



## **FINANCIAL REVIEW**

**Third Quarter ended June 30, 2005**

**FORTUNA SILVER MINES INC.**  
**(Formerly Fortuna Ventures Inc.)**  
(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005  
(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

UNAUDITED FINANCIAL STATEMENTS: In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended June 30, 2005.

**FORTUNA SILVER MINES INC.**  
**(Formerly Fortuna Ventures Inc.)**  
**(An Exploration Stage Company)**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
**AS AT JUNE 30, 2005**  
**(Unaudited - Prepared by Management)**  
**(Expressed in Canadian Dollars)**

	June 30, 2005	September 30, 2004
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 798,650	\$ 396,321
GST receivable	5,684	8,095
Advances and other receivables	31,582	-
Prepaid expenses and deposits	21,099	8,039
Due from related parties (Note 5)	8,522	-
	865,537	412,455
<b>PLANT &amp; EQUIPMENT (Note 3)</b>	2,661,516	-
<b>ADVANCES FOR EXPLORATION</b>	90,040	
<b>RESOURCE PROPERTIES (Note 3)</b>	15,336,148	87,686
	\$ 18,953,241	\$ 500,141
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 5)	\$ 520,387	\$ 67,921
Due to related parties (Note 5)	128,228	-
Notes payable (Note 3)	9,201,495	-
	9,850,110	67,921
<b>LONG-TERM LIABILITIES</b>		
Provision for environmental liabilities (Note 3)	1,576,974	-
Deferred income tax liability (Note 3)	6,033,729	-
	7,610,703	-
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (Note 6)</b>	5,075,387	3,697,482
<b>CONTRIBUTED SURPLUS</b>	85,769	-
<b>DEFICIT</b>	(3,668,728)	(3,265,262)
	1,492,428	432,220
	\$ 18,953,241	\$ 500,141

APPROVED BY THE DIRECTORS:

\_\_\_\_\_  
*"signed"*  
Peter Thiersch, Director

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*"signed"*  
Simon Ridgway, Director

**FORTUNA SILVER MINES INC.**  
**(Formerly Fortuna Ventures Inc.)**  
**(An Exploration Stage Company)**  
**INTERIM CONSOLIDATED STATEMENTS OF DEFICIT**  
**FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2005**  
**(Unaudited - Prepared by Management)**  
**(Expressed in Canadian Dollars)**

	Three Month Period Ended June 30,		Nine Month Period Ended June 30,	
	2005	2004	2005	2004
<b>DEFICIT - BEGINNING OF PERIOD</b>	\$ (3,517,658)	\$ (3,212,722)	\$ (3,265,262)	\$ (3,143,448)
Net loss for the period	(151,070)	(36,067)	(403,466)	(105,341)
<b>DEFICIT - END OF PERIOD</b>	\$ (3,668,728)	\$ (3,248,789)	\$ (3,668,728)	\$ (3,248,789)

**FORTUNA SILVER MINES INC.**  
**(Formerly Fortuna Ventures Inc.)**  
**(An Exploration Stage Company)**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2005**  
**(Unaudited - Prepared by Management)**  
**(Expressed in Canadian Dollars)**

	Three Month Period Ended June 30,		Nine Month Period Ended June 30,	
	2005	2004	2005	2004
<b>EXPENSES</b>				
Amortization	\$ 42.00	\$ -	\$ 42.00	\$ -
Bank charges and interest	1,334	11	1,814	174
Consulting	16,785	-	39,071	2,000
Foreign currency exchange	(7,132)	-	(7,132)	-
Interest on loans payable	-	-	-	2,299
Accounting & Legal	40,895	32,058	85,591	84,692
Management fees	-	-	2,629	-
Stock based compensation charge (Note 6)	-	-	79,646	-
Office and miscellaneous	13,203	-	23,018	707
Investor relations	3,573	2,851	34,980	3,877
Transfer agent and regulatory fees	2,905	1,147	16,261	11,592
Rent and utilities	10,800	-	12,714	-
Salaries	46,599	-	71,884	-
Telephone and fax	4,099	-	5,912	-
Travel and accommodation	17,967	-	37,036	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET LOSS FOR THE PERIOD</b>	<u>\$ (151,070)</u>	<u>\$ (36,067)</u>	<u>\$ (403,466)</u>	<u>\$ (105,341)</u>
<b>LOSS PER SHARE</b>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>
<b>Weighted average number of shares outstanding</b>	<u>6,411,051</u>	<u>1,831,487</u>	<u>6,377,831</u>	<u>1,831,487</u>

