



WOLVERTON WEEKLY

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Recap of Last Week	Friday Close	Points Gain/Loss	% Change
DOW JONES	10,959.87	+0.56	+0.005%
S&P 500	1,287.61	+2.16	+0.168%
NASDAQ	2,317.04	+12.42	+0.539%
S&P/TSX	11,604.82	-15.64	-0.135%

Gold and Mining Stocks

Fortuna Silver Mines Inc.

**The Caylloma Silver Mine Project, Peru
Now 100% Owned
Two Properties Optioned With Satellite Deposit Potential
And, the San Jose Silver-Gold Project in Oaxaca, Mexico Optioned**

Summary

Since we last reviewed Fortuna Silver Mines Inc. (FVI-TSXV - \$1.15) in the July 22 2005 issue of the Wolverton Weekly, they have been progressing on their primary asset, the Caylloma Silver Mine situated in southern Peru.

Last June, Fortuna Silver entered into an agreement to acquire the Caylloma Silver Mine and recently made their final cash and share payments to own it 100% (subject to a 2% NSR after production of 21 million ozs of silver) – consideration was US\$7.55 million cash and 2.4 million shares, plus 2.4 million warrants totaling 10.8% of the fully diluted capital. The Caylloma silver mine comes with a 7 million oz reserve (9.2 ozs Ag/t) and 14 million oz resource (12.4 ozs Ag/t) of silver that is NI 43-101 compliant. Both categories of the reserve and resource also come with significant lead and zinc credits. Besides these significant base metal credits, it appears that Fortuna purchased their resource of 21 million ozs of silver for US \$0.35 /oz - cash. Additionally, the purchase includes a 350 man camp with related infrastructure, a 600 tpd mill and 8,000 ha of surrounding mining concessions with 30 veins known so far, to further explore.

Fortuna commissioned a recent preliminary assessment (scoping study) and it states: “the base case economics provide for a simple payback of 2 years (37.8% IRR) from the commencement of production over an initial 4 year mine life with the capital investment fixed at US \$6.5 million”. The U.S. metal prices used were: \$6.00 oz Ag, \$0.29 lb Pb and \$0.45 lb Zn.

Drilling started in August, to further add to the already defined 21 million oz resource and outline mineralized zones that might be mined - targeting the high grade mineralized shoots in the traditional silver veins and defining the wider extent of the polymetallic mineralization in the Animas vein that may be amenable to mechanized, trackless mining.

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Not only has Fortuna been advancing Caylloma, but they have also broadened their scope through two significant acquisitions: 1) an option to earn a 100% interest in a pair of properties (Minera Ares & Minera Condor) within 10km of their Caylloma mill that might be possibly mined as satellite deposits and 2) an option to earn a 56% interest into the San Jose silver-gold project in Oaxaca, Mexico.

In the upcoming field season, Fortuna plan to spend US\$3.5 million on the Caylloma mine consisting of: \$2 million for exploration development, \$1 million on engineering and development and \$500,000 for general and administration costs. Exploration is planned immediately for the recently acquired satellite properties within the Caylloma silver mining district. As per the agreement with Continuum Resources Ltd. (CNU), US\$1 million is to be spent on drilling before August 2006 on the San Jose silver-gold project in Oaxaca, Mexico.

It will be a very busy season – a new resource and cash flow calculation is also planned for Caylloma that may be expected in the first quarter of 2006. It appears that Fortuna Silver Mines might possibly offer substantial upside to those investors who may be inclined to invest in this mining exploration/development company.

The Caylloma Silver Mine, Peru

Located 225 km (140 miles) northwest of Arequipa, Peru's second largest city, the Caylloma silver mine is situated in the center of a well established silver mining district with 4 other silver/gold mines within a 60 km radius.

The Spaniards initially discovered this mine over 400 years ago with a reported cumulative production of 250 million ozs of silver. Most recently production spanned from 1981 until 2002 with 2.6 million ozs of silver being produced in the final year at a cash cost of less than US \$4.00 per oz. (Dec 2002 spot silver price \$4.50).

