

Transcript of
Fortuna Silver Mines Inc.
Third Quarter Financial and Operational Results Call
November 12, 2021

Participants

Carlos Baca - Director of Investor Relations, Fortuna Silver Mines Inc.
Jorge Ganoza - Chief Executive 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.
Luis Ganoza - Chief Financial Officer, Fortuna Silver Mines Inc.

Analysts

Dalton Baretto - Canaccord Genuity
Justin Stevens - PI Financial Corp.
Don DeMarco - National Bank Financial
Adrian Day - Adrian Day Asset Management
Jacques Wortman - Laurentian Bank Securities, Inc.
Trevor Turnbull - Scotiabank
George Froley - Pacific Income Advisers

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Fortuna Silver Mines Third Quarter Financial and Operational Results Call. At this time, all participants have been placed on a listen-only mode, and the floor will be opened for questions and comments after the presentation. [Operator Instructions]

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, Kate. 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 third 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; Cesar Velasco, Chief Operating Officer, Latin America; and Paul Criddle, Chief Operating Officer, West Africa.

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 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 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 Ganoza - Chief Executive Officer, Fortuna Silver Mines Inc.

Thank you, Carlos. In the quarter, we delivered record sales of \$163 million, adjusted net income of \$22.5 million, EBITDA of \$75 million, with a strong consolidated EBITDA margin of 46%. This solid financial performance is on the back of record gold production, driven by the Lindero mine, and this being the first quarter, where we incorporate results from our West Africa business.

As of the end of the quarter, we have liquidity available of \$136 million and run the business with a conservative debt-to-EBITDA ratio of 0.2. Also, during the quarter, we announced the start of construction of our Seguela mine in Côte d'Ivoire. We plan for Seguela to start production and continue driving growth for the company by mid-2023.

We concluded successfully our 100-day integration plan with Roxgold. Integration of our combined business has been a smooth process. And the main reason, of course, is the quality of people and shared values. We always said that, in combining our business, we were not only acquiring quality assets, but a team of seasoned professionals with whom we shared a similar view of how you create value in our business.

After the end of the quarter, on November 5, we renewed our credit facility and expanded it to \$200 million. Out of this amount, \$120 million is currently available, with the full amount to become available upon the San Jose permit issue being resolved.

In the quarter, we also managed to successfully settle for \$9.6 million the disputed royalty claim with the Geological Survey and Secretariat of Economy of Mexico on one of our main concessions at the San Jose mine. This has been a protracted complex negotiation, where we achieved an arrangement to the satisfaction of the company and the said authorities.

Now, what has tainted a good quarter is this new issue where the Mexican Ministry of Environment SEMARNAT has on November 10 denied our request for a 10-year extension of the environmental permit of our San Jose mine. This renewal process is something we started on May of this year. SEMARNAT is exciting 2 main reasons for the denial. One, not receiving requested information from us. And second, that we have an open evaluation for the regularization of 73 ancillary facilities not declared in the original 2009 Environmental Impact Statement.

With respect to the first point, we have already provided proof that dating back to 2019, we have been submitting and complied with the said information. And second, we are of the strong view that the regularization of ancillary infrastructure, which is a process that we initiated in 2019, and is currently in the hands of SEMARNAT and evaluate the mitigation of impacts for a greenhouse, a soccer field, a weather station, a core shack and drill core storage facilities, an office, a 40,000 liter fuel tank, a power transformer, and no other infrastructure of similar nature cannot provide grounds for a denial.

Additionally, our legal team is also of the strong view that the regularization of 73 works does not form part of the request for the extension. The deadline for SEMARNAT to provide a response to our 10-year extension application expired on Saturday, October 23. This was informed on a press release dated October 25.

Before the October 23 date and as a precautionary measure, the company, we initiated legal actions in Mexican courts and obtain preliminary protection to continue operations considering a potential delay in obtaining the extension for a questionable denial.

Our San Jose mine is currently operating under the protection of these court actions. And we seek to strengthen this protection from the courts with the recent notification received from SEMARNAT. Our legal team is evaluating and working on this. Our credit agreement on our senior bank facility requires that we obtain a permanent injunction or similar protection before November 20. We have engaged with our lenders to provide for the flexibility and time that the circumstance requires.

Additionally, we have not exhausted the avenue of dialogue with SEMARNAT and Mexican authorities. We have the right to and will file an appeal to this negative resolution, and have scheduled meetings with high ranking SEMARNAT officials trying to untangle this unfortunate situation.

SEMARNAT has also informed that they favor a consultation procedure on the environmental impact assessment under evaluation covering the 73 ancillary facilities. The company is not opposed to any consultation procedure that adheres to the mechanisms provided in the environmental impact assessments, which are very clear and supported by jurisprudence in Mexico.

Mexico is a country with a long and proud mining tradition. And we view this position for SEMARNAT as on precedent. We're pursuing all avenues available to solve this as soon as we can. Under ESG, our prioritized KPIs show improvement for greenhouse gas emissions, water and

energy efficiency over the last year comparable quarter. Our figures are benefiting from the inclusion of measurements from our Lindero mine starting this year.

We reported 2 lost time hand accidents of minor consequence in the quarter one of the San Jose mine and one of the Lindero mine. Our figures for women in the labor force were impacted by the migration from a contractor upgraded underground mine of San Jose to an owner operation, where we incorporated approximately 265 workers to our payroll.

At our Caylloma mine in Peru, we successfully closed a 6-year agreement with the community of Caylloma, which provides a solid framework for the relationship with all relevant stakeholders and their area of influence for the coming year.

