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MANAGEMENT'S DISCUSSION AND ANALYSIS Three Months Ended March 31, 2009

General

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements of the Company for the three months ended March 31, 2009 prepared in accordance with Canadian generally accepted accounting principles. This MD&A is prepared as of May 8, 2009. **All amounts are expressed in US dollars unless otherwise indicated. See page 12 for details regarding the change in reporting currency of the Company which is effective January 1, 2009.**

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 Highlights

Financial and Operating Results

In the first three months of 2009, the Company generated a net loss of \$1.06 million compared to a net loss of \$0.64 million for the corresponding quarter of 2008. Cash generated by operating activities before changes in working capital for the period was \$4.23 million compared to \$2.61 million in the corresponding quarter of 2008.

In the first quarter of 2009, silver production amounted to 384,339 ounces and represented 49% of revenue, with a cash cost per ounce of payable silver of US\$0.10. The Company's Caylloma mine maintains the growth trend in metal production it has been showing for the past 10 consecutive quarters. In the three months, 91,449 tonnes of ore were treated compared to 70,408 tonnes in the same period of 2008 and the cash cost per tonne of treated ore was US\$44.37 (Cash cost is a non-GAAP measure. See page 7 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 NI 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 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

Based on the reported purchase price as indicated in the consolidated financial statements of the Company a consideration of \$8.58 million was paid for 24% of the resource above.

In January of 2009 Fortuna completed a 33,000 meter drill program designed to convert Inferred mineral resources to the Measured and Indicated categories. The revised resource estimate is expected for the third quarter of 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. On April 3rd, the “Manifiesto de Impacto Ambiental” of the project was presented to the Mexican environmental authorities.

Blockade on the San Jose project

On April 16th, 2009, the Company reported an illegal blockade to the entrance of the project and to the San Jose del Progreso town. The majority of the people involved are from outside the immediate area of the project and the demonstrators include only a small fringe of people from the San Jose del Progreso community itself.

On May 6th, the illegal road blockade was lifted by the police. The Company is looking to gradually resume its on-site activities over the upcoming days.

Quarterly Information

The following table provides information for the eight fiscal quarters ended March 31, 2009:

		Quarters Ended							
		31-03-09	31-12-08	30-09-08	30-06-08	31-03-08	31-12-07	30-09-07	30-06-07
Revenues	\$ 000	8,980	3,208	7,492	7,772	6,808	8,097	8,794	8,006
Mine operating income (loss)	\$ 000	3,486	(2,371)	1,734	2,848	2,303	3,469	3,916	3,651
Net Income (loss)	\$ 000	(1,056)	(2,098)	(297)	2,493	(637)	1,440	(3,240)	862
Net Income (loss) per share									
- basic	\$	(0.01)	(0.02)	0.00	0.03	(0.01)	0.02	(0.05)	0.00
- diluted	\$	(0.01)	(0.02)	0.00	0.03	(0.01)	0.02	(0.05)	0.00

Financial Results

During the first quarter of 2009 the Company generated record quarterly sales of \$8.98 million compared to \$6.81 million in the same period of 2008. This represents an increase of 31.9%. When broken down by type of concentrate; silver-lead concentrate sales increased in tonnage by 114% while unit value of concentrate decreased 38%. The latter decrease is the combined result of a decrease in lead price and silver price of 60% and 29% respectively, and lower smelter treatment charges of US\$250 per ton of concentrate. In the case of zinc concentrate sales increased in tonnage by 59% while unit value of concentrate decreased 55%. The latter decrease is explained by a reduction in the metal price of 52% and lower smelter treatment charges of US\$200 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.

During the first quarter of 2009 mine operating income was \$3.49 million, 52% above the \$2.30 million obtained for the corresponding period in 2008. This improvement in spite of significantly lower metal prices is a reflection of improved head grades, higher throughput, and lower operating costs. During the first three months of 2009 a write off of deferred exploration costs of \$1.08 million was recorded which explains the reduced operating income of \$.08 million. Contributing to the net loss of the period of \$1.06 million are the non operating losses in commodity contracts and disposal of investments of \$0.42 million and \$0.46 million respectively.

