MANAGEMENT'S DISCUSSION AND ANALYSIS
Three Months Ended March 31, 2008

Change in Fiscal Year-End

In August, 2006, Fortuna Silver Mines Inc. ("Fortuna" or the "Company") changed its fiscal year-end from September 30th to December 31st. The Company's year-end now matches that of its Peruvian subsidiary which owns the Caylloma Mine, resulting in an increase in the efficiency of the Company's accounting operations. A Notice of Change in Fiscal Year End was filed on sedar.com.

General

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements of the Company for the three months ended March 31, 2008 prepared in accordance with Canadian generally accepted accounting principles. This MD&A is prepared as of May 9, 2008. All amounts are expressed in Canadian dollars unless otherwise indicated.

Business of the Company

Fortuna Silver Mines Inc. is a mining company focused on producing silver and developing silver projects in Latin America. The Company's principal assets are the Caylloma poly metallic Mine in southern Peru and the San Jose Silver-Gold Project in southern Mexico.

Recent Developments and Highlights

Financial and Operating Results

In the first three months of 2008 the Company generated a net loss of $0.64 million compared to a net loss of $1.76 million for the corresponding quarter of 2007. Cash generated by operating activities before changes in working capital for the period was $2.50 million compared to $2.40 million in the corresponding quarter of 2007.

During the first quarter of 2008 the Company´s Caylloma mine had its fifth consecutive quarter of production growth. In the three months 70,408 tonnes of ore were treated compared to 52,687 tonnes in the same period of 2007. Metal production amounted to 140,239 ounces of silver, 2,079 MT of zinc, and 1,189 MT of lead, up 65%, 77%, and 84% respectively compared to the corresponding quarter of 2007. Cash production cost per tonne for the first quarter of 2008 was US$49.97 and the corresponding unit net smelter return (NSR) was US$97.70 (Cash production cost is a non-GAAP measure. See page 6 for reconciliation of cash production cost to the cost of sales in the consolidated statement of operations).

San Jose Project, Mexico

The Company's joint venture company ("Cuzcatlan") renegotiated the existing option agreement on the Monte Alban II concession and purchased a direct 100% interest for US$ 1,100,000 paid on May 6th, and an additional US$ 800,000 payment due by May 2012. The Monte Alban II concession comprises 40,000 hectares surrounding the San Jose project and the concessions held by Panamerican Silver. It is important to highlight that Cuzcatlan now controls a commanding land position in this historically rich district. Work conducted by Cuzcatlan to date, which includes over 17,500 soil and stream sediment samples, has outlined multiple veins and geochemical anomalies that will receive follow up work and drilling later this year.

Quarterly Information

The following table provides information for the eight fiscal quarters ended March 31, 2008:

		Quarters Ended							
		31-03-08	31-12-07	30-09-07	30-06-07	31-03-07	31-12-06	31-09-06	31-09-06
Revenues	$ 000	6,834	7,930	9,201	8,797	5,739	3,370	0	0
Net Income (loss)	$ 000	(641)	1,411	(3,391)	947	(1,756)	21	(1,745)	363
Net Income (loss) per share, basic	$	(0.01)	0.02	(0.05)	0.01	(0.03)	0.00	(0.04)	0.01
Net Income (loss) per share, diluted	$	(0.01)	0.02	(0.05)	0.01	(0.03)	0.00	(0.04)	0.01

Financial Results

During the first quarter of 2008 the Company generated $6.83 million of sales compared to $5.74 million in the same period of 2007. With respect to the previous quarters the drop in sales has been accentuated by the fact this has been the first quarter in which both zinc and lead have corrected together towards the down side. Under this price scenario, volatility in sales is further accentuated by the prevailing sales settlement system in which final settlement takes place either one or three months after delivery. In addition, smelter treatment charges have increased for all 2008 for zinc and lead-silver concentrates from an average of $220 per tonne and $135 per tonne respectively in 2007 to over $400 for both concentrates.

