

Transcript of
Fortuna Silver Mines Inc.
First Quarter 2021 Financial and Operational Results
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Participants

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Jorge Alberto Ganoza - President & Chief Executive Officer
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Trevor Turnbull - Scotiabank
Don DeMarco - National Bank Financial
Justin Stevens - PI Financial

Presentation

Operator

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

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

Carlos Baca - Investor Relations, Fortuna Silver Mines Inc.

Thank you, Keith. 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 first 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.

Today's webcast presentation will be available after this call, on the latest presentation box on our home page at www.fortunasilver.com. As a reminder, statements made during this call are subject to the reader advisories included in yesterday's news release and in the earnings call presentation. Financial figures containing the presentation and discussed in today's call are presented in US dollars unless otherwise.

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 Alberto Ganoza - President & Chief Executive Officer, Fortuna Silver Mines Inc.

Thank you, Carlos. We then move to slide six on the presentation highlights. In this first quarter of the year, we're executing the soundness of our strategy and strength of our business. We have been investing in growth since late 2016, taking a counter cyclical approach during a period where several of our peers restrained capital investment because of a depressed market for mining equities and low interest in precious metal. And now with renewed interest in the sector over the last 24 months, we're in a strong position to harvest as our results show.

We have reported record adjusted net income of \$27.5 million for \$0.14 per share, ahead of analyst consensus of \$0.10 per share, adjusted EBITDA 61 million with a peer leading dividend margin of 52%. We maintain a strong balance sheet with 145 million in liquidity and a low debt-to-EBITDA ratio of 0.1. Lindero, our third mine, reported its first full quarter of production, delivering 22,300 gold ounces. We have been cash flowing positive at Lindero since Q4 of 2020. And Q1 has also been a quarter of strong free cash flow generation even as we ramp up.

Except for a conveyor stacking system and SART plant, all our unit operations are performing within design parameters. The equipment is fit for purpose, we need our operations team to get their performance and efficiency up during operation and setup of the conveyor system. And I believe we're going to be achieving design parameters at the conveyor operations this quarter, second quarter. This has been a challenge, again, due to the limitations imposed by COVID, to get foreign experienced technical support in the country. Our team is doing a great job on site, in spite of these challenges.

On April 26, we announced the definitive agreement to acquire Roxgold. This combination will create a low-cost intermediate global precious metals producer with a significant silver credit. John and his team at Roxgold have successfully built a robust business platform in West Africa. And we believe that with a strong balance sheet and diversified sizeable production, we are better positioned to lower the risks of the business and to lock the value of the assets for the benefit of shareholders. Something I am particularly excited about is the opportunity to bring together two teams of high performance in their respective jurisdictions. Any investor seeking to invest in the intermediate precious metals producers space will have to give consideration to the pro forma company with gold equivalent production of 450,000 ounces of gold to half a million ounces of

gold and EBITDA margins in the 40% to 50% range with a robust pipeline of development and exploration projects.

Next slide, please. In slide seven, we share our 12-month rolling average performance for safety KPIs. We continue to show a trend of continual improvement for total recordable loss time and severity. Three years ago, we embarked on a process of cultural change with respect to health and safety. We still have plenty of areas for improvement in our effort to achieve an accident-free work environment but I am pleased, continue to be pleased, to see all key metrics trending in the right direction.

Slide eight please. We pre-released production for the quarter on April 12, our gold equivalent production in the quarter was 60,000 ounces. All metals were basically in line with Q1 of last year with the notable exception of gold with an increase of 240%, as a result of Lindero contribution.

Next slide please. In slide 10, as I stressed at the beginning of the call, financial performance has been record breaking for the company. Slide nine. In slide nine, our silver contribution to revenue in the period was 39% and precious metals accounted for 86% of revenue. We are able to capture not only the benefit of higher silver and gold prices, but this is amplified by our significant increase in annual gold production derived from Lindero.

Next slide please. The financial performance has been record breaking for the company in Q1 as I stressed of the beginning of the call. Sales jumped 148% to \$117 million, adjusted EBITDA jumped 280% to \$60.8 million and adjusted net income was a record \$27.5 million or \$0.14 per share.