With respect to production, compared to last year's quarter, our gold production has expanded by 400% to 65,500 ounces. Our largest contributor for gold was the Yaramoko Mine in Burkina Faso with 28,750 ounces, followed by Lindero with 26,000 ounces of gold. Of note, as our Caylloma mine, which since last year is contributing small but consistent gold that we estimate to be around 5,000 ounces a year that's more amount perhaps on the bigger picture, but a welcome and meaningful contribution to the economy of that mine.

Silver production from our San Jose and Caylloma mine stood at 1.7 million ounces in the quarter. The shortfall with respect to the comparable quarter is explained by lower silver production at San Jose impacted by downtimes of the mine transition from contractor to owner operations at the underground mine and the lower grades compared to Q3 of last year.

Precious metals accounted for 88% of our \$162 million in sales, silver accounted for 22% of sales. Our costs tracked in line with our guidance range for the year at all our operations. San Jose exceeded its cost inflation against a comparable quarter driven by lower silver and gold production stemming from lower grades and slightly higher OpEx of about 7%.

I will now have Cesar Velasco, our Chief Operating Officer for LatAm; and Paul Criddle, our Chief Operating Officer for West Africa, provide some highlights from their respective regions. So Cesar, you want to go ahead?

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

Thank you, Jorge. Yes, our 3 mines in Latin America are performing in line with management's expectations and are on track to meet annual guidance. COVID-19 related restrictions in the 3 countries, where we operate have been considerably eased and double dose vaccination rate at all operations, and now well above 80%.

The Lindero mine, it's operating within design parameters, and deliver a record gold production of 26,235 ounces in the third quarter. It is important to highlight the solid performance of the operation, good mechanical availability, and that increased gold production trends. As indicated, Lindero is on track to meet annual guidance and management looks forward to an even stronger performance in the fourth quarter.

Back to you, Jorge.

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

Thank you. Paul, you want to go ahead?

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

Thank you, Jorge. Operations in West Africa are progressing well against that plan. In both Burkina and Cote d'Ivoire, COVID impacted lives are mitigated now with little or no impacts on operations today. The 90% of employees are vaccinated in Yaramoko. Production at Yaramoko is in line with the plan for Q3 and similarly remains the case for the year.

I would like to highlight the excellent progress made by the team on the ground at Seguela project in Cote d'Ivoire. Within the third quarter, which was highlighted by the board's approval for construction decision for the project in late September. As per the project execution plans, both the schedule and the costs remain on track with approximately 13% of the project completed.

This has allowed us to advance in both the third and our fourth quarters, projects' critical path items, of executing and commencing the process plant EPC agreement with Lycopodium. And commence the plant-site bulk earthworks contract. We executed the HV substation supply contract.

We continued to expedite the critical path mechanical items such as SAG mills, crushers and transformers. In concert with the works ongoing in the field, the company's footprint and capacity is being grown with the establishment of the West African regional office in Abidjan, which will support the Seguela development effort now, and ultimately the operational needs of Seguela and Yaramoko.

In addition, dialogue is ongoing with the mines and budget ministries in Cote d'Ivoire, with sessions planned in the coming weeks to advance the conclusion of the project's mining convention. Thank you, Jorge.

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

Thank you, Paul, Cesar. So now, Carlos, I will turn it back to you.

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

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

Operator

Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Our first question today is coming from Dalton Baretto at Canaccord. Your line is live. You may begin.

Q: Yeah, thank you. Jorge, I'd like to start by saying, I'm truly sorry that you continue to face these challenges in Mexico. These things happen in certain parts of the world. And I've no doubt you'll get this resolved, but it's going to take some time. So that said, this temporary injunction that you face, when does it expire? And what do you need to do to make it more permanent?

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

Yes, we have different legal actions in place. And also, workers have initiated actions in local courts in Oaxaca. So right now, we are of the view that these legal actions, now that there is a negative resolution, can be moved to a permanent, a more permanent injunction, because part of the issue for the granting or the limitation for the granting of a permanent injunction was that we did not know what were the grounds for the delay in SEMARNAT's reply to us or what they were arguing, right.

So now that we have their arguments, as I explained them in the call, we are going back to the courts. And based on what's being presented, which doesn't make any sense to us and our legal counsel, we're seeking a more permanent injunction, right.

That's a process that can take several days, right. The preliminary measures that we have currently are preliminary in nature. And it would be adventurous to me to say exactly what type of coverage we get. But it's measured in weeks, probably.

Q: Okay. And then, as a follow-up and there are 2 parts to this question here. Should you not be able to turn this into a permanent injunction by November 20? What is the current penalty from your lenders? And then part B of that is, should you not be able to do it at all and you're forced to shut San Jose down, how flexible do you think your lenders are going to be?

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

Luis, you are speaking with the lenders, you want to comment?

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

Yeah, sure. Well, in principle, the straight answer is that non-compliance would, under our credit agreement, would trigger an event of default. It is our expectation, however, that we'll work with our lenders to provide ourselves whether flexibility is appropriate and warranted, given the evolving circumstances.

And we were still optimistic that our legal actions have a strong likelihood of progressing. And we believe that the lenders will be working with us to, again, provide the flexibility required, to avoid any unnecessary situation with respect to the status of our credit agreement and our covenant.

Q: Okay, thank you. I have more questions, but I'll jump back in queue. That's it for me now.

Operator

Thank you. Our next question today is coming from Justin Stevens at PI Financial. Your line is live. You may begin.