Volume of concentrate sold during the first quarter of 2008 was 69% and 70% larger for zinc and lead-silver respectively compared to the same period in 2007, while realized metal prices decreased 26% for zinc and increased 51% and 34% for lead and silver compared to the same period.

The Company's operating income and operating margin have evolved in the following way:

		Quarters Ended				
		31-03-08	31-12-07	30-09-07	30-06-07	31-03-07
Mine operating income	$ 000	2,312	3,397	4,097	4,012	1,714
Operating income before stock-based compensation charge	$ 000	721	1,332	2,684	2,552	513
Operating margin *	%	11%	17%	29%	29%	9%

*** Sales over Operating Income before stock-based compensation charge**

The lower margin in the current period is the result of lower sales attributable to factors explained above. These factors have been partially offset by higher silver prices as well as higher production and head grades.

For the first quarter of 2008 the Company recorded a net loss of $0.64 million compared to $1.76 million in the corresponding quarter of 2007. Net income shows higher volatility than operating income before stock-based compensation charges as reported in the table above. This further volatility in net income is driven by stock based compensation charges, foreign exchange gain/(loss), and recently by unrealized gain (loss) on commodity contracts.

Total **cost of sales** for the first quarter of 2008 was $4.52 million compared to $4.03 million for the same period of 2007. While tonnage of concentrate sold in the first quarter of 2008 increased 70% with respect to the corresponding quarter in 2007, this increase in percentage terms is not reflected in the change in cost of sales between the two comparative periods due to the significant increase achieved in head grades. Other things being equal, an increase in head grades will deliver higher concentrate production for equal or similar production costs. Another relevant factor affecting cost of sales is the larger life of mine estimate for purposes of depletion calculation being used in 2008.

Selling and administrative expenses for the first quarter of 2008 totalled $1.59 million compared to $1.20 million for the three months ended March 31, 2007. The increase is due mainly to higher corporate expenses associated with the growth in corporate activities as well as in the management team. A $0.11 million increase in sale expenses at our Peruvian subsidiary was recorded due to higher concentrate sales. The stock based compensation charge totalled $0.53 million for the three months ended March 31, 2008, compared to $2.31 million for the three month period ended March 31, 2007.

Interest and other income and expenses in the first quarter of 2008 amounted to net income of $0.45 million compared to net income of $0.28 million for the three months ended March 31, 2007. The increase is attributable mainly to the Company holding a comparatively larger average cash balance.

Net loss on commodity contract for the first quarter of 2008 was $0.59 million compared to nil in the corresponding quarter of 2007. This was comprised of an unrealized loss of $0.62 million and a realized gain of $0.03 million. The Company enters regularly into forward lead and zinc contracts with banks to fix the final settlement price of metal delivered in concentrates, where the final settlement price is yet to be set at a future quotational period according to contract terms, and has entered into a combination of option and forward contracts with a bank as part of a medium-term lead and zinc price protection program. The Company does not use hedge accounting (See section on financial instruments below for further detail).

Interest and finance expenses for the first quarter 2008 were $0.02 million compared to $0.06 million in the first quarter of 2007. Higher interest expenses in the previous quarter relate to short-term loans taken in the last quarter of 2006 and paid off in the first quarter of 2007.

Foreign exchange gain recorded for the first quarter of 2008 was $0.01 million, compared to a gain of $0.16 million for the three months ended March 31, 2007. The Company holds its foreign assets in US and local currencies. Under the temporal method for translation of financial statements which the Company currently uses, the gains and losses arising from the translation to the Canadian dollar are included in the statement of operations.

In the first quarter of 2008, the Company recognized a **loss on disposal of capital assets** of $0.02 million in connection with the disposition of minor equipment at the Caylloma mine.

