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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE

SECOND QUARTER ENDED JUNE 30, 2015

As of August 7, 2015

(Dollar amounts expressed in US dollars, unless otherwise indicated)

FORTUNA SILVER MINES INC.
Management’s Discussion and Analysis
For the second quarter ended June 30, 2015
(Dollar amounts expressed in US dollars, unless otherwise indicated)

Management’s discussion and analysis (“MD&A”) is intended to help the reader understand the significant factors that have affected Fortuna Silver Mines Inc.’s and its subsidiaries’ (“Fortuna’s” or the “Company’s”) performance and factors that may affect its future performance. This MD&A was prepared as of August 7, 2015. It should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2014, its unaudited condensed interim consolidated financial statements for the three and six-month periods ended June 30, 2015 (“Q2 2015” and “2015”), and the related notes contained therewith. The Company reports its financial position, financial performance and cash flows in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). This MD&A refers to various non-GAAP financial measures, such as cash cost per tonne of processed ore, cash cost per payable ounce of silver, total production cost per tonne, all-in sustaining cash cost, all-in cash cost, adjusted net income, operating cash flow per share before changes in working capital, income taxes, and interest income, mine operating earnings, and EBITDA. The Company uses these measures to manage and evaluate operating performance and ability to generate cash and are widely reported in the silver mining industry as benchmarks for performance. However, the measures do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. The Company believes that certain investors use these non-GAAP financial measures to evaluate the Company’s performance. Accordingly, non-GAAP financial measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with International Financial Reporting Standards (“IFRS”). To facilitate a better understanding of these measures as calculated by the Company, we have provided detailed descriptions and reconciliations as required.

This document contains forward-looking statements. Please refer to the cautionary language under the heading “Cautionary Statement on Forward-Looking Statements.”

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Business of the Company

Fortuna Silver Mines Inc. ("Fortuna" or the "Company") is engaged in silver mining and related activities in Latin America, including exploration, extraction, and processing. The Company operates the Caylloma silver, lead, and zinc mine ("Caylloma") in southern Peru and the San Jose silver and gold mine ("San Jose") in southern Mexico.

Fortuna is a publicly traded company incorporated and domiciled in Canada. Its common shares are listed on the New York Stock Exchange under the trading symbol FSM, on the Toronto Stock Exchange under the trading symbol FVI, and on the Frankfurt Stock Exchange under the trading symbol F4S.F.

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

The financial results include the accounts of the Company and its wholly owned subsidiaries: Minera Bateas S.A.C. ("Bateas"); Fortuna Silver (Barbados) Inc. ("Barbados"); Compania Minera Cuzcatlan SA ("Cuzcatlan"); Continuum Resources Ltd. ("Continuum"); Fortuna Silver Mines Peru S.A.C. ("FSM Peru"); and Fortuna Silver Mexico, S.A. de CV. ("FS Mexico").

Second Quarter 2015 Highlights

Financial and Operating Highlights

Net income for the second quarter ended June 30, 2015 ("Q2 2015") was \$0.2 million compared with \$2.9 million for the second quarter ended June 30, 2014 ("Q2 2014"), resulting in basic earnings per share of \$nil (Q2 2014: \$0.02).

Silver sold increased 2% to 1,641,622 ounces from the same period in the prior year, while the realized silver price decreased 17% to \$16.31 per ounce. Gold sold increased 3% to 8,672 ounces from the same period in the prior year, while the realized gold price decreased 7% to \$1,188.25 per ounce. Sales comprised 59% silver and 19% gold, compared with 65% and 19%, respectively, in the same period in the prior year.

Cash flow from operations, before changes in working capital, decreased 55% to \$6.8 million (Q2 2014: \$15.1 million), reflecting an increase of \$4.2 million in income taxes paid related to timing issues in the payment of income taxes and an increase of \$0.3 million in interest paid related to a credit facility. Operating cash flow per share, before changes in working capital items, decreased to \$0.05 (Q2 2014: \$0.12) (refer to non-GAAP financial measures). Cash and cash equivalent and short term investments increased to \$110.0 million (December 31, 2014: \$77.3 million) on a credit facility draw down of \$40.0 million.

Silver production increased 3% to 1,671,309 ounces (Q2 2014: 1,630,422 ounces) and gold production increased 6% to 9,032 ounces (Q2 2014: 8,519 ounces).

Consolidated all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was \$14.47 and below our annual guidance of \$16.61 for 2015 (refer to non-GAAP financial measures).

San Jose's all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was \$13.07 and below the annual guidance of \$16.27 for 2015 (refer to non-GAAP financial measures).

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Caylloma's all-in sustaining cash cost per payable ounce of silver, net of by-product credits, was \$12.99 and above our annual guidance of \$12.78 for 2015 (refer to non-GAAP financial measures).

In subsequent quarters, we expect our planned sustaining capital expenditures to increase, resulting in an annual consolidated all-in sustaining cash cost per ounce in line with guidance for the year.

Other Developments

On May 14, 2015, the Company delisted from the Lima Stock Exchange.

Results of Operations*Consolidated Metal Production*

Consolidated Metal Production	QUARTERLY RESULTS					
	Three months ended June 30,					
	2015			2014		
	Caylloma	San Jose	Consolidated	Caylloma	San Jose	Consolidated
Silver (oz)	443,553	1,227,756	1,671,309	529,011	1,101,411	1,630,422
Gold (oz)	326	8,706	9,032	562	7,957	8,519
Lead (000's lbs)	4,770	-	4,770	3,962	-	3,962
Zinc (000's lbs)	8,575	-	8,575	6,697	-	6,697
Production cash cost (US\$/oz Ag)*	6.01	3.39	4.08	7.72	3.93	5.15
All-in sustaining cash cost (US\$/oz Ag)*	12.99	13.07	14.47	15.48	15.77	17.41

* Net of by-product credits from gold, lead and zinc

Consolidated Metal Production	YEAR TO DATE RESULTS					
	Six months ended June 30,					
	2015			2014		
	Caylloma	San Jose	Consolidated	Caylloma	San Jose	Consolidated
Silver (oz)	979,512	2,324,966	3,304,478	1,068,835	2,098,446	3,167,282
Gold (oz)	698	18,073	18,771	1,085	15,583	16,669
Lead (000's lbs)	9,117	-	9,117	7,855	-	7,855
Zinc (000's lbs)	16,109	-	16,109	13,226	-	13,226
Production cash cost (US\$/oz Ag)*	6.33	3.01	3.99	7.32	3.77	4.96
All-in sustaining cash cost (US\$/oz Ag)*	11.89	11.32	13.15	14.32	15.12	16.98

* Net of by-product credits from gold, lead and zinc

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Consolidated production highlights for Q2 2015 are as follows:

- Silver production of 1,671,309 ounces; 3% increase over Q2 2014
- Gold production of 9,032 ounces; 6% increase over Q2 2014
- Lead production of 4,770,470 pounds; 20% increase over Q2 2014
- Zinc production of 8,574,831 pounds; 28% increase over Q2 2014
- Cash cost for San Jose of \$57.97/t; on track to meet annual guidance of \$62.7/t
- Cash cost for Caylloma of \$88.55/t; on track to meet annual guidance of \$90.3/t

Silver and gold production for Q2 2015 and the six months ended June 30, 2015, increased over the same periods in the prior year 3% and 6%, and 4% and 13%, respectively, explained largely by the full impact of the commissioning of the San Jose plant expansion from 1,800 to 2,000 tpd in April 2014. The Company is on track to meet its annual production guidance.

Consolidated Cash Cost per Payable Ounce of Silver

All-in sustaining cash cost per ounce of payable silver for Q2 2015, net of by-product credits, decreased to \$14.47 (Q2 2014: \$17.41) per ounce as a result of higher payable ounces of silver and lower sustaining capital expenditures (refer to non-GAAP financial measures). All-in sustaining cash cost per payable ounce is expected to move closer in line with annual guidance of \$16.61 as the accrual of investments for our main projects accelerates in the second half of the year.

San Jose Mine Review

San Jose is an underground silver-gold mine located in the State of Oaxaca in southern Mexico. The following table shows the main variables used by management to measure the operating performance of the mine: throughput, grade, recovery, gold and silver production, and unit costs.

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	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	San Jose	San Jose	San Jose	San Jose
Mine Production				
Tonnes milled	183,001	167,437	361,648	318,145
Average tonnes milled per day	2,080	1,925	2,067	1,837
Silver				
Grade (g/t)	228	229	222	229
Recovery (%)	92	90	90	90
Production (oz)	1,227,756	1,101,411	2,324,966	2,098,446
Gold				
Grade (g/t)	1.62	1.65	1.73	1.70
Recovery (%)	91	89	90	90
Production (oz)	8,706	7,957	18,073	15,583
Unit Costs				
Production cash cost (US\$/oz Ag)*	3.39	3.93	3.01	3.77
Production cash cost (US\$/tonne)	57.97	64.08	58.87	65.28
Unit Net Smelter Return (US\$/tonne)	141.19	162.48	141.89	167.43
All-in sustaining cash cost (US\$/oz Ag)*	13.07	15.77	11.32	15.12

* Net of by-product credits from gold

Production for Q2 2015 was 1,227,756 ounces of silver and 8,706 ounces of gold, 11% and 9%, respectively, above production in the same period in the prior year. The increases are the result of higher throughput of 9% and higher metallurgical recovery. With respect to budget, silver and gold production for the quarter was higher by 10% and 3%, respectively. See page 12 for information on metal sold.

Work on the third expansion of the San Jose Mine to 3,000 tpd is moving ahead as planned, with detail engineering and purchase orders for major equipment well advanced. We plan to commission the expanded facility in mid-year 2016. The dry stack tailings deposit project is advancing on schedule and within budget with 70% progress as of the end of June 2015.

Cash cost per tonne of processed ore for Q2 2015 was \$57.97/t, or 10% below the cost in the same period in the prior year due mainly to 9% higher throughput, a 19% devaluation of the peso, and lower milling costs related to energy rates, and, was below the annual guidance of \$62.7/t. All-in sustaining cash cost per payable ounce of silver, net of by-product credits, was \$13.07 for Q2 2015 (refer to non-GAAP financial measures), below the annual guidance of \$16.27. All-in sustaining cash cost per payable ounce is expected to move closer in line with annual guidance as the accrual of investments accelerates in the second half of the year.

Investments in property, plant and equipment and brownfields exploration, on a cash basis, were \$13.7 million for the six months ended June 30, 2015, and included \$2.5 million for mine development; \$1.4 million for infill drilling; \$1.7 million for brownfields exploration; and, \$8.1 million for equipment and infrastructure, including \$6.4 million for the dry stack tailings deposit project.