Moving on to slide 11. With respect to all-in sustaining at San Jose at \$13.40, all-in sustaining was well within our guidance, our range guidance of \$12.20 to \$14.50. Getting more granular on the all-in sustaining cost analysis for this mine compared to Q1 of last year, on a pro forma basis, costs are basically aligned at \$70 per ton, CapEx is largely aligned as well, the driver for the 26% increase with respect to last year resides in the silver-to-gold ratios of 68 use now and 98 used back in Q1 of last year.

Our Caylloma Mine came in aligned with all-in sustaining guidance that is in the range of \$19 to \$23. And for Lindero, we expect all-in sustaining costs to trend lower throughout the year, as we complete the ramp up phase and achieve a more stable operation towards mid-year. For Q1, Lindero all-in sustaining cost came in at \$1,000 -- \$1,055 below mid-year guidance provided of \$1,130 to \$1,335. The lower costs compared to guidance have to do with the timing of sustaining capital investments. Slide 12 please. Our total capital budget guidance for 2021 is \$71 million. In Q1, we have executed 13 million. We expect capital investments to pick up throughout the year.

Next slide please, slide 13. Just a brief update on the ramp up activities at Lindero. As we note here in this slide, all systems are operating within the range of design parameters with the exception of the stacking system and SART plant. The HPGR-agglomeration-stacking system which works in sync, as of the end of the quarter was operating at around 41% of design capacity. Today, early days of May are closer to 50%, 60%, so we're trending in the right direction. Remember that ore stacking with trucks continues to supplement conveyor stacking deficit. And the third plant was

placed on standby to focus all of our resources on critical path for gold production. And in early May, the SART plant has been restarted. Something important to highlight with respect to the Lindero is that we continue to see our reserve model reconciling well according to expectations with 11 and 55 – sorry, 5% deviations in terms of ounces, tonnage, and grade when we conciliate model to production and same with our leaching kinetics. Gold leaching kinetics continued to perform according to our expectations and design parameters.

Next slide please. Our exploration budget for 2021 is \$20 million, comprising approximately 50,000 meters of drilling across our mines and projects. The largest allocation of capital is to our San Jose mine where we reported initial drilling success on March 29. We currently have nine drill rigs returning [ph], including drilling at the Santa Fe silver and gold prospect in the state of Sonora, Mexico.

With that, I can turn it to Luis so he can run you through the highlights of our financial.

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

Sure. Thank you, Jorge. On slide 16, as Jorge mentioned, we had record sales, earnings per share and EBITDA, overall very strong financial performance across all our financial metrics. The record in sales is not only driven by Lindero's first full quarter contribution but San Jose and Caylloma also had record sales in the back of strong operating performance and favorable metal prices.

Net cash provided by operating activities of \$21.1 million increased 470%, as we have restated the comparative period upon adoption of IAS 16 deals with proceeds before intended use. This is in relation to the commencement of sales at Lindero, the restatement is restricted to the cash flow statement and details are provided on note three of our financial statements. Without this effect, our net cash provided by operating activities would have increased 60%. As a reference and although not shown here, cash provided by operating activities before changes in working capital increased 270%, which is in line with a rate of increase shown for EBITDA on the slide. Free cash flow from ongoing operations of 17.4 million was impacted by tightening of trade receivables in the order of \$14 million.

The next slide, on slide 17. Sales increased by \$70.3 million over Q1 2020 or 128% as shown in the prior slide. Even excluding Lindero's contribution to sales in the quarter of 36.9 million, sales increased 70% driven by higher prices and higher metals sold at both San Jose and Caylloma. The largest single impact on our sales in the quarter, excluding Lindero was the price of silver with an impact of \$18 million as shown in this slide.

Next slide, slide 18. This slide highlights the strong financial and cost performance across all our operations for San Jose and Caylloma. We recorded material increases in EBITDA with both mines operating within our cash cost guidance. For convention, the higher all-in sustaining costs for San Jose of 26% compared to the prior year is mainly related to changes in the gold silver ratio and the impact this has on silver equivalent production. On the underlying cash cost per ton at San Jose, we do expect the trend towards the mid-70s level, still within our guided range for the year. At Lindero, we recorded cash cost per gold ounce of \$639, which is around 5% above our expected

cash costs for the quarter based on our annual guidance. As the mine continues to ramp up, we see our main KPIs tracking our budgeted figures. We have placed 76% higher ore on the leach pad and processed less ore through the full crushing circuit compared to our plan. As Jorge has explained, these changes are allowing us to accommodate the impact of COVID-19 restrictions on the ramp up, as we maintain our goal production target for the year. In terms of cost effects, these changes have mostly netted each other out in the quarter. And our all-in sustaining cost is below our guided range for the first half of the year, also mentioned before by Jorge, mainly due to slower pace of execution of investment projects. We expect the expansion of the leach pads and the ADR systems to pick up speed in the second quarter.