Q: Thanks. Yeah, just a couple from me here. It's good to see, obviously, conveyor stacking ramping up in Q3 at Lindero. I was wondering if you could give a bit of color on how leach times are reconciling with the model though.

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

Yes. Cesar, you want to provide an answer there?

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

Yes, Jorge. So the reconciliation is looking pretty good. It demonstrates good relationship with the reserve model. Actually, for the Q3, we had a less than 6% difference in the reconciliation and a sort of year-to-date it is even less than 3%. So it's looking pretty good and consistent.

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

Yes, you were asking not so much about the reserves, but the leaching kinetics. And we have loaded leach columns. And right now, what we're seeing in – we have unloaded the first columns that we loaded, and we have final tell assays for some of those columns. And what we're seeing is that with a coarser crush at around 13 millimeters, we're achieving the similar levels of gold extraction as we plan in the engineering phase and design phase with a 6 millimeter crush.

And perhaps the explanation there is that the lab work was done with a small HPGR crusher. And with the much larger HPGR that we have in place, probably we were achieving higher comminution of the rock. But so far, the metallurgical response is largely consistent with our expectations or better, right.

Q: Yeah, it's good to hear. I just got, yeah, the – well, following up on that, I guess, about how much of the material stack to then sort of year-to-date at the end of Q3 would you say you have actively under leach?

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

How much of the place material is under leach?

Q: Yeah, just a rough percentage in terms of how much is being actively leached?

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

Everything,

Q: Everything, okay. So just following – your leaching is following along pretty closely behind your stacking?

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

Yes, yes. We start irrigating, what, 20, we allow ourselves for safety. What 20, 40 meters from the retreat phase of the conveyor stacking and we start irrigating. We started irrigating a couple of months ago. We started with a program to irrigate slopes. We were not irrigating slopes. We initiated slope irrigation. But basically everything is under irrigation.

Q: Got it. And then, I guess, the last thing then is, obviously, things are trending better at Lindero. Do you have an idea of when you might expect to declare commercial production there?

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

We have the early adoption of, I forget, Luis, what the accounting term there. But the mine's been operating within – it consistently achieved design parameters in the third quarter. And it's operating within defined parameters. And everything has been flowing through down to cost since we started production in October of last year, a year ago.

So, we're not declaring commercial operations. You do that when you're capitalizing and then you achieve production or define parameters, and then you stop capitalizing and start sending things down through to cost, right. But we've been doing that since October of last year.

Q: Yeah. So just to clarify though, that doesn't have any effect with regards to the – you have to do in terms of the Argentinian peso and the export sale for [Yodory] [ph], right?

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

No, nothing to, nothing.

Q: Okay. Great. That's it for me. Thanks so much.

Operator

Thank you. Our next question today is coming from Don DeMarco at National Bank Financial. Your line is live. You may begin.

Q: Thank you, operator, and hello, Jorge and team. I suppose my first question for Jorge or perhaps Paul, Yaramoko was impacted by unplanned downtime on SAG maintenance, and resequencing of production stopes in the 55 Zone. What's the situation? What's the outlook for Q4? And can we expect a rebound, perhaps with some higher throughput in grades?

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

Paul, do you want to...?

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

Hey, Don. Yeah, nice, Jorge. Don, we suffered an outage on the SAG mill, due to an unplanned downtime event on the pinion bearing, which saw us have 4 days out. At the same time, or sorry, we did all this, we had a requirement to re-sequence the stoping. We do stoping in here, which is largely prescribed to Yaramoko, given the nature of the deposit, which saw some higher-grade stopes. Retake was then pushed out into Q4.

So, yes, we will see those recovered, if you like, in the fourth quarter. But we don't – we currently holding the consent for Q4 or indeed the guidance numbers, and came to recover those in this current quarter.

Q: Okay, thanks. Thanks for that, Paul. Shifting to Lindero, I see that in Q3 sustaining CapEx was about \$10.6 million. Do you expect to spend a similar amount in Q4 or should we model this to start eating?

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

Cesar?

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

Jorge, I had a problem with the audio. Can you please repeat the question?

Q: Yeah, sure, Cesar. I was just asking about the Lindero sustaining CapEx. Should we continue the run-rate of about \$11 million that we saw in Q3? Or should we model something lower than that?

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

No, it should be in line with that. So you should be modeling same as we had some delays in the ADR expansion plant and that are now scheduled to decommission in Q4. So you, you should be modeling the same number.

Q: Okay, great. Then finally, Jorge, on the situation at San Jose, now, what I hear from your comments, I understand there are 2 issues that SEMARNAT has put forward. They allege that they haven't received requests, and then they point to some ancillary infrastructure, 73 works. You're going through the proceedings, providing proof and whatnot, and defending your position.

Just building on a previous caller's question then, what should we look to next? And I understand that timing may be uncertain, may take days for the courts to review what you've submitted. Should we look for a press release in a week maybe? Or how will you keep the markets updated on this as new information becomes available?

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

Yes. And I want to go back to something I said. We have not shut down dialogue with SEMARNAT. We're still trying to solve this administratively, which is having SEMARNAT reassess their position based on the facts that we have presented proof that we are in compliance with the issues they raised in the denial or cited in the denial.

And there are meetings scheduled with high-ranking SEMARNAT officials and there is dialogue ongoing, right? So we have a degree of expectation that something positive can come out of that dialogue. We have to recognize that the Mexican government has made significant budget cuts across all government offices.

