FINANCIAL REVIEW

Second Quarter Ended June 30, 2008

FORTUNA SILVER MINES INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008

(Unaudited – Prepared by Management)

(Expressed in thousands of Canadian Dollars)

UNAUDITED FINANCIAL STATEMENTS: In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the six month period ended June 30, 2008.

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2008
(Unaudited)
(Expressed in thousands of Canadian Dollars)

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
ASSETS		
CURRENT		
Cash and cash equivalents	$ 46,605	$ 47,240
Derivatives (Note 4)	2,780	1,400
Accounts receivable and prepaid expenses (Note 5)	5,813	2,051
GST and value added taxes	5,105	5,147
Inventories (Note 6)	1,857	1,693
	62,160	57,531
LONG-TERM RECEIVABLES	181	-
LONG-TERM INVESTMENTS (Note 7)	185	908
PROPERTY, PLANT & EQUIPMENT (Note 8)	14,254	13,669
MINERAL PROPERTIES (Note 9)	60,803	52,338
	$ 137,583	$ 124,446
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 5,533	$ 5,917
Due to related parties, net (Note 10)	30	14
Current portion of obligation under capital lease (Note 11)	841	439
	6,404	6,370
OBLIGATIONS UNDER CAPITAL LEASE (Note 11)	277	433
ASSET RETIREMENT OBLIGATION (Note 12)	1,249	1,916
FUTURE INCOME TAX LIABILITY	9,745	8,069
NON-CONTROLLING INTEREST (Note 9)	8,931	6,593
	26,606	23,381
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 13)	108,221	100,159
CONTRIBUTED SURPLUS	12,369	11,770
DEFICIT	(9,132)	(11,008)
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 14)	(481)	144
	110,977	101,065
	$ 137,583	$ 124,446

Nature and continuance of operations (Note 1)
Commitments (Note 17)
Subsequent events (Note 20)

APPROVED BY THE DIRECTORS:

"signed", Director
Jorge Ganoza Durant

"signed", Director
Simon Ridgway

(See accompanying Notes)

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited – Prepared by Management)
(Expressed in thousands of Canadian Dollars, except for share and per share amounts)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Sales	$ 7,848	$ 8,797	$ 14,682	$ 14,536
Cost of sales (including depletion, depreciation and accretion of $2,283 and $2,989 for 2007)	4,972	4,785	9,494	8,810
MINE OPERATING INCOME	2,876	4,012	5,188	5,726
Selling, general and administrative expenses (includes depreciation of $22 and $11 for 2007)	1,943	1,460	3,534	2,660
Stock-based compensation (Note 13)	225	113	626	2,423
	2,168	1,573	4,160	5,083
OPERATING INCOME	708	2,439	1,028	643
Interest and other income and expenses	234	336	685	616
Interest and finance expenses	(29)	(41)	(46)	(101)
Net gain on commodity contracts (Note 4)	2,236	-	1,647	-
Loss on disposal of property, plant and equipment	(3)	-	(23)	-
Foreign exchange gain (loss)	416	(702)	427	(546)
	2,854	(407)	2,690	(31)
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	3,562	2,032	3,718	612
Income tax provision	1,155	1,076	1,767	1,414
Non-controlling interest	19	7	75	7
NET INCOME (LOSS) FOR THE PERIOD	2,388	949	1,876	(809)
Other comprehensive loss, net of tax				
Unrealized (loss) gain on available for sale long-term investments (Note 14)	(256)	(353)	(625)	321
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ 2,132	$ 596	$ 1,251	$ (488)
Basic income (loss) per share	$ 0.03	$ 0.01	$ 0.02	$ (0.01)
Diluted income (loss) per share	$ 0.03	$ 0.01	$ 0.02	$ -
Basic comprehensive income (loss) per share	$ 0.02	$ 0.01	$ 0.01	$ (0.01)
Diluted comprehensive income (loss) per share	$ 0.02	$ 0.01	$ 0.01	$ -
Weighted average number of shares outstanding				
Basic	85,329,901	70,023,703	83,460,052	66,959,041
Diluted	86,559,462	83,260,090	85,636,347	-

(See accompanying Notes)

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Unaudited – Prepared by Management)
(Expressed in thousands of Canadian Dollars, except for share amounts)

	Share Capital		Contributed		Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	surplus	(Deficit)	Income	Equity
Balance – December 31, 2006 (audited)	46,587,728	$ 43,341	$ 6,085	$ (8,219)	$ -	$ 41,207
Cumulative impact of accounting changes, net of tax	-	-	-	-	449	449
Exercise of options	986,200	1,354	-	-	-	1,354
Exercise of warrants	5,049,638	8,064	-	-	-	8,064
Private placement for cash	18,000,000	34,200	-	-	-	34,200
Private placement commission non-cash transaction	422,300	802	-	-	-	802
Transfer of contributed surplus on exercise of options	-	867	(867)	-	-	-
Stock based compensation	-	-	2,422	-	-	2,422
Issue costs (non-cash amount $802)	-	(2,487)	-	-	-	(2,487)
(Loss) for the period	-	-	-	(809)	-	(809)
Other comprehensive gain, net of tax	-	-	-	-	321	321
Balance – June 30, 2007	71,045,866	$ 86,141	$ 7,640	$ (9,028)	$ 770	$ 85,523

	Share Capital		Contributed		Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Surplus	(Deficit)	Income	Equity
Balance – December 31, 2007 (audited)	80,977,663	$ 100,159	$ 11,770	$ (11,008)	$ 144	$ 101,065
Exercise of options	31,400	38	-	-	-	38
Exercise of warrants	4,322,596	7,997	-	-	-	7,997
Transfer of contributed surplus on exercise of options	-	27	(27)	-	-	-
Stock based compensation	-	-	626	-	-	626
(Loss) for the period	-	-	-	1,876	-	1,876
Other comprehensive (loss), net of tax	-	-	-	-	(625)	(625)
Balance – June 30, 2008	85,331,659	108,221	12,369	(9,132)	(481)	110,977

(See accompanying Notes)

