

Transcript of
Fortuna Silver Mines, Inc.
Q1 2023 Financial and Operational Results Call
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Participants

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David Whittle - Chief Operating Officer of West Africa, Fortuna Silver Mines, Inc.
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Analysts

Tony Christ - Odyssey Investments
Adrian Day - Adrian Day Asset Management
Justin Stevens - PI Financial

Presentation

Operator

Greetings, and welcome to the Fortuna Silver Mines First Quarter 2023 Financial and Operational Results Call. At this time, all participants are in a listen-only mode and a question-and-answer session will follow the formal presentation. [Operator Instructions]. Please note this conference is being recorded.

I will now turn the conference over to your host, Carlos Baca, Director of Investor Relations. Sir, you may begin.

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

Thank you, Ali. Good morning, ladies and gentlemen. I would like to welcome you to the Fortuna Silver Mines First Quarter 2023 Financial and Operational Results Conference Call.

Hosting the call today on behalf of Fortuna will be Jorge Alberto Ganoza, President and Chief Executive Officer; Luis Dario Ganoza, Chief Financial Officer; Cesar Velasco, Chief Operating Officer, Latin America; David Whittle, Chief Operating Officer, West Africa; and Paul Weedon, Senior Vice President, Exploration.

Today's earnings call presentation will be available on our website, fortunasilver.com. As a reminder