

Transcript of  
Fortuna Silver Mines Inc.  
Q4 - FY21 Financial and Operational Results Call  
March 24, 2022

**Participants**

Carlos Baca - Director of Investor Relations, Fortuna Silver Mines Inc.  
Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.  
Luis Ganoza - Chief Financial Officer, Fortuna Silver Mines Inc.  
Cesar Velasco - Chief Operating Officer, Latin America, Fortuna Silver Mines Inc.  
Paul Criddle - Chief Operating Officer, West Africa, Fortuna Silver Mines Inc.

**Analysts**

Adrian Day - Adrian Day Asset Management  
Trevor Turnbull - Scotiabank  
Don DeMarco - National Bank Financial

**Presentation**

**Operator**

Good day, ladies and gentlemen, and welcome to the Fortuna Silver Mines Q4 and Full Year 2021 Financial and Operational Results Call. At this time, all participants have been placed on a listen-only mode and the floor will be open for questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Carlos Baca, Director of Investor Relations. Sir, the floor is yours.

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

Thank you, Holly. Good morning, ladies and gentlemen, I would like to welcome you to Fortuna Silver Mines and to our financial [Audio Gap] presentation box on our homepage at [www.fortunasilver.com](http://www.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 a conclusion, forecast or projection in the forward-looking information.

Certain material factors or assumptions were applied in drawing our 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 our conclusion or making a forecast or projection as reflected in the forward-looking information, is contained in the 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 Ganoza, Co-Founder of Fortuna.

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Thank you, Carlos. I will be sharing with you the highlights of the quarter and updates on performance on the business for the first months of the year. And I'll be assisted by Luis, our CFO; and Cesar and Paul, who will be providing details on the performance of the assets in their respective regions.

For the quarter, we reported sales of \$199 million, an increase of 92% compared to a year ago; adjusted net income of \$29 million; and adjusted EBITDA of \$89.5 million. We ran the business with an adjusted EBITDA margin percentage in the mid-40s. The drivers of the significant growth in financial figures compared to a year ago are the Lindero Mine, which in the quarter delivered record gold production of 36,000 ounces and the contribution of the Yaramoko Mine.

At the end of the year, our liquidity position remained strong at \$187 million, while keeping our debt to EBITDA ratio at a low 0.2. The company remains well-funded to meet all its capital projects for the year. And in particular, the Séguéla Mine construction, which once completed will be Fortuna's 5th operating mine. As of the end of February, the Séguéla construction is 42% complete tracking align with our budget and timeline for first gold in mid-2023. The team is delivering an excellent performance at the project. We're preparing to initiate placing concrete in mid to late April. Paul Criddle, our Chief Operating Officer for West Africa can provide further detail later on the call.

On the exploration front, we continue to exhibit the resource growth potential of the Séguéla camp with the recent announcement of the 350,000 ounces inferred maiden resource at Sunbird. Sunbird is a recent discovery located only 2 kilometers from the Séguéla mill site. We have a high expectation with respect to the opportunities to continue expanding the resources at Séguéla where exploration drilling remains a big area focus for this year.

During the last month of 2021, we went through trying times at our San Jose Mine located in southern Mexico in the state of Oaxaca. When on October 23rd, Mexican authorities failed to renew our [Audio Gap]

**Operator**

Please hold, ladies and gentlemen, while we reconnect Carlos' line.

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Sorry, we lost the line here on our end. So I'll try to retake the discussion, where I think I lost the line, which is our discussion of the permit issue at the San Jose Mine. As I was stating, on October

23rd, the Mexican authorities failed to renew our 12-year environmental impact assessment, a key operating permit. The renewal was finally granted in late December for the requested 12 years, only to be reduced in a subsequent communications in 2 years.

The authority is claiming a typographical error, providing no support of any kind for the term reduction in any document. We are contesting this in court and federal judge has accepted our case and granted a preliminary injunction in our favor. We believe we will hear a ruling from the court later this year. In parallel to the legal actions, we continue constructive dialogue with authorities trying to resolve this, what in our view is a nonsensical situation, and trying to resolve this administratively. Through all of this grief, our mine did not lose one day of operations.

Another topical issue in the second half of 2021 was our 100-day Roxgold integration plan, which was successfully concluded in the fourth quarter. As one of the outcomes of the process, we have incorporated 2 talented Roxgold executives into a combined company, senior executive team, Paul Weedon, as Senior Vice President of Exploration; and Julien Baudrand, as Senior Vice President of Sustainability.

With respect to sustainability performance, for 2021, performance was good, and in all our prioritized corporate KPIs with the exception of women in the workforce, where we are aiming to improve on and maintain the company above the industry average, which is 15%. Last year, we were at around 17% and for 2021 – last year, I mean, 2020. In 2021, we ended a year at 15% and we are aiming to get back to our objectives for that KPI, which are above 15%.