FORTUNA SILVER MINES INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in thousands of Canadian Dollars)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
OPERATING ACTIVITIES				
Net income (loss) for the period	$ 2,388	$ 947	$ 1,876	$ (809)
Items not involving cash				
Depletion and depreciation	1,191	1,525	2,252	2,925
Accretion expense	27	37	53	74
Future income tax	1,436	1,076	1,604	1,414
Stock based compensation	225	113	626	2,422
Unrealized gain on commodity contracts	(2,236)	-	(1,647)	-
Loss on disposal of equipment	3	-	23	-
Foreign exchange gain	(719)	(651)	(61)	(578)
Non-controlling interest	19	-	75	-
Changes in non-cash working capital items				
Realized gain on commodity contract	162	-	313	-
Accounts receivable and prepaid expenses	456	(1,137)	(2,154)	(2,807)
Inventories	64	37	(142)	(88)
Accounts payable	1,121	(455)	(402)	770
Payments from (to) related parties (Note 10)	4	10	16	(1)
Net cash from operating activities	4,141	1,502	2,432	3,322
FINANCING ACTIVITIES				
Proceeds on issuance of common shares	4	4,768	8,035	41,933
Capital lease obligations	(15)	(22)	(129)	(33)
Repayment of debt (Note 11)	-	-	-	(5,730)
Net cash (used in) from financing activities	(11)	4,746	7,906	36,170
INVESTING ACTIVITIES				
Mineral property expenditures	(6,542)	(1,307)	(9,067)	(3,289)
Value added taxes on purchase of property, plant and equipment	(451)	-	(611)	-
Property, plant & equipment expenditures	(930)	(1,166)	(1,305)	(2,564)
Proceeds from disposal of equipment	2	-	10	-
Net cash used in investing activities	(7,921)	(2,473)	(10,973)	(5,853)
(DECREASE) INCREASE IN CASH	(3,791)	3,775	(635)	33,639
Cash and cash equivalents – beginning of period	50,396	31,505	47,240	1,641
CASH AND CASH EQUIVALENTS – END OF PERIOD	$ 46,605	$ 35,280	$ 46,605	$ 35,280
Supplementary disclosure of cash flow information:				
Cash received for interest	$ (323)	$ (365)	$ (808)	$ (616)
Cash paid for income taxes	$ 67	$ -	$ 277	$ -

Non-cash transactions (Note 16)

(See accompanying Notes)

1. Nature and Continuance of Operations

Fortuna Silver Mines Inc. (the "Company") is engaged in silver mining and related activities, including exploration, extraction, and processing. The Company operates the Caylloma zinc/lead/silver mine in southern Peru and is currently developing the San Jose silver/gold project in Mexico.

The Company's continuing operations and the recoverability of amounts shown for its exploration stage mineral properties are dependent upon the availability of the necessary financing to complete the exploration and development of such mineral property interests, and upon future profitable production or proceeds from the disposition of its mineral property interests. Future profitable production is primarily dependent on the quality of ore resources, ability to obtain permits, future metal prices, operating and environmental costs, fluctuations in currency exchange rates, political risks and varying levels of taxation.

2. Significant Accounting Policies

Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods as our most recent annual financial statements except as noted below. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements as at December 31, 2007.

The interim consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Minera Bateas SAC (Bateas) and Fortuna Silver (Barbados) Inc. and of the Company's 76% interest in Compania Minera Cuzcatlan SA, a variable interest entity for which a non-controlling interest has been recorded to reflect the 24% interest of the Company's partner. All significant intercompany balances and transactions have been eliminated on consolidation.

Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the following standards previously issued by the Canadian Accounting Standards Board ("AcSB"). In accordance with the transitional provisions of these standards, the changes were adopted prospectively (if applicable), with no restatement of prior periods.

Section 1535 – Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Disclosures include what is defined as capital, how it is managed, and whether externally imposed restrictions on capital are present.

Section 3031 - Inventories

This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3862 – Financial Instruments – Disclosures

This Section, in addition to Section 3863, replaces Section 3861 "Financial Instruments – Disclosure and Presentation" and requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Entities are required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

Section 3863 – Financial Instruments – Presentation

This Section, in addition to Section 3862, replaces Section 3861 "Financial Instruments – Disclosure and Presentation", and provides guidance on presentation of financial instruments as liabilities vs. equity and when offsetting of financial assets and financial liabilities is appropriate. The adoption of this standard did not have a material impact on the Company's presentation of its financial instruments.

3. Financial Instruments

All financial instruments are recorded initially at estimated fair value on the balance sheet and classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables and other liabilities.

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets and financial liabilities considered held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized costs using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

The long-term investments are classified as available-for-sale and are recorded at their fair value, which is determined with reference to market value of underlying marketable securities. Derivative instruments are classified as held-for-trading and are recorded at fair value, which is determined with reference to the market value of underlying commodities. All other financial instruments are recorded at cost, which approximates their fair value, due to the short-term maturity and high liquidity.

4. Derivatives

During October 2007, the Company entered into a series of put and call option commodity arrangements to secure a minimum price level on part of its zinc and lead metal production throughout the period November 2007 to December 2008. A long put and a long call refer to put and call options that have been bought by the Company, and a short call refers to call options that have been sold by the Company. Settlement of these options occurs monthly during the period from December 2007 until January 2009. No initial premium associated with these trades has been paid.

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

The following Zinc Asian Option contracts were entered into:

- 14 Long put options at strike price: USD 2,575/t, for the total of 2,800 tons
- 14 Short call options at strike price: USD 2,750/t, for the total of 2,800 tons
- 14 Long call options at strike price: USD 3,450/t, for the total of 2,800 tons

The following Lead Asian Option contracts were entered into:

- 14 Long put options at strike price: USD 3,000/t, for the total of 1,750 tons
- 14 Short call options at strike price: USD 3,300/t, for the total of 1,750 tons
- 14 Long call options at strike price: USD 4,300/t, for the total of 1,750 tons

As at June 30, 2008 the Company had 7 open positions on each of these arrangements.

During January 2008 the Company entered into additional derivative contracts spread out evenly over the period from February 2008 to January 2009.

The following Lead Asian Option contracts were entered into:

- 12 Long put options at strike price: USD 2,200/t, for the total of 1,025 tons
- 12 Short call options at strike price: USD 2,750/t, for the total of 1,025 tons
- 12 Long call options at strike price: USD 3,750/t, for the total of 1,025 tons

As at June 30, 2008 the Company had 8 open positions on each of these arrangements.