And SEMARNAT is sometimes shorthanded to deal with the complexities in their business. Unfortunately, that's a reality. So, because there are some things here that we just fail to understand how cannot – I mean, someone is not doing their work there. If they cannot identify themselves, that we have submitted on at least 3 occasions, dating back to 2019, the documents they are requesting from, right.

So dialogue continues. And through dialogue, perhaps, we can have a breakthrough with them sooner than later. But parallel to that, we have to continue advancing with our measures in court. This is something similar to what we did, when 2 years ago we had an issue with the royalty claim. As you guys might recall, the Mexican government issued a cancellation procedure on one of our main claims, citing a royalty dispute.

So eventually, we're able to solve this. It was in a protracted process, but there is an administrative path of dialogue with the government. And then, the legal path in the court. So we're pursuing both. And, I believe that, as I explained to the previous caller as well, some of these legal measures, which we are taking now that we have more information. So we're feeding the courts this

additional information that we believe strengthens our position in court, should lead to responses from the courts that can be measured in days. Right.

Q: Right. And so, yeah, you're pursuing this on 2 avenues. And the court avenue could lead to an outcome could be a permanent injunction, whereas the administrative avenue perhaps could lead to an extension of the permit, perhaps. But my last question then, just going to that permit, maybe the preferred outcome here is an extension of the permit.

How often is this permit renewed? Is it on an annual basis every couple of years? And SEMARNAT presumably would have granted it. When did SEMARNAT last renew it?

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

No, this is permit was granted for a 12-year period, back in 2009, when we were granted our original Environmental Impact Statement. So, you might not recall, but when we built the mine, the mine had reserves and resources for a 5-year life of mine. So we requested a 12-year environmental permit.

I am not sure right now, if that is the limit that can be requested. I would have to check with counsel. But we requested almost double the loan we had back in 2009. The years have passed, the exploration has been successful. And we get to now. And our application was for a 10-year renewal. But again, I would have to double check with you if that is the maximum you can apply for.

Q: Okay. Okay. Thanks, Jorge. Good luck pursuing both paths.

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

Thank you. Thank you.

Operator

Thank you. Our next question today is coming from Adrian Day at Adrian Day Asset Management. Your line is live. You may begin.

Q: Oh, yeah. Thank you. Thank you, Jorge. Sorry to go back to Mexico again. I had a few questions. And maybe I'll just ask them all in a row, if I may. First, just a quick one. On the royalty settlement, I just want to clarify, is that settling what they claim you owed in the past? Or is that actually finalizing it, so there is no future royalty?

And then, the rest of them, the rest of the questions are all to do with SEMARNAT. I'm just wondering if SEMARNAT had any contact with you prior to their decision, saying, we're still looking for this, we're still looking for that?

Secondly, has the local government got involved in this at all, that they have a sort of – do they have any sort of approach to keeping the mine going and to the workers. And then, lastly, I don't know a question you might not actually want to answer. But I've heard from several companies that they're getting decisions from SEMARNAT, but different companies' views simply don't make sense and are unprecedented.

And I'm wondering if there is something going on at SEMARNAT. Is there a motive that they have in trying to forestall mining in Mexico? Okay, those are my questions.

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

Thank you, Adrian. With respect to royalty question, by way of background, the Mexican Geological Survey claimed that we owed an amount of \$30 million plus for unpaid royalties on a concession. We disputed the legality of the claimed royalty and when we went to court, right. But just like now, and we went to court to have court decide if the royalty was legal or not.

And at the same time, we continued trying to broker dialogue with the Mexican Geological Survey and the Secretariat of Mines and the Secretariat of Economy. And eventually we did. So, what we have achieved is an arrangement by which we are paying \$9.6 million. And with that, we settle any past claim they have on owed amount.

Again, they were claiming that they owe the amounts were plus \$30 million, right. And we have agreed to a 3% royalty moving forward, right. So, with that, there is no royalty dispute, there is no claim. And we are actually removing from title the old royalty that was registered in historic title, which gave rise to their claim. And we are replacing that with the new agreement with the company for a 3% royalty moving forward.

So that closes the issue. And I have to say that through the process, we have gained a lot of goodwill with the Secretariat of Economy, the sub-secretariat of mines and the Mexican Geological Survey. A moving forward with your questions. Number two, the SEMARNAT process.

The answer is no. Through the process, on the extension of the permit that we initiated in May of this year, they had one request for information shortly after we initiated the process, where they requested 3, 4 items of additional information. And those were very immaterial. They were asking who was the contact person in the file and other 3 minor issues of that nature.

And since then, we never heard back. We requested meetings. We never got a reply. So they were quite non-responsive to our requests. And based on that fact, that they became non responsive to us, is that we decided to initiate legal actions ahead of the October 23 date, because we didn't know what was happening.

And so, in 2 occasions, we managed to speak with a low-level official. And, his reply to us would be that this is being managed at higher levels and that there are a lot of delayed files. And so based on that uncertainty that we placed ourselves on multiple scenarios, we decided to initiate preemptively some legal actions.

Number 3 is local involvement. I have to say that we have had a remarkable support from local authorities. And when I speak about local authorities first, the Governor of the State of Oaxaca, Alejandro Murat. I think we could not have asked for more support from the Governor of the State. He's been behind us, trying to help broker dialogue. And he's still playing a pivotal role in our effort to broker dialogue. And he's been quite supportive.

And more, in the town of San Jose, the Mayor of the town have also and his entire cabildo have also played or playing a key role in supporting. And they have sent letters to their representatives in Congress, they have gone to Mexico City and speak with representatives of Congress and Senate. And they're certainly very active in support of the company.