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On January 21, 2015, the Company announced results for twenty-three step-out drill holes completed in the Trinidad North zone at the San Jose Mine. These results are not reflected in the Mineral Resource and Mineral Reserve estimates reported as of June 30, 2014 (see Fortuna news releases dated August 27, 2014 and September 30, 2014) or the Mineral Resource and Mineral Reserve estimates reported as of December 31, 2014 (see Fortuna news release dated March 10, 2015). The new drill results confirm that the Bonanza and Trinidad veins and the structurally and spatially related Trinidad North Stockwork Zone all remain open to the north and to depth along the strike and plunge of the ore shoots. See Fortuna news release dated January 21, 2015.

Cash cost per payable ounce of silver and cash cost per tonne of processed ore are non-GAAP financial measures (refer to non-GAAP financial measures for the reconciliation of cash cost to the cost of sales).

Caylloma Mine Review

Caylloma is an underground silver, lead, and zinc mine located in in the Arequipa Department in southern Peru. Its commercial products are silver-lead and zinc concentrates. The table below shows the main variables used by management to measure the operating performance of the mine.

	QUARTERLY RESULTS		YEAR TO DATE RESULTS	
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	Caylloma	Caylloma	Caylloma	Caylloma
Mine Production				
Tonnes milled	115,973	115,920	230,424	230,035
Average tonnes milled per day	1,303	1,302	1,302	1,300
Silver				
Grade (g/t)	144	170	158	172
Recovery (%)	82	84	84	84
Production (oz)	443,553	529,011	979,512	1,068,835
Gold				
Grade (g/t)	0.27	0.35	0.27	0.34
Recovery (%)	33	43	34	44
Production (oz)	326	562	698	1,085
Lead				
Grade (%)	2.01	1.68	1.94	1.67
Recovery (%)	93	92	93	92
Production (000's lbs)	4,770	3,962	9,117	7,855
Zinc				
Grade (%)	3.68	2.92	3.49	2.89
Recovery (%)	91	90	91	90
Production (000's lbs)	8,575	6,697	16,109	13,226
Unit Costs				
Production cash cost (US\$/oz Ag)*	6.01	7.72	6.33	7.32
Production cash cost (US\$/tonne)	88.55	91.70	86.28	89.79
Unit Net Smelter Return (US\$/tonne)	125.78	143.14	127.43	145.81
All-in sustaining cash cost (US\$/oz Ag)*	12.99	15.48	11.89	14.32

* Net of by-product credits from gold, lead and zinc

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Silver production for Q2 2015 was 16% below production in the same period in the prior year because of lower head grade. Zinc production increased 28% as a result of higher head grade and slightly higher metallurgical recoveries. Lead production increased 20% as a result of higher head grade. Silver production for the second quarter was 25% below budget and had a silver head grade of 144 g/t, 24% below plan. Metallurgical recoveries for silver decreased two percentage points due to the lower head grade. See page 12 for information on metal sold.

The drop in silver production was related to higher than expected internal dilution and to adverse geotechnical conditions, which limited achieving programmed tonnage in Level 6 of the Animas Vein. To offset the Level 6 production issues, mining was shifted to more base metal-rich levels within the Animas Vein, resulting in higher than budgeted grades for lead and zinc.

Cash cost per tonne at Caylloma for Q2 2015 was \$88.55 per tonne of processed ore, a decrease of 3% from the same period in the prior year due to lower indirect costs related to headcount, lower distribution cost related to zinc concentrate transport, and a 14% devaluation of the Peruvian nuevo sol, and was 2% below annual guidance of \$90.3/t. Caylloma's all-in sustaining cash cost per payable ounce of silver, net of by-product credits was \$12.99 for Q2 2015, and \$11.89 for the six months ended June 30, 2015 which was below the annual guidance of \$12.78 (refer to non-GAAP financial measures).

Investments in property, plant and equipment and brownfields exploration, on a cash basis, were \$3.0 million for the six months ended June 30, 2015, and included \$2.0 million for mine development, \$0.2 million for brownfields exploration, and \$0.8 million for equipment and infrastructure.

Caylloma Mine and San Jose Mine Concentrates

The table below shows the production and balance of commercial end products at each of our operating mines.

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Mine Concentrates	QUARTERLY RESULTS				YEAR TO DATE RESULTS			
	Three months ended June 30,				Six months ended June 30,			
	2015		2014		2015		2014	
	Caylloma	San Jose	Caylloma	San Jose	Caylloma	San Jose	Caylloma	San Jose
Silver-Gold								
Opening Inventory (t)	-	303	-	245	-	302	-	617
Production (t)	-	5,696	-	5,209	-	10,925	-	9,628
Sales (t)	-	5,696	-	5,086	-	10,891	-	9,916
Adjustment (t)	-	(7)	-	(55)	-	(39)	-	(15)
Closing Inventory (t)	-	297	-	314	-	297	-	314
Zinc								
Opening Inventory (t)	672	-	368	-	464	-	485	-
Production (t)	7,596	-	5,971	-	14,317	-	11,735	-
Sales (t)	8,004	-	5,769	-	14,541	-	11,671	-
Adjustment (t)	30	-	9	-	54	-	30	-
Closing Inventory (t)	294	-	579	-	294	-	579	-
Lead-Silver								
Opening Inventory (t)	318	-	270	-	220	-	208	-
Production (t)	3,989	-	3,525	-	7,618	-	6,982	-
Sales (t)	4,102	-	3,586	-	7,656	-	7,013	-
Adjustment (t)	19	-	26	-	42	-	57	-
Closing Inventory (t)	224	-	234	-	224	-	234	-

Property Option Agreements*Tlacolula Property*

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

The Company can earn the interest by spending \$2.0 million, which includes a commitment to drill 1,500 meters within 12 months after Cuzcatlan has received a permit to drill the property, by making staged payments totaling \$0.30 million in cash, and by providing \$0.25 million in common shares of the Company to Radius according to the following schedule:

- \$0.02 million in cash and \$0.02 million cash equivalent in shares upon stock exchange approval;
- \$0.03 million in cash and \$0.03 million cash equivalent in shares by January 15, 2011;
- \$0.05 million in cash and \$0.05 million cash equivalent in shares by January 15, 2012;
- \$0.05 million in cash and \$0.05 million cash equivalent in shares by January 15, 2013;
- \$0.05 million in cash by January 19, 2015; and,

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- \$0.10 million in cash and \$0.10 million cash equivalent in shares within 90 days after Cuzcatlan has completed the first 1,500 meters of drilling on the property.

Upon completion of the cash payments and share issuances and incurring the exploration expenditures as set forth above, the Company will be deemed to have exercised the option and to have acquired a 60% interest in the property, whereupon a joint venture will be formed to further develop the property on the basis of the Company owning 60% and Radius 40%. Radius has the right to terminate the agreement if the option is not exercised by January 31, 2017.

As of June 30, 2015, the Company had issued an aggregate of 34,589 common shares, with a fair market value of \$0.15 million, and paid \$0.20 million in cash according to the terms of the option agreement.

Quarterly Information

The following table provides information for eight fiscal quarters up to June 30, 2015:

Expressed in \$000's, except per share data	Quarters ended							
	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
	30-Jun-15	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13
Sales	38,871	39,804	37,823	46,384	44,319	45,480	36,377	30,203
Mine operating earnings	10,402	12,581	10,052	16,720	16,277	17,204	10,373	8,140
Operating income (loss)	4,775	7,961	3,653	13,201	7,623	9,273	(8,312)	2,346
Net income (loss)	236	3,854	57	7,824	2,868	4,853	(14,930)	(264)
Earnings (loss) per share, basic	-	0.03	-	0.06	0.02	0.04	(0.12)	-
Earnings (loss) per share, diluted	-	0.03	-	0.06	0.02	0.04	(0.12)	-
Total assets	392,488	351,260	350,310	342,413	330,791	318,349	302,215	311,170
Long term bank loan	39,470	-	-	-	-	-	-	-
Other liabilities	5,701	4,578	4,661	4,076	5,269	4,076	2,343	2,850

During Q2 2015, sales decreased 2%, or \$0.9 million, from Q1 2015, due mostly to negative mark-to-market adjustment increases of \$1.0 million. Operating income decreased 40%, or \$3.2 million, from Q1 2015 as a result of \$2.2 million in lower mine operating earnings, \$0.4 million in higher share-based payment costs, \$0.9 million in higher foreign exchange costs, \$0.4 million in lower corporate costs, and \$0.7 million in higher interest expense related to a bank loan. Long term bank loan includes a \$40.0 million bank loan, net of unamortized transaction costs of \$0.5 million, for working capital requirements and general corporate purposes.

During Q1 2015, sales increased 5%, or \$2.0 million, from Q4 2014, due mostly to higher gold and base metal sold. The Company's realized prices for silver and gold both increased 2% to \$16.65 and \$1,215.57 per ounce, respectively. Operating income increased twofold from Q4 2014 as mine operating earnings increased \$2.5 million and as restructuring and severance costs declined from \$1.1 million to \$nil in Q1 2015.

During Q4 2014, sales decreased 18%, or \$8.6 million, from Q3 2014 as metal prices decreased. The Company's realized prices for silver and gold declined 15% and 6%, respectively, to \$16.33 and \$1,192.86 per ounce, respectively. During the fourth quarter of 2014, the Company's operating income was negatively affected

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by the mark-to-market effects on share-based compensation expense of \$1.4 million, compared with a recovery of \$0.8 million in Q3 2014. In addition, as a result of declining metal prices the Company restructured its operations and incurred restructuring and severance costs of \$1.1 million during the fourth quarter of 2014 that negatively affected its operating income in that quarter.

During Q3 2014, sales increased 5%, or \$2.1 million, from Q2 2014 as a result of Caylloma's and San Jose's provisional sales increasing \$1.9 million and \$3.8 million, respectively, and being offset by negative price and mark-to-market adjustments that increased \$1.0 million and \$2.1 million, respectively. During Q3 2014, operating income increased 73% to \$13.2 million from Q2 2014 as selling, general and administrative expenses decreased \$5.1 million, or 60%, to \$3.5 million. The decrease in selling, general and administrative expenses is mainly attributed to the positive effect of mark-to-market effects on share-based compensation of \$4.1 million over Q2 2014.

During Q2 2014, sales decreased 3%, or \$1.2 million, from Q1 2014 as a result of San Jose's provisional sales declining \$1.9 million, offset by positive adjustments of \$0.7 million. San Jose's provisional sales of silver and gold declined 2% and 5%, respectively, from Q1 2014, along with lower realized silver and gold prices of 3% and 1%, respectively.

During Q1 2014, sales increased 25% from Q4 2013 as a result of increases in silver and gold sold, of 17% and 29%, respectively, offset by a lower realized silver price of 2%. Mine operating earnings (refer to non-GAAP financial measures) increased 66% from Q4 2013 because of increased sales and the Company's continuing efforts to contain costs. In Q4 2013, a net loss reflected a non-cash impairment charge of \$10.2 million, net of tax (Q3 2013: \$nil), and a non-cash income tax provision of \$7.7 million resulting from Mexico's special mining royalty.