Next slide, slide 19. We see our total liquidity already increasing and our net debt coming down compared to Q4 of 2020, as Lindero started contributing to free cash flow generation since the beginning of the ramp up. We expect this trend to continue and intensify in the coming quarters. I'd like to provide a comment with respect to cash flow repatriation at Lindero. In 2021, our intercompany funding structure in Argentina allows us to repatriate around \$130 million to \$140 million without any adverse effects from foreign exchange controls and we have started repatriating funds since early in the year.

With that, I'll pass it back to you Carlos. Thank you.

Carlos Baca - Investor Relations, Fortuna Silver Mines Inc.

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

Operator

[Operator Instructions] Our first question today is coming from Cosmos Chiu at CIBC. Your line is live.

Q: Hi, thanks, Jorge, Luis and Carlos. I guess my questions are around Lindero here. As you talked about in your MD&A, you stacked about 56,000 ounces of gold and produced about 22,300 ounces. That works out to a ratio of about 39%. I know the tertiary crushing circuit isn't at full capacity yet and whatnot. But based on what you stacked in Q2, can you want to remind us what kind of "recovery level" are you expecting? And how long is the lead curve at this point in time?

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

Yes. We have -- Cosmos, we are stacking different types of materials. For the material that is stacked via the stacking system is -- that's a material that runs through the HP here, so a conveyor stacking, we're placing about -- right now about between 9 and 12 millimeter crush material that comes with gold extractions in the range of 70%, 74%. Then we have a coarse crush material, which is stacked via trucks. Expected recoveries for that 35 millimeter crusher is in the range of 50%, right. And we're talking about those expected extraction rates in a 90 days period, right.

So I don't have the balance on my head right now but it is the balance of those expected recoveries that gives the extraction -- the plant extraction and recovery considering inventory in the plant.

Q: For sure, thanks. That's really helpful. And that kind of leads into my second question here, Jorge, and I'm just trying to reconcile all these different numbers. So if I take your 2.13 million ounce -- or 2.13 million tons stacked in Q1 that works out to about 23,000, 24,000 tons per day. As you talked about the secondary -- primary, secondary capacity is right now, I might be quoting the numbers not perfectly here, but I think it's about 16,000 tons per day.

And then your tertiary crusher, which is your HPGR agglomerated stacking system is about 7000 tons per day. So could you like help me reconcile those numbers? Are you putting any kind of run a mine material onto the leach pad right now and as you ramp up the tertiary crushing circuit throughout 2021, how much of the materials stacked in the second half, are you expecting to come from the different parts, either it be the HPGR versus secondary versus if there's run of mine?

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

Let's -- drop stacking is a short-term solution to meeting extract ounces on the leach pad, right. So what we plan for is how many extractor ounces we need to place on the leach pad to meet or annual guidance. That's how this is working, right. So we balance those figure out -- those figures and that's what you're trying to better understand. So, our primary and secondary crushing system is currently operating exceeding design capacities, the design capacity of primary, secondary crushing is 18,750 tons per day; as you noted, we're achieving 20,000 tons a day. So, part of that material, about 9000 tons per day are running through the HPGR agglomeration and conveyor stacking and the balance is placed from the heap -- sorry, from the secondary stockpile, directly trucked to the leach pad and on top of that, we can place materials from stockpiles as well, right.

So, we were getting -- one, I get very granular on these and we can have a session on this, is we can have different times, even three different sources of materials being placed on the leach pad to meet extractable ounces, right. So we'll be happy to have a session review and give you the breakdown but we are placing more ounces on the leach pad than the original design calls for because the coarse material comes at a lower extraction on a 90-day period, right. That's why we're placing more ounces with the trucks and those ounces come from the secondary crushing, and in some instances from the coarse ore's stockpile and that is what we used to meet the 140,000 to 160,000 ounce guidance for 2021, right.

Q: Yeah, that's perfect. And that's for sure the current situation right now. But would you expect the majority of your stacking to be from the tertiary crushing circuit towards the end of 2021, if that's possible?