**FORTUNA SILVER MINES INC.**  
**(Formerly Fortuna Ventures Inc.)**  
**(An Exploration Stage Company)**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2005**  
**(Unaudited - Prepared by Management)**  
**(Expressed in Canadian Dollars)**

	Three Month Period Ended June 30,		Nine Month Period Ended June 30,	
	2005	2004	2005	2004
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (151,070)	\$ (36,067)	\$ (403,466)	\$ (105,341)
Items not involving cash				
Amortization	42	-	42	-
Stock based compensation charge	-	-	79,646	-
	(151,028)	(36,067)	(323,778)	(105,341)
Changes in non-cash working capital items	34,370	32,655	99,193	119,810
	(116,658)	(3,412)	(224,585)	14,469
<b>FINANCING ACTIVITIES</b>				
Proceeds on issuance of common shares	1,186,742	-	1,186,742	-
Share subscriptions	-	60,000	-	60,000
Due from related parties	(8,522)	-	(8,522)	-
Due to related parties	(13,541)	-	128,228	-
	1,164,679	60,000	1,306,448	60,000
<b>INVESTING ACTIVITIES</b>				
Deferred exploration costs	(113,515)	(61,537)	(374,676)	(61,537)
Business acquisition costs	(168,768)	-	(291,158)	-
Purchase of plant & equipment	(10,790)	-	(13,700)	-
	(293,073)	(61,537)	(679,534)	(61,537)
<b>INCREASE/(DECREASE) IN CASH</b>	754,948	(4,949)	402,329	12,932
Cash - beginning of period	43,702	19,259	396,321	1,378
<b>CASH - END OF PERIOD</b>	<u>\$ 798,650</u>	<u>\$ 14,310</u>	<u>\$ 798,650</u>	<u>\$ 14,310</u>
Supplementary disclosure of cash flow information:				
Cash paid for interest	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ 2,473</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Non-cash Transactions - Note 8

**FORTUNA SILVER MINES INC.**  
**(Formerly Fortuna Ventures Inc.)**  
**(An Exploration Stage Company)**  
**CONSOLIDATED SCHEDULE OF DEFERRED EXPLORATION COSTS**  
**FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2005**  
**(Unaudited - Prepared by Management)**  
**(Expressed in Canadian Dollars)**

	<u>General</u> <u>Exploration</u>	<u>Guatemala</u> <u>El Tambor</u>	<u>Peru</u> <u>Caylloma</u>	<u>Canada</u> <u>Isle-Dieu</u>	<u>Period Ended</u> <u>June 30,</u> <u>2005</u>	<u>Year Ended</u> <u>Sept. 30,</u> <u>2004</u>
<b><u>ACQUISITION COSTS</u></b>						
BALANCE - BEGINNING OF PERIOD	\$ -	\$ -	\$ -	\$ 3,457	\$ 3,457	\$ -
Acquired mineral rights						
Shares	-	-	198,287	-	198,287	-
Cash	-	-	14,675,499	-	14,675,499	3,457
	<u>-</u>	<u>-</u>	<u>14,873,786</u>	<u>-</u>	<u>14,873,786</u>	<u>3,457</u>
BALANCE - END OF PERIOD	<u>-</u>	<u>-</u>	<u>14,873,786</u>	<u>3,457</u>	<u>14,877,243</u>	<u>3,457</u>
<b><u>DEFERRED EXPLORATION COSTS</u></b>						
BALANCE - BEGINNING OF PERIOD	\$ -	\$ -	\$ 18,019	\$ 66,210	\$ 84,229	\$ 4,673
Automobile	-	1,557	8,994	-	10,551	-
Camp, equipment and supplies	-	1,114	408	-	1,522	-
Drafting, maps and printing	-	-	-	-	-	28,995
Exploration administration	-	861	12,234	-	13,095	-
Geochemistry	-	-	-	3,441	3,441	27,141
Geological consulting	3,471	18,560	95,562	-	117,593	13,019
Other consulting	-	4,224	76,191	-	80,415	-
Legal and accounting	-	2,935	-	497	3,432	-
Licenses, rights and taxes	-	13,336	-	345	13,681	-
Miscellaneous	-	788	-	-	788	-
Medical expenses	-	512	424	-	936	-
Geological research	-	1,411	36,009	-	37,420	5,401
Rent and utilities	-	4,225	4,392	-	8,617	-
Rental equipment	-	1,365	-	-	1,365	-
Salaries and wages	-	8,928	8,642	-	17,570	-
Shipping	-	-	15	-	15	-
Telephone and communications	-	2,179	1,631	-	3,811	-
Travel and accommodation	5,000	6,517	48,908	-	60,425	5,000
	<u>8,471</u>	<u>68,513</u>	<u>293,409</u>	<u>4,283</u>	<u>374,676</u>	<u>79,556</u>
BALANCE - END OF PERIOD	<u>\$ 8,471</u>	<u>\$ 68,513</u>	<u>\$ 15,185,214</u>	<u>\$ 73,950</u>	<u>\$ 15,336,148</u>	<u>\$ 87,686</u>

