FORTUNA
SILVER MINES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Nine Months Ended September 30, 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 nine months ended September 30, 2007. The following information, prepared as of October 31, 2007, should be read in conjunction with the September 30, 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

For the three month period ending September 30, 2007 Fortuna generated a net loss of $3.39 million and an operating loss of $1.44 million after recording a stock-based compensation charge of $4.12 million. During the three month period revenues increased 4.55% in respect of the 2nd quarter of the year to $9.2 million and amounted to $23.74 million for the nine month period.

As a result of cash surplus at the Caylloma mine, the Company generated positive cash flow from operating activities (before changes in non-cash working capital) of $3.19 million for the three month period and $8.85 million for the nine month period.

Treated ore at Caylloma increased 3.13% with respect to the previous quarter with an average throughput rate of 715 tpd for the three months. A record of 748 tpd was recorded for the month of July. Production cash cost was US$49.15 per tonne and unit NSR of treated ore was US$139.80 per tonne for the period.

Announcement of VP Project Development for San Jose

On October 25, 2007 the Company announced the appointment of Mark Moseley-Williams to the new position of Vice President of Project Development. Mr. Moseley-Williams will be responsible for leading the engineering design, feasibility study, and mine construction at the high-grade San Jose silver-gold project, and will be based at the project site.

San Jose Drilling Results

Drilling on the San Jose project continues to deliver consistent results – see Results of Operations herein for details of drilling completed to October 31, 2007.

Quarterly Information

The following table provides information for the eight fiscal quarters ended September 30, 2007:

		Quarters Ended							
		30-Sep-07	30-Jun-07	31-Mar-07	31-Dec-06	30-Sep-06	30-Jun-06	31-Mar-06	31-Dec-05
Revenues	$ 000	**9,201**	**8,797**	**5,739**	**3,370**	**0**	**0**	**0**	**0**
Net Income (loss)	$ 000	**(3,390)**	**947**	**(1,756)**	**21**	**(1,745)**	**363**	**(2,371)**	**(616)**
Net Income (loss) per share, basic	$	**(0.05)**	**0.01**	**(0.03)**	**0.00**	**(0.04)**	**0.01**	**(0.09)**	**(0.03)**
Net Income (loss) per share, diluted	$		**0.01**		**0.00**		**0.01**		

Financial Results

For the three months ended September 30, 2007 the Company recorded a net loss of $3.39 million compared to a net loss of $1.75 million for the corresponding period in 2006. The loss for the period was driven by a $4.12 million stock-based compensation charge, as were the losses in March of 2007, and September and March of 2006, when stock based compensation charges of $2.31 million, $1.81 million, and $2.13 million were recorded respectively.

Also for the three months ended September 30, 2007 mine operating income was $4.10 million and cash generated by operating activities before changes in non-cash working capital items was $3.19 million, reflecting the cash surplus of the Company's operating Caylloma mine.

Sales for the third quarter of 2007 were $9.2 million. This is a 4.59% increase over the previous quarter, which is explained by higher concentrate production and sales. Concentrate tonnage sold increased 4.72% for zinc and 6.91% for lead-silver, where unit value of concentrate decreased 14% for zinc and increased 31% for lead-silver in tandem with the behaviour of zinc and lead metal prices for the period.

Total **cost of sales** was $5.10 million, of which $1.78 million was depletion, depreciation, and accretion. This corresponds entirely to production and sales from Caylloma.

Selling, general and administrative expenses for the period totalled $1.41 million compared to $0.22 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 $411,398 of selling expenses and mining royalty paid to the Peruvian government on account of our operations at the Caylloma mine, and $1 million of total corporate administrative expenses. The stock based compensation charge totalled $4.12 million for the three month period ended September 30, 2007, compared to $1.81 million for the corresponding period in 2006.

Interest and other income and expenses were $406,123 compared to $93,956 for the corresponding quarter of 2006. The increase is due to the larger cash balance carried during the period.

Foreign exchange loss recorded for the period was $936,635, compared to a gain of $189,260 for the corresponding quarter of 2006. This has to do with the continued appreciation of the Canadian dollar against the US currency experienced during the third quarter of 2007, where the functional currency of the Company is the US Dollar.

The $1.25 million **Income tax provision** recorded for the period resulted from the taxable income generated in our Peruvian Subsidiary and consisted of $465,537 of current taxes where the balance is future income tax.