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

We expect to be a placing 100% of the material through the stacking during the second quarter. We're not there yet but we're seeing good increase. We already achieved base of \$17,000 tons stacked via conveyor stacking. Now, the issue is for us right now is being able to achieve efficiency in the actual operation, a movement of the conveyor stacking. I want to stress the fact that ramping up -- commissioning and ramping up in the COVID pandemic, during the COVID pandemic, has been a tremendous challenge for the team because we have been working without the benefit of

foreign vendor technicians and trained personnel with the use of certain equipment like the conveyor stacking.

We have -- we are in a way learning as we go because we're using a lot of Zoom hours and this remote virtual reality goggles and tools, technological tools like that. We do not have the benefit of having the seasoned operators that you could bring from other sites that we don't find in Argentina, right. They will have to come from abroad to help our operators and so we're going at it alone and I believe that's why they delay, right. I mean, we have no mechanical issues at this time of any significance, nor automation.

We did battle at the beginning, some couple months ago, with some issues regarding setting the system on the automation, and some mechanical issues, nothing big but issues that need to be overcome. Those have been addressed. It's now really getting the team experienced enough, moving the system of conveyor stacking has to be like a pit stop in a car race, right, and we're not where we need to be yet but we're getting there.

Q: Of course. Thanks. And then maybe one last question on the financial statements here. On the MD&A, you mentioned that the 120 million credit facility is fully drawn right now, expires on January 26, 2022. However, you're trying to get it renewed crusher in Q2 2021. Maybe more a question for Luis, but can you remind us what interest rate are you paying right now on that credit facility?

Can you give us some kind of outlook in terms of how the credit market looks at this point in time? And would you be expecting more favorable terms on this renewal? And then on top of that with the pending merger with Roxgold, has that changed your potential repayment of this credit facility vis-à-vis how you're potentially financing, say, the construction of Seguela?

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

Yes. So, I mean, first of all, the cost of the facility fully drawn is 3.5% on top of the reference rate. We do expect to be able to maintain similar terms. And in fixed -- in the context of the transaction, the pro forma company, I mean, our view is, that's really the reason to push back somewhat the renewal so as to gain more visibility on what makes the most sense. So, it is in that context that we expect to conclude the renewal in Q2 with an expanded facility that reflects the additional grade capacity of the pro forma entity. And based on the terms that we see and that we believe we're able to achieve, I mean, we -- considering the capacity of that pro forma entity, I think we would be right to reconsider any plans to retire early, right. It does make sense to think of that in the medium term as more of a structural nature in terms of how we manage the balance sheet, right. That's our view today.

Q: Great, thanks. Thanks again, Jorge and Luis. And those are the questions I have.

Operator

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

Q: Thank you. Jorge, I just wanted to get a little more color on Lindero and the tertiary crushing and circuit-related to that. I think when you put out your original Q1 production figures back in April, you had mentioned that you'd had some very strong weeks in terms of the availability of that tertiary crushing system and I think you referenced it on this call as, I want to say, 50% to 60% of capacity. And I just wondered what it kind of needs to do to get back to those levels that you were experiencing at the early part of April, where I think you were up closer to 87% on that system?

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

In the third -- is it the HPGR agglomeration and stacking working in sync, so the bottleneck in the system has been mainly faced at the stacking system. As I explained before, we have issues relating automation and getting all the train of conveyors speaking to each other and that was overcome and today we are achieving steady rates in the entire system of around 9,000 to 11,000 tons per day stacked and we had, as I mentioned, peak days of 17,000 tons, 14,000 tons stacked. All the mechanical and automation issues that we battled with at the beginning of the process in early -- in the start of the year have been overcome and they were never significant, in the sense that, I believe that a lot of these issues could have been resolved in a matter of hours or even days having the right vendor representatives from superior on site, but we don't have that luxury because of the COVID pandemic right.

So, sometimes those problems instead of being resolved in hours or days end up taking days or weeks, right. But I mean all of those are behind and we just need the team to get more seasoned and experienced and be able to sustain the throughputs, right. Get more effective with the movement of the conveyors, with the setup, the planning for the setup, right. I think the team has been more immersed in solving the automation and mechanical issues I explained before for this past month rather than getting more seasoned and planning ahead for the movement of equipment and sequencing of the movements of the conveyor stacking system. So, again, I don't think we're talking about rocket science here, it is just getting the team know more and more. Now that all of these mechanical automation issues are behind, getting the team to get the performance in the equipment, the equipment is fit for purpose, it's just operational expertise right now right.