The following Zinc Forward sale contracts were entered into on a SWAP basis:

- 12 Forward contracts: USD 2,360/t, for the total of 1,700 tons

The contract is settled against the arithmetic average of zinc spot prices over the month in which the contract matures.

As at June 30, 2008, the Company had 8 open positions on each of these arrangements.

Additionally, the Company will occasionally enter into forward lead and zinc contracts with banks to fix the final settlement price of metal delivered in concentrates (QP hedges), where the final settlement price is yet to be set at a future quotational period according to contract terms.

The estimated fair value of the outstanding derivative contracts of $2,780 was determined based on using applicable valuation techniques for commodity options and futures with reference to the published market prices for underlying commodities quoted at London Metal Exchange. The change in estimated fair value with respect to the amount recorded at December 31, 2007 has been recorded as a gain on commodity contract of $1,647 as at June 30, 2008.

5. Accounts receivable and prepaid expenses

	June 30, 2008	December 31, 2007
Trade accounts receivable	$ 3,139	$ 409
Advances and other receivables	2,488	1,505
Prepaid expenses and deposits	186	137
	$ 5,813	$ 2,051

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

6. Inventories

Inventories consist of the following:

	June 30, 2008	December 31, 2007
Ore stock piles	$ 530	$ 466
Concentrate stock piles	217	159
Materials and supplies	1,110	1,068
	$ 1,857	$ 1,693

7. Long term investments

At June 30, 2008 and December 31, 2007 the Company owned 3,706,250 shares of Continuum Resources Ltd. With the adoption of financial instruments standards, the Company measures these investments at fair value (Note 3). The fair value was determined based on published share prices of underlying securities on the active market. On adoption of financial instruments standards, a cumulative adjustment was recorded in other comprehensive income to reflect the change in accounting policy.

	June 30, 2008	December 31, 2007
Fair value	$ 185	$ 908
Cost	741	741
Unrealized (loss) gain (cumulative)	$ (556)	$ 167

8. Property, Plant & Equipment

Property, plant and equipment are comprised of the following:

	June 30, 2008		
	Cost	Accumulated Depreciation	Net book value
Land	$ 259	$ -	$ 259
Machinery & equipment	8,220	1,538	6,682
Buildings	3,056	549	2,507
Furniture & other equipment	1,145	165	980
Vehicles	621	129	492
Equipment under capital lease	1,409	165	1,244
Work in progress	2,090	-	2,090
	$ 16,800	$ 2,546	$ 14,254

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

	December 31, 2007		
	Cost	Accumulated Depreciation	Net book value
Land	$ 259	$ -	$ 259
Machinery & equipment	8,222	1,034	7,188
Buildings	2,989	409	2,580
Furniture & other equipment	912	104	808
Vehicles	524	75	449
Equipment under capital lease	1,035	71	964
Work in progress	1,421	-	1,421
	$ 15,362	$ 1,693	$ 13,669

9. Mineral Properties

Mineral properties are located in Peru and Mexico and are comprised of the following:

				June 30, 2008	December 31, 2007
	Cost	Depletion	Write-off	Net	Net
Peru - Caylloma	$ 34,396	$ 6,291	$ -	$ 28,105	$ 26,268
Mexico – San Jose	32,698	-	-	32,698	26,070
	$ 67,094	$ 6,291	$ -	$ 60,803	$ 52,338

Additions to mineral properties are comprised of development and exploration costs capitalized and consist of $4,053 at Caylloma and $6,628 at San Jose properties for the six month period ended June 30, 2008. In addition, there was a revision to the estimate for the asset retirement obligation for Caylloma which resulted in a decrease of $720 to the cost of the mineral property. Included in additions to San Jose mineral properties are depreciation of equipment involved in construction work of $89 (2007: $nil), and general and administrative costs to develop the mine of $652 (2007: $nil).

San Jose Project, Mexico

The San Jose Project is owned and operated by Compañia Minera Cuzcatlan (“Cuzcatlan”), a company owned 76% by the Company and 24% by Continuum Resources Ltd (“Continuum”). The Company is the operator of the work programs and the Company and Continuum must contribute to the costs thereof in proportion to its ownership percentage in Cuzcatlan.

Cuzcatlan has been accounted for as a variable interest entity, as defined in CICA Accounting Guideline 15 “Consolidation of Variable Interest Entities” and has been consolidated from the date of acquisition. A non-controlling interest of $8,931 has been recorded as at June 30, 2008 (June 30, 2007 - $5,164).

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

10. Related Party Transactions

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

	Six months ended June 30, 2008	Six months ended June 30, 2007
Mineral property costs – geological fees	$ -	$ 45
Consulting fees	15	50
Salaries and wages	13	40
Management fees	508	115

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

At June 30, 2008, due to related parties consists of $30 (December 31, 2007 - $14) 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.

11. Loans and leases

On November 21, 2006 the Company borrowed $4,600 at an interest rate of 12% from Quest Capital Corporation in connection with the acquisition of the San Jose property. The loan was due on May 30, 2007, however the $4,600 plus interest of $25 was paid back on January 15, 2007.

On October 30, 2006 a revolving credit line of US$ 950 with a CDN value of $1,079 as of December 31, 2006 and an interest rate of Libor + 1.5% plus a variable utilization fee, was taken for working capital purposes from Traxys North America. The amount of the credit line of $1,079, plus interest and fees of $41 was paid back on February 8, 2007.

Obligations under capital lease

The following is a schedule of the Company's capital lease obligations. These are related to the acquisition of mining equipment, vehicles and buildings.

	Interest Rate	Maturity Date	June 30, 2008	December 31, 2007
Banco Interamercano de Finanzas	8.50%	2009	$ 63	$ 82
Scotiabank	9.29%	2009	22	28
Scotiabank	8.20%	2009	199	252
Scotiabank	8.66%	2010	288	335
Scotiabank	8.34%	2010	32	37
Scotiabank	8.20%	2010	514	138
Present value of lease payments			$ 1,118	$ 872
Less current amount			(841)	(439)
			$ 277	$ 433

12. Asset Retirement Obligation

The Company has recorded an asset retirement obligation of $1,249 as of June 30, 2008 consisting of accretion of the previously recorded asset retirement obligation of $1,916 as of December 31, 2007 by $53 and a reduction in the estimated amount of the asset retirement obligation of $720. The accretion expense was calculated over the year using a rate of 9%. The initial amount was based on an estimate prepared by an independent third party at the time of acquisition as to the cost of reclamation associated with the Caylloma property. The Company has reviewed its reclamation obligations at the property in light of changing regulations and on the basis of further data in respect of the mine life and has made a reduction in the estimated amount of the asset retirement obligation of $720.

