Transcript of
Fortuna Silver Mines
4th Quarter 2012 & Year-End Earnings
March 21, 2013

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Participants

Carlos Baca – Investor Relations
Jorge A. Ganoza – President, Chief Executive Officer & Director
Luis Dario Ganoza – Chief Financial Officer

Presentation

Operator

Greetings, and welcome to the Fortuna Silver Mines Fourth Quarter and Year-End 2012 Earnings call. At this time, all participants are in a listen-only-mode. A brief question and answer session will follow the formal presentation. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host Carlos Baca, Investor Relations Manager for Fortuna Silver Mines. Thank you. Sir, you may begin.

Carlos Baca – Investor Relations Manager

Thank you. Good morning, ladies and gentlemen. I would like to welcome you all to Fortuna Silver Mines and to our 2012 Year-End Financial and Operational Result Call. We're hosting the call from Lima and Vancouver. I would now like to turn the call over to the president, CEO and co-founder of Fortuna, Mr. Jorge Ganoza. Thank you once again to everyone for joining us today.

Jorge A. Ganoza – President, Chief Executive Officer & Director

Good morning to all. Thank you, Carlos. I'm joined on the call today by Luis Ganoza our CFO. I will initiate the conference, and with the assistance of Luis, will be giving a summary and analysis of our operations and financial results for 2012. Once concluded we will address your questions.

During the year, our company recorded record sales of $161 million comparing against 2011. Net income increased by 62% to $31.4 million and cash generated by operations before changes in working capital increased by 59% to $62 million. For the year, earnings per share rose by 56% to $0.25, and operating cash flow per share before changes in working capital increased by 56% to $0.50 per share. This record performance is in spite of silver prices in the year. We realized $31.90 per share per ounce versus $34.85 in 2011.

Production for the year rose to four million ounces of silver and 20,700 ounces of gold, exceeding guidance by 8% and 19%, respectively. For 2013 production guidance is for a rise of silver 10% to 4.4 million ounces and gold of 23,300 ounces, an increase of 13% for the year.

Our precious metal production for the year accounted for 84% of revenue, silver comprised 67% of revenue, and gold accounted for 17%, the balance is by precious metal and zinc sales.

Cash cost per tonnes at both operations in 2012 was in line with budget. We perceive there is a lot of drama out there in the market over the subject of costs in the sector. For this reason and with the aim of providing more clarity on the subject of costs, on January 24th Fortuna moved to release, along with its 2013 production guidance, annual and quarterly cost guidance as well.

At the San Jose mine we anticipate a year-over-year drop in cash costs of 4% to $70 per tonnes, and at Caylloma we anticipate a year-over-year incremental of approximately 10% to $96 per tonnes. For 2012 consolidated cash cost per silver ounce net of byproducts was $5.96. For 2013 we anticipate cost per ounce to drop to approximately $5.

These are the price scenarios in our budget, which call for $30 silver, $1,700 gold, $2,100 lead, and $2,000 zinc, per tonnes that is.

Fortuna remains as one of the lower cost primary silver producers in the emerging producer space.

With regard to our 2012 main capital projects I want to highlight three. One, at San Jose we continue with the on-time, on budget execution of our expansion plan to increase throughput capacity by 50% to 1,500 tonnes per day. We are planning to commission this early in the third quarter of this year. The main component of the expansion is the installation of a new 700 ton per day … mill which is expected to arrive on site in late May.

Second, in October we concluded the segment of the water pipeline interconnecting the water treatment facility in the town of Ocotlan and our San Jose mine. This project secures the final 20% of our water balance for stable production of 1,500 tons per day. Third, the number three tailings facility at our Caylloma mine was commissioned in late 2012 and is fully operational.

For 2013, we have capital budget allocated to our mines of $53 million where the main projects are the expansion of the San Jose mine with a $14 million budget, the new camp facilities at Caylloma for $8.6 million, and upgrades to Caylloma power grid for $4.8 million.

After a number of years of continued builds and expansions we expect capital requirements at both our operations to start reverting back to sustaining levels in 2014 with an initial estimate of $20 million to $25 million in capital requirements for the year.

Moving on to exploration, we invested $12 million in our 2012 programs. We drilled 43,000 meters between Caylloma and our San Jose mine; the last 5,000 meters at the

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Mario Project in central Peru, which we dropped in June and accounts for a $3.9 million write-off in our 2012 financial statements.