And HPGR is performing according to whether we ask from it and the agglomeration also, I mean, we had some minor mechanical and setup issues but really the equipment is fit for purpose and the biggest -- the bottleneck is the stacking, right.

Q: Okay. Yep. And then maybe I just wanted to change gears and follow up on something that Luis mentioned about getting money repatriated from Lindero. Perhaps I misunderstood a bit. I did think that when you had export sales that you tended to have to go through the conversion to the peso and then if you wanted to distribute that money out of the country, obviously, you would want to reconvert it back into another currency, but it sounds like you don't have to go through that process. And I was just curious why it is or how you've structured it such that, that those kind of mandatory conversions of exchange rates don't apply?

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

Yes, Trevor. So it has to do -- generally speaking, it is accurate, your description is accurate, but it is puzzled within the existing structures or restrictions in effect --

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

Regulatory framework in place.

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

Yes. To set up inter-company bid by way of pre-export finance, which, for all practical purposes, allows to use the proceeds of sales to pay directly to the parent company. So that means that those proceeds are not coming back into pesos into Argentina. There is a limited pool for this, which is in the range that we've been mentioning, right. Once that pool is exhausted, we will shift to the Jorge [ph] describing, right.

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

Where the current restrictions are being analyzed and looked by the government almost on a monthly basis, right, monthly or monthly basis, yeah.

Q: And maybe it is a moving target, which is what it sounds like. But if you were operating under those constraints, can you give us a sense of what kind of percent you would lose through all that conversion process? Is this something that kind of erodes the amounts by a 1% or 5% or 10%. Can you give us a sense of, if going through that exercise, what you might expect the cost to be?

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

Yes. So I mean, any -- all exporters in Argentina are finding themselves in that situation; have two options, of course. One is to sit on the pesos and seek to protect those. There is a certain amount of liquidity in the forward -- in the foreign exchange forward markets locally that typically, I would expect, goes out six to eight months, right. So that sort of gives you a framework for the type of protection you can achieve. And the alternative is to tap into the parallel FX market, right. The gap will vary widely.

I think these days, it's much higher than what you would typically expect to see, right. It has been, I mean, trending downwards. And we would expect that in the next few months that gap, that's closed significantly with respect to what it is today, I'm sorry, right. I mean, that's sort of a broad answer. It is 2020 [ph], we'll have to sit and look forward to 2022 and try to see what's going to happen with the FX of that moment, right and that's a difficult one.

Q: Okay. No, I appreciate the color. Thank you, both.

Operator

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

Q: Thank you all. Great. And hi, Jorge and team. Just a couple questions on San Jose, shifting to San Jose now. Can you elaborate on your exploration program at San Jose? I see that the exploration results that were announced in late March look good, you had a few intercepts of over a kilogram per ton. That's encouraging. But yeah, I see reserves are -- the updated reserves around 23 million ounces, 2021 guidance is about 6 million ounces silver per year. So just curious, how many rigs do you have running? What's changed in your program versus last year? And where are you most optimistic?

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

Yes. I will start with your last one. What has changed with respect to last year? First, drilling meterage right. Today, our drilling meterage for San Jose, it's in excess of 30,000 meters. Last year, our drilling at San Jose was around 7000 meters, right. So we're drilling significantly more. We currently have five drill rigs returning. So, three are currently working underground and two on surface. So we have different type targets. One is we have multiple targets underground, in and around the immediate vicinity of the resource shale, the resource block model. So the results that we reported in March come from one of those initiatives for drilling near mine, underground targets.

So my expectation with respect to those targets and we have several of those in the range of five or six around the resource shale is that we will have opportunities, several opportunities, I would expect, like the ones we outlined in March, which is not incremental, right -- are incremental to reserve life and resource extensions, probably on their own not very material in terms of tonnage. But on the aggregate, they all will contribute to replace what we deplete, right. And I think we have several of those ongoing and as you've noted what I want to also do to come across is at San Jose is not just a simple vein, it's an intricate system of anastomosing structures, where we have identified three or four main structures and within those structures, we have stock work development.