**Fortuna Silver Mines Inc.****(Formerly Fortuna Ventures Inc.)**

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Nine Month Period Ended June 30, 2005

**1. Nature and Continuance of Operations**

On June 28, 2005 Fortuna Silver Mines (the “Company”) changed its name from Fortuna Ventures Inc. The consolidated financial statements contained herein include the accounts of the Company and its wholly-owned subsidiaries located in Guatemala and Peru.

The interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company’s latest annual report. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustment necessary in order to present a fair statement of the results of the interim periods presented.

The Company is engaged in acquisition and exploration of mineral properties in Peru, Guatemala and Canada. The amounts shown for the mineral properties represent costs incurred to date and do not reflect present or future values.

The Company presently owns a 100% interest in the Dunlop Bay Property, Matagami area, Quebec. The Company has the right to earn a 60% interest in the Tambor gold project which it optioned from Radius Gold Inc. in 2004. The Company’s primary asset is the Caylloma Silver Mine in southern Peru. The Company has purchased a 100% interest in the Caylloma Silver Mine in consideration of cash payments totaling US\$7.55 million and the issuance of shares and warrants totaling 10.803% of the fully diluted capital of the Company. The Company is in the process of exploring its mineral properties in Guatemala, Peru and Canada and has not yet determined whether the properties contain reserves that are economically recoverable. Accordingly, the recoverability of these capitalized costs is dependant upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their development and upon future profitable production.

**2. Stock-Based Compensation**

The Company grants options in accordance with the policies of the TSX Venture Exchange (“TSX-V”). The Company has adopted the CICA Handbook Section 3870 “Stock-Based Compensation and Other Stock-Based Payments”, which recommends the fair value-based methodology for measuring all compensation costs. Commencing February 1, 2004 the fair value of stock options awarded is recognized as an expense.

**Fortuna Silver Mines Inc.****(Formerly Fortuna Ventures Inc.)**

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Nine Month Period Ended June 30, 2005 – Page 2

**3. Acquisition of Caylloma Silver Mine**

On June 27, 2005 the Company completed the acquisition of the Caylloma Silver Mine in southern Peru, by acquiring 100% of the outstanding common shares of Minera Bateas S.A.C. (Bateas) for a purchase price of US\$7.55 million plus 10.803% of the fully diluted capital of the Company. The Company has agreed to pay a \$220,000 finder's fee in connection with the transaction. This acquisition has been accounted for using the purchase method of accounting. The Company will pay the purchase price to the Vendors as follows;

- 1) US\$100,000 at signing of the purchase agreement, which has been paid
- 2) US\$2.95 million by the issuance at closing of a convertible promissory note that is payable on or before the sixth month anniversary of closing
- 3) US\$4.5 million payable on the first year anniversary of closing
- 4) 10.803% of the outstanding capital of the Company, calculated on a fully diluted basis. To date the Company has issued 574,744 common shares and 862,117 share purchase warrants, each warrant entailing the holder to acquire one common share of the Company at a price of \$.345 per common share. This represented 10.803% of the issued and outstanding common shares of the Company on a fully diluted basis, at that time. In addition the Company will issue additional common shares and warrants to the vendor upon the completion of subsequent equity financing in amounts sufficient to ensure that the vendor continues to own securities representing 10.803% of the issued and outstanding capital of the Company, on a fully diluted basis. This right will terminate once the Company has raised gross proceeds of \$10 million through the issue of additional securities.