And the last is the attitude of SEMARNAT. It is no secret that President López Obrador is not fond of mining and particularly Canadian mining, right. I mean, that's no secret, right. And now, he has also said that whether operating mines will continue to operate and he'll be supportive of that. That's something that he's on record saying.

But at the same time, he has placed a moratorium on new mining claims in the country. Right. You cannot apply for new mining concessions in Mexico today. And, I think there is a compounded effect of the budget cuts in different government offices like SEMARNAT. The fact that everything has slowed down through the pandemic, and certainly, an issue with attitude towards mining that permeates, right. So I believe that that is compounded.

But I have to say that they are also quite sensitive to the risk of loss of jobs, right. I have to say that throughout Mexican government, they are also very sensitive to that. Right. Yeah.

Q: Right. Okay. Okay. Thank you. And I'm sorry, Jorge, just quickly. Are SEMARNAT decisions made at the local level, regional level, or are they made at the national level?

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

SEMARNAT is a federal office. So it's a national office and SEMARNAT has local offices, but they depend of central government. It is a national office with different subs in the different states, right. But it's not local. They're not governed locally. Everything is federal, right, centralized with central government.

Q: Okay, great. Thank you. Thank you. Thank you very much.

Operator

Thank you. Our next question today is coming from Michael Anthony, a private investor. Your line is live. You may begin.

Q: Yes, sir. I didn't catch it earlier. When did you say you're going to get the permit, you thought?

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

We have not provided a date for when we believe we can get the permit, because we just don't know that. What we have described is, all the actions that we have taken in hope that we can get a permit, and the measures, the legal measures we're taking to protect ourselves in case this is a protracted process. Right.

Q: Right. You have like 1,200 people working there at that mine.

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

We employ directly, direct employees around 1,200 people. But in addition to that, there is an entire world of service providers that go from a local mass hall for contractors, tire shops for the contractor trucks, and you name it. Our community support agreement at San Jose Progreso is of the amount of about \$1 million a year that invested in infrastructure, a sustainable development, education, health. We have only this year about 160 scholarships in the town. We support many initiatives on greenhouses for tomato growers, support irrigation programs. We do all of that to this structured committee agreement that every year is in the amount of roughly about \$1 million.

So, all of that investment plans to direct in the employment and indirect employment has a huge impact on an area that's not industrialized. I mean, as you know, mines are located in remote areas, and this mine is not particularly remote. But there are no other decent jobs, opportunities available in the valley where we are located. These towns are full of have large female populations, because most of the male migrate to the U.S. for work. And what you're left is with single mothers and broken families, because of the migration. So, I believe that SEMARNAT, they get more knowledgeable on this particular case, will also become sensible to this issue, right?

Q: Right. And, again, the Mexican government, they can't afford to hurt our people like this. So they've got like going to issue a permit later on in future that I gather, because it's just too many people out of work.

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

Yes. And...

Q: And royalty payment is veil to the government.

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

Yeah. And also very important to note is that we have never been signaled for environmental pollution or anything like that. I mean, the only thing they're citing is, wrongly, we believe paperwork.

Q: Yeah, I've been a shareholder for over 6 months or close to probably 9 months or so, because I know, you're very undervalued trading book value. And I know everything's going to get solved, because I know the type of person you all. And a matter of fact, I called you, I hope you been to investor relations, and for you to return on my call later on this afternoon, if you get a chance out of them all.

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

We will. Thank you very much.

Q: All right. Thank you and good luck. I know, you're going to get things taken care of, because I know you're good folks.

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

Thank you, sir.

Q: Thank you.

Operator

Thank you. Our next question is a follow-up from Dalton Baretto. Your line is live. You may begin.

Q: Yeah, thanks for taking my follow-up. Jorge, I've got a much simpler question for you, and maybe this one's for Paul, actually. You've just started building at Seguela. I'm hearing from a lot of your peers that are building projects now that is massive inflation in steels and consumables, and labor, all that good stuff. I've also heard recently that there's a lot of congestion in the Port of Abidjan. I'm just wondering, I mean, you just took your CapEx budget up by \$32 million. How much of that is already captured in the budget? What is the contingency and look like? And are you seeing any delays as you start to bring stuff in? Thank you.

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

Yeah, that's a very good question, and something we have addressed with the team. And I'll let Paul to provide all the details here.

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

Thanks, Dalton. You're right. Your contract, a lot of concern about what's happening as a way, I guess, the one of the key, I guess, features of how we're executing to Seguela, as well as closer to 60% odd of the \$173 million capital budget is a fixed cost. And obviously, is that comes at a premium to do that with various contractors. And so, the ability to approve the project in the third quarter and actually execute those agreements and allow those contractors to make those procurement decisions to meet those schedules, it was crucial.

And so, at the moment, all the schedules and costs that you see in front of you there, incorporate the current reality that we see in the world. So the current critical path for equivalent perspective sits around the mill, sits around the crushing circuit, sits around transforming, all those have been ordered and are being expedite as per the schedule.

So, as we sit today, I don't have any schedule concerns. But, yes, we've increased our allowances in the budget, in the schedules for the current levels of congestion in Abidjan. So, we're closely monitoring that, but we have contemplated the current delay in our thinking. We are moving equipment and people in and around West Africa, we continue to operate in the Yaramoko mines in Burkina Faso, and all the equipment that is required to operate that project does come through Abidjan. So, I think, I feel we have a reasonable handle on that. That's not decide, we're not focused on going forward.

