

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2006
(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 six month period ended March 31, 2006.

FORTUNA SILVER MINES INC.
(Formerly Fortuna Ventures Inc.)
(An Exploration Stage Company)
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2006
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	March 31, 2006	September 30, 2005
ASSETS		
CURRENT		
Cash and equivalents	\$ 22,346,247	\$ 5,850,257
GST and value-added taxes receivable	337,029	39,730
Advances and other receivables	61,650	215
Prepaid expenses and deposits	581,462	41,410
Due from related parties (Note 5)	12,517	-
	23,338,905	5,931,612
PLANT & EQUIPMENT (Note 3)	249,578	21,534
MINERAL PROPERTIES (Note 3)	20,402,289	18,187,993
INVESTMENTS	1,000,000	-
	\$ 44,990,772	\$ 24,141,139
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 5)	\$ 649,861	\$ 870,663
Due to related parties (Note 5)	17,579	8,925
Notes payable (Note 3 & 4)	5,270,850	5,270,850
	5,938,290	6,150,438
Asset retirement obligations - (Note 9)	1,578,441	1,578,441
Future income tax liability (Note 3)	1,207,149	1,207,149
	8,723,880	8,936,028
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)	38,819,409	12,163,851
SHARE SUBSCRIPTIONS	45,002	2,030,888
OBLIGATION TO ISSUE SHARES AND WARRANTS	-	4,584,954
CONTRIBUTED SURPLUS	4,260,402	296,313
DEFICIT	(6,857,921)	(3,870,895)
	36,266,892	15,205,111
	\$ 44,990,772	\$ 24,141,139

APPROVED BY THE DIRECTORS:

"Jorge Ganoza Durant", Director
 Jorge Ganoza Durant

"Simon Ridgway", Director
 Simon Ridgway

FORTUNA SILVER MINES INC.
(Formerly Fortuna Ventures Inc.)
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2006
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	Three Month Period Ended March 31,		Six Month Period Ended March 31,	
	2006	2005	2006	2005
DEFICIT - BEGINNING OF PERIOD	\$ (4,487,209)	\$ (3,370,771)	\$ (3,870,895)	\$ (3,265,262)
Net loss for the period	(2,370,712)	(146,887)	(2,987,026)	(252,396)
DEFICIT - END OF PERIOD	<u>\$ (6,857,921)</u>	<u>\$ (3,517,658)</u>	<u>\$ (6,857,921)</u>	<u>\$ (3,517,658)</u>

FORTUNA SILVER MINES INC.
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2006
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	Three Month Period Ended March 31,		Six Month Period Ended March 31,	
	2006	2005	2006	2005
REVENUE	\$ 45,813	\$ -	\$ 64,277	\$ -
EXPENSES				
Amortization	1,636	-	3,225	-
Bank charges and interest	420	480	1,042	480
Consulting	77,225	17,786	154,878	22,286
Foreign currency exchange	(7,907)	-	8,175	-
Accounting & Legal	27,280	41,176	29,213	44,696
Management fees	15,905	-	36,705	2,629
Non cash compensation charge (Note 6)	2,131,025	-	2,213,250	79,646
Office and miscellaneous	14,197	8,859	23,534	9,815
Property investigations	705	-	705	-
Public relations	60,537	25,371	370,645	31,407
Regulatory and stock exchange fees	16,277	11,021	33,350	13,356
Rent and utilities	7,661	1,914	9,745	1,914
Salaries and wages	42,110	25,285	72,090	25,285
Telephone and fax	4,140	1,813	7,652	1,813
Travel and accommodation	25,316	13,182	47,585	19,069
	<u>2,416,525</u>	<u>146,887</u>	<u>3,011,792</u>	<u>252,396</u>
LOSS BEFORE OTHER ITEMS	(2,370,712)	(146,887)	(2,947,515)	(252,396)
Write-off of deferred exploration costs	-	-	(39,511)	-
NET LOSS FOR THE PERIOD	<u>\$ (2,370,712)</u>	<u>\$ (146,887)</u>	<u>\$ (2,987,026)</u>	<u>\$ (252,396)</u>
LOSS PER SHARE	<u>\$ (0.09)</u>	<u>\$ (0.02)</u>	<u>\$ (0.12)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding	<u>27,589,781</u>	<u>6,518,349</u>	<u>25,764,833</u>	<u>6,440,654</u>

