MANAGEMENT'S DISCUSSION AND ANALYSIS
12-Month Quarterly Report – September 30, 2006

Change in Fiscal Year End

In August, 2006, 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.

For the current period, the old fiscal year ending September 30, 2006 has been changed to a transitional 15-month fiscal year ending December 31, 2006. Therefore, the accompanying financial statements are for an interim twelve-month period ended September 30, 2006, with comparables to the twelve-month period ended September 30, 2005.

General

This Management's Discussion and Analysis ("MD&A") supplements the unaudited financial statements of Fortuna Silver Mines Inc. (the "Company") for the twelve months ended September 30, 2006. The following information, prepared as of November 24, 2006, should be read in conjunction with the September 30, 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 September 30, 2006 financial statements have not been reviewed by the Company's auditors.

Business of the Company

Fortuna Silver Mines Inc, is a mining company, focused on Latin America, producing silver, gold, zinc and lead. The Company´s principal assets being the Caylloma Silver Mine in southern Peru and the San Jose Silver-Gold Project in southern Mexico.

Peru – Caylloma Silver Mine

Fortuna began commercial production of silver-lead and zinc concentrates in October 2006. First revenue from sales has been received the second week of November. Current daily throughput is 500 tonnes per day with an expected increase to 700 tonnes per day for May 2007. The processing plant is permitted and practically ready to accommodate production increments up to 1,100 tonnes per day. Management is accelerating the preparation of stopes on the Ag-Zn-Pb rich Animas vein as well as in the silver rich traditional vein system with the objective of achieving full throughput capacity by early 2008.

Fortuna is currently selling its silver-lead and zinc concentrate production from Caylloma to Swiss company Glencore in Peru. Glencore is a leading global commodity trading firm with mines, smelters and offices in various parts of the world.

Fortuna's silver, gold, zinc, and lead metal production from Caylloma are unhedged. This is allowing the Company and its shareholders to capitalize on historic high metal prices for these metals. Of particular interest today is the zinc and lead component of production at Caylloma, which at current price levels represent over 50 per cent of revenue for the mine. Zinc specially shows very strong fundamentals for sustained high prices over the next years.

Management is satisfied with the smooth start up of mining and processing at Caylloma. It is expected it will take three to four months to work out small improvements to the plant process, especially in regard to the crushing circuit where changes will be made to accommodate larger storage capacity at the coarse ore bin.

The geology office at Caylloma is working on finalizing the 2007 exploration program. The objective of this is to double the size of pure silver ounces in the reserves, measured-indicated and inferred resources from the current 5 million, 5.4 million, and 13.8 million ounces respectively by executing a concerted exploration effort on multiple veins within the Caylloma camp that have seen little work in the past and expanding the resources to depth and along strike on known veins.

Mexico – San Jose Silver-Gold Project

The Company concluded successfully the acquisition of a 76 per cent direct ownership of the San Jose project on November 24, 2006. The Company paid US$9.0-million plus15-per-cent Mexico goods and services tax on the purchase price, which equals US$1.35-million. This tax will be refunded to Fortuna by the Mexican government in due course. The Company also paid to the owner of the property 168,417 shares of Fortuna and 1,293,750 shares of Continuum which were owned by Fortuna.

The direct acquisition of the high-grade San Jose silver-gold deposit is a reflection of Management´s strong believes in the project merits and its potential to become a profitable silver mine in the short term. A new resource estimate incorporating the results from the latest drill program is expected for December 2006.

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

San Jose will become a key project for the Company in 2007. With the purchase of the existing plant facility San Jose could be fast-tracked into production at an initial rate of 1.5 million ounces of silver equivalents per year.

The 2007 work program for San Jose is currently being designed but it includes definition and exploration drilling as well as underground development with the objective of bringing inferred resources to the measured and indicated category.

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..

Results of Operations

For the twelve months ended September 30, 2006, the Company had a net loss of $4,368,966 ($0.13 per share) compared to a net loss of $605,633 ($0.08 per share) for the twelve months ended September 30, 2005. Every category of corporate expenses in the current twelve-month period, except accounting and legal and bank charges and interest, 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 $4,000,075 non-cash compensation charge.

During the quarter ended September 30, 2006, corporate expenses were also overall greater than in the quarter ended September 30, 2005. The areas of significant increase were in the areas of bank charges and interest, consulting, public relations, regulatory fees, salaries and travel.

