

Transcript of
Fortuna Silver Mines, Inc.
Second Quarter 2021 Financial and Operational Results
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Participants

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Don DeMarco - National Bank Financial

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Presentation

Operator

Good day, ladies and gentlemen and welcome to the Fortuna Silver Mines Second Quarter 2021 Financial and Operational Results. At this time, all participants on a listen-only mode and we'll open the floor for your questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, Luis Ganoza, Director of Investor Relations. Sir, the floor is yours.

Carlos Baca - Director of Investor Relations, Fortuna Silver Mines, Inc.

Hi, Matthew. Thank you. By the way, Luis Ganoza is our CFO, it's Carlos Baca, Director of Investor Relations right now speaking. Good morning, ladies and gentlemen. I would like to welcome you to Fortuna Silver Mines and to our financial and operations results call for the second quarter of 2021. Hosting the call today on behalf of Fortuna will be Jorge Alberto Ganoza, President and Chief Executive Officer and Luis Dario Ganoza, Chief Financial Officer.

Today's earnings call presentation is available on the featured presentation box on our homepage at fortunasilver.com. As a reminder, statements made during this call are subject to the reader advisories included in yesterday's news release and in the earnings call presentation. Financial figures contained in the presentation and discussed in today's call are presented in U.S. dollars unless otherwise stated.

Before I turn over the call to Jorge, I would like to indicate that this earnings call contains forward-looking information that is based on the company's current expectations, estimates and beliefs. This forward-looking information is subject to a number of risks, uncertainties and other factors. Actual results could differ materially from our conclusion forecast or projection in the

forward-looking information. Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection, as reflected in the forward-looking information.

Additional information about the material factors that could cause actual results to differ materially from the conclusion, forecast or projection in the forward-looking information, and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information is contained in a company's annual information form and MD&A which are publicly available on SEDAR. The company assumes no obligation to update such forward-looking information in the future, except as required by law. I would now like to turn the call over to Jorge Alberto Ganoza, Co-Founder of Fortuna.

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Thank you, Carlos and good morning to all. I will start the presentation on Slide 6, which shares our second quarter highlights. In spite of COVID-19 related challenges at Lindero, which have led us to revise the guidance for the year, our second quarter results continue to reflect the strength of our business with record sales of \$120 million, EBITDA of \$55 million, and then EBITDA margin over sales of 46%.

Adjusted earnings of \$0.12 per share came in largely in line with analysts' consensus. We maintain a liquidity position of \$122 million with debt-to-EBITDA ratio of 0.2, our healthy balance sheet plus incremental plan contributions to free cash flow from Lindero and Yaramoko in the second half, add to our ability to fund Séguéla construction under various price metal scenarios.

Lindero produced 19,500 ounces of gold in the period, a dramatic surge of COVID cases in Argentina during the quarter impacted Lindero leading to a 16 day stoppage spread over the three months. In addition, continued restrictions in the country, impaired our ability to support or ramp-up which relies on foreign vendor technicians.

These entry issues into the country have been partially resolved over the last couple of months. Today we have specialized technicians on site for all stages of crushing, including the HPR and we're working to get superior technicians for this docking system in the country in this third quarter.

On July 2, we closed the Roxgold acquisition. We're working on our 100 day integration plan which is advancing well and in many instances, exceeding our expectations. With this acquisition, Fortuna is cementing a diversified low cost production platform, sourcing precious metals from four operating mines, and with a robust permitted development project in Séguéla where we expect the construction decision this third quarter, as we close the mining convention negotiations with the Côte d'Ivoire government.

We provided revised production guidance on July 19, which incorporates the Yaramoko gold mine contribution for the second half of the year, and our downward revision of gold production

at Lindero. Lindero gold production is 50,000 ounces lower to 100,000 ounces now, the 50,000 ounces are not lost but postponed for next year as we do not believe this year, we will be able to make up for the days of stoppages and slow ramp-up due to the reasons described in the second quarter.

Our revised consolidated guidance for silver does not change from the original and stays at 6.8 to 7.6 million ounces and for gold is revised to 194,000 to 223,000 ounces for 2021. The gold equivalent production guidance is 283,000 to 323,000 ounces, still representing a year-over-year increase of 90% to 116% in terms of gold equivalent production.