Caylloma has two different types of mineralization containing the geological resource of 21 million oz silver. The first are traditional high-grade silver veins, the source of all past production. The second is the Animas polymetallic vein and besides hosting roughly as much silver as the traditional veins, its primary metal is zinc grading a healthy 5%.

While the Caylloma Mine has been noted for its past silver production, Fortuna plan to upgrade the existing mill from 600 tpd to 1,000 tpd and add a zinc circuit to substantially increase the anticipated gross future revenue. For example, gross metal value of the traditional silver veins in the reserve category totals up to *\$95.30 tonne and by contrast the zinc enriched polymetallic Animas vein has a gross metal value of *\$117.20 tonne. Quite clearly, Fortuna hope to benefit from the zinc enriched ore. To put this in perspective, we list the applicable reserves and resources hereunder.

*Metal prices (U.S.\$) used = \$5.87 oz Ag, \$392 oz Au, \$1.20 lb Cu, \$0.40 lb Pb and \$0.45 lb Zn.

Proven and Probable Mineral Reserves (43-101 compliant)

Traditional Silver Veins (1/2 dozen)

319,138 tonnes grading 14.6 oz/t Ag and 0.84 g/t Au =
adds up to a gross value of US \$95.30 t

Animas Vein (polymetallic)

457,212 tonnes grading 5.43 oz/t Ag, 0.35 g/t Au, 0.23% Cu, 3.06% Pb, and 4.88% Zn =
rings in at a gross value of US \$117.20 t

Total stated reserves are 7.1 million ozs of silver plus the other by product credits of gold, lead, copper, and zinc.

Inferred Resource (43-101 compliant)

Traditional Silver Veins (1/2 dozen)

454,947 tonnes grading 15.12 oz/t Ag and 0.38 g/t Au

Animas Vein (polymetallic)

691,652 tonnes grading 10.61 oz/t Ag, 0.61 g/t Au, 0.5% Cu, 3.62% Pb and 5.49% Zn.

Total stated resources are 14.2 million ozs of silver plus by-product credits.

Traditional veins are characterized as having an average mining width of 1.2 m using 0.8 m as minimum mining width in the resource calculation. In all six vein systems, the ore shoots are described being up to several hundred meters long with a vertical extent of up to 300 m. One such example is the La Plata mineralized shoot that Fortuna will be drill testing shortly for possible expansion— reserves currently total 52,987 tonnes grading 12.7 ozs per tonne Ag and 0.068 opt Au; the inferred resource adds up to 40,243 tonnes grading 20.7 opt Ag and 0.087 opt Au.

The Animas polymetallic vein outcrops along 1.5 km and has been recognized by drilling over a total strike length of 3.8 kms. Observed outcrop width has been as wide as 20 m. Generally, it is reported that the resources were calculated from the narrower silver vein contained within the structure although we did note one of the better drill holes (AS-15-03) measuring 3.45 m wide, and grading 6.92 opt Ag, 8.06% Pb and 10.8% Zn.

Drilling this past August has been confirming the above grade – also, encountered next to the Animas vein, was a parallel 4m silver vein grading 13 oz per tonne.

Fortuna's management and workers are very busy preparing the Caylloma mine for production and in the process they have formulated a number of objectives they would like to achieve. Some of them are: to evaluate the Animas mine for bulk tonnage mining (any veins over 1.8m wide) and total tonnage available; develop reserve blocks and stopes on both the traditional and the Animas vein; upgrade the plant to 1,000 tpd and among other things add a zinc recovery circuit. In the

initial mine plan they envisage starting production with the traditional only silver veins and then to eventually blend the traditional and polymetallic ores on a 20% / 80% basis. The estimated capital cost has since been boosted to US\$7.5 million plus US\$1.2 million in exploration and sustaining costs.