Total **cost of sales** for the first quarter of 2009 was \$5.49 million compared to \$4.51 million for the same period of 2008. While tonnage of concentrate sold in the first quarter of 2009 increased 77% with respect to the corresponding quarter in 2008, cost of sales increased only by 22% due to the significant increase achieved in head grades and a reduction of 11% in unit cash costs. Other things being equal, an increase in head grades will deliver higher concentrate production for equal or similar production costs.

Selling and administrative expenses for the first quarter of 2009 totalled \$1.98 million compared to \$1.59 million for the three months ended March 31, 2008. The increase is due mainly to higher selling expenses associated with higher tonnage of concentrate sold. The amount is comprised of \$0.88 million of corporate general and administrative expenses, \$0.39 million of general and administrative expenses at the subsidiary level, \$0.63 million of selling expenses, and \$0.08 million of government royalty paid by Minera Bateas. The stock based compensation charge totalled \$0.35 million for the three months ended March 31, 2009, compared to \$0.53 million for the three month period ended March 31, 2008.

Write off of deferred exploration costs for the first quarter of 2009 totalled \$1.08 million compared to nil for the three months ended March 31, 2008. This amount corresponds to a reduction of 8,344 ha out of the approximately 49,000 ha surrounding the San Jose project for which the Company holds exploration and mining rights, and the termination of an acquisition contract involving 888 ha surrounding the Caylloma mine.

Interest and other income and expenses in the first quarter of 2009 amounted to net income of \$0.26 million compared to net income of \$0.45 million for the three months ended March 31, 2008. The decrease is attributable to the Company holding a comparatively smaller average cash balance as well as reduced interest rates.

Net loss on commodity contract for the first quarter of 2009 was \$0.42 million compared to \$0.59 in the corresponding quarter of 2008. This amount reflects the change in fair value of derivative contracts between the opening of the reporting period and either the expiry of the contracts or the closing of the period, whichever happened first. As a result of this only contracts that opened and expired within the reporting period will see their change in fair value as reported in the statement of operations match the actual settlement at expiry. Actual settlements for the period were \$1.48 million. The Company has entered into short term commodity forward

contracts to secure a minimum price level on part of Caylloma's zinc and lead metal production, and enters regularly into forward lead and zinc contracts with banks 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. The Company does not use hedge accounting.

Interest and finance expenses for the first quarter 2009 were \$0.03 million compared to \$0.02 million in the first quarter of 2008. Interest expenses relate entirely to capital lease operations at our operating subsidiary.

In the first quarter of 2009, the Company recognized a **loss on disposal of investments** of \$0.46 million in connection with the shares of Continuum Resources Ltd. the Company had held previous to the closing of the acquisition of Continuum.

The \$0.69 million **Income tax provision** recorded in the first quarter of 2009 (2008: \$0.61 million) consisted of current and future income tax expense. Current income tax for the period, including the worker profit sharing plan regulated by Peruvian law was \$0.39 million (2008: \$0.44). Future income tax expense, amounting to \$0.30 million (2008: \$0.17 million) 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-Mar-09	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07
Tonnes milled	91,449	91,025	89,827	80,121	70,408	68,615	65,806	63,806
Average tons milled per day	1,050	1,023	1,009	910	800	754	715	701
Grade per tonne								
Silver (oz)	4.75	3.69	3.14	2.75	2.64	2.43	2.45	2.29
Lead (%)	3.11	2.97	2.58	2.29	1.94	1.87	1.80	1.67
Zinc (%)	3.83	3.75	3.64	3.75	3.42	3.09	3.01	2.92
Recoveries								
Silver (%)*	84.58	82.43	80.07	78.12	76.42	77.74	75.75	73.28
Lead (%)	92.97	93.41	92.19	88.94	87.26	87.51	88.50	89.22
Zinc (%)	90.02	87.25	88.11	87.58	86.45	85.09	86.51	86.22
Production (metal contained)								
Silver (oz)**	384,339	291,381	243,280	186,276	140,239	139,433	132,450	119,110
Lead (tonnes)	2,645	2,524	2,139	1,633	1,189	1,124	1,049	952
Zinc (tonnes)	3,152	2,976	2,877	2,629	2,079	1,805	1,712	1,605
Unit cash cost (US\$/oz ag)	0.10							
Unit cash cost (US\$/tonne)	43.77	44.60	44.43	46.92	49.97	52.41	49.15	46.65
Unit Net Smelter Return (US\$/tonne)	91.00	60.00	80.40	97.79	97.70	118.41	133.70	123.65

