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MANAGEMENT'S DISCUSSION AND ANALYSIS
Nine Months Ended September 30, 2008

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 nine months ended September 30, 2008 prepared in accordance with Canadian generally accepted accounting principles. This MD&A is prepared as of November 3, 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 third quarter of 2008 the Company generated a net loss of $0.31 million compared to a net loss of $3.39 million for the corresponding quarter of 2007. Cash generated by operating activities for the period was $0.17 million compared to $3.79 million in the corresponding quarter of 2007.

During the third quarter of 2008 the Company produced 243,280 silver ounces and recorded an increase in silver, lead, and zinc production with respect to the corresponding quarter of 2007 of 84%, 104%, and 68% respectively. Cash production cost per tonne for the third quarter of 2008 was US$44.43 and the corresponding unit net smelter return (NSR) was US$80.40. (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).

Continuum Resources Ltd. acquisition

The acquisition of Continuum Resources Ltd. for 7 million shares is expected to be concluded by year's end and will give Fortuna ownership of 100% of the San Jose Project.

General matters

As of September 30th, Fortuna's consolidated cash position was CAD $ 41.2 million. The Caylloma Mine is budgeted to generate sufficient operating cash-flows to fund its minimum investment requirements for 2009. However under the current price environment, the sustainability of the mine will require close monitoring moving forward.

Bearing in mind that the current financial turmoil and commodity price decline may continue well into 2009, Management has implemented cost cutting measures and is prioritizing investments to preserve the strong cash position and balance sheet of the Company.

Quarterly Information

The following table provides information for the seven fiscal quarters ended September 30, 2008:

			Quarters Ended						
			30-09-08	30-06-08	31-03-08	31-12-07	30-09-07	30-06-07	31-03-07
Revenues		$ 000	7,786	7,848	6,834	7,930	9,201	8,797	5,739
Mine operating income		$ 000	1,802	2,876	2,312	3,397	4,097	4,012	1,714
*Operating income before stock-based compensation charge		$ 000	(369)	933	721	1,332	2,684	2,552	513
Net Income (loss)		$ 000	(308)	2,388	(745)	1,411	(3,391)	947	(1,756)
Net Income (loss) per share	- basic	$	0.00	0.03	(0.01)	0.02	(0.05)	0.01	(0.03)
	- diluted	$	0.00	0.03	(0.01)	0.02	(0.05)	0.01	(0.03)

*This item is equivalent to Mine operating income after deducting G&A expenses

Financial Results

During the first nine months of 2008 the Company generated $22.47 million of sales compared to $23.74 million in the same period of 2007. In US dollar terms, which is the currency under which sales take place, there was an increase of 2.1% in sales for the nine month period compared to the previous year. When broken down by type of concentrate; zinc concentrate sales in terms of tonnage increased 70% while unit value of concentrate decreased 61%. The latter decrease is explained by a reduction in the metal price of 38% and an increment in smelter treatment charges of US$210 per ton of concentrate. In the case of lead-silver concentrate, sales in terms of tonnage increased by 81% while unit value of concentrate decreased 13%. The latter decrease is the combined result of a decrease in lead prices of 1.5%, an increase in silver prices of 27%, and higher smelter treatment charges of US$330 per ton of concentrate.

The reduction in mine operating income as well as operating income with respect to both, the previous quarter as well as the corresponding quarter of 2007, is attributable to reduced value of sales. This downward pressure on margins has been partially offset by higher production and head grades.

For the third quarter of 2008 the Company recorded a net loss of $0.31 million compared to a net loss of $3.39 million in the corresponding quarter of 2007. Net income shows higher volatility than operating income 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 third quarter of 2008 was $5.98 million compared to $5.10 million for the same period of 2007. While tonnage of concentrate sold in the third quarter of 2008 increased 87% compared 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 (38% and 18% for lead and zinc respectively). 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 third quarter of 2008 totalled $2.17 million compared to $1.41 million for the three months ended September 30, 2007. This is comprised of $0.61 million of sales expenses, $0.07 million of government royalties, $0.48 million of administrative expenses at the operating subsidiary level, and $1.00 million of administrative expenses at the corporate level.

Interest and other income and expenses in the third quarter of 2008 amounted to $0.40 million compared to $0.41 million for the three months ended September 30, 2007. This is comprised mainly of interests earned on the Company's cash balance.

Net gain on commodity contract for the third quarter of 2008 was $0.72 million compared to a loss of $0.22 million in the corresponding quarter of 2007. The Company regularly enters 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 third quarter 2008 were $0.26 million compared to $0.02 million in the third quarter of 2007. These are related to capital lease financings for mining equipment in our Peruvian subsidiary resulting in added lease contract obligations.

Foreign exchange loss recorded for the third quarter of 2008 was $0.14 million, compared to a loss of $0.94 million for the three months ended September 30, 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.