Q: That's great. Thank you for that. That's all for me.

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

Thanks, Dalton.

Operator

Thank you. Our next question today is coming from Jacques Wortman at Laurentian Bank Securities. Your line is live. You may begin

Q: Yeah, thanks very much. Jorge, just still I'm clear, did you indicate earlier in the Q&A, that Lindero is now at design capacity? How would you characterize the current wrap-up stage, given the COVID-related issues with travel restrictions? I'm just trying to get a sense of where things sit, because I thought from an order to the stock to leach pad, you were still behind and there is still some things ironed out. Go ahead.

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

Yes. In the third quarter starting around neat third quarter, we have been achieving a rate of production within 80% plus of the same parameters, right? All of the equipment in isolation had been tested on performance criteria and everything has performed. But making the entire train and bear in mind that here we have, although, Lindero has always been viewed by us as a project with low technical challenge on the mine. We move 40,000 tonnes per day between ore and waste at a strip ratio of about 1 or under 1, with 5 trucks and 2 loaders; 40,000 tonnes per day with 5 trucks and 2 loaders.

And, the ore is as would metallurgists would call it is quite sweet. Our gold leach is quite easily and with good leaching kinetics. But the issue is that we have a primary crushing system, secondary crushing system, the tertiary crushing, agglomeration, conveyor stocking, of course, ADR and a third plant, right? And that's where the complexities and getting that entire train working at or above 80% of design capacity is what has been a protracted challenge through COVID for the last year, right? So, I think, we're comfortable now seeing the operation steady at a grade that at or above 80% of design.

Q: So, in July, when you gave your updated guidance, you'd indicated that you thought, you would be at design capacity, I would assume it's 100% of design capacity early in Q4. And that, I guess, hasn't been achieved, and that's because of these travel restrictions. When would you guess will be your best guess of when you'll be at design capacity but not simply 80% of? Do you think that's a quarter away, 2 quarters away? I don't know if you want to get that granular until you have the people on the ground that can help you achieve that with the entire train, but just your best estimate at this point, I guess.

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

We provided revised guidance, and that revised guidance continues to project production rates that increase slowly, but steady. I'll let Cesar to provide, for example, some of the details regarding some of the work that we're doing on Q4. We're still doing some minor adjustments to the system in Q4 and changes and, for example, that generates downtime, right? That's scheduled downtime, if you will, but it downtime nevertheless. But the system is operating steady that are very close to the same parameter. Cesar, you want to add something to that?

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

Yes, Jorge, you are correct. The entire process and we did have a very accurate remark there. This is a process, I mean, third process on one stage impacts the other. So it has to be all balanced and aligned. And we have been able to achieve over the past few months a steady growth in delivering a tonnage into the leach pad, by means of our conveyor stacking, close to the design capacity. So we are now focusing on government borrowing some activities, we're planning to give them done

by the third – in the second quarter of 2022, last of them. And then the key is delivering according to design at full capacity on a permanent basis and steady basis.

Q: Well, there was a little bit rough. Are you saying you believe you'll be at 100% design capacity by the end of Q2? Is that what I heard?

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

Well, we do enough the process. We expect to have the process is ready and available, 100% capacity, although, everything we operate at a lower capacity on a permanent basis. We should be able to debottleneck [the gold miner or royalty gold or later activity pipe] [ph] in Q2.

Q: Jorge, if you could just confirm as you heard better than I did. I'll let it go, but am I hearing Q2?

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

What he's saying is, we have some work to do, so remove some – more or less, for example, we are making changes to the liners in the agglomeration drums and whatnot that will require some downtime. And all of those works are going to be done by Q2 of next year. But if we talk about run rate, the system is operating steady within 80% of this time, right.

Q: Okay, thank you very much.

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

Thank you.

Operator

Thank you. Our next question today is coming from Trevor Turnbull at Scotiabank. Your line is live. You may begin.

Q: Hi, Jorge, and I apologize this might have got touched on before, but just a really simple question going back to the royalty. Was this royalty now going to cover the entire San Jose property? Or is it still limited to the Progreso concession which is kind of where this all started?

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

Progreso alone, Trevor.

Q: And again, I apologize missed the first part of the call. But if that's the case, Progreso only represents something on the order of 25% of the production? Or how much of it going forward, does Progreso and this new royalty really impact?

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

I don't have the breakdown of resources and reserves on the Progreso concession on my head right now. But it is a meaningful amount north of 25%, 30%, right. Bear in mind that all of those concessions belong to the Mexican Geological Survey and a lot of those where we've been producing since day 1, do carry royalty commitments, right? But this one and through this dispute is that we have paid \$9.6 million to settle any historic claim that and we have agreed voluntarily

to pay on an ongoing basis, a 3 % royalty. I would have to double check, and Carlos, can provide that to you and a follow-up on the exact amount of resources that are subject to that 3% moving forward. I don't have the number on my head right now.

Q: That's fine. Yes, Carlos, can send that through. That would be great. Thank you very much, Jorge.

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

Thank you.

Operator

Thank you. [Operator Instructions] Our next question today is coming from Eric McPherson, a private investor. Your line is live. You may begin.

Q: Hello, gentlemen. I thought the results were basically good. Obviously, the main concern is the San Jose property. A couple you touched on it earlier in the call, but I just wanted to get your feel again. Do you feel that the SEMARNAT actions are a personal matter for their wishes? Or is it just the infrastructure that seems like you're willing to do? I didn't know if there was any clarity on that. I had 3 questions. That's just one of them.