Our 2013 exploration budget is for $14 million and includes over 50,000 meters of drilling planned for the year. During 2012 our exploration team at San Jose discovered high-grade silver and gold mineralization on the north end of the San Jose ore shoot, which extends in to the newly acquired Taviche Oeste concession where we have acquired a controlling interest from Pan American Silver.

On February 4th of this year the company announced the closing of this acquisition and released initial results with a highlight drill hole intercept of 12 meters at 427 grams per tonnes silver and 2.7 grams per tonnes gold. We are currently advancing with the drilling of this new zone from surface with two drill rigs and are advancing with a 300 meter underground development to prepare chambers for underground drilling later in the year. We plan to incorporate these results in our 2013 resource estimations.

I also want to highlight that on March 5th we released updated research and resource estimates as of December 31, 2012. The technical reports will be filed on SEDAR by the end of this month. We have reported a reduction of silver ounces in reserves of 12% and for gold a reduction of 5%. During 2012 the company did not carry resource conversion drill programs with the resulting reductions previously mentioned being mainly a consequence of mining depletion. For 2013 the company has initiated the year with an aggressive resource conversion program at both mines. The conversions achieved through these programs we plan to include in this year's estimates.

On the incurred resources, we reported a very healthy increase of silver ounces of 38% and a gold increase of 26%. With the existing base of reserves and resources management is confident we can project the lives of our mines beyond eight to ten years at both operations.

With this, I will now let Luis take you through the financial statements.

<u>Luis Dario Ganoza – Chief Financial Officer</u>
Thank you. As, Jorge mentioned, for the year ended 2012 we have reported record net income and cash flow from operations. Net income was $31.5 million, 62% above 2011; and cash flow from operations was $62.2 million, up 59% above 2011. These results reflect the strong operating performance of San Jose in its first full year of operations.

Our annual sales increased 46% over 2011 to $161 million driven by the contribution of San Jose with $77.3 million. Sales at San Jose were strong on the back of silver and gold production significantly above our guidance. Sales at Caylloma were 14% below 2011 due mainly to lower metal prices and lower base metal production.

Our mine operating income increased a more modest 16% over 2011 to $70.7 million as our gross margin decreased from 65% to 44%. This drop in gross margin is partially attributable to high depletion, but is mainly related to lower cash margins at

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Caylloma as unit cost per tonnes year-over-year increased 26% in the context of lower sales.

With respect to our focus for 2012, however, Caylloma's performance was inline in terms of production and cost.

Moving down below on our income statement, on our selling and G&A line item we have recorded $20.5 million in 2012; that's $0.7 million over 2011. This figure encompasses an increase of $4 million in our general and administrative expenses at corporate and both our operating subsidiaries, partially offset by $2.6 million of lower stock base compensation.

Our operating income for 2012 was $45.2 million, up 19% above 2011.

Our net income benefited from a lower effective tax rate in 2012. The effective tax rate for the year was 30% compared to 49% in 2011. As a result of this, we recorded $5 million less of income tax provision on a high base of income before income taxes. This lower effective tax rate is related to the impact of foreign exchange rates on the calculation of deferred taxes.

As mentioned before, we recorded net income for the year of $31.5 million, which corresponds to $0.25 per share, 56% above the $0.16 recorded in 2011.

For the fourth quarter of 2012, we recorded net income of $8.5 million compared to a loss in the prior year period of $1.8 million. The increase in net income in the quarter was driven by higher sales at San Jose, as well as the lower effective tax rate, which resulted in a $6.4 million reduction of deferred tax provisions.

Moving on to the cash flow statement, our cash flow from operations for 2012, as we presented, before changes in working capital and after taxes paid, was $62.2 million up 59% over 2011. The strong increase over the prior year reflects a contribution of cash margins from San Jose and a lower cash tax rate at San Jose as San Jose did not incur current taxes in 2012. Cash flow per share for the year was $0.50.

Our cash flow in the quarter was $11.9 million, an increase of 35% over Q4 in 2011. Cash flow per share in Q4 2012 was $0.10. When compared to the third quarter of 2012, our cash flow in Q4 decreased $8.1 million or $0.05 per share. This slower performance in Q4 is explained to a large degree by events specific to the quarter mainly $3.5 million lower sales adjustments, that is compared to Q3; lower silver and gold headwinds affecting our margins at San Jose; and an inventory buildup at year-end compared to a reduction in inventories in Q3. Additionally, we were affected by the increase in Caylloma due to cash cost at year of 14% against the previous quarter.

