



MANAGEMENT'S DISCUSSION AND ANALYSIS **Third Quarter Report – June 30, 2005**

General

This Management's Discussion and Analysis ("MD&A") supplements the unaudited financial statements of Fortuna Silver Mines Inc. (formerly Fortuna Ventures Inc.) (the "Company") for the nine months ended June 30, 2005. The following information, prepared as of August 26, 2005, should be read in conjunction with the June 30, 2005 financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated. The June 30, 2005 financial statements have not been reviewed by the Company's auditors.

Significant Transactions

On June 27, 2005, the Company completed its acquisition of the Caylloma Silver Mine in Peru, and a private placement financing. The Company also changed its name on June 28, 2005 from "Fortuna Ventures Inc." to "Fortuna Silver Mines Inc." Details of these transactions are set forth in the Company's Filing Statement dated June 22, 2005, which is available for viewing at www.sedar.com.

Business of the Company

The Company is an emerging silver-gold and base metal producer focused on Latin America., with its principal assets being the Caylloma Silver Mine in Peru and the Tambor Gold Project in Guatemala.

Peru

The Caylloma Mine contains a 43-101 compliant estimate of 7 million ounces of silver in reserves, plus 14 million ounces of silver in resources, and management believes excellent potential exists to significantly increase the silver, lead and zinc inventory with additional exploration, particularly on the polymetallic Animas vein system.

The Company plans to resume full production within 12-18 months. The Company has just commenced a comprehensive drilling program focused on evaluating the apparent bulk tonnage potential of the Animas vein, which was not taken into account in previous resource estimates.

Background

Previous production at Caylloma was completely restricted to several narrow high grade silver-only veins, with strike lengths of 1-2km, widths of 1-2m, and grades averaging 15 oz/t silver.

An important polymetallic (silver-lead-zinc) structure, called the Animas vein, was evaluated for its silver potential but never put into production. Significantly, this vein attains widths up to 20m, and has been traced over 4km of strike length.

Animas was explored in great detail (5000m of drilling and 2700m of underground development was completed in 2003-2004), but this work was also restricted to a narrow silver-only band within the greater vein width.

This work indicated that the silver band has average grades of 5-10 oz/t silver over 1-2m, but in some cases, drilling indicated greater widths of mineralization, from 3m to 7m of 2-7 oz/t silver, 3-8% lead and 7-10% zinc, with local zinc values up to 16% over 1m. Underground cross cuts also exposed a parallel silver band grading up to 13 oz/t silver over 4m.

Significantly, none of these wider mineralized intervals were included in the existing resource estimate, and Fortuna believes that these zones may represent a important opportunity to significantly increase the resource on Animas.

Work Plan

The Company took control of the mine on July 1, 2005, and now has technical staff on site conducting a detailed analysis of existing geological and drill data to determine the true potential of the polymetallic Animas vein.

This vein contains roughly half of the existing resource base at Caylloma, with indications from historic data (discussed above) that suggest both the silver inventory and base metal credits could be significantly increased with additional exploration.

The Company has therefore embarked on a comprehensive exploration program to define the continuity of polymetallic ore shoots within the Animas vein, as well as the potential for mechanized underground mining on the vein. Mechanization would offer the opportunity of both reduced costs and increased production rates. An initial 3000m core drilling program has now commenced.

The current mine plan calls for production to resume within 12-18 months, the precise timing of resumption to be based on assessment of the drill results and on the raising of additional funding. The first year production will come from reserves on several high grade silver-only veins, allowing time to develop stopes on the Animas vein and complete upgrades to the plant to handle polymetallic ore. Polymetallic ore would then be blended with high grade silver ore starting in the second year of production.

Capital Expenditures

Detailed financial and production models were prepared as part of the Company's due diligence, based on the existing resource estimate. These models indicate required capital expenditures of approximately US\$7.5 million over 2.5 years, including roughly US\$1.8 million in the plant.

The plant expenditures include allowances for the addition of a zinc recovery circuit to process polymetallic ore from the Animas vein, and to allow an increase in production rates to 1000 tpd.

Production was modeled at 210,000 tonnes of ore per year, resulting in annual sales approaching 2 million ounces of silver per year. Net smelter returns were estimated at roughly \$14 million per year.

The Company will update these production and financial models as appropriate, to reflect any changes in production scenarios on the Animas vein.

Guatemala

The Company has been granted an option by Radius Gold Inc. to acquire an interest in the high grade Tambor Gold Belt located in Central Guatemala.

The Company can earn a 60% interest in the project by spending US\$4-million over 4 years. Once the Company has earned its 60%, Radius retains the right to back in to 51% of the project by matching the Company's US\$4-million expenditure. The Company is also required to pay Radius the sum of US\$50,000 on stock exchange acceptance of the agreement (such acceptance not yet obtained), and US\$50,000 in cash or shares on the 6-month anniversary of the acceptance date.

