

***Transcript of
Fortuna Silver Mines, Inc.
Third Quarter 2015 Earnings Call
November 10, 2015***

Participants

Carlos Baca – Investor Relations Manager
Jorge Ganoza – President and Chief Executive Officer
Luis Ganoza – Chief Financial Officer

Analysts

Rahul Paul – Canaccord Genuity
Chris Thompson – Raymond James

Presentation

Operator

Greetings, and welcome to the Fortuna Silver Mines Third Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press * 0 on your telephone keypad. As a reminder, this conference is being recorded.

Now I'd like to turn this conference over to your host, Mr. Carlos Baca, Investor Relations Manager. Thank you. You may begin.

Carlos Baca – Investor Relations Manager

Thank you, Matt. Good morning, ladies and gentlemen. I would like to welcome you all to Fortuna Silver Mines and to our Third Quarter 2015 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 our conclusion, forecast or projection in the forward-looking information. Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information.

Additional information about the material factors that could cause actual results to differ materially from the conclusion, forecast or projection in the forward-looking information and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information is contained in 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 all. In Q3, the company produced 1.10 million ounces of silver and 10,900 ounces of gold, down 4% and up 12% respectively when compared to Q3 2014. For the nine months, we have produced 5 million ounces of silver and 29,700 ounces of gold. We are meeting our plan to reach our consolidated guidance of 6.5 million ounces of silver and 35,000 ounces of gold for 2015.

For Caylloma Mine, under the new adjusted plan and the response to the dropping in silver price, produced 392,000 ounces of silver, 6.3 million pounds of lead, and 10.1 million pounds of zinc in the quarter. For the nine months, we produced a total of 1.3 million ounces of silver which is 72% of our revised guidance. And then our zinc production is 15.4 and 26.2 million pounds, respectively or 79% and 82% of revised guidance. Mine production is now concentrated in the Animas Vein.

From a consolidated production perspective, the guidance shortfall in silver production from Caylloma is being covered by San Jose. In the quarter, San Jose produced 1.3 million ounces of silver and 10,690 ounces of gold; 10% and 14% respectively above production in Q3 2014, and 28% higher silver and 34% higher gold production against guidance. The San Jose mine is operating comfortably within its annual plan and has added flexibility as we advance with preparations to source 3,000 tons per day next year.

With respect to costs for the quarter at San Jose, we achieved a cost per ton of \$62, basically in line with Q3 2014. And at Caylloma, we achieved \$88, this is 3% down from \$91 in the comparative quarter. Both operations are performing in line with our cost per ton guidance for the year. Looking at all-in sustaining costs net of by-products for the quarter, we achieved \$13.80 for silver and up from \$11.85 in Q3 2014. Our guidance for 2015 is \$16.60. We expect to be within guidance or slightly below for the year due to the accrual [ph] of scheduled capital investments in the coming quarters related to the construction of tailings filters and dry stack facilities at San Jose which is scheduled to be commissioned in late November or December.

Looking forward, we continue to plan for consolidated all-in costs in the range of \$10 per ounce once the expansion of the San Jose Mine is commissioned mid next year. For the quarter, all-in sustaining cash costs net of by-products at San Jose came in at \$11.80 per ounce, up from \$9 in the comparative quarter, but below our guidance for the year of \$16.50 per ounce. The increase in all-in sustaining cost with respect to the previous quarter is explained in great measure by the capital projects related to the tailings, filters and dry stacking construction.

At Caylloma, all-in sustaining costs came in at \$15.30 per ounce, up from \$13 in the comparative quarter. The higher all-in sustaining costs is explained by lower silver production. The lower base metal prices netted against our higher lead and zinc production with zero effect, actually.

With respect to our capital projects, our capex guidance fee [ph] for 2015 is \$70.6 million; the allocation is \$56.5 million to the San Jose Mine and \$14 million to the Caylloma Mine. We have executed \$31.6 million as of the end of the quarter, \$26.1 million at San Jose and \$5.5 million at Caylloma.

Our key San Jose project is advancing according to schedule. The first of initially two tailings filters is installed and commissioning of equipment is taking place. For the plant expansion, we have an advance of 40% as of the end of the quarter with the aim of concluding again in mid-2016 for the expansion. The ball mill which is the main equipment for this expansion is scheduled to arrive onsite in January.

With respect to exploration, this last leg of the year is—main exploration work is started on the expansion of resources in the central portion of the Trinidad North. Trinidad Central, the Cuzcatlan at San Jose were currently preparing drill chambers and we expect to be drill testing the depth extent of the central portion of the main Trinidad deposit at the San Jose Mine which remains open a bit. We look forward to reports on that as drilling takes place and we get results.

