



**FORTUNA**  
SILVER MINES INC.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2020 AND 2019

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

**Fortuna Silver Mines Inc.****Condensed Interim Consolidated Income (Loss) Statements**

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

|   | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2020                                | 2019       | 2020                               | 2019       |
| Sales (note 23)   | \$ 83,437                           | \$ 61,305  | \$ 175,462                         | \$ 188,204 |
| Cost of sales (note 24)   | 41,386                              | 44,634     | 112,170                            | 127,068    |
| Mine operating income   | 42,051                              | 16,671     | 63,292                             | 61,136     |
| General and administration (note 25)                            | 8,950                               | 6,936      | 22,948                             | 20,420     |
| Exploration and evaluation                                      | 140                                 | 1,494      | 643                                | 2,009      |
| Share of loss from associates (note 11)                         | 9                                   | 45         | 76                                 | 174        |
| Foreign exchange loss (note 12)                                 | 3,564                               | 8,446      | 7,456                              | 11,909     |
| Other expenses (note 26)  | 898                                 | 1,209      | 3,130                              | 1,459      |
|   | 13,561                              | 18,130     | 34,253                             | 35,971     |
| Operating income (loss)   | 28,490                              | (1,459)    | 29,039                             | 25,165     |
| Investment gains (note 12)                                      | -                                   | -          | 3,306                              | -          |
| Interest and finance, costs net (note 27)                       | (420)                               | (60)       | (1,126)                            | (24)       |
| Loss on derivatives   | -                                   | -          | -                                  | (1,223)    |
|   | (420)                               | (60)       | 2,180                              | (1,247)    |
| Income (loss) before income taxes                               | 28,070                              | (1,519)    | 31,219                             | 23,918     |
| Income taxes  |                                     |            |                                    |            |
| Current income tax expense                                      | 15,540                              | 5,890      | 25,504                             | 24,403     |
| Deferred income tax expense (recovery)                          | (559)                               | 301        | 2,779                              | (5,297)    |
|   | 14,981                              | 6,191      | 28,283                             | 19,106     |
| Net income (loss) for the period                                | \$ 13,089                           | \$ (7,710) | \$ 2,936                           | \$ 4,812   |
| Earnings (loss) per share (note 22)                             |                                     |            |                                    |            |
| Basic   | \$ 0.07                             | \$ (0.05)  | \$ 0.02                            | \$ 0.03    |
| Diluted   | \$ 0.07                             | \$ (0.05)  | \$ 0.02                            | \$ 0.03    |
| Weighted average number of common shares outstanding<br>(000's) |                                     |            |                                    |            |
| Basic   | 184,036                             | 160,292    | 171,908                            | 160,160    |
| Diluted   | 195,887                             | 160,292    | 182,996                            | 161,847    |

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

**Fortuna Silver Mines Inc.****Condensed Interim Consolidated Statements of Comprehensive Income (Loss)**

(Unaudited - Presented in thousands of US dollars)

|   | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |          |
|---|-------------------------------------|------------|------------------------------------|----------|
|   | 2020                                | 2019       | 2020                               | 2019     |
| Net income (loss) for the period  | \$ 13,089                           | \$ (7,710) | \$ 2,936                           | \$ 4,812 |
| Items that will remain permanently in other comprehensive income:           |                                     |            |                                    |          |
| Changes in fair value of investments in equity securities, net of \$nil tax | (218)                               | -          | (218)                              | -        |
| Items that may in the future be reclassified to profit or loss:             |                                     |            |                                    |          |
| Changes in fair value of hedging instruments, net of \$nil tax              | 249                                 | (64)       | (440)                              | (856)    |
| Total other comprehensive income (loss) for the period                      | 31                                  | (64)       | (658)                              | (856)    |
| Comprehensive income (loss) for the period                                  | \$ 13,120                           | \$ (7,774) | \$ 2,278                           | \$ 3,956 |

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)

|   | September 30,<br>2020 | December 31,<br>2019 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| <b>CURRENT ASSETS</b>   |                       |                      |
| Cash and cash equivalents   | \$ 85,176             | \$ 83,404            |
| Trade and other receivables (note 5)                              | 35,474                | 47,707               |
| Inventories (note 6)  | 12,681                | 14,471               |
| Other current assets (note 7)                                     | 5,885                 | 5,495                |
| Assets held for sale (note 8)                                     | 659                   | 1,069                |
|   | 139,875               | 152,146              |
| <b>NON-CURRENT ASSETS</b>   |                       |                      |
| Mineral properties and exploration and evaluation assets (note 9) | 377,680               | 353,519              |
| Plant and equipment (note 10)                                     | 423,423               | 378,509              |
| Investment in associates (note 11)                                | -                     | 1,331                |
| Long-term receivables and other (note 12)                         | 43,534                | 38,389               |
| Deposits and advances to contractors (note 13)                    | 3,306                 | 12,171               |
| <b>Total assets</b>   | <b>\$ 987,818</b>     | <b>\$ 936,065</b>    |
| <b>LIABILITIES</b>  |                       |                      |
| <b>CURRENT LIABILITIES</b>  |                       |                      |
| Trade and other payables (note 14)                                | 51,795                | 65,286               |
| Income taxes payable  | 15,186                | 12,400               |
| Current portion of lease obligations (note 16)                    | 7,813                 | 8,831                |
| Current portion of closure and reclamation provisions (note 19)   | 6,048                 | 3,257                |
|   | 80,842                | 89,774               |
| <b>NON-CURRENT LIABILITIES</b>                                    |                       |                      |
| Debt (note 17)  | 133,099               | 146,535              |
| Deferred tax liabilities  | 23,694                | 20,915               |
| Closure and reclamation provisions (note 19)                      | 28,949                | 27,868               |
| Lease obligations (note 16)                                       | 13,086                | 15,048               |
| Other liabilities (note 18)                                       | 1,389                 | 499                  |
| <b>Total liabilities</b>  | <b>281,059</b>        | <b>300,639</b>       |
| <b>SHAREHOLDERS' EQUITY</b>                                       |                       |                      |
| Share capital (note 21)   | 492,306               | 422,145              |
| Reserves  | 24,330                | 26,094               |
| Retained earnings   | 190,123               | 187,187              |
| <b>Total shareholders' equity</b>                                 | <b>706,759</b>        | <b>635,426</b>       |
| <b>Total liabilities and shareholders' equity</b>                 | <b>\$ 987,818</b>     | <b>\$ 936,065</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<br>September 30, |            | Nine months ended<br>September 30, |           |
|--|-------------------------------------|------------|------------------------------------|-----------|
|  | 2020                                | 2019       | 2020                               | 2019      |
| <b>OPERATING ACTIVITIES</b>  |                                     |            |                                    |           |
| Net income (loss) for the period                                   | \$ 13,089                           | \$ (7,710) | \$ 2,936                           | \$ 4,812  |
| Items not involving cash   |                                     |            |                                    |           |
| Depletion and depreciation   | 11,041                              | 12,129     | 31,623                             | 34,358    |
| Accretion expense  | 199                                 | 123        | 601                                | 444       |
| Income taxes   | 14,982                              | 6,191      | 28,283                             | 19,106    |
| Interest expense, net  | 221                                 | 225        | 525                                | 1,089     |
| Share based payments expense, net of cash settlements              | 3,503                               | 1,504      | 7,670                              | 2,111     |
| Share of loss from associates                                      | 9                                   | 45         | 76                                 | 174       |
| Unrealized foreign exchange loss (gain)                            | 218                                 | (2,605)    | 479                                | (2,015)   |
| Unrealized foreign exchange loss, Lindero construction (note 12)   | 2,658                               | 8,266      | 8,645                              | 10,442    |
| Investments gains  | -                                   | -          | (3,306)                            | -         |
| Unrealized loss on derivatives                                     | -                                   | -          | -                                  | 2,646     |
| Write-downs and other  | (42)                                | 1,837      | 227                                | 893       |
|  | 45,878                              | 20,005     | 77,759                             | 74,060    |
| Trade and other receivables  | (1,854)                             | 2,718      | 10,692                             | (984)     |
| Prepaid expenses   | 768                                 | 619        | (88)                               | 2,311     |
| Inventories  | 538                                 | 208        | 1,388                              | (917)     |
| Trade and other payables   | 6,263                               | 1,610      | (4,818)                            | (3,182)   |
| Closure and rehabilitation payments                                | (76)                                | (87)       | (175)                              | (278)     |
| Cash provided by operating activities                              | 51,517                              | 25,073     | 84,758                             | 71,010    |
| Income taxes paid  | (6,022)                             | (7,007)    | (22,554)                           | (27,012)  |
| Interest paid  | (65)                                | (222)      | (370)                              | (824)     |
| Interest received  | 30                                  | 320        | 282                                | 2,136     |
| Net cash provided by operating activities                          | 45,460                              | 18,164     | 62,116                             | 45,310    |
| <b>INVESTING ACTIVITIES</b>  |                                     |            |                                    |           |
| Proceeds from short-term investments                               | -                                   | -          | -                                  | 71,008    |
| Additions to mineral properties, plant and equipment               | (5,723)                             | (6,956)    | (14,448)                           | (19,871)  |
| Expenditures on Lindero construction                               | (27,821)                            | (74,724)   | (81,967)                           | (149,476) |
| Capitalized interest on Lindero construction                       | (2,277)                             | (1,353)    | (7,346)                            | (3,588)   |
| Contractor advances on Lindero construction and other expenditures | (373)                               | (2,659)    | (4,345)                            | (20,721)  |
| Advances applied to Lindero construction and other expenditures    | 5,029                               | 33,009     | 12,693                             | 50,357    |
| Purchases of marketable securities                                 | -                                   | -          | (7,269)                            | -         |
| Proceeds from sale of marketable securities                        | -                                   | -          | 10,575                             | -         |
| Proceeds from sale of assets                                       | 20                                  | -          | 64                                 | 229       |
| Additions to long-term receivables                                 | (5,282)                             | (10,588)   | (14,356)                           | (27,405)  |
| Cash used in investing activities                                  | (36,427)                            | (63,271)   | (106,399)                          | (99,467)  |
| <b>FINANCING ACTIVITIES</b>  |                                     |            |                                    |           |
| Proceeds from credit facility (note 17(a))                         | -                                   | 40,000     | 40,000                             | 40,000    |
| Repayment of credit facility (note 17(a))                          | -                                   | -          | (55,000)                           | -         |
| Proceeds from issuance of common shares                            | 1,011                               | -          | 70,011                             | -         |
| Share issuance costs   | (233)                               | -          | (3,356)                            | -         |
| Payments of lease obligations                                      | (1,103)                             | (2,287)    | (5,235)                            | (6,083)   |
| Cash (used in) provided by financing activities                    | (325)                               | 37,713     | 46,420                             | 33,917    |
| Effect of exchange rate changes on cash and cash equivalents       | (217)                               | 2,351      | (365)                              | 1,914     |
| Increase (decrease) in cash and cash equivalents during the period | 8,491                               | (5,043)    | 1,772                              | (18,326)  |
| Cash and cash equivalents, beginning of the period                 | 76,685                              | 77,220     | 83,404                             | 90,503    |
| Cash and cash equivalents, end of the period                       | \$ 85,176                           | \$ 72,177  | \$ 85,176                          | \$ 72,177 |
| Cash and cash equivalents consist of:                              |                                     |            |                                    |           |
| Cash   | \$ 31,608                           | \$ 27,441  | \$ 31,608                          | \$ 27,441 |
| Cash equivalents   | 53,568                              | 44,736     | 53,568                             | 44,736    |
| Cash and cash equivalents, end of the period                       | \$ 85,176                           | \$ 72,177  | \$ 85,176                          | \$ 72,177 |

