

Transcript of
Fortuna Silver Mines, Inc.
Fortuna to Acquire Goldrock Mines Corp.
June 8, 2016

Participants

Carlos Baca – Manager of Investor Relations
Jorge Alberto Ganoza – President, Chief Executive Officer, and Director
Luis Dario Ganoza – Chief Financial Officer/Chief Compliance Officer
Paul Matysek – President and Chief Executive Officer, Goldrock

Presentation

Operator

Greetings, and welcome to the Fortuna to Acquire Goldrock Mines Corporation Conference Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. (Operator instructions.) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mister Carlos Baca, Manager of Investor Relations. Thank you, sir. You may begin.

Carlos Baca – Manager of Investor Relations

Thank you, Michelle. Good morning, ladies and gentlemen, thank you for joining our call this morning. In this call, we will discuss the joint announcement we made yesterday whereby Fortuna has agreed to acquire all of the issued and outstanding common shares of Goldrock Mines Corp. Please take note of the webcast presentation accompanying this call which is also posted in our website.

Jorge Alberta Ganoza, President and CEO, and Luis Dario Ganoza, CFO of Fortuna Silver Mines will be hosting the call from Lima, Peru and Paul Matysek, President and CEO of Goldrock Mines Corp. will be hosting the call from Vancouver. A Q&A session will follow after management's discussion of the transaction.

Before I turn over the call to Jorge, I would like to indicate that this conference 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 a conclusion or making a forecast or projection as predicted 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 predicted in the forward-looking information, is contained in the company's annual information form which is publicly available on SEDAR.

I would now like to turn the call over to Jorge Ganoza, President and CEO and Co-Founder of Fortuna.

Jorge Ganoza – President and Chief Executive Officer

Thank you, Carlos, and good morning to everyone, and thank you for joining us this morning. Yesterday, after market close, we announced we have entered into a definitive agreement to acquire Goldrock. Goldrock's principal asset is a 100% owned Lindero Project located in the Salta Province, Argentina. Lindero is an open pit, heap leach gold project with a completed 2016 feasibility study with granted environmental and other major permits necessary for development.

The arrangement has been unanimously approved by the Board of Directors of both companies and received support from major shareholders of Goldrock. I want to take the opportunity to commend the management of Goldrock for the good work that has advanced the project to the current feasibility development stage under very challenging market conditions.

I will now be discussing the details and rationale for the transaction. I should start by stating that over the years, that we at Fortuna have communicated to our investors and analysts that we seek to maintain a very disciplined approach to positions and when evaluating potential transactions, we are always cognizant of the quality of our San Jose mine and the merits any potential target needs to meet to enhance our company for portfolio assets.

In that sense, the basic rationale for the transaction is simple; the Lindero Project ticks all the boxes. It has the potential to be a high-margin, low-cost operation with all-in sustaining costs for in the life of mines below \$750 per ounce of gold. A robust internal rate of return, very straight-forward from a mining perspective, and a mining-friendly utilization in the case with the Salta Province along with a life of mine for retainers based on reserves and exploration for the potential at the property and district scale.

This acquisition will further consolidate Fortuna as a low cost precious metal producer with a strong growth profile. As transaction highlights, I will mention that once in operation Lindero will produce between 140,000 ounces and 100,000 ounces of gold per year. Along with their scheduled increasing production in San Jose, this will take Fortuna—Fortuna's precious metal production from 9.5 million ounces of silver equivalence in 2015 to 22.7 million ounces of silver equivalent in the first full-year of production at Lindero.

In the community study, all-in sustaining costs for Lindero's life of mine is \$715 per ounce which will contribute to our English re-leading [ph] consolidated all-in cost of \$11 per ounce of silver narrowed by product grades as per our 2016 guidance, and we anticipate a relatively short timeline to start the construction of between six to eight months.

This transaction propels us into in our path to becoming a leading precious metal producer. On a pro forma basis, once Lindero is in production, our revenue mix will be comprised of approximately 90% precious metal with an estimated 35% silver and 55% gold in terms of revenue contribution [audio disruption].

Upon closing, we will maintain a strong balance sheet with zero net-debt as this is a no-share transaction. We expect that the strong cash regeneration from San Jose and the strength of our balance sheet will allow us to self-fund the majority if not all of the construction capital.

Now, we'll provide a quick overview of the terms of the proposal. The offer consists of 0.1331 of Fortuna's share for each Goldrock share. As of the close of Monday, this equated to 1.08 Canadian dollars per Goldrock share valuing Goldrock at 129 million Canadian dollars. The offer represents a 58% premium to the close of trading on June 6th and an 84.6% premium based on the 20-day average as at the close of June 6th.