Results of Operations

Mexico – San Jose Silver-Gold Project

Drilling on the San Jose project continues to deliver consistent results. A total 20,819 meters have been completed this year up until October 31, and the Company anticipates drilling a total of at least 25,000 meters with three drill rigs this year. Results have been made public through four news releases dated May 30, July 16, August 21, and September 6, 2007 and are available on the Company's website at www.fortunasilver.com. Highlights of these results include:

- Hole SJO-060 averaging 10.9 g/t Au plus 588 g/t Ag (1,141 g/t Ag equivalent) over 25.1 meters;
- Hole SJO-057 averaging 6.1 g/t Au plus 588 g/t Ag (897 g/t Ag equivalent) over 11.6 meters;
- Hole SJO-055 averaging 11.9 g/t Au plus 1,151 g/t Ag (1,756 g/t Ag equivalent) over 2.5 meters;
- Hole SJO-063 averaging 4.4 g/t Au plus 1,224 g/t Ag (1,450 g/t Ag equivalent) over 2.6 meteres;
- Hole SJO-065 averaging 1.4 g/t Au plus 183 g/t Ag (256 g/t Ag equivalent) over 20.9 meters
- Hole SJO-064 averaging 2.48 g/t Au plus 283 g/t Ag (410 g/t Ag equivalent) over 104.8 meters.
- Hole SJO-068A averaging 3.66 g/t Au plus 395 g/t Ag (581 g/t Ag equivalent) over 7.6 meters from 299.55 meters (Bonanza Vein) and 3.91g/t Au plus 563 g/t Ag (763 g/t Ag equivalent) over 6.8 meters from 364.83 meters (Trinidad Vein).
- Hole SJO-071 averaging 1.00 g/t Au plus 131 g/t Ag (182 g/t Ag equivalent) over 7.0 meters from 164.25 meters (Trinidad Vein).
- Hole SJO-074 averaging 1.49 g/t Au plus 758 g/t Ag (834 g/t Ag equivalent) over 1.3 meters from 221.3 meters (Trinidad Vein)
- Hole SJO-075 averaging 1.60 g/t Au plus 183 g/t Ag (265 g/t Ag equivalent) over 21.9 meters from 397.97 meters (Bonanza Vein) and 2.81g/t Au plus 264 g/t Ag (407 g/t Ag equivalent) over 2.27 meters from 432.23 meters (Stockwork Zone).
- Hole SJO-079 averaging 1.41 g/t Au plus 143 g/t Ag (215 g/t Ag equivalent) over 34.3 meters from 441.50 meters (Bonanza Vein) and 13.60g/t Au plus 1039 g/t Ag (1733 g/t Ag equivalent) over 2.35 meters from 482.45 meters (Stockwork Zone).
- Hole SJO-081averaging 1.34 g/t Au plus 113 g/t Ag (182 g/t Ag equivalent) over 25.4 meters from 322.10 meters (Bonanza Vein), including 9.09 g/t Au plus 634 g/t Ag (1098 g/t Ag equivalent) over 1.15 meters from 345.20 meters.

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% for purposes of estimating silver equivalency. True width of mineralization ranges from 70% to 90% of interval.

Additional targets like San Ignacio north and south both located south of the Trinidad shoot along the same structure are currently being drill tested.

The main underground ramp project was initiated during the quarter and as at the end of October, 38 linear meters of decline had been completed. The ramp has been designed based on the existing geologic model and will provide key input for the engineering phase as well as a main access for future underground operations. The rate of advancement is estimated at 170 meters per month. Based on this, ramp access to the deepest level of historic workings 150 meters below surface is expected for June 2008.

The joint venture continues its land acquisition program in the project area and components of a scoping study are already taking place; a social base line study as well as a hydrological study in the project area have been commissioned and are currently in progress. A new resource estimate is being prepared which will serve as main input for a pre-feasibility study which is expected to commence in April of 2008.

A generative exploration program within our 40,000 hectares controlled land package is well underway. Up to date 4 areas of interest have been delineated by the on-going stream sediment and soil sampling where follow-up detailed exploration work is being conducted.

Peru – Caylloma Mine

Caylloma Mine	**Quarters ended**		
	Mar-31	**Jun-30**	**Sep-30**
Tonnes milled	52,687	63,806	65,806
Grade per tonne			
Silver (oz)	2.23	2.29	2.45
Lead (%)	1.39	1.67	1.80
Zinc (%)	2.65	2.92	3.01
Recoveries			
Silver (%) in lead concentrate	71.39	73.28	75.75
Lead (%)	88.59	89.22	88.50
Zinc (%)	84.16	86.22	86.51
Production (metal contained)			
Silver (oz)	95,473	119,110	132,450
Lead (tonnes)	646	952	1,049
Zinc (tonnes)	1,178	1,605	1,712
Unit cash production cost (US$/tonne)	42.62	46.65	49.15
Unit Net Smelter Return (US$/tonne)	90.26	123.65	139.80

The Caylloma mine continues to consolidate improvements and performance levels reported during the year. Further increases in milled ore and head grades for the quarter as well as plant recoveries have resulted in increments in metal production with respect to the previous quarter of 11.2% for silver with 132,450 oz, 10% for lead with 1,049 tonnes, and 6.7% for zinc with 1,712 tonnes.