A 2% net smelter returns royalty payable to the vendors will accrue after 21 million ounces of silver have been recovered from the property.

**Purchase Price****Consideration paid by the Company:**

Finder's fee	\$ 220,000
Note payable - 6 months	3,643,545
Note payable - 12 months	5,557,950
Business combination direct costs	291,158
Acquisition shares	198,287

<b>Total purchase price</b>	<b>\$ 9,910,940</b>
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**Fair value of assets and liabilities acquired**

Plant and equipment	\$ 2,647,858
Resource properties	14,873,785
Provision for environmental liabilities	(1,576,974)
Deferred income taxes	(6,033,729)
	<u>\$ 9,910,940</u>

**Fortuna Silver Mines Inc.****(Formerly Fortuna Ventures Inc.)**

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Nine Month Period Ended June 30, 2005 – Page 3

**4. Basic and Diluted Loss Per Share**

Basic loss per share (“LPS”) is calculated by dividing loss applicable to common shareholders by the weighted average number of common shares outstanding for the year. Diluted LPS reflects the potential dilution that could occur if potentially dilutive securities are exercised or converted to common stock. Due to the losses, potentially dilutive securities were excluded from the calculation of diluted LPS, as they were anti-dilutive and there was no difference in the calculation of basic and diluted LPS.

**5. Related Party Transactions**

The Company 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.

**Fortuna Silver Mines Inc.****(Formerly Fortuna Ventures Inc.)**

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Nine Month Period Ended June 30, 2005 – Page 4

**6. Capital Stock**

	Number of shares	Price per share \$	Amount
Authorized			
Unlimited common shares without par value			
Issued			
Balance, September 30, 2003	1,831,487		\$ 2,542,180
Issued During the Period			
Shares for debt	2,621,204	0.25	655,302
Private placement for cash	2,000,000	0.25	500,000
	<u>4,621,204</u>		<u>1,155,302</u>
Balance, September 30, 2004	6,452,691		3,697,482
Cancellation of shares for debt	(4,000)	0.25	(1,000)
Cancellation of escrow shares	(87,470)	0.07	(6,123)
Issued During the Period			
Private placement for cash	1,500,000	0.70	1,050,000
Property acquisition	574,744	0.345	198,287
Exercise of warrants	480,000	0.30	144,000
	<u>2,463,274</u>		<u>1,385,164</u>
Less issue costs			<u>(7,259)</u>
Balance, June 30, 2005	<u>8,915,965</u>		<u>\$ 5,075,387</u>

**Stock Options**

The Company has established a formal stock option plan in accordance with the policies of the TSX-V under which it is authorized to grant options up to 10% of its outstanding shares to officers, directors, employees and consultants. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options are for a maximum term of five years.

**Fortuna Silver Mines Inc.****(Formerly Fortuna Ventures Inc.)**

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Nine Month Period Ended June 30, 2005 – Page 5

**6. Capital Stock (cont'd)****Stock Options (cont'd)**

The following stock options were outstanding at June 30, 2005:

<u>Number of shares</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
30,000	0.37	August 25, 2005 (Note 9)
472,500	0.37	December 2, 2009
<u>502,500</u>		

**Warrants**

The following share purchase warrants were outstanding at June 30, 2005:

<u>Number of shares</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
1,520,000	0.30	September 9, 2005
1,500,000	0.75	June 27, 2006
862,117	0.345	June 28, 2007
<u>3,882,117</u>		

**Escrow Shares**

All of the 87,470 shares held in escrow were cancelled by the regulatory authorities on March 9, 2005. The issued share capital reflects the cancellation of these shares.