* Silver recovery in lead concentrate

** Total silver production

In the first quarter of 2009, the Caylloma mine achieved significant increments in metal output with respect to both the previous quarter and the corresponding quarter of 2008. Silver production reached 384,339 ounces; 32-per-cent increase over the fourth quarter of 2008 and 174-per-cent increase over the first quarter of 2008. Lead production reached 2,645 tonnes; 5-per-cent increase over the fourth quarter of 2008 and 123-per-cent increase over the first quarter of 2008. Zinc production reached 3,152 tonnes; 6-per-cent increase over the fourth quarter of 2008 and 52-per-cent increase over the first quarter of 2008.

These increments were achieved through a combination of higher grades, improved metallurgical recoveries, and a higher throughput which stabilized in the first quarter of 2009 at 1,050 tpd. The expansion project for the processing plant was concluded 15 days ahead of its scheduled start-up and since mid April, the plant is processing at a rate of 1,200 tpd.

The copper circuit went into production in the last week of April and it is currently going through a normal balancing phase.

Ore processed was sourced mainly from the polymetallic Animas vein (92%) with the balance provided by the high grade silver veins Soledad and Bateas, which are blended into the mill feed to achieve higher average silver head grades. Exploration and development on the silver rich Bateas vein continues with the objective of further delineating the extension of high grade mineralization.

With silver now comprising close to 50% of revenue, the Company is for the first time reporting cash cost per ounce of payable silver at Caylloma, which was \$0.10 for the first quarter of 2009. Cash cost per tonne of treated ore for the first quarter of 2009 was \$44.37 compared to \$50.33 for the corresponding quarter of 2008. This cost reduction has been achieved through a combination of increased tonnage and further mechanization of mining operations. (See page 7 for reconciliation of cash production cost to the cost of sales in the consolidated statement of operations).

The Company is working to produce a NI 43-101 resource estimation for Caylloma in July 2009.

Price protection program

During January 2009, the Company entered into commodity forward contracts to secure a minimum price level on part of Caylloma's zinc and lead metal production throughout the period February 2009 to July 2009. The decision to hedge was aimed at securing our minimum cash flow requirements during the construction phase of the plant expansion and copper circuit projects.

The contracts are spread evenly over a six month period with settlement occurring on a monthly basis and consist of the following:

Zinc Forward contracts:	USD 1,240/t, for the total of 3,850 tons
Lead Forward contracts:	USD 1,109/t, for the total of 3,150 tons

Mexico – San Jose Silver-Gold Project

Trinidad Resource Estimation

On January 2009, the Company completed the 33,000 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 expected to be completed by the third quarter of 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 of over 90% 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. Up until the recent events associated with the illegal blockade reported at the project, Fortuna had been negotiating a long term collaborative agreement with the San Jose del Progreso Ejido. The Company expects to resume negotiations over the upcoming days.

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. A final agreement with the local authorities is expected to be signed in the coming weeks.

Underground Development

The 1,100 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 and the 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

On April 16, 2009 the Mexican federal regulatory agency for electricity accepted the feasibility study for the energy project and granted permission to connect to the national power grid for up to 5 MW of power.

