FORTUNA
SILVER MINES INC.

CORPORATE OFFICE:
Suite 840 - 355 Burrard St.
Vancouver, BC Canada, V6C 2G8
Tel: 604.484.4085
Fax: 604.484.4029

PERU OFFICE:
Piso 17 Av. Pardo y Aliaga 640
San Isidro, Lima - Peru
Tel: 511.616.6060

TRADING SYMBOL:
TSXV: FVI
Lima Exchange: FVI
info@fortunasilver.com
WWW.FORTUNASILVER.COM

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2008

General

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2008 and 2007, prepared in accordance with Canadian generally accepted accounting principles. This MD&A is prepared as of March 29, 2009. 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 2008 Highlights

Financial and Operating Results

In 2008 the Company generated a net loss of $0.96 million compared to a net loss of $2.79 million in 2007. For the fourth quarter of 2008 the Company generated a net loss of $2.53 million compared to a net profit of $1.41 million in the corresponding period of 2007. Cash generated by operating activities for 2008 was $8.85 million compared to $13.24 million in 2007.

In the twelve months concluding December 31, 2008 331,380 tonnes of ore were treated, and metal production amounted to 861,176 ounces of silver, 10,561 MT of zinc, and 7,485 MT of lead. Cash cost per tonne of treated ore for the year was US$46 and the corresponding unit net smelter return (NSR) was US$83 (cash cost is a non-GAAP measure. See page 8 for reconciliation of cash cost to the cost of sales in the consolidated statement of operations).

Acquisition of Continuum Resources Ltd. and San Jose project

On March 6, 2009 the Company closed the acquisition of all the issued and outstanding shares of Continuum Resources Ltd. As consideration for the acquisition of Continuum, Fortuna has issued 6,786,706 common shares, for an exchange ratio of approximately 0.0564 of a share of Fortuna for every one Continuum share held.

As a result of the acquisition of Continuum, Fortuna now owns 100% of the San Jose Project in Oaxaca, Mexico. In March 2007, Fortuna published a National Instrument 43-101 compliant resource estimate for San Jose (see Fortuna news release dated March 12, 2007). Using a cut-off grade of 150 g/t silver (Ag) equivalent, the inferred and indicated mineral resources for the Trinidad zone at San Jose are estimated at:

- Indicated Mineral Resources: 1.47 million tonnes grading 262.6 g/t Ag + 2.19 g/t Au containing 17.7 million Ag equivalent oz

- Inferred Mineral Resources: 3.9 million tonnes grading 260.6 g/t Ag + 2.57 g/t Au containing 49.1 million Ag equivalent oz

Fortuna recently completed an extensive drill program designed to convert inferred mineral resources to the measured and indicated categories. The revised resource estimate is expected for June 2009.

The Company has also concluded metallurgical tests for the project with Metcon Research of Tucson, Arizona and is advancing with feasibility level engineering studies for the development of the San Jose deposit. Engineering contracts were awarded in February for mine design, process plant design, tailings dam, water and power. Fortuna expects to present the Environmental Impact Study (EIS) to the Mexican authorities by the end of March.

Management Changes

On February 6, 2008 the Company announced the appointment of Manuel Ruiz-Conejo to the new position of Vice President of Business Development. Mr. Ruiz-Conejo is based in Lima. Effective February 28, 2009 Mark Moseley-Williams stepped down as Vice President of Project Development.

Selected Annual Information

		Twelve month period ended Dec. 2008	Twelve month period ended Dec. 2007	Fifteen month period ended Dec. 2006 (1)
Sales	$ 000	26,339	31,667	3,372
Income (loss) before income taxes and non-controlling interest	$ 000	727	1,380	(3,854)
Net loss	$ 000	(964)	(2,789)	(4,348)
Net loss per share, basic and diluted	$	(0.01)	(0.04)	(0.12)
Total assets	$ 000	141,072	124,446	59,194
Total long-term financial liabilities	$ 000	876	433	97

(1) In August, 2006, Fortuna Silver Mines Inc. ("Fortuna" or the "Company") changed its fiscal year-end from September 30th to December 31st. As a result of this the period ended December 31, 2006 was a transitional 15 month period.