So with that, I'll let Luis now take you through the financials.

Luis Ganoza – Chief Financial Officer

Thank you. For Q3 2015, we recorded sales of \$39 million; that's down 16% from Q3 of 2014, and a net income of \$2.6 million, down 66% from the \$7.8 million of Q3 2014. The main driver for lower income and sales were lower realized prices for all of our products. Silver fell 22% quarter-over-quarter to \$14.90 per ounce. Gold was down 11% and zinc and lead were down 20% and 21%. The negative price effect was partially compensated by higher gold sold of 12% and higher zinc and lead sold of 35% and 45% respectively. Silver sold was 5% below the comparative quarter at 1.7 million ounces.

Our mine operating earnings were \$10.4 million; 38% below Q3 of 2014, mainly as a result of the decreasing sales derived from lower metal prices. Gross margin came down from 36% to 27% reflecting the impact of lower metal prices and partially compensated by the strong operating performance at the San Jose Mine which saw higher head grades and metallurgic recoveries.

We recorded selling general and administrative expenses of \$2.3 million, a decrease of \$1.3 million compared to the prior year period. The decrease is explained mostly by a stock-based compensation credit of \$1.5 million in Q3 of 2015 compared to a credit of \$0.8 million in Q3 of 2014. This is related to the negative performance of the stock price in the period. Also contributing to lower SG&A was a reduction in corporate expenses of \$0.3 million.

We have recorded a foreign exchange loss of \$1.7 million. The bulk of it has been realized and related to net monetary asset positions in local currencies. Operating income was \$6.1 million; it was 54% below the comparative period. We have recorded \$3 million of income tax expense for the quarter of which \$2.4 million is current taxes. The effective tax rate for the quarter was 53% and 63% year-to-date. Finally, net income as I already mentioned—\$2.6 million or \$0.02 per share compared to \$0.06 per share in Q3 of 2014.

Moving down to the cash flow statement. Cash flow from operations before changes in working capital and after tax is paid for the quarter was \$7.7 million; down 57% from the prior year period. A significant portion of the decrease in cash flows when compared to 2014 is related to the fact that we were not yet paying tax installments at our Mexican operation that year. EBITDA for Q3 of this year was \$11.3 million; down 39% from the \$18.5 million a year ago.

Expenditures in mineral properties, plant and equipment was \$14.7 million for the quarter and \$31.5 million for the year. Considering the net movement year-to-date in deposits and long-term assets of \$7.5 million which is comprised of advances to contractors and equipment suppliers, the total funds allocated to capex were \$39 million.

As Jorge mentioned, our total capex budget for this year was \$70.6 million including brownfield, of which we now expect \$8 million to \$10 million to be carried into Q1 of 2016. This leaves between \$22 million and \$24 million for Q4 of this year.

Finally on the balance sheet, our total cash position including short-term investments as of the end of the quarter was \$109.9 million; that's an increase of \$32.6 million over year-end reflecting the drawdown of a \$40 million term loan with Scotia Bank.

Thank you, and back to you, Carlos.

Carlos Baca – Investor Relations Manager

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

Operator

At this time, we'll be conducting a question and answer session. If you would like to ask a question, please press * 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press * 2 to remove your question from the queue. For those using speaker equipment, it may be necessary to pickup your handset before press the star keys. One moment, please while we poll for questions.

Our first question comes from the line of Rahul Paul from Canaccord Genuity. Please proceed with your question.

<Q>: Hi, everyone. Congratulations on a strong Q3. Looks like short-term investments went down by \$26 million from the end of Q2 to the end of Q3, and even that was what you redeemed for cash, but your cash flow statement shows you generated \$34 million. I'm just wondering if you could explain that difference. Did you record a profit on the security?

Luis Ganoza – Chief Financial Officer

No. These are just a reflection of a movement between short-term investments and actual cash. Our short-term investments are comprised basically of bank term deposits between three months and twelve months. So there is really nothing to read into it. We carry a portion of our treasury in short-term deposits and all of that business I mentioned—basically bank term deposits, so nothing else is going on there.

<Q>: Okay. And then, no restrictions on how much you can redeem at any point in time?

Luis Ganoza – Chief Financial Officer

Yes. Yes. That's all readily available. No issues with respect to access to short-term investments.

<Q>: Okay. And just following on one question on the dry stack tailings. I think you did mention, you did indicate during the call that there is a chance that some of the committed funds may be pushed out into early 2016. I just wanted to clarify that there's no delays to the project as such? This is just a timing of payment?