For 2022, we have certain important sustainability initiatives in motion. We have been working on the adoption plan for the ICMM Global Industry Standard for Tailings Management. We expect to be able to make our commitments public during this year, with respect to the adoption plan and objectives under the standard for 2022. Additionally, shortly, we will be making public our board approved climate change positioning statement, which sets out our commitments on this very relevant topic.

Our safety performance was tainted at the start of the year. On January 28, we reported the tragic loss of life of a member of our process plant team at the Lindero Mine in Argentina. And investigation and findings on this tragedy are advanced, and action plans have been implemented across all our sites to make sure nothing like this ever happens again. The health and safety of our employees, contractors and visitors to all of our sites is paramount and the responsibility we take with the utmost seriousness.

During Q4, our record gold production was 76,000 ounces, an increase of 200% compared to a 25,000 ounces we produced a year ago. Silver production at 2 million ounces was 4% above production last year.

If we look at gold equivalent production for the 2021, we produced 367,000 ounces of gold equivalent, basically in line with guidance provided at midyear. For the year, precious metals accounted for 91% of sales, gold accounted for 69%, and silver for 22% with the balance being byproduct, zinc and lead, which in today's price environment we're also enjoying the – I think this morning, zinc prices we haven't seen for many years at close to over \$1.80 per pound.

On March 17th, we reported our annual updated mineral resources and mineral reserves. Our gold reserves stand at strong 3.3 million ounces, a record for the company and an increase of 81% compared to a year ago. Silver reserves stand at almost 26 million ounces, a decrease of 10% with respect to a year ago.

For 2022, we have a well-funded exploration budget of \$29 million, over 50,000 meters of drilling with a focus on Séguéla and our underground mines with shorter reserve lives. With respect to annual all-in sustaining cost at our silver assets, Caylloma and San Jose, although we record higher cost compared to a year ago, these are in line with our guidance for the year.

And our gold assets, Lindero for the full year is in line with guidance. And Yaramoko did experience higher all-in sustaining cost for the quarter and the year, and that can be discussed by Paul further down the presentation on this call.

Now, I will let Luis go ahead and share a brief discussion on financials.

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

Thank you, Jorge. I'll reference slides 10 and 11 for a brief discussion on our financial results. As Jorge mentioned, we had a record sales in Q4 2021 of \$199 million, driven by the contribution of Lindero and Yaramoko, realized prices on gold and silver were \$1,800 and \$23.4 per ounce, slightly below Q4 of last year 2020 by 3% and 4%, respectively. EBITDA for Q4 2021 of close to \$90 million was up a 100% over the prior year and 20% above the prior quarter. These results were driven by higher gold production at Lindero and the contribution from Yaramoko. And EBITDA margin was 45% compared to 43% in 2020.

Net income for Q4 2021 was slightly down by \$1.5 million or 11% over the prior year. We did have higher operating income of \$11 million or 39% over the prior year. This higher operating result, however, was offset by a loss on derivatives of \$4.2 million, higher interest expenses of \$2.7 million, and higher effective tax rate. Our adjusted net income increased 27% or \$6.6 million over Q4 2020, after adjusting mainly for inventory write-downs and realized losses on derivative contracts.

Our free cash flow from operations for Q4 2021 was \$31 million, similar to the prior year. We converted 34% of EBITDA into free cash flow compared to 66% in Q4 2021. This percentage from last year was particularly high due to timing factors related to CapEx and working capital. In the current price environment, we expect to see this conversion percentage at around 35% on average.

With respect to our liquidity position, as shown in Slide 11, we closed the year with \$107 million in cash and \$80 million undrawn under our \$200 million revolving credit facility for a total, as Jorge mentioned of a \$187 million of liquidity available to the company. In the second half of 2021, we spent close to \$40 million in Séguéla between construction and exploration. We expect to spend an additional \$110 million in construction activities during 2022. And finally, the company's net debt remains at very modest levels at \$59 million. Back to you, Jorge.

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Cesar, do you want to add?

**Cesar Velasco - Chief Operating Officer, Latin America, Fortuna Silver Mines Inc.**

Thank you, Jorge. In Latin America, from a consolidated production perspective, we saw a good performance in all 3 operations with Lindero delivering record gold production for the quarter. As we can see in Slide 14, and as I mentioned before, Lindero finished with record gold production in the upper range of the guidance for the year. All processing areas performed as planned during the fourth quarter with 1.4 million tons of crushed or placed on the leach pad via conveyor stacking, representing an increase of 17% over the third quarter. The SART plant is operating according to plan and copper is well under control. The ADR's plant expansion was successfully commissioned and is performing according to expectations.