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 number of shares)

|  | Share capital           |                   | Reserves         |                   |                    |   |                          |                   |                   | Total equity |
|--|-------------------------|-------------------|------------------|-------------------|--------------------|---|--------------------------|-------------------|-------------------|--------------|
|  | Number of common shares | Amount            | Equity reserve   | Hedging reserve   | Fair value reserve | Equity component of convertible debenture | Foreign Currency reserve | Retained earnings |                   |              |
| Balance at January 1, 2020                       | 160,291,553             | \$ 422,145        | \$ 20,870        | \$ (674)          | \$ (42)            | \$ 4,825                                  | \$ 1,115                 | \$ 187,187        | \$ 635,426        |              |
| <b>Total comprehensive income for the period</b> |                         |                   |                  |                   |                    |   |                          |                   |                   |              |
| Net income for the period                        | -                       | -                 | -                | -                 | -                  | -   | -                        | 2,936             | 2,936             |              |
| Other comprehensive loss for the period          | -                       | -                 | -                | (440)             | (218)              | -   | -                        | -                 | (658)             |              |
| <b>Total comprehensive income for the period</b> | <b>-</b>                | <b>-</b>          | <b>-</b>         | <b>(440)</b>      | <b>(218)</b>       | <b>-</b>                                  | <b>-</b>                 | <b>2,936</b>      | <b>2,278</b>      |              |
| <b>Transactions with owners of the Company</b>   |                         |                   |                  |                   |                    |   |                          |                   |                   |              |
| Issuance of common shares                        | 23,000,000              | 69,000            | -                | -                 | -                  | -   | -                        | -                 | 69,000            |              |
| Share issuance costs                             | -                       | (3,358)           | -                | -                 | -                  | -   | -                        | -                 | (3,358)           |              |
| Exercise of stock options                        | 211,626                 | 1,438             | (425)            | -                 | -                  | -   | -                        | -                 | 1,013             |              |
| Shares issued on vesting of share units          | 692,548                 | 3,081             | (3,081)          | -                 | -                  | -   | -                        | -                 | -                 |              |
| Share-based payments (note 20)                   | -                       | -                 | 2,400            | -                 | -                  | -   | -                        | -                 | 2,400             |              |
|  | 23,904,174              | 70,161            | (1,106)          | -                 | -                  | -   | -                        | -                 | 69,055            |              |
| <b>Balance at September 30, 2020</b>             | <b>184,195,727</b>      | <b>\$ 492,306</b> | <b>\$ 19,764</b> | <b>\$ (1,114)</b> | <b>\$ (260)</b>    | <b>\$ 4,825</b>                           | <b>\$ 1,115</b>          | <b>\$ 190,123</b> | <b>\$ 706,759</b> |              |
| Balance at January 1, 2019                       | 159,939,595             | \$ 420,467        | \$ 17,882        | \$ (9)            | \$ (42)            | \$ -                                      | \$ 1,115                 | \$ 163,391        | \$ 602,804        |              |
| <b>Total comprehensive income for the period</b> |                         |                   |                  |                   |                    |   |                          |                   |                   |              |
| Net income for the period                        | -                       | -                 | -                | -                 | -                  | -   | -                        | 4,812             | 4,812             |              |
| Other comprehensive loss for the period          | -                       | -                 | -                | (856)             | -                  | -   | -                        | -                 | (856)             |              |
| <b>Total comprehensive income for the period</b> | <b>-</b>                | <b>-</b>          | <b>-</b>         | <b>(856)</b>      | <b>-</b>           | <b>-</b>                                  | <b>-</b>                 | <b>4,812</b>      | <b>3,956</b>      |              |
| <b>Transactions with owners of the Company</b>   |                         |                   |                  |                   |                    |   |                          |                   |                   |              |
| Shares issued on vesting of share units          | 351,958                 | 1,678             | (1,678)          | -                 | -                  | -   | -                        | -                 | -                 |              |
| Share-based payments (note 20)                   | -                       | -                 | 3,509            | -                 | -                  | -   | -                        | -                 | 3,509             |              |
|  | 351,958                 | 1,678             | 1,831            | -                 | -                  | -   | -                        | -                 | 3,509             |              |
| <b>Balance at September 30, 2019</b>             | <b>160,291,553</b>      | <b>\$ 422,145</b> | <b>\$ 19,713</b> | <b>\$ (865)</b>   | <b>\$ (42)</b>     | <b>\$ -</b>                               | <b>\$ 1,115</b>          | <b>\$ 168,203</b> | <b>\$ 610,269</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 nine months ended September 30, 2020 and 2019

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

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#### **1. Nature of Operations**

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, the San Jose silver and gold mine (“San Jose”) in southern Mexico, and is constructing an open pit gold heap leach mine at its Lindero property (the “Lindero Project”) in northern Argentina.

Its common shares are listed on the New York Stock Exchange under the trading symbol FSM, on the Toronto Stock Exchange under the trading symbol FVI, and on the Frankfurt Stock Exchange under the trading symbol F4S.F.

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

#### **2. COVID-19 Uncertainties and Liquidity Risk**

##### **COVID-19 Uncertainties**

On March 11, 2020, the World Health Organisation declared COVID-19 as a pandemic. In response to the pandemic, the Governments of Mexico, Peru and Argentina implemented measures to curb the spread of COVID-19, which included among others, the closure of international borders, temporary suspension of all non-essential business, including mining, and the declaration of mandatory quarantine periods. To comply with these measures, the Company temporarily suspended mining operations at the San Jose and Caylloma mines and halted construction activities at the Lindero Project during the second quarter of 2020. The San Jose Mine was placed on care and maintenance for a total of 54 days, while processing activities continued to operate at the Caylloma Mine with a reduced task force drawing from its ore stockpile and mining subsequently restarted with a reduced taskforce. Mining and construction activities at the Lindero Project resumed with strict adherence to health and safety protocols established to mitigate the risk of spreading the COVID-19 virus.

On July 6, 2020, the Company voluntarily suspended operations at the Caylloma Mine for 21 days to sanitize and disinfect the mine. Mining and ore processing operations at the mine resumed on July 27, 2020. Each site is operating in accordance with local government containment measures and Company protocols.

The Company has not experienced any significant disruption to product shipments since the onset of the COVID-19 pandemic. The Company also increased its supply of consumables inventory to avoid any supply chain disruption and is working to manage the logistical challenges presented by the closure of trade borders. Border restrictions, if ongoing, could result in supply chain delays and the movement of our mine workforce and disrupt production of our saleable products.

On June 4, 2020, the Company completed an amendment to the financial covenants under the Amended Credit Facility in response to uncertainty related to COVID-19. The total debt to EBITDA ratio has been removed and replaced with Net Debt to EBITDA, Net Senior Secured Debt to EBITDA, and EBITDA to Interest Expense ratios. The Company was in compliance with the financial covenants as at September 30, 2020 (note 17 a)).

##### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk by the preparation of internally generated cash flow forecasts. These short-term cash flow forecasts consider the estimation of future operating costs, financing costs, development capital and cash receipts from sales revenue. Sensitivity analyses are also performed, including the impact of volatility in estimated commodity prices.

## **Fortuna Silver Mines Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2020 and 2019

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

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As at September 30, 2020, the Company had \$140,176 of liquidity comprised of cash and cash equivalents and amounts available for drawdown from the revolving credit facility.

The Company believes that its cash and cash equivalents and credit facility will provide sufficient liquidity to meet the Company's minimum obligations for the next 12 months from September 30, 2020.

### **3. 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, 2019, 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. None of the new standards, and amendments to standards and interpretations effective as of January 1, 2020, applied in preparing these interim financial statements had a significant effect.

The following accounting standard, interpretation or amendment has been issued and is effective on January 1, 2020:

In September 2019, the IASB issued first phase amendments IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Hedging and IFRS 7 Financial Instrument Disclosures to address the financial reporting impact of the reform on interest rate benchmarks, such as the discontinuance of the interbank offered rates. The first phase amendment is focused on the impact to hedge accounting requirements. The Company adopted the first phase amendment and there was no material impact on its consolidated financial statements. The Company will continue to assess the effect of amendments related to the interest rate benchmark reform on its consolidated financial statements.

The following standard, interpretation or amendment that has been issued but is not yet effective:

On May 14, 2020, the IASB published a narrow scope amendment to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use. The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, amounts received will be recognized as sales proceeds and related cost in profit or loss. The effective date is for annual periods beginning on or after January 1, 2022, with early adoption permissible. The Company is assessing the effect of the narrow scope amendment on its consolidated financial statements and the possibility of early adoption.

On November 10, 2020, the Company's Board of Directors approved these interim financial statements for issuance.



## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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

#### Presentation and Functional Currency

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

#### Basis of Measurement

These interim financial statements have been prepared on a historical cost basis, except for those assets and liabilities that are measured at fair value (Note 29) at the end of each reporting period.

