MANAGEMENT'S DISCUSSION AND ANALYSIS
Three Months Ended March 31, 2007

Change in Fiscal Year End

In August, 2006, Fortuna Silver Mines Inc. (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 has been filed on sedar.com.

General

This Management's Discussion and Analysis ("MD&A") supplements the unaudited financial statements of the Company for the three months ended March 31, 2007. The following information, prepared as of May 15, 2007, should be read in conjunction with the March 31, 2007 financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles. 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 Polymetalic Mine in southern Peru and the San Jose Silver-Gold Project in southern Mexico.

Recent Developments and Highlights

Operations and financial results

The three month period ended March 31, 2007 was the first full quarter of revenue generation from the Company´s wholly owned Caylloma mine. Sales for the period were $5.74 million, average throughput rate was 585 tpd for the three months, and already 692 tpd for the month of April, production cash cost was US$42.95 per tonne and unit NSR of treated ore was US$90.25 per tonne.

At the consolidated level the Company generated positive cash flow of $1.83 million from operating activities reflecting the cash surplus of Caylloma, and a net loss of $1.76 million was recorded for the period.

Resources
On March 12, 2007 Fortuna published an updated resource estimate for San Jose based on an 11,000 meter drilling program conducted during the first half of 2006. The results significantly exceeded management's expectations, reporting:

Indicated Mineral Resource:	1.47 million tonnes grading 262.6 g/t Ag and 2.19 g/t Au containing 17.7 million Ag equivalent ounces.
Inferred Mineral Resources:	3.9 million tonnes grading 260.6 g/t Ag plus 2.57 g/t Au containing 49.1 million Ag equivalent ounces.

Silver equivalency estimates were derived using US$10.30/oz for silver and US$525/oz for gold yielding a Ag:Au ratio of 51:1. Metallurgical recoveries and net smelter returns are assumed to be 100%.

This represented nearly a five fold increase in the inferred resource and the addition of 17.7 million indicated Ag equivalent ounces. The deposit remains open at depth and along strike and an aggressive 20,000 meter drilling program for 2007 has already begun.

Financing
In January 2007, the Company completed a brokered private placement of 18.0 million units at a price of $1.90 per unit, providing gross proceeds of $34.2 million. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company for 18 months at a price of $2.30.

Quarterly Information

The following table provides information for the eight fiscal quarters ended March 31, 2007:

		Quarters Ended							
		31-Mar-07	31-Dec-06	30-Sep-06	30-Jun-06	31-Mar-06	31-Dec-05	30-Sep-05	30-Jun-05
Revenues	$ 000	5,739	3,370	0	0	0	0	0	0
Net Income (loss)	$ 000	(1,756)	21	(1,745)	363	(2,371)	(616)	(202)	(151)
Net Income (loss) per share, basic	$	(0.03)	0.00	(0.04)	0.01	(0.09)	(0.03)	(0.02)	(0.02)
Net Income (loss) per share, diluted	$		0.00		0.01				

Financial Results

For the three months ended March 31, 2007 the Company recorded a net loss of $1.76 million compared to a net loss of $2.37 million for the corresponding period in 2006. The larger losses in March and September of 2006, as well as the loss of the current quarter were driven by stock based compensation charges; $2.13 million, $1.81 million, and $2.31 million respectively.

Also for the period mine operating income was $1.71 million and cash generated by operating activities was $1.83 million, reflecting the cash surplus of the Company´s operating Caylloma mine.

Sales for the first quarter of 2007 were $5.74 million. This is a 76% increase over the previous quarter, which is explained by higher concentrate production and sales.

Total **cost of sales** was $4.03 million, of which $1.44 million was depletion, depreciation, and accretion. This corresponds entirely to production and sales from Caylloma.

Selling, general and administrative expenses for the period totalled $1.20 million compared to $0.29 million for the corresponding quarter of 2006. The increase is due to the impact of the beginning of operations in our Peruvian subsidiary and higher total corporate expenses associated with the growth of the Company. It is comprised of $321,746 of selling expenses and mining royalty paid to the Peruvian government on account of our operations at the Caylloma mine, and $878,845 of total corporate administrative expenses. The stock based compensation charge totalled $2.31 million for the three month period ended March 31, 2007, compared to $2.13 million for the corresponding period in 2006.