Jorge Ganoza – President and Chief Executive Officer

Yes. That is correct. The tailings project—it's already 92% as of the end of October, it's 92% advanced. We are in the stage of commissioning the first filter. The second filter should be assembled onsite next week, and so we're going to be in full commissioning mode with both filters the second half of November. We expect to be operational in December.

<Q>: Okay. And then, this just last question for me on Caylloma. Some of the issues you had earlier this year looks like you changed your short-term mine plan around, but do you see any impact, like on the areas that you had the challenges, do you see any impact on loss of reserves going into early next year, or do you think the issues are just temporary, they can be resolved completely?

Jorge Ganoza – President and Chief Executive Officer

We do not see today an issue with loss of reserves. I believe all of us in the industry are struggling with the fact that reserves are by definition, based on assumptions of long-term prices and there is sometimes a big divergence with spot price, not at the time that we serve estimation. So then we revert to adjusting our short-term or one-year plan.

We have not encountered really major technical challenges. It's just a reaction to the short-term price environment because these are short-term measures we have concentrated in mines. The mine was operating

on three different areas. The deeper portion of Animas where the mine is integrated on levels 13, 12, 11, 10 and 9. The upper portion of Animas which is level 6, where the mine is not integrated; that means that equipment that we was operating on level 6 could not be used or cycled in other levels of the mine.

And then the Bateas Vein, which is six kilometers north of the Animas Vein which required its own different infrastructure, so we have concentrated the mine on the deeper levels of Animas. So that leaves us opportunity to achieve higher productivity on equipment, to make personal reductions, make more efficient use of our supervision and operators. And at current prices, the higher grade veins which we have traditionally been mining on the north portion of the deposit where the Bateas Vein is—mainly the Bateas Vein to date—although higher grading, it's also exposed to higher viability with respect to grade because of the nature of the mineralization there.

So with \$14, \$15 silver, when you are at 400, 350, 300 gram silver which under other price environments it's a perfectly profitable rock, at these prices it's not in those narrow veins. So we decided to just shut it down temporarily and just concentrate on the deeper levels of Animas which is higher productivity, wider, more mineral to high degrees of mechanization and what not. So we do not expect that this stage will have material impact on research—it's just where can we be more efficient right now.

<Q>: Okay. And thanks for that. I mean if I could just clarify a bit on that. I'm just wondering, so would it be—my interpretation is when you do your reserves at the end of the year, you're not at this stage making any drastic changes to your longer-term metal price assumptions, but you'll tweak the mine plan in the near-term in order to optimize cash flow. Is that a fair assessment?

Jorge Ganoza – President and Chief Executive Officer

Yes. Yes. That is a fair assessment. The reserves come from a life of mine planning exercises that we do annually. And then, looking at the sensitivity of our plans to different price scenarios, we adjust the annual plan or the six month plan or even the monthly plans.

Operator

As a reminder, if you would like to ask a question, it is * 1. And our next question comes from the line of Chris Thompson from Raymond James. Please proceed with your question.

<Q>: Good morning, guys. Congratulations on a very solid quarter. Three quick questions here. The first one and an apology as you probably mentioned it, but I'm just looking for the information again. The capex spend as far as the expansion projects at San Jose for, I guess Q4 through to the middle of next year. Could you just highlight that for me again?

Luis Ganoza – Chief Financial Officer

The expansion itself has a capital [audio disruption] of roughly \$30 million of which the bulk of it is being spent next year. We have \$12 million allocated this year and the balance of the 30 going into 2016. Now, probably of the \$12 million that we budgeted for 2015, probably half of that will be carried forward into next year.

<Q>: Alright. Thank you for that. Just moving on very quickly to Caylloma, I know we've spoken before, Jorge, just remind me again, are you planning or currently carrying out any plant optimization programs there?

Jorge Ganoza – President and Chief Executive Officer

Yes. There are three key projects at Caylloma. The first one is an energy project. The interconnection to the power grid. We currently are consuming roughly one mega from self-generated power. So we are going to start next year, first quarter of next year, start drawing power entirely from the national grid, so we expect to see a significant reduction in—a net impact of roughly \$1 million to \$1.5 million annually on savings, migrating from self-

generated power for that mega—to drawing the mega from the power line from the national grid. So that is one project.

And then in the plant, we have two projects. One is the installation of high-frequency screens instead of cyclones. We believe that by doing that we can make more efficient use of our ball mills and we can achieve a 10% increase in throughput capacity getting closer to 1,500 tons per day from the current 1,300. So that is one.