#### 4. Use of Estimates, Assumptions and Judgements

##### (a) Critical Accounting Estimates and Assumptions

The preparation of these interim financial statements requires management to make estimates, assumptions 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 estimates, assumptions and judgements are, by their nature, uncertain. Actual outcomes could differ from these estimates.

The impact of such estimates, assumptions and judgements 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 financial statements for the three and nine months ended September 30, 2020, the Company applied the critical estimates, assumptions and judgements as disclosed in note 4 of its audited consolidated financial statements for the year ended December 31, 2019, in addition to what is noted below.

##### *Value-added tax (“VAT”) receivable*

Timing of collection of VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up. The Company assesses the recoverability of the amounts receivable at each reporting date which is impacted by several factors, including the status of discussions with the tax authorities, and current interpretation of relevant tax legislation. Changes in these estimates can materially affect the amount recognized as VAT receivable and could result in an increase in other expenses recognized in the Condensed Interim Consolidated Income Statements and Comprehensive Income. Significant judgment is required to determine the presentation of current and non-current VAT receivable.

#### 5. Trade and Other Receivables

|  | September 30,<br>2020 | December 31,<br>2019 |
|--|-----------------------|----------------------|
| Trade receivables from concentrate sales | \$ 23,370             | \$ 33,642            |
| Advances and other receivables           | 1,991                 | 2,419                |
| Value added taxes recoverable            | 10,113                | 11,646               |
| Accounts and other receivables           | \$ 35,474             | \$ 47,707            |

**Fortuna Silver Mines Inc.****Notes to Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2020 and 2019

(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. No amounts were past due as at September 30, 2020 and December 31, 2019.

**6. Inventories**

|                        | September 30,<br>2020 | December 31,<br>2019 |
|------------------------|-----------------------|----------------------|
| Concentrate stockpiles | \$ 2,301              | \$ 2,640             |
| Ore stockpiles         | 2,087                 | 3,730                |
| Materials and supplies | 8,293                 | 8,101                |
| Inventories            | \$ 12,681             | \$ 14,471            |

During the three and nine months ended September 30, 2020 the Company expensed \$37,920 and \$100,946 (three and nine months ended September 30, 2019 – \$43,971 and \$125,036) of inventories to cost of sales.

**7. Other Current Assets**

|  | September 30,<br>2020 | December 31,<br>2019 |
|--|-----------------------|----------------------|
| Income tax recoverable                     | \$ 1,852              | \$ 2,553             |
| Prepaid expenses                           | 2,876                 | 2,942                |
| Investments in equity securities (note 11) | 1,157                 | -                    |
| Other current assets                       | \$ 5,885              | \$ 5,495             |

**8. Assets Held for Sale**

As at September 30, 2020, changes to assets held for sale ("AHS") are as follows:

|                               |    |       |
|-------------------------------|----|-------|
| Balance at December 31, 2018  | \$ | 1,097 |
| Disposals                     |    | (28)  |
| Balance at December 31, 2019  |    | 1,069 |
| Write-downs                   |    | (410) |
| Balance at September 30, 2020 | \$ | 659   |

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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

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

|  | Depletable |            | Not depletable |          | Total      |
|--|------------|------------|----------------|----------|------------|
|  | Caylloma   | San Jose   | Lindero        | Other    |            |
| <b>COST</b>                                  |            |            |                |          |            |
| Balance at December 31, 2019                 | \$ 128,244 | \$ 184,333 | \$ 203,866     | \$ 7,933 | \$ 524,376 |
| Additions                                    | 2,750      | 5,182      | 26,330         | 826      | 35,088     |
| Changes in closure and reclamation provision | 62         | 244        | 3,956          | -        | 4,262      |
| Transfers                                    | -          | 83         | -              | -        | 83         |
| Balance at September 30, 2020                | \$ 131,056 | \$ 189,842 | \$ 234,152     | \$ 8,759 | \$ 563,809 |
| <b>ACCUMULATED DEPLETION</b>                 |            |            |                |          |            |
| Balance at December 31, 2019                 | \$ 74,435  | \$ 96,422  | \$ -           | \$ -     | \$ 170,857 |
| Depletion                                    | 4,982      | 10,290     | -              | -        | 15,272     |
| Balance at September 30, 2020                | \$ 79,417  | \$ 106,712 | \$ -           | \$ -     | \$ 186,129 |
| Net Book Value at September 30, 2020         | \$ 51,639  | \$ 83,130  | \$ 234,152     | \$ 8,759 | \$ 377,680 |

|  | Depletable |            | Not depletable |          | Total      |
|--|------------|------------|----------------|----------|------------|
|  | Caylloma   | San Jose   | Lindero        | Other    |            |
| <b>COST</b>                                  |            |            |                |          |            |
| Balance at December 31, 2018                 | \$ 121,625 | \$ 175,609 | \$ 155,854     | \$ 7,797 | \$ 460,885 |
| Additions                                    | 6,396      | 7,838      | 34,485         | 2,652    | 51,371     |
| Changes in closure and reclamation provision | 223        | 886        | 13,527         | -        | 14,636     |
| Disposals                                    | -          | -          | -              | (2,516)  | (2,516)    |
| Balance at December 31, 2019                 | \$ 128,244 | \$ 184,333 | \$ 203,866     | \$ 7,933 | \$ 524,376 |
| <b>ACCUMULATED DEPLETION</b>                 |            |            |                |          |            |
| Balance at December 31, 2018                 | \$ 68,207  | \$ 79,878  | \$ -           | \$ -     | \$ 148,085 |
| Depletion                                    | 6,228      | 16,544     | -              | -        | 22,772     |
| Balance at December 31, 2019                 | \$ 74,435  | \$ 96,422  | \$ -           | \$ -     | \$ 170,857 |
| Net Book Value at December 31, 2019          | \$ 53,809  | \$ 87,911  | \$ 203,866     | \$ 7,933 | \$ 353,519 |

During the three and nine months ended September 30, 2020 the Company capitalized \$2,277 and \$7,346 (three and nine months ended September 30, 2019 - \$1,096 and \$2,938) of interest related to the construction of the Lindero Project.

The assets of the Caylloma Mine and the San Jose Mine and their holding companies, are pledged as security under the Company's credit facility.

Other consists of the following exploration and evaluation assets:

|                               | Mexico    |         | Argentina |           |           | Serbia   | Others | Total    |
|-------------------------------|-----------|---------|-----------|-----------|-----------|----------|--------|----------|
|                               | Tlacolula | Pachuca | Arizaro   | Esperanza | Incachule | Barje    |        |          |
| Balance at December 31, 2018  | \$ 3,298  | \$ -    | \$ 934    | \$ 788    | \$ 766    | \$ 1,938 | \$ 73  | \$ 7,797 |
| Additions                     | 218       | 962     | 2         | -         | -         | 1,318    | 152    | 2,652    |
| Write-off                     | -         | (962)   | -         | (788)     | (766)     | -        | -      | (2,516)  |
| Balance at December 31, 2019  | 3,516     | -       | 936       | -         | -         | 3,256    | 225    | 7,933    |
| Additions                     | 209       | -       | -         | -         | -         | 122      | 495    | 826      |
| Balance at September 30, 2020 | \$ 3,725  | \$ -    | \$ 936    | \$ -      | \$ -      | \$ 3,378 | \$ 720 | \$ 8,759 |

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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

#### 10. Plant and Equipment

|                                      | Machinery<br>and<br>equipment | Land,<br>Buildings<br>and leasehold<br>improvements | Furniture,<br>other<br>equipment<br>and<br>Transport<br>units | Assets<br>under<br>lease | Capital<br>work in<br>progress -<br>Lindero | Capital<br>work in<br>progress -<br>Other | Total      |
|--------------------------------------|-------------------------------|---|---|--------------------------|---|---|------------|
| <b>COST</b>                          |                               |   |   |                          |   |   |            |
| Balance at December 31, 2019         | \$ 75,246                     | \$ 159,732  | \$ 16,083   | \$ 35,671                | \$ 219,335                                  | \$ 6,424                                  | \$ 512,491 |
| Additions                            | 2,634                         | 276   | 922   | 2,391                    | 57,605                                      | 2,584                                     | 66,412     |
| Changes in closure and reclamation   | 48                            | -   | -   | -                        | -   | -   | 48         |
| Disposals                            | (513)                         | -   | (24)  | (882)                    | -   | -   | (1,419)    |
| Transfers                            | 625                           | 5,261   | 1,022   | -                        | (495)                                       | (6,496)                                   | (83)       |
| Balance at September 30, 2020        | \$ 78,040                     | \$ 165,269  | \$ 18,003   | \$ 37,180                | \$ 276,445                                  | \$ 2,512                                  | \$ 577,449 |
| <b>ACCUMULATED DEPRECIATION</b>      |                               |   |   |                          |   |   |            |
| Balance at December 31, 2019         | \$ 42,214                     | \$ 78,360   | \$ 7,402  | \$ 6,006                 | \$ -  | \$ -                                      | \$ 133,982 |
| Disposals                            | (431)                         | -   | (23)  | (408)                    | -   | -   | (862)      |
| Depreciation                         | 4,642                         | 9,149   | 2,074   | 5,041                    | -   | -   | 20,906     |
| Balance at September 30, 2020        | \$ 46,425                     | \$ 87,509   | \$ 9,453  | \$ 10,639                | \$ -  | \$ -                                      | \$ 154,026 |
| Net Book Value at September 30, 2020 | \$ 31,615                     | \$ 77,760   | \$ 8,550  | \$ 26,541                | \$ 276,445                                  | \$ 2,512                                  | \$ 423,423 |

