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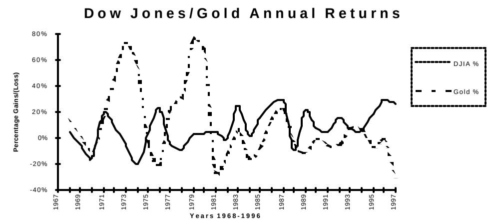
Gold



& Technology Stocks

Weekly Hotline Message ***(Now in our 25th Year)*** **August 5, 2006**

Fortuna Silver is Nearing Silver Production

Traded:	Toronto–FVI
Shares Outstanding:	42,758,430
Initial Recommendation 6/25/05	$0.61
Price 8/5/06:	$1.48
Market Cap:	$63.3 Million
Silver Resources (All Categories) 21 million oz. + Lead & Zinc	
Progress Rating:	"B" (Soon "A")
Telephone:	604-484-4085
Web:	www.fortunasilver.com

If exploration stocks rated "D" and "C" are too risky for your blood, you might want to take a good hard look at Fortuna Silver now, as it is trading not far from a six-month low even as it readies itself for production at its Caylloma Silver/Lead/Zinc Property in Peru. Since acquiring this silver mine, which has been in continuous production for an amazing 400 years, Fortuna has improved the economics of the project by expanding the ore zones to include a lead and zinc zone that envelopes the higher-grade silver zone that was previously the target. While this surrounding lead/zinc zone contains lower silver values, the additional values from lead and zinc more than make up for lower grades. In fact, when the lead and zinc values are added as credits, the cost of producing the silver should be less than zero.

Potential Caylloma Economics

Average grades to be run through the company's mill are expected to be around 4.5 oz. per ton silver, 4% zinc, 3% lead, and about ½ gram per tonne gold. Recoveries are expected to be around 93% for lead and zinc and 85% for silver. Using the following conservative price assumptions ($8/lb silver, $0.81/lb zinc, $0.36/lb lead, and $550/oz. gold) the value per tonne of material run through the mill should be about $80 to $85, while the cost of mining and milling this material would be around $48 per tonne. The company is planning a 700-ton-per-day operation when it starts production and then gradually ramping up to 1,100 tonnes per day during the first year of production. But applying the lower price assumptions and a 700-ton-per-day operation would still give the company a daily pre-tax profit of approximately $26,000. Assuming a five-day workweek over 50 weeks per year would give the company a pre-tax profit of $6.5 million, or about $0.15 per share.

Clearly the profits from this mine could be much higher as the company expands operations up toward 1,100 tonnes per day and given much higher metals prices than those assumed in the illustration above. For example, as we were going to press, the following metal prices were: Silver $12.40, zinc -$1.49, lead - $0.49, gold $650. And there might be the potential to expand this operation still further, depending on future exploration successes, though current permitting allows for a maximum operation of 1,100 tonnes. At current metals prices we would be looking at something more like $120 ore against a $48 cost. An upside potential assuming current metals prices combined with a 1,100-tonne operation would result in annual pre-tax profits of around $22.5 million, or $0.52 per share, given a five-day workweek and 50 weeks of operation.

Regarding exploration potential, current resources have been derived from only seven of 30 known silver-bearing veins, some of which have been partly mined out over the past 400 years, and many of which have yet to be explored.

The economics of the Caylloma are blessed by: (1) cheap hydroelectric power (5 cents/kwHr); (2) access to the ore body by an adit rather than shaft; (3) non-complicated metallurgy; (4) great infrastructure; and (5) a readily available workforce. At this time of rapidly rising energy costs, relatively high grades and cheap power rates are very important to the economics of a project. Energy costs are becoming a big deal for low-grade, open-pit mines that are required to haul and process five or six times more rock to generate the same amount of income from a tonne of rock processed at the Caylloma. Projects that need to move and process far less rock have a big advantage.

Peruvian Politics

We recently sold one of our star performers that has a Peruvian copper project because of our concerns about the Peruvian political climate that has seemingly turned anti-mining. In that instance, there is going to need to be a huge capital expenditure required to get the mine into production. And with political uncertainties on the rise, the willingness of a major company to put a large amount of capital into that environment seemed, in my view, to be putting a lid on the potential share price of that company.

We are still concerned about the political issue in Peru, which is just another reason we suggest not allocating more than 5% of your portfolio to this one stock, just as we've recommended with all stocks we highlight in these pages. In the case of the Caylloma, no large capital is required to be spent to put this mine into production, and cash flows are expected to commence this fall, not two or more years into the future.

Moreover, there are some reasons to hope things may calm down in Peru for mining in the future. The Peruvians need mining for their economy because 56% of their exports are mining related. It seems the hatred for mining has evolved because of sweetheart tax deals for a handful of major mining companies structured under a prior administration. For now at least,

The San Jose Mine in Mexico

The company also has a silver and gold project in Mexico known as the San Jose Mine. This is a high-grade project in which Fortuna currently holds a 56% interest that can be increased to 70% if the company so desires. The company is awaiting assays from 11,000 meters of drilling. The grades here are very high, but a decision to move toward production will wait for results from this drilling to determine if sufficient tonnage exists here to make the project economic.

Summary

As the company enters production, we would expect a pick-up in its share price, assuming it is able to execute its business plan at the Caylloma Mine, and assuming the economics work out akin to those suggested above. Keep in mind the profits noted above are for the Caylloma Project alone and do not factor out corporate overhead or figure a 30% income tax payable to the Peruvian government. However, in a bull market like the one we are in, with prospects for silver prices to rise dramatically higher in this age of rising inflation, and with energy prices remaining under control for this project, we think a price to cash flow (EBITDA) multiple of between 15 and 20 times is well within reason. If so and assuming the Caylloma is able to produce the kinds of cash flows noted above, we could see this stock trading in a range of $2.25 and $10.00 over the next couple of years. To be sure, more spectacular gains are sometimes realized from some of our penny gold share recommendations, but you also face considerably more risk with those stocks. For those of you who seek a company nearing production but that also has considerable growth prospects, Fortuna Silver looks attractive.