As shown in slides 15 and 16, as far as our San Jose and Caylloma operations, both of them delivered results as planned and in accordance with guidance with a nice bonus of 6,000 ounces of gold from Caylloma for the year. Back to you, Jorge.

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Thank you. Paul, do you want to share with us Yaramoko performance and an update on Séguéla on construction?

**Paul Criddle - Chief Operating Officer, West Africa, Fortuna Silver Mines Inc.**

Thanks, Jorge. Yaramoko finished the fourth quarter and year behind our plans, principally due to a delay in drilling several high grade stopes in that period. This coupled with some localized dilution in the stoping, but we did mine, so the realized grade for the period approximately 18% below expectation. Mine production and mill throughput was on-track in terms of total tonnages moved, but as mentioned, offset by the grade scheduled. As a result, given the high fixed cost nature of the operation in Yaramoko, we did realize a higher all-in sustaining cost for the period that has turned for Q1.

Turning to Séguéla. The project, as mentioned by Jorge earlier, continued to advance smoothly. As of February 28th, we advanced the project to 42% of completion with key de-risking scopes of bulk earthworks near completion. But schedule on the budget for the project remain on-track at this time, very pleasingly so. And we look forward to ramping up key scopes in the ground in the coming months. Those being the mobilization of our EPC contract for Lycopodium, they're now on site and making good progress. We'll commence point concrete at the processing facility in the coming weeks and expect key structural steel and equipment deliveries in some cases ahead of plan. So we're very pleased how things are progressing.

As you can see in the photos provided in the presentation, some of the key scopes in terms of project risk in any gold project in this part of the world, things like tailings dam, water storage dam key ways are up and out of the ground, representing a significant milestone, the projects being de-risked and able to be delivered on time and on budget. Thank you, Jorge.

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Okay. Carlos?

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

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

**Operator**

Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Your first question for today is coming from Adrian Day. Please announce your affiliation then pose your question.

**Q:** Yes. Good afternoon. Adrian Day Asset Management. Could you – you mentioned the loss on derivatives, was this a realized loss? And then, can you tell us what the derivatives are on? Are they currencies or metals?

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Hi, Adrian. Yes. So out of the amount we reported for the quarter of a bit over \$4 million, around \$3 million is unrealized and the bulk of the loss is really on metal, basically zinc and a bit of lead. The zinc hedges are for Caylloma production and they go out up to half of 2022, and the ranges are in terms of the prices for the hedge are \$3,200 and \$3,100. There are also other items in there that offset those that would be detail hedges that were put in place back at the beginning of 2020 for all of 2021 and 2022 for our Lindero diesel consumption, which is a significant component of the cost structure, and those certainly are yielding positive results, right?

**Q:** Okay. Thank you so much.

**Operator**

Your next question is coming from Trevor Turnbull. Please announce your affiliation then pose your question.

**Q:** Yeah. Hi, it's Trevor Turnbull from Scotiabank. I think it's probably a question for Paul. I was curious at Yaramoko. You had talked about some delays at the end of last year, getting to some of the higher grade stopes that you wanted to. And it was mentioned, I think in the MD&A that access to those stopes would be coming here in Q1. I also saw that the kind of the head grade for this year, the guidance was around 6.5 grams or so. But knowing that you're going to be getting access in Q1 to some of those higher grade stopes, I just wondered how we should think about the grade profile. I feel like you ended the year still around the 7 gram mark. So, are we still looking for something say north of 7 grams in Q1 from the higher grade, and then tailing off rather significantly to get down to that 6.5 gram average?

**Paul Criddle - Chief Operating Officer, West Africa, Fortuna Silver Mines Inc.**

Thanks for the question. So it was a handful of stopes for a couple of thousand ounces, but that really caused that miss. Yeah, look, we really, expect to see a slight – seems to be the case of Yaramoko project Q1 and Q4, seem to track a little higher and it's different the year for some reason. So, yes, that trend appears to continue. I think what we've seen for the end of last year, start of this year and what we have noted in the plan for 2022 and the reserves of general, it is a flatter grade curve for the next that evolve in that 7-gram per ton range.

**Q:** Okay. And then I had a more general question just on construction at Séguéla. There was talk about kind of the critical path items, one of which was to continue to I think finalize a few contracts. You have a maximum price EPC contract already for the plant. And I know that you are still waiting to finalize the mining contract. Was there anything else in there, or is it really just the mining contract that's kind of the last big one to think about?

**Paul Criddle - Chief Operating Officer, West Africa, Fortuna Silver Mines Inc.**

Yeah. You are right, Trevor. The EPC agreement is advanced well, and the key item there within that is the SAG mill. And the several components all that package are in fact in front of the schedule. The mining contract is due to be executed on the project schedule, late Q1, early Q2 and we are on track for that. HP [ph] component which also I guess the production critical path is on-track if not a little bit in front. So, as we sit today, advance rate is good and we're on track if not a bit better.