The $0.61 million **Income tax provision** recorded in the first quarter of 2008 (2007: $0.34 million) consisted of current and future income tax expense. Current income tax for the period, including the worker profit sharing plan regulated by Peruvian law was $0.44 million (2007: nil). Future income tax expense, amounting to $0.17 million (2006: $0.34 million) mainly relates to temporary differences arising on amounts of mineral properties at Peruvian operations.

Results of Operations

Peru – Caylloma Poly metallic Mine

Caylloma Mine	**Quarters Ended**				
	31-Mar-08	**31-Dic-07**	**30-Sep-07**	**30-Jun-07**	**31-Mar-07**
Tonnes milled	70,408	68,615	65,806	63,806	52,687
Grade per tonne					
Silver (oz)	2.64	2.43	2.45	2.29	2.23
Lead (%)	1.94	1.87	1.80	1.67	1.39
Zinc (%)	3.42	3.09	3.01	2.92	2.65
Recoveries					
Silver (%)	76.42	77.74	75.75	73.28	71.39
Lead (%)	87.26	87.51	88.50	89.22	88.59
Zinc (%)	86.45	85.09	86.51	86.22	84.16
Production (metal contained)					
Silver (oz)	140,239	139,433	132,450	119,110	95,473
Lead (tonnes)	1,189	1,124	1,049	952	646
Zinc (tonnes)	2,079	1,805	1,712	1,605	1,178
Unit cash production cost (US$/tonne)	49.97	52.41	49.15	46.65	42.62
Unit Net Smelter Return (US$/tonne)	97.70	118.41	133.70	123.65	90.26

After commencing production in late 2006 the 100% owned Caylloma mine had its fifth consecutive quarter of continuous production growth in the first quarter of 2008. This trend is explained by continuous increments in throughput as well as head grades. Average throughput rate for the first quarter of 2008 was 838 tpd, significantly above the 754 tpd achieved in the fourth quarter of 2007. An all time record of 900 tpd was achieved on May 5, 2008.

The mine continues to outpace the processing plant. As at March 31, 2008 ore stock piles on surface amounted to 14,778 tonnes, up from 11,535 tonnes at December 31, 2007. As mentioned in MD&A for previous quarters the main infrastructure item awaiting resolution for definitive ramp-up to permitted capacity of 1,050 tpd is increased access to energy. Resolution of the energy project involves ongoing negotiations that include neighboring mines. The investments in development and preparation carried out during the previous year in the Animas vein ensure mine flexibility to source the planned throughput increments with the bulk of mine feed coming from the poly metallic structure. Development on the silver rich Bateas vein is currently underway with the objective of providing a high silver grade component of around 20% to the overall mine feed. Bonanza silver grades on the north-east extension of the Bateas vein were discovered in the last quarter of 2007 as published on a March 10, 2008 news release. Highlights of the drilling on Bateas included 1.6 meters at 6,000 g/t Ag.

The main extraction level being developed in Animas 200 meters below current mine workings is advancing according to plan. This critical infrastructure item will consolidate mine capacity and mechanization as well as reduce transportation costs.

Cash production cost per tonne of treated ore for the first quarter of 2008 was US$50.33 compared to US$42.62 for the corresponding quarter of 2007. These cost increments were analyzed in the 2007 year end MD&A. Last year costs for the corresponding quarter were distorted due to participation of old stock piles in ore sourced to the plant. Management expects costs to remain stable at current levels. (See page 6 for reconciliation of cash production cost to the cost of sales in the consolidated statement of operations).

The Company is expecting an updated resource estimate in the second quarter. This new resource estimation will include drilling carried out in 2007 and early 2008. Current surface exploration and drilling on the Animas vein is focusing in an area named Nancy, on the northeast extension of the structure. Surface sampling and drilling conducted in Nancy during 2007 indicate the existence of a new mineralized shoot. The Company expects to disclose results during the second quarter once the current phase of follow up work is concluded.