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.

Future changes, if any, to the estimated liability as a result of amended requirements, laws, regulations, operating assumptions, estimated timing and amount of obligations may be significant and would be recognized prospectively as a change in accounting estimate. Any such change would result in an increase or decrease to the liability and a corresponding increase or decrease to the mineral property, plant and equipment balance.

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

13. Share Capital

a) Authorized: Unlimited common shares without par value

	Number of shares	Amount
Balance - September 30, 2005	20,083,465	$ 12,164
Exercise of options	650,000	424
Exercise of warrants	6,124,631	5,601
Private placement for cash	16,700,000	22,050
Private placement commission non-cash transaction	760,261	1,140
Property acquisition non-cash transaction	1,897,621	2,714
Property finders fee non-cash transaction	50,000	68
Property acquisition non-cash transaction	168,417	285
Loan fee	153,333	276
Transfer of contributed surplus on exercise of options	-	214
Less issue costs (non-cash amount $1,140)	-	(1,595)
Balance - December 31, 2006	46,587,728	43,341
Exercise of options	1,753,600	1,957
Exercise of warrants	14,214,035	21,057
Private placement for cash	18,000,000	34,200
Private placement commission non-cash transaction (Note 16)	422,300	802
Transfer of contributed surplus on exercise of options	-	1,289
Less issue costs (non-cash amount $802)	-	(2,487)
Balance - December 31, 2007	80,977,663	100,159
Exercise of options	31,400	38
Exercise of warrants	4,322,596	7,997
Transfer of contributed surplus on exercise of options	-	27
Balance - June 30, 2008	85,331,659	$ 108,221

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

13. Share Capital (continued)

b) Stock Options

A summary of stock options granted and exercised under the Company's stock option plan is as follows:

	Six months ended June 30, 2008		Year ended December 31, 2007	
	Number of Options	Weighted Average Exercised Price	Number of Options	Weighted Average Exercised Price
Outstanding, beginning of period	6,686,400	$ 2.24	3,765,000	$ 1.62
Granted	250,000	2.52	4,355,000	2.82
Exercised	(31,400)	1.22	(1,321,100)	1.48
Expired/cancelled	-	-	(112,500)	2.56
Outstanding, end of period	6,905,000	$ 2.41	6,686,400	$ 2.24

The following stock options were outstanding and exercisable at June 30, 2008:

Number of options	Exercise Price $	Expiry Date
29,000	0.37	December 2, 2009
30,000	0.80	July 24, 2010
270,000	1.35	February 5, 2016
451,000	2.29	March 30, 2016
60,000	1.75	May 8, 2016
200,000	1.75	May 22, 2016
280,000	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
1,385,000	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
250,000	2.82	October 9, 2010
25,000	3.10	October 24, 2017
250,000	2.52	February 5, 2018
6,905,000		

6,655,500 options have vested as at June 30, 2008. The average remaining life of the outstanding options at June 30, 2008 is 8.3 years.

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

13. Share Capital (continued)

c) Warrants

A summary of share purchase warrants issued and exercised is as follows:

	Six months ended June 30, 2008			Year ended December 31, 2007		
	Number of Warrants	Weighted Average Exercise Price		Number of Warrants	Weighted Average Exercise Price	
Outstanding, beginning of period	16,479,375	$	1.89	20,566,185	$	1.23
Issued	-		-	10,559,725		2.30
Exercised	(4,322,596)		1.85	(14,646,535)		1.44
Outstanding, end of period	12,156,779	$	1.90	16,479,375	$	1.89

The following share purchase warrants were outstanding at June 30, 2008:

Number of warrants		Exercise Price $	Expiry Date
862,117		0.345	June 27, 2010
1,613,238		0.345	November 17, 2010
960,969	*	2.300	July 11, 2008
8,720,455	**	2.300	July 11, 2008
12,156,779			

* These 960,969 warrants expired unexercised on July 11, 2008
** Of these warrants, 132,455 expired unexercised on July 11, 2008. Subsequent to the quarter end, the expiry date for the remaining 8,588,000 was extended to July 11, 2009.

d) Stock-Based Compensation

The Company uses the fair value based method of accounting for share options granted to consultants, directors, officers and employees. The non-cash compensation charge of $626 recognized for the six month period ended June 30, 2008 (six month period ended June 30, 2007: $2,423) is associated with the granting of options to consultants, officer and employee. These compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following assumptions:

	Six month period ended June 30, 2008	Six month period ended June 30, 2007
Risk-free interest rate	3.78% - 4.58%	4.03% - 4.67%
Expected stock price volatility	59.0% - 72.8%	59.0% - 68.0%
Expected term in years	3, 5 & 10	5 &10
Expected dividend yield	0%	0%

Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility, risk-free interest rate and expected life of the options. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s stock options.