During Q3 2013, mine operating earnings increased from Q2 2013 in part as a result of the Company's implementation of efforts to contain costs. As part of the Company's cost-reduction program, the Company recorded \$0.5 million in restructuring and severance costs in Q3 2013 covering 65 positions. In Q2 2013, the Company recorded a non-cash impairment charge related to the Caylloma Mine of \$15.0 million before taxes and a non-cash write-off of mineral properties, plant, and equipment of \$0.4 million related to the San Luisito concessions that negatively affected operating income.

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Second Quarter 2015 Financial Results

Summary of Financial Results

(Expressed in \$ millions)	Three months ended June 30,		% Chg
	2015	2014	
Sales	\$ 38.9	\$ 44.3	(12%)
Cost of Sales	28.5	28.0	2%
Mine operating earnings*	\$ 10.4	\$ 16.3	(36%)
as a % of Sales	27%	37%	(27%)
Selling, general and administrative expenses	5.5	8.6	(36%)
Operating income	4.8	7.6	(37%)
as a % of Sales	12%	17%	(28%)
Income before tax	4.3	7.4	(42%)
Net income	0.2	2.9	(93%)
as a % of Sales	1%	7%	
Operating cash flow before changes in working capital *	\$ 6.8	\$ 15.1	(55%)

Note : Figures may not add due to rounding

*Note: * Mine operating earnings and Operating cash flow per share before changes in working capital are non-GAAP financial measures*

Q2 2015 net income amounted to \$0.2 million (Q2 2014: \$2.9 million), resulting in basic earnings per share of \$nil (Q2 2014: \$0.02). Net income in Q2 2015 was affected by a 12% reduction in sales as a result of a 17% lower realized silver price compared with Q2 2014. The negative effect from metal prices was partially offset by lower unit costs at both mines and by lower selling, general and administrative expenses of 36% related to a lower charge on share-based compensation of \$2.1 million from mark-to-market effects, lower corporate expenses of \$0.6 million, and lower foreign exchange impact of \$0.3 million. Net income was further affected by a higher deferred income tax provision as a result of the devaluation of the Mexican peso and the Peruvian nuevo sol. As a result of this the effective tax rate for the quarter was 95%. Without the impact of the foreign exchange devaluation the estimated effective tax rate would be 71%.

Silver sold increased 2% to 1,641,622 ounces from the same period in the prior year, while the realized silver price decreased 17% to \$16.31 per ounce. Gold sold increased 3% to 8,672 ounces from the same period in the prior year, while the realized gold price decreased 7% to \$1,188.25 per ounce. Sales comprised 59% silver and 19% gold, compared with 65% and 19%, respectively, in the same period in the prior year.

Cash flow from operations, before changes in working capital and after income taxes paid, decreased 55% to \$6.8 million (Q2 2014: \$15.1 million). Most of the decrease is related to timing issues in the payment of income taxes at our Mexican operation, which resulted in total payments of \$4.4 million (Q2 2014: \$nil). For the period up to June 30 2015, the Company paid \$8.9 million of income tax related to the 2014 fiscal period and \$5.5 million of tax installments related to the 2015 fiscal period.

Operating cash flow per share, before changes in working capital items, decreased to \$0.05 (Q2 2014: \$0.12) (refer to non-GAAP financial measures).

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Sales

The following table summarizes the details of sales by region and component:

	QUARTERLY RESULTS					
	Three months ended June 30,					
	2015			2014		
Sales and Realized Prices	Caylloma	San Jose	Consolidated	Caylloma	San Jose	Consolidated
(Expressed in \$ millions, unless otherwise noted)						
Provisional Sales	15.2	24.8	40.0	16.7	26.6	43.3
Adjustments *	(0.3)	(0.8)	(1.1)	0.1	1.0	1.1
Sales	14.9	24.0	38.9	16.7	27.6	44.3
Silver						
Provisional Sales (oz)	462,416	1,179,206	1,641,622	537,984	1,072,821	1,610,805
Realized Price (\$/oz)**	16.30	16.32	16.31	19.57	19.65	19.63
Net Realized Price (\$/oz)***	14.05	14.71	14.52	16.89	17.73	17.45
Gold						
Provisional Sales (oz)	333	8,339	8,672	580	7,827	8,407
Realized Price (\$/oz)**	1,182.57	1,188.48	1,188.25	1,285.99	1,279.36	1,279.82
Net Realized Price (\$/oz)***	677.25	893.66	885.35	991.40	965.62	967.40
Lead						
Provisional Sales (000's lb)	4,909	-	4,909	4,035	-	4,035
Realized Price (\$/lb)**	0.88	-	0.88	0.95	-	0.95
Net Realized Price (\$/lb)***	0.66	-	0.66	0.71	-	0.71
Zinc						
Provisional Sales (000's lb)	9,030	-	9,030	6,466	-	6,466
Realized Price (\$/lb)**	0.99	-	0.99	0.94	-	0.94
Net Realized Price (\$/lb)***	0.58	-	0.58	0.64	-	0.64

* Adjustments consists of mark to market and final price adjustments, and final assay adjustments

** Based on provisional sales before final price adjustments

***Net after payable metal deductions, treatment, and refining charges

Treatment charges are allocated to the base metals in Caylloma and to gold in San Jose

Sales for Q2 2015 were \$38.9 million, 12% below Q2 2014's \$44.3 million. Silver and gold ounces sold increased 2% and 3%, respectively, while realized prices for silver and gold decreased 17% and 7%, respectively. Sales at San Jose decreased 13% to \$24.0 million (Q2 2014: \$27.6 million) as a result of lower realized prices for silver. Sales at Caylloma decreased 11% to \$14.9 million (Q2 2014: \$16.7 million) as a result of lower realized prices for silver.

The Company's metal concentrates are provisionally priced at the time of sale based on the prevailing commodity market price. Final prices are set in a period subsequent to the date of sale based on a specified quotational period, either one, two, or three months after delivery. Under current sales contracts, final pricing for all concentrates takes place one month after the month of sale. Our recorded sales during Q2 2015 consisted of provisional sales of \$40.0 million (Q2 2014: \$43.2 million); negative price and mark-to-market adjustments of

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\$0.7 million (Q2 2014: positive \$1.4 million); and negative assay adjustments of \$0.4 million (Q2 2014: negative \$0.3 million).

The net realized prices shown above are calculated based on provisional sales pricing and on contained metals in concentrate sold and after accounting for payable metal deductions, treatment, and refining charges before government royalties. To establish the net realized price for silver, treatment charges on our mineral concentrates are allocated to the base metals at Caylloma and to gold at San Jose. The Company has not hedged its exposure to metal price risks.

Mine Operating Earnings, Operating (Loss) Income, and EBITDA

The following table summarizes the details of mine operating earnings, operating (loss) income, and EBITDA by region and component:

(Expressed in \$ millions)	Three months ended June 30,								% Change
	2015				2014				
	Corporate	Bateas	Cuzcatlan	Total	Corporate	Bateas	Cuzcatlan	Total	
Mine operating earnings*	\$ -	\$ 1.6	\$ 8.8	\$ 10.4	\$ -	\$ 4.0	\$ 12.3	\$ 16.3	(36%)
as a % of Sales	0%	11%	37%	27%	0%	24%	45%	37%	(27%)
Other expenses									
Selling, general and administrative expenses	3.3	0.8	1.4	5.5	6.4	1.0	1.2	8.6	(36%)
as a % of Sales	0%	5%	6%	14%	0%	6%	4%	19%	(27%)
Operating (loss) income	(3.3)	0.7	7.4	4.8	(6.3)	2.9	11.0	7.6	(37%)
as a % of Sales	0%	5%	31%	12%	0%	17%	40%	17%	(28%)
Add back: Depletion and depreciation**	0.1	2.3	4.0	6.4	0.1	1.8	3.7	5.6	14%
Add back: Share-based payments**	1.2	-	-	1.2	3.3	-	-	3.3	(64%)
EBITDA*	\$ (2.0)	\$ 3.0	\$ 11.4	\$ 12.4	\$ (2.9)	\$ 4.7	\$ 14.7	\$ 16.5	(25%)

Note : Figures may not add due to rounding

Note: * Mine operating earnings and EBITDA are non-GAAP financial measures

Note: ** included in cost of sales or selling, general and administrative expenses

During Q2 2015, mine operating earnings decreased 36% from Q2 2014, while gross margins (mine operating earnings over sales) decreased from 37% to 27%. At Cuzcatlan mine operating earnings decreased 28% as lower prices were partially offset by higher silver and gold sold and 10% lower unit cash costs compared to Q2 2014. Results at San Jose were further affected by a \$1 million metal inventory buildup. Mine operating earnings at Bateas decreased 60% , reflecting the negative impact of metal prices and higher depletion charges of 29%.

During Q2 2015, operating income decreased 37% to \$4.8 million from Q2 2014, while operating margins decreased 28% to 12% compared with Q2 2014. Lower mine operating earnings were partially offset by 36% lower selling, general and administrative expenses.

Selling, General and Administrative Expenses

The following table summarizes the details of selling, general and administrative expenses by region and components:

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(Expressed in \$ millions)	Three months ended June 30,									% Change
	2015				2014					
	Corporate	Bateas	Cuzcatlan	Total	Corporate	Bateas	Cuzcatlan	Total		
General and administrative expenses	\$ 2.3	\$ 0.8	\$ 1.1	\$ 4.2	\$ 2.8	\$ 1.0	\$ 1.0	\$ 4.8	(13%)	
Foreign exchange	(0.2)	-	0.2	-	0.3	-	-	0.3	(100%)	
Share-based payments	1.2	-	-	1.2	3.3	-	-	3.3	(64%)	
Workers' participation	-	-	0.1	0.1	-	-	0.2	0.2	(50%)	
Selling, general and administrative expenses	3.3	0.8	1.4	5.5	6.4	1.0	1.2	8.6	(36%)	

Selling, general and administrative expenses for Q2 2015 decreased 36%, or \$3.1 million, to \$5.5 million (Q2 2014: \$8.6 million). The main driver for the decrease was the decline in share-based payments to \$1.2 million; a \$2.1 million reduction compared with the same period in the prior year, that was mostly related to mark-to-market effects stemming from the performance of our share price. Also contributing to the decrease was a reduction of foreign exchange loss compared with Q2 2014 related to the devaluation of the Mexican Pesos and the change in functional currency in Canada, and lower corporate general and administrative expenses.