The $0.88 million **Income tax provision** recorded in the third quarter of 2008 (2007: $1.25 million) consisted of current and future income tax expense. Current income tax recorded for the period, including the worker profit sharing plan regulated by Peruvian law was $0.02 million (2007: $0.47 million). Future income tax expense, amounting to $0.86 million (2007: $0.78 million) relates mainly to temporary differences arising on amounts of mineral properties at Peruvian operations.

Results of Operations

Peru – Caylloma Poly metallic Mine

Caylloma Mine	Quarters ended						
	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07	31-Mar-07
Tonnes milled	89,827	80,121	70,408	68,615	65,806	63,806	52,687
Average tons milled per day	1,009	910	800	754	715	701	579
Grade per tonne							
Silver (oz)	3.14	2.75	2.64	2.43	2.45	2.29	2.23
Lead (%)	2.58	2.29	1.94	1.87	1.80	1.67	1.39
Zinc (%)	3.64	3.75	3.42	3.09	3.01	2.92	2.65
Recoveries							
Silver (%)	80.07	78.12	76.42	77.74	75.75	73.28	71.39
Lead (%)	92.19	88.94	87.26	87.51	88.50	89.22	88.59
Zinc (%)	88.11	87.58	86.45	85.09	86.51	86.22	84.16
Production (metal contained)							
Silver (oz)	243,280	186,276	140,239	139,433	132,450	119,110	95,473
Lead (tonnes)	2,139	1,633	1,189	1,124	1,049	952	646
Zinc (tonnes)	2,877	2,629	2,079	1,805	1,712	1,605	1,178
Unit cash production cost (US$/tonne)	44.43	46.92	49.97	52.41	49.15	46.65	42.62
Unit Net Smelter Return (US$/tonne)	80.40	97.79	97.70	118.41	133.70	123.65	90.26

Caylloma's silver production and silver head grades have been increasing steadily every quarter as a result of the successful discovery and development of "Bonanza" grade silver veins. Mineralized material from pre-production work on these veins has been blended at a rate of about 40 tonnes per day with polymetallic ore going to the mill. Production from stopes mining high grade veins is expected to have a significant positive impact on Caylloma's silver production by the end of the year and into 2009. Silver production is projected to be approximately 820,000 ounces for 2008, rising to 1.4-million oz Ag in 2009, compared to 486,465 ounces produced in 2007. Silver will represent approximately 40 percent of revenue next year.

Sustained increments in throughput and metal recoveries for all metals have been achieved throughout the year by constant process optimization and aggressive mine development. The mine currently has approximately 600,000 tonnes of ore developed and ready to enter production. Enough to sustain the mine well into 2010 without any further requirements in underground development.

The Company is in the process of adding a flotation circuit at the plant to recover by-product copper. Capital investment estimates are US$ 450,000 with additional annual sales in the order of US$ 1.3 million using US$ 2/lb copper. The operating cost of this additional circuit will be marginal as it only requires the use of additional reagents and minimal energy consumption.

Mexico – San Jose Silver-Gold Project

Trinidad Resource Estimation

The 33,000 meter in-fill drill program, initiated in June following AMEC E & C Services Inc. drill spacing recommendations, is well underway with four drill rigs turning and is expected to be completed by the end of the year. The program has been designed to convert Inferred resources to the Indicated category in the upper 250m of the deposit, where mining is initially scheduled to take place.

Initial assay results from this in-fill drill program have been reported (see Fortuna's news releases dated September 25, 2008 and October 28, 2008) and are available at the Company's website, www.fortunasilver.com. The results to date are supportive of the mineralized widths and grades encountered in previous drilling. A new resource estimation, that will include the in-fill drill results, is planned to be completed in Q2 2009.

Metallurgical Studies

The first phase of metallurgical tests has been carried out at the UNI metallurgical lab in Lima, Peru under the supervision of Fortuna's senior metallurgical consultant. Second phase tests are currently being conducted by Metcon Research of Tucson, Arizona. A process flow sheet and basic engineering should be finalized by the end of the year.

Results of tests carried at the UNI metallurgical lab indicate the amenability of mineralization to conventional three stage flotation with recoveries for gold and silver consistently over 85% (80% sample weight minus 52 microns). Tests to date continue to confirm high metal recoveries without cyanide leach processing.

Community Relations & Land Agreements

Over forty hectares of land that encompass the Trinidad mineralized zone and future infrastructure sites have been secured with renewable thirty year land tenure agreements with parcel owners. The company is currently negotiating a long term collaborative agreement with the San Jose del Progreso Ejido. The Community Relations department continues to engage local and surrounding communities through project presentations, site visits, and sustainable development programs.

Environmental Impact Statement (MIA)

Base line studies have been concluded and the MIA will be ready for filing once metallurgical process design and soil mechanics tests for the tailings site are completed. The Company expects to submit the document by the first quarter of 2009. Approval of the MIA will be a milestone as it is a requisite prior to initiating project construction.

Industrial Water Supply

The Company has conducted a positive scoping study on the treatment of "grey water" from an existing plant facility in a nearby town to source the industrial process requirements of the project. Management is moving ahead with the detailed engineering and permitting of this water alternative.