Mexico – San Jose Silver-Gold Project

Compañia Minera Cuzcatlan S.A. de C.V. ("Cuzcatlan"), the joint venture company that operates the San Jose project, continues to advance the project with various engineering and environmental impact studies. AMEC is working on the completion of the final report on an internal scoping study based on the existing resource estimate, which contains a large portion of the reported tonnage in the inferred category. A new resource estimate is being prepared by AMEC that will incorporate 17,694 meters of additional drilling conducted in the Trinidad zones during 2007 and is expected in the second quarter. The Company plans to publish a Preliminary Technical Assessment for the project as soon as the scoping study is updated with the new resource estimate. This will lead to the pre-feasibility study the Company plans to have completed by the end of the year.

Cuzcatlan is on schedule to deliver by the third quarter of 2008 the Environmental Impact Study to the regulatory authorities for the permitting of an underground mine, processing facilities and other infrastructure.

Cuzcatlan and its consultants are evaluating various alternative water sources for the project.

Drilling will start in May on the Trinidad and San Ignacio zones. The program in Trinidad is aimed at continued in-fill drilling and in San Ignacio to follow up encouraging results obtained in the 2007 drill campaign.

Five hundred meters of ramp development have been driven to date. The ramp provides main access to the Trinidad resource and at this stage will be used for continued exploration of deeper extensions of the mineralized shoot, infill drilling, bulk sampling, and test long holes mining methods.

Cuzcatlan renegotiated an existing option agreement on the Monte Alban II concession and purchased a direct 100% for US$ 1,100,000 paid on May 6th, and an additional US$ 800,000 payment due by May 2012. The Monte Alban II concession comprises 40,000 hectares surrounding the San Jose project and the concessions held by Panamerican Silver. It is important to highlight that Cuzcatlan now controls the commanding land position in this historically rich district. Work conducted by Cuzcatlan to date, which includes over 17,500 soil and stream sediment samples, has outlined multiple veins and geochemical anomalies that will receive follow up work and drilling later this year.

Acquisitions

Fortuna is constantly evaluating new mining opportunities in order to meet our corporate objective of building significant silver inventory and cash flow, by acquiring advanced projects or operating mines from private parties in Latin America.

Cash cost per tonne (non-GAAP measures)

Cash cost per tonne is a key performance measure that management uses to monitor performance. These performance measures have no meaning within Canadian Generally Accepted Accounting Principles ("Canadian GAAP"), and, therefore, amounts presented may not be comparable to similar data presented by other mining companies.

The following table presents a reconciliation of cash production costs per tonne of processed ore to the cost of sales in the consolidated statement of operations:

	CAD$ $'000	**US$** $'000 **@ 0.9954**
Cost of sales	**4,522**	**4,501**
Change in inventory (ore and concentrate stock piles)	**89**	**89**
Depletion, depreciation, and accretion	**(1,076)**	**(1,071)**
Total cash production cost	**3,535**	**3,519**
Total processed ore (tonnes)		**70,408**
Cash production cost per tonne of processed ore (US$)		**49.97**

Liquidity and Capital Resources

The Company's cash resources and liquid investments as at March 31, 2008 were $50.40 million compared to $47.24 million as at December 31, 2007.

During the first quarter of 2008 cash generated by operating activities before changes in current assets and liabilities was $2.50 million. Further liquidity consumed by changes in current assets and liabilities amounted to $4.21 million, for total cash consumed by operating activities of $1.71 million.

During the first quarter of 2008 the Company invested a total amount of $2.53 million in mineral properties and $0.38 million in plant and equipment. Additionally, the investments in mining properties and projects in Mexico demanded total value added tax disbursements of $0.16 million. This value added tax is refundable and is included as part of current assets as at March 31, 2008.

During the first quarter of 2008 issuance of common shares generated net proceeds of $8.03 million. This was comprised of $0.03 million from the exercise of stock options, and $8.0 million from the exercise of warrants.