Slide 7, in Slide 7, we shared our 12-month rolling average performance on safety KPIs, our trend of improvement on safety performance has seen a flattening and in some cases, we observe a reversal across operations. The start of operations at Lindero at the onset of the COVID pandemic last year has weighted heavily on -- heavily performance at this particular mine. We have had 10 lost time injury accidents in the second quarter.

We have in place cultural change initiative. We're committed to and we have -- we're displaying and implementing initiatives to continue with this success, we enjoyed lowering and improving performance on safety KPIs. Slide 8, we pre-released production for the second quarter, our gold equivalent production in the quarter was 56,000 ounces of gold. When measured against the previous quarter, silver production is up 49%, this difference is explained mainly by the 54 days of government mandated COVID stoppages at the San Jose mine in Mexico last year.

Our gold production is up 337% explained by the same lost days at the San Jose mine and the fresh new contribution of ounces coming from Lindero. Our byproducts zinc and lead also exceeded growth with respect to last year, this is also explained largely by the loss of operation days at Caylloma. Slide 9, precious metals made 85% of our record sales of \$120 million, silver contributed 40% to revenue. In the period, we realized the silver price of \$26.85 per ounce and a gold price of \$1,812 per ounce, next slide.

Slide 10, for the comparison of year-over-year quarterly financial performance the takeaway here is a significant rebound driven by improved COVID conditions in Peru and Mexico, plus the new contribution of Lindero to the business. Sales of \$120 million up from \$44 million. Adjusted EBITDA of \$55 million up from \$9.4 million and adjusted net income of \$21.5 million up from a loss of \$5.1 million.

Slide 11. Over all-in sustaining costs that all operations were aligned with guidance. San Jose came in at \$13 per ounce, Caylloma at \$18, and Lindero at \$1,214 per ounce. Even though we produced lower gold than Lindero than our guidance plan gold for. The timing on the execution of capital projects over the year at Lindero helped offset all-in sustaining costs.

Slide 12. For the first half of the year, we have executed capital projects totaling \$32 million out of an annual budget of \$80 million for Latin American operations. Exploration investment amounted to \$6.9 million for Greenfield and Brownfields budget for 2021 for LATAM is \$21 million.

Total approved capital for West Africa for the second half of the year amounts to \$42.5 million Yaramoko sustaining capital and Brownfields initiatives amounts to \$22 million. Séguéla and Boussoura exploration total \$9.5 million and the Fortuna board approved in July an early works budget for Séguéla of \$11.5 million which includes a long lead equipment packages and focused in engineering work. All these in anticipation of a construction decision later in the quarter.

Slide 13, please. Focusing again on Lindero. Here, the reconciliations of tons grade and gold ounces mine for the second quarter continue to indicate a good correlation with the reserve model with differences of less than 5% for all parameters. So the conciliation of the reserve model to production continues to be extremely good. Gold leaching response as well as raising consumption was within the expected parameters for the granulometric compositions and metallurgical type force that we have placed on the leach pad.

As of July 21, ramp-up of operations continues. Pit operations are performing and delivering according to design. The primary and secondary crushing systems performed at 80% of design over the period with sustained days exceeding design parameters HPGR-agglomeration and stacking system the three work in tandem operated at 72% of design capacity. Today, with foreign vendors support currently on site for HPGR and crushing circuits, we expect to beat the final mile of this challenging ramp up at Lindero.

And in Slide 14, we share with you the asset portfolio in the portfolio pyramid the post Roxgold acquisition where you can see our four operating mines, our development projects and the baskets of exploration opportunities that we have. Ranging from advanced explorations at -- Greenfields explorations and Boussoura. Santa Fe, Boussoura in Burkina Faso. Santa Fe in Mexico, Higo Blanco in Mexico, a large land package covering 160,000 hectares in Côte d'Ivoire and Cerro Lindo project in Argentina, Baborigame in Mexico, Solitario in Argentina as well. So certainly a robust exploration portfolio and opportunities are the base of the pyramid.

So with that, I will let Luis now take you through the financial results.

Luis Ganoza - Chief Financial Officer, Fortuna Silver Mines, Inc.

Yes, thank you Jorge. So on Slide 16. Just a moment. For me on Slide 16. As Jorge has mentioned we had the record sales in the quarter and overall a strong financial performance across our main financial metrics as a reminder. And also as mentioned by Jorge, results in a comparative period in 2020 were depressed due to the impact of the pandemic and related government mandated stoppages.