|                                     | Machinery<br>and<br>equipment | Land,<br>Buildings<br>and leasehold<br>improvements | Furniture,<br>other<br>equipment<br>and<br>transport<br>units | Assets<br>under<br>lease <sup>1</sup> | Capital<br>work in<br>progress -<br>Lindero | Capital<br>work in<br>progress -<br>Other | Total      |
|-------------------------------------|-------------------------------|---|---|---------------------------------------|---|---|------------|
| <b>COST</b>                         |                               |   |   |                                       |   |   |            |
| Balance at December 31, 2018        | \$ 74,188                     | \$ 141,318  | \$ 11,066   | \$ 13,411                             | \$ 52,964                                   | \$ 6,140                                  | \$ 299,087 |
| Initial adoption IFRS 16            | -                             | -   | -   | 7,316                                 | -   | -   | 7,316      |
| Balance at January 1, 2019          | 74,188                        | 141,318   | 11,066  | 20,727                                | 52,964                                      | 6,140                                     | 306,403    |
| Additions                           | 1,185                         | 714   | 3,464   | 14,944                                | 177,017                                     | 9,718                                     | 207,042    |
| Changes in closure and reclamation  | 171                           | -   | -   | -                                     | -   | -   | 171        |
| Disposals                           | (1,038)                       | -   | (87)  | -                                     | -   | -   | (1,125)    |
| Transfers                           | 740                           | 17,700  | 1,640   | -                                     | (10,646)                                    | (9,434)                                   | -          |
| Balance at December 31, 2019        | \$ 75,246                     | \$ 159,732  | \$ 16,083   | \$ 35,671                             | \$ 219,335                                  | \$ 6,424                                  | \$ 512,491 |
| <b>ACCUMULATED DEPRECIATION</b>     |                               |   |   |                                       |   |   |            |
| Balance at December 31, 2018        | \$ 35,843                     | \$ 65,547   | \$ 5,390  | \$ 107                                | \$ -  | \$ -                                      | \$ 106,887 |
| Disposals                           | (746)                         | -   | (79)  | -                                     | -   | -   | (825)      |
| Depreciation                        | 7,117                         | 12,813  | 2,091   | 5,899                                 | -   | -   | 27,920     |
| Balance at December 31, 2019        | \$ 42,214                     | \$ 78,360   | \$ 7,402  | \$ 6,006                              | \$ -  | \$ -                                      | \$ 133,982 |
| Net Book Value at December 31, 2019 | \$ 33,032                     | \$ 81,372   | \$ 8,681  | \$ 29,665                             | \$ 219,335                                  | \$ 6,424                                  | \$ 378,509 |

(1) The Company leases equipment that was previously classified as a finance lease under IAS 17. On January 1, 2019, the Company adopted IFRS 16, Leases, and the equipment purchased under finance leases were classified as right-of-use assets. The carrying amount of \$13,411 and the related lease liability of \$8,767 were determined based on the carrying amount of these assets and their related lease liability immediately before the effective date of IFRS 16.

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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

#### 11. Investment in Associates

As at September 30, 2020, investments in associates were comprised of:

|  | Medgold  | Prospero | Total    |
|--|----------|----------|----------|
| Balance at December 31, 2018                 | \$ 3,075 | \$ 1,202 | \$ 4,277 |
| Write down of investment                     | (1,937)  | (784)    | (2,721)  |
| Share of net loss                            | (164)    | (61)     | (225)    |
| Balance at December 31, 2019                 | 974      | 357      | 1,331    |
| Share of net loss                            | (47)     | (29)     | (76)     |
| Transfer to investments in equity securities | (927)    | (328)    | (1,255)  |
| Balance at September 30, 2020                | \$ -     | \$ -     | \$ -     |

On July 16, 2020, Medgold Resources Corp. ("Medgold") completed a 40 million unit financing at C\$0.05 per unit. This financing diluted the Company's equity interest in Medgold to 15.6% which resulted in the company no longer exercising significant influence over Medgold and a change in the classification of its investment in Medgold to fair value through other comprehensive income as at July 16, 2020.

On July 1, 2020, the Company determined that it no longer exercises significant influence over Prospero Silver Corp. ("Prospero") and changed the classification of its investment in Prospero to fair value through other comprehensive income.

Investments in equity securities are classified as fair value through other comprehensive income, and changes in the fair value of the shares were recorded in Other Comprehensive Income.

#### 12. Long-Term Receivables and Other

|   | September 30,<br>2020 | December 31,<br>2019 |
|---|-----------------------|----------------------|
| Value added tax recoverable - Lindero <sup>(1)</sup>  | \$ 37,510             | \$ 34,176            |
| Value added tax recoverable - San Jose <sup>(2)</sup> | 2,544                 | 2,036                |
| Income tax recoverable (note 31(d))                   | 1,206                 | 1,310                |
| Other assets  | 2,274                 | 867                  |
| Long-term receivables and other                       | \$ 43,534             | \$ 38,389            |

(1) The Company expects to start recovering the value added tax amount after the commencement of commercial production at the Lindero Mine.

(2) The Company expects to start recovering the value added tax amount during 2022.

During the three and nine months ended September 30, 2020 the Company recognized an unrealized foreign exchange loss of \$2,841 and \$8,839 (three and nine months ended September 30, 2019 - \$8,839 and \$10,928) related to the value added tax recoverable on the construction at the Lindero Mine.

The Company implemented an investment strategy in the fourth quarter of 2019 to meet its local currency requirements in Argentina. During the three and nine months ended September 30, 2020, the Company recognized \$nil and \$3,306, respectively, of gains from Argentine Peso denominated cross-border securities trades.

#### 13. Deposits and Advances to Contractors

As at September 30, 2020, the Company has advances outstanding of \$3,306 (December 31, 2019 – \$12,164) to contractors related to the construction of the Lindero Project.

**Fortuna Silver Mines Inc.****Notes to Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2020 and 2019

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

During the three and nine months ended September 30, 2020 the Company paid deposits to contractors of \$373 and \$4,345, respectively, and deposits of \$5,029 and \$12,693, respectively, were applied against equipment delivered or services rendered. In addition, there was a balance of deposits of \$509 transferred to accounts receivables.

**14. Trade and Other Payables**

|   | September 30,<br>2020 | December 31,<br>2019 |
|---|-----------------------|----------------------|
| Trade accounts payable                      | \$ 12,857             | \$ 15,975            |
| Lindero construction payables               | 13,136                | 24,998               |
| Refundable deposits to contractors          | 1,331                 | 1,496                |
| Payroll payable                             | 10,229                | 13,627               |
| Mining royalty payable                      | 647                   | 1,237                |
| Value added taxes payable                   | 1,039                 | 224                  |
| Interest payable                            | 1,141                 | 1,457                |
| Due to related parties (note 15)            | 5                     | 14                   |
| Other payables                              | 905                   | 535                  |
| Derivative liability                        | 1,338                 | 894                  |
| Deferred share units payable (note 20(a))   | 7,140                 | 3,918                |
| Restricted share units payable (note 20(b)) | 2,027                 | 911                  |
| <b>Total trade and other payables</b>       | <b>\$ 51,795</b>      | <b>\$ 65,286</b>     |

**15. Related Party Transactions**

In addition to the related party transactions and balances disclosed elsewhere in these interim financial statements, the Company entered into the following related party transactions during the three and nine months ended September 30, 2020 and 2019:

**a) Purchase of Goods and Services**

During the three and nine months ended September 30, 2020 and 2019, the Company was charged for general and administrative services pursuant to a shared services agreement with Gold Group Management Inc., a company of which Simon Ridgway, the Company's Chairman, is a director.

|                                     | Three months ended<br>September 30, |              | Nine months ended<br>September 30, |               |
|-------------------------------------|-------------------------------------|--------------|------------------------------------|---------------|
|                                     | 2020                                | 2019         | 2020                               | 2019          |
| Personnel costs                     | \$ 5                                | \$ 6         | \$ 15                              | \$ 11         |
| General and administrative expenses | 11                                  | 33           | 127                                | 146           |
|                                     | <b>\$ 16</b>                        | <b>\$ 39</b> | <b>\$ 142</b>                      | <b>\$ 157</b> |

As at September 30, 2020, the Company had outstanding balances payable to Gold Group Management Inc. of \$5 (December 31, 2019 - \$14). Amounts due to related parties are due on demand and are unsecured.

**Fortuna Silver Mines Inc.****Notes to Condensed Interim Consolidated Financial Statements**

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**b) Key Management Personnel**

During the three and nine months ended September 30, 2020 and 2019, the Company was charged for consulting services by Mario Szotlender, a director of the Company, and by Mill Street Services Ltd., a company of which Simon Ridgway, the Company's Chairman, is a director. Such amounts, along with other key management personnel compensation expense were as follows:

|                       | Three months ended<br>September 30, |                 | Nine months ended<br>September 30, |                 |
|-----------------------|-------------------------------------|-----------------|------------------------------------|-----------------|
|                       | 2020                                | 2019            | 2020                               | 2019            |
| Salaries and benefits | \$ 815                              | \$ 1,347        | \$ 2,397                           | \$ 4,433        |
| Directors fees        | 158                                 | 164             | 531                                | 526             |
| Consulting fees       | 34                                  | 45              | 100                                | 101             |
| Share-based payments  | 3,259                               | 1,621           | 7,171                              | 3,099           |
|                       | <u>\$ 4,266</u>                     | <u>\$ 3,177</u> | <u>\$ 10,199</u>                   | <u>\$ 8,159</u> |

**16. Lease Obligations**

|   | Minimum lease payments |                      |
|---|------------------------|----------------------|
|   | September 30,<br>2020  | December 31,<br>2019 |
| Less than one year                      | \$ 8,326               | \$ 9,313             |
| Between one and five years              | 10,700                 | 13,521               |
| More than five years                    | 14,626                 | 14,958               |
|   | 33,652                 | 37,792               |
| Less: future finance charges            | (12,753)               | (13,913)             |
| Present value of minimum lease payments | 20,899                 | 23,879               |
| Less: current portion                   | (7,813)                | (8,831)              |
| Non-current portion                     | <u>\$ 13,086</u>       | <u>\$ 15,048</u>     |

As at September 30, 2020, there were \$17,395 of lease obligations related to mining equipment and \$3,504 of other leases.

**17. Debt**

The following table summarizes the changes in debt:

|                                       | Credit Facility  | Debentures       | Total             |
|---------------------------------------|------------------|------------------|-------------------|
| Balance at December 31, 2018          | \$ 69,302        | \$ -             | \$ 69,302         |
| Proceeds from debentures              | -                | 46,000           | 46,000            |
| Transaction costs paid                | -                | (2,490)          | (2,490)           |
| Portion allocated to equity           | -                | (7,141)          | (7,141)           |
| Transaction costs allocated to equity | -                | 389              | 389               |
| Amortization of discount              | 128              | 347              | 475               |
| Drawdowns                             | 40,000           | -                | 40,000            |
| Balance at December 31, 2019          | 109,430          | 37,105           | 146,535           |
| Amortization of discount              | 296              | 1,268            | 1,564             |
| Drawdowns                             | 40,000           | -                | 40,000            |
| Payments                              | (55,000)         | -                | (55,000)          |
| Balance at September 30, 2020         | <u>\$ 94,726</u> | <u>\$ 38,373</u> | <u>\$ 133,099</u> |

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

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#### a) Credit Facility

The Company has two credit facilities (collectively, the “Credit Facilities”) comprising of a \$40,000 non-revolving credit facility which matures on January 26, 2022 and a \$110,000 revolving credit facility, of which any amount drawn in excess of \$80,000 million matures on December 31, 2020 and the remaining \$80,000 matures on January 26, 2022.