Underground Development

The 1,000 meter long decline to the Trinidad mineralized zone has reached the deepest level of the old mine workings, 150 meters below surface and has been stopped for the year. Management has achieved the objective of gaining access to the upper portion of the Trinidad zone resource. The decline development to date will allow testing of trial mining methods, gain better geologic control of mineralization and cut down a year's worth of mine preparation time.

Exploration of New Areas

Generative exploration work has discovered multiple mineralized zones in the greater land package at San Jose, where the Company currently controls over 50,000 hectares of exploration ground. Over 17,000 soil and stream sediment samples outlined several gold and silver anomalies over the last year, as outlined in a news release dated June 16, 2008. Results of these generative programs are available on the Company's website. Management has decided to postpone any further generative work at San Jose to prioritize the use of Company resources towards the development of the Trinidad zone.

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$ $'000	US$ $'000 @ 0.9612
Cost of sales	**5,984**	**5,752**
Change in inventory (ore and concentrate stock piles)	**(309)**	**(306)**
Depletion, depreciation, and accretion	**(1,470)**	**(1,455)**
Total cash production cost	**4,205**	**3,991**
Total processed ore (tonnes)		**89,827**
Cash production cost per tonne of processed ore (US$)		**44.43**

Liquidity and Capital Resources

The Company's cash resources and liquid investments as at September 30, 2008 were $41.23 million compared to $47.24 million as at December 31, 2007.

During the third quarter of 2008 cash generated by operating activities before changes in current assets and liabilities was $1.50 million. Further liquidity consumed by changes in current assets and liabilities amounted to ($1.33) million, for total cash generated by operating activities of $0.17 million.

During the third quarter of 2008 the Company invested a total amount of $4.28 million in mineral properties and $0.80 million in plant and equipment. Additionally, the investments in mining properties and projects in Mexico demanded total value added tax disbursements of $0.41 million. This value added tax is refundable and is included as part of current assets as at September 30, 2008.

As at September 30, 2008, the Company had working capital of $52.99 million compared to working capital of $51.16 million at December 31, 2007.

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:

		Nine months ended September 30, 2008		Nine months ended September 30, 2007
Mineral property costs – geological fees	$000	-	$	45
Consulting fees		43		91
Salaries and wages		60		71

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

At September 30, 2008, due to related parties consists of $15 (December 31, 2007 - $14) 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 September 30, 2008 the Company estimated the fair value of the outstanding contracts at $2.38 million and recorded a total gain in the statement of operations of $2.37 million. Total cash settlement in favour of the Company for the third quarter of 2008 was $1.17 million and $1.49 million for the nine months up to September 30, 2008. 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 nine months 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 Derivative asset 31/12/2007	Statement of Operations - (loss) + gain Nine months ended 09/30/08	Cash Settlement - (gain) + loss Nine months ended 09/30/08		Balance Sheet Derivative asset 09/30/2008
USD	US$	US$	US$		US$
Positions Settled as at 09/30/08	899,329	561,774	(1,461,103)		-
Medium Term hedges	899,329	610,237	(1,509,566)		-
QP hedges		(48,463)	48,463		-
Positions Still Open at 09/30/08	526,747	1,763,516	-		2,290,263
Medium Term hedges	526,747	1,513,283	-		2,040,030
QP hedges	-	250,233	-		250,233
Total	1,426,076	2,325,290	(1,461,103)		2,290,263
CAD	CAD	CAD	CAD	FX adj.	CAD
Positions Settled as at 09/30/08	883,141	572,195	(1,488,206)	32,870	-
Positions Still Open at 09/30/08	517,266	1,796,229		64,256	2,377,751
Total	1,400,407	2,368,424	(1,488,206)	97,126	2,377,751

The long-term investments in 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 November 3, 2008 is 85,331,659 common shares. In addition, a total of 17,968,335 share purchase warrants and incentive stock options are currently outstanding as follows:

Type of Security	Number	Exercise Price	Expiry Date
Warrants	8,588,000	$2.30	July 11, 2009
	862,117	$0.345	June 27, 2010
	1,613,238	$0.345	November 17, 2010
	11,063,355		
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
	250,000	$2.29	March 30, 2016
	60,000	$1.75	May 8, 2016
	200,000	$1.75	May 22, 2016
	35,000	$0.85	July 5, 2016
	245,000	$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
	110,000	$0.85	January 11, 2017
	780,000	$2.22	January 11, 2017
	50,000	$2.75	February 6, 2017
	15,000	$0.85	April 22, 2017
	50,000	$0.85	May 31, 2017
	50,000	$0.85	June 27, 2017
	50,000	$0.85	July 2, 2017
	1,175,000	$3.22	July 2, 2017
	250,000	$2.97	September 23, 2017
	25,000	$0.85	October 24, 2017
	250,000	$2.52	February 5, 2018
	150,000	$1.25	August 25, 2018
	1,405,000	$0.85	October 5, 2018
	6,884,000		

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 or 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 third quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.