

**Transcript of
Fortuna Silver Mines, Inc.
2014 Year-End Earnings Call
March 13, 2015**

Participants

Carlos Baca – Investor Relations Manager
Jorge Ganoza – President, CEO and Director
Luis Ganoza – Chief Financial Officer

Analysts

Benjamin Asuncion – Haywood Securities

Presentation

Operator

Greetings, and welcome to the Fortuna Silver Mines' 2014 Year-End Earnings 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.

It is now my pleasure to introduce your host, Carlos Baca, Investor Relations Manager.

Carlos Baca – Investor Relations Manager

Good morning, ladies and gentlemen. I would like to welcome you all to Fortuna Silver Mines and to our 2014 Year-End Financial and Operations Results Call. Jorge Alberto Ganoza, President and CEO; and Luis Dario Ganoza, CFO, will be hosting the call from Lima, Peru.

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 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 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, CEO and Co-Founder of Fortuna.

Jorge Ganoza – President, CEO and Director

Thank you, Carlos, and good morning to all. I'll be sharing with you the highlights of the year and with the assistance of Luis, we'll be providing this report. Fortuna had a remarkable year in 2014 underpinned by solid operating performance, good financial results, and the positive decision for a third expansion of our San Jose Mine with construction taking place in 2015 and through the first half of 2016. With this expansion, Fortuna will be

in a position to target a consolidated annual production of 8.5 million to 9 million ounces of silver, and 50,000 to 55,000 ounces of gold annually starting in mid-2016.

For 2014, the company produced 6.5 million ounces of silver and 35,000 ounces of gold, up 42% and 66% when compared to 2013. Measured against our guidance, silver and gold production were up 10% and 9% respectively. The driver for the year-over-year production growth was the expansion of our San Jose Mine commissioned at a rate of 1,800 tons per day in September 2013 and expanded yet again in April 2014 to a current rate of 2,100 tons per day.

For the year, precious metals accounted for 83% of sales; silver representing 64%, and gold 19%. The balance is made of by-product lead and zinc from the Caylloma Mine. Both our Caylloma and San Jose mines operated consistently with plan during the year. San Jose had an average rate of 2,000 tons per day, and Caylloma at 1,300 tons per day. At San Jose, we processed 677,000 tons at an average grade of 226 grams per ton silver, and 1.72 grams per ton gold, resulting in 4.4 million ounces of silver and 33,400 ounces of gold. Production is 11% and 10% above guidance for silver and gold respectively.

Guidance for 2015 is for 4.3 million ounces of silver, and 33,000 ounces of gold. At Caylloma, we processed 464,830 tons at an average grade of 174 grams per ton silver, 2.97% zinc and 1.7% lead resulting in 2.2 million ounces of silver, 27.3 million pounds of zinc and 16.1 million ounces of lead. Silver production at the Caylloma Mine was 8% above guidance, and for 2015 we're guiding 2.2 million ounces of silver.

Cost at our mines remain well under control in the year. Looking at costs per ton, at San Jose we achieved \$63, down from \$71 in 2013. At Caylloma, we achieved \$90.60, essentially in line with the previous year. For the year, our consolidated all-in sustaining cost net of by-products was \$14.50 per ounce of silver, and \$12.50 for the quarter. Cost was significantly below the previous year at \$20.45, and well below guidance at \$17. For 2015 we have provided guidance of \$16.60. This figure carries items related to sustaining capital projects we've decided to accelerate, and bring forward in the life of mine due to the San Jose expansion.

All-in sustaining cash cost for the year at the San Jose Mine was \$12, and \$9.40 for the quarter. This compares positively against \$15.89 and \$10.70 respectively from the previous year, and against \$14 in our guidance for the mine. 2015 guidance is for \$16, again impacted by sustaining capital items being accelerated due to the expansion of the mine.

The main driver for the cost reductions has been higher metal output against previous year, and also against budget due to higher grades. At Caylloma, all-in cost was \$14 for the year, and \$14 for the quarter, well below guidance of \$17 for the year, and \$20.80 from the previous year. The 2015 guidance at the Caylloma Mine is for \$12.78. For the past two years, we have been identifying opportunities, and taking actions to improve productivity, reduce cost and focus capital allocation to higher-return products only.