On June 4, 2020, the Company amended the financial covenants contained in Credit Facilities as follows:

- Total Net Debt to EBITDA ratio, as defined in the Credit Facilities, of not greater than 4.50:1.00 for the remaining three quarters of 2020 and the first quarter of 2021, reducing to 4.00:1.00 in the second quarter of 2021 and for the remainder of the term of the Credit Facility;
- Net Senior Secured Debt to EBITDA ratio, as defined in the Credit Facilities, of not greater than 3:1 in the remaining three quarters of 2020 and the first quarter of 2021, reducing to 2.00:1.00 in the second quarter of 2021 and for the remainder of the term of the Credit Facilities; and
- EBITDA to Interest Expense ratio, as defined in the Credit Facilities, of a minimum of 4.00:1.00 beginning in the second quarter of 2020 and for the remainder of the term of the Credit Facilities.

The interest rate on the Credit Facilities will continue to be based on a sliding scale at one-month LIBOR plus an applicable margin ranging from 2.5% to 3.5%, based on the Net Senior Secured Debt to EBITDA ratio, as defined in the Credit Facilities. The Credit Facilities are secured by a first ranking lien on the assets of Minera Bateas S.A.C. and Compania Minera Cuzcatlan S.A. de C.V. and their holding companies. The Company must comply with the terms in the Credit Facilities relating to, among other matters, reporting requirements, conduct of business, insurance, notices, and must comply with the new financial covenants as outlined above. As at September 30, 2020, the Company was in compliance with all of the covenants under the Credit Facilities.

During the nine months ended September 30, 2020, the Company drew \$40,000 and subsequently paid \$55,000 from the revolving credit facility. As at September 30, 2020, the Company has fully drawn the non-revolving credit facility and has available for drawdown \$55,000 under the revolving credit facility.

Subsequent to September 30, 2020, the Company drew \$10,000 from the revolving credit facility.

#### b) Convertible Debentures

On October 2 and 6, 2019, the Company completed a bought deal public offering of senior subordinated unsecured convertible debentures with an aggregate principal amount of \$46,000 (the “Debentures”).

The Debentures mature on October 31, 2024 and bear interest at a rate of 4.65% per annum, payable semi-annually in arrears on the last business day of April and October, commencing on April 30, 2020. The Debentures are convertible at the holder’s option into common shares in the capital of the Company at a conversion price of \$5.00 per share (the “Conversion Price”), representing a conversion rate of 200 Common Shares per \$1 principal amount of Debentures, subject to adjustment in certain circumstances.

On or after October 31, 2022 and prior to October 31, 2023, the Debentures may be redeemed in whole or in part from time to time at the Company’s option at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Common Shares on the NYSE for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is at least 125% of the Conversion Price. On and after October 31, 2023, the Debentures may be redeemed in whole or in part from time to time at the Company’s option at a price equal to their principal amount plus accrued and unpaid interest regardless of the trading price of the Common Shares.



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Subject to applicable securities laws and regulatory approval and provided that no event of default has occurred and is continuing, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the Debentures and accrued and unpaid interest on the redemption date and the maturity date, in whole or in part, through the issuance of Common Shares, by issuing and delivering that number of Common Shares, obtained by dividing the principal amount of the Debentures and all accrued and unpaid interest thereon by 95% of the current market price (as defined in the Debenture Indenture) on such redemption date or maturity date, as applicable.

**18. Other Liabilities**

|                                     | September 30,<br>2020 | December 31,<br>2019 |
|-------------------------------------|-----------------------|----------------------|
| Restricted share units (note 20(b)) | \$ 1,177              | \$ 246               |
| Other non-current liabilities       | 212                   | 253                  |
|                                     | \$ 1,389              | \$ 499               |

**19. Closure and Reclamation Provisions**

The following table summarizes the changes in closure and reclamation provisions as follows:

|   | Closure and Reclamation Provisions |                  |                    |           |
|---|------------------------------------|------------------|--------------------|-----------|
|   | Caylloma<br>Mine                   | San Jose<br>Mine | Lindero<br>Project | Total     |
| Balance at December 31, 2019                | \$ 11,324                          | \$ 4,848         | \$ 14,953          | \$ 31,125 |
| Changes in estimate                         | 110                                | 244              | 3,765              | 4,119     |
| Reclamation expenditures                    | (65)                               | (111)            | -                  | (176)     |
| Accretion                                   | 206                                | 208              | 191                | 605       |
| Effect of changes in foreign exchange rates | -                                  | (676)            | -                  | (676)     |
| Balance at September 30, 2020               | 11,575                             | 4,513            | 18,909             | 34,997    |
| Less: Current portion                       | 5,837                              | 211              | -                  | 6,048     |
| Non-current portion                         | \$ 5,738                           | \$ 4,302         | \$ 18,909          | \$ 28,949 |

|   | Closure and Reclamation Provisions |                  |                    |           |
|---|------------------------------------|------------------|--------------------|-----------|
|   | Caylloma<br>Mine                   | San Jose<br>Mine | Lindero<br>Project | Total     |
| Balance at December 31, 2018                | \$ 10,800                          | \$ 3,716         | \$ 1,427           | \$ 15,943 |
| Changes in estimate                         | 394                                | 886              | 13,390             | 14,670    |
| Reclamation expenditures                    | (201)                              | (150)            | -                  | (351)     |
| Accretion                                   | 331                                | 259              | 136                | 726       |
| Effect of changes in foreign exchange rates | -                                  | 137              | -                  | 137       |
| Balance at December 31, 2019                | 11,324                             | 4,848            | 14,953             | 31,125    |
| Less: Current portion                       | 3,048                              | 209              | -                  | 3,257     |
| Non-current portion                         | \$ 8,276                           | \$ 4,639         | \$ 14,953          | \$ 27,868 |

Closure and reclamation provisions represent the present value of reclamation costs related to mine and development sites. There have been no significant changes in requirements, laws, regulations, operating assumptions, estimated timing and amount of reclamation and closure obligations during the three and nine months ended September 30, 2020 except for the Lindero Project, where the Company estimates reclamation and closure costs based on the progress of the mine construction.

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

|   | Closure and Reclamation Provisions |               |                 | Total     |
|---|------------------------------------|---------------|-----------------|-----------|
|   | Caylloma Mine                      | San Jose Mine | Lindero Project |           |
| Anticipated settlement date                 | 2022 - 2027                        | 2025 - 2037   | 2029 - 2042     |           |
| Undiscounted uninflated estimated cash flow | \$ 11,719                          | \$ 4,514      | \$ 17,420       | \$ 33,653 |
| Estimated life of mine (years)              | 10                                 | 6             | 14              |           |
| Discount rate                               | 2.42%                              | 5.80%         | 1.23%           |           |
| Inflation rate                              | 2.00%                              | 3.47%         | 1.77%           |           |

The Company is expecting to incur annual reclamation expenses throughout the life of its mines.

**20. Share Based Payments**

During the three and nine months ended September 30, 2020, the Company recognized share-based payment expense of \$3,699 and \$7,816 (three and nine months ended September 30, 2019 - \$1,459 and \$3,108, respectively) related to the amortization of deferred, restricted and performance share units.

For the three and nine months ended September 30, 2020, the Company recognized share-based payment expense of \$nil and \$56, respectively, (three and nine months ended September 30, 2019 – \$83 and \$459, respectively) related to amortization of stock options.

**(a) Deferred Share Units (DSUs)**

|                                 | Cash Settled   |            |
|---------------------------------|----------------|------------|
|                                 | Number of DSUs | Fair Value |
| Outstanding, December 31, 2018  | 850,067        | \$ 3,116   |
| Granted                         | 111,804        | 455        |
| Changes in fair value           | -              | 347        |
| Outstanding, December 31, 2019  | 961,871        | 3,918      |
| Granted                         | 162,648        | 383        |
| Changes in fair value           | -              | 2,839      |
| Outstanding, September 30, 2020 | 1,124,519      | \$ 7,140   |

On April 20, 2020, the Company granted 162,648 deferred share units to its non-executive directors with a fair value of \$2.36 (C\$3.32) for each DSU (year ended December 31, 2019 - 111,804 DSUs with a fair value of \$4.83 (C\$3.62) per DSU).

**Fortuna Silver Mines Inc.****Notes to Condensed Interim Consolidated Financial Statements**

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

**(b) Restricted Share Units (RSUs)**

|                                   | Cash Settled   |            | Equity Settled |
|-----------------------------------|----------------|------------|----------------|
|                                   | Number of RSUs | Fair Value | Number of RSUs |
| Outstanding, December 31, 2018    | 659,385        | \$ 2,057   | 734,631        |
| Granted                           | 139,661        | 506        | 633,914        |
| Units paid out in cash            | (406,611)      | (1,466)    | -              |
| Vested                            | -              | -          | (201,633)      |
| Changes in fair value and vesting | -              | 60         | -              |
| Outstanding, December 31, 2019    | 392,435        | 1,157      | 1,166,912      |
| Grants                            | 1,056,207      | 2,489      | 815,220        |
| Units paid out in cash            | (80,483)       | (253)      | -              |
| Vested                            | -              | -          | (448,766)      |
| Changes in fair value and vesting | -              | (189)      | -              |
| Outstanding, September 30, 2020   | 1,368,159      | 3,204      | 1,533,366      |
| Less: current portion             |                | (2,027)    |                |
| Non-current portion               |                | \$ 1,177   |                |

On April 20, 2020, the Company granted to its employees and officers a total of 1,056,207 cash-settled and 815,220 equity-settled RSUs, which vest 20% on the first anniversary, 30% on the second anniversary and 50% on the third anniversary of the date of grant. The fair value on the grant date of the 815,220 equity settled RSUs was \$2.36 (C\$3.32) per RSU (year ended December 31, 2019- 633,914 with a fair value of \$3.62 (C\$4.83) per RSU).