The second one was, is there any thoughts on obviously the market cap and the stock has been pummeled over today is 20%, which seems to be a large market cap with \$250 million of loss. But the San Jose only brings in at least from your numbers about \$172 million. So what's your thought on the overselling for lack of better term? And then with this type of price crash, is there a thought of any stock buyback program that could help support some of the momentum sorters that are kind of hurting this company, because this market cap does make a difference? Thank you.

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

Yes, thank you for the 3 questions. With the first one, I would not like to think that this is a directed action or attack on the company by any means. I wouldn't like to think anything like that. Now, we have to admit also that Southern Mexico is not an industrious part of Mexico, right? The more industrious part of Mexico are the northern states, for example, you have the congregation of mines in states like Durango, Pachuca, Zacatecas, Guanajuato, Sonora, right? So Southern Mexico is not as industrious. In Oaxaca, there are only 2 operating mines, and apart from the wind farms, there's only one cement plant and a Corona beer bottling factory. And outside of that there is nothing else, right? That's all the industry that you find in the State of Oaxaca.

So does that have something to do with us getting a bit more attention? I don't know. I can only speculate, right. But, we know that there are many companies, because we speak with them that have their environmental files stuck in that office, right. We know that. What surprising to us is, in our view, the little care taken in citing the arguments they put forward in order not to extend the permit, right?

With respect to the overselling, it's hard for us to comment on market activity, we can say that, this is an issue that we take with a high degree of seriousness and consideration. I myself been directly involved in supporting the team in Mexico along with Cesar, we're very involved, and this

is something we take very seriously. Today, the San Jose mine accounts for roughly 25% of our sales, a 25%, 28% of our consolidated sales, right? So it's an important asset, but it's one of the legs that support the chair, right? It's not the only one.

But, I can say that we are always hopeful that reason will prevail here. And we'll be able to sort this one out. As I said, during the call, we are, in dialogue, as we speak with the authorities and apart the court, the legal actions, right? With respect to the stock buyback considerations that go into a stock buyback are many, of course, valuation being central one, but also a use of funds, and capital short-term, medium-term capital commitment. And so, in assessing a share buyback program, we have to bring in all of those considerations. And, make a decision based on that is not only on, we're undervalued, let's buy stock.

Again, we have a large, well, not large, but \$170 million in capital commitment for Seguela. And that's something that's a key project for us. Seguela is a project, that once it's a mining operation, we'll be producing 130,000 ounces of gold annually at all in sustaining costs below \$1,000. The internal rate of return of that project at spot prices is in the high-30%, low-40%, no internal rate of return. So it's technically very simple. And we have the right team building it. So I think, that's a key project and a key place where we want to commit capital, right? So all of those things, we made a decision to do a stock buyback, right?

Q: Correct. I appreciate that one. I just, like I said, because the mine is still active, and it seems like the market is treating you like them. There's nothing no production at San Jose, and even still it's only 25%. So just like an opportunity with, I mean, if a \$350 million market cap loss just in a matter of 24 hours. So that was my concern, at least at that point, because no ball is there.

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

I think, at a personal level, it's certainly some I might be in the market certainly. The blackout is removed; I personally consider buying, yes. The company, I appreciate all the factors.

Q: Thank you very much.

Operator

Thank you. Our next question today is coming from George Froley at Pacific Income. Your line is live. You may begin.

Q: Hi, Jorge. Jorge, you're really dropping the ball on all of us. Number 1, you said about 18 months ago, we're doing 100,000 ounces at Lindero and were 49 ounces for 9 months. It's not worthy. Why are you sitting out there in Peru? When you're miles from all the action, you should be in Mexico dealing with the Mexicans or you should be out there in the Lindero getting the property to work. It's not working right. And things don't work like unless the owners there, especially in South America.

Number 2, you blew it with this merger you bought a Class C mining company with mines in Timbuktu, the world's worst places. They have one decent mine and the rest of them are junk. You gave away, our stock was \$8, today it's \$4. It's down freaking 50%. Jorge, you really need to tune

in your jockstrap and find another team to play for, because you have screwed this company horribly.

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

Thank you for your questions. And we're in a conference call, so the cursing. I will always address all my shareholders with a lot of respect. And I would expect the same type of respect back, right? With respect to your first question. Yes, I am based in Peru, but I live in an airport. So, I have spent the last month in Mexico, in support of the team. And today we have our Chief Operating Officer in Mexico for the last 3 weeks, Cesar, right?

And with respect to your views on our business in West Africa, the largest gold producer in the world is China; it produces 380 tons of gold annually. The second largest gold producer in the world, if we group the countries in West Africa is West Africa. It's ahead of the U.S., Russia, Australia, and Canada. So we believe it's a place where – if you're a mining company, you need to be there, right? If you are going to produce precious metals you need to be there, and it is revealed that medium long-term, this is an investment that will still pay off for the benefit of our shareholders very handsomely, right.

So that is what I can say to you, and as a CEO, leader of this company, and the one who created this company back 15, 16 years ago, from an idea to where it is today. I can tell you that I'm very committed to the success of this company long-term. I have skin in the game. And I'm putting all of my energy and effort into the success of this company. Now, mining is a challenging business, and you need stomach for that, right?

And Mexico is not for the faint of heart either, right? Well, Oaxaca is not for the faint of heart. And it's been a good mine for 10 years. And I expect it will continue to be a good mine for 10 years, and we're doing all of our efforts to ensure that. Okay, so thank you for your question. And if you want to continue speaking with me, I'm available anytime.