Our net cash accumulation in the year considering short-term investments as part of our cash balance was $8.8 million after cash consumed in investment activities of $44 million. The latter amount is related to mine development, exploration, the mill expansion at San Jose, and certain non-recurrent large infrastructure items at

Caylloma associated with the existing facility operations, as Jorge mentioned in his intervention.

Finally, our cash position including short-term investments as of the end of 2012 was $64.7 million and our working capital was $87.4 million. Thank you.

Carlos Baca – Investor Relations Manager
Thank you very much for listening in. We would now like to turn the call over to any questions that you may have. Please state your name clearly and try to keep your questions brief.

Operator
Our first question comes from the line of Ben Asuncion with Haywood Securities.

<Q>: I just had a couple quick questions here. First, if you could just go over what the metal price assumptions again were, I missed that at the beginning of the call, specifically the lead and zinc that you're using in your forecast.

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes. In our budget we are using $3,100 for lead and $2,000 for zinc.

<Q>: Just going to San Jose briefly here, so the commissioning is slated to commence at the beginning of Q3. What do you think that timeline would be in terms of when you'd be at full steady state at sort of the 1,500 tonnes?

Jorge A. Ganoza – President, Chief Executive Officer & Director
The mine will be ready by then to comfortably source enough fresh ore to support 1,500 tonnes per day, and in terms of plant and mechanical readiness we believe the commissioning should be short. The main equipment is the new bowl mill and the two floatation benches. These are being installed as a parallel … so we do not foresee at this moment any long commissioning period for this expansion. Our best assessment today is that by end of July we should be fully operational at 1,500 tonnes per day.

<Q>: And just touching on that the mill that you purchased was a 700 tonnes per day. Do you have the flow capacity and everything else within the plant to make a subsequent increase to 1,700 and is there any significant additional cap ex that would be required to make that step?

Jorge A. Ganoza – President, Chief Executive Officer & Director
The plant is oversized and, in fact, today what we're seeing with an initial nominal capacity of 1,000 tonnes per day we're currently operating around 1,100 and even close to 1,200 tons per day in the existing facility without compromising recoveries or quality of concentrate. The nominal capacity for the new expansion is 1,800 tonnes per day as we have it right now. The plant will be ready to accommodate 1,800 tonnes per day on the pumping circuit, on the thickeners, on the floatation and retention capacity and floatation cells. Basically, nominal capacity at the end of the day will be around 1,800 tonnes per day because it's oversized. We are talking about 1,500 tonnes per day; that is the original design, but everything has been oversized for roughly 1,800 tonnes per day.

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<Q>: Lastly, at San Jose any comments on the status of the concentrate leaching facility?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes. The concentrate leaching facility is a project that we carry in our budget since 2012. Basically, when we first ran the numbers it was a robust project comparing against current terms at the time, commercial terms for concentrate. There has been cost escalation at the time of the project. Today it is a project of around $14 million to $16 million, and we have seen significant improvements in commercial terms for the sale of high-grade silver and gold concentrates.

What we see today is a project that has gone from robust in late 2011 when it entered our budget to marginal today on its economic viability. We have gone back to the drawing board. We have removed the concentrate leaching project from our 2013 budget. We have gone back to the drawing board. We're trying to assess a different size and process to the facility so we see if we can cut on capital costs and operating costs.

The added burden of this project for us is that it is an offsite leaching facility, and that carries with it higher capital and operating cost. We're trying to see how we can help ourselves and short-cut some of that capital and operating costs to bring back a robust project. We believe that long-term it is the sensible thing to do to produce the rain instead of concentrate, but we have secured a site in the state of … some 200 kilometers away from our operation where we already have a permit to build the facility. But we are trying to improve on the economics of it before we go in to construction.

<Q>: One last question then I'll hop back in the queue here. You were mentioning sustaining cap ex on a go-forward basis after you're done with this year's capital programs. You were giving a range about $20 million to $25 million. Could you give me a breakdown of how that separates between Caylloma and San Jose?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes. Caylloma sustaining capital requirements are about $14 million a year so the balance, another $6 million to $7 million is on a sustaining basis what we see in our five year plans for San Jose.