As at March 31, 2008, the Company had working capital of $57.91 million compared to working capital of $51.16 million at December 31, 2007.

As at May 9, 2008 the Company has 9.68 million warrants outstanding with expiry date of July 11, 2008 and a strike price of $2.30. The exercise of these warrants could potentially bring in cash to the Company in the amount of $22.26 million.

Management believes the Company's cash position as well as its ongoing operation in Caylloma is sufficient to support the Company's operating and capital requirements on an ongoing basis. Actual funding requirements may vary from those planned due to further acquisition opportunities. Management believes it will be able to raise equity capital or access debt facilities as required in both the short and long term, but recognizes the uncertainty attached thereto.

Related Party Transactions

The Company incurred charges from directors, officers, and companies having a common director or officer as follows:

	Three months ended March 31, 2008 ($'000)	Three months ended March 31, 2007 ($'000)
Mineral property costs – geological fees	-	45
Consulting fees	8	8
Salaries and wages	13	3
Management fees	231	54

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

At March 31, 2008, due to related parties consists of $0.026 million (December 31, 2007 - $0.014 million) owing to an officer and to companies with a common director. These amounts were incurred as a result of shared administrative costs. These amounts are unsecured, non-interest bearing and payable in the normal course of business.

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the fair values of financial instruments and derivatives, determination of mineral reserves, the carrying amount of mineral property, plant and equipment, assay grades of metal concentrates sold, valuation of inventories and future income taxes, recoverability of receivables, provisions for asset retirement obligation and reclamation, fair value estimation of acquisitions and stock-based awards. Actual results could differ from those estimates.

Financial Instruments

The carrying value of cash and cash equivalents, receivables, due from/to related parties and accounts payable and accrued liabilities approximate their fair value because of the short-term maturity of those instruments.

The Company enters into derivative contracts to manage its exposure to fluctuations in base metal prices. These consist of forward lead and zinc contracts with banks to fix the final settlement price of metal delivered in concentrates (QP hedges), where the final settlement price is yet to be set at a future quotational period according to contract terms, and combinations of options and forward contracts entered into with a bank as part of a medium-term lead and zinc price protection program. These contracts are marked-to-market at the end of each period, and the changes in estimated fair value are recorded as an unrealized gain (loss) on commodity contracts in the statement of operations. As at March 31, 2008 the Company estimated the fair value of the outstanding contracts at $0.71 million and recorded a total loss in the statement of operations of $0.59 million which was the net result of an unrealized loss of $0.62 million and a realized gain of $0.03 million. Total cash settlement in favour of the Company for the first quarter of 2008 was $0.15 million. The estimated fair value of derivative contracts was determined based on using applicable valuation techniques for commodity options with reference to the published marked prices for underlying commodities quoted at London Metal Exchange. The table below shows the change in the derivative asset carried in the balance sheet for the first quarter of 2008. The Canadian dollar amounts shown at the bottom of the table reflect the US dollar amounts translated into Canadian dollars for financial statement purposes.

	Balance Sheet	Statement of Operations	Cash Settlement		Balance Sheet
	Derivative asset	- (loss) + gain	- (gain) + loss		Derivative asset
	31/12/2007	Q1 2008	Q1 2008		31/03/2008
USD	**US$**	**US$**	**US$**		**US$**
Positions Settled in Q1 2008	**206,009**	**(56,365)**	**(149,644)**		**-**
Medium Term hedges	**206,009**	**(82,676)**	**(123,333)**		**-**
QP hedges	**-**	**26,311**	**(26,311)**		**-**
Positions Still Open at 31/03/08	**1,220,067**	**(530,115)**	**-**		**689,952**
Medium Term hedges	**1,220,067**	**(464,265)**	**-**		**755,802**
QP hedges	**-**	**(65,850)**	**-**		**(65,850)**
Total	**1,426,076**	**(586,480)**	**(149,644)**		**689,952**
CAD	**CAD**	**CAD**	**CAD**	FX adj.	**CAD**
Positions Settled in Q1 2008	202,301	(56,627)	(150,340)	4,666	-
Positions Still Open at 31/03/08	1,198,106	(532,580)	-	40,433	705,959
Total	**1,400,407**	**(589,207)**	**(150,340)**	**45,099**	**705,959**
Unrealized gain/(loss)		(615,640)			
Realized gain/(loss)		26,433			
Total		**(589,207)**			