FORTUNA SILVER MINES INC.
(Formerly Fortuna Ventures Inc.)
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED MARCH 31, 2006
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	Three Month Period Ended March 31,		Six Month Period Ended March 31,	
	2006	2005	2006	2005
OPERATING ACTIVITIES				
Net loss for the period	\$ (2,370,712)	\$ (146,887)	\$ (2,987,026)	\$ (252,396)
Items not involving cash				
Amortization	1,636	-	3,225	-
Write-off of deferred exploration costs	-	-	39,511	-
Stock based compensation charge	2,131,025	-	2,213,250	79,646
	(238,051)	(146,887)	(731,040)	(172,750)
Changes in non-cash working capital items	(783,144)	78,273	(1,119,593)	64,823
	(1,021,195)	(68,614)	(1,850,633)	(107,927)
FINANCING ACTIVITIES				
Proceeds on issuance of common shares	20,939,717	-	21,767,556	-
Due from related parties (Note 5)	(6,964)	-	(12,517)	-
Due to related parties (Note 5)	(23,371)	141,769	8,659	141,769
	20,909,382	141,769	21,763,698	141,769
INVESTING ACTIVITIES				
Deferred exploration costs	(1,586,682)	(297,702)	(2,185,807)	(383,551)
Investment	-	-	(1,000,000)	-
Purchase of plant & equipment	(121,040)	(2,910)	(231,268)	(2,910)
	(1,707,722)	(300,612)	(3,417,075)	(386,461)
INCREASE (DECREASE) IN CASH	18,180,465	(227,457)	16,495,990	(352,619)
Cash - beginning of period	4,165,782	271,159	5,850,257	396,321
CASH - END OF PERIOD	<u>\$ 22,346,247</u>	<u>\$ 43,702</u>	<u>\$ 22,346,247</u>	<u>\$ 43,702</u>
Supplementary disclosure of cash flow information:				
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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)
INTERIM CONSOLIDATED SCHEDULE OF DEFERRED EXPLORATION COSTS
FOR THE SIX MONTHS ENDED MARCH 31, 2006
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	General Exploration	Guatemala El Tambor	Peru Caylloma Admin	Peru Caylloma	Mexico San Jose	Period Ended Mar. 31, 2006	Year Ended Sept. 30, 2005
<u>ACQUISITION COSTS</u>							
BALANCE - BEGINNING OF PERIOD	\$ -	\$ -	\$ -	\$ 12,772,059	\$ -	\$ 12,772,059	\$ 3,457
Acquired mineral rights							
Shares	-	-	-	-	68,000	68,000	4,584,954
Cash	-	-	-	17,275	-	17,275	8,187,105
	-	-	-	17,275	68,000	85,275	12,772,059
BALANCE - END OF PERIOD	-	-	-	12,789,334	68,000	12,857,334	12,775,516
<u>DEFERRED EXPLORATION COSTS</u>							
BALANCE - BEGINNING OF PERIOD	\$ 8,471	\$ -	\$ -	\$ 689,682	\$ -	\$ 698,153	\$ 84,229
Automobile & transportation	-	2,250	5,921	62,484	7,782	78,437	39,472
Camp, equipment and supplies	-	76	7,489	33,197	11,284	52,045	20,594
Drafting, maps and printing	-	-	1,221	2,666	369	4,257	-
Drilling	-	-	-	264,218	684,778	948,996	42,315
Exploration administration	6	192	3,928	60,991	5,906	71,023	29,903
Environmental	-	-	-	20,189	-	20,189	-
Foreign Exchange	-	-	20,365	-	-	20,365	-
Geochemistry	-	-	-	90,600	3,097	93,697	8,568
Engineering consulting	-	-	-	6,995	-	6,995	-
Geological consulting	1,772	3,199	-	23,292	50,702	78,965	151,017
Mine operating consulting	-	-	-	61,849	-	61,849	-
Other consulting	-	-	1,805	184,244	100	186,149	189,428
Legal and accounting	-	9,269	28,207	14,648	-	52,123	23,094
Licenses, rights and taxes	154	9,568	848	3,938	1,098	15,606	17,561
Materials	-	-	-	-	1,262	1,262	1,273
Maintenance	-	519	-	15,872	-	16,391	7,906
Miscellaneous	50	696	115	14,904	-	15,766	2,192
Medical expenses	-	176	44	4,690	-	4,910	5,807
Geological research	-	-	-	-	-	-	37,420
Rent and utilities	133	631	3,833	37,674	817	43,089	18,358
Rental equipment	-	7,380	-	4,358	2,866	14,604	9,766
Salaries and wages	569	4,920	23,997	230,612	10,504	270,602	94,927
Security consulting	-	-	-	14,490	-	14,490	-
Shipping	-	-	-	4,401	788	5,189	876
Warehouse	-	-	-	15,783	-	15,783	-
Telephone and communications	395	635	4,711	9,703	827	16,272	15,429
Travel and accommodation	-	-	17,932	26,458	15,088	59,478	77,218
	3,078	39,511	120,417	1,208,257	797,268	2,168,532	793,124
BALANCE - END OF PERIOD	11,549	39,511	120,417	1,897,939	797,268	2,866,685	877,353
<u>PLANT & EQUIPMENT ACQUISITION</u>							
BALANCE - BEGINNING OF PERIOD	-	-	-	4,717,781	-	4,717,781	-
Plant & Equipment acquired on the acquisition of subsidiary - Note 3	-	-	-	-	-	-	4,708,283
Equipment acquisitions	-	-	-	-	-	-	9,498
BALANCE - END OF PERIOD	-	-	-	4,717,781	-	4,717,781	4,717,781
Write-off Exploration Costs	-	(39,511)	-	-	-	(39,511)	(182,657)
BALANCE - END OF PERIOD	\$ 11,549	\$ -	\$ 120,417	\$ 19,405,055	\$ 865,268	\$ 20,402,289	\$ 18,187,993