Quarterly Information

The following table provides information for the most recent eight fiscal quarters toDecember 31, 2008:

Quarters Ended

			31-12-08	30-09-08	30-06-08	31-03-08	31-12-07	30-09-07	30-06-07	31-03-07
Revenues		$ 000	3,871	7,786	7,848	6,834	7,930	9,201	8,797	5,739
Mine operating income (loss)		$ 000	(2,860)	1,802	2,876	2,312	3,397	4,097	4,012	1,714
Net Income (loss)		$ 000	(2,532)	(308)	2,388	(511)	1,411	(3,391)	947	(1,756)
Net Income (loss) per share	- basic and diluted	$	(0.03)	0.00	0.03	(0.01)	0.02	(0.05)	0.01	(0.03)

Financial Results

During 2008 the Company generated $26.34 million of sales compared to $31.67 million in 2007. In US dollar terms which is the currency under which sales take place, there was a decrease of 16.5% in sales for 2008 compared to the previous year. When broken down by type of concentrate; zinc concentrate sales increased in tonnage by 66% while unit value of concentrate decreased 64%. The latter decrease is explained by a reduction in the metal price of 42% and an increase in smelter treatment charges of US$210 per ton of concentrate. In the case of lead-silver concentrate, sales increased in tonnage by 91% while unit value of concentrate decreased 31%. The latter decrease is the combined result of a decrease in lead price and an increase in silver price of 19% and 12% respectively, and higher smelter treatment charges of US$330 per ton of concentrate.

The significant increase in concentrate sold is the result of the Company's continuous investments over the last two years in mine development, processing plant expansion, and infrastructure. As noted below in the Operations section the Company expects this expansion trend to continue. Treatment charges for 2009 have come down significantly, closer to 2007 levels.

During 2008 mine operating income was $4.13 million and an operating loss was recorded at $5.93 million. The operating loss reflects the significant decrease in base metal prices which was especially pronounced in the last four months of 2008. The gain from the Company's zinc and lead hedge programme for the year was $4.52 million, as shown in the income statement under "Net gain on commodity contracts", partially offsetting the decrease in revenues. Net loss for the period was $0.96 million compared to a net loss of $2.79 million in 2007. Contributing to the improved net result are the non operating gains, in particular gain on commodity contracts, foreign exchange gain, and a reduced income tax provision generated at our operating subsidiary.

For the last quarter of 2008 the Company recorded a net loss of $2.53 million compared to a gain of $1.41 million in the corresponding quarter of 2007. This is mainly explained by a decrease of 28%, 61%, and 55% in silver, lead, and zinc metal prices respectively.

Total **cost of sales** for 2008 was $22.21 million, of which $5.68 million was depletion, depreciation, and accretion (2007: $18.45 million and $5.77 million respectively). This corresponds entirely to production and sales from Caylloma mine.

Sales and administrative expenses for 2008 totalled $8.28 million compared to $6.13 million for 2007. The increase is largely due to higher total corporate expenses associated to the growth of the Company which amounted to $3.59 million in 2008. The stock based compensation charge totalled $1.43 million for the year ended December 31, 2008, compared to $6.97 million for the twelve year ended December 31, 2007.

Interest and other income and expenses amounted to net income of $1.44 million for 2008 compared to net income of $1.53 million for 2007. In 2008, this amount consisted principally of $1.54 million of interest earned, and a $0.14 million charge for a direct contribution to local governments in the Caylloma mine jurisdiction under a voluntary agreement between the Peruvian Government and the majority of established mining companies in Peru.

Net gain on commodity contract for 2008 was $4.52 million compared to $1.56 million in 2007. The result from 2008 was comprised of a $1.04 million gain on forward lead and zinc contracts entered into with a bank 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 a gain of $3.48 million on lead and zinc derivative contracts entered into with a bank as part of a medium-term price protection program.

Interest and finance expenses for 2008 were $0.10 million compared to $0.09 million in 2007. These interest expenses relate to capital leases held by our operating subsidiary.

Foreign exchange gain recorded for the year was $0.84 million, compared to a loss of $1.67 million for 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, gains and losses arising from translation to the Canadian dollar are included in the statement of operations.