**Q:** Great. Okay. Yeah, look forward to seeing continued good progress at Séguéla. But, that's all I had. Thank you.

**Paul Criddle - Chief Operating Officer, West Africa, Fortuna Silver Mines Inc.**

Thanks, Trevor.

**Operator**

Your next question for today is coming from Don DeMarco. Please announce your affiliation then pose your question.

**Q:** Thank you, operator. So, my name is Don DeMarco and I'm with National Bank Financial. Hi, Jorge and Paul. My first question is on Séguéla. And I was wondering if you could maybe just confirm what CapEx we should be modeling in 2023. The financials are clear in that, for 2022, the CapEx is on the order of about \$110 million. And I see that maybe \$34 million was spent last year. Adding those together takes us to over \$140 million, which implies that maybe there's about maybe \$30 million to be spent in 2023, \$15 million a quarter before the first pour about midyear and ramping up there after. So, is that right? Do we -- should we model the CapEx tailing off in 2023 as those numbers would suggest?

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Yes. Let me take that one here. Yeah, that is correct, Don. It should be tailing off just like you described.

**Q:** Okay. Thanks for that. And on inflation, is there any preliminary indications that CapEx might be facing some pressure, the 173 total CapEx estimate, or are you still comfortable with that at this point?

**Paul Criddle - Chief Operating Officer, West Africa, Fortuna Silver Mines Inc.**

For the time being, Don, we're comfortable. The nature of the agreements have made is all of the critical bits of equipment that are sort of subject to that inflation risk were placed very early on in the piece. And so, we really had that inflation – that risk turn off the table. I think if I'm to choose an area that is ongoing in terms of risk, it's probably freight and access to freight, price of the

freight and access to it. But again, we also – and paid a premium for it, secured a lot of that toward the end of last year, we committed the project.

So, at the moment, I'll give you an example, the 290 kV transformers for the HP project, which are made out of copper and things that are pressure at the moment are actually a couple of weeks ahead of schedule. So, at the moment, we're holding the line down, but I'm mindful of what's happening out there, but for the moment we we're going okay.

**Q:** Okay. Thanks, Paul.

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

I would like to add to that that bear in mind that before we announced the construction decision in late September of last year, we went through a revision with the team and trying to better ascertain the type of inflationary pressures that we could expect. And as a result of that exercise, the time increased the CapEx in the range of \$24 million with respect to what was in the published feasibility study of earlier in the year 2021, no, that study was published in early 2021. And before going public with the construction decision, again, we did our best effort to update those figures with inflation considerations that were reasonable at the time. And those are the \$24 million that we added to the CapEx.

And against that figure, like Paul described, to safeguard that figure, we have smart structure in the agreement, and the team has been trying to lock in early as a much as we can on the key items. And we are feeling so far good, and it's something we monitor closely.

**Q:** Okay. Thank you for that Jorge. And one additional question on Yaramoko. We see that with the resource update recently last week, the reserves, there was some depletion on the reserves. We see CapEx guidance for 2022 is above historical norms. What is the longer-term strategy for this asset? Can we hope for maybe reversion to lower AISC, lower cost in 2023 exploration success? Or Paul, what should we hope for on Yaramoko?

**Paul Criddle - Chief Operating Officer, West Africa, Fortuna Silver Mines Inc.**

Well, I think my hopes are similar as yours. I think that we are currently executing the deep drilling program, let's say testing some of the inverted at depth and in fact some of the open areas, which is substantial. As you can appreciate getting the ability to get platforms to access that drilling is just a simple progress issue. So, that drilling is underway. I'm sorry. It will be continued in the current quarter and next, wrapped up towards the end of the year. This deposit has continued to do over that, generally spacing if you drilling into, it has responded. So yeah, I hear you, this program is important for us to get a little bit more visibility on that that mine line and we'll see that in the coming quarter too.

**Q:** Okay. Thank you. Good luck with continued development at Séguéla and cost decreases at Lindero. That's all for me.

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Operator?

**Operator**

[Operator Instructions]

**Jorge Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.**

Operator, I just would like to share a comment here for the benefit of the audience. For the first hours of market trading this morning, Stock Watch posted an erroneous heading of our year-end results, saying that Fortuna lost \$59 million in 2021, when in reality, we earned \$51 million, no losses here. That was corrected at around mid-morning Eastern Time. So we are looking into this and to the idiot who do this, right? So, I just wanted to share that because I think that was unfortunate with Stock Watch mishap this morning.

**Operator**

[Operator Instructions]

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

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

**Operator**

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