**(c) Performance Share Units**

|                                 | Equity Settled<br>Number of PSUs |
|---------------------------------|----------------------------------|
| Outstanding, December 31, 2018  | 1,002,166                        |
| Granted                         | 422,609                          |
| Vested                          | (150,325)                        |
| Outstanding, December 31, 2019  | 1,274,450                        |
| Forfeited or cancelled          | (191,498)                        |
| Vested                          | (243,782)                        |
| Outstanding, September 30, 2020 | 839,170                          |

During the three and nine months ended September 30, 2020, no PSUs were granted (year ended December 31, 2019 – 422,609 with a fair value of \$3.62 (C\$4.83) per share unit) to its employees and officers.

The PSUs granted during the year ended December 31, 2019 vest 20% on the first anniversary, 30% on the second anniversary and 50% on the third anniversary of the date of grant based on prescribed performance metrics, and are subject to a multiplier ranging from 50% to 200% depending on the achievement level of certain performance targets.

## Fortuna Silver Mines Inc.

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#### 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 September 30, 2020, a total of 1,574,403 stock options are available for issuance under the plan.

|  | Number of stock options | Weighted average<br>exercise price<br>Canadian dollars |
|--|-------------------------|--|
| Outstanding, December 31, 2018             | 1,784,029               | \$ 5.85  |
| Outstanding, December 31, 2019             | 1,784,029               | 5.85   |
| Exercised                                  | (211,626)               | 6.28   |
| Expired unexercised                        | (517,833)               | 4.79   |
| Outstanding, September 30, 2020            | 1,054,570               | \$ 6.28  |
| Vested and exercisable, December 31, 2019  | 1,459,779               | \$ 5.77  |
| Vested and exercisable, September 30, 2020 | 1,054,570               | \$ 6.28  |

#### 21. Share Capital

##### a) Authorized Share Capital

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

##### b) Financing

On May 20, 2020, the Company closed a bought deal public equity offering and issued an aggregate of 23,000,000 Shares at a purchase price of \$3.00 per share for gross proceeds of \$69,000, which included the exercise, in full, of the over-allotment option. The Company incurred transaction costs of \$3,358 related to this financing.

#### 22. Earnings (Loss) per Share

|   | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |          |
|---|-------------------------------------|------------|------------------------------------|----------|
|   | 2020                                | 2019       | 2020                               | 2019     |
| Basic   |                                     |            |                                    |          |
| Net income (loss) for the period                  | \$ 13,089                           | \$ (7,710) | \$ 2,936                           | \$ 4,812 |
| Weighted average number of shares (000's)         | 184,036                             | 160,292    | 171,908                            | 160,160  |
| Earnings (loss) per share - basic                 | \$ 0.07                             | \$ (0.05)  | \$ 0.02                            | \$ 0.03  |
| Diluted   |                                     |            |                                    |          |
| Net income (loss) for the period                  | \$ 13,089                           | \$ (7,710) | \$ 2,936                           | \$ 4,812 |
| Weighted average number of shares (000's)         | 184,036                             | 160,292    | 171,908                            | 160,160  |
| Incremental shares from dilutive potential shares | 11,851                              | -          | 11,088                             | 1,687    |
| Weighted average diluted number of shares (000's) | 195,887                             | 160,292    | 182,996                            | 161,847  |
| Earnings (loss) per share - diluted               | \$ 0.07                             | \$ (0.05)  | \$ 0.02                            | \$ 0.03  |

**Fortuna Silver Mines Inc.****Notes to Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2020 and 2019

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For the three and nine months ended September 30 2020 – nil and 1,054,570 out of the money options were excluded from the diluted earnings per share calculation as their effect would have been anti-dilutive (three and nine months ended September 30, 2019 – 1,784,029). In addition, for the three and nine months ended September 30 2020, there were no share units and debentures excluded in the above calculation, respectively (three and nine months ended September 30, 2019 – 2,441,362 anti-dilutive share units and nil debentures, respectively excluded).

**23. Sales**

The Company's geographical analysis of revenue from contracts with customers attributed to the location of the products produced, is as follows:

**By-product and Geographical Area**

|                                 | Three months ended September 30, 2020 |           |           |
|---------------------------------|---------------------------------------|-----------|-----------|
|                                 | Peru                                  | Mexico    | Total     |
| Silver-gold concentrates        | \$ -                                  | \$ 64,293 | \$ 64,293 |
| Silver-lead concentrates        | 11,917                                | -         | 11,917    |
| Zinc concentrates               | 6,098                                 | -         | 6,098     |
| Provisional pricing adjustments | 751                                   | 378       | 1,129     |
| Sales to external customers     | \$ 18,766                             | \$ 64,671 | \$ 83,437 |

|                                 | Three months ended September 30, 2019 |           |           |
|---------------------------------|---------------------------------------|-----------|-----------|
|                                 | Peru                                  | Mexico    | Total     |
| Silver-gold concentrates        | \$ -                                  | \$ 43,252 | \$ 43,252 |
| Silver-lead concentrates        | 10,008                                | -         | 10,008    |
| Zinc concentrates               | 7,667                                 | -         | 7,667     |
| Provisional pricing adjustments | (2)                                   | 380       | 378       |
| Sales to external customers     | \$ 17,673                             | \$ 43,632 | \$ 61,305 |

|                                 | Nine months ended September 30, 2020 |            |            |
|---------------------------------|--------------------------------------|------------|------------|
|                                 | Peru                                 | Mexico     | Total      |
| Silver-gold concentrates        | \$ -                                 | \$ 130,313 | \$ 130,313 |
| Silver-lead concentrates        | 28,626                               | -          | 28,626     |
| Zinc concentrates               | 16,235                               | -          | 16,235     |
| Provisional pricing adjustments | 76                                   | 212        | 288        |
| Sales to external customers     | \$ 44,937                            | \$ 130,525 | \$ 175,462 |

|                                 | Nine months ended September 30, 2019 |            |            |
|---------------------------------|--------------------------------------|------------|------------|
|                                 | Peru                                 | Mexico     | Total      |
| Silver-gold concentrates        | \$ -                                 | \$ 134,268 | \$ 134,268 |
| Silver-lead concentrates        | 29,385                               | -          | 29,385     |
| Zinc concentrates               | 25,435                               | -          | 25,435     |
| Provisional pricing adjustments | (537)                                | (347)      | (884)      |
| Sales to external customers     | \$ 54,283                            | \$ 133,921 | \$ 188,204 |

## Fortuna Silver Mines Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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

|            | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |            |
|------------|-------------------------------------|-----------|------------------------------------|------------|
|            | 2020                                | 2019      | 2020                               | 2019       |
| Customer 1 | \$ 64,670                           | \$ 43,632 | \$ 130,524                         | \$ 133,921 |
| Customer 2 | 18,767                              | 17,673    | 44,938                             | 54,338     |
| Customer 3 | -                                   | -         | -                                  | (55)       |
|            | \$ 83,437                           | \$ 61,305 | \$ 175,462                         | \$ 188,204 |

The Company is exposed to metal price risk with respect to the sales of silver, gold, lead, and zinc concentrates. The following table summarizes the effect on sales of a 10% change in metal prices from the prices used at September 30, 2020:

| Metal  | Change  | Effect on Sales |
|--------|---------|-----------------|
| Silver | +/- 10% | \$ 3,761        |
| Gold   | +/- 10% | \$ 1,988        |
| Lead   | +/- 10% | \$ 140          |
| Zinc   | +/- 10% | \$ 164          |

During the three and nine months ended September 30, 2020, the Company recognized positive sales adjustments of \$1,129 and \$288, respectively (three and nine months ended September 30, 2019 – positive \$378 and negative \$884, respectively) as a result of changes in metal prices on final settlement or during the quotational period.

#### 24. Cost of Sales

|                                      | Three months ended<br>September 30, 2020 |           |           | Nine months ended<br>September 30, 2020 |           |            |
|--------------------------------------|--|-----------|-----------|---|-----------|------------|
|                                      | Caylloma                                 | San Jose  | Total     | Caylloma                                | San Jose  | Total      |
| Direct mining costs                  | \$ 7,190                                 | \$ 15,713 | \$ 22,903 | \$ 22,528                               | \$ 40,925 | \$ 63,453  |
| Salaries and benefits                | 1,382                                    | 1,793     | 3,175     | 5,057                                   | 4,751     | 9,808      |
| Workers' participation               | 391                                      | 2,970     | 3,361     | 411                                     | 5,059     | 5,470      |
| Depletion and depreciation           | 2,778                                    | 7,859     | 10,637    | 10,496                                  | 19,677    | 30,173     |
| Royalties                            | 71                                       | 1,239     | 1,310     | 390                                     | 2,878     | 3,268      |
| Impairment (recovery) of inventories | -  | -         | -         | -                                       | (2)       | (2)        |
|                                      | \$ 11,812                                | \$ 29,574 | \$ 41,386 | \$ 38,882                               | \$ 73,288 | \$ 112,170 |

|                            | Three months ended<br>September 30, 2019 |           |           | Nine months ended<br>September 30, 2019 |           |            |
|----------------------------|--|-----------|-----------|---|-----------|------------|
|                            | Caylloma                                 | San Jose  | Total     | Caylloma                                | San Jose  | Total      |
| Direct mining costs        | \$ 9,873                                 | \$ 17,068 | \$ 26,941 | \$ 26,826                               | \$ 49,317 | \$ 76,143  |
| Salaries and benefits      | 1,831                                    | 1,898     | 3,729     | 5,550                                   | 5,565     | 11,115     |
| Workers' participation     | 113                                      | 1,256     | 1,369     | 576                                     | 3,514     | 4,090      |
| Depletion and depreciation | 3,505                                    | 8,188     | 11,693    | 9,853                                   | 23,195    | 33,048     |
| Royalties                  | 42                                       | 860       | 902       | 131                                     | 2,541     | 2,672      |
|                            | \$ 15,364                                | \$ 29,270 | \$ 44,634 | \$ 42,936                               | \$ 84,132 | \$ 127,068 |

For the three and nine months ended September 30, 2020 depletion and depreciation includes \$613 and \$1,682 (three and nine months ended September 30, 2019 - \$585 and \$1,682) of depreciation relating to right-of-use assets.