Write-off of deferred exploration costs was $0.35 million in 2008 compared to $0.01 million for 2007. This is related mainly to a reduction of exploration ground of 2,700 hectares surrounding the San Jose project in Mexico.

The $1.80 million **Income tax provision** recorded in 2008 (2007: $4.26 million) consisted of future income tax expense only. Current income tax for 2008 was nil (2007: $0.54 million including the worker profit sharing plan regulated by Peruvian law). Future income tax expense is mainly related to temporary differences arising on amounts of mineral properties at Peruvian operations where exploration and development are expensed for tax purposes.

Results of Operations

Peru – Caylloma Ag-Pb-Zn Mine

Caylloma Mine	Quarters ended							
	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07	31-Mar-07
Tonnes milled	91,025	89,827	80,121	70,408	68,615	65,806	63,806	52,687
Average tons milled per day	1,023	1,009	910	800	754	715	701	579
Grade per tonne								
Silver (oz)	3.69	3.14	2.75	2.64	2.43	2.45	2.29	2.23
Lead (%)	2.97	2.58	2.29	1.94	1.87	1.80	1.67	1.39
Zinc (%)	3.75	3.64	3.75	3.42	3.09	3.01	2.92	2.65
Recoveries								
Silver (%)*	82.43	80.07	78.12	76.42	77.74	75.75	73.28	71.39
Lead (%)	93.41	92.19	88.94	87.26	87.51	88.50	89.22	88.59
Zinc (%)	87.25	88.11	87.58	86.45	85.09	86.51	86.22	84.16
Production (metal contained)								
Silver (oz)	291,381	243,280	186,276	140,239	139,433	132,450	119,110	95,473
Lead (tonnes)	2,524	2,139	1,633	1,189	1,124	1,049	952	646
Zinc (tonnes)	2,976	2,877	2,629	2,079	1,805	1,712	1,605	1,178
Unit cash production cost (US$/tonne)	44.60	44.43	46.92	49.97	52.41	49.15	46.65	42.62
Unit Net Smelter Return (US$/tonne)	60.00	80.40	97.79	97.70	118.41	133.70	123.65	90.26

* Silver recovery in lead concentrate

In 2008 the Caylloma mine increased throughput by 32% compared to 2007 by processing 319,380 tonne of ore. Silver production increased 77% with respect to 2007 reaching 861,176 oz in 2008. Lead and zinc metal production increased 98.5% and 67.7% respectively. The mill started the year at a 750 tpd throughput rate and closed the year at an average monthly rate of 1,027 tpd. Metallurgical parameters and overall plant performance improved steadily throughout 2008, especially silver recovery in the lead concentrate which reached highs of 83% in November. Our recoveries for lead and zinc, as well as concentrate grade in the lead concentrate, experienced steady increases throughout the year and significant improvements compared to 2007 as shown in the table above.

Mine production throughout the year took place principally on the poly metallic Animas vein which provided 96% of ore sourced to the mill in 2008. Caylloma´s silver head grades have been increasing steadily every quarter as a result of the successful discovery and development of high grade silver veins Bateas, Soledad, and Silvia. Production on the “bonanza” grade silver vein Soledad started in late November and already provided close to 10% of production in December. Another contributing factor to the steadily increase in head grades throughout the year has been the development that has taken place along Animas vein which has extended the Central ore shoot in the northeast direction providing good grade zones up to 15 to 20 meter wide. These will be added to reserves in the coming resource update.

During 2008 total underground preparation and development amounted to 13,000 m, a similar figure to the one recorded in 2007. This accumulated mine development and preparation has provided approximately 600,000 tonnes of ore developed and ready to enter production as at the end of 2008. The important flexibility gained in the mine as a result of this will allow the Company to cut back mine development in 2009 to 4,000 m in order to address capital investment reduction needs without affecting short or medium term operations.

Cash production cost per tonne of treated ore evolved from US$50 for the first quarter of 2008 to US$45 for the fourth quarter of the year, and the average for 2008 was US$46. This reduction in unit production costs has been achieved through incremental tonnage and by a reduction in mine preparation costs, especially after the first quarter, as the mine met its targets in terms of ore tonnage prepared ahead of current operation needs.