Operator
Our next question comes from the line of Trevor Turnbull of Scotiabank.

<Q>: I was wondering if you could just talk a little bit more about the power situation at Caylloma. I see that you've got some capital allocated to spend on the power grid at Caylloma, and at the same time you're also talking about the costs at Caylloma still incorporating diesel generation. I just wondered if you could give me a better idea. Are you looking to migrate 100% away from generation and get 100% on the grid, and, if so, what's the timing of that?

Jorge A. Ganoza – President, Chief Executive Officer & Director

Yes. Trevor, the power situation in Caylloma—there are two components to this. One is the main power grid that brings power to our substation, that power line has been saturated. It is a private line that has been saturated and through some modifications on the grid the power on that line—or that line will be discharged and will have power available starting sometime in the second quarter of this year there will be power available on the line. We're currently consuming between 3.5 and four mega of power but we are capped because the line there is saturated. Starting the second quarter we should see more power available on that line as other operations in the neighborhood are interconnecting to a second line, and by doing that they are freeing power on this transmission line.

<Q>: So how much power do you require at Caylloma?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Right now we are currently meeting our requirements with four to four and a half megawatts of power. There are some small hydroelectric plants that also source power to grid locally, and we're benefiting in this time of rainy season from the output in the line from those hydroelectric plants. Right now we're really not burning diesel apart from some small power compressed air generation that we plan to remove now that there is power available starting in this second semester, and then when there are power outages because the lines are not 100% stable of course.

We do not see power as a main constraint in our budget this year. We are investing in average to the power grid but that is to the secondary power grid. That is to the power grid from the substation inward into our facilities. We are making significant improvements so we can capture four, four and a half even up to six megawatts. We have installed a six megawatt power transformer, and we're upgrading our secondary grid, the internal grid so we can be more effective and efficient with the use of power within our installations. That is the budget that you see in our disclosures.

There are two components; one, power availability, and then our ability to efficiently utilize the power within our secondary grid, and that is what you see in the budget.

<Q>: And then just also on capital spending at Caylloma, it looks like you had deferred a couple of your expenditure project last year. Can you just talk a little bit about why you deferred some of those things?

Jorge A. Ganoza – President, Chief Executive Officer & Director
In our 2012 budget, there is couple of projects that we did not execute. One was an $8 million budget for the upgrade of the processing plant facility. We have spent only $1.2 million out of those $8 million budgeted. The main reason is that we have been able to secure mechanical availability through some changes in the process.

We were also looking to potentially have capacity beyond 1,300 tonnes per day, which is a nominal capacity today by making some of these adjustments. Our conclusion at the end of the day has been that the optimum operating capacity for San Jose today is 1,300 tonnes per day. We're not talking at this moment about further increases in production beyond that right now. So that has also moved us to cut some of those capital projects, and that is what you are referring to.

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<Q>: And just last question with respect to Caylloma, do you have a sense of what kind of lead and zinc grades we should be looking for this year?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes, of course. In our budget for 2013 we have lead with 2.2% lead and 2.8% zinc for the year.

<Q>: I just had a quick question with respect to San Jose. You talked that you're going to be oversizing the plant so that potentially it's essentially ready to do 1,800 tonnes per day even though the target is 1,500. Would there be any changes needed underground to extract 1,800 versus the 1,500?

Jorge A. Ganoza – President, Chief Executive Officer & Director
No. The mine has ample capacity with existing infrastructure to source we believe approximately 2,000 tonnes per day without any major changes to infrastructure; that is our current assessment. The main decline and the ventilation systems, the supporting infrastructure, for example hydraulic fill and all of that, we believe can accommodate higher throughput.

The limited factor at this mine has always been water availability. As we all know, we are in a dry basin. Our two main sources of water are capture of rainfall and storage of that rainfall water, and second is the sourcing of residual water from the treatment of sewage in a nearby town. Those are the two main inflows of water in to our balance.

Right now we have secured 1,500 tonnes per day under worst case scenarios so we are currently addressing and exploring ways to maximize the efficient use of water in our system. The key project there is evaporation control. Our tailings pond is a dual tailings pond water reservoir, and that is where we store the water that we use for San Jose; the makeup water that we use for San Jose and the recirculation system uses the water pump as well.