The pro forma ownership of the company will consist of approximately 89% core in Fortuna shareholders and approximately 10.8% core in Goldrock shareholders. The transaction will be carried out by way of court approved plan of arrangement and will require approval of at least two-thirds of the votes cast by the shareholders of

Goldrock at a special meeting. For these transactions, the issuances of shares of Fortuna does not require shareholder votes. Completion of the transaction is also subject to rudimentary approval and all other customer and conditions. The transaction includes customer ideal protection provisions including non-solicitation of alternative transactions, a right to match superior proposal, and a 7 million Canadian dollar break fee payable to Fortuna. We have been able to secure voting support agreement with approximately 26% of Goldrock shareholders and expect the closing for early August. Before I talk a bit more about the Lindero Project, I would like to summarize the benefits we believe this transaction brings to Goldrock and Fortuna shareholders.

For Goldrock shareholders, these transactions represent, first of all, a very competitive premium to its market price, the benefit of Fortuna's strong balance sheet and financial capacity to develop Lindero, access to a proven mine development and operations team, diversified geographic risk, along with exposure to Fortuna's top tier business, an increased rating liquidity and improved mine-to-market exposure. To Fortuna, this represents a significant source of further growth to the development of a high-quality asset which will have a capacity to perform through the faces of the metal strike cycle. This decision in itself, it's created for Fortuna on all relevant metrics, including NAV, free cash flow, and metal production.

I will now talk a bit more about the Lindero Project and its main features. Lindero is a [indiscernible] style gold deposit with minor corporate content. Geologically, Lindero is located in a very prolific belt that extends from the Maricunga Belt in Chile to the south. Based on the 2016 feasibility study, Lindero is projected to be 18,500 [indiscernible] big mine with the following parameters from the life of mine; head grade of 0.63 grams per ton, strip ratio of 1.2, and gold production of approximately 1.2 million ounces over the life of mine, the estimated capex is in the range of \$160 million.

It is worth noting that the deposit has the benefit of having a core hydrated area outcropping and the deposit does not require pre-strip and the mine accesses the higher grade portions of the deposits in the first years where we can expect the mine to be processing grades between 0.8 and 0.9 grams per ton gold in the initial years at a very low strip.

Our technical review has identified areas of further work that will allow to improve the risk profile of the project and capture research and opportunities, particularly on the process design in metallurgical recovery. One example is evaluating the convenience of the early addition of a third planned [indiscernible] which will open up opportunities to reduce volumes of solution, target higher metallurgical recoveries overall and shorten leach timing in the primary leach cycle. In general, we expect the net effect of these potential additional tactics likens to result positively in a reduction of internal rate of return on the project back to levels that we would still consider highly attractive.

With this, I will now open the call for questions.

Operator

Thank you. At this time, we'll be conducting a question and answer session. (Operator instructions.) One moment, please, as we poll for questions.

Our first question comes from the line of Craig Johnson with Bank of Nova Scotia. Please proceed with your question.

Q: Yes. Hi, guys. Thanks for taking my call and congrats on getting the deal across the line here. First question is just on the deal background. How much due diligence was done when the process was started, stuff like that?

Jorge Alberto Ganoza – President and Chief Executive Officer

Thank you. I'd have to say that we first became acquainted with the project back in 2010 when we did some initial work, more at the desktop level, and we were quite intrigued by the project way back then. This time around, we have been working on the project for the last two months and we had the opportunity to carry extensive technical diligence and internal modeling.

We had the opportunity to do heavy interaction with the management technical personnel for Goldrock and for the consultant. We been to the site with our technical team so I believe we have done a significant amount of technical work and internal modeling on the project.

Q: Okay. Thanks, Jorge. Just a couple more questions. Just with regards to entering into Argentina, I just kind of wanted to hear your thoughts on where you see the political there and where you see the country going now that Macri [ph] is in place and making some improvements?

Jorge Alberto Ganoza – President and Chief Executive Officer

Yes. First, I'll talk about the problems first. Salta ranked among one of the best mining jurisdictions, not only in Argentina but in the Americas. We used the Fraser Institute as a reference. In the 2014 survey, the Salta Province ranked right below Chile and way above Peru and Mexico in the investment attractive index. In 2015, the position of Salta in the ranking dropped but I believe that was more as a result of the implosion that we saw in Argentina overall in 2015.

Salta has a young and energetic governor, Juan Manuel Urtubey, who is in his second or third term. He'll be over Salta until 2019 and he is a big promoter of investment in their natural resource sector. The country has—they say the province has built the necessary infrastructure. For example, they've got [indiscernible] that the party will benefit from out in the middle of nowhere. In the [indiscernible] Salta, I think speaks clearly about the dangers of the province in the development of its natural resource sector.