Operator

Thank you. Our next question today is coming from [Sean Bedford at Nomadic Publishing] [ph]. Your line is live. You may begin.

Q: Hi, thank you for taking my question. So on First Majestic Silver's quarter 3 reporting, one thing they mentioned was that, they were holding back silver inventory, due to suppressed silver prices in the third quarter. And here we have one of the biggest silver miners outwardly saying that the COMEX silver spot price is a fiction. It's suppressed by the banks and they're doing something about it by refusing to sell some of their silver. And I'm just wondering if you would be willing to do the same thing.

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

The short answer is no, not at this stage. I have to say something; I'm as bullish as anybody else on metal prices. But, I think, I do subscribe to some of these ideas with respect to price manipulation. But I've been in the business for about 30 years now, over 30 years, probably getting closer to 40. If I count the first time I went to a mine, but I haven't seen yet the action state can that you propose serving a purpose of breaking those cartels, right, and manipulating the price.

In short, we are at this stage not contemplating holding off silver sales? No, we're not. Something we can consider evaluating, absolutely, that's something we can revisit, but not at this stage.

Q: Okay, thank you.

Operator

Thank you. [Operator Instructions] Our next question today is coming from Rick Sherman, a private investor. Your line is live. You may begin.

Q: Yeah, good afternoon. I had a question again on the royalty stream that you mentioned was going to now be 3%. Is this royalty? Was there any previous royalty stream that you were paying to the government entity or this is completely brand new after the settlement you made? And do you have any quantifiable number as to what this will cost the company on a net basis?

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

Yes, we have a series of concessions in and around the San Jose mine. And, on a few of those, the one that called the bulk of our reserves and resources. We have royalties. But we did not have and we're not paying a royalty on the Progreso too, right? And starting this month of October, we are going to be paying the 3% royalty. And in order to settle any past claims the government had on the royalty which they quantified in the amount of \$30 million plus, we agreed to pay a \$9.6 million, right?

Q: I'm sorry to interrupt. Was that \$9.6 million based on what timeframe, was that a settlement that was based or even if you were using their \$30 million number was the royalty based on 10 years worth of payments or 5 years or what?

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

Yes. To derive the \$9.6 million figure, we resorted to the time when they registered their claim to the royalty on the Public Mining Registry. They only did that in 2017, right. So they claim there's been a royalty there forever. And their quantum of \$30 million plus came from them deriving a figure from 2011 onwards, which is when the mine started production. So, through the negotiation, we said, well, when did you register the claim the royalty in December 2017? Okay. Then let's use that as a basis for negotiation, right?

So, again, here, it was either get stuck in court for years with your host government or – I have to say again, that the Mexican government today is not so fond of Canadian mining, right. So we decided to settle this, right.

Q: Totally understand the settlement. I was just trying to figure out like, what either looking backwards or going forward, is it a \$2 million or \$3 million number that is a reduction of operating earnings net after having to pay the new royalty? I was just trying to come up with some general idea to figure out what just...

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

Yes. I don't know, I don't have the numbers fresh on my head right now. I don't know if Luis does. But if not, we can certainly follow up on a call and provide you more color.

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

Yeah, Jorge, let me help there. This is Luis. The over the life of – over the remaining life of mine, considering the tonnage that's coming out of that particular claim, the nominal amount of the 3% is approximately \$6 million. And that is pre-tax. So net of taxes, it ends up being somewhere in the range of \$4 million, in terms of the net impact to the bottom line, right? But the nominal value [of the loan] [ph] is around \$6 million.

Q: Is that 6 million over the remaining life of the mine or on an annual basis?

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

No, over the remaining life of the mine.

Q: Okay. And the current projected remaining life of the mine is 10 years?

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

No, it's over 4.5 years, a bit over 4.5 years.

Q: Okay, 4.5 years. So, just the back of the envelope, you would divide the 4.5 years into the \$6 million and that's basically costing you \$1.25 million a year or \$1.5 million somewhere in there?

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

Approximately, yes.

Q: Okay. Thank you very much for that color. Appreciate it.

Operator

Thank you. Our next question today is coming from Ron Zager, a private investor. Your line is live.

Q: Thank you, operator. Thank you so much for the answers today. I've got a question on the bank and the bank covenant. I'd like to know which banks are they with, how much money are we talking about? And is the problem with the bank more serious than a dawdling by the authorities? Thank you.

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

Luis, you want to help here?

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

Yes, so the new lenders are comprised of a syndicate that includes BNP, Bank of Nova Scotia, the Bank of Montreal and Société Générale. So upon closing of the new facility, the total amount of outstanding debt has been restricted to \$120 million. That's been the amount drawn on the new facility.

And as we disclosed in the news release, I mean, the outstanding prior assumed debt from the Roxgold transaction with Société Générale of \$28 million was paid out. So after the closing, the total senior secured debt outstanding is \$120 million. And as we've also disclosed, the additional \$80 million of the committed amount under the facility will become available once this issue is resolved.

In terms of the November 20 date, again, we touched on this earlier on the call, but that date really had to do originally with the expected time that the legal process to go from a provisional injunction to a definitive injunction takes. Now, things are evolving not necessarily in the same way that was planned for unexpected. So hence, our expectation that we'll work with the banks to gain additional flexibility around that date. That is all I have on that question.

Q: Okay. Thank you.

Operator

We have no further questions in queue at this time. I will now turn the floor back over to management for any closing remarks.

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

If there are no further questions, I would like to thank everyone for listening to today's earnings call. We wish you a great end of the year.

Operator

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