Other Operating Expenses

The following table summarizes the details of other operating expenses:

Other operating expenses are comprised of:	Expressed in \$'000's	
	Three months ended June 30,	
	2015	2014
Loss on disposal of mineral properties, plant and equipment	\$ 17	\$ 48
Total other operating expenses	\$ 17	\$ 48

Income Taxes

The following table summarizes the details of income taxes by region and component:

Income taxes	Expressed in \$ millions					
	Three months ended June 30,					
	2015			2014		
	Peru	Mexico	Total	Peru	Mexico	Total
Current income tax	\$ 0.7	\$ 2.0	\$ 2.7	\$ 0.6	\$ 2.7	\$ 3.3
Deferred income tax	0.1	1.3	1.4	0.4	0.9	1.3
	\$ 0.8	\$ 3.3	\$ 4.1	\$ 1.0	\$ 3.6	\$ 4.6

Income taxes for Q2 2015 decreased marginally to \$4.1 million (Q2 2014: \$4.6 million) as current income tax decreased \$0.6 million and deferred income tax increased \$0.1 million.

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First Six-Month 2015 Financial Results

Summary of Financial Results

(Expressed in \$ millions)	Six months ended June 30,			% Chg
	2015	2014		
Sales	\$ 78.7	\$ 89.8		(12%)
Cost of Sales	55.7	56.3		(1%)
Mine operating earnings*	\$ 23.0	\$ 33.5		(31%)
as a % of Sales	29%	37%		(22%)
Selling, general and administrative expenses	10.1	16.5		(39%)
Operating income	12.7	16.8		(24%)
as a % of Sales	16%	19%		(14%)
Income before tax	12.5	16.5		(24%)
Net income	4.1	7.7		(47%)
as a % of Sales	5%	9%		
Operating cash flow before changes in working capital *	\$ 12.1	\$ 32.0		(62%)

Note : Figures may not add due to rounding

*Note: * Mine operating earnings and Operating cash flow per share before changes in working capital are non-GAAP financial measures*

Sales

The following table summarizes the details of sales by region and component:

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	YEAR TO DATE RESULTS					
	Six months ended June 30,					
	2015			2014		
Sales and Realized Prices	Caylloma	San Jose	Consolidated	Caylloma	San Jose	Consolidated
(Expressed in \$ millions, unless otherwise noted)						
Provisional Sales	29.9	50.0	79.9	33.6	55.1	88.7
Adjustments *	(0.4)	(0.8)	(1.2)	(0.3)	1.4	1.1
Sales	29.5	49.2	78.7	33.4	56.4	89.8
Silver						
Provisional Sales (oz)	1,004,676	2,261,273	3,265,948	1,074,738	2,171,828	3,246,566
Realized Price (\$/oz)**	16.51	16.46	16.49	20.00	19.86	19.91
Net Realized Price (\$/oz)***	14.24	14.85	14.66	17.30	18.11	17.85
Gold						
Provisional Sales (oz)	717	17,629	18,346	1,088	16,061	17,149
Realized Price (\$/oz)**	1,211.69	1,202.57	1,202.93	1,292.45	1,278.10	1,279.01
Net Realized Price (\$/oz)***	741.90	929.41	922.08	983.62	978.77	979.09
Lead						
Provisional Sales (000's lb)	9,159	-	9,159	7,890	-	7,890
Realized Price (\$/lb)**	0.85	-	0.85	0.95	-	0.95
Net Realized Price (\$/lb)***	0.63	-	0.63	0.71	-	0.71
Zinc						
Provisional Sales (000's lb)	16,342	-	16,342	13,156	-	13,156
Realized Price (\$/lb)**	0.97	-	0.97	0.93	-	0.93
Net Realized Price (\$/lb)***	0.57	-	0.57	0.64	-	0.64

* Adjustments consists of mark to market and final price adjustments, and final assay adjustments

** Based on provisional sales before final price adjustments

***Net after payable metal deductions, treatment, and refining charges

Treatment charges are allocated to the base metals in Caylloma and to gold in San Jose

Sales for the six months ended June 30, 2015, were \$78.7 million, 12% below the same period in the prior year (2014: \$89.8 million). Silver and gold ounces sold increased 1% and 7%, respectively, while realized prices for silver and gold decreased 17% and 6%, respectively. Sales at San Jose decreased 13% to \$49.2 million (2014: \$56.4 million) as a result of lower realized prices for silver. Sales at Caylloma decreased 12% to \$29.5 million (2014: \$33.4 million) as a result of lower realized prices for silver.

Sales comprised 60% silver and 21% gold, compared with 66% and 19%, respectively, in the prior year period.

The Company's metal concentrates are provisionally priced at the time of sale based on the prevailing commodity market price. Final prices are set in a period subsequent to the date of sale based on a specified quotational period, either one, two, or three months after delivery. Under current sales contracts, final pricing for all concentrates takes place one month after the month of sale. Our recorded sales during the six months ended June 30, 2015 consisted of provisional sales of \$79.9 million (2014: \$88.7 million); negative price and mark-to-market adjustments of \$0.3 million (2014: positive \$1.8 million); and negative assay adjustments of \$0.9 million (2014: negative \$0.7 million).

The net realized prices shown above are calculated based on provisional sales pricing and on contained metals in concentrate sold and after accounting for payable metal deductions, treatment, and refining charges before government royalties. To establish the net realized price for silver, treatment charges on our mineral

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concentrates are allocated to the base metals at Caylloma and to gold at San Jose. The Company has not hedged its exposure to metal price risks.

Mine Operating Earnings, Operating (Loss) Income, and EBITDA

The following table summarizes the details of mine operating earnings, operating (loss) income, and EBITDA by region and component:

(Expressed in \$ millions)	2015				2014				% Change
	Corporate	Bateas	Cuzcatlan	Total	Corporate	Bateas	Cuzcatlan	Total	
Mine operating earnings*	\$ -	\$ 4.3	\$ 18.7	\$ 23.0	\$ -	\$ 8.5	\$ 25.0	\$ 33.5	(31%)
as a % of Sales	0%	15%	38%	29%	0%	25%	44%	37%	(22%)
Other expenses									
Selling, general and administrative expenses	6.5	1.6	2.0	10.1	12.3	1.8	2.4	16.5	(39%)
as a % of Sales	0%	5%	4%	13%	0%	5%	4%	18%	(30%)
Operating (loss) income	(6.6)	2.7	16.6	12.7	(12.4)	6.6	22.6	16.8	(24%)
as a % of Sales	0%	9%	34%	16%	0%	20%	40%	19%	(14%)
Add back: Depletion and depreciation**	0.4	4.4	8.0	12.8	0.3	3.6	7.8	11.7	9%
Add back: Share-based payments**	2.0	-	-	2.0	6.0	-	-	6.0	(67%)
EBITDA*	\$ (4.2)	\$ 7.1	\$ 24.6	\$ 27.5	\$ (6.1)	\$ 10.2	\$ 30.4	\$ 34.5	(20%)

Note : Figures may not add due to rounding

Note: * Mine operating earnings and EBITDA are non-GAAP financial measures

Note: ** included in cost of sales or selling, general and administrative expenses

For the six months ended June 30, 2015, mine operating earnings decreased 31% from the prior year period, while gross margins (mine operating earnings over sales) decreased from 37% to 29%. The impact of lower metal prices on gross margins was partially offset by lower unit cash costs at Cuzcatlan and Bateas (down 10% and 4%, respectively). Mine operating earnings decreased 25% at the Cuzcatlan and 49% at Bateas, whereas depreciation and depletion were higher than in the prior year period (5% at Cuzcatlan and 23% at Bateas).

During the six months ended June 30, 2015, operating income decreased 24% to \$12.7 million from the prior year period, while operating margins decreased 14% to 16%. Lower mine operating earnings were partially offset by 39% lower selling, general and administrative expenses.

FORTUNA SILVER MINES INC.**Management's Discussion and Analysis****For the second quarter ended June 30, 2015****(Dollar amounts expressed in US dollars, unless otherwise indicated)****Selling, General and Administrative Expenses**

The following table summarizes the details of selling, general and administrative expenses by region and components:

(Expressed in \$ millions)	Six months ended June 30,									
	2015				2014				Total	%
	Corporate	Bateas	Cuzcatlan	Total	Corporate	Bateas	Cuzcatlan	Total		
General and administrative expenses	\$ 5.2	\$ 1.4	\$ 2.0	\$ 8.6	\$ 6.4	\$ 1.7	\$ 1.9	\$ 10.0	(14%)	
Foreign exchange	(0.7)	0.1	(0.3)	(0.9)	(0.1)	-	-	(0.1)	800%	
Share-based payments	2.0	-	-	2.0	6.0	-	-	6.0	(67%)	
Workers' participation	-	0.1	0.3	0.4	-	0.1	0.5	0.6	(33%)	
Selling, general and administrative expenses	6.5	1.6	2.0	10.1	12.3	1.8	2.4	16.5	(39%)	

Selling, general and administrative expenses for the six months ended June 30, 2015 decreased 39%, or \$6.4 million, to \$10.1 (2014: \$16.5 million). The main driver for the decrease was the decline in share-based payments to \$2.0 million; a \$4.0 million reduction compared with the prior year period that was mostly related to mark-to-market effects stemming from the performance of our share price. Also contributing to the decrease was a larger foreign exchange gain compared to 2014 related to the devaluation of the Mexico peso, the change in functional currency in Canada, and lower corporate general and administrative expenses.

Other Operating Expenses

The following table summarizes the details of other operating expenses:

Other operating expenses are comprised of:	Expressed in \$'000's	
	Six months ended June 30,	
	2015	2014
Loss on disposal of mineral properties, plant and equipment	\$ 17	\$ 36
Total other operating expenses	\$ 17	\$ 36

Income Taxes

The following table summarizes the details of income taxes by region and component:

Income taxes	Expressed in \$ millions					
	Six months ended June 30,					
	2015			2014		
	Peru	Mexico	Total	Peru	Mexico	Total
Current income tax	\$ 1.7	\$ 4.6	\$ 6.3	\$ 1.9	\$ 3.7	\$ 5.6
Deferred income tax	0.6	1.5	2.1	0.4	2.8	3.2
	\$ 2.3	\$ 6.1	\$ 8.4	\$ 2.3	\$ 6.5	\$ 8.8

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Income taxes for the six months ended June 30, 2015 decreased to \$8.4 million (2014: \$8.8 million) as current income tax increased \$0.7 million and deferred income tax decreased \$1.1 million.

Non-GAAP Financial Measures

Cash cost per payable ounce of silver and cash cost per tonne of processed ore (non-GAAP financial measure)

Cash cost per payable ounce of silver and cash cost per tonne of processed ore are key performance measures that management uses to monitor performance. Management believes that certain investors also use these non-GAAP financial measures to evaluate the Company's performance. Cash costs are an industry-standard method of comparing certain costs on a per unit basis; however, they do not have a standardized meaning or method of calculation, even though the descriptions of such measures may be similar. These performance measures have no meaning under International Financial Reporting Standards ("IFRS"), and, therefore, amounts presented may not be comparable with similar data presented by other mining companies.

