MANAGEMENT'S DISCUSSION AND ANALYSIS
Second Quarter Report – March 31, 2006

General

This Management's Discussion and Analysis ("MD&A") supplements the unaudited financial statements of Fortuna Silver Mines Inc. (the "Company") for the six months ended March 31, 2006. The following information, prepared as of May 23, 2006, should be read in conjunction with the March 31, 2006 financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated. The March 31, 2006 financial statements have not been reviewed by the Company's auditors.

Business of the Company

The Company is an emerging silver-gold and base metal producer focused on Latin America., with its principal assets being the Caylloma Silver Mine in southern Peru and the San Jose Silver-Gold Project in Oaxaca, Mexico.

Peru – Caylloma Silver Mine

Fortuna has initiated mine development and plant upgrades targeting initial production for the end of September 2006. In March crews of mechanics began with the installation of new equipment for the crushing and flotation circuits as well as maintenance of existing machinery. Also during March the Company received its Certificate for Mining Operations from the Peruvian government and granted the mine contract to Canchanya Ingenieros S.R.L, a well established Peruvian mine contractor. Since then, underground preparation of four mining stopes is advancing on levels 7 and 9 of the Animas vein. A second mine contractor is expected to arrive on site with a double boom jumbo during the last week of May to drive a 900 meter adit for the intermediate level 8.

The Company has an ongoing surface drill program of 5,000 meters for the remainder of the year with the goal of expanding the current NI 43-101 compliant estimate of 7 million ounces silver in proven and probable reserves (776,350 tonnes at 9.2 opt) and 14 million ounces silver in inferred resources (1,146,599 tonnes at 12.4 opt), plus significant lead and zinc byproduct credits.

A new geologic model incorporating Ag-Pb-Zn polymetallic mineralization has been constructed for the Animas vein and the resource estimation is in progress and expected for June. The polymetallic mineralization at Animas was not included in the current resource estimate by the previous owners and it has significant potential to increase the size of the resource once included. The Animas structure is at least 3,800m long and locally up to 20m wide and may be amenable to bulk tonnage mining methods. A full technical report outlining the original 600 tpd production model is available on the Company's website at www.fortunasilver.com.

Capital Expenditures

Detailed financial and production models were prepared as part of the Company's acquisition due diligence, based on the existing resource estimate. These models indicate required capital expenditures of approximately US$6.5 million over three years.

The plant expenditures include allowances for the addition of a zinc recovery circuit to process polymetallic ore from the Animas vein, and to allow an increase in production rates to 1000 tpd.

Production was modeled at 210,000 tonnes of ore per year, resulting in annual sales approaching 2 million ounces of silver per year. Net smelter returns were estimated at roughly $14 million per year using the following metal prices; US$6.00/ounce Ag, US$400/ounce Au, US$0.45/lb Zn, US$0.29/lb Pb..

The Company is accelerating the original capital expenditures budget of US$6.5 million over three years and it is expected that this amount will be invested in great part during the first year, giving more versatility to the mine in an environment of historically high commodity prices.

The Company will update these production and financial models as appropriate, to reflect changes in production scenarios on the Animas vein and metal prices.

Peru – Julia & Sukuytambo Silver Projects

In late 2005 the Company acquired the Julia vein, situated just 10km from Caylloma, includes chip sample results up to 16.87 g/t Au and 64 g/t Ag over 2.31 meters across the vein. The Company also acquired at that time additional ground surrounding the historic Sukuytambo Mine, which last produced in the 1980's and reported historic head grades ranging from 180 to 466 g/t silver and 4 g/t gold.

One exploration field crew was mobilized to the Julia-Sukuytambo area in mid May. They will be working on generating a comprehensive evaluation of multiple color anomalies and veins within our 4,000 hectare ground with the expectation of generating drill targets for the fourth quarter of this year.

Mexico – San Jose Silver-Gold Project

At San José the Company has spent approximately US$1.0 million and core drilled just over 9000 meters since late January with two rigs continuing to work on the property. The first group of assay results was made public in a news release dated May 15th. Initial results for nine holes on the Trinidad zone of the vein returned high grade silver and gold mineralization extending the zone 100 meters down dip and along strike to the south from previous drilling. A schematic long section showing the pierce points within the vein structure is available on our website at www.fortunasilver.com.

The drill program will continue to test the longitudinal extent of high grade mineralization at Trinidad with approximately another 2000 meters of drilling, after which assay results and geologic model will be assessed. The Company expects assay results from the drill program to continue to arrive over the next two months.

In November 2005, the Company reached an agreement with Continuum Resources Ltd. (TSXV:CNU) in which Fortuna can earn a 70% interest in Continuum's 80% share of the San Jose silver-gold deposit located in Oaxaca, Mexico. The agreement calls for Fortuna to spend CAD$2 million in exploration by December 2007, primarily on diamond drilling, and includes a CAD$1 million private placement into Continuum by Fortuna at a price of $0.20 per share. At the termination of the drill program, and based on a NI 43-101 compliant resource calculation, Fortuna will pay Continuum US$0.50 for each ounce of silver or silver equivalent in the Measured resource category, and US$0.35 for each ounce of silver or silver equivalent in the Indicated resource category corresponding to the interest of Fortuna in the ounces.

Acquisitions

Fortuna is constantly evaluating new opportunities in order to meet our corporate objective of building significant silver inventory and future cash flow, by acquiring advanced projects and near term producers accretive to shareholder value. Through this aggressive growth strategy, the Company has obtained interests in two significant projects in less than a year, with high expectations for additional success in the coming months. We look forward to continued growth through the advancement and development of our existing projects and future acquisitions.