Interest and other income and expenses were $156,538 compared to $7,907 for the corresponding quarter of 2006.

Foreign exchange gain recorded for the period was $167,813, compared to $7,907 for the corresponding quarter of 2006.

The $337,779 **Income tax provision** recorded for the period resulted from the taxable income generated in our Peruvian Subsidiary and consisted entirely of future income tax.

Results of Operations

Mexico – San Jose Silver-Gold Project

On March 12, 2007 the Company announced the latest resource estimate for the San Jose project, the details of which are noted below. In light of the significant increase in the size of the estimated resource at San Jose, management is re-assessing development plans to assure optimal sizing of the future operation relative to the resource base.

Indicated Mineral Resource:	1.47 million tonnes grading 262.6 g/t Ag and 2.19 g/t Au containing 17.7 million Ag equivalent ounces.
Inferred Mineral Resources:	3.9 million tonnes grading 260.6 g/t Ag plus 2.57 g/t Au containing 49.1 million Ag equivalent ounces.

Silver equivalency estimates were derived using US$10.30/oz for silver and US$525/oz for gold yielding a Ag:Au ratio of 51:1. Metallurgical recoveries and net smelter returns are assumed to be 100%.

The Company expects to drill over 20,000 meters during the course of the year. Two surface drill rigs are working on site and a third one is expected in the coming weeks. Underground drilling is also planned to start in the near future. The program aims to:

- Expand the size of existing resource on the Trinidad zone, which remains open in two directions (press release dated March 12, 2007).
- In-fill drilling of the Trinidad zone to increase size of measured and indicated resource.
- Continue exploring and drill testing over two kilometers of vein structure along the longitudinal extent of the Trinidad zone.

In addition to the drill program field crews are already conducting mapping and geochemical sampling on the 30,000 hectare Monte Alban II concession which holds multiple untested exploration targets. Monte Alban II covers a large area around the San Jose claims that host the Trinidad zone and vein system.

Concurrent with the exploration programs the Company is advancing with mine contractor selection for the underground development that is scheduled to start in the second quarter of the year. Initial engineering design work as well as mine planning is already taking place.

The Company is proceeding with the acquisition of land on the project area. Up to early May purchase agreements have been signed with various local owners for twenty-one hectares on the main area of interest. The Company will continue securing land on the area.

On February 5, 2007, as operator of the project, Cuzcatlan purchased a 100% interest in a processing facility and mine equipment valued at US$2,250,000, to be paid in three instalments of US$750,000 over a twelve month period, with the first payment made on signing of the agreement. The transaction is subject to an additional 15% for value added tax.

The plant facility is located 10 kilometers from the San Jose project. This plant facility has been processing high grade ore being mined at a rate of 100 tonnes per day from San Jose up until November 2006. The plant has enough capacity to treat up to 350 tonnes per day with minor improvements.