The following tables present a reconciliation of cash costs per tonne of processed ore and cash costs per payable ounce of silver to the cost of sales in the consolidated financial statements for the three and six months ended June 30, 2015 and 2014:

Consolidated Mine Cash Cost	Expressed in '\$000's		Expressed in '\$000's	
	Q2 2015	YTD Q2 2015	Q2 2014	YTD Q2 2014
Cost of sales ¹	28,469	55,692	28,042	56,318
Add / (Subtract):				
Change in concentrate inventory	(485)	(212)	165	(753)
Depletion and depreciation in concentrate inventory	116	25	(36)	174
Government royalties and mining taxes	(312)	(620)	(354)	(718)
Workers participation	(615)	(1,398)	(1,083)	(2,450)
Depletion and depreciation	(6,296)	(12,316)	(5,375)	(11,148)
Cash cost (A)	20,877	41,171	21,359	41,423
Cash cost (A)	20,877	41,171	21,359	41,423
Add / (Subtract):				
By-product credits from gold, lead and zinc	(16,163)	(32,209)	(15,349)	(30,308)
Refining charges	1,815	3,648	1,991	3,871
Cash cost applicable per payable ounce (B)	6,529	12,610	8,001	14,986
Payable ounces of silver production (C)	1,600,022	3,162,505	1,552,673	3,022,660
Cash cost per ounce of payable silver (\$/oz) (B/C)	4.08	3.99	5.15	4.96

¹ Includes depletion, depreciation, distribution, community relations, government royalties and mining taxes, and workers participation

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San Jose Mine Cash Cost	Expressed in \$'000's		Expressed in \$'000's	
	Q2 2015	YTD Q2 2015	Q2 2014	YTD Q2 2014
Cost of sales ¹	15,197	30,519	15,300	31,434
Add / (Subtract):				
Change in concentrate inventory	(60)	(73)	138	(957)
Depletion and depreciation in concentrate inventory	14	11	(35)	216
Government royalties and mining taxes	(116)	(239)	(141)	(285)
Workers participation	(465)	(1,022)	(964)	(2,088)
Depletion and depreciation	(3,962)	(7,907)	(3,569)	(7,552)
Cash cost (A)	10,608	21,289	10,729	20,768
Total processed ore (tonnes) (B)	183,001	361,648	167,437	318,145
Cash cost per tonne of processed ore (\$/t) (A/B)	57.97	58.87	64.08	65.28
Cash cost (A)	10,608	21,289	10,729	20,768
Add / (Subtract):				
By-product credits from gold	(7,791)	(16,797)	(7,693)	(15,253)
Refining charges	1,179	2,232	1,086	2,043
Cash cost applicable per payable ounce (C)	3,996	6,724	4,122	7,558
Payable ounces of silver production (D)	1,178,646	2,231,968	1,050,112	2,007,266
Cash cost per ounce of payable silver (\$/oz) (C/D)	3.39	3.01	3.93	3.77
Mining cost per tonne	29.38	30.83	31.04	32.05
Milling cost per tonne	14.82	14.95	16.49	17.25
Indirect cost per tonne	7.93	7.68	9.57	9.77
Community relations cost per tonne	1.39	0.94	1.52	0.99
Distribution cost per tonne	4.45	4.47	5.46	5.22
Total production cost per tonne	57.97	58.87	64.08	65.28

¹ Includes depletion, depreciation, distribution, community relations, government royalties and mining taxes, and workers participation

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Caylloma Mine Cash Cost	Expressed in \$'000's		Expressed in \$'000's	
	Q2 2015	YTD Q2 2015	Q2 2014	YTD Q2 2014
Cost of sales ¹	13,272	25,173	12,742	24,884
Add / (Subtract):				
Change in concentrate inventory	(425)	(139)	27	204
Depletion and depreciation in concentrate inventory	102	14	(1)	(42)
Government royalties and mining taxes	(196)	(381)	(213)	(433)
Workers participation	(150)	(376)	(119)	(362)
Depletion and depreciation	(2,334)	(4,409)	(1,806)	(3,596)
Cash cost (A)	10,269	19,882	10,630	20,655
Total processed ore (tonnes) (B)	115,973	230,424	115,920	230,035
Cash cost per tonne of processed ore (\$/t) (A/B)	88.55	86.28	91.70	89.79
Cash cost (A)	10,269	19,882	10,630	20,655
Add / (Subtract):				
By-product credits from gold, lead and zinc	(8,372)	(15,412)	(7,656)	(15,055)
Refining charges	636	1,416	905	1,828
Cash cost applicable per payable ounce (C)	2,533	5,886	3,879	7,428
Payable ounces of silver production (D)	421,376	930,537	502,561	1,015,394
Cash cost per ounce of payable silver (\$/oz) (C/D)	6.01	6.33	7.72	7.32
Mining cost per tonne	47.23	45.58	43.22	43.53
Milling cost per tonne	14.17	14.54	15.81	15.26
Indirect cost per tonne	19.54	19.15	23.95	22.50
Community relations cost per tonne	0.12	0.06	0.71	0.38
Distribution cost per tonne	7.49	6.95	8.01	8.12
Total production cost per tonne	88.55	86.28	91.70	89.79

¹ Includes depletion, depreciation, distribution, community relations, government royalties and mining taxes, and workers participation

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All-in cash cost per payable ounce of silver (non-GAAP financial measure)

The Company believes that “all-in sustaining costs” and “all-in costs” better meet the needs of analysts, investors, and other stakeholders of the Company in understanding the costs associated with producing silver, the economics of silver mining, the Company’s operating performance, and the Company’s ability to generate free cash flow from current operations and on an overall company basis.

The Company, in conjunction with an initiative undertaken within the gold mining industry, has adopted an all-in sustaining cost-performance measure; however, this performance measure has no standardized meaning. Effective June 30, 2013, the Company conformed its all-in sustaining definition to that set out in the guidance note released by the World Gold Council (“WGC,” a non-regulatory market development organization for the gold industry whose members comprise global senior gold mining companies) on June 27, 2013, and that came into effect January 1, 2014.

All-in sustaining costs and all-in costs are intended to provide additional information only and do not have standardized definitions under the IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with the IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under the IFRS. Although the WGC has published a standardized definition, companies may calculate these measures differently.

All-in sustaining costs include total production cash costs incurred at the Company’s mining operations, which form the basis of the Company’s by-product cash costs. Additionally, the Company includes sustaining capital expenditures, corporate selling, general and administrative expenses, and brownfields exploration expenditures. The Company believes that this measure represents the total costs of producing silver from operations and provides the Company and stakeholders of the Company with additional information on the Company’s operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production from operations, new project capital is not included. Certain other cash expenditures, including tax payments, dividends, and financing costs, are also not included. The Company reports this measure on a silver ounce sold basis.

The following tables provide a reconciliation of all-in sustaining costs per ounce in the consolidated financial statements for the three and six months ended June 30, 2015 and 2014:

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Consolidated Mine All-in Cash Cost	Expressed in \$'000's		Expressed in \$'000's	
	YTD		YTD	
	Q2 2015	Q2 2015	Q2 2014	Q2 2014
Cash cost applicable per payable ounce	6,529	12,610	8,001	14,986
Government royalty and mining tax	1,164	2,017	354	718
Workers' participation	763	1,731	1,349	3,055
Selling, general and administrative expenses (operations)	1,864	3,427	2,014	3,627
Adjusted operating cash cost	10,320	19,785	11,718	22,386
Selling, general and administrative expenses (corporate)	2,266	5,226	2,678	6,395
Sustaining capital expenditures ¹	9,872	14,621	10,595	18,959
Brownfields exploration expenditures ¹	689	1,941	2,034	3,572
All-in sustaining cash cost	23,147	41,573	27,025	51,312
Non-sustaining capital expenditures ¹	124	185	386	484
All-in cash cost	23,271	41,758	27,411	51,796
Payable ounces of silver operations	1,600,022	3,162,505	1,552,673	3,022,660
All-in sustaining cash cost per payable ounce of silver	14.47	13.15	17.41	16.98
All-in cash cost per payable ounce of silver	14.54	13.20	17.65	17.14

¹ presented on a cash basis

San Jose Mine All-in Cash Cost	Expressed in \$'000's		Expressed in \$'000's	
	YTD		YTD	
	Q2 2015	Q2 2015	Q2 2014	Q2 2014
Cash cost applicable per payable ounce	3,996	6,724	4,122	7,558
Government royalty and mining tax	968	1,636	141	285
Workers' participation	582	1,278	1,205	2,610
Selling, general and administrative expenses (operations)	1,052	2,042	1,012	1,880
Adjusted operating cash cost	6,598	11,680	6,480	12,333
Sustaining capital expenditures ¹	8,248	11,883	8,403	14,985
Brownfields exploration expenditures ¹	560	1,708	1,679	3,041
All-in sustaining cash cost	15,406	25,271	16,562	30,359
Non-sustaining capital expenditures ¹	103	153	334	432
All-in cash cost	15,509	25,424	16,896	30,791
Payable ounces of silver operations	1,178,646	2,231,968	1,050,112	2,007,266
All-in sustaining cash cost per payable ounce of silver	13.07	11.32	15.77	15.12
All-in cash cost per payable ounce of silver	13.16	11.39	16.09	15.34

¹ presented on a cash basis

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Caylloma Mine All-in Cash Cost	Expressed in \$'000's		Expressed in \$'000's	
	YTD		YTD	
	Q2 2015	Q2 2015	Q2 2014	Q2 2014
Cash cost applicable per payable ounce	2,533	5,886	3,879	7,428
Government royalty and mining tax	196	381	213	433
Workers' participation	179	444	139	425
Selling, general and administrative expenses (operations)	812	1,385	1,002	1,747
Adjusted operating cash cost	3,720	8,096	5,233	10,033
Sustaining capital expenditures ¹	1,624	2,738	2,192	3,974
Brownfields exploration expenditures ¹	129	233	355	531
All-in sustaining cash cost	5,473	11,067	7,780	14,538
Non-sustaining capital expenditures ¹	21	32	52	52
All-in cash cost	5,494	11,099	7,832	14,590
Payable ounces of silver operations	421,376	930,537	502,561	1,015,394
All-in sustaining cash cost per payable ounce of silver	12.99	11.89	15.48	14.32
All-in cash cost per payable ounce of silver	13.04	11.93	15.58	14.37

¹ presented on a cash basis

Additional measures (non-GAAP financial measures)

The Company uses other financial measures whose presentation is not meant to be a substitute for other subtotals or totals presented in accordance with the IFRS but rather should be evaluated in conjunction with IFRS measures. The following other financial measures are used: operating cash flow per share before changes in working capital, mine operating earnings, and EBITDA. The terms described below do not have standardized meaning prescribed by the IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies. The Company's management believes that its presentation provides useful information to investors.