This and other work will be ongoing and we will be monitoring the results.

The Minera Ares and Minera Condor properties Satellite properties in Caylloma Silver District

Last December Fortuna entered into an agreement to earn up to a 100% interest in the two property packages of Minera Ares and Minera Condor.

Minera Condor, 888 ha, outlines a vein system best represented by the Julia Vein. Chip samples include assays up to 16.87 Au (0.51 oz) and 64 gpt Ag (1.92 ozs) across a 2.3m vein – the vein has been traced at least 500m in outcrop and is open along strike. The terms of this package with the right to acquire up to 100% interest are: a US\$15,000 payment at signing, \$20,000 in July 2006 and additional payments of \$200,000 over three years.

Minera Ares, 3,000 ha, is located around the historic Sukuytambo silver-gold mine – concessions largely cover a underexplored sequence of Tertiary volcanic rocks with multiple-colour anomalies that are commonly associated with epithermal-style mineralization. Terms to acquire up to a 100% interest: payments of US\$15,000 at signing, US\$30,000 on the 12 month anniversary, and then Fortuna may exercise the option at any time during a two year period – at which time it will issue 250,000 of its treasury shares to Minera Ares.

The San Jose Silver-Gold Project, Oaxaca, Mexico

Last November, Fortuna announced an earn-in agreement with Continuum Resources Ltd. (CNU), in which Fortuna may earn a 70% interest in Continuum's 80% share of the San Jose silver project located in Oaxaca, Mexico. In other words, Fortuna would own an outright 56% interest in this property.

The San Jose project hosts the Trinidad zone that has a NI 43-101 compliant inferred resource estimate of 15.8 million ozs silver equivalent within 1.562 million tonnes grading 314 gpt (9.1 ozs) at a 113 gpt (3.3 ozs) Ag eq cut-off. The resource was calculated using a gold price of \$400 and silver price of \$7.50 per oz US. The Trinidad zone occupies 400m of strike length but has been traced in outcrop for 3 km. Within the Trinidad zone is the Bonanza Vein returning values of 10.2 gpt (0.29 oz) gold and 1,102 gpt (32.1 ozs) silver.

As part of the terms, Fortuna has made a commitment to fund \$2 million of drilling before December 1, 2007 (within 24 months) and of that, \$1 million on or before August 1, 2006. They plan to drill test the entire strike length (+3 km) of the San Jose vein system testing for additional mineralized zones and upgrading the Trinidad resource.

Also, as part of the terms, and at the conclusion of the above drill program based on a National Instrument 43-101 compliant resource calculation, Fortuna will pay Continuum US 50 cents for each oz of silver equivalent in the measured category and US 35 cents for each oz of silver equivalent in the indicated resource category corresponding to Fortuna's interest in the deposit.

Additionally, Fortuna has subscribed for 5 million shares of Continuum at \$0.20 each (\$1 million) by way of private placement. The agreement also grants Fortuna an exclusive right to acquire an undivided 60% interest to Continuum's 10 other silver-gold vein projects located in the state of Oaxaca by conducting additional exploration activities on the specific property of an amount not less than the greater of (i) twice the amount Continuum has expended on the property; and (ii) \$500,000.

Conclusion

Fortuna Silver's stated strategy is to become a significant silver producer in a rising metal market. From what we can see, this seems to be the way they are guiding the company.

Many activities will be happening this upcoming season including, the \$3.5 million advancement of the Caylloma Silver property with an updated resource and economic models expected this first quarter of 2006; exploration commencing this new year at the two newly acquired mineral concessions of Minera Ares and Minera Condor; and the \$1 million drill program on the Mexican San Jose Silver-Gold project.

Don't be surprised if there are a number of positive developments.

Fortuna Silver Mines Inc - Data

Symbol FVI.TSXV - \$1.15

12 Month High – Low \$1.60 – 0.70

Shares o/s 26.6 million F/D 45.7 million

Cash On Hand \$3.8 million (Dec 2005)

Market Capitalization \$30.5 million

www.fortunasilver.com

Recent Metal Prices (US)

Silver \$8.98 oz.