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

14. Accumulated other comprehensive income

	June 30, 2008
Balance - December 31, 2007	$ 144
Unrealized (loss) on available-for-sale long term investment, net of tax	(625)
Balance - June 30, 2008	$ (481)

15. Segmented Information

The Company is currently engaged in mining and the development and mining of mineral properties. Details on a geographical basis are as follows:

	Canada	Peru	Mexico	Other	Total
Six months ended June 30, 2008					
Revenue	$ -	$ 14,682	$ -	$ -	$ 14,682
Operating (loss) income	$ (2,000)	$ 3,037	$ -	$ (9)	$ 1,028
Six months ended June 30, 2007					
Revenue	$ -	$ 14,536	$ -	$ -	$ 14,536
Operating (loss) income	$ (3,106)	$ 3,752	$ -	$ (3)	$ 643
As at June 30, 2008					
Property, plant & equipment	$ 6	$ 9,718	$ 4,527	$ 3	$ 14,254
Total assets	$ 39,611	$ 52,335	$ 44,611	$ 1,026	$ 137,583
As at December 31, 2007					
Property, plant & equipment	$ 7	$ 9,252	$ 4,407	$ 3	$ 13,669
Total assets	$ 40,273	$ 49,297	$ 34,155	$ 721	$ 124,446

(All amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

16. Supplementary Disclosure of Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

The following non-cash transactions occurred:

	Six months ended June 30, 2008	
	Number of shares	Amount
Fair value of options exercised	-	27

	Six months ended June 30, 2007	
	Number of shares	Amount
Shares issued for commission on private placement	422,300	$ 802
Purchase of equipment on a deferred payment plan	-	1,827

17. Commitments

On May 6, 2008, after renegotiating the existing option agreement on the Monte Alban II concession surrounding the San Jose project, Compañia Minera Cuzcatlan SA closed the purchase of a direct 100% interest on this property. The purchase price consisted of US$1,100 paid upon closing, and an additional US$800 payment due by May 2012.

The Company has a contract with one customer who purchases the full production of the year 2008 from the Company’s operating Caylloma mine. Under the contract, the Company is committed to supply 8,700 wet metric tons of lead concentrate and 17,000 wet metric tons of zinc concentrate.

The Company has a contract to guarantee power supply at its Caylloma mine. Under the contract the seller is obligated to deliver a "maximum committed demand" (for the present term this stands at 2,800 Kw) and Bateas is obligated to purchase subject to exemptions under provisions of "Force Majeure". The contract is automatically renewed every two years for a period of 10 years. Renewal can be avoided without penalties by notifying 10 months in advance of renewal date. Tariffs are established yearly by energy market regulator in accordance with applicable regulations in Peru.

18. Management of capital risk

The Company’s objectives when managing capital are to provide shareholder returns through maximization of the profitable growth of the business and to maintain a degree of financial flexibility relevant to the underlying operating and metal price risks while safeguarding the Company’s ability to continue as a going concern.

The Company is not subject to externally imposed capital requirements.

19. Management of financial risk

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

(a) Currency risk

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

At June 30, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars, Nuevo Soles and Mexican Pesos (all amounts are expressed in thousands of US dollars, thousands of Nuevo Soles or thousands of Mexican Pesos):

	June 30, 2008		
	US Dollars	Nuevo Soles	Mexican Pesos
Cash and cash equivalents	6,950	173	3,351
Derivatives	1,426	-	-
Accounts receivable	3,106	7,970	41,624
Accounts payable and accrued liabilities	(1,221)	(6,327)	(19,689)
Obligations under capital lease	(1,106)	-	-

Based on the above net exposures as at June 30, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase/decrease of $926 in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Nuevo Soles would result in an increase/decrease of $62 in the Company's net earnings and a 10% depreciation or appreciation of the Canadian dollar against the Mexican Pesos would result in an increase/decrease of $249 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 accounts receivables are held with a large international metals trading company.

19. Management of financial risk continued

(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 through the management of its capital structure and financial leverage as outlined in Note 18 to the unaudited consolidated financial statements. 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.

20. Subsequent Events

(a) Share Purchase Warrants

Subsequent to the quarter end, the expiry date of 8,588,000 warrants was extended to July 11, 2009. An additional 1,093,424 warrants expired unexercised.

(b) San Jose Silver-Gold Project

The Company and Continuum Resources Ltd. have issued a news release dated August 14, 2008 announcing that an agreement has been reached whereby Fortuna will acquire (the “Acquisition”) all of the issued and outstanding securities of Continuum. The shares of both companies are listed on the TSX Venture Exchange.

The companies currently hold jointly the San Jose Project in Mexico (Fortuna 76%; Continuum 24%). As a result of the Acquisition, Fortuna will own 100% of the Project, thus strengthening its position in that country.

Continuum has 124,052,503 shares outstanding, and Fortuna will issue to the Continuum shareholders a total of 7.0 million shares, which is an exchange ratio of approximately 0.0564 of a share of Fortuna for every one Continuum share held. Stock options in Continuum held by non-insiders totaling 285,000 shares will be converted to options to purchase Fortuna shares, at the same ratio. No other rights to purchase Continuum shares will be outstanding at closing of the Acquisition.

The Acquisition is subject to regulatory and other approvals on behalf of both companies, and the recently announced private placement financing of Continuum has been cancelled. There will be no change of control or management of Fortuna.

21. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Six Months Ended June 30, 2008

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 six months ended June 30, 2008 prepared in accordance with Canadian generally accepted accounting principles. This MD&A is prepared as of August 14, 2008. All amounts are expressed in Canadian dollars unless otherwise indicated.

Business of the Company

Fortuna Silver Mines Inc. is a mining company focused on producing silver and developing silver projects in Latin America. The Company's principal assets are the Caylloma poly metallic Mine in southern Peru and the San Jose Silver-Gold Project in southern Mexico.

Recent Developments and Highlights

Financial and Operating Results

In the second quarter of 2008 the Company generated net income of $2.39 million compared to a net loss of $0.95 million for the corresponding quarter of 2007. Cash generated by operating activities before changes in working capital for the period was $2.31 million compared to $3.05 million in the corresponding quarter of 2007.

During the second quarter of 2008 the Company´s Caylloma mine had its sixth consecutive quarter of production growth achieving 186,276 oz of silver production, which yields an increase of 33% and 56% with respect to the previous quarter and the same period in 2007 respectively. Silver production for the third quarter of 2008 is expected to be above 200,000 oz. Record throughput above 1,000 tpd was achieved early in July 2008 and the Company expects to maintain the full permitted average capacity for the plant of 1050 tpd from August 2008 onwards.
Cash production cost per tonne for the second quarter of 2008 was US$46.92 and the corresponding unit net smelter return (NSR) was US$97.79. (Cash production cost is a non-GAAP measure. See page 7 for reconciliation of cash production cost to the cost of sales in the consolidated statement of operations).

San Jose Silver-Gold Project

The Company and Continuum Resources Ltd. have issued a news release dated August 14, 2008 announcing that an agreement has been reached whereby Fortuna will acquire (the "Acquisition") all of the issued and outstanding securities of Continuum. The shares of both companies are listed on the TSX Venture Exchange.

