



Dear Shareholders,

June 26, 2007. Your company has been very busy since our latest newsletter and hit some major milestones in the first half of 2007. In Mexico, drilling at our San Jose project continues to deliver consistent high-grade silver and gold results over minable widths. In Peru, our Caylloma mine is coming out of its fine tuning and ramp phase up, typical of any start-up, and is now milling 720 tonnes of ore a day. The San Jose project is fast developing into a key asset for the growth of Fortuna.

The company is currently drilling with three core rigs at San Jose in Mexico and two in Peru. With all this activity, we look forward to a steady flow of news for the remainder of 2007.

EXPLORATION UPDATE



San Jose Project, Mexico

Drilling on the Trinidad zone at San Jose intersected on DH-054 104.9 m of 283 g/t Ag + 2.48 g/t Au as published in our May 30th news release, available on the company's web site at www.fortunasilver.com. The drill program continues to advance as planned. Up until now, we've published results for 59 core holes totaling approximately 19,000 meters of drilling and we anticipate further drill results in the coming weeks.

South of the main Trinidad zone, we're working on the design of a drill program to test additional targets, as well as to follow up on previous drilling. Drilling in 2006 discovered a second mineralized shoot on the San Ignacio area, 500 meters south of Trinidad. Drilling here had a best intercept of 868 g/t Ag, 8.5 g/t Au over 1.8 meters, (see news release dated December 7, 2006)

We also have part of the engineering design team that successfully re-commissioned the Caylloma mine in Oaxaca working with our Mexican colleagues. Work has started on modeling the deposit in 3-dimensions and also on the design of a major decline to access the lower levels of the system to facilitate a proposed mining rate of 1,500 to 2,000 tonnes per day.

On June 5th, we hosted our first major investor and analyst tour at San Jose. We had an international group of thirteen representatives of financial institutions from Norway, USA, Canada and Peru. In addition to reviewing core from the published holes, the participants took an underground tour of level 5 and 6 (150 meters below surface) where they had a chance to appreciate the size of the vein system at the Trinidad zone. The feedback we have received from the tour has been very positive and we plan on organizing additional site visits throughout the remainder of this year.



Caylloma Mine, Peru

Drilling at Caylloma is testing the vertical extent of the Animas vein below existing production levels. Concurrently, the geology office at the mine is working on generating targets on the northeastern extent of the Animas vein as well as on other silver veins located on the north end of the property. Fortuna is also mobilizing a crew of geologists to undertake the exploration of early staged targets outlined in 2006.

CAYLLOMA PRODUCTION UPDATE



The mine team at Caylloma is busy with the implementation of several projects that will assist in improving the productivity of our operations. One of these is the construction of a hydraulic fill plant which will enable us to use tailings as back-fill in the production stopes. Once implemented by August, this fill technique will accelerate the time required to refill, consequently, speeding up the mining cycle (drilling - blasting - extraction - filling) of Cut and Fill stopes.

Another important -although highly technical- project that has had a significant impact on metallurgical recoveries for silver is the classification and re-grind of the coarse fraction of the overflow in the Scavenger flotation cells, and underflow of Cleaner flotation cells in the lead circuit. This modification has increased silver recoveries in the lead concentrate from 70% to 80%.

Management is encouraged by the manner in which the mine team is achieving its operating benchmarks. In the first quarter of the year, Fortuna reported revenues of \$4.8 million USD with cash generated by operation of \$ 1.6 million USD. The company's 2007 first quarter financial statements are available on our website at:

<http://www.fortunasilver.com/s/FinancialStatements.asp>

ENVIRONMENT

Peru

At Fortuna, protection of the environment is a top priority. Even though the mine site at Caylloma is located at 4500 meters above sea level, the area enjoys a prolific and diverse flora and fauna typical of these altitudes. Hence, we are operating under strict environmental standards, with constant monitoring and mitigation of the potential impact of our mining activities.





We are in the midst of implementing measures to ensure the continued appropriate handling of our waste water and tailings. Currently, our waste water safely complies with local regulations. However, our aim this year is to achieve zero discharge of industrial waters into the environment.