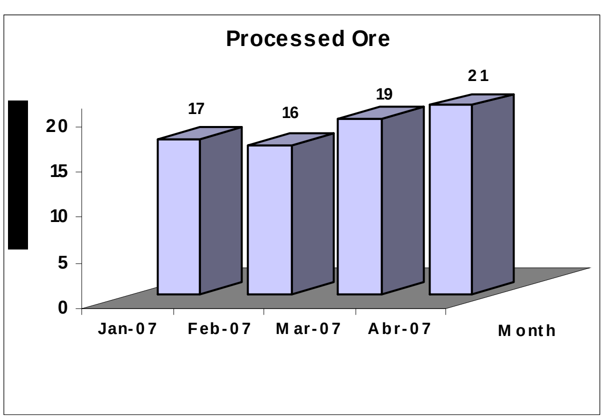
<u>Peru – Caylloma Mine</u>

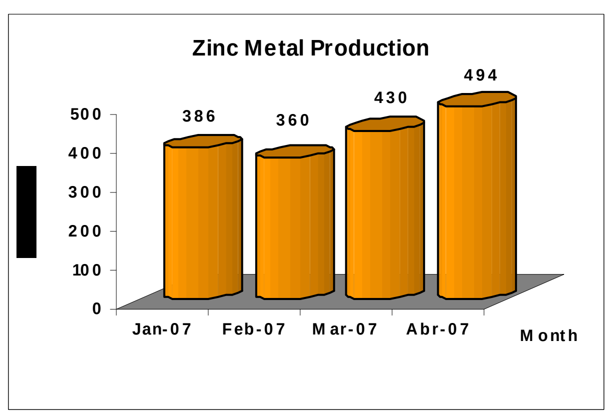
Caylloma Mine	**Three months ended March 31**
Tonnes milled	52,687
Grade per tonne	
Silver (oz)	2.23
Lead (%)	1.39
Zinc (%)	2.65
Recoveries	
Silver (%)	71.32
Lead (%)	88.57
Zinc (%)	84.20
Production (metal contained)	
Silver (oz)	95,434
Lead (tonnes)	646
Zinc (tonnes)	1,177
Unit cash production cost (US$/tonne)	42.95
Unit Net Smelter Return (US$/tonne)	90.25

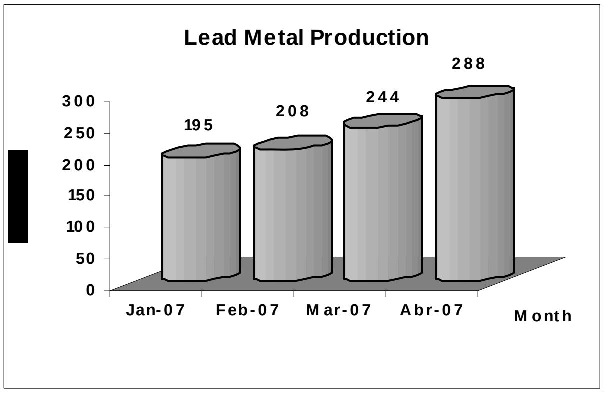
The 100% owned Caylloma mine began commercial production of silver-lead and zinc concentrates in October 2006. The mine and mill operations continue to show steady monthly increments in throughput, metal production, and improvements in efficiency. Total ore milled for the quarter was 52,687 tonnes, yielding an average daily throughput of 585 tonnes per day. Mine production for the quarter came entirely from the polymetalic Animas vein. The San Cristobal and Bateas silver veins, on the northern portion of the deposit, are in exploration and development for 2007.

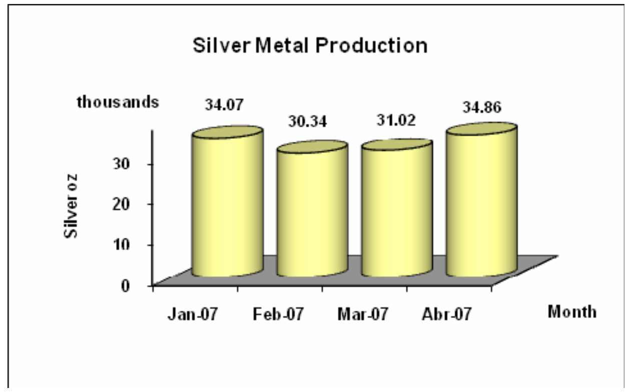
Cash cost per tonne of ore milled during the first quarter of 2007 was US$42.95/tonne. The net-smelter-return (NSR) value per tonne of ore milled during the same quarter was US$90.25/tonne. The composition of sales per metal was; zinc 58%, silver 21%, lead 17%, gold 4%.

In order to capitalize on historic high prices for zinc and lead the mine has been geared towards the base metal portions of the deposit, which is reflected in the steady monthly increase in zinc and lead metal and flattening of silver metal produced.