So within this area, we have a lot of room to create opportunities for potential expansions, right, because the structural model, once you get to the detail of it is intricate, right. And this one was right in front of us, what we reported in March in the Animas, close to surface. It is close to surface, it has been in front of us for years and it's only now that we decided to pursue the area, exploration in the area, look at the 3D models in more detail and ensuring that we're coming up with some spectacular grades and hopefully some tonnage that's meaningful in the context of dealing with annual depletion, right. So we have multiple of those.

Then second, we have a parallel vein system 400 meters due east from where we're mining, it is called the Victoria system. We have currently resources in the Victoria vein and we have discovered a new parallel structure. While drilling Victoria vein, we came across this second structure that is not named yet, the hanging wall of Victoria and we're currently drilling Victoria and the parallel structure for extensions of Victoria and trying to see and explore further the parallel structure and hanging wall of Victoria.

Apart from that we have multiple veins on surface where we have currently one drill rig, pursuing those opportunities that can be located four or five kilometers away from our current infrastructure, so well within trucking distance, we currently have one drilled rig churning in an area called [indiscernible] where we have rain structures on surface, diversification, we have discovered something that we have not seen before. It's a after the dome at depth [ph], we're in our volcanic pile. We have never seen a more suitable volcanic type features like a dome. And that was geologically quite intriguing to the team from the perspective of where to focus more exploration ideas, so we have multiple of those.

We have also optioned the Higo Blanco property, which is within the general area of San Jose, within walking distance of San Jose. Higo Blanco, it's an option for mineral. Previous explorers drilled at Higo Blanco in previous years with some exceptional results of high grade mineralization for silver over broad width, and we have optioned the property and we're currently working on developing drill targets. So there is no shortage of ideas at San Jose. We just need to get the drilling meterage going, right.

And as I have been stating 2021 is a big commitment year on the exploration front. We have roughly 4.5% of sales allocated to exploration. And we need to let the programs run and see some results hopefully come along.

Q: Okay, thanks for that. So, in the past, I think you might release like a San Jose drilling update once a year, and that might have been appropriate for the smaller program we had last year. Do you have plans to do more regular exploration updates coming out of San Jose?

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

Yes, yes, absolutely. And not only for San Jose, although we all understand that the San Jose program is important for everybody. But for example, we're drilling a new and exciting project that is called Santa Fe in the state of Sonora. It is some kilometers south view of the Visla [ph] project. Visla did some nice discovery there. So we're drilling there. We have one rig and we're quite active on different ideas. So we have also another project called Baborigame where we're going to be developing drill targets with you. Santa Fe is more silver project with some gold and Baborigame is more gold, silver project. So, we're active on several fronts.

Q: Okay, thanks for that. That's all for me.

Operator

[Operator Instructions] Our next question today is coming from Justin Stevens - PI Financial. Your line is live.

Q: Hi, guys. Most of my questions have already been asked and answered. But just a quick follow on from what Don was asking there. I noticed, at San Jose, you guys spent only about 1.7 million of your 10 million brownfield exploration budget in San Jose in Q1. Can we expect that to be

ramping up quite a bit here? Is there any chance that you'll spend through that 10 million you think before the end of the year and then perhaps evaluate further expansions of the exploration budget?

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

Yes, yes. Budget will be ramping up, getting the -- a lot of drilling is being done through underground, so we will see some spent advances. We advanced with the underground development to prepare the drill chambers and whatnot and then the drilling meterage coming along. So that budget will ramp up. We have drilled some sight and turning, as I stated, so I see no issues there. Yeah, it's -- usually start to the year tends to be a bit lagging with speed for some of these programs right.

Q: Sure. And no particular impacts from COVID that you're seeing either on the exploration side of things.

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

Particularly when you're in a mine, the COVID does impact. Now all of our activities are slowed down. I think we're not seeing the impact so much from the production side because of the initiatives that the teams bring in place, but at Caylloma, at Lindero, and at San Jose, COVID remains a -- dealing with COVID and keeping the operations within the protocols and the stringent protocols that we have in place does take a toll sometimes on the speed at which we can do things right. So yeah, I mean, remember that these three countries remain under severe restrictions due to COVID, right, yeah.

Q: Sure. And just on -- in terms of exploration at Lindero, I know you guys have a small program planned for Arizaro, is that expected to be in the first half or the second half of the year here.

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

We're drilling there as we speak.

Q: Okay. And so we can probably expect some results at some point in the next couple of weeks as you are done probably, right.