We have also begun the engineering of a new tailings disposal facility on the mine property which will require an investment of US\$3-million over the next three years. This new infrastructure will guarantee proper storage of tailings for the next eighteen years.

Mexico

As Fortuna's main field activity at San Jose is exploration core drilling, the environmental impact from operating three drill rigs is very small and readily managed. This year, the company will be commissioning an environmental impact study for a possible future mine operation.



COMMUNITY RELATIONS



Peru

As we are at the start of the winter season in the southern hemisphere, we are preparing to assist the neighboring communities at Caylloma to withstand the harshness of a high altitude winter. In coordination with local authorities, Fortuna will take part in the distribution of blankets, medicines as well as veterinarian products for the Alpaca herds which are the community's main economic activity.

We also play an active role in the community's sustainable development program by supporting technical educational workshops, initiatives for the improvement of pastures for alpaca herding and the construction of a solid residue landfill. Fortuna is assisting the local church by helping to support the children of some of poorer local families.

Mexico

The San Jose project is still in the exploration and engineering phase and Fortuna is conducting a social base line study as a first step to devising an enduring community relations program. In the meantime, the company is working jointly with two nearby



communities; Taviche and San Jose. At Taviche, Fortuna is funding the materials required for the construction of a potable water pipeline. This is a ten month project which is expected to be completed by September. At San Jose, Fortuna is providing materials to improve the local school infrastructure.

ANALYST COVERAGE

From time to time, Fortuna receives coverage from mining analysts working for merchant banks or brokerage houses. When we become aware of new or updated coverage we will provide contact details for the institution. The most recent coverage we are aware of was provided by:

Institution	Analyst	Telephone Contact
Cormark Securities	Jed Richardson	(416) 943-6430
Salman Partners	Rodney Stevens	(604) 622-5274

SHARE STRUCTURE

We continue to see warrants exercised which means our share structure is changing fairly rapidly. As of mid June it looks like this:

SHARES ISSUED	:	70,567,226
OUTSTANDING WARRANTS	:	26,463,712
STOCK OPTIONS	:	<u>4,450,000</u>
FULLY DILUTED	:	101,480,938

END NOTES: SOROCHÉ



The Caylloma mine site is located at altitudes that range from 4,500 to 5,000 meters above sea level (asl). At heights past 2,500 meters asl, travelers coming from lower elevations can suffer from soroche; the Quechua word for "mountain sickness". This condition is triggered by low oxygen levels in the air and can be challenging for new arrivals at the mine camp, particularly if they've traveled from Lima (at sea level) the same day.

On arrival at the mine, all personnel and visitors have to pass a medical check-up and they are advised to take it easy for the first 24 hours as well as having light meals.



FORTUNA
SILVER MINES INC.

**SHAREHOLDER
UPDATE**

07

TSX-V: FVI

Insufficient oxygen in the air makes bodily movements quite slow, causes dizziness, nausea, headaches and sleep disorders. The exact effects vary from person to person and are quite unpredictable. Locals counteract the symptoms by drinking generous amounts of coca tea (Inca power-leaf). If coca tea does not do the trick for you, there are plenty of oxygen bottles and soroche pills at the mine camp to help the visitor acclimatize.

QUALIFIED PERSON

Mr. Gregory Smith, P.Geo. is the Company's Qualified Person as defined by National Instrument 43-101, and is responsible for the accuracy of technical data in this Shareholder Update.

QUESTIONS?

As usual, if you have any questions, please feel free to call our investor relations team in Vancouver or Lima. In Vancouver, Juliana Scaligine and Ralph Rushton will be happy to take your calls. The number they can be reached at is + 1 604 484 4085.

Para realizar consultas en español, por favor contactar a Carlos Baca, en nuestras oficinas de Lima-Perú, al 51-1-222-1122 o vía correo electrónico cbaca@fortunasilver.com.

Carlos Baca, Juliana Scaligine & Ralph Rushton, Investor Relations