With respect to the federal government, we've been monitoring Argentina for years keeping a close eye on the development. Our decision back in 2010 to not to pursue the opportunity, mainly recited because our view of Argentina at the time. Today, we are very pleased with the changes we've seen. We believe that Macri is an energetic leader with significant political capital and coming in early on he has implemented—he has used his political capital and implemented significant policy changes that have turned a business climate 180 degrees.

He removed currency controls, removed duties and experts, not only for mining but also for every cultural sector, and it removed red tape related to the import of goods into the country. All of those things immediately have a positive impact on the business environment in general and specifically for the mining sector. So we view all of that as positive, encouraging and again, we believe that Macri has the political capital. It's not going to be easy but he has the political capital to turn the country around.

Q: Great. Thanks, Jorge. That's very useful. One last question before I give it over to someone else. It's just on the metallurgy, I was just wondering if you could give more detail in terms of the level of network that's gone into it and your comfort around putting it in a SARC plant as you mentioned earlier, maybe upfront?

Jorge Alberto Ganoza – President and Chief Executive Officer

The Goldrock team has done extensive metallurgical testing. The amount of metallurgical testing is very large. They have looked at the project on several angles metallurgically, and I believe that there is evidence, clear evidence on the metallurgical testing that indicates that there are opportunities on the recovery site that can be captured by the inclusion of a SARC plant.

The core feasibility study recommends the ease/ implementation of a SARC plant down the life of the project, lists it as an opportunity, as a possibility. It's outlined in the feasibility study, but we believe that it can make sense.

The evidence suggests that under different development philosophy, it can make sense to bring it forward because you can do a more aggressive activation of the freshly crushed rocks and start a very aggressive leach cycle, improving recoveries in the primary leach cycle, improving recovery time, and improving overall recoveries.

But in order to do that aggressive leaching, you would need to remove the copper, no? And I believe that the feasibility study as it is makes sense under the philosophy that [indiscernible] apply and you can proceed to build like that and I think it is one of the benefits that Fortuna can bring to the table. We have the financial means to make a pause, analyze it a bit more and if this becomes an opportunity, try to capture through—bring in a bit more capital early on and that's what we see right now in the metallurgical site as one of the main examples.

Q: Okay. Yes. Thanks, Jorge, I appreciate that and I'll leave it there. Thanks and congrats again.

Operator

Our next question comes from the line of Mark Magarian with UBS. Please proceed with your question.

Q: Hi, guys. Congratulations on an astute deal. I have just a quick question regarding the capex for the project. Are you expecting that you fund the \$160 million plus over the next 18 months say from cash on hand and cash flows without accessing the equity market for anything like that? Is that the right way to think about it?

Jorge Alberto Ganoza – President and Chief Executive Officer

Luis, do you want to talk a little?

Luis Dario Ganoza – Chief Financial Officer

Yes. In principal, we [indiscernible] that based on the free cash flow, we expect to see coming from the [indiscernible] expansion [indiscernible] our—dipping the current balance sheet and additional debt capacity and use this capacity, we should be able to fund the majority, not all of the capex required to move the project forward.

Q: Okay, great. That's it. I think the previous gentleman covered some of the other stuff so great job, guys, and good luck.

Operator

(Operator instructions.) One moment, please, while we poll for more questions. Our next question comes from the line of Chris Thompson with Raymond James. Please proceed with your question.

Q: Hi. Good morning, guys. Congratulations. Two quick questions. The first one, I guess, speaks to the exploration upside around Lindero. I wondered whether you could just give us some of your thoughts, Jorge, on the opportunities you see, I guess, for maybe resource expansion and discovery?

Jorge Alberto Ganoza – President and Chief Executive Officer

Yes. Thank you, Chris. And thank you for the question because one of the things that we like about Lindero is we said not only on the intrinsic value of the asset to the company but also for the opportunity that it opens for us. We believe that the geology and the jurisdiction is a [indiscernible]. We want to grow our business. In the immediate area within the concession package, an immediate area of opportunity on the [indiscernible] site is a Alisaro. Alisaro has received limited work, [indiscernible] with a good criteria focused their work on Lindero but Alisaro is an exciting and legitimate target. It's at early stages of exploration, is right immediate to Lindero and once Lindero is up and running, it certainly lowers the threshold or lowers the bar for success at Alisaro in terms of what we would need to discover there, although we believe it is clearly a—concur with Goldrock, that it's an exciting [indiscernible] system, copper, gold, gold copper [indiscernible] system and on the district scale were very excited about the opportunities that Salta presents for the area and region.

There's not only an opportunity for more Lindero-type discoveries where we see all of these [indiscernible] systems well eroded but there are also exciting opportunities for high level epidermal style silver gold deposits in the younger volcanic areas that we see in the belt. There are examples identified and explored, epidermal systems and so we're excited about the opportunity to explore there. It's an area where you can cover ground rather quickly. It's an area where you can get exploration permits, a [indiscernible] and you can advance your exploration at the right pace so we like all of that.