In late 2007 the Company launched an expansion project to ramp up capacity to 1,200 tpd and the addition of a copper circuit which is scheduled to provide annual incremental income of US$1.4 million at US$1.5/lb copper. The expansion project consists of an additional 6x8 ball mill and added zinc flotation cells for total investment costs of US$460,000. The copper circuit is budgeted at US$650,000 as well. Both projects are scheduled to be in production in May of 2009.

During the third quarter of 2007 the Company embarked on an investment plan designed to address infrastructure requirements associated with the expansion at Caylloma, and which consisted mainly of a tailings dam expansion, a main extraction level for the Animas vein, and connection to a new power line for increased energy access. The energy project was concluded in February 2008 with a fraction of previous estimated budgets, and securing energy capacity for the scheduled 1,200 tpd expansion. The tailings dam expansion will provide an additional two years of mine life and requires a further budget of US$600,000. Beyond this a longer lived tailings dam project is currently being taken to the feasibility level. Scoping level estimates suggest a US$3 million investment for a 10 year life. The main extraction level project at Animas was put on hold in December 2008 after reviewing investment priorities.

The Company is working to produce a resource estimation technical report for Caylloma in June 2009.

Production forecast for Caylloma mine

	2009
Tonnes milled	394,350
Grade per tonne	
Silver (oz)	4.81
Lead (%)	2.65
Zinc (%)	3.58
Copper (%)	0.33
Recoveries	
Silver (%)*	82.00
Lead (%)	92.00
Zinc (%)	86.50
Copper (%)	60.00
Production (metal contained)	
Silver (oz)	1,677,349
Lead (tonnes)	9,621
Zinc (tonnes)	12,207
Copper (tonnes)	574
Unit cash production cost (US$/tonne)	41.21
Cash cost per ounce (US$/ounce)	1.86

* Combined silver recoveries in lead and copper concentrates

Cash cost per ounce is net of by-product credits and assumes the following prices: Zn US$1,100/t, Pb US$950/t, Cu US$3,300/t, Au US$750/oz.

Mexico – San Jose Silver-Gold Project

Trinidad Resource Estimation

On January 2009, the Company completed the 32,000 meter in-fill drilling program initiated in June of 2008. This program was designed to convert inferred resources to the indicated category in the upper 250m of the deposit, where mining is initially expected to take place. Complete assay results for the drill program have been released and are available on the Company´s website at **www.fortunasilver.com.** A new resource estimation is planned to be completed in June 2009.

Metallurgical Studies

Metallurgical tests have now been completed by Metcon Research of Tucson Arizona, and based on these results a definitive process flow sheet is being developed by the Company´s metallurgical consultants.

Metallurgical results indicate that commercial grade silver and gold concentrates can be achieved with recoveries over ninety per cent for both metals through a conventional flotation. The use of cyanide is not required as part of this process.

Community Relations and 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.

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 reached the deepest level of the old mine workings, 150 meters below surface, in July of 2008 and was subsequently stopped. 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.

Project Engineering

The Company has awarded the following components of the project engineering; plant design and engineering,to Promimet SA de CV, mine design to Proyectos y Estudios Mineros SAC, Geotechnical studies and tailings design to SVS Ingenieros SAC, Energy project to Soto Ortega Ingenieros SA de CV, water project to ICAYS SA de CV. The Company is in the process of selecting a North American engineering firm to provide Qualified Person supervision for the project engineering and to author required Technical Reports.

Permitting

The Company expects to submit the “Manifiesto de Impacto Ambiental” to the Mexican environmental authorities in late March 2009.

Exploration

In February 2009 the Company made effective a reduction of 8,344 ha out of the approximately 49,000 ha surrounding the San Jose project for which it holds exploration and mining rights. This decision was based on existing geological information and is part of an effort to prioritize capital expenditures.

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 defined 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$ $'000	**US$** $'000 @ **0.9375**
Cost of sales	**22,209**	**20,820**
Change in inventory (ore and concentrate stock piles)	**(121)**	**(113)**
Depletion, depreciation, and accretion	**(5,681)**	**(5,326)**
Total cash production cost	**16,407**	**15,381**
Total processed ore (tonnes)		**331,380**
Cash production cost per tonne of processed ore (US$)		**46.42**

Liquidity and Capital Resources

The Company’s cash resources and liquid investments decreased during the year ended December 31, 2008 by $11.22 million to $36.02 million.