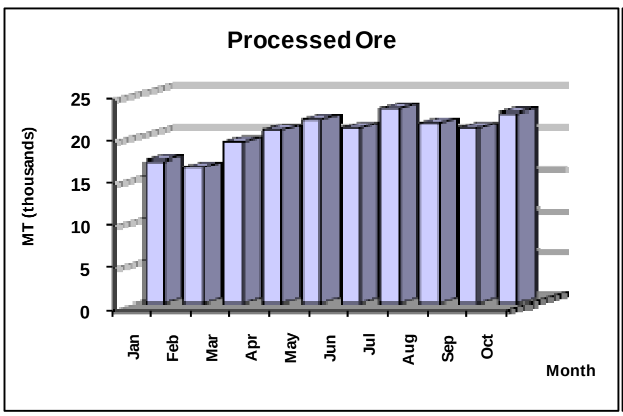
During the period an investment plan has been initiated that will seek to address basic infrastructure needs for the future expansion at Caylloma. The main items comprised within this plan are an expansion of the existing tailings dam, a 3.2 km power line that will ensure increased energy availability, and a main horizontal extraction level for Animas 200 meters below current mine workings, which will allow for a more efficient operation as lower level ore is accessed. Overall infrastructure and development investment needs including exploration drilling at Animas over the next 14 months are estimated at US$12 million to US$13 million.

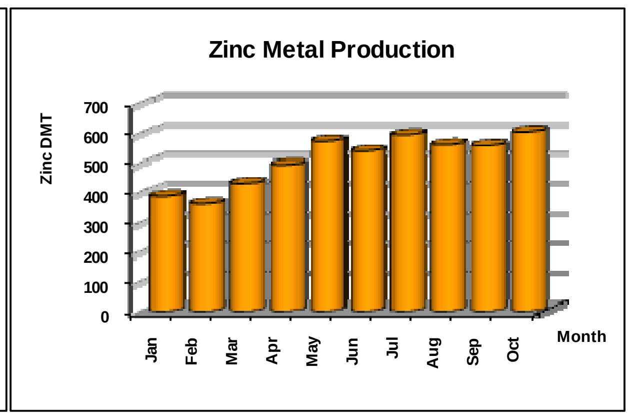
In order to protect a minimum level of cash flow over the next 14 months that will allow funding these planned capital expenditure programmes out of internally generated cash flow, Fortuna has entered into a hedging program of 40 % of its lead and zinc production over the 14 month period. The hedging program involves a series of put and call option strategies where the main aspects are the following: no initial premium, pre-determined and limited liabilities contingent on price increases, and exposure to rising prices. These arrangements were not designated as hedges for accounting purposes.

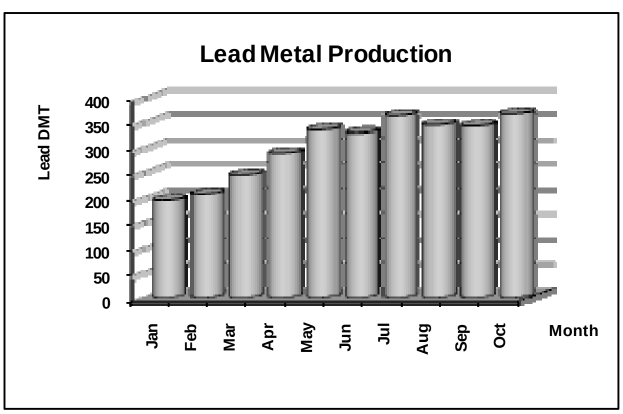
Total ore milled for the quarter was 65,806 tonnes, yielding an average daily throughput of 715 tpd. Throughput rate is expected to stabilize around 730 tpd until completion of mine development and other investments described above necessary to achieve permitted capacity of 1,100 tpd.

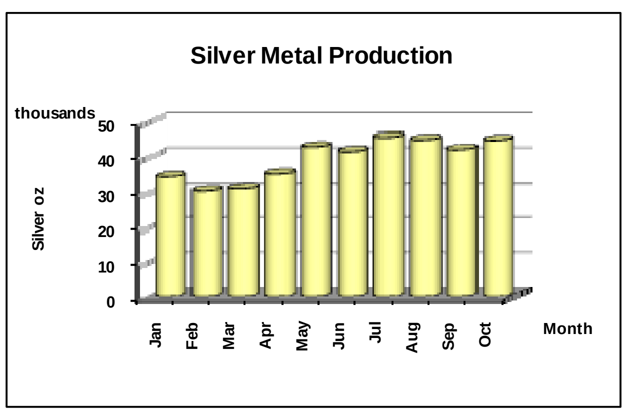
Cash cost per tonne of ore milled during the second quarter of 2007 was US$49.15. As at the end of September 9,562 tonnes of ore had been accumulated on surface and approximately 17,000 tonnes had been accumulated underground in stopes as a result of the introduction of the shrinkage mining method into approximately 12% of our operations since the month of April.