The Company submitted the “Manifiesto de Impacto Ambiental” to the Mexican environmental authorities on April 3, 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 silver ounce and cash cost per tonne (non-GAAP measures)

Cash cost per ounce and cash cost per tonne are key performance measures that management uses to monitor performance. These performance measures have no 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 costs per tonne of processed ore and cash cost per ounce of payable silver to the cost of sales in the consolidated statement of operations:

	\$'000
Cost of sales	5,494
Add / (Subtract)	
Change in inventory (ore and concentrate stock piles)	(37)
Depletion, depreciation, and accretion	(1,399)
Cash cost	4,058
Total processed ore (tonnes)	91,449
Cash cost per tonne of processed ore (\$/t)	44.37
Cash cost	4,058
Add / (Subtract)	
By-product credits	(4,334)
Refining charges	311
Cash cost applicable per payable ounce	35
Payable silver ounces	345,316
Cash cost per ounce (\$/oz)	0.10

Liquidity and Capital Resources

The Company’s cash resources and liquid investments as at March 31, 2009 were \$27.02 million compared to \$29.45 million as at December 31, 2008.

During the first quarter of 2009 cash generated by operating activities before changes in current assets and liabilities was \$4.23 million. Further liquidity consumed by changes in working capital amounted to \$3.79 million, for total cash generated by operating activities of \$0.44 million.

During the first quarter of 2009 the Company invested a total amount of \$2.17 million in mineral properties and \$0.90 million in plant and equipment. Additionally, the Company collected a net amount of value added tax refundable credit from the Mexican Government of \$1.1 million. This is net of value added tax disbursements on local expenses during the period.

As at March 31, 2009, the Company had working capital of \$32.59 million compared to working capital of \$34.23 million at December 31, 2008.

Management believes the Company's cash position as well as 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:

Transactions with related parties	Expressed in \$000's	
	Three months ended	Three months ended
	March 31, 2009	March 31, 2008
Consulting fees	\$ 31	\$ 7
Salaries and wages	23	12
	\$ 54	\$ 19

Amounts due to/(from) related parties

	March 31, 2009	December 31, 2008
Owing to a director	\$ -	\$ -
Owing to companies with a common director	15	38
	\$ 15	\$ 38

The transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed upon by the parties. The balances with related parties 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 March 31, 2009 the Company estimated the fair value of the outstanding contracts to constitute a liability of \$0.48 million, and recorded a loss in the consolidated statements of operations for the first quarter of 2009 of \$0.42 million. The estimated fair value was determined based on using applicable valuation techniques for commodity options with reference to the published market prices for underlying commodities quoted at London Metal Exchange.

The long-term investments in 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. At December 31, 2008 the Company had an investment in 3,706,250 shares of Continuum. These shares were de-recognized upon the Company's acquisition of Continuum on March 6, 2009 and a loss of \$0.46 million was recorded in the statement of operations to reflect the realization of the loss.

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 Canadian dollars, Nuevo Soles, and Mexican Pesos. A significant change in the currency exchange rates between the United States dollar relative to the other currencies could have a material effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At March 31, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars, Nuevo Soles and Mexican Pesos (all amounts are expressed in thousands of Canadian dollars, thousands of Nuevo Soles or thousands of Mexican Pesos):

	Expressed in '000's					
	March 31, 2009			December 31, 2008		
	Canadian Dollars	Nuevo Soles	Mexican Pesos	Canadian Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	\$ 25,480	S/. 4,510	\$ 26,493	\$ 29,748	S/. 629	\$ 3,864
Accounts receivable	32	4,518	33,672	13	10,400	46,460
Accounts payable and accrued liabilities	(111)	(5,141)	(2,878)	(172)	(5,281)	(10,259)

Based on the above net exposures as at March 31, 2009, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase or decrease of \$2.259 million in the Company's other comprehensive income. A 10% depreciation or appreciation of the US dollar against the Nuevo Soles would result in an increase or decrease of \$0.137 million in the Company's net earnings and a 10% depreciation or appreciation of the US dollar against the Mexican Pesos would result in an increase or decrease of \$0.444 million 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.

(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 and the Company's website at www.fortunasilver.com.