For 2008 operating activities generated a net cash amount of $8.85 million.

During 2008 the Company invested a total amount of $22.46 million in mineral properties, where investments in Caylloma and San Jose accounted for $9.43 million and $13.03 million respectively. Total amount invested in 2008 in plant and equipment was $3.74 million, where Caylloma and San Jose accounted for $2.65 million and $0.94 million respectively. Additionally, the investments in mining properties and projects in Mexico demanded total value added tax disbursements of $1.56 million. This value added tax is refundable and is included as part of current assets as at December 31, 2008.

During 2008, Caylloma was successful in self-funding its continued growth in processing and mine capacity. Even under today´s metal price environment management expects ongoing and expansion capital needs for 2009 to continue to be self-financed by internally generated cash from operations.

With regards to the San Jose project, management expects investments of US$6 million in 2009 in order to advance the project to a feasibility level. These investments will be funded through cash reserves.

As at December 31, 2008, the Company had working capital of $41.64 million compared to working capital of $51.16 million at December 31, 2007.

Management believes the Company's current financial position as well as results of 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:

	Year ended December 31, 2008($000)	Year ended December 31, 2007($000)
Mineral property costs – geological fees	$ -	$ 45
Consulting fees	66	188
Salaries and wages	110	108
Management fees	-	266

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

At December 31, 2008, due to related parties consists of $46,897 (December 31, 2007 - $14,000) owing to a companiy 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. These estimates and assumptions are based on established industry standards, historical experience, and are reviewed on an ongoing basis to confirm their continued applicability.

Amortization and Mineral Property Costs

Mineral property costs are comprised of acquisition costs and capitalized exploration, construction and development costs. Upon initiating production, the asset is amortized over its estimated useful life on a units-of-production basis. The Company estimates reserves and resources and the economic life of its mines and utilizes this information to calculate depletion and amortization expense. Depreciation and depletion charges are adjusted prospectively based on periodic re-assessments of the Company´s mineral reserves.

The estimate of mineral reserves is prepared by qualified persons in accordance with industry standards defined under NI 43-101 of the Canadian Securities regulatory authorities. Mineral reserve estimates can change over time as a result of numerous factors, including changes in metal prices, production costs, or the re-evaluation of geological, engineering and economic data of a deposit. A significant reduction in mineral reserves would have a negative impact on the calculation of the amortization of this asset.

Asset Retirement Obligations

Fortuna’s determination for asset retirement obligations involves estimation of timing and amounts of future costs relating to ongoing environmental and mine closure activities required under applicable law or the Company’s own remediation plans. These estimates are subject to significant uncertainties because many of these costs will not be incurred for a number of years, the nature of the reclamation activities might change and the assumptions regarding the rate of inflation and credit risk-adjusted interest rate used in the calculation may vary over time. Therefore, actual costs and their timing might differ from current estimates.

Impairment of Long-lived Assets

Management reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Examples of such events or circumstances are changes in metal prices, sudden physical deterioration of the asset, legal circumstances or political risks in the countries Fortuna operates, or other external factors which could have a significant impact on the operations of the Company. Impairment is considered to exist if total estimated future cash flows or probability-weighted cash flows on an undiscounted basis are less than the carrying amount of the assets, including mineral property, plant and equipment and non-producing property. An impairment loss is measured and recorded based on discounted estimated future cash flows or the application of an expected present value technique to estimate fair value in the absence of a market price. Future cash flows include recoverable proven and probable reserves and a portion of recoverable resources, silver, zinc, copper, lead and gold prices (considering current and historical prices, price trends and related factors), production levels, capital and reclamation costs, all based on detailed engineering life-of-mine plans. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions and market conditions and/or the Company’s performance could have a material effect on any impairment provision, and on the Company’s financial position and results of operations.