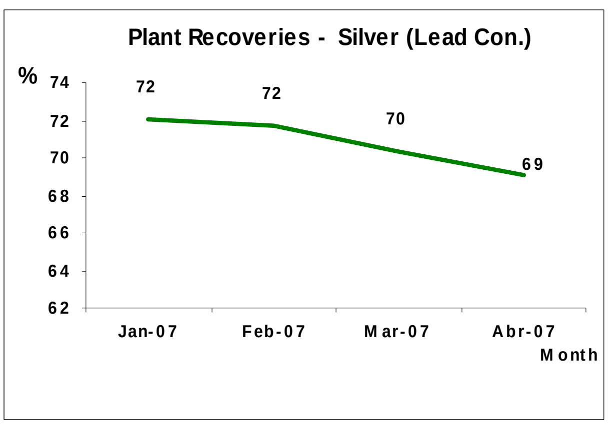


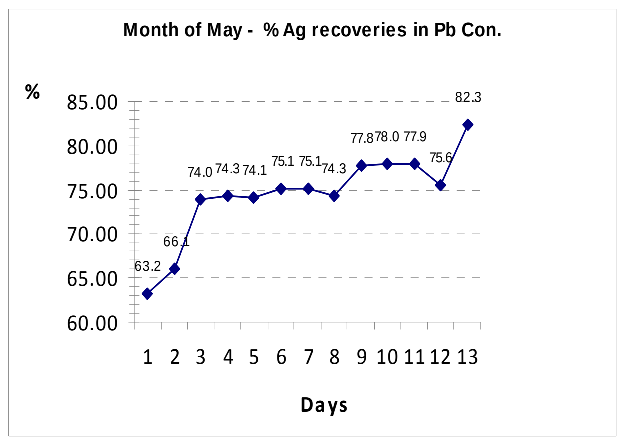






Metallurgical recoveries for lead and zinc are achieving design parameters and should stabilize at 88% and 85% respectively. Of particular importance is the significant improvement in recovery of silver reporting to the lead concentrate obtained in early May as result of changes in the lead flotation circuit. .





The processing plant is permitted to accommodate production increments up to 1,100 tonnes per day. Management is accelerating the preparation of stopes on the Ag-Zn-Pb rich Animas vein as well as in the silver rich traditional vein system with the objective of achieving full throughput capacity by 2008.

Exploration at Caylloma for 2007 is targeting the immediate mine area as well as the greater surrounding land package of 12,000 hectares. The first core drill arrived in April with a second one expected in early June. The drill program for the year covers various drill targets on the Animas and Bateas veins. Field crews are working on generating additional drill targets on prospects advanced during 2006.

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 (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 from the consolidated statement of operations:

	CAD$	US$ @ 0.8532
Cost of sales	**4,025,059**	**3,434,146**
Change in inventory (ore and concentrate stock piles)	**64,666**	**55,172**
Depletion, depreciation, and accretion	**(1,437,442)**	**(1,226,413)**
Total cash production cost	**2,652,283**	**2,262,905**
Total processed ore (tonnes)		**52,687**
Cash production cost per tonne of processed ore (US$)		**42.95**

Liquidity and Capital Resources

The Company’s cash resources and liquid investments increased during the three months ended March 31, 2007 by $29.86 million to $31.51 million as a result mainly of funds raised through the private placement of shares closed in January 2007. Also as a result of this, working capital increased to $34.74 million compared to $110,626 for the corresponding period of 2006.

For the three month period operating activities generated a net cash amount of $1.83 million as a result of positive cash flow coming from our Peruvian operations.

During 2006 the Company incurred total investment expenditures of $3.38 million in its mineral properties and plant and equipment. Management expects Caylloma to address ongoing and expansion capital needs for 2007 from cash generated internally by the operation. With regards to San Jose management expects investments of up to US$14 million (of which 76% is Fortuna´s cost share) over the next 12 months for the advancement of development and further exploration of the project. The Company is currently well funded to execute its investment plan for the year.

During the three month period net proceeds from issuance of common shares amounted to $37.17 million. This was comprised of $782,405 from the exercise of stock options, $3.87 million from the exercise of warrants, and $ 32.51 million of net proceeds from the private placement closed on January 11, 2007. During the period the

Company paid back short term debt previously raised in connection with the San Jose acquisition and to working capital needs for Caylloma. Total debt and other payments related to financing activities were $5.75 million, for total net cash provided by financing activities of $31.41 million.

As at May 15, 2007 the Company has 8.65 million warrants outstanding with expiry dates in September and October 2007 and which are currently in-the-money. This could potentially bring in cash to the Company in the amount of $11 million.

Management believes the Company's financial position after the closing of its January financing as well as a result of its ongoing operation in Caylloma are 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 as required in both the short and long term, but recognizes the uncertainty attached thereto.

Related Party Transactions

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

	Three months Ended March 31, 2007	Three Months Ended March 31, 2006
Mineral property costs – geological fees	$ 45,072	$ 38,654
Consulting fees	$ 7,500	$ 30,193
Salaries and wages	$ 3,090	$ 1,112
Management fees	$ 54,468	$ 15,905

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

At March 31, 2007, accounts payable and accrued liabilities included $nil (Dec 2006: $395) to an officer of the Company.

At March 31, 2007, due to related parties consists of $37,081 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.