And the second is increasing or flotation—the retention time on our left fuel [ph] grid, basically by changing and expanding the flotation capacity there. So those are the three main infrastructure projects that we have at Caylloma and basically all of them are expected to—the three are expected to be commissioned the first quarter of next year.

<Q>: Alright. Thank you for that. That's good news. And that's all that would be covered in your current capital guidance. Right?

Jorge Ganoza – President and Chief Executive Officer

Yes. We didn't carry—the capex for Caylloma budgeted for 2015 was \$14 million of which roughly \$4.5 million were allocated to these projects. And we'll see some carry-forward of that into next year as well.

<Q>: Great. Thank you. And then the final question. I guess exploration use flow for San Jose—I mean, my understanding is that, obviously a lot of work is going to be done from the surface drill programs, sort of mine site stuff, but when can we begin to see some results for that, Jorge?

Jorge Ganoza – President and Chief Executive Officer

Yes. We have been advancing slowly. So with respect to the permits for La Noria drilling—La Noria is this parallel vein system two kilometers due west from the main vein system where we're working. We're currently waiting for permits from the SEMARNAP, the environmental agency. So we expect those permits in December. So we might be drilling the 30th of December there. Our exploration group would like to advance. We started thinking about budgeting that drilling for next year although we really were planning to drill this year because of delays in the process—but now where we are today, we might even see some drilling this year in the northern parts of La Noria.

Another area where we have initiated work is underground drilling in the center portion of the deposit. Most of our exploration drilling over the past two years has focused on Trinidad North. We have been enjoying tremendous success there as you all know and what we want to test right now is the central portion of the main deposit, at depth. We call it Trinidad Deep which remains open.

So we were always thinking that the best place to drill or the best timing and place to drill that deep portion of the deposit which remains open was when the main deep line reached certain elevations, basically the 1,100 elevation. So we are there now and we are preparing drill chambers. And we expect to be drilling also in the coming weeks due to the extension of that central portion. We're excited about it. We have not talked a lot about it because we have been distracted by the success of Trinidad North, but there is a very exciting target to be tested in the central portion of the deposit as well.

Operator

Our next question comes from the line of [Indiscernible], financial private investor. Please proceed with your question.

<Q>: Yes. Hi. Thank you. Congratulations again. Great quarter. I am more interested to learn exploration activity just as management alluded to on the same vein. I want to know additional information if any available on

Ocotlan, a new vein discovered recently. It looks like it's even more exciting than anything else we have been observing. So any comments appreciated. That's all. Thank you.

Jorge Ganoza – President and Chief Executive Officer

Yes. We record in the second half of the year through the drill testing on the Trinidad North system, we discovered a new structure, a blind structure called Ocotlan. We have intersected—the Ocotlan Vein runs parallel, not parallel, it's a secondary structure that runs oblique through the main north/south trench [ph] and behaves structurally very similar to the [Indiscernible] vein.

Where we have intersected it, it's some 200 to 300 meters away from the main north/south trench, so we believe we're far away still because we believe that these secondary tensional features, structural features run into the main north/south trench. They ground preparation that of course as a result of that structural steady is favorable for a wide source of mineralization, which in the case of all deposits, do correspond usually with higher grade source.

So we have several drill holes on Ocotlan right now. I don't have the exact number. I believe they are like 6%, or 7%, 8% [ph] some of the plant, all of them ranging in for the most part—around 100 ground silver over with a kind of range up to a few meters. We're excited about it, although because what it means as an exploration target, we want to drill test it further north where this Ocotlan Vein tends to coalesce with the main north/south trench. To do that, we need to extract the underground infrastructure. Our 2016 budget will carry roughly \$3 million in tunneling to give us access from the underground further north to continue stress testing not only now the Trinidad [indiscernible] system, but also the Trinidad Ocotlan system.

So we're excited about that. We will need time to get to that because we expect the underground works will take at least the first half of the year. So perhaps the second half of 2016 we can be drill testing this Ocotlan system. In the meantime at San Jose as I mentioned before, we're going to be drill testing La Noria, two kilometers due west from where we've been mining a new vein system as well, and the deep extent of the Trinidad Central, the deposit where we're going to start drilling anytime this week.

Operator

There are no further questions at this time. Mr. Baca, would you like to make any closing remarks?

Carlos Baca – Investor Relations Manager

No. We'd just like to thank you all for joining us today and I invite you to visit our website, the photo gallery and you can follow-up on the progress of our key capital projects. Have a good day.