Income Taxes

The estimation of the Company’s future tax liabilities and assets involves significant judgment around a number of assumptions. Judgement must be used to determine the Company´s future earning potential, and the expected timing of the reversal of future tax assets and liabilities. Further uncertainties are the result of interpretation of tax legislation in a number of jurisdictions which might differ from the ultimate assessment of the tax authorities. These differences may affect the final amount or the timing of the payment of taxes.

Stock-based Compensation

The determination of the value of stock-based compensation is estimated using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Other assumptions include the expected life of the options and the risk-free interest rate at the time of the grant. Changes in these assumptions can materially affect the fair value estimated.

Financial Instruments

The carrying value of 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 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 December 31, 2008 the Company estimated the fair value of the outstanding contracts at $1.73 million, and recorded a gain in the consolidated statements of operations for the 2008 period of $4.52 million. The estimated fair value 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 net amount of settled positions on commodity contracts in 2008 was $4.53 million.

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. During 2008, the Company recorded other comprehensive loss of $0.69 million relating to change in fair value of marketable securities. This amount is net after tax.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and price risk.

(a) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, Peru, Mexico and Barbados and a portion of its expenses are incurred in US dollars, Nuevo Soles, and Mexican Pesos. A significant change in the currency exchange rates between the Canadian dollar relative to the other currencies could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars, Nuevo Soles and Mexican Pesos (all amounts are expressed in thousands of US dollars, thousands of Nuevo Soles or thousands of Mexican Pesos):

	December 31, 2008		
	US Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	5,078	629	3,864
Derivatives	1,418	-	-
Accounts receivable	102	10,400	46,460
Long-term receivable	114	-	-
Accounts payable and accrued liabilities	(2,096)	(5,281)	(10,259)
Long-term liability	(876)	-	-
Obligations under capital lease	(1,399)	-	-

Based on the above net exposures as at December 31, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase/decrease of $286 in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Nuevo Soles would result in an increase/decrease of $224 in the Company's net earnings and a 10% depreciation or appreciation of the Canadian dollar against the Mexican Pesos would result in an increase/decrease of $359 in the Company's net earnings.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash equivalents are held through large Canadian and international financial institutions. These investments mature at various dates over the current operating period. All of the Company's trade accounts receivables are held with a large international metals trading company. The Company has a Mexican value added tax of $4,026 as at December 31, 2008, of which a significant portion is past due. Additionally, the Company has Peruvian value added tax of $2,230. The Company expects to recover the full amounts from the Mexican and Peruvian Governments.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuing to monitor forecasted and actual cash flows. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its development plans. The Company strives to maintain sufficient liquidity to meet its short term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and cash equivalents and its committed liabilities.

Accounts payable and accrued liabilities, amounts due to related parties and the current portion of obligations under capital lease are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the amounts in investments with maturities of 90 days or less included in cash and cash equivalents is limited because these investments, although available for sale, are generally held to maturity.

(e) Price risk

The Company is exposed to metals price risk with respect to silver, gold, zinc, and lead sold through its mineral concentrate products. The Company mitigates this risk by implementing price protection programs for some of its zinc and lead production through the use of derivative instruments. As a matter of policy the Company does not hedge its silver production.

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 March 20, 2009 is 92,141,365 common shares. In addition, a total of 18,774,355 share purchase warrants and incentive stock options are currently outstanding as follows:

Type of Security	No. of Shares	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	Nov. 17, 2010
	11,063,355		
Stock Options:	200,000	$0.85	April 29, 2009
	20,000	$1.90	April 29, 2009
	50,000	$1.96	April 29, 2009
	50,000	$2.22	April 29, 2009
	100,000	$3.22	April 29, 2009
	250,000	$2.97	May 28, 2009
	177,000	$0.85	May 28, 2009
	29,000	$0.37	Dec. 2, 2009
	30,000	$0.80	July 24, 2010
	250,000	$2.82	Oct. 9, 2010
	270,000	$1.35	Feb. 5, 2016
	250,000	$2.29	Mar. 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	Sept. 13, 2016
	110,000	$0.85	Jan. 11, 2017
	730,000	$2.22	Jan. 11, 2017
	50,000	$2.75	Feb. 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
	1,075,000	$3.22	July 2, 2017
	25,000	$0.85	Oct. 24, 2017
	250,000	$2.52	Feb. 5, 2018
	150,000	$1.25	Aug. 25, 2018
	1,205,000	$0.85	Oct. 5, 2018
	650,000	$0.85	Nov. 5, 2018
	7,711,000		