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

Absolutely, absolutely. We're drilling at Arizaro.

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

Operator

Thank you. Our next question today is coming from [indiscernible]. Your line is live.

Q: Thank you. I want to ask you about that mine in Peru, Catalina, I guess how you announce it but you stated that continues to contribute significant gold production the first quarter 2021. Gold production was 1922 ounces, an increase of 308% with respect to the comparable period of 2020. Increase in gold production is related to higher head grades encountered in the Animas north east vein. I've been -- I [indiscernible] in that stuff. I know what you're talking about. Is that vein expanding? How many years do you think you have left in that high grade ore in that Animas northeast vein?

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

Thank you for the question. I have to say that we have a neglected for years our understanding of a gold occurrences at the Animas vein, right. So it's only now as we have entered into this area and we started encountering this higher grades -- sustained higher gold grades that we have deployed resources to further understand the how meaningful this is. Today, we cannot say that we believe -- the resource, as we understand it, has a main gold [ph] component. So we're trying to understand geologically, what is controlling the deposition of gold in these areas. Because I think, spatially, the gold rich zones are limited in size but what we're trying to gauge here is through more science is, is there areas where we can extrapolate what we learn here and use it as an exploration tool.

We're getting a nice significant bump in gold production and therefore in revenue and margins derived from these small ounces because this is just incremental to everything, right. This mine had traditionally produced 0.3, 0.6 grams of ore, well under a gram and all of a sudden, we're finding areas with multi gram gold in addition to silver, lead and zinc. But today, these areas are limited in size, so they are not meaningful to the overall research. And what we're trying to learn here is, if there are things that we can use as exploration tools or even to reassess other portions of the mined areas for higher grades.

So we are right now in the learning curve here trying to get our knowledge up on what is controlling the occurrence of these higher grade gold in this portion of the Animas vein. Animas vein is stretches for over four kilometers, we have drilled, tested it for several 100 meters of depth. And this is one small area within that bigger bracket. So I think it speaks about potential as well, right. I mean, the system is complex and we need to better understand the gold occurrence here.

Q: Okay. Now, don't you have folks in your company -- I have a lot of friends that I have buy stock in your company and that was before you made the announcement that you had bought out Roxgold in West Africa and that blindsided us, I got to be honest with you and some of my friends, they dumped their stock, but I didn't. I held on but that stock went from 9.71 a share down to under six bucks. It's now coming back up because I think long term you'll do well. I think that hopefully that Roxgold will start contributing something to the earning capacity of the company. And so I just want you to know that there are many people that are with you, feel like you're doing the right thing but there was -- though there were a number that felt you did the wrong thing when you acquired that Roxgold in West Africa.

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

Thank you for your comments. And we believe that there is tremendous value to be unlocked for Roxgold shareholders, for Fortuna shareholders, as we together deploy the assets because the driving principle behind this is putting together a basket of quality assets that can really perform throughout the precious metals price cycle, putting together a team of higher tiers and performers on the operations and exploration side, each with their required expertise for success in their respective jurisdictions. So, sometimes, markets and market participants tend to be short-term oriented. I believe this is for the medium, long term, this will be the foundation for a company, as I said at the beginning of the call, if you want to invest in precious metals, you really have to give serious consideration to the pro forma company.

Q: I agree. One last question, don't you believe -- don't your company believe that silver will eventually be \$35 an ounce end of this year and gold will be up to 1950 an ounce?

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

I personally believe they could be higher.

Q: Right. We are in a bull market on the silver.

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

I try to focus on the things we control, which is the assets we get involved with and the costs. We need to operate the mines in a high price environment as well as we do on a low price environment. So we try to focus on the things we can control and let investors be more constructive or imaginative with respect to where prices are going to be. We're mining every day, \$80 silver hopefully one day or \$14 silver as it was some 15 months ago, right, so.

Q: Yes, \$15 an ounce but let me tell you how silver hit 28 bucks yesterday and she is going on up. So, we want to thank -- I want to thank you as a shareholder for what you're doing. We're counting on you. I want to get other friends invest and buy stock in your company because I think the name is appropriate.

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

Thank you, sir. Thank you for your support.

Q: Yeah, the name Fortuna. I love it. Thank you.

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

Thank you for your support.

Operator

[Operator Instructions]

Jorge Alberto Ganoza - President & 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 and we look forward to you joining us next quarter. Have a good day.

Operator

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