Until the Company raises additional working capital and obtains stock exchange approval to the transaction, it will not be in a position to commence a work program on this project.

Results of Operations

For the nine months ended June 30, 2005, the Company had a net loss of \$403,466 (\$0.06 per share) compared to a net loss of \$105,341 (\$0.06 per share) for the nine months ended June 30, 2004. The significant increase in this year's loss is due to increased corporate and exploration activity in the 2005 period compared to the 2004 period. Almost all expense categories are higher in the 2005 period, the most significant increases in consulting fees, investor relations, office and rent, salaries, and travel. In addition, this year's loss includes a \$79,646 charge for stock-based compensation.

Quarterly Information

The following table provides information for the eight fiscal quarters ended June 30, 2005:

	Third Quarter ended June 30, 2005 (\$)	Second Quarter ended Mar. 31, 2005 (\$)	First Quarter ended Dec. 31, 2004 (\$)	Fourth Quarter ended Sept. 30, 2004 (\$)	Third Quarter ended June 30, 2004 (\$)	Second Quarter ended Mar. 31, 2004 (\$)	First Quarter ended Dec. 31, 2003 (\$)	Fourth Quarter ended Sept. 30, 2003 (\$)
Total Revenue	-	-	-	-	-	-	-	-
Net Loss	151,070	146,887	105,510	42,541	36,067	54,840	14,424	38,883
Net Loss per share	0.02	0.023	0.016	0.006	0.020	0.030	0.008	0.021

Mineral Property Expenditures

During the nine months ended June 30, 2005, the Company spent approximately \$374,676 on exploration of its properties, including \$4,300 in Quebec, \$68,500 in Guatemala, \$293,400 in Peru, and \$8,400 on property evaluations in Latin America. The amount spent on property evaluations was for travel and geological consulting.

Liquidity and Capital Resources

The Company's cash resources increased during the nine months ended June 30, 2005 by approximately \$755,000. The Company received approximately \$1.2 million from the exercise of private placement warrants and from a private placement financing. Subsequent to the quarter end, 30,000 stock options were exercised, providing the Company with additional cash proceeds of \$11,100. As a result of the issuance of notes payable for the Caylloma Mine acquisition, working capital decreased from \$344,534 at September 30, 2004 to a deficiency of \$8,984,573 at June 30, 2005.

The Company must raise additional funds in order to cover the notes payable on its Caylloma Mine acquisition. Accordingly, management is currently negotiating a private placement financing to provide sufficient working capital to cover the Company's expenses for the next 12 months. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activity. Management believes it will be able to raise equity capital as required in both the short and long term, but recognizes the uncertainty attached thereto. The Company continues to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

Other Data

Additional information related to the Company is available for viewing at www.sedar.com.

Share Position and Outstanding Warrants and Options

The Company's outstanding share position at August 23, 2005 is 8,945,965 common shares. In addition, a total of 4,759,617 share purchase warrants and incentive stock options are currently outstanding as follows:

<u>Type of Security</u>	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Warrants	1,520,000	\$0.30	September 9, 2005
	862,117	\$0.345	June 27, 2006
	<u>1,500,000</u>	\$0.75	June 28, 2007
	3,882,117		
Options	175,000	\$0.80	July 24, 2006
	472,500	\$0.37	December 2, 2009
	150,000	\$0.72	July 13, 2010
	<u>80,000</u>	\$0.80	July 24, 2010
	877,500		

Related Party Transactions

The Company has incurred charges with companies having a common director or officer as follows:

	Nine Month Period Ending June 30,	
	<u>2005</u>	<u>2004</u>
Deferred exploration costs – consulting fees	\$ 13,137	-
Consulting fees	\$ 18,522	-
Salaries and wages	\$ 58,000	-

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

At June 30, 2005, due to related parties consists of amounts owing to a company with a common director totaling \$128,228 (Sept 2004: \$nil) which were incurred as a result of shared administrative costs and the loan of funds. This amount is unsecured, non-interest bearing and payable in the normal course of business.

At June 30, 2005, due from related parties consists of amounts owing from directors totaling \$8,404 (Sept 2004: \$nil) which are funds advanced for travel.

Financial Instruments

The carrying value of cash and cash equivalents, receivables, due from/to related parties and accounts payable and accrued liabilities approximate fair value because of the short-term maturity of those instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Forward Looking Information

Certain statements contained in this MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

Risks and Uncertainties

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. The Company's mineral properties are located in emerging nations and consequently may be subject to a higher level of risk compared to developed countries. Operations, the status of mineral property rights, title to the properties and the recoverability of amounts shown for mineral properties in emerging nations can be affected by changing economic, regulatory and political situations. Other risks facing the Company include competition, environmental and insurance risks, fluctuations in metal prices, share price volatility and uncertainty of additional financing.