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

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Six Months Ended March 31, 2006

1. Nature and Continuance of Operations

On June 28, 2005 Fortuna Silver Mines Inc. (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 Company is in the business of acquiring, exploring and developing mineral resource properties and is presently in the process of exploring and developing its mineral properties in Peru and Mexico. The Company has determined that the Caylloma properties in Peru contain reserves that it expects to be economically recoverable, however, the recoverability of these capitalized costs is dependant upon the ability of the Company to obtain the necessary financing to complete their development and upon future profitable production. The Company has not yet determined whether its other properties contain reserves that are economically recoverable.

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.

2. Significant Accounting Policies

The interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. Due to precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates.

a) Cash and equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

b) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

Fortuna Silver Mines Inc.

(Formerly Fortuna Ventures Inc.)

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Six Months Ended March 31, 2006

2. Significant Accounting Policies – (cont'd)

b) Mineral Properties (cont'd)

The Company is in the process of exploring and developing its mineral properties. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

c) 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. Therefore, there is no difference in the calculation of basic and diluted LPS.

d) Stock-based Compensation

Effective for fiscal years commencing on or after January 1, 2004, Canadian generally accepted accounting principles require the fair value of all share purchase options granted on or after fiscal years commencing on or after January 1, 2002 to be expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The Company had not granted any share purchase options prior to October 1, 2004 and accordingly this change in policy has no effect on prior year's operations

e) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period in which it is incurred and a reasonable estimate of the fair value can be made, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset.

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

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Six Months Ended March 31, 2006

3. Acquisition of Caylloma Silver Mine

On June 27, 2005 the Company completed the acquisition of the Caylloma Silver Mine located in southern Peru, by acquiring 100% of the outstanding common shares of Minera Bateas S.A.C. (Bateas). Bateas was incorporated in Peru on March 23, 2005 to facilitate the sale to the Company and its assets consist of mining rights to properties located in southern Peru and other property and equipment located on the properties. The purchase price is US\$7,550,000 and the issue of shares and share purchase warrants up to 10.803% of the fully diluted capital of the Company until such time as the Company subsequently completes equity financing of \$10 million. The Company also paid a \$220,000 finder's fee in connection with the transaction. The Company completed the equity financing and issued the required number of shares and share purchase warrants. This acquisition has been accounted for using the purchase method of accounting.

Net assets acquired, at fair value

Property, plant and equipment	\$ 4,708,284
Mineral rights	12,772,059
Less: asset retirement obligations	(1,578,440)
Less: future tax liability	<u>(1,207,149)</u>
	<u>\$ 14,694,754</u>

Consideration

Cash and acquisition costs	\$ 641,018
Shares issued on acquisition date – 574,744 at \$0.345 per share	198,287
Fair value of share purchase warrants issued on acquisition date	69,000
Convertible note payable of US\$2,950,000	3,643,545
Note payable of US\$4,500,000	5,557,950
Shares issued on completion of equity financing 1,897,621 at \$1.43 per share	2,713,598
Fair value of share purchase warrants issued on completion of equity financing	<u>1,871,356</u>
	<u>\$ 14,694,754</u>

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

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Six Months Ended March 31, 2006