Share Position and Outstanding Warrants and Options

The Company's outstanding share position at May 8, 2009 is 92,220,665 common shares. In addition, a total of 18,275,055 share purchase warrants and incentive stock options are currently outstanding as follows:

<u>Type of Security</u>	<u>No. of Shares</u>	<u>Exercise Price</u> <u>CAD\$</u>	<u>Expiry Date</u>
Warrants	8,588,000	\$2.30	July 11, 2009
	862,117	\$0.345	June 27, 2010
	<u>1,613,238</u>	\$0.345	Nov. 17, 2010
	11,063,355		
Director/Employee Stock Options:	250,000	\$2.97	May 28, 2009
	97,700	\$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
	<u>650,000</u>	\$0.85	Nov. 5, 2018
	7,211,700		

Change in Accounting Policy

Change in Reporting Currency

Effective January 1, 2009, the Company changed its reporting currency to the US dollar. The change in reporting currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the mining industry. Prior to January 1, 2009, the Company reported its annual and quarterly consolidated balance sheets and the related consolidated statements of operations and cash flows in Canadian dollar (CAD).

In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA), set out in EIC-130, Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change

in the Reporting Currency. In accordance with EIC-130, the financial statements for all years and periods presented have been translated in to the new reporting currency using the current rate method. Under this method, the statements of operations and cash flows statements items for each year and period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheets dates. Shareholders' equity transactions since October 1, 1998 have been translated using the rates of exchange in effect as of the dates of the various capital transactions, while shareholders' equity balances on September 30, 1998 have been translated at the exchange rate on that date. All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US dollars.

Adoption of New Accounting Standards

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 has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

Credit risk and fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments, for presentation and disclosure purposes.

The guidance should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of this Abstract. Retrospective application with restatement of prior periods is permitted but not required. Early adoption is encouraged.

The Company has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA issued EIC-174 "Mining Exploration Costs" which applies to interim and annual financial statements for periods ending on or after January 20, 2009. This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current

and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

This standard will be effective for the Company beginning on April 1, 2009. The Company has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

Foreign currency translation

The Company's functional currency is the Canadian dollar. Effective January 1, 2009, the Company changed its reporting currency to the US dollar.

All subsidiaries, except its wholly owned subsidiary Minera Bateas S.A.C. ("Bateas"), are considered to be integrated foreign operations and their financial statements are translated to Canadian dollars under the temporal method. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at historical exchange rates. Revenues and expenses are translated at the average exchange rate in effect during the period. Realized and unrealized foreign exchange gains and losses are included in earnings.

Commencing January 1, 2009, Bateas was reclassified as a self-sustaining operation from an integrated foreign operation because of the significant changes in the economic facts and circumstances of Bateas. Bateas's commercial mine production and cash generated from sales is sufficient to cover further exploration expenditure and other operation costs. Therefore, its financial statements are translated using the current rate method. Assets and liabilities of Bateas, which are denominated in US dollars, are translated into Canadian dollars using the current rate method at period-end exchange rates and resulting translation adjustments are reflected in comprehensive income. Revenues and expenses of Bateas are translated at average exchange rates for the period.

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:

Convergence with International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after 1 January 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.

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.

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 or 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:

- Conclusion of the Caylloma resource estimation.
- Conclusion of the San Jose resource estimation.
- A final agreement with local authorities for treatment and use of grey water from an existing plant facility in a nearby town to the San Jose project is expected to be signed in the coming weeks.
- Management expects negotiations on the collaborative agreement with San Jose del Progreso Ejido will resume after normality returns to the area.
- Management's belief that the Company's cash position as well as its ongoing operation in Caylloma is sufficient to support the Company's operating and capital requirements on an ongoing basis.

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 into 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 \$1.41 million as of March 31, 2009 in relation to the cost of reclamation associated with the Caylloma property. This amount has been estimated by a third party in compliance of local regulations and is still in the process of being reviewed by the relevant authorities before definitive approval.

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 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 Canadian dollars, Nuevo Soles, and Mexican Pesos. A significant change in the currency exchange rates between the United States dollar relative to the other currencies could have a material effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

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.

Internal Controls

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 March 31, 2009 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 March 31, 2009 and has concluded there are no material weaknesses. Management continues to review and refine its internal controls and procedures.