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Operating cash flow per share before changes in working capital (non-GAAP financial measure)

	Expressed in \$'000's (except per share measures)			
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income for the period	\$ 236	\$ 2,868	\$ 4,090	\$ 7,721
Items not involving cash	11,425	12,627	22,460	25,754
	\$ 11,661	\$ 15,495	\$ 26,550	\$ 33,475
Income taxes paid	(4,717)	(472)	(14,359)	(1,598)
Interest expense paid	(273)	(2)	(273)	(4)
Interest income received	89	68	177	130
Cash generated by operating activities before changes in working capital	\$ 6,760	\$ 15,089	\$ 12,095	\$ 32,003
Divided by				
Weighted average number of shares ('000's)	128,979	126,320	128,895	126,165
Operating cash flow per share before changes in working capital ⁽¹⁾	\$ 0.05	\$ 0.12	\$ 0.09	\$ 0.25

⁽¹⁾ A non-GAAP financial measure

Mine operating earnings (non-GAAP financial measure)

	Expressed in \$'000's			
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Sales	\$ 38,871	\$ 44,319	\$ 78,675	\$ 89,799
Cost of sales	28,469	28,042	55,692	56,318
Mine operating earnings ⁽¹⁾	\$ 10,402	\$ 16,277	\$ 22,983	\$ 33,481

EBITDA (non-GAAP financial measure)

	Expressed in \$'000's			
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net Income	\$ 236	\$ 2,868	\$ 4,090	\$ 7,721
Add back: Net finance expense	485	200	276	407
Add back: Depreciation, depletion, and amortization	6,433	5,657	12,843	11,702
Add back: Income taxes	4,054	4,555	8,370	8,768
Add back: Share-based payments	1,195	3,321	1,975	6,043
Add back: Other	17	48	17	36
EBITDA ⁽¹⁾⁽²⁾	\$ 12,420	\$ 16,649	\$ 27,571	\$ 34,677

⁽¹⁾ A non-GAAP financial measure

⁽²⁾ EBITDA is net income before interest, taxes, depreciation, depletion, and amortization, unrealized gains and losses on hedge contracts, and share based payments

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Liquidity and Capital Resources

Second Quarter 2015 Liquidity and Capital Resources

The capital of the Company consists of equity and an available credit facility, net of cash. The Board of Directors has not established a quantitative return on capital criteria for management. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

On April 1, 2015, the Company drew down a \$40.0 million term credit facility from the Bank of Nova Scotia. (Refer to Liquidity Risk discussed further below.)

On March 26, 2015, the Company entered into an interest rate swap of \$40 million and notional amount of \$40 million, effective date of April 1, 2015 and expires on March 25, 2019 matching the maturity of the bank loan. (refer to Note 9). The interest rate swap was entered into to hedge the variable interest rate risk on the bank loan. The interest rate swap is designated as a cash flow hedge for forecasted variable interest rate payments.

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

The interest rate swap will be carried on the balance sheet at fair value, with periodic changes in the fair value being recorded in other comprehensive income, to the extent that it is determined to be an effective hedge with the gain or loss being recorded to income for the ineffective portion. Interest expense from the bank loan will be recorded to income.

The Company's cash and cash equivalents at June 30, 2015, totaled \$40.9 million (December 31, 2014: \$42.9 million), and its short term investments totaled \$69.1 million (December 31, 2014: \$34.4 million).

During Q2 2015, cash and cash equivalents decreased \$2.0 million (Q2 2014: \$10.8 million). The decrease was due to net cash provided by operating activities of \$5.1 million, net cash used in investing activities of \$47.4 million, and net cash provided by financing activities of \$40.3 million. Compared with Q2 2014, the Company's expenditures on mineral properties, plant and equipment decreased \$2.4 million, net purchase of short-term investments increased \$26.6 million, cash provided by operating activities decreased \$1.7 million, and exchange rate changes decreased \$0.2 million.

During Q2 2015, cash generated by operating activities before changes in non-cash working capital items, income taxes paid, and interest income paid and received was \$6.8 million (Q2 2014: \$15.1 million). Net cash provided by operating activities amounted to \$5.1 million (Q2 2014: \$6.8 million). This includes income taxes paid and interest income paid and received of \$4.9 million (Q2 2014: \$0.4 million) and changes in non-cash working capital items of \$1.7 million (Q2 2014: \$8.3 million).

Cash used by the Company in investing activities for Q2 2015, totaled \$47.4 million (Q2 2014: \$20.0 million) and comprised the following:

- \$34.8 million (Q2 2014: net purchases \$8.3 million) in net purchases of short-term investments;
- \$10.7 million (Q2 2014: \$13.1 million) in expenditures on mineral properties, plant and equipment; and,
- \$1.9 million in net advances (Q2 2014: net receipts \$1.4 million) on deposits on long-term assets.

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Investing activities included \$10.7 million of expenditures on mineral properties, plant and equipment that comprised the following: \$6.7 million for plant and equipment, \$2.5 million for mine development, \$0.7 million for brownfields exploration, and \$0.8 million for infill drilling.

During Q2 2015, cash provided by financing activities totaled \$40.3 million (Q2 2014: \$2.4 million) and comprised the proceeds from a bank loan of \$39.4 million (Q2 2014: \$nil) and net proceeds on the issuance of common shares of \$0.9 million (Q2 2014: \$2.4 million).

First Six Months 2015 Liquidity and Capital Resources

Working capital for the six months ended June 30, 2015, increased \$40.1 million, to \$122.5 million (December 31, 2014: \$82.4 million). This reflects the proceeds from a bank loan of \$39.4 million.

The increase in working capital resulted from an increase in short term investments of \$34.7 million, an increase in accounts receivable and other assets of \$2.5 million, and a decrease in income tax payable of \$8.3 million. The increase in working capital was offset by decreases in cash and cash equivalents of \$1.9 million, in prepaid expenses of \$0.3 million, and in inventories of \$1.4 million and by increases in accounts payable of \$1.2 million, in derivative liabilities of \$0.4 million, and in provisions of \$0.2 million.

During the six months ended June 30, 2015, cash and cash equivalents decreased \$1.6 million (2014: decreased \$1.1 million). The decrease was due to net cash provided by operating activities of \$13.6 million, net cash used in investing activities of \$56.5 million, and net cash provided by financing activities of \$41.3 million. Exchange rate changes had a negative impact of \$0.4 million on cash and cash equivalents. Compared with first six months of 2014, the Company's expenditures on mineral properties, plant and equipment decreased \$6.3 million, net purchases of short-term investments increased \$23.3 million, cash provided by operating activities decreased \$17.4 million, and exchange rate changes decreased \$0.4 million.

During the six months ended June 30, 2015, cash generated by operating activities before changes in non-cash working capital items, income taxes paid, and interest income paid and received was \$12.1 million (2014: \$32.0 million). Net cash provided by operating activities amounted to \$13.6 million (2014: \$31.1 million). This includes income taxes paid and interest income paid and received of \$14.5 million (2014: \$1.5 million) and changes in non-cash working capital items of \$1.6 million (2014: \$0.9 million).

Cash used by the Company in investing activities for the six months ended June 30, 2015, totaled \$56.5 million (2014: \$34.7 million) and comprised the following:

- \$35.6 million (2014: net purchases \$12.2 million) in net purchases of short-term investments;
- \$16.8 million (2014: \$23.1 million) in expenditures on mineral properties, plant and equipment; and,
- \$4.1 million in net advances (2014: net receipts \$0.6 million) on deposits on long-term assets.

Investing activities included \$16.8 million of expenditures on mineral properties, plant and equipment that comprised the following: \$9.0 million for plant and equipment, \$4.5 million for mine development, \$1.9 million for brownfields exploration, and \$1.4 million for infill drilling.

During the six months ended June 30, 2015, cash provided by financing activities totaled \$41.3 million (2014: \$2.4 million) and comprised the proceeds from a bank loan of \$39.4 million (Q2 2014: \$nil), net proceeds on the

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issuance of common shares of \$1.9 million (2014: \$2.6 million), and repayments of finance lease obligations of \$nil (2014: \$0.2 million).

Contractual Obligations

The Company expects the following maturities of its financial liabilities (including interest), finance leases, and other contractual commitments:

	Expressed in \$ millions					Total
	Expected payments due by period as at June 30, 2015					
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years		
Trade and other payables	\$ 22.7	\$ -	\$ -	\$ -	\$ -	22.7
Bank loan	-	-	39.5	-	-	39.5
Derivative liabilities	0.4	-	-	-	-	0.4
Income tax payable	1.4	-	-	-	-	1.4
Other liabilities	-	5.7	-	-	-	5.7
Operating leases	0.6	0.8	0.1	-	-	1.5
Provisions	1.1	1.2	1.4	11.2	-	14.9
	\$ 26.2	\$ 7.7	\$ 41.0	\$ 11.2	\$ -	\$ 86.1

The Company expects the following maturities of its financial liabilities (including interest), finance leases, and other contractual commitments:

	Expressed in \$ millions					Total
	Expected payments due by period as at June 30, 2015					
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years		
Trade and other payables	\$ 22.7	\$ -	\$ -	\$ -	\$ -	22.7
Bank loan	-	39.5	-	-	-	39.5
Derivative liabilities	0.4	-	-	-	-	0.4
Income tax payable	1.4	-	-	-	-	1.4
Other liabilities	-	5.7	-	-	-	5.7
Operating leases	0.6	0.8	0.1	-	-	1.5
Provisions	1.1	1.2	1.4	11.2	-	14.9
	\$ 26.2	\$ 47.2	\$ 1.5	\$ 11.2	\$ -	\$ 86.1

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business.

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Capital Commitments (expressed in \$'000's)

As at June 30, 2015, \$14,798 of capital commitments not disclosed elsewhere in the Financial Statements, and forecasted to be expended within one year, included \$5,618 for the dry stack tailing dam and \$9,180 for the plant expansion at the San Jose property.

Other Commitments (expressed in \$'000's)

The Company has a contract to guarantee the power supply at its Caylloma Mine. Under the contract, the seller is obligated to deliver a "maximum committed demand" (for the present term this stands at 3,500 kW) and the Company is obligated to purchase subject to exemptions under provisions of "Force Majeure". The contract period is 15 years and expires in 2022, after that it is automatically renewed for periods of two years. Renewal can be avoided without penalties by notification 10 months in advance of the renewal date.

Tariffs are established annually by the energy market regulator in accordance with applicable regulations in Peru. The minimum committed demand is \$19 per month and the average monthly charge for 2015 is \$202.

Operating leases includes leases for office premises, computer and other equipment used in the normal course of business.

The expected payments due by period, as at June 30, 2015, are as follows:

	Expressed in \$'000's				Total
	Expected payments due by period as at June 30, 2015				
	Less than 1 year	1 - 3 years	4 - 5 years		
Office premises - Canada	\$ 124	\$ 370	\$ 63	\$	557
Office premises - Peru	330	311	-		641
Office premises - Mexico	7	-	-		7
Total office premises	\$ 461	\$ 681	\$ 63	\$	1,205
Computer equipment - Peru	177	89	-		266
Computer equipment - Mexico	9	-	-		9
Total computer equipment	\$ 186	\$ 89	\$ -	\$	275
Machinery - Mexico	-	59	-		59
Total machinery	\$ -	\$ 59	\$ -	\$	59
Total operating leases	\$ 647	\$ 829	\$ 63	\$	1,539

Tax Contingencies (expressed in \$'000's)

The Company has been assessed taxes and related interest and penalties, in Peru by SUNAT, for tax years 2010, 2011, and 2012, in the amounts of \$1,091, \$695, and \$103, respectively, for a total of \$1,889. The Company is currently appealing the assessments and believes the appeals will be ruled in favor of the Company. The Company has provided a guarantee by way of letter bond in the amount of \$756.

