ -	\$ -	\$ 555	\$ 555	\$ -	\$ -	\$ -
Marketable securities - warrants	-	1	-	-	-	1	-	1	-	-
Trade receivables concentrate sales	-	34,250	-	-	-	34,250	-	34,250	-	-
Interest rate swap asset	-	-	140	-	-	140	-	140	-	-
	\$ 555	\$ 34,251	\$ 140	\$ -	\$ -	\$ 34,946	\$ 555	\$ 34,391	\$ -	\$ -
<b>Financial assets not measured at Fair Value</b>										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 183,074	\$ -	\$ 183,074	\$ -	\$ -	\$ -	\$ 183,074
Term deposits	-	-	-	29,500	-	29,500	-	-	-	29,500
Other receivables	-	-	-	1,251	-	1,251	-	-	-	1,251
	\$ -	\$ -	\$ -	\$ 213,825	\$ -	\$ 213,825	\$ -	\$ -	\$ -	\$ 213,825
<b>Financial liabilities measured at Fair Value</b>										
Metal forward sales and zero cost collar	\$ -	\$ (2,328)	\$ -	\$ -	\$ -	\$ (2,328)	\$ -	\$ (2,328)	\$ -	\$ -
	\$ -	\$ (2,328)	\$ -	\$ -	\$ -	\$ (2,328)	\$ -	\$ (2,328)	\$ -	\$ -
<b>Financial liabilities not measured at Fair Value</b>										
Trade payables	\$ -	\$ -	\$ -	\$ -	\$ (13,576)	\$ (13,576)	\$ -	\$ -	\$ -	\$ (13,576)
Payroll payable	-	-	-	-	(13,894)	(13,894)	-	-	-	(13,894)
Share units payable	-	-	-	-	(11,720)	(11,720)	-	(11,720)	-	-
Finance lease obligations	-	-	-	-	(906)	(906)	-	-	-	(906)
Bank loan payable	-	-	-	-	(39,871)	(39,871)	-	(40,000)	-	-
Other payables	-	-	-	-	(1,671)	(1,671)	-	-	-	(1,671)
	\$ -	\$ -	\$ -	\$ -	\$ (81,638)	\$ (81,638)	\$ -	\$ (51,720)	\$ -	\$ (30,047)

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

#### 25. Supplemental Cashflow Information

The changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes were as follows:

	Bank Loan	Finance lease obligation	Interest rate swaps
As at January 1, 2017	\$ 39,768	\$ 3,034	\$ 253
Amortization of transaction costs	103	-	-
Principal payments	-	(2,128)	-
Interest accrued	-	-	(25)
Change in fair value	-	-	(368)
As at January 1, 2018	39,871	906	(140)
Transaction cost	(792)	-	-
Loss on debt modification	465	-	-
Amortization of transaction costs	59	-	-
Principal payments	-	(906)	-
Settlement of the swap	-	-	140
Change in fair value	-	-	110
As at June 30, 2018	\$ 39,603	\$ -	\$ 110

#### 26. Contingencies and Capital Commitments

##### (a) Bank letter of guarantee

The Caylloma Mine closure plan was updated in March 2017, with total undiscounted closure costs of \$9,230 consisting of progressive closure activities of \$3,646, final closure activities of \$4,971, and post-closure activities of \$613. Pursuant to the closure regulations, the Company is required to place the following guarantees with the government:

- 2018 – \$4,990
- 2019 – \$6,928

The Company has established a bank letter of guarantee in the amount of \$4,990 (December 31, 2017 – \$4,990), on behalf of Bateas in favor of the Peruvian mining regulatory agency, in compliance with local regulations and to collateralize Bateas' mine closure plan. This bank letter of guarantee expires on December 31, 2018.

##### (b) Other commitments

- I. As at June 30, 2018, the Company had capital commitments of \$87,419 for civil work, equipment purchases and other services at the Lindero Gold Project expected to be expended within one year (December 31, 2017 - \$407 Lindero, \$2,544 other).
- II. In June 2018, the Company committed to fund an aggregate of \$1,500 towards development projects in the Caylloma community under certain terms and conditions. The Company is to provide five equal installments of approximately \$300 (1 million Peruvian Soles) starting in July 2018 and in six month intervals thereafter.
- III. Operating leases includes leases for office premises, computer and other equipment used in the normal course of business.

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Presented in thousands of US dollars – unless otherwise noted)

---

The expected payments due by period, as at June 30, 2018 are as follows:

	Less than			
	1 year	1 - 3 years	4 - 5 years	Total
Office premises	\$ 618	\$ 1,111	\$ 473	\$ 2,202
Computer equipment	274	269	49	592
Total operating leases	\$ 892	\$ 1,380	\$ 522	\$ 2,794

#### (c) Tax contingencies

##### *Peru*

The Company has been assessed \$1,750 by SUNAT, the Peruvian tax authority, including interest and penalties of \$573, for the tax years 2010 and 2011. The Company is appealing these assessments and has provided a guarantee by way of a letter bond in the amount of \$838.

No amounts have been accrued as at June 30, 2018 and December 31, 2017 with respect to these tax assessments as the Company believes it is more likely than not that the Company's appeal will be successful.

#### (d) Other contingencies

The Company is subject to various investigations, royalties and other 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. None of these matters is expected to have a material effect on the results of operations or financial conditions of the Company.