These measures included corporate staff reductions of 53% over the last two years, mine staff reductions of 10% over the last two years, exploration cuts, optimization of mine plants to a new price environment among others. The combined growth reductions amounted to an estimate of \$6 million over the past two years. In the fourth quarter, we have approximately \$1.1 million in restructuring costs related to the measures described.

For 2014, we executed capital projects of \$38.9 million, \$29 million at the San Jose Mine and \$10 million at Caylloma. This is in line with our guidance of \$40 million for the year. The largest single project was a tailings dam expansion at the San Jose mine budgeted and executed for \$11 million. For 2015, our capital budget has already been provided to the market as part of our guidance. The figure is \$70.6 million, the allocation is \$56.5 million to the San Jose Mine and \$14 million to the Caylloma Mine.

The \$56 million San Jose figure breaks into \$28 million for long-term tailings disposal project, which includes a tailings filter facility and dry stack deposit, \$12.5 million for the 3000 ton per day expansion. This expansion has a total budget of \$32 million, the balance of which will be executed in the first half of next year and \$15.5 million split between exploration, mine development and other sustaining capital items.

The expansion project is advancing according to plan. We are concluded with basic engineering and advancing with detailed engineering. All major equipment are defined, and in the bidding process, and we reiterate our target to commissioned expansion in June-July of 2016. At Caylloma, the \$14 million budget includes \$4 million allocated to plant optimization. Our plan and expectation is to improve silver recovery from the current 84%-85% to an improved 88% and gain additional 10% in throughput capacity by improving lead floatation circuit, and implementing high-frequency sieving, instead of hydrocyclones for separation.

Moving on to exploration. As part of the capital budget for 2014, the company executed \$6.8 million in Brownfield explorations in 2014 which covered 26,800 meters of core drilling at the San Jose Mine, and 2400 meters of drilling at Caylloma. For 2015, the \$70.6 million capital budget previously mentioned includes \$4.1 million for Brownfield explorations with \$3.5 million allocated to San Jose which, will cover our plan to drill approximately 12,000 meters in the year.

The success of our exploration programs is highlighted by the latest publication of Final Resources and Reserves. Contained silver ounces in proven and probable reserves increased 14% to 41 million ounces silver, and contained gold increased 7% to 252,000 ounces. Contained silver ounces in our Inferred Resources increased 31% to 77 million ounces, and contained gold increased 30% to 483,000.

With that, I'll conclude and I will ask Luis to give us a run through the financial results.

Luis Ganoza – Chief Financial Officer

Thank you, Jorge. For 2014, we recorded net income of \$15.6 million or \$0.12 per share compared to a net loss in 2013 of \$19.1 million, where the loss was related to an impairment charge at the Caylloma Mine. Adjusted net income was \$15.7 million in 2014 compared to \$9.6 million in 2013. The driver for the improved performance was a higher metal production accompanied of higher margins in spite of a lower price environment.

Realized silver price on our provisional sales was \$18.90 per ounce, 20% below 2013. Sales for the year were \$174 million, 27% above 2013 driven by higher silver sold of 45% and higher gold sold of 70%. The significant rise in metals sold is in turn the result of the expanded throughput at the San Jose Mine of 48% year-over-year. Mine operating income for the year was \$60.20 million, 44% above 2013 as a result of higher sales and improved margins.

Our gross margin increased from 30% in 2013 to 35% in 2014 as a result of higher head rates and lower unit costs at the San Jose Mine, which more than offset the negative impact from lower silver and gold prices. Selling, general and administrative expenses were \$25.2 million, that's \$5.5 million above 2013. The breakdown on this item is provided on page 15 of our MD&A, and most of the increase was explained by a higher stock-based compensation charge of \$3.7 million related in turn to mark-to-market effect from the performance of the share price throughout the year.

The total stock-based compensation charge was \$6.7 million in 2014 compared to \$3.2 million in 2013. Outside of the stock-based compensation, the SG&A expense was \$18.5 million, and moving forward we should expect an amount in the range of \$16 million to \$16.5 million on an annual basis. A restructuring charge of \$1.1 million was recorded in the fourth quarter of 2014 related to cost reduction initiatives undertaken in the latter part of the year.