Results of Operations

For the six months ended March 31, 2006, the Company had a net loss of $2,987,026 ($0.12 per share) compared to a net loss of $252,396 ($0.04 per share) for the six months ended March 31, 2005. Every category of corporate expenses in the current period, except accounting and legal, have increased significantly compared to the 2005 period due to the overall increase in the Company's exploration and corporate activity. The most significant increases have occurred in the areas of consulting and management fees, public relations (printing and distributing marketing materials to at least 250,000 persons), regulatory fees, and travel. In addition, the 2006 net loss includes a $2,213,250 non-cash compensation charge.

Quarterly Information

The following table provides information for the eight fiscal quarters ended March 31, 2006:

	Second Quarter ended Mar. 31, 2006 ($)	First Quarter ended Dec. 31, 2005 ($)	Fourth Quarter ended Sept. 30, 2005 ($)	Third Quarter ended June 30, 2005 ($)	Second Quarter ended Mar. 31, 2005 ($)	First Quarter ended Dec. 31, 2004 ($)	Fourth Quarter ended Sept. 30, 2004 ($)	Third Quarter ended June 30, 2004 ($)
Total Income	45,813	18,464	279	-	-	-	-	-
Net Loss	2,370,712	616,314	202,166	151,070	146,887	105,510	16,473	36,067
Net Loss per share	0.09	0.03	0.02	0.02	0.023	0.016	0.006	0.020

Mineral Property Expenditures

Guatemala - During the three months ended March 31, 2006, $39,511 was spent on exploration of the Tambor Property in Guatemala. Of that amount, the major expenditure categories include $9,568 for licences and taxes, $9,269 for legal and accounting, and $7,380 for equipment rental. The total deferred exploration costs of $39,511 were written off during the quarter as the Company is not continuing with its option to earn an interest in this property.

Peru - During the three months ended March 31, 2006, $1,328,674 was spent on exploration and development of mineral properties in Peru. Of that amount, the major expenditure categories include $278,185 for engineering, geological, mine operating and other consulting, $264,218 for drilling, $254,609 for salaries, and $90,600 for geochemistry.

Mexico - During the three months ended March 31, 2006, $797,268 was spent on exploration of mineral properties in Mexico. Of that amount, the major expenditure categories include $684,778 for drilling, $50,802 for geological and other consulting, and $15,088 for travel and accommodation.

Liquidity and Capital Resources

The Company's cash resources increased during the six months ended March 31, 2006 by approximately $16.5 million. During the period, the Company received $2,110,961 from the exercise of warrants and stock options, and gross proceeds of $19,050,000 from a private placement financing. The Company invested $1.0 million by purchasing shares in Continuum Resources Ltd., the Company's joint venture partner in Mexico. Subsequent to March 31, 2006, certain stock options and warrants were exercised, providing the Company with additional cash proceeds of approximately $590,254. Working capital increased from a deficiency of $1,593,328 at December 31, 2005 to positive working capital of $17,400,615 at March 31, 2006.

Management expects that the Company will have sufficient working capital to meet its corporate and exploration commitments over at least the next 12 months, including paying the final note due on its Caylloma Mine acquisition. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activity. 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. The Company continues to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

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 23, 2006 is 42,623,430 common shares. In addition, a total of 26,016,233 share purchase warrants and incentive stock options are currently outstanding as follows:

Type of Security	Number	Exercise Price	Expiry Date
Warrants	1,330,000	$0.75	June 28, 2006
	50,000	$1.50	February 20, 2007
	952,275	$1.85	September 23, 2007
	272,785	$0.80	September 26, 2007
	9,120,000	$1.00 / $1.25	September 26, 2007
	189,056	$0.80	October 6, 2007
	3,034,132	$1.00 / $1.25	October 6, 2007
	6,730,130	$1.85	March 22, 2008
	862,117	$0.345	June 27, 2010
	1,613,238	$0.345	November 17, 2010
	24,153,733		
Options	37,500	$0.80	July 24, 2006
	125,000	$2.29	March 30, 2007
	192,500	$0.37	December 2, 2009
	72,500	$0.72	July 13, 2010
	50,000	$0.80	July 24, 2010
	75,000	$1.35	November 17, 2010
	680,000	$1.35	February 5, 2016
	500,000	$2.29	March 30, 2016
	130,000	$1.75	May 8, 2016
	1,862,500		

Related Party Transactions

The Company incurred charges with companies having a common director or officer as follows:

	Six Month Period Ending March 31, 2006	2005
Deferred exploration costs – geological fees	$ 50,584	$ 13,137
Consulting fees	$ 52,842	$ 9,180
Salaries and wages	$ 7,996	$ 18,000
Management fees	$ 36,705	$ -

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

At March 31, 2006, accounts payable and accrued liabilities included $50,617 (Sept 2005: $181,036) to a company with a common director.

At March 31, 2006, due to related parties consists of amounts owing to a company with a common director which were incurred as a result of shared administrative costs. This amount is unsecured, non-interest bearing and payable in the normal course of business.

At March 31, 2006, due from related parties consists of amounts 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.

Financial Instruments

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

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. Other risks facing the Company include competition, environmental and insurance risks, fluctuations in metal prices, share price volatility and uncertainty of additional financing.

Internal Disclosure Controls and Procedures

We have evaluated the effectiveness of our disclosure controls and procedures and have concluded that they are sufficiently effective to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to management and disclosed in accordance with applicable securities regulations.

Subsequent Event

The Company received a total of $590,254 from the exercise of warrants and stock options.