The companies currently hold jointly the San Jose Project in Mexico (Fortuna 76%; Continuum 24%). As a result of the Acquisition, Fortuna will own 100% of the Project, thus strengthening its position in that country.

Continuum has 124,052,503 shares outstanding, and Fortuna will issue to the Continuum shareholders a total of 7.0 million shares, which is an exchange ratio of approximately 0.0564 of a share of Fortuna for every one Continuum share held. Stock options in Continuum held by non-insiders totaling 285,000 shares will be converted to options to purchase Fortuna shares, at the same ratio. No other rights to purchase Continuum shares will be outstanding at closing of the Acquisition.

The Acquisition is subject to regulatory and other approvals on behalf of both companies, and the recently announced private placement financing of Continuum has been cancelled. There will be no change of control or management of Fortuna.

Quarterly Information

The following table provides information for the six fiscal quarters ended June 30, 2008:

			Quarters Ended					
			30-06-08	31-03-08	31-12-07	30-09-07	30-06-07	31-03-07
Revenues		**$ 000**	**7,848**	**6,834**	**7,930**	**9,201**	**8,797**	**5,739**
Mine operating income		**$ 000**	**2,876**	**2,312**	**3,397**	**4,097**	**4,012**	**1,714**
***Operating income before stock-based compensation charge**		**$ 000**	**933**	**721**	**1,332**	**2,684**	**2,552**	**513**
Net Income (loss)		**$ 000**	**2,388**	**(745)**	**1,411**	**(3,391)**	**947**	**(1,756)**
Net Income (loss) per share	**- basic**	**$**	**0.03**	**(0.01)**	**0.02**	**(0.05)**	**0.01**	**(0.03)**
	- diluted	**$**	**0.03**	**(0.01)**	**0.02**	**(0.05)**	**0.01**	**(0.03)**

***This item is equivalent to Mine operating income after deducting G&A expenses**

Financial Results

During the first semester of 2008 the Company generated $14.68 million of sales compared to $14.54 million in the same period of 2007. In US dollar terms, which is the currency under which sales take place, there was an increase of 13.5% in sales for the semester compared to the previous year. When broken down by type of concentrate; zinc concentrate sales in terms of tonnage increased 67% while unit value of concentrate decreased 57%. The latter decrease is explained by a reduction in the metal price of 34% and an increment in smelter treatment charges of US$210 per ton of concentrate. In the case of lead-silver concentrate, sales in terms of tonnage increased by 64% while unit value of concentrate increased 14%. The latter increase is the combined result of an increment in metal prices of 31% and 27% for silver and lead respectively and higher smelter treatment charges of US$330 per ton of concentrate.

The reduction in mine operating income as well as operating income in both quarters of 2008 compared to 2007 is attributable to reduced value of sales. This downward pressure on margins has been partially offset by higher production and head grades.

For the second quarter of 2008 the Company recorded net income of $2.39 million compared to $0.95 million in the corresponding quarter of 2007. Net income shows higher volatility than operating income as reported in the table above. This further volatility in net income is driven by stock based compensation charges, foreign exchange gain/(loss), and recently by unrealized gain (loss) on commodity contracts.

Total **cost of sales** for the second quarter of 2008 was $4.97 million compared to $4.79 million for the same period of 2007. While tonnage of concentrate sold in the second quarter of 2008 increased 63% compared to the corresponding quarter in 2007, this increase in percentage terms is not reflected in the change in cost of sales between the two comparative periods due to the significant increase achieved in head grades. Other things being equal, an increase in head grades will deliver higher concentrate production for equal or similar production costs. Another relevant factor affecting cost of sales is the larger life of mine estimate for purposes of depletion calculation being used in 2008.

Selling and administrative expenses for the second quarter of 2008 totalled $1.94 million compared to $1.46 million for the three months ended June 30, 2007. The increase is due mainly to higher corporate expenses associated with the growth in corporate activities as well as in the management team. A $0.08 million increase in sale expenses at our Peruvian subsidiary was recorded due to higher concentrate sales. The stock based compensation charge totalled $0.23 million for the three months ended June 30, 2008, compared to $0.11 million for the three month period ended June 30, 2007.

Interest and other income and expenses in the second quarter of 2008 amounted to net income of $0.23 million compared to net income of $0.34 million for the three months ended June 30, 2007. This includes $0.14 million of voluntary contributions for investments in the surrounding communities to our mining operations under an agreement subscribed with the Peruvian government in 2007.

Net gain on commodity contract for the second quarter of 2008 was $2.24 million compared to nil in the corresponding quarter of 2007. The Company regularly enters 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, and has entered into a combination of option and forward contracts with a bank as part of a medium-term lead and zinc price protection program. The Company does not use hedge accounting (See section on financial instruments below for further detail).

Interest and finance expenses for the second quarter 2008 were $0.03 million compared to $0.04 million in the second quarter of 2007. These are related to capital lease financings for mining equipment in our Peruvian subsidiary.

Foreign exchange gain recorded for the second quarter of 2008 was $0.42 million, compared to a loss of $0.70 million for the three months ended June 30, 2007. The Company holds its foreign assets in US and local currencies. Under the temporal method for translation of financial statements which the Company currently uses, the gains and losses arising from the translation to the Canadian dollar are included in the statement of operations.

The $1.16 million **Income tax provision** recorded in the second quarter of 2008 (2007: $1.08 million) consisted of current income tax credit and future income tax expense. Current income tax credit recorded for the period, including the worker profit sharing plan regulated by Peruvian law was $0.28 million (2007: nil). Future income tax expense, amounting to $1.44 million (2007: $1.08 million) relates mainly to temporary differences arising on amounts of mineral properties at Peruvian operations.

Results of Operations

Peru – Caylloma Poly metallic Mine

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

After commencing production in late 2006 the 100% owned Caylloma mine had its sixth consecutive quarter of continuous production growth in the second quarter of 2008. This trend is explained by continuous increments in throughput as well as head grades. In the course of six quarters Caylloma has increased its quarterly throughput by 52% and its silver, lead and zinc output by 95%, 153%, and 123% respectively.