Q: Great. Thanks, Jorge. And then just finally, just speak to your comfort as far as your technical—well, firstly your confidence as far as operating in Argentina as well as the company's technical abilities operating a heap leach deposit, please?

Jorge Alberto Ganoza – President and Chief Executive Officer

Yes. The market likes to box our companies and I understand that, as a silver mine or as an underground mine. Certainly Fortuna, we do not have today up and feed mines or two operating mines or mid-sized underground mine. But we have in the team, in the senior team a wealth of experience in up and fit mining and planning for up and fit mining, and I have on the heap leach side, we have identified and are working and been working throughout all of the evaluation with the right external consultant that we have brought in very close to us to work on this.

And we have sought not only expertise on gold heap leaching but also expertise on gold heap leach with copper content which is the case of Lindero, so I know that [indiscernible] has hands. I think we as a group, as a management group in our collective thinking can identify the issues and our goal, the necessary technical skill as required and Fortuna has the ability to attract that type of talent.

Q: Great, Jorge. Nicely answered. Thanks. Congratulations, guys.

Operator

Our next question comes from the line Raghu Raghuram who's a private investor. Please proceed with your question.

Q: Hi. Thank you. Good morning to all. Actually, I have a very simple question. The Goldrock—how much area is [indiscernible]? How many acres it has, that's the first question. And I've got a follow-up.

Jorge Alberto Ganoza – President and Chief Executive Officer

The concession package is about 14,000 acres.

Q: My next question is related to additional acquisitions. Because Fortuna is kind of a brand name for silver, we got kind of slightly deviated here, but it's a good acquisition I believe and many millions of dollars prudent and smart and doing right things. However, I am [indiscernible] let me know what else is on the table like on silver side? I'm hoping, actually praying for more acquisitions from you on silver side, please? Let us know if anything and that's all. Thank you and congratulations.

Jorge Alberto Ganoza – President and Chief Executive Officer

Oh, thank you for your comment there. We continue focused, pursuing silver opportunities but we also look at a good opportunity when it's a good business and this presents itself as a good business for both Goldrock shareholders and Fortuna shareholders. We believe there is a good opportunity here to create significant value for all shareholders and we continue pursuing opportunities on silver but we are also keeping a good focused eye on good business opportunities in the precious metal sector, basically.

Operator

Our next question comes from the line of Graeme Jennings with Cormark Securities. Please proceed with your question.

Q: Hi, guys. Congratulations on the deal. I know you've been kicking a lot of tires over the last several years. I was just wondering assume the deal closure is next month, I was just wondering if you have some, say very general timelines with this project you'd likely proceed? Would it be like a year of engineering and a year and a half construction? What have you? Or would you be looking to really fast track this? Just on a high level.

Jorge Alberto Ganoza – President and Chief Executive Officer

On a high level, I can say that the quality of the work done on the feasibility study is good and provides a very sound base to evaluate how we want to proceed. Certainly, the project under certain—because the element philosophy you can say it's construction ready but as I mentioned earlier, I believe it will be worth, take the time to conduct a bit more a work on the [indiscernible] and perhaps some further metallurgical testing to define the convenience of bringing the SARC plant and the benefits that could be captured related to that.

So they're at a high level right now, I can see a few months of work on that area. Again, I believe that projects—that there are some philosophies, that development philosophies can be viewed as construction ready and we concur with that. But I think from our view, we can provide—again, one of the benefits that Fortuna brings is that we can make a bust because we have the funding for that—the financial capability for that and I'll look at the project a bit more regarding more testing and see if those opportunities can be captured and that can take a few months.

So a few months of further optimization, if you will. We don't see any long delivery time items for construction so I believe our construction phase of 12, 14, 16 months for a project like that is reasonable. There is no pre-stripping the mine. As I mentioned earlier, you are considered a high grade source from the go with very low strip ratio so that's a big positive for the project and just building a [indiscernible] system in the past. So as a general timeline, I believe in saying it would be reasonable to see from management's perspective a production sometime in 2018.

Q: And there's no permit that expires between now and then or what have you?

Jorge Alberto Ganoza – President and Chief Executive Officer

No. The permits have been—the main permits have been renewed. I don't know if all of you want to add anything there but the main permits have been renewed.

Luis Dario Ganoza – Chief Financial Officer

Yes. I think another two years on the permits. It's done on an annual basis and we're up to speed on all the environmental aspects of the project.

Operator

There are no further questions. At this time, I would like to turn that call back over to you, Carlos Baca, for any closing comments. Okay, this concludes today's conference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.