Change in Accounting Policy

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

a) Section 1535 – Capital Disclosures – Disclosures. Section 1535 requires disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

b) Section 3031 – Inventories. Section 3031 requires inventory to be valued on a first-in, first-out or weighted average basis, which is consistent with the Company's current treatment. The adoption of this standard does not have a material impact on the Company's Consolidated Financial Statements.

c) Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation", replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and in addition requires companies to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the company's financial position and performance and the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date, and how the company manages those risks. The new presentation standard carries forward the former presentation requirements.

   The Company holds cash balances and incurs payables that are denominated in Canadian Dollars, Mexican Peso and Peruvian Soles. These balances are subject to fluctuations in the exchange rate between the Canadian Dollar, Peruvian Soles and the U.S. Dollar, resulting in currency gains or losses for the Company.

d) Section 1400 – General Standards of Financial Statement Presentation. Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern.

The adoption of Sections 1535, 3031, 3862, 3863 and 1400 had no impact on the opening equity and losses of the Company.

Recent released Canadian Accounting Standards

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Company:

Goodwill and Intangible Assets (Section 3064)

In February 2008, the CICA issued section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets," and CICA Section 3450, "Research and Development Costs," and CICA Section 1000, "Financial Statement Concepts." The standard intends to reduce the differences with International Financial Reporting Standards ("IFRS") in the accounting for intangible assets and results in closer alignment with U.S. GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or U.S. GAAP. The objectives of CICA Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that do not meet the definition and recognition criteria are eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. This standard will be effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of adopting this standard in 2009.

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted. The Company is evaluating the attributes of early adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

International Financial Reporting Standards

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the date IFRS will replace current Canadian Standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. Canadian GAAP will be converged with IFRS over a transition period with an effective implementation date effective for interim and annual periods commencing January 1, 2011. The Company will begin reporting its financial statements in accordance with IFRS on January 1, 2011, with comparative figures for 2010.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

The Company has begun planning its transition to IFRS but the impact on its consolidated financial position and results of operations has not yet been determined. The process will consist of three phases: Scoping and Diagnostics, Analysis and Development, and Implementation and Review. The Company has begun the first phase which includes a diagnostic assessment of its current accounting policies systems and processes in order to identify differences between current Canadian GAAP and IFRS treatment. The Company will continue to monitor changes in IFRS during implementation process and intends to update the critical accounting policies and procedures to incorporate the changes required by converting to IFRS and the impact of these changes on its financial reporting.

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. Such factors include, among others, changes in project parameters to deal with unanticipated economic factors, risks related to technological and operational nature of the Company's business, the speculative nature of exploration and development, changes in local and national government legislation

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 in the section Risks and Uncertainties.

In particular, forward-looking information and statements include:

- Production forecast for 2009.
- Cash cost per ton of treated ore and cash cost per ounce of payable silver for 2009.
- Throughput expansion and copper circuit projects are scheduled to be in production in May of 2009.
- Scheduled annual incremental income of the copper circuit project.
- Conclusion of the Caylloma resource estimation.
- Conclusion of the San Jose resource estimation.
- Management expects ongoing and expansion capital needs for 2009 at Caylloma to continue to be self-financed by internally generated cash from operations.
- Management expects investments of US$6 million in 2009 at San Jose in order to advance the project to a feasibility level.

Risks and Uncertainties

Metal prices
One of the most significant risks 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 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. Subsequently the Company extended the price protection for 65% of zinc and lead production between the months of February and July of 2009.

Credit risk
The Company is subject to credit risk through its trade receivables. The Company enters in one year contracts to sell its concentrate products at Caylloma and transacts only with credit worthy costumers to minimize credit risk. The Company has awarded its full production of 2009 to Swiss metal trader Glencore International.

The Company holds derivative contracts with financial institutions and in this regard is exposed to counterparty risk. The Company mitigates this risk by transacting only with credit worthy costumers to minimize credit risk. The Company currently holds derivatives contracts with Standard Bank PLC. and BBVA SA.