The processing plant has caught up with the mine and is currently operating at rates between 1,030 tpd and 1,060 tpd. With respect to the energy limitations mentioned in MD&A's for previous quarters, this increment in throughput has been achieved by gains in energy efficiency throughout the operation. Material production increments from current levels will require resolution of the energy project under consideration which involves ongoing negotiations that include neighboring mines.

The polymetallic Animas vein currently sources almost all mill feed. Development and preparation on four silver rich veins (San Cristobal, Bateas, Soledad, and Silvia) is currently underway with the objective of providing a high silver grade component of around 20% to the overall mine feed. Mining at San Cristobal is planned to commence sourcing the mill in September 2008 at a rate of 500 tones per month with grades of 12 oz/t with a later ramp up to 2,000 tonnes per month beginning April 2009. The mine plan for the other three structures will be laid out in the coming months as continued mine development allows the conversion of resources to reserves.

Bonanza silver grades on the north-east extension of the Bateas vein were discovered in the last quarter of 2007 as published on a March 10, 2008 news release. Highlights of the drilling on Bateas included 1.6 meters at 6,000 g/t Ag.

The main extraction level being developed in Animas 200 meters below current mine workings is advancing according to plan. This critical infrastructure item will open new production areas, serve as main haulage level reducing transportation cost and centralize other auxiliary mine services.

Cash production cost per tonne of treated ore for the first quarter of 2008 was US$46.92 compared to US$46.65 for the same period in 2007. With respect to the three preceding quarters the reduction in unit costs is the result of lower preparation activity as the mine has achieved its target capacity. (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 publish its update resource estimate in the coming weeks. This new resource estimation will include drilling carried out in 2007 and early 2008. Current surface exploration and drilling on the Animas vein is focusing in an area named Nancy, on the northeast extension of the structure. Surface sampling and drilling conducted in Nancy during 2007 indicate the existence of a new mineralized shoot. The Company expects to disclose results during the third quarter once the current phase of follow up work is concluded.

Mexico – San Jose Silver-Gold Project

Trinidad Resource Estimation

An updated geologic model for the Trinidad area of the San Jose Project was prepared based on 31,300 meters of drilling completed through the end of 2007. The updated geologic model was submitted to consulting group AMEC E&C Services, Inc. in March, followed by data analysis and geostatistical modeling of the mineralized zone. Based on AMEC's resource classification criteria, AMEC recommends a drill spacing of 31 meters for classification of resources in the indicated category. Drill spacing in the Trinidad Zone currently averages 64 meters.

Based on these findings, the Company has elected to carry out additional drilling and sampling focusing in the upper 250 meters of the deposit in order to convert a greater portion of the existing resources to the indicated category prior to proceeding with a prefeasibility study. Conversion of resources in the upper portion of the deposit will be accomplished by a combined surface drilling, underground drilling and underground development program. Two surface core drill rigs are currently working on-site and two additional drill rigs are anticipated to be on-site by the end of August. Development of the main access ramp continues and is projected to reach the existing sixth level by December. Surface drilling is also projected to be completed by December at which time the Company will proceed with the generation of a new resource estimate.

Exploration of New Areas

Exploration to date in the 50,000 hectare concession package held by the joint venture has identified a number of stream sediment and soil geochemical anomalies, warranting detailed investigation. Follow-up mapping and sampling in the San Jacinto, San Dionisio and Praxedis areas have identified outcropping low-sulphidation vein systems occurring in association with silicified and altered dacitic dome complexes. The veins are geochemically anomalous in gold and silver, with channel sample values ranging to 1.5 grams per tonne gold and 529 grams per tonne silver over 0.4 metre at Praxedis. In the El Rancho area, aerially extensive limestone-replacement jasperoids are present with strongly anomalous gold-in-soil values ranging to 1,165 parts per billion, silver-in-soil values ranging to 29.9 parts per million and arsenic-in-soil values ranging to greater than 10,000 parts per million. Detailed mapping and sampling are continuing in these areas to define specific drill targets to be tested this year.

Metallurgical Studies

A detailed program of metallurgical sampling and testing is taking place. First phase of metallurgical tests is being conducted at the UNI metallurgical lab in Lima, Peru. Second phase tests will be carried out by an international lab still to be designated. A process flow sheet should be finalized by the end of the year in addition to basic engineering. Preliminary metallurgical tests conducted in 2005 by Resendiz labs in Mexico and Kappes Cassiday of the US, as well as recent mining and processing history of the Trinidad mineralization, indicate that recoveries of up to 85% for silver and gold are achievable with conventional flotation methods. The results of this program will be used in the pre-feasibility study.

Community Relations & Land Agreements

Thirty three hectares of land covering the mineralized zone have been secured and the agreements duly registered in the Registro Agrario Nacional. An agreement with the local Ejido is being negotiated to serve as framework for further land acquisitions. Currently the Community Relations department is engaging local and surrounding communities through project presentations, site visits, and sustainable development and education programs.

Environmental Impact Statement (MIA)

Clifton Associates is well advanced with the Manifiesto de Impacto Ambiental (MIA). Base line studies have been concluded and the document will be ready for filing with the environmental authorities once process design and basic engineering are completed by year end.

Industrial Water Supply

Several potential water sources for the project have been identified and evaluated during this first half of the year. The company has advanced a scoping study on the alternative that considers the use of treated sewage from a nearby town. The objective is to move forward with the design and permitting of this alternative throughout the remainder of the year.

*Underground Developmen*t

The main access ramp has advanced 850 meters up to the date of this report and is expected to reach the projection of level 6 by December. The underground development plan is focused on developing levels 6 and 7 with the aim of assisting the resource conversion program to measured and indicated categories, testing long hole mining methods, and preparing stations to drill the deeper extensions of the deposit.

<u>Acquisitions</u>

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.

<u>Cash cost per tonne (non-GAAP measures)</u>

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 (“Canadian GAAP”), and, therefore, amounts presented may not be comparable to similar data presented by other mining companies.