Zinc \$0.93 .lb

Lead \$0.56 .lb

Recent Financings

October 2006 – Private Placement - \$10.2 million gross proceeds – 13.6 million units @ \$0.75 ea. – Each unit consists of 1 share and 1 warrant entitling the holder to purchase 1 additional share at \$1.00 in the first year and \$1.25 in the second year.

June 2006 - Private Placement – \$1.05 million gross proceeds - 1.5 million units @ \$0.70 ea. Each unit consists of 1 share and 1 warrant entitling the holder to purchase 1 additional share for \$0.75 within or at the end of the one year expiration.

Warrants – (all exercisable, 1 wt for 1 share plus cash consideration)

19.1 million wts outstanding total: 13.6 million, 2 yr term, exercise prices range from \$1.00 to \$1.25; 2.6 million (vendor wts), 5 yr term, at a price of \$0.35; and 1.5 million, exercise price of \$0.75 for 1 yr, expiration June '06.

Management

Peter Thiersch, M.Sc, P.Geo., President – Mr Thiersch has over 20 years of mineral exploration experience throughout North and South America specializing in epithermal and porphyry related precious metal properties. In the mid 1990's he spent two years with Barrick Gold in Peru and has since focused on exploration in Latin America, including Mexico, Guatemala, Chile and Peru.

Jorge A. Ganoza Durant, B.Sc, Eng., VP Business Development – Mr Ganoza Durant is a geological engineer with over 12 years experience of mineral exploration and business development in Central and South America. Mr Ganoza Durant is a fourth generation miner from a Peruvian family that has owned and operated several underground gold, silver and base metal mines.

Jorge R. Ganoza Aicardi, B.Sc, Eng., VP Operations – Mr Ganoza Aicardi is a mining engineer with 35 years experience in exploration and mine development in Latin America. From 1969 to 1989, Mr Ganoza Aicardi worked for Minera Pachapaqui, a privately held underground polymetallic vein mine, where he ultimately became the Operations Manager and then General Manager to see the mine become one of the top ten silver producers in Peru. Subsequent to this, he moved to Panama to open the Minera Remance gold mine, which was achieved in 9 months, and production was doubled in one year.

Simon Ridgway, Director – Mr Ridgway is an internationally known mining financier and has over 15 years experience managing exploration companies in North, Central and South America and is president of Radius Gold Inc. Previously, as president of Mar-West Resources, he directed exploration activities that resulted in the discovery of the 1.5 million oz San Martin and 2.2 million oz Cerro Blanco gold deposits in Honduras and Guatemala – in November 1998, Mar-West was sold to Glamis Gold.

Mike Iverson, Director – Mr Iverson is President of Triple K Ventures Ltd since 1975 and is also President of R.P.F. Custom Wood Fibre Ltd since 1985. Mr Iverson is also President and a Director of Sasha Ventures Ltd. and Niogold Mining Corp. respectively.

Tomas Guerrero Mendez, Eng., Director – Mr Guerrero Mendez is a geological engineer with over 30 years experience of mine geology and mineral exploration experience in Peru, Mexico, Bolivia, Venezuela, Chile, Argentina and Ecuador. Until 2001, he held a ten year tenure as Director of Explorations for the Hochschild Group, a leading private Peruvian mining company with multiple mine operations. Under his leadership, Hochschild discovered and put in production three mid size gold-silver mines. He is currently the principle of BO Consulting, an engineering consulting firm specializing in servicing the mining sector.

Sally Whittall, Corporate Secretary – Ms Whittall was a corporate securities legal assistant in a major Vancouver law firm for six years prior to joining Simon Ridgway’s group of exploration companies in 1994. She manages the corporate regulatory work for Fortuna and acts as Corporate Secretary for several other public companies.

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