So the emphasis will be mostly about the absolute figures in the quarter as opposed to the variance year-over-year. Earnings per share were \$0.09 in the quarter and adjusted earnings per share was \$0.12. After adjusting for \$3.5 million dollars of expense amounts related to the Roxgold transaction and other non-cash non-recurring items.

Adjusted EBITDA \$54.9 million was at an all-time high except only for the \$60.8 million recorded in Q1 2021 in first quarter of this year. And free cash flow from ongoing operations

was \$18.5 million reflecting the capacity of our business to translate EBITDA results into free cash flow, in spite of COVID related challenges at Lindero.

Also in relation to free cash flow, we had the negative changes in non-cash working capital items of \$8.3 million in the quarter and \$24.7 million year-to-date. The amounts year-to-date are related mostly to accounts receivable of San Jose and natural buildup of accounts receivable and leach pad inventory at Lindero. We expect this absolute amounts to maintain or slightly come down in Q3 and a stronger recovery of receivables towards year round.

Next slide, Slide 17. Yes, so sales increased by \$76 million over Q2 2020. Out of the total impact attributable to higher volume of metal sold of \$51.8 million as shown in the bridge chart. Around two-thirds is explained by Lindero 30% San Jose and the balance of around 4% would be Caylloma. Similar to the prior quarter, the largest single impact on our sales excluding Lindero was the price of silver with an impact of \$17.8 million as shown in the slide as well.

Slide 18. Yes, on the left hand side, we provide a breakdown of EBITDA by mine. As mentioned before, financial performance for Caylloma and San Jose continues at historical highs underpinned by higher metal prices, as well as delivery of production and cost performance within our guidance range.

The higher all-in sustaining costs for San Jose, shown on the right hand side up 26% compared to the prior-year is to a large extent explained by changes in the gold, silver ratio. And the impact this has on silver equivalent production this effect is close to around \$2 per ounce. At Lindero, lower gold production of over 30% in the second quarter compared to our internal plan had a significant impact on EBITDA and cash cost per ounce. However, all-in sustaining costs for the quarter and for the first half of the year remains within the guided range in our news release of January 19th due to a slower pace of planned CapEx execution.

Also worth highlighting variable unit costs per ton at Lindero, as well as key operation of mine KPIs are tracking well and within expectations. With respect to a revised annual guidance for Lindero, given the lower revised gold production of approximately one-third as mentioned by Jorge, we're now expecting higher cash cost per ounce of about 50% and higher all-in sustaining cost of just below 40%. Please refer to our news release of July 19 for more information.

On Slide 19, yes here we show the evolution of our liquidity and cash position. As a reminder in Q4 of 2020, our credit facility was scaled down from \$150 million to \$120 million, this is reflected in the drop in liquidity in Q4. Since the end of the Lindero construction towards year-end 2020, we continue to show growth in our cash and liquidity position. For Q2 2021, we show the impact of the Roxgold transaction in that dotted segment at the top of the bar. Without these transaction related payments, total liquidity would have been in the range of \$160 million.

We're currently working and put in place a new expanded credit facility which we expect will be concluded in Q3, this will be a \$200 million facility with a very similar structure to the existing one. And importantly, it will bear a lower cost of interest. Based on -- as an additional comment based on a revised guidance, and excluding any sale or construction budget in the current price

environment, we expect to generate between \$80 million and \$85 million of free cash flow for the second half of the year.

So based on this and our expanded credit facility, our total liquidity towards year-end should be in the range of \$250 million, giving us plenty of comfort to launch our construction activities at Séguéla. Finally, a brief comment on the information disclosed in the subsequent events note of our financial statements, regarding payments done in relation to the closing of the Roxgold transaction. We had disclosed \$29.3 million in change of control payouts and settlements of long-term incentive units to non-continuing executives and directors.

Out of this amount \$5.6 million is actual change of control payments and the balance is the cash settlement of RSUs, PSUs and DSUs. With that, I'll pass it back on to you, Carlos. Thank you.

Carlos Baca - Director of Investor Relations, Fortuna Silver Mines, Inc.

Thank you, Luis. We would now like to turn the call over to any questions that you may have.

Operator

Certainly, ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Your first question is coming from Don DeMarco, your line is live.