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The Company's foreign trade operations for tax years 2011 to 2014 are under review by the Mexican Tax Administration Service (SAT). The Company is facing an administrative customs procedure (PAMA) for specific temporary import documents (pediments). The Company has presented a written response and the final resolution is pending. The Company has recorded a provision of \$64.

Other Contingencies

The Company is subject to various investigations, claims, legal, labor and tax proceedings covering matters that arise in the ordinary course of business activities. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably for the Company. Certain conditions may exist as of the date the financial statements are issued that may result in a loss to the Company. In the opinion of management, none of these matters are expected to have a material effect on the results of operations or financial conditions of the Company.

Guarantees and Indemnifications (expressed in \$'000's)

The Company may provide guarantees and indemnifications in conjunction with transactions in the normal course of operations. These are recorded as liabilities when reasonable estimates of the obligations can be made. Indemnifications that the Company has provided include the obligation to indemnify the following:

- directors and officers of the Company and its subsidiaries for potential liability while acting as a director or officer of the Company, together with various expenses associated with defending and settling such suits or actions due to association with the Company; and,
- certain vendors of an acquired company for obligations that may or may not have been known at the date of the transaction.

The dollar value of guarantees and indemnifications cannot be reasonably estimated.

The Caylloma Mine closure plan was approved in November 2009 with total closure costs of \$3,587 of which \$1,756 is subject to annual collateral in the form of a letter of guarantee, to be awarded each year in increments of \$146 over 12 years based on the estimated life of the mine. In March 2013 the closure plan was updated with total closure costs of \$7,996 of which \$4,167 is subject to annual collateral in the form of a letter of guarantee.

Scotiabank Peru, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian mining regulatory agency in compliance with local regulation and to collateralize Bateas' mine closure plan, in the amount of \$1,842 (2014: \$1,842). This bank letter of guarantee expires on December 31, 2015.

Scotiabank Peru, a third party, has established a bank letter of guarantee on behalf of Bateas in favor of the Peruvian Energy and Mining Ministry to collateralize Bateas's regulatory compliance with the electric transmission line project, in the amount of \$3 (2014: \$3). This bank letter of guarantee expires on December 6, 2015.

Scotiabank Peru, a third party, has established a bank letter of guarantee, for office rental, on behalf of Bateas in favor of Centro Empresarial Nuevo Mundo S.A.C., in the amount of \$58 (2014: \$58). This bank letter of guarantee expires on July 18, 2015. Subsequent to June 30, 2015, the letter of guarantee was renewed in the amount of \$55 expiring on July 15, 2016.

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Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on the financial condition, results of operations, liquidity, capital expenditures, or capital resources that are material to investors, other than those disclosed in this MD&A and the consolidated financial statements and the related notes.

Related Party Transactions (expressed in \$'000's)

a) Purchase of Goods and Services

The Company entered into the following related party transactions:

Transactions with related parties	Expressed in \$'000's			
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Salaries and wages ^{1,2}	\$ 31	\$ 36	\$ 63	\$ 51
Other general and administrative expenses ²	26	15	77	77
	\$ 57	\$ 51	\$ 140	\$ 128

¹ Salaries and wages includes employees' salaries and benefits charged to the Company based on a percentage of the estimated hours worked for the Company.

² Radius Gold Inc. ("Radius") has directors in common with the Company and shares office space, and is reimbursed for general overhead costs incurred on behalf of the Company. Gold Group Management Inc. ("Gold Group"), which is owned by a director in common with the Company, provides various administrative, management, and other related services.

In 2015, the Company paid \$50 cash to Radius under the option to acquire a 60% interest in the Tlacolula silver project located in the State of Oaxaca, Mexico.

b) Key Management Compensation

Key management includes all persons named or performing the duties of Vice-President, Chief Financial Officer, President, Chief Executive Officer, and non-executive Directors of the Company. The compensation paid or payable to key management for services is shown below:

	Expressed in \$'000's			
	Three months ended June 30,		Six month ended June 30,	
	2015	2014	2015	2014
Salaries and other short term employee benefits	\$ 985	\$ 881	\$ 2,228	\$ 2,771
Directors fees	88	91	186	204
Consulting fees	37	41	73	82
Share-based payments	1,128	3,063	1,857	5,595
	\$ 2,238	\$ 4,076	\$ 4,344	\$ 8,652

Consulting fees includes fees paid to two non-executive directors in both 2015 and 2014.

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c) Period End Balances Arising From Purchases of Goods/Services

On October 10, 2012, the Company paid Gold Group Management Inc., which is owned by a director in common with the Company, a retainer of \$61 representing three months deposit under a services agreement effective July 1, 2012.

Amounts due to related party	Expressed in \$'000's	
	June 30, 2015	December 31, 2014
Owing to a company with common directors ³	\$ 21	\$ 9

³ Owing to Gold Group Management Inc. ("Gold Group") who has a director in common with the Company.

Significant Accounting Judgments and Estimates

The preparation of the unaudited condensed interim consolidated financial statements ("Financial Statements") requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The Financial Statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the 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 the revision affects both current and future periods.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i. Critical Judgments

- The analysis of the functional currency for each entity of the Company. In concluding that the United States dollar functional currency for its Canadian, Peruvian and Mexican, and Barbados entities, management considered the currency that mainly influences the sales and costs of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- In concluding when commercial production has been achieved, the Company considered the following factors:
 - all major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed;
 - the mine or mill is operating as per design capacity and metallurgical recoveries were achieved; and,
 - the ability to sustain ongoing production of ore at a steady or increasing level.
- The identification of reportable segments, basis for measurement and disclosure of the segmented information.

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- The determination of estimated useful lives and residual values of tangible and long lived assets and the measurement of depreciation expense.
- The identification of impairment indicators, cash generating units and determination of carrying value or fair value less cost to sell and the write down of tangible and long lived assets.
- Measurement of financial instruments involve significant judgments related to interpretation of the terms of the instrument, identification, classification, impairment and the overall measurement to approximate fair values.

ii. Estimates

- the recoverability of amounts receivable which are included in the consolidated statements of financial position;
- the estimation of assay grades of metal concentrates sold in the determination of the carrying value of accounts receivable which are included in the consolidated statements of financial position and included as sales in the consolidated statements of income;
- the determination of net realizable value of inventories on the consolidated statements of financial position;
- the estimated useful lives of property, plant and equipment which are included in the consolidated statements of financial position and the related depreciation included in the consolidated statements of income;
- the determination of mineral reserves and the portion of mineral resources expected to be extracted economically, carrying amount of mineral properties, and depletion of mineral properties included in the consolidated statements of financial position and the related depletion included in the consolidated statements of income;
- the review of tangible and intangible assets carrying value, the determination of whether these assets are impaired and the measurement of impairment charges or reversals which are included in the consolidated statements of income;
- the assessment of indications of impairment of each mineral property and related determination of the net realizable value and write-down of those properties where applicable;
- the determination of the fair value of financial instruments and derivatives included in the consolidated statements of financial position;
- the fair value estimation of share-based awards included in the consolidated statements of financial position and the inputs used in accounting for share-based compensation expense in the consolidated statements of income;
- the provision for income taxes which is included in the consolidated statements of income and composition of deferred income tax asset and liabilities included in the consolidated statement of financial position;
- the recognition of deferred income tax assets, amounts recorded for uncertain tax positions, the measurement of income tax expense and indirect taxes included in the consolidated statement of financial position;
- the inputs used in determining the net present value of the liability for provisions related to decommissioning and restoration included in the consolidated statements of financial position; and,
- the inputs used in determining the various commitments and contingencies accrued in the consolidated statements of financial position.

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Financial Instruments and Related Risks (expressed in \$'000's)

The Company is exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk, and price risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

a) Fair Value Measurements of Financial Instruments

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.

During the three and six months ended June 30, 2015, there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

i. Assets and Liabilities Measured At Fair Value on a Recurring Basis

Fair Value Measurements

Expressed in \$'000's

	Quoted Prices in Active Markets for Identical Assets	Significant and Other Observable Inputs	Significant Unobservable Inputs	Aggregate Fair Value
At June 30, 2015	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 40,945	\$ -	\$ -	\$ 40,945
Short term investments	69,064	-	-	69,064
Trade receivable from concentrate sales ¹	-	19,528	-	19,528
	\$ 110,009	\$ 19,528	\$ -	\$ 129,537

¹ Trade receivable from concentrate sales includes provisional pricing, and final price and assay adjustments. The fair value of trade receivable from concentrate sales resulting from provisional pricing reflect observable market commodity prices and thereby classified within Level 2 of the fair value hierarchy.

¹ The Company's trade receivables arose from provisional concentrate sales and are valued using quoted market prices based on the forward London Metal Exchange ("LME") for zinc and lead, the average London Bullion Market Association A.M. and P.M. fix ("London A.M. fix" and "London P.M. fix") for gold and silver, and the London Bullion Market Association P.M. fix ("London P.M. fix") for gold and silver.

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At December 31, 2014	Quoted Prices in Active Markets for Identical Assets		Significant and Other Observable Inputs		Significant Unobservable Inputs		Aggregate Fair Value
	Level 1	Level 2	Level 3	Level 3	Level 3		
Cash and cash equivalents	\$ 42,867	\$ -	\$ -	\$ -	\$ -	\$ -	42,867
Short term investments	34,391	-	-	-	-	-	34,391
Trade receivable from concentrate sales ¹	-	16,573	-	-	-	-	16,573
	\$ 77,258	\$ 16,573	\$ -	\$ -	\$ -	\$ -	93,831

ii. Fair Value of Financial Assets and Liabilities

Fair Values of Financial Assets and Liabilities

Expressed in \$'000's

	June 30, 2015		December 31, 2014	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Trade receivable from concentrate sales ²	\$ 19,528	\$ 19,528	\$ 16,573	\$ 16,573
Advances and other receivables ³	3,245	3,245	2,906	2,906
	\$ 22,773	\$ 22,773	\$ 19,479	\$ 19,479
Financial liabilities				
Derivative liabilities ¹	\$ 387	\$ 387	\$ -	\$ -
Other liabilities ³	692	692	38	38
	\$ 1,079	\$ 1,079	\$ 38	\$ 38

¹ Derivative assets and derivative liabilities includes interest rate swaps. The fair value of the derivative assets reflect observable LIBOR and hereby classified within Level 2 of the fair value hierarchy.