At March 31, 2007, due from related parties consists of $20,367 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.

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 years. Significant items subject to such estimates and assumptions include the carrying amount of mineral property, plant and equipment, revenue recognition, inventories and future income taxes, provisions for asset retirement obligation and reclamation, and stock based compensation.

Change in Accounting Policy

On January 1, 2007, the Company adopted the provisions of CICA Sections 1530 "Comprehensive Income", 3251 "Equity", 3855 "Financial Instruments – Recognition and Measurement", 3861 "Financial Instruments – Presentation and Disclosure", and 3865 "Hedges". These sections address the classification, recognition and measurement of financial instruments and hedges in the financial statements and inclusion of other comprehensive income.

Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances not related to shareholders. It consists of net income and other comprehensive income, which includes items that would not normally be included in net income such as unrealized gains and losses on available-for-sale securities.

As a result of adopting these new standards at January 1, 2007, the Company recorded an unrealized gain of $518,875 for the change in accounting for financial assets classified as "available-for-sale" and measured at fair value instead of cost. This increase is reported as a one-time cumulative effect to other comprehensive income.

Additional detail relating to changes in accounting policy on financial instruments can be found in Note 3 of the unaudited consolidated financial statements for the three months ended March 31, 2007.

Financial Instruments

Cash and cash equivalents, accounts receivable and prepaid expenses, due from related parties, and accounts payable and accrued liabilities have been classified as "held-for-trading". The fair values of these financial instruments approximate their carrying values due to their short-term nature or capacity of prompt liquidation. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Interest rate risk

The Company holds cash and cash equivalents which earn interest at variable rates as determined by financial institutions.

Credit risk

The Company only places its cash with institutions of high credit worthiness.

Foreign exchange risk

The Company holds cash balances and incurs payables that are denominated in multiple foreign currencies, including Peruvian Nuevo Sol, Mexican Pesos and United States Dollars. These balances are subject to changes in the exchange rate between these currencies and the Canadian Dollar, which would result in a currency gain or loss to the Company.

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 15, 2007 is 70,436,482 common shares. In addition, a total of 31,044,456 share purchase warrants and incentive stock options are currently outstanding as follows:

Type of Security	Number	Exercise Price	Expiry Date
Warrants	593,356	$1.85	September 23, 2007
	6,570,000	$1.25	September 26, 2007
	270,085	$0.80	September 26, 2007
	1,146,833	$1.25	October 6, 2007
	72,056	$0.80	October 6, 2007
	4,893,046	$1.85	March 23, 2008
	10,559,725	$2.30	July 11, 2008
	862,117	$0.345	June 27, 2010
	1,613,238	$0.345	November 17, 2010
	26,580,456		
Options	39,000	$0.37	December 2, 2009
	30,000	$0.80	July 24, 2010
	414,000	$1.35	February 5, 2016
	451,000	$2.29	March 30, 2016
	130,000	$1.75	May 8, 2016
	200,000	$1.75	May 22, 2016
	390,000	$1.55	July 5, 2016
	860,000	$1.66	July 10, 2016
	225,000	$1.61	September 13, 2016
	50,000	$1.90	November 20, 2016
	50,000	$1.96	November 23, 2016
	1,480,000	$2.22	January 11, 2017
	80,000	$2.75	February 6, 2017
	65,000	$3.09	April 22, 2017
	4,464,000		

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, performance of achievements of the company to 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 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.

The most significant risk affecting the profitability and viability of the Company's mining operations is the fluctuation of metal prices, as the Company's earnings and cash flow are highly sensitive to changes in these metal prices. Low metal prices will affect the Company's liquidity, and if they persist for an extended period of time, the Company may have to look for other sources of cash flow to maintain liquidity until metal prices recover. Volatility in the metal prices is influenced by factors such as exchange rates, inflation, political circumstances and the world's supply and demand fundamentals, which are beyond the control of the Company.

Other risks facing the Company include environmental risks, share price volatility, and uncertainty of additional financing.

Internal Disclosure Controls and Procedures

Internal control is defined as a process designed to provide reasonable assurance regarding the reliability of financial reporting. In its annual MD&A for the year 2006 the Company disclosed weaknesses in the design of internal control. Management is currently engaged in addressing these issues by increasing the human and financial resources allocated to accounting activities and financial reporting.