Environmental risk

The Company has recorded an asset retirement obligation of $1,30 million as of December 31, 2008. The initial amount was based on an estimate prepared by an independent third party at the time of acquisition as to the cost of reclamation associated with the Caylloma property. The Company has reviewed its reclamation obligations at the property in light of changing regulations and is currently working on a new estimate.

In view of the uncertainties concerning environmental reclamation, the ultimate cost of reclamation activities could differ materially from the estimated amount recorded. The estimate of the Company's asset retirement obligation relating to the Caylloma mine is subject to change based on amendments to laws and regulations and as new information regarding the Company's operations becomes available.

Exchange rate risk
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.

Exploration and development
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. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that exploration and development programs carried out by the Company will result in profitable commercial mining operations.

Resources and reserves
There is a degree of uncertainty attributable to the calculation of resources and reserves and to expected mineral grades. Mineral Resource and Mineral Reserves may require revision based on actual production experience. Market fluctuations in the price of metals, as well as increased production costs and reduced recovery rates, may render certain mineral reserves uneconomic and may ultimately result in a restatement of resources and/or reserves. Short-term operating factors relating to the mineral resources and reserves, such as the need for sequential development of ore bodies may adversely affect the Company's profitability in any accounting period.

Political and country risk
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 State of Oaxaca has a history of social conflicts and political agitation which can lead to public demonstrations and blockades that can from time to time affect the Company's operations.

Considerations in Light of the Credit Crisis and General State of the Markets

The significant decline in the prices of silver, zinc and lead during the last four months of 2008 has had a negative impact on the Company's profitability. In Q4 2008, the strengthening of the U.S. dollar relative to the Canadian dollar partially offset this negative impact. With the current global economic uncertainty, the Company anticipates that commodity prices will remain depressed and the Canadian-U.S. dollar exchange rate will remain volatile in the near term. Based on current metal prices, the current value of the U.S. dollar, and planned production levels, and after the effects of negative price adjustments as discussed, the Company expects to resume generating positive cash flows in the first half of 2009, albeit at significantly lower levels than earlier in 2008.

In light of the current market environment, the Company's near-term goal is to preserve its cash balances to the greatest extent possible, by minimizing operating costs and by curtailing capital expenditures. In that regard, the Company is currently reviewing its operations in Peru with a view to optimizing efficiencies and reducing costs wherever possible without compromising safety, health or environmental standards. The Company will be monitoring market conditions and the planned capital budget for the Mexican operations with a view to determining an optimal development schedule given the Company's current cash balances, its ability to generate sufficient cash flows, and its ability to obtain additional funding in the current market environment. Additional funding may include external debt financing, or the public or private sales of equity or debt securities of the Company.

The Company has assessed the carrying values of its mineral properties as a result of the market downturn. In the last few months, declining metal prices as a result of the global economic uncertainty, and negative market sentiment have lead to the Company's market capitalization dropping below its book value as at December 31, 2008. Based on current and expected metal prices and cost structures, management has determined that the values of the Company's mineral properties have not been impaired at this time. However, should current market conditions and commodity prices worsen and/or persist for a prolonged period of time, an impairment of mineral properties may be required.

Internal Disclosure Controls and Procedures

During 2008 the Company engaged an external consulting firm to assist Fortuna’s management in documenting and assessing the design effectiveness of Internal Control over Financial Reporting on its main business and accounting processes. This is an ongoing effort.

The Company evaluated the effectiveness of the design and operation of the disclosure controls and procedures as of December 31, 2008 under the supervision of the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”). Based on the results of this evaluation the CEO and the CFO have concluded that such disclosure controls are sufficiently effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with the applicable securities laws.

Management is responsible for establishing a system of internal control over financial reporting to provide reasonable assurance regarding the reliability and integrity of the Company´s financial information and the preparation of its financial statements in accordance with Canadian generally accepted accounting principles. Management of the Company has evaluated the effectiveness of internal control over financial reporting as of December 31, 2008 and has concluded there are no material weaknesses. Management continues to review and refine its internal controls and procedures.