Q: Thank you, operator and good afternoon, gentlemen. Just a couple of questions from me. First of all, on the call as mentioned that some of the production at Lindero has been deferred to 2022. This year, Lindero we're looking at maybe 100,000 ounces, can you give us any indication of how much higher the production at Lindero might be in 2022?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

We're currently budgeting the year. Don, we're in the process of -- we have started the budgeting process. But the message here is, we have a capacity to produce in the range of 150,000 ounces and we're not achieving that based on the grade that we have at the mine, is basically because the rate of production is down. So I would expect that our production for the second 2022 would be able to capture at higher rate, annual production closer to what our target was this year, right in the range of between 120,000 and 150,000 ounce.

Q: Okay.

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

The message basically is, this is not an absolute loss of ounces, but rather deferral. I mean, the models are conciliating well, the metallurgy is conciliating well, and it's just a very painful ramp-up in Argentina right now for the team.

Q: Okay, thank you for that. My next question has to do with the Roxgold transaction. And I see on the cash flow statement, I see an item in the promissory note 35 million promissory note, can you give us an indication of the total transaction costs for the acquisition? Is it just the 35 million in that promissory note or is it more than that? And in any other details, in terms of what the major items will be appreciated?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Yes, so the promissory, the promissory note really is a balance, based on total costs to be paid out directly by Roxgold at the time of closing and their availability of cash. But in terms of total expenses, or total transaction costs, the figure I mentioned of \$29 million of cash payouts for change of control items and settlement of long-term incentives is the largest amount.

The rest really would be related to legal expenses, advisory fees, and these amounts will be fully disclosed in our Q3, right. But certainly the largest component of that is the amount we launched. We have disclosed in our subsequent events [indiscernible].

Q: Okay. Okay, that's helpful. Okay, well, that's all for me. Good luck, gentlemen. Getting Yaramoko added into your portfolio of Q3 and we look forward to Lindero rebounding as well. Thank you.

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Thank you.

Operator

Thank you. [Operator Instructions] Your next question is coming from Michael Anthony. Your line is live.

Q: Yes, sir. The mine you just did the acquisition, can you tell me exactly what precious metals they have?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

If I understand your question, you're asking about the recent acquisition and the assets that we're bringing, is that right, they're all gold assets, the Yaramoko mine is a gold only mine and the Séguéla project is a gold only project.

Q: Yes, sir. Well, I got one more, are they paying a dividend anytime this quarter or maybe in the future?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Not in this quarter. The question of dividend for us is not a question of if but when really. And the purpose of bringing one of the purposes of bringing the Roxgold transaction is to build a portfolio of assets that can provide sustainability over the long-term. To provide investors with a return that is sustainable over time, right, quality assets, high margin assets that can be sustainable over time will make a dividend or a means to return to shareholders sustainable over time.

So for us, it's a question of when we have a capital project an important capital project in Séguéla that's in the midst of our construction decision this quarter. So I think that in this price environment, once we launch that the discussion of dividend, this is one that the board will be engaging on with.

Q: This was a great quarter. It was a very strong quarter and I appreciate everything you're doing to shareholders.

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Thank you, sir.

Q: Thank you. That's all the questions.

Operator

Thank you. Your next question is coming from Ryan Thompson. Your line is live.

Q: Yes, hi Jorge and team. Thanks for the update. Just a question for me on Lindero, I see you stacked about 1.5 million tons to the patent in the second quarter. If I just look at sort of the ratio of ounces produced down to the stack, I'm getting about 43% on my math, could you just talk a little bit or maybe give a breakdown of how much of that 1.5 million tons was coarser ore versus sort of HPGR crushed and conglomerated ore and are you seeing differences in the metallurgical performance between those sorts of two types of ore types?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Yes, in our Q2 disclosure, we provide a breakdown of the start ore. Give me a second here. We provide a very detailed explanation here where we trucked or amounted for roughly 800,000 tons. So, Q2 was not particularly a good quarter in terms of the composition of the stacking mix, the truck ore from the run of mine and coarser ore stockpiles placed on the leach pad total 800,000 tons and it was 32% higher than originally planned.

At this stage, we have a completely stopped truck stacking. All this stacking is taking place with the conveyor stacking systems. So everything that's going to the leach pad is going -- is running through the HPGR-agglomeration and conveyor stacking. So that's an important development and that speaks about the continued improvements and reliability and mechanical efficiency we're achieving with that part of the system.