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**25. General and Administration**

|                            | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|----------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                            | 2020                                | 2019     | 2020                               | 2019      |
| General and administration | \$ 4,441                            | \$ 5,056 | \$ 13,732                          | \$ 15,859 |
| Workers' participation     | 810                                 | 338      | 1,344                              | 994       |
|                            | 5,251                               | 5,394    | 15,076                             | 16,853    |
| Share-based payments       | 3,699                               | 1,542    | 7,872                              | 3,567     |
|                            | \$ 8,950                            | \$ 6,936 | \$ 22,948                          | \$ 20,420 |

**26. Other Expenses**

|   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2020                                | 2019     | 2020                               | 2019     |
| Write-down (recovery) of investment in associates | \$ (422)                            | \$ 533   | \$ (194)                           | \$ 533   |
| Write-off of mineral properties                   | -                                   | 767      | -                                  | 767      |
| Loss on disposal of assets and write-down of AHS  | 410                                 | 8        | 429                                | 2        |
| Other expenses (income)                           | (64)                                | (99)     | (181)                              | 157      |
| Care and maintenance costs related to COVID-19    | 974                                 | -        | 3,076                              | -        |
|   | \$ 898                              | \$ 1,209 | \$ 3,130                           | \$ 1,459 |

**27. Interest and Finance Costs Net**

|                                   | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |          |
|-----------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                   | 2020                                | 2019    | 2020                               | 2019     |
| Interest income                   | \$ 30                               | \$ 288  | \$ 282                             | \$ 1,509 |
| Interest expense                  | (124)                               | (128)   | (528)                              | (744)    |
| Bank stand-by and commitment fees | (127)                               | (97)    | (279)                              | (345)    |
| Accretion expense                 | (199)                               | (123)   | (601)                              | (444)    |
|                                   | \$ (420)                            | \$ (60) | \$ (1,126)                         | \$ (24)  |

**28. Segmented Information**

The following summary describes the operations of each reportable segment:

- Minera Bateas S.A.C. ("Bateas") – operates the Caylloma silver, lead and zinc mine
- Compania Minera Cuzcatlan S.A. de C.V. ("Cuzcatlan") – operates the San Jose silver-gold mine
- Mansfield Minera S.A. ("Mansfield") – construction of the Lindero mine
- Corporate – corporate stewardship

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|   | Three months ended September 30, 2020 |           |           |            |           |
|---|---------------------------------------|-----------|-----------|------------|-----------|
|   | Corporate                             | Bateas    | Cuzcatlan | Mansfield  | Total     |
| Revenues from external customers                | \$ -                                  | \$ 18,766 | \$ 64,671 | \$ -       | \$ 83,437 |
| Cost of sales before depreciation and depletion | -                                     | (9,034)   | (21,715)  | -          | (30,749)  |
| Depreciation and depletion in cost of sales     | -                                     | (2,778)   | (7,859)   | -          | (10,637)  |
| General, and administration                     | (6,082)                               | (761)     | (2,107)   | -          | (8,950)   |
| Other income (expenses)                         | 400                                   | (959)     | (1,300)   | (2,752)    | (4,611)   |
| Finance items                                   | (241)                                 | (111)     | (68)      | -          | (420)     |
| Segment (loss) profit before taxes              | (5,923)                               | 5,123     | 31,622    | (2,752)    | 28,070    |
| Income taxes                                    | (587)                                 | (1,301)   | (13,093)  | -          | (14,981)  |
| Segment (loss) profit after taxes               | \$ (6,510)                            | \$ 3,822  | \$ 18,529 | \$ (2,752) | \$ 13,089 |

|   | Three months ended September 30, 2019 |           |           |            |            |
|---|---------------------------------------|-----------|-----------|------------|------------|
|   | Corporate                             | Bateas    | Cuzcatlan | Mansfield  | Total      |
| Revenues from external customers                | \$ -                                  | \$ 17,673 | \$ 43,632 | \$ -       | \$ 61,305  |
| Cost of sales before depreciation and depletion | -                                     | (11,859)  | (21,082)  | -          | (32,941)   |
| Depreciation and depletion in cost of sales     | -                                     | (3,505)   | (8,188)   | -          | (11,693)   |
| General and administration                      | (4,059)                               | (974)     | (1,903)   | -          | (6,936)    |
| Other income (expenses)                         | (1,668)                               | (63)      | (134)     | (9,329)    | (11,194)   |
| Finance items                                   | (83)                                  | (69)      | 92        | -          | (60)       |
| Segment (loss) profit before taxes              | (5,810)                               | 1,203     | 12,417    | (9,329)    | (1,519)    |
| Income taxes                                    | (413)                                 | (1,039)   | (4,739)   | -          | (6,191)    |
| Segment (loss) profit after taxes               | \$ (6,223)                            | \$ 164    | \$ 7,678  | \$ (9,329) | \$ (7,710) |

|   | Nine months ended September 30, 2020 |           |            |            |            |
|---|--------------------------------------|-----------|------------|------------|------------|
|   | Corporate                            | Bateas    | Cuzcatlan  | Mansfield  | Total      |
| Revenues from external customers                | \$ -                                 | \$ 44,937 | \$ 130,525 | \$ -       | \$ 175,462 |
| Cost of sales before depreciation and depletion | -                                    | (28,386)  | (53,611)   | -          | (81,997)   |
| Depreciation and depletion in cost of sales     | -                                    | (10,496)  | (19,677)   | -          | (30,173)   |
| General and administration                      | (14,875)                             | (2,579)   | (5,494)    | -          | (22,948)   |
| Other income (expenses)                         | 47                                   | (1,176)   | (1,268)    | (8,908)    | (11,305)   |
| Finance items                                   | (731)                                | (317)     | (78)       | 3,306      | 2,180      |
| Segment (loss) profit before taxes              | (15,559)                             | 1,983     | 50,397     | (5,602)    | 31,219     |
| Income taxes                                    | (3,108)                              | (1,893)   | (23,282)   | -          | (28,283)   |
| Segment (loss) profit after taxes               | \$ (18,667)                          | \$ 90     | \$ 27,115  | \$ (5,602) | \$ 2,936   |

|   | Nine months ended September 30, 2019 |           |            |             |            |
|---|--------------------------------------|-----------|------------|-------------|------------|
|   | Corporate                            | Bateas    | Cuzcatlan  | Mansfield   | Total      |
| Revenues from external customers                | \$ -                                 | \$ 54,283 | \$ 133,921 | \$ -        | \$ 188,204 |
| Cost of sales before depreciation and depletion | -                                    | (33,083)  | (60,937)   | -           | (94,020)   |
| Depreciation and depletion in cost of sales     | -                                    | (9,853)   | (23,195)   | -           | (33,048)   |
| General and administration                      | (12,032)                             | (2,953)   | (5,435)    | -           | (20,420)   |
| Other income (expenses)                         | (1,968)                              | (607)     | (1,311)    | (11,665)    | (15,551)   |
| Finance items                                   | (117)                                | (1,466)   | 336        | -           | (1,247)    |
| Segment (loss) profit before taxes              | (14,117)                             | 6,321     | 43,379     | (11,665)    | 23,918     |
| Income taxes                                    | (2,230)                              | (2,611)   | (15,394)   | 1,129       | (19,106)   |
| Segment (loss) profit after taxes               | \$ (16,347)                          | \$ 3,710  | \$ 27,985  | \$ (10,536) | \$ 4,812   |



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|                      | September 30, 2020 |            |            |            |            |
|----------------------|--------------------|------------|------------|------------|------------|
|                      | Corporate          | Bateas     | Cuzcatlan  | Mansfield  | Total      |
| Total assets         | \$ 21,506          | \$ 114,302 | \$ 252,952 | \$ 599,058 | \$ 987,818 |
| Total liabilities    | \$ 154,908         | \$ 36,639  | \$ 41,381  | \$ 48,131  | \$ 281,059 |
| Capital expenditures | \$ 122             | \$ 4,456   | \$ 9,408   | \$ 79,829  | \$ 93,815  |

  

|                      | December 31, 2019 |            |            |            |            |
|----------------------|-------------------|------------|------------|------------|------------|
|                      | Corporate         | Bateas     | Cuzcatlan  | Mansfield  | Total      |
| Total assets         | \$ 60,134         | \$ 116,501 | \$ 252,100 | \$ 507,330 | \$ 936,065 |
| Total liabilities    | \$ 162,210        | \$ 36,747  | \$ 42,264  | \$ 59,418  | \$ 300,639 |
| Capital expenditures | \$ 1,333          | \$ 11,845  | \$ 14,046  | \$ 211,413 | \$ 238,637 |

**29. Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (interest rate, yield curves), or inputs that are derived principally from or corroborated observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

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

| Financial asset or liability     | Methods and assumptions used to estimate fair value  |
|----------------------------------|--|
| Trade receivables                | Trade receivables arising from the sales of metal concentrates are subject to provisional pricing, and the final selling price is adjusted at the end of a quotational period. We mark these to market at each reporting date based on the forward price corresponding to the expected settlement date.        |
| Investments in equity securities | Investments in equity securities are recorded at fair value based on the quoted market price at the end of each reporting period with changes in fair value through other comprehensive income.  |
| Interest rate swap               | 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. |
| Convertible Debentures           | The fair value of the convertible debentures represents both the debt and equity components of the convertible debenture and has been determined with reference to the quoted market price of the convertible debentures.  |

During the three and nine months ended September 30, 2020 and 2019, 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.