As at June 1, 2005, there were placed in escrow 495,422 common shares and warrants and options to purchase up to 694,800 common shares. As at the Caylloma acquisition closing on June 27, 2005, 10% of these securities were released from escrow, leaving a balance in escrow at June 30, 2005 of 445,880 common shares, and warrants and options to purchase up to 625,320 common shares. The next releases will be as follows:

- 15% of the original number securities placed in escrow: December 27, 2005
- 15% of the original number securities placed in escrow: June 27, 2006
- 15% of the original number securities placed in escrow: December 27, 2006
- 15% of the original number securities placed in escrow: June 27, 2007
- 15% of the original number securities placed in escrow: December 27, 2007
- 15% of the original number securities placed in escrow: June 27, 2008

**Fortuna Silver Mines Inc.****(Formerly Fortuna Ventures Inc.)**

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Nine Month Period Ended June 30, 2005 – Page 6

**6. Capital Stock (cont'd)****Stock-Based Compensation**

The Company uses the fair value based method of accounting for share options granted to consultants, directors, officers and employees. The non-cash compensation charge of \$79,646 recognized for the nine month period ended June 30, 2005 is associated with the granting of options to a consultant, directors and employees. These compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	3.74%
Expected stock price volatility	87.7%
Expected term in years	5
Expected dividend yield	0.0%

**7. Segmented Information**

Details of identifiable assets by geographic segments are as follows:

	<u>June 30, 2005</u>	<u>Sept 30, 2004</u>
Canada		
Current assets	\$ 952,711	\$ 412,455
Plant and equipment	1,229	-
Resource properties	73,950	69,667
	<u>\$ 1,027,890</u>	<u>\$ 482,122</u>
Peru		
Plant and equipment	2,654,130	-
Resource properties	15,185,214	18,019
	<u>\$ 17,839,344</u>	<u>\$ 18,019</u>
Guatemala		
Current assets	\$ 2,865	\$ -
Plant and equipment	6,158	-
Resource properties	68,513	-
	<u>\$ 77,536</u>	<u>\$ -</u>
Latin America - General		
Resource properties	\$ 8,471	\$ -
	<u>\$ 18,953,241</u>	<u>\$ 500,141</u>

**Fortuna Silver Mines Inc.****(Formerly Fortuna Ventures Inc.)**

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Nine Month Period Ended June 30, 2005 – Page 7

**8. Supplementary Disclosure Of Non-cash Transactions**

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

During the nine months ended June 30, 2005 the following non-cash transactions occurred:

	Number of shares	Amount
a) Escrow shares cancelled per regulatory authorities	87,470	\$ 6,123
Shares for debt issued in error	4,000	1,000
Shares issued for property acquisition	574,744	198,287
b) The Company incurred notes payable of \$9,201,495, a provision for environmental liabilities of \$1,576,974 and a deferred tax liability of \$6,033,729 in respect to the acquisition of the Caylloma plant and equipment and resource properties totaling \$16,812,198.		

**9. Subsequent events**

- a) Subsequent to the period outstanding options with an expiry date of August 25, 2005 to purchase 30,000 common shares were exercised.
- b) The Company has announced the arrangement of brokered and non brokered private placements to raise a total of up to \$9.0 million, by the issuance of up to 12 million units at a price of \$0.75 per unit. Each unit will consist of one common share and one transferable warrant exercisable into one common share of the Company for two years at a price of \$1.00 in the first year and \$1.25 in the second year. The offering is subject to all necessary regulatory approvals.

The brokered placement will be for 8.0 million units and the non-brokered portion will be for 4.0 million units. The brokered placement will be on a “best efforts” basis through Pacific International Securities Inc. (the “Agent”). The Agent has also been granted an over-allotment option (“greenshoe”) for an additional 1.6 million units which, if exercised prior to closing, will provide the Company with additional gross proceeds of \$1.2 million.

The Agent will receive a commission of 7% of the proceeds of the brokered portion of the offering. The same commission will be paid to the Agent in connection with any units issued or sold through the exercise of the greenshoe option. The Agent may elect to receive the commission in cash or in units at a deemed price equal to the unit offering price.

Fortuna will also issue broker’s warrants to the Agent equal to 12% of the total number of units sold in the brokered portion of the placement, including those sold via the greenshoe option. The broker’s warrants will be exercisable for two years at a price of \$0.80 per share.

The net proceeds of the placement will be used to make payments related to the acquisition of the Caylloma Mine in Peru, for exploration and development of the property, and for general working capital purposes.