The long-term investments into marketable securities are classified as available-for-sale and are measured at fair value at the end of each period. Fair value of these investments is determined based on published market prices of underlying securities. Change in fair values of available-for-sale marketable securities is recognized in other comprehensive income.

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 May 9, 2008 is 85,331,659 common shares. In addition, a total of 19,061,779 share purchase warrants and incentive stock options are currently outstanding as follows:

Type of Security	Number	Exercise Price	Expiry Date
Warrants	9,681,424	$2.30	July 11, 2008
	862,117	$0.345	June 27, 2010
	1,613,238	$0.345	November 17, 2010
	12,156,779		
Options	29,000	$0.37	December 2, 2009
	30,000	$0.80	July 24, 2010
	250,000	$2.82	October 9, 2010
	270,000	$1.35	February 5, 2016
	451,000	$2.29	March 30, 2016
	60,000	$1.75	May 8, 2016
	200,000	$1.75	May 22, 2016
	280,000	$1.55	July 5, 2016
	860,000	$1.66	July 10, 2016
	225,000	$1.61	September 13, 2016
	20,000	$1.90	November 20, 2016
	50,000	$1.96	November 23, 2016
	1,385,000	$2.22	January 11, 2017
	80,000	$2.75	February 6, 2017
	15,000	$3.09	April 22, 2017
	50,000	$3.10	May 31, 2017
	50,000	$3.10	June 17, 2017
	50,000	$3.05	June 27, 2017
	2,025,000	$3.22	July 2, 2017
	250,000	$2.97	September 23, 2017
	25,000	$3.10	October 24, 2017
	250,000	$2.52	February 5, 2018
	6,905,000		

Change in Accounting Policy

Effective January 1, 2008, the Company adopted the following standards previously issued by the Canadian Accounting Standards Board. In accordance with the transitional provisions of these standards, the changes were adopted prospectively (if applicable), with no restatement of prior periods.

Section 1535 – Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Disclosures include what is defined as capital, how it is managed, and whether externally imposed restrictions on capital are present.

Section 3031 - Inventories

This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3862 – Financial Instruments – Disclosures

This Section, in addition to Section 3863, replaces Section 3861 “Financial Instruments – Disclosure and Presentation” and requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Entities are required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

Section 3863 – Financial Instruments – Presentation

This Section, in addition to Section 3862, replaces Section 3861 "Financial Instruments – Disclosure and Presentation", and provides guidance on presentation of financial instruments as liabilities vs. equity and when offsetting of financial assets and financial liabilities is appropriate. The adoption of this standard did not have a material impact on the Company's presentation of its 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, and performance of achievements of the Company to be materially different 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 most significant risk affecting the profitability and viability of the Company's mining operations is the fluctuation of metal prices. Volatility of metal prices is high by historic measures and strong downturns on these prices can have significant adverse effects on the continuity of the Company's operations. In order to mitigate this risk in the medium term, the Company has put in place price protection strategies for approximately 50% of its zinc and lead metal production during twelve months from the original contract dates up to January 2009.

The Company's reporting currency is the Canadian dollar, however the Company's foreign assets as well as most of its commercial transactions are held and take place in US and local currencies. As a consequence, the financial results of the Company´s operations as reported in Canadian dollars are subject to changes in value of the Canadian dollar relative to US and local currencies.

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are in the exploration stage 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.

Internal Controls

No changes have been made to the Company's internal controls over financial reporting during the first quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.