Operating income was \$33.7 million, which represents 19% of sales, and our effective tax rate for the period was 53%. As far as our fourth quarter goes, net income was \$0.1 million and the fourth quarter results reflect the negative impact of a lower silver price as we realized \$16.30 per ounce compared to between \$19 and \$20 per ounce over the previous quarters. The fourth quarter was also impacted by the restructuring costs we've mentioned already and an abnormally high effective tax rate due to, among other things, the volatility that the foreign exchange brings into the deferred tax calculations.

Moving on to our cash flow statement, total cash from operations before working capital and after taxes paid was \$59.8 million. That's 46% above 2013. We need to point out that we incurred current income taxes in the year of \$13.5 million, but paid out only \$3.4 million as 2014 was the first year we incurred income tax at our Mexican operation, and no tax installments throughout the year were yet due. Finally, our total cash balance including short-term investments for year-end 2014 was \$77.3 million, an increase of \$28.2 million over year-end 2013.

Thank you, back to you, Carlos.

Carlos Baca – Investor Relations Manager

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

Operator

(Operator instructions.) Our first question comes from the line of Benjamin Asuncion with Haywood.

<Q>: I just have three quick questions here. Just touching, Luis, on the taxes, so the \$9.7 million, that will be paid I guess just from a timing perspective, that's Q1? Is that correct?

Luis Ganoza – Chief Financial Officer

Yes, yes.

<Q>: Would you be paying an additional sort of prepayment or installment for your 2015 year, or is that the only really big tax?

Luis Ganoza – Chief Financial Officer

That is correct. No, no. Starting 2015, we will see taxes paid throughout the year as part of regular tax installments or prepaid income tax, right, throughout 2015, yes.

<Q>: Just touching on the capital program at Caylloma. Jorge, you are mentioning I guess two things, the improvement in recoveries to about 88% on the silver side, and the optimization of throughput. Could you give us a sense of timing on how that would unfold throughout the year or when we should start to anticipate some of those results to filter through?

Jorge Ganoza – President, CEO and Director

We expect to conclude that project by year end. We already placed, it's a not a complicated or major infrastructure project. We are advancing, we're currently working on granting the detail engineering or EPC to a local firm, but we're already advanced placing orders for the high frequency sieves. We expect to be concluded with that project before the end of the year. So for 2016, we should start feeling the positive impact of improved recoveries, and 10% higher throughput, which are our targets.

<Q>: And then just lastly on San Jose. Can you walk us through in terms of the underground drilling where you're at now, and I guess timelines for results in addition to any update on the surface drilling with regards to land access to test for further extensions to the north?

Jorge Ganoza – President, CEO and Director

Yes, with respect to the drilling, we continue drilling, working with two rigs on Trinidad North from the underground drill stations developed last year. We're advancing well with the program. I want to provide a figure for the meterage. We're well advanced, roughly around 3000 meters of the 12,000 meter program up to now, and we expect to be publishing results in the coming weeks. So we are advancing with that.

We have identified an opportunity. We're part of a vein system called La Noria to the west of the Trinidad area where we're working. That's an area we're excited about as well, and we will be providing results as they come from the surface mapping and surface handling, and that's another area where we would expect to be drilling by mid-year. That's a new area. We have access and permits to carry the work there. So far, we're just working through environmental permits for the drilling. We have initiated a process and all of that good stuff.

With respect to the permits from Magdalena, we have not gained their permits yet and we're getting into election season in Mexico. So we would expect that to play a factor in further delays, from the perspective of gaining surface access in the town of Magdalena. With other communities, we're making advances, like I mentioned this plan that we've to initiate. I mean we're currently conducting surface mapping and surface sampling on the La Noria system, which is roughly two kilometers due west from where we're mining. It's a different community. We got the permits from them, but Magdalena, that will still have to wait. We're working, but as you can imagine it's a process.

<Q>: Just one last follow-up then. The underground drilling at San Jose, this is from the same drill station that we saw the last results, is that correct? Or is this sort of a further step out on the underground drift?

Jorge Ganoza – President, CEO and Director

We've four underground drill stations. We have the first set of two, from which we drilled most of last year, and towards the end of last year, we concluded two new drill stations from where we're drilling now. So probably some of the results we provided last time were coming from the new drill stations.

Operator

It appears we have no further questions at this time. I would now like to turn the floor back to management for further comments.

Carlos Baca – Investor Relations Manager

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 weekend.