3. Acquisition of Caylloma Silver Mine – (cont'd)

The fair value of the share purchase warrants was determined using the Black-Scholes option pricing model using the following assumptions:

	Issued June 27, <u>2005</u>	Issued November 17, <u>2005</u>
Expected dividend yield	0.0%	0.0%
Expected volatility	34.2%	93.8%
Risk-free interest rate	3.75%	3.6%
Expected term in years	2 years	2 years

4. Note Payable

	Six months ended March 31, <u>2006</u>	<u>2005</u>
Note payable – US\$4,500,000, secured by the shares of Bateas, non-interest bearing and due on June 27, 2006	\$ <u>5,270,850</u>	\$ <u> -</u>

5. Related Party Transactions

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

	Six Month Period Ending March 31,	
	<u>2006</u>	<u>2005</u>
Deferred exploration costs – geological fees	\$ 50,584	\$ 13,137
Consulting fees	\$ 52,842	\$ 9,180
Salaries and wages	\$ 7,996	\$ 18,000
Management fees	\$ 36,705	\$ -

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

At March 31, 2006, accounts payable and accrued liabilities included \$50,617 (Sept 2005: \$181,036) to a company with a common director.

At March 31, 2006, due to related parties consists of amounts owing to a company with a common director which were incurred as a result of shared administrative costs. This amount is unsecured, non-interest bearing and payable in the normal course of business.

At March 31, 2006, due from related parties consists of amounts owed from companies with a common director which were incurred as a result of shared administrative costs. This amount is unsecured, non-interest bearing and will be collected in the normal course of business.

Fortuna Silver Mines Inc.
(Formerly Fortuna Ventures Inc.)
Notes to the Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)
Six Months Ended March 31, 2006

6. Capital Stock

Authorized

Unlimited common shares without par value

Issued	Number of Shares	Price per share \$	Amount
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)
Private placement for cash	1,500,000	0.70	1,050,000
Private placement for cash	9,600,000	0.75	7,200,000
Property acquisition	574,744	0.35	198,287
Exercise of options	47,500	0.37	17,575
Exercise of warrants	2,000,000	0.30	600,000
Transfer of contributed surplus on exercise of options	47,500	0.16	7,530
	<u>13,630,774</u>		<u>9,066,269</u>
Less issue costs			<u>(599,900)</u>
Balance, September 30, 2005	20,083,465		\$ 12,163,851
Exercise of options	252,500	0.37	93,425
Exercise of options	47,500	0.72	34,200
Exercise of options	137,500	0.80	110,000
Exercise of options	20,000	1.35	27,000
Exercise of warrants	170,000	0.75	127,500
Exercise of warrants	851,357	0.80	681,086
Exercise of warrants	1,054,200	1.00	1,054,200
Private placement for cash	4,000,000	0.75	3,000,000
Private placement for cash	12,700,000	1.50	19,050,000
Private placement commission	760,261	1.50	1,140,392
Property acquisition	1,897,621	1.43	2,713,598
Property acquisition	50,000	1.36	68,000
Transfer of contributed surplus on exercise of options	252,500	0.16	40,018
Transfer of contributed surplus on exercise of options	47,500	0.50	23,750
Transfer of contributed surplus on exercise of options	137,500	0.26	35,750
Transfer of contributed surplus on exercise of options	10,000	0.91	9,100
Transfer of contributed surplus on exercise of options	10,000	1.19	11,900
Less issue costs			<u>(1,564,360)</u>
Balance, March 31, 2006	<u>42,024,404</u>		<u>\$ 38,819,409</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. Upon the Company becoming a Tier 1 issuer on the TSX Venture Exchange on January 13, 2006, the options are for a maximum term of ten years.

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

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Six Months Ended March 31, 2006

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

The following stock options were outstanding at March 31, 2006:

<u>Number of shares</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
37,500	0.80	July 24, 2006
125,000	2.29	March 30, 2007
202,500	0.37	December 2, 2009
102,500	0.72	July 13, 2010
80,000	0.80	July 24, 2010
75,000	1.35	November 17, 2010
700,000	1.35	February 5, 2016
500,000	2.29	March 30, 2016
<u>1,822,500</u>		

Warrants

The following share purchase warrants were outstanding at March 31, 2006:

<u>Number of shares</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
1,330,000	0.75	June 27, 2006
100,000	1.50	February 20, 2007
862,117	0.345	June 27, 2010 *
1,613,238	0.345	November 17, 2010 *
9,220,000	1.00	September 26, 2007
342,643	0.80	September 26, 2007
189,056	0.80	October 6, 2007
952,275	1.85	September 23, 2007
6,350,000	1.85	March 22, 2008
380,130	1.85	March 22, 2008
3,373,300	1.00	October 6, 2007
<u>24,712,759</u>		

* Upon the Company becoming a Tier 1 issuer on the TSX Venture Exchange on January 13, 2006, these warrants were automatically extended by three years.