The following table presents a reconciliation of cash production costs per tonne of processed ore to the cost of sales in the consolidated statement of operations:

	CAD$ $'000	US$ $'000 @ 0.9897
Cost of sales	**4,972**	**4,921**
Change in inventory (ore and concentrate stock piles)	**33**	**33**
Depletion, depreciation, and accretion	**(1,207)**	**(1,195)**
Total cash production cost	**3,798**	**3,759**
Total processed ore (tonnes)		**80,121**
Cash production cost per tonne of processed ore (US$)		**46.92**

Liquidity and Capital Resources

The Company's cash resources and liquid investments as at June 30, 2008 were $46.61 million compared to $47.24 million as at December 31, 2007.

During the second quarter of 2008 cash generated by operating activities before changes in current assets and liabilities was $2.31 million. Further liquidity contributed by changes in current assets and liabilities amounted to $1.83 million, for total cash generated by operating activities of $4.14 million.

During the second quarter of 2008 the Company invested a total amount of $6.54 million in mineral properties and $0.93 million in plant and equipment. Additionally, the investments in mining properties and projects in Mexico demanded total value added tax disbursements of $0.45 million. This value added tax is refundable and is included as part of current assets as at June 30, 2008.

As at June 30, 2008, the Company had working capital of $55.76 million compared to working capital of $51.16 million at December 31, 2007.

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:

	Six months ended June 30, 2008		Six months ended June 30, 2007	
Mineral property costs – geological fees	$000	-	$000	45
Consulting fees		15		50
Salaries and wages		13		40
Management fees		508		115

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

At June 30, 2008, due to related parties consists of approximately $30,000 (December 31, 2007 - $14,000) 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 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. Significant items subject to such estimates and assumptions include the fair values of financial instruments and derivatives, determination of mineral reserves, the carrying amount of mineral property, plant and equipment, assay grades of metal concentrates sold, valuation of inventories and future income taxes, recoverability of receivables, provisions for asset retirement obligation and reclamation, fair value estimation of acquisitions and stock-based awards. Actual results could differ from those estimates.

Financial Instruments

The carrying value of cash and cash equivalents, 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 consist of forward lead and zinc contracts with banks to fix the final settlement price of metal delivered in concentrates (QP hedges), where the final settlement price is yet to be set at a future quotational period according to contract terms, and combinations of options and forward contracts entered into with a bank as part of a medium-term lead and zinc price protection program. 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 June 30, 2008 the Company estimated the fair value of the outstanding contracts at $2.78 million and recorded a total gain in the statement of operations of $2.24 million. Total cash settlement in favour of the Company for the second quarter of 2008 was $0.16 million. The estimated fair value of derivative contracts was determined based on using applicable valuation techniques for commodity options with reference to the published marked prices for underlying commodities quoted at London Metal Exchange. The table below shows the change in the derivative asset carried in the balance sheet for the first quarter of 2008. The Canadian dollar amounts shown at the bottom of the table reflect the US dollar amounts translated into Canadian dollars for financial statement purposes.

	Balance Sheet	Statement of Operations	Cash Settlement		Balance Sheet
	Derivative asset	- (loss) + gain	- (gain) + loss		Derivative asset
	31/12/2007	S1 2008	S1 2008		30/06/2008
USD	US$	US$	US$		US$
Positions Settled in S1 2008	538,722	(227,839)	(310,883)		-
Medium Term hedges	538,722	(154,307)	(384,415)		
QP hedges		(73,533)	73,533		
					-
Positions Still Open at 30/06/08	887,354	1,862,428	-		2,749,781
Medium Term hedges	887,354	1,891,514	-		2,778,868
QP hedges	-	(29,086)	-		(29,086)
Total	1,426,075	1,634,589	(310,883)		2,749,781
CAD	**CAD**	**CAD**	**CAD**	FX adj.	**CAD**
Positions Settled in S1 2008	529,025	(229,552)	(313,220)	13,748	
Positions Still Open at 30/06/08	871,381	1,876,433		32,489	2,780,304
Total	1,400,406	1,646,881	(313,220)	46,238	2,780,304

The long-term investments into marketable securities are classified as available-for-sale and are measured at fair value at the end of each period. Fair value of these investments is determined based on published market prices of underlying securities. Change in fair values of available-for-sale marketable securities is recognized in other comprehensive income.

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 14, 2008 is 85,331,659 common shares. In addition, a total of 17,968,335 share purchase warrants and incentive stock options are currently outstanding as follows:

Type of Security	Number	Exercise Price	Expiry Date
Warrants	8,588,000	$2.30	July 11, 2009
	862,117	$0.345	June 27, 2010
	1,613,238	$0.345	November 17, 2010
	11,063,355		
Options	29,000	$0.37	December 2, 2009
	30,000	$0.80	July 24, 2010
	250,000	$2.82	October 9, 2010

270,000	$1.35	February 5, 2016
451,000	$2.29	March 30, 2016
60,000	$1.75	May 8, 2016
200,000	$1.75	May 22, 2016
280,000	$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
1,385,000	$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
250,000	$2.52	February 5, 2018
6,905,000		

Change in Accounting Policy

Effective January 1, 2008, the Company adopted the following standards previously issued by the Canadian Accounting Standards Board. In accordance with the transitional provisions of these standards, the changes were adopted prospectively (if applicable), with no restatement of prior periods.

Section 1535 – Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Disclosures include what is defined as capital, how it is managed, and whether externally imposed restrictions on capital are present.

Section 3031 - Inventories

This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3862 – Financial Instruments – Disclosures

This Section, in addition to Section 3863, replaces Section 3861 “Financial Instruments – Disclosure and Presentation” and requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management’s objectives, policies and procedures for managing such risks. Entities are required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

Section 3863 – Financial Instruments – Presentation

This Section, in addition to Section 3862, replaces Section 3861 “Financial Instruments – Disclosure and Presentation”, and provides guidance on presentation of financial instruments as liabilities vs. equity and when offsetting of financial assets and financial liabilities is appropriate. The adoption of this standard did not have a material impact on the Company’s presentation of its 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, and performance of achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. 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 most significant risk 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 has 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.

The Company’s reporting currency is the Canadian dollar, however the Company’s foreign assets as well as most of its commercial transactions are held and take place in US and local currencies. As a consequence, the financial results of the Company´s operations as reported in Canadian dollars are subject to changes in value of the Canadian dollar relative to US and local currencies.

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.

Internal Controls

No changes have been made to the Company’s internal controls over financial reporting during the second quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.