Quarterly Information

The following table provides information for the eight fiscal quarters ended September 30, 2006:

	Fourth Quarter ended Sept. 30, 2006 ($)	Third Quarter ended June 30, 2006 ($) *	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 ($)	First Quarter ended Dec. 31, 2004 ($)
Total Income	93,956	126,394	45,813	18,464	279	-	-	-
Net Earnings (Loss)	(1,744,819)	362,879	(2,370,712)	(616,314)	(202,166)	(151,070)	(146,887)	(105,510)
Net Earnings (Loss) per share	(0.04)	0.01	(0.09)	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)

*As the quarter ended June 30, 2006 resulted in a net gain, the net earnings per share is calculated on both a basic and diluted basis, and equals $0.01 per share in each case.

Mineral Property Expenditures

Guatemala - The total deferred exploration costs of $39,511 incurred during the financial year was written off as at December 31, 2005 as the Company is not continuing with its option to earn an interest in this property.

Mexico - During the twelve months ended September 30, 2006, $1,935,971 was spent on exploration of the San Jose Project in Mexico. Of that amount, the major expenditure categories include $1,623,256 for drilling and assays, $147,614 for geological consulting, and $141,733 for property overhead.

Peru - During the twelve months ended September 30, 2006, $2.7 million was spent on plant and equipment, $1.8 million on mine development, and $1.1 million on drilling and assays. The category Mine Camp under the Schedule of Mineral Properties for which $2.0 million was spent includes general maintenance for the camp, which at peak of construction activity has housed over 600 people. It also includes transport of supplies and equipment to the mine site, energy, and technical consulting fees among others.

Liquidity and Capital Resources

The Company's cash resources and liquid investments increased during the twelve months ended September 30, 2006 by approximately $1.9 million. During the period, the Company received $4,639,092 from the exercise of warrants and stock options, and net proceeds of $19,570,952 from private placement financings. The Company invested $1.0 million by purchasing shares in Continuum Resources Ltd., the Company's joint venture partner in Mexico. Working capital increased from a deficiency of $218,826 at September 30, 2005 to positive working capital of $10,807,116 at September 30, 2006.

Subsequent to September 30, 2006, certain stock options and warrants were exercised, providing the Company with additional cash proceeds of $1,318,791.

In connection with the Company's acquisition of a 76% interest in the San Jose Project, the Company issued a total of 321,750 shares and was granted a credit facility whereby it has borrowed $4.6 million which was put towards the cash portion of the purchase price paid to the property owner (see Subsequent Events below). The use of this debt facility grants the Company financial flexibility to arrange a definitive source of funding at a suitable time in the future in terms of its needs and market conditions.

Management expects that the Company will have sufficient working capital to meet its corporate and exploration commitments in the near term but will need to raise additional capital to meet its investment budget requirements over the medium term. 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.

Other Data

Additional information related to the Company is available for viewing at www.sedar.com.

Share Position and Outstanding Warrants and Options

The Company's outstanding share position at November 24, 2006 is 46,386,270 common shares. In addition, a total of 24,326,810 share purchase warrants and incentive stock options are currently outstanding as follows:

Type of Security	Number	Exercise Price	Expiry Date
Warrants	50,000	$1.50	February 20, 2007
	940,912	$1.85	September 23, 2007
	270,085	$0.80	September 26, 2007
	8,670,000	$1.25	September 26, 2007
	114,056	$0.80	October 6, 2007
	1,434,333	$1.25	October 6, 2007
	6,702,069	$1.85	March 22, 2008
	862,117	$0.345	June 27, 2010
	1,613,238	$0.345	November 17, 2010
	20,656,810		
Options	125,000	$2.29	March 30, 2007
	162,500	$0.37	December 2, 2009
	72,500	$0.72	July 13, 2010
	40,000	$0.80	July 24, 2010
	75,000	$1.35	November 17, 2010
	660,000	$1.35	February 5, 2016
	500,000	$2.29	March 30, 2016
	130,000	$1.75	May 8, 2016
	200,000	$1.75	May 22, 2016
	485,000	$1.55	July 5, 2016
	995,000	$1.66	July 10, 2016
	225,000	$1.61	September 13, 2016
	3,670,000		

Related Party Transactions

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

	Twelve Month Period Ending Sept 30, 2006	2005
Mineral property costs – geological fees	$118,671	$115,468
Consulting fees	$ 67,842	$ 7,371
Salaries and wages	$ 12,838	$ 79,185
Management fees	$ 98,316	$ 2,629

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

At September 30, 2006, accounts payable and accrued liabilities included $6,202 (Sept 2005: $181,036) to an officer of the Company.

At September 30, 2006, due to related parties consists of an amount owing to an officer and to companies with a common director. These amounts were incurred as a result of shared administrative costs. These amounts are unsecured, non-interest bearing and payable in the normal course of business.

At September 30, 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.

FORTUNA SILVER MINES INC.