This is a large surface of course, over five hectors, and we are trying to implement a solution to control evaporation. Evaporation is very significant through the year. That is our main water loss in the system today, and we're moving to implement solutions and any water we can save from evaporation goes directly in to water we can use for improved tonnage beyond 1,500 tonnes per day. This is still in the evaluation phase. We're looking at various solutions for evaporation control, and our expectation is that by mid-2013 we should be able to produce numbers in terms of water availability and what that means to our throughput capacity in to the second half of the year or in to 2014.

Operator
Our next question comes from the line of Andy …, private investor.

<Q>: First, Jorge, should we assume that there will be no dore bar production in 2013? That the earliest would be perhaps 2014?

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Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes and no. You are correct. We will not be producing dore bars in 2013, and we will not be producing dore bars in 2014 either because we removed the dore project from our budget in 2013. The construction of a project like this we believe is six to eight months, and so it is not in our 2013 budget.

What we are doing in 2013 is we have gone back to the drawing board. We're assessing a different process. We were using some Australian technology, which is proprietary, and we believe that by going to a more mainstream process we can cut on capital and perhaps even costs. So we're assessing that second alternative and that is something we're doing this year, and if successful with the preliminary figures we will include it in our 2014 budget.

Today, we are enjoying very competitive commercial terms for our concentrate, and I think we can all appreciate the flexibility of producing dore bars, but the terms today that we get for concentrates in Mexico make the competitive difference of the leaching facility challenging.

For long-term, I believe it's a project that we should do and, as I already mentioned, we have acquired the land to build the facility and just crunching our numbers and trying to sharpen our pencil to see how we can make more economic sense and a more robust viable project out of the leaching project.

<Q>: Tax rate assumption for 2013, I don't know that I heard you make any comment on that. I assume it will be something more than 30% but I'd like to know if you can give us any guidance on your effective tax rate for this year.

Luis Dario Ganoza – Chief Financial Officer
Yes. The effective tax rate unfortunately is quite volatile as the current rate is based on the foreign exchange rate for the jurisdiction in which we operate. But as far as our cash tax rates, our expectations regarding incurred current taxes, the big differences this year is that we expect to start incurring taxes at San Jose. We expect that to happen, beginning in the second semester of 2013.

<Q>: So the tax rate is more likely than not to be somewhat higher.

Luis Dario Ganoza – Chief Financial Officer
The effective tax rate, I believe we should float between 30% and 35%. The rate we recorded for 2012 I deem to be high based on what we expected at the time and what we can foresee moving forward. So yes, something in the range of more around 35%, I would say rather than the 30% we've seen for this year.

<Q>: And I want to come back to Jorge on another thing here that I see in the press release because I'd like some clarification on some of these assumptions. The cash cost net of by-products was $8.85 in the fourth quarter for silver ounce. You are giving us guidance of $5 using certain assumptions here, including gold at 1,700, which is like 6% above the current market spot price. I'm not sure why you've done that. But can you help me to understand if the cash cost per silver ounce net of by-

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products was $8.85 in the fourth quarter, using your assumptions for both gold and base metal prices, how we get to the $5 silver ounce price for this year?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes, of course. First, if you look at the cost performance at our operations through the year, our cost for the year is $5.96. So what you see in the fourth quarter at both mines is a series of one-time events that do not represent a trend in cost. For example, in the case of the San Jose mine, we have a buildup of development in the underground mine, which accounts for close to $5 per ton, if I'm not mistaken right now. We also have the added cost of the interconnection of the water pipeline. That is a project that took two years because of some struggles or differences with the local community. And at the end, after two years we've been able to reach a satisfactory agreement with the community, and we made some commitments to help them build some water dams and purchased vehicles for the municipality and what not.

So all of those things impacted our cost in San Jose and are one-time event, and in our Caylloma mine, we see in a way a similar picture. The fourth quarter, we see some cost pressures come in. There we are budgeting a cost increase. And also bear in mind that in 2013, we are materializing a production expansion of 50% in terms of throughput at San Jose, which helps bring cost down materially.

We have provided cash cost guidance not only annually but also in a quarterly basis in our news release. I would like to refer you to the quarterly guidance where you see the evolution of our cost per ton at both mines per quarter and for the year.
And cost per ounce is a figure that we provide, a support figure of course. The true measure of cost isn't the cost per ton. Again, I don't think it is the best way—to look at our cost in 2013 looking at what happened in Q4 is not the best way to do it. It is a quarter that was hit by a series of one-time events and distortions on the bigger picture.