The net-smelter-return (NSR) value per tonne of ore milled during the quarter was US$139.80/tonne. The composition of sales per metal for the third quarter was: zinc 57%, silver 22%, lead 19%, gold 2%.









Exploration at Caylloma for 2007 is targeting the immediate mine area as well as the greater surrounding land package of 12,000 hectares. There are currently 2 drill rigs working on an infill programme at the lower levels of the main shoot in Animas vein and 2 drill rigs doing exploration drilling on a previously unexplored extension of the silver rich Bateas vein as well as other silver vein targets.

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 for the three months ended September 30, 2007:

	CAD$	US$ @ 0.9288
Cost of sales	**5,103,699**	**4,740,439**
Change in inventory (ore and concentrate stock piles)	**156,815**	**145,654**
Depletion, depreciation, and accretion	**-1,778,185**	**-1,651,621**
Total cash production cost	**3,482,329**	**3,234,471**
Total processed ore (tonnes)		**65,806**
Cash production cost per tonne of processed ore (US$)		**49.15**

Liquidity and Capital Resources

The Company's cash resources and working capital at the end of the period were $43.96 million and $46.98 million respectively, compared to $7.75 million and $10.81 million for the corresponding period of 2006.

As a result of positive cash flow coming from our Peruvian operations net cash provided by operating activities was $3.84 million for the three month period and $7.38 million for the first nine months of the year.

During the period the Company incurred total investment expenditures of $5.86 million in its mineral properties and plant and equipment. Management expects Caylloma to address ongoing and expansion capital needs from cash generated internally by the operation. With regards to San Jose, for this stage of the project a US$12 million investment plan is currently underway of which Fortuna's cost share is 76% and which the Company is well funded to execute.

During the three month period net proceeds from issuance of common shares amounted to $10.74 million. This was comprised of $161,005 from the exercise of stock options and $10.58 million from the exercise of warrants. Total net cash provided by financing activities was $10.7 million.

Management believes the Company's financial position after the closing of its January 2007 financing as well as a result 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 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:

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Mineral property costs – geological fees	$ 45,072	$ 99,341
Consulting fees	91,062	45,193
Salaries and wages	71,092	5,954
Management fees	183,249	40,521

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

At September 30, 2007, due to related parties consists of $40,359 (December 31, 2006 - $27,278) 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 Canadian 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 periods. 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, stock based compensation, fair value and amortized cost of financial instruments, and fair value of derivative contracts. Actual results may vary from those estimates.

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 $438,830 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 nine months ended September 30, 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.

From time to time the Company will enter into forward sale contracts to fix the price of zinc and lead contained in concentrates sold for which the final price is not known until a final settlement date. During September 2007 the Company entered into a forward sale contract maturing in December 2007 for the sale of 450 tonnes of zinc at US$2,925 per tonne and 325 tonnes of lead at US$2,963 per tonne that is measured at fair market value at each period end. The Company has recorded a loss of $154,074 on this contract as loss on commodity contract for the period ending September 30, 2007.

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 October 31, 2007 is 79,896,345 common shares. In addition, a total of 24,247,093 share purchase warrants and incentive stock options are currently outstanding as follows:

Type of Security	Number	Exercise Price	Expiry Date
Warrants	4,838,546	$1.85	March 23, 2008
	10,093,192	$2.30	July 11, 2008
	862,117	$0.345	June 27, 2010
	1,613,238	$0.345	November 17, 2010
	17,407,093		
Options	39,000	$0.37	December 2, 2009
	30,000	$0.80	July 24, 2010
	250,000	$2.82	October 9, 2010
	325,000	$1.35	February 5, 2016
	451,000	$2.29	March 30, 2016
	90,000	$1.75	May 8, 2016
	200,000	$1.75	May 22, 2016
	300,000	$1.55	July 5, 2016
	860,000	$1.66	July 10, 2016
	225,000	$1.61	September 13, 2016
	20,000	$1.90	November 20, 2016
	50,000	$1.96	November 23, 2016
	1,455,000	$2.22	January 11, 2017
	80,000	$2.75	February 6, 2017
	15,000	$3.09	April 22, 2017
	50,000	$3.10	May 31, 2017
	50,000	$3.10	June 17, 2017
	50,000	$3.05	June 27, 2017
	2,025,000	$3.22	July 2, 2017
	250,000	$2.97	September 23, 2017
	25,000	$3.10	October 24, 2017
	6,840,000		

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 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 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.