Now, our metallurgical performance based on the types of over that we are stacking in certain sales the coarser ore and conveyor stacked ore. Again our metallurgical performance and cyanide consumption and lime consumption, all of that is tracking according to our planned extraction and recovery rates.

So the key change that we'll see in the third quarter is a significantly higher contribution of a conveyor stacked ore as we have again stopped already a coarser ore stacking right that was always a temporary measure that we decided to implement. Knowing last year around March of last year, in June of last year that it is a complex system running HPGR-agglomeration and stacking. And we were doing it alone. We didn't have the benefit of foreign vendor technicians for any of the three components of the system, those being the HPGR the Westpro agglomerators and the superior stacking system.

So now we're working with technical support on site at least for HPGR and of overtime or operators have gained more experience these taking longer than anticipated again, because we're doing it alone. But that's a significant change right and has been the last quarter you'll see. In many ways significant amounts of truck ore placed on the leach pad.

Q: Okay. That's good to hear that those stacking systems some like they're starting to perform a bit better here. Maybe just switching gears a little bit. Going over to West Africa, you mentioned negotiations on the mining convention for Séguéla. Could you maybe just dig into that a little bit more, and just provide us some more color on those negotiations. And what we should expect there?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Yes, we are and I'll say the first round of negotiations with the Côte d'Ivoire government. And we are getting back to them on this first draft of the convention. It is not far from where the team expected we would land. But it is a negotiation. It's a process and we're doing it with a lot of care and respect for the country and the authorities. And we expect we can have an agreement between the parts in a way that will allow us to lounge the construction of the project towards the end of this quarter no. But we are currently engaged with the government in the negotiations.

Q: Perfect. Thanks for that. And maybe I'll just ask one more. Are you able to provide any commentary on how Yaramoko performed in Q2, I know that obviously, the deal didn't close until Q3? But if you can make any comments on how it performed in Q2 or even just in the month of July. Anything would be helpful there?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Yes, in Yaramoko small shortfall in ounces due to the sequencing of some great in plan. And they were in some extremely high grade areas. And those high grade areas do carry high variability as well. And in this place that variability played against the plan. But we understand it as a local event. And we -- the mine is out of those extreme high grade zones right now.

So in July, we are already seeing a performance tracking in line with the short and long-term plan. And we all know Yaramoko is quite a reliable asset and we don't see these small shortfall in Q2 as anything of concern or a change in trend, but rather a feature of a particular area, extremely high grade area in the mine.

Q: Got it. Okay. Thanks for the update, Jorge. That's all I had today.

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Thank you.

Operator

Thank you. Your next question is coming from Adrian Day. Your line is live.

Q: Yes, good afternoon. I had a couple of questions, if I may. Can you remind me please what the anticipated CapEx for Séguéla is? Also if you have any other major CapEx items over let's say the next 12 months. And then given that do you have any plans for financing?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Good morning Adrian.

Q: Good morning.

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

The estimated capital for Séguéla is approximately \$150 million as per the feasibility study. A big chunk of the CapEx around \$65 million, \$70 million dollars are encapsulated within the EPC agreement that we are aiming to execute with lack of volume for the execution of the project. So, and as usually the case with this project. The bigger capital expense, since you start seeing flow through towards half to two-thirds of the construction, right. And this is probably a year and a half construction.

In terms of financing. As we mentioned during our prepared commentary, we believe we have plenty of comfort to launch into construction activities based on our -- the corporate facility we are putting in place on our existing cash availability plus just ongoing free cash generation.

Q: Okay. Now, I know you've got enough, but you've always run a very conservative balance sheet, which I like. But you think you've got enough without any additional balancing?

Jorge Alberto Ganoza - President, Chief Executive Officer and Co-Founder, Fortuna Silver Mines, Inc.

Yes. That is an absolute, yes.

Q: Okay. Great. Thank you.

Operator

Thank you. [Operator Instructions]. There are no further questions in the queue at this time.

Carlos Baca - Director of Investor Relations, Fortuna Silver Mines, Inc.

If there are no further questions, I would like to thank everyone for listening to today's earnings call and we look forward to you joining us next quarter. Have a great day.

Operator

Thank you ladies and gentlemen. This does conclude today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.