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|   | 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>September 30, 2020</b>                               |                        |                                   |                |              |            |              |         |  |
| <b>Financial assets measured at Fair Value</b>          |                        |                                   |                |              |            |              |         |  |
| Investments in equity securities                        | \$ 1,157               | \$ -                              | \$ -           | \$ 1,157     | \$ 1,157   | \$ -         | \$ -    | \$ -                                   |
| Trade receivables concentrate sales                     | -                      | \$ 23,370                         | -              | 23,370       | -          | 23,370       | -       | -                                      |
|   | \$ 1,157               | \$ 23,370                         | \$ -           | \$ 24,527    | \$ 1,157   | \$ 23,370    | \$ -    | \$ -                                   |
| <b>Financial assets not measured at Fair Value</b>      |                        |                                   |                |              |            |              |         |  |
| Cash and cash equivalents                               | \$ -                   | \$ -                              | \$ 85,176      | \$ 85,176    | \$ -       | \$ -         | \$ -    | \$ 85,176                              |
| Other receivables                                       | -                      | -                                 | 1,991          | 1,991        | -          | -            | -       | 1,991                                  |
|   | \$ -                   | \$ -                              | \$ 87,167      | \$ 87,167    | \$ -       | \$ -         | \$ -    | \$ 87,167                              |
| <b>Financial liabilities measured at Fair Value</b>     |                        |                                   |                |              |            |              |         |  |
| Interest rate swap liability                            | \$ (1,338)             | \$ -                              | \$ -           | \$ (1,338)   | \$ -       | \$ (1,338)   | \$ -    | \$ -                                   |
|   | \$ (1,338)             | \$ -                              | \$ -           | \$ (1,338)   | \$ -       | \$ (1,338)   | \$ -    | \$ -                                   |
| <b>Financial liabilities not measured at Fair Value</b> |                        |                                   |                |              |            |              |         |  |
| Trade payables  | \$ -                   | \$ -                              | \$ (23,579)    | \$ (23,579)  | \$ -       | \$ -         | \$ -    | \$ (23,579)                            |
| Payroll payable   | -                      | -                                 | (12,147)       | (12,147)     | -          | -            | -       | (12,147)                               |
| Bank loan payable                                       | -                      | -                                 | (94,726)       | (94,726)     | -          | (95,000)     | -       | -                                      |
| Debentures  | -                      | -                                 | (38,373)       | (38,373)     | -          | (66,033)     | -       | -                                      |
| Other payables  | -                      | -                                 | (20,668)       | (20,668)     | -          | -            | -       | (20,668)                               |
|   | \$ -                   | \$ -                              | \$ (189,493)   | \$ (189,493) | \$ -       | \$ (161,033) | \$ -    | \$ (56,394)                            |

**Fortuna Silver Mines Inc.**

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|   | 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>December 31, 2019</b>                                |                        |                                   |                |              |            |              |         |  |
| <b>Financial assets measured at Fair Value</b>          |                        |                                   |                |              |            |              |         |  |
| Trade receivables concentrate sales                     | \$ -                   | \$ 33,642                         | \$ -           | \$ 33,642    | \$ -       | \$ 33,642    | \$ -    | \$ -                                   |
|   | \$ -                   | \$ 33,642                         | \$ -           | \$ 33,642    | \$ -       | \$ 33,642    | \$ -    | \$ -                                   |
| <b>Financial assets not measured at Fair Value</b>      |                        |                                   |                |              |            |              |         |  |
| Cash and cash equivalents                               | \$ -                   | \$ -                              | \$ 83,404      | \$ 83,404    | \$ -       | \$ -         | \$ -    | \$ 83,404                              |
| Other receivables                                       | -                      | -                                 | 2,419          | 2,419        | -          | -            | -       | 2,419                                  |
|   | \$ -                   | \$ -                              | \$ 85,823      | \$ 85,823    | \$ -       | \$ -         | \$ -    | \$ 85,823                              |
| <b>Financial liabilities measured at Fair Value</b>     |                        |                                   |                |              |            |              |         |  |
| Interest rate swap liability                            | \$ (894)               | \$ -                              | \$ -           | \$ (894)     | \$ -       | \$ (894)     | \$ -    | \$ -                                   |
|   | \$ (894)               | \$ -                              | \$ -           | \$ (894)     | \$ -       | \$ (894)     | \$ -    | \$ -                                   |
| <b>Financial liabilities not measured at Fair Value</b> |                        |                                   |                |              |            |              |         |  |
| Trade payables  | \$ -                   | \$ -                              | \$ (37,357)    | \$ (37,357)  | \$ -       | \$ -         | \$ -    | \$ (37,357)                            |
| Payroll payable   | -                      | -                                 | (15,801)       | (15,801)     | -          | -            | -       | (15,801)                               |
| Bank loan payable                                       | -                      | -                                 | (109,430)      | (109,430)    | -          | (110,000)    | -       | -                                      |
| Debentures  | -                      | -                                 | (37,105)       | (37,105)     | -          | (38,858)     | -       | -                                      |
| Other payables  | -                      | -                                 | (22,403)       | (22,403)     | -          | -            | -       | (22,403)                               |
|   | \$ -                   | \$ -                              | \$ (222,096)   | \$ (222,096) | \$ -       | \$ (148,858) | \$ -    | \$ (75,561)                            |

**Fortuna Silver Mines Inc.****Notes to Condensed Interim Consolidated Financial Statements**

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**30. Supplemental Cashflow Information**

The changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes for the periods set out below were as follows:

|                          | Bank Loan | Debenture | Lease obligations | Interest rate swaps |
|--------------------------|-----------|-----------|-------------------|---------------------|
| As at December 31, 2018  | \$ 69,302 | \$ -      | \$ 16,082         | \$ 224              |
| Additions                | 40,000    | 46,000    | 14,944            | -                   |
| Interest                 | 128       | 347       | 1,848             | -                   |
| Payments                 | -         | -         | (9,048)           | -                   |
| Transaction costs        | -         | (2,101)   | -                 | -                   |
| Equity component         | -         | (7,141)   | -                 | -                   |
| Foreign exchange         | -         | -         | 53                | -                   |
| Changes in fair value    | -         | -         | -                 | 670                 |
| As at December 31, 2019  | 109,430   | 37,105    | 23,879            | 894                 |
| Additions                | 40,000    | -         | 2,354             | -                   |
| Terminations             | -         | -         | (475)             | -                   |
| Interest                 | 296       | 1,268     | 1,449             | 563                 |
| Payments                 | (55,000)  | -         | (6,254)           | (559)               |
| Foreign exchange         | -         | -         | (54)              | -                   |
| Changes in fair value    | -         | -         | -                 | 440                 |
| As at September 30, 2020 | \$ 94,726 | \$ 38,373 | \$ 20,899         | \$ 1,338            |

**31. Contingencies and Capital Commitments****(a) Caylloma Letter of Guarantee**

The Caylloma Mine closure plan was updated in December 2018, with total undiscounted closure costs of \$11,719 consisting of progressive closure activities of \$3,774, final closure activities of \$7,156, and post-closure activities of \$789. Pursuant to the closure regulations, the Company is required to provide a guarantee of \$9,704 to the Peruvian Government for 2020.

In January 2020, the Company established a security bond in the amount of \$1,310 and a bank letter of guarantee in the amount of \$8,394, in compliance with local regulation and to collateralize Bateas' mine closure plan. The security bond and the letter of guarantee expire on January 29, 2021.

**(b) San Jose Letter of Guarantee**

The Company has established three letters of guarantee in the aggregate amount of \$1,188 to fulfill its environmental obligations under the terms and conditions of the Environmental Impact Statements issued by the Secretaria de Medio Ambiente y Recursos Naturales ("SEMARNAT") in 2009 in respect of the construction of the San Jose mine, and in 2017 and 2019 with respect to the expansion of the dry stack tailings facility at the San Jose mine. The letters of guarantee expire on December 31, 2023, June 15, 2022, and May 13, 2021, respectively.

## **Fortuna Silver Mines Inc.**

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#### **(c) Other Commitments**

As at September 30, 2020, the Company had capital commitments of \$2,204, \$53, and \$2,526 for civil work, equipment purchases and other services at the Lindero Project and the Caylloma and San Jose Mines, respectively, which are expected to be expended within one year.

#### **(d) Tax Contingencies**

##### *Peru*

The Company has been assessed \$1,206 (4,343 Peruvian Soles), including interest and penalties of \$668 (2,405 Peruvian Soles), for the tax year 2010 by SUNAT, the Peruvian tax authority, with respect to the deduction of certain losses arising from derivative instruments. The Company applied to the Peruvian tax court to appeal the assessment.

On January 22, 2019, the Peruvian tax court reaffirmed SUNAT's position and denied the deduction. The Company believes the assessment is inconsistent with Peruvian tax law and that it is probable the Company will succeed on appeal through the Peruvian legal system. The Company has paid the disputed amount in full and has initiated proceedings through the Peruvian legal system to appeal the decision of the Peruvian tax court.

As at September 30, 2020, the Company has recorded the amount paid of \$1,206 (4,343 Peruvian Soles) in long-term receivables and other, as the Company believes it is probable that the appeal will be successful (note 12).

#### **(e) SGM Royalty**

In 2017 the Mexican Geological Service ("SGM") advised the Company that a previous owner of one of the Company's mineral concessions located at the San Jose Mine in Oaxaca, Mexico had granted the SGM a royalty of 3% of the billing value of minerals obtained from the concession. The Company, supported by legal opinions from three independent law firms, has previously advised the Mexican mining authorities that it is of the view that no royalty is payable, and in 2018 initiated administrative and legal proceedings (the "Administrative Proceedings") in the Mexican Federal Administrative Court ("FAC") against the Dirección General de Minas ("DGM") to remove reference to the royalty on the title register. The proceedings are progressing in accordance with the procedures of the FAC.

In January 2020, the Company received notice from the DGM seeking to cancel the mining concession if the royalty, in the Mexican peso equivalent of \$30,000 plus VAT (being the amount of the claimed royalty from 2011 to 2019), was not paid before March 15, 2020. In February 2020, the Company initiated legal proceedings (the "Amparo Proceedings") against the DGM in the Juzgado Séptimo de Distrito en Materia Administrativa en la Ciudad de México ("District Court") to contest the cancellation procedure and also to stay the cancellation process. The District Court in Mexico City admitted the Company's legal proceedings on March 2, 2020 and granted a permanent stay of execution, which protects the Company from the cancellation of the concession until a resolution by the District Court is reached on the legality of the cancellation procedure. The final hearing of the Amparo Proceedings took place on October 2, 2020, there are no further steps to be taken by the Company until the District Court issues its decision. The timing of a decision by the District Court at first instance in this action against the DGM is uncertain and may take several months. In the event that the Company is unsuccessful in these proceedings, it may appeal. If ultimately the Company does not prevail, it may be required to pay the disputed royalty in order to preserve the mining concession. If the Company is required to pay the royalty, it will do so from available capital resources.

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The Company has determined that it is more likely than not that it will succeed in these proceedings; therefore, no provision has been recorded as at September 30, 2020 and December 31, 2019.

(f) [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 these interim 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.