Operator
Our next question comes from the line of Chris Thompson with Raymond James.

<Q>: I think a lot of my questions have actually been answered here, but, Jorge, could you just give me a little bit of an update on the community relationships at San Jose?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes, of course. What I can report is that community relations at San Jose continue to be in good standing. And we have nothing that we can report as a material change with respect to the sustainability of that relationship, not only with municipal and state authorities but also with a broader base of local community at San Jose.

We believe that our great breakthrough and great sign of improvement with surrounding communities has been the fact that in the month of October of 2012 we were able to reach an agreement with the community of Magdalena to install the water pipeline. This project has been ready for almost two years, and we were not able to fully benefit from the project because the Magdalena community would not allow us to interconnect two kilometers of the pipeline. After a lot of work on the parts of our community relations teams we were able find a sensible solution with the community and were able to do the installation. And I think that speaks our ability to interact and connect with local communities.

We are of course the largest employers. We of course pay the highest salaries. We have significant ongoing projects at all levels with stakeholders in the community and fund infrastructure projects. So I can say that as management I am satisfied with the level of engagement and sustainability that we've been able achieve with the community.

We have the improved the sustainability section on our website, and I would like to refer you to the page where you can get a better sense for projects and good things that we're doing.

<Q>: Just a final question, unfortunately, there was a fatality at San Jose relating to a contractor there. Could you just give us a little bit of color here? I mean it's always a sad situation when this happens, but was this just a breakdown on work practices as far as the contractor was concerned or what?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes. On January 2nd a contractor working for a raise bore drilling company conducting work at our San Jose mine suffered an electric shock underground that took his life. It is a sad and tragic event, but as tragic as it is we believe that it is an isolated event. As part of our internal process, the corporate position here for health and safety conducted an independent review, and there are some recommendations that have been implemented.

It is the first fatality at the San Jose mine, and again, tragic as it is we believe it's an isolated event. There were no material breaches of safety protocols, but some lines on defense on our procedures were … and as a result of that the fatality took place. It is not a direct employee of the company. It is a contractor under management by the same contracting company, but it happened in our operations, and we think it's extremely serious and are working with all of our contractors to ensure that we are on the same standards and procedures.

Operator
Our next comes question is a follow-up question from the line of Ben Asuncion with Haywood Securities.

<Q>: With respect to cost at Caylloma, can you give us a sense of what you are seeing right now and kind of what the risks are to further year-on-year subsequent increases going forward on the cost and what you're doing to kind of mitigate some of that?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes. We have budgeted a cost increment from the average cost that we have seen in 2012 to the average cost that we expect into 2013. A cost increment of roughly 70%; 5% of the increment is ticketed to labor. With respect to labor, we're seeing a 5% increment. With respect to transports of concentrates, there is new regulation in Peru

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and concentrates now need to be trucked on the sealed containers, so that has an impact of 11% on our cost of trucking.

We also have a contractor tariff that we have budged for 2013, an increment of roughly 8%, which account to some $3 per ton. So we saw already some of these projections in our costs materialize in the fourth quarter of 2012. Cost in 2012 has been quite steady in line very much with our budget.

As I mentioned through the last quarter, we see some of the pressure that we are budgeting in 2013 start materializing. But I know that some companies have been projecting cost increases of between 20% and 25% in Peru. What we're seeing right now is more 10%, and we also have initiatives to help improve and mitigate some of these cost pressures. For example we're changing the explosives that we use in the mine. After inventing and improving ventilation, we're moving away from the motions in …. That will help lower blasting costs. By making the out grids on the power grid and having more power available to us, we will be able to save some money on power as well.

So what I want to say is that that is our best estimate today. We do not see anything right now that would indicate movement away from our projection for the year, and if we see that we will be guiding accordingly. What you'll see in the way we communicate cost, again I'll stress that we have more to provide quarterly cost guidance for each mine in terms of dollars per ton. We have done that so the market can benchmark us against our guidance, and we can also guide on a quarterly basis with what's happening with the cost evolution.

Operator
Our next question comes from the line of George Shea with Cicada Investments.