² Trade receivable from concentrate sales includes provisional pricing, and final price and assay adjustments. The fair value of trade receivable from concentrate sales resulting from provisional pricing reflect observable market commodity prices and thereby classified within Level 2 of the fair value hierarchy.

³ Advances and other receivables and other liabilities are recorded at amortized costs. The fair value of other assets and other liabilities are primarily determined using quoted market prices, and the balances include the current portion of other assets and other liabilities, respectively.

b) Currency Risk

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

As at June 30, 2015, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, Peruvian nuevo soles and Mexican pesos (all amounts are expressed in thousands of Canadian dollars, thousands of Peruvian nuevo soles or thousands of Mexican pesos):

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	Expressed in '000's							
	June 30, 2015			December 31, 2014				
	Canadian Dollars	Peruvian Nuevo Soles	Mexican Pesos	Canadian Dollars	Peruvian Nuevo Soles	Mexican Pesos		
Cash and cash equivalents	\$ 11,192	S/.	2,555	\$ 45,115	\$ 2,695	S/.	8,633	\$ 56,739
Short term investments	-	-	-	-	7,696	-	-	-
Accounts receivable and other assets	46	3,263	10,483	897	4,190	15,692		
Deposits on long term assets and long term borrowing costs	-	-	36,854	71	-	19,096		
Trade and other payables	(1,950)	(12,862)	(109,066)	(2,231)	(12,387)	(117,848)		
Provisions, current	-	(1,125)	(9,957)	-	(767)	(8,138)		
Income tax payable	-	-	(486)	-	(37)	(143,426)		
Other liabilities	(6,188)	-	(676)	(5,376)	-	(563)		
Provisions	-	(22,699)	(66,444)	-	(20,710)	(73,001)		
Total	\$ 3,100	S/.	(30,868)	\$ (94,177)	\$ 3,752	S/.	(21,078)	\$(251,449)
Total US\$ equivalent	\$ 2,509	\$	(9,710)	\$ (6,050)	\$ 3,226	\$	(7,052)	\$ (17,084)

Based on the above net exposure as at June 30, 2015, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the above currencies would result in an increase or decrease, as follows: impact to other comprehensive income of \$279 (2014: \$358) and an impact to net income of \$1,751 (2014: \$2,682).

The sensitivity analyses included in the table above should be used with caution as the results are theoretical, based on management's best assumptions using material and practicable data which may generate results that are not necessarily indicative of future performance. In addition, in deriving this analysis, the Company has made assumptions based on the structure and relationship of variables as at the balance sheet date which may differ due to fluctuations throughout the year with all other variables assumed to remain constant. Actual changes in one variable may contribute to changes in another variable, which may amplify or offset the effect on earnings.

c) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents and short term investments are held through large Canadian, international, and foreign national financial institutions. These investments mature at various dates within one year. All of the Company's trade accounts receivables from concentrate sales are held with large international metals trading companies.

The Company's maximum exposure to credit risk as at June 30, 2015 is as follows:

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	Expressed in '000's	
	June 30, 2014	December 31, 2014
Cash and cash equivalents	\$ 40,945	\$ 42,867
Short term investments	69,064	34,391
Accounts receivable and other assets	23,079	20,585
	\$ 133,088	\$ 97,843

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant credit risk and overall, the Company's credit risk has not declined significantly from the same period in the prior year.

d) Liquidity Risk

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

On March 25, 2015, the Company entered into an amended and restated credit agreement with the Bank of Nova Scotia for a \$60.0 million senior secured financing ("credit facility") consisting of a \$40.0 million term credit facility with a 4 year term and a \$20.0 million revolving credit facility for a two year period. The credit facility is secured by a first ranking lien on Bateas, Cuzcatlan, Continuum, and Barbados, and their assets and bears interest and fees at prevailing market rates. In the event that utilization under the credit facility is less than \$10.0 million, a commitment fee of 1.0% per annum is payable quarterly on the unutilized portion of the available credit facility.

On April 1, 2015, the \$40.0 million term credit facility was drawn down.

(Refer to Contractual Obligations for the expected payments due as at June 30, 2015.)

Significant Changes, Including Initial Adoption of Accounting Standards

There were no significant accounting standards or interpretations along with any consequential amendments required for the Company to adopt for the period ended June 30, 2015.

New Accounting Standards

The Company is currently assessing the impact of adopting the following new accounting standards, noted below, on the Company's Financial Statements.

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IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures (2011) (Amendment)

On September 11, 2014, the IASB issued narrow-scope amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures* (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective from annual periods commencing on or after January 1, 2016.

IFRS 11 Joint Arrangements (Amendment)

The amendment to IFRS 11 *Joint Arrangements* adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. Transactions before the adoption date are grandfathered.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment)

The amendment to IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* on depreciation and amortisation clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendment is effective for annual periods starting on or after January 1, 2016, with earlier application permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers* specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 is effective for annual periods starting on or after January 1, 2017, with earlier application permitted. On July 22, 2015, the IASB has proposed to amend the start date to January 1, 2018.

IFRS 9 Financial Instruments - Classification and Measurement

IFRS 9, *Financial Instruments*: IFRS 9 introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (Amendment)

The amendment to IFRS 9 *Financial Instruments* which includes the new hedge accounting requirements and some related amendments to IAS 39 *Financial Instruments; Recognition and Measurement* and IFRS 7 *Financial Instruments; Disclosures*. IFRS 9 (2013) also replicates the amendments in IAS 39 in respect of novations. The amendments allow for early adoption of the requirement to present fair value changes due to own credit on liabilities designated as at fair value through profit or loss to be presented in other comprehensive

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income. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 Financial Instruments - Expected Credit Losses

On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The amendments are effective for annual periods beginning on or after January 1, 2018. Entities will also have the option to early apply the accounting for own credit risk-related fair value gains and losses arising on financial liabilities designated at fair value through profit or loss without applying the other requirements of IFRS 9.

Other Data

Additional information related to the Company is available for viewing at www.sedar.com and the Company's website at www.fortunasilver.com.

Share Position and Outstanding Warrants and Options

The Company's outstanding share position as at August 7, 2015 is 129,080,567 common shares. In addition, 3,265,355 incentive stock options are currently outstanding as follows:

<u>Type of Security</u>	<u>No. of Shares</u>	<u>Price (CAD\$)</u>	<u>Expiry Date</u>
Incentive Stock Options:	160,000	\$1.35	February 5, 2016
	10,000	\$1.75	May 8, 2016
	869,120	\$3.38	May 29, 2016
	103,800	\$1.55	July 5, 2016
	250,000	\$2.22	January 11, 2017
	49,084	\$6.67	February 20, 2017
	659,382	\$4.30	March 23, 2017
	242,000	\$0.85	October 5, 2018
	20,000	\$0.85	November 5, 2018
	901,969	\$4.79	March 18, 2020
TOTAL OUTSTANDING OPTIONS:	<u>3,265,355</u>		

Other Risks and Uncertainties

For further information regarding the Company's operational risks, please refer to the section entitled "Description of the Business - Risk Factors" in the Annual Information Form for the year ended December 31, 2014 available at www.sedar.com and www.sec.gov/edgar.shtml.

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Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the SEC and the Canadian Securities Administrators ("CSA")) as of June 30, 2015, and have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 and Canadian securities laws is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and Canadian securities laws and (ii) accumulated and communicated to them Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

The Company's management, with the participation of its CEO and CFO, are responsible for establishing a system of internal control over financial reporting to provide reasonable assurance regarding the reliability and integrity of the Company's financial information and the preparation of its financial statements in accordance with IFRS as issued by the IASB.

The Company's management, including its CEO and CFO, believe that due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projection of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There has been no change in the Company's internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Management concludes that, as of June 30, 2015, the Company's internal control over financial reporting was effective and no material weaknesses were identified.

Qualified Persons

Thomas I. Vehrs, Ph.D., Vice President of Exploration, is a Qualified Person for Fortuna Silver Mines Inc. as defined by National Instrument 43-101. Dr. Vehrs is a Founding Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc. (SME Registered Member Number 3323430RM) and is responsible for ensuring that the technical information contained in this Management's Discussion and Analysis is an accurate summary of the original reports and data provided to or developed by Fortuna Silver Mines Inc.

Cautionary Statement on Forward-Looking Statements

This MD&A and any documents incorporated by reference into this MD&A contain forward-looking statements which constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Section 21E of the United States Securities Exchange Act of 1934, as amended, and

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forward-looking information within the meaning of applicable Canadian securities legislation (collectively, "Forward-looking Statements"). All statements included herein, other than statements of historical fact, are Forward-looking Statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the Forward-looking Statements. The Forward-looking Statements in this MD&A include, without limitation, statements relating to:

- mineral "reserves" and "resources" as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future;
- timing of the completion of construction activities at the Company's properties and their completion on budget;
- production rates at the Company's properties;
- cash cost estimates;
- timing for delivery of materials and equipment for the Company's properties;
- the sufficiency of the Company's cash position and its ability to raise equity capital or access debt facilities;
- the Company's planned processing and estimated major investments for mine development, plant expansion, filter facility and dry stack tailings deposit project, and brownfields exploration at the San Jose property during 2015;
- the Company's planned processing and estimated major investments for mine development, plant optimization and brownfields exploration at the Caylloma property during 2015;
- maturities of the Company's financial liabilities, finance leases and other contractual commitments;
- expiry dates of bank letters of guarantee;
- estimated mine closure costs; and
- management's expectation that any investigations, claims, and legal, labor and tax proceedings arising in the ordinary course of business will not have a material effect on the results of operations or financial condition of the Company.

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

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

- uncertainty of mineral resource and reserve estimates;
- risks associated with mineral exploration and project development;
- operational risks associated with mining and mineral processing;
- uncertainty relating to concentrate treatment charges and transportation costs;
- uncertainty relating to capital and operating costs, production schedules, and economic returns;
- uncertainties relating to general economic conditions;
- competition;
- substantial reliance on the Caylloma and San Jose mines for revenues;

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- risks related to the integration of businesses and assets acquired by the Company;
- risks associated with potential legal proceedings;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- fluctuations in metal prices;
- risks associated with entering into commodity forward and option contracts for base metals production;
- environmental matters including potential liability claims;
- reliance on key personnel;
- potential conflicts of interest involving the Company's directors and officers;
- property title matters;
- dilution from further equity financing;
- currency exchange rate fluctuations;
- adequacy of insurance coverage;
- sufficiency of monies allotted for land reclamation ; and
- potential legal proceedings;

as well as those factors referred to in the "Risks and Uncertainties" section in this MD&A and in the "Risk Factors" section in the Company's Annual Information Form filed with the Canadian Securities Administrators and available at www.sedar.com and filed with the U.S. Securities and Exchange Commission as part of the Company's Form 40-F and available at www.sec.gov/edgar.shtml.

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

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

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