Escrow Securities

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.

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

Notes to the Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

Six Months Ended March 31, 2006

6. Capital Stock (cont'd)**Escrow Securities (cont'd)**

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. On June 27, 2005, 10% of these securities were released from escrow, leaving a balance in escrow of 445,880 common shares, and warrants and options to purchase up to 625,320 common shares. On September 8, 2005, 288,000 of these warrants were exercised, leaving a balance in escrow of 733,880 common shares, and warrants and options to purchase up to 337,320 common shares. On December 27, 2005, an additional 15% of the original number of securities was released from escrow, leaving a balance in escrow of 659,567 common shares, and warrants and options to purchase up to 233,100 common shares.

Subsequent to December 31, 2005 releases will be as follows:

25% of the original number securities placed in escrow: January 20, 2006 (released)

25% of the original number securities placed in escrow: June 27, 2006

25% of the original number securities placed in escrow: December 27, 2006

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 \$2,213,250 recognized for the six months ended March 31, 2006 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	4.21%
Expected stock price volatility	92.0%
Expected term in years	10
Expected dividend yield	0.0%

Fortuna Silver Mines Inc.
(Formerly Fortuna Ventures Inc.)
Notes to the Consolidated Financial Statements
(Unaudited – Prepared by Management)
Six Months Ended March 31, 2006

7. Segmented Information

Details of identifiable assets by geographic segments are as follows:

	<u>March 31, 2006</u>	<u>Sept 30, 2005</u>
Canada		
Current assets	\$ 22,387,539	\$ 5,846,705
Investments	1,000,000	-
Plant and equipment	21,612	18,624
	<u>\$ 23,409,151</u>	<u>\$ 5,865,329</u>
Peru		
Current assets	\$ 948,689	\$ 82,452
Plant and equipment	225,056	-
Mineral properties	19,525,471	18,179,522
	<u>\$ 20,699,216</u>	<u>\$18,261,974</u>
Guatemala		
Current assets	\$ 2,677	\$ 2,455
Plant and equipment	2,910	2,910
	<u>\$ 5,587</u>	<u>\$ 5,365</u>
Mexico		
Mineral properties	\$ 865,268	\$ -
Latin America - General		
Mineral properties	\$ 11,549	\$ 8,471
	<u>\$ 44,990,772</u>	<u>\$24,141,139</u>

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 six months ended March 31, 2006 the following non-cash transactions occurred:

	<u>Number of shares</u>	<u>Amount</u>
Shares issued for property acquisition, previously booked as an obligation	1,897,621	\$2,713,598
Warrants issued for property acquisition, previously booked as an obligation	1,613,238	\$1,871,356
Shares issued for property finders fee	50,000	\$ 68,000
Shares issued for commission on private placement	760,261	\$1,140,392

Fortuna Silver Mines Inc.
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Notes to the Consolidated Financial Statements
(Unaudited – Prepared by Management)
Six Months Ended March 31, 2006

9. Asset Retirement Obligation

The asset retirement obligation is calculated based on all costs that the Company is required to pay to comply with Peruvian environmental standards when the unit mine closes. The calculation has been done considering that the mine has mineral reserves for approximately 3.7 years. The costs that are required to be incurred are the following:

Treatment and recovery of deposit zone of residues from the mine	\$ 988,268
Close of the mine and re-location of rock piles	758,456
Other	<u>140,509</u>
Expected cash flow before inflation adjustment	1,887,233
Inflation factor (2.5% per year for 3.7 years)	<u>1.0957</u>
Expected cash flow adjusted for inflation	2,067,841
Market risk premium (5%)	<u>103,392</u>
Expected cash flow adjusted for market premium	<u>\$2,171,233</u>
Present value using credit-adjusted risk-free rate of 9% per year	<u>\$1,578,441</u>

The rate of 9% per year corresponds to the financial interest rate that could be obtained by the shareholders, and in management's opinion this rate corresponds to the best estimate of the interest rate the Company could obtain to finance its operations.

10. Subsequent Events

The Company received \$590,254 from the exercise of warrants and options.