<Q>: My question revolves around the outlook for discoveries. One is you've talked of looking around the San Jose area, and I believe you've secured some areas that were not part of your land package; and secondly, you hired Mr. Robert Brown. I understand anecdotally there are a lot of prospects for sales. I'm sure many of them are not very attractive, but could you answer that general question?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Yes. Thank you, George. With respect to the concession we acquired from Pan American Silver, we have acquired 55% interest with an option to acquire the balance for 100% interest in the property for a total consideration of $10 million; that's in part of our disclosure.

It is a key acquisition for us. We're currently mining relatively close to the northern boundary of our property. And exploration through 2012 has discovered a wide and rich extent of the ore shoot into what was the Pan American ground through drilling. We have been able to secure the deal with Pan American. These are the cheapest ounces we will be able to bring to our books. We are currently drilling with two rigs, and we're planning to add a third one underground. We are likely going to be drilling there throughout the year.

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This zone that remains open to the north that our team discovered is not only rich but wide as well. I provided a highlight of the drilling, but you can see the results in the news release. I also invite you to follow on the advances of the exploration as we continue releasing results from that area through 2013.

So we see that as opening a door for addition of near mine resources that can quickly come into our mine production. We're literally mining only tens of meters away from some of these zones, and with the underground infrastructure it is readily accessible within the year. So that is what I can add there. We have high expectations for this new zone and what opens to the north in what used to be the Pan American drill.

With regard to the position of Vice President of Corporate Development, Mr. Robert Brown, it is part of a strategic shift in the company. Fortuna for the last seven years has been focused on organic growth. Yes we've been looking at new opportunities, but on a more selective opportunistic basis. Fortuna is now looking outside the farm and we decided to open a new position in the company late last year that of vice president of corporate development. We started with Robert Brown and Robert has been working closely with a team here in identifying and pursuing some opportunities.

We will continue to focus on Peru and Mexico as our main hunting ground, and we will be opportunistic in other parts of Latin America. But we are looking at our sweet spot of course will be for post-discovery, pre-development stage opportunities where we can not only deploy capital, but also our mine building expertise and regional expertise as well.

<Q>: Then, do you see any need to raise capital during 2013?

Jorge A. Ganoza – President, Chief Executive Officer & Director
Not at all. If we look at our capital requirements and our budget for the capital requirement at our mines, our exploration needs, and the cash we have on hand and the cash flows that we expect in 2013, we are more than adequately funded to meet capital requirements in to 2013, 2014. If a material transaction comes or we are able to materialize an opportunity we will assess it then.

But what I can say is that Fortuna up until now has not done many financing. We have raised roughly $130 million, $140 million through the life of the company. And as we're moving forward with the ongoing business that we have I think we will be looking more at non-diluted ways to fund our growth rather than just equity, which we used as a venture start-up in the early days.

Operator
Our next question is a follow-up question from the line of Andy …, Private Investor.

<Q>: Jorge, will you or Luis be coming to the New York Hard Asset Investment Conference this May?

Jorge A. Ganoza – President, Chief Executive Officer & Director
No. We are not planning to be at the conference, but we go through New York quite regularly; at least three, four times throughout the year. If you are interested in an

opportunity to meet we will be glad to do so. You can reach Carlos Baca, our Investor Relations manager. I go through New York regularly and I meet with investors there regularly so we'll be more than happy. And we also attend other conferences and through Carlos, you can see our schedules to see if there is a best time for us to meet.

<Q>: Yes, I'd like to do that. I did meet Luis, I believe at a leadership conference last May after I returned from vacation, but I would like to touch base with you people about possibly meeting in the spring. Luis, one final question for you on the currency side of things; can you give a general view of what's been happening with the Peru being sol and how that particular currency may be affecting your cost in Peru?

Luis Dario Ganoza – Chief Financial Officer
Yes. Over 2012 the impact has been non-significant in particular. In general terms, however, there is concern regarding further appreciation of the sol so far. As far as our budget goes, we haven't recorded or incorporated any material impact on our budget. But overall, yes, I would say there is a concern as to where there can be important appreciation moving forward. We have taken the position that any changes in the currency in that direction will be modest, but it's certainly something that will be dependent on several factors. So as far as our budgets of our 2013 and our performance in 2012, there hasn't been a significant impact.

Operator
There are no further questions at this time. I would like to turn the call back over to management for their closing comments.

Jorge A. Ganoza – President, Chief Executive Officer & Director
I would like to thank everyone for listening in to today's earnings call. We look forward to you joining us next quarter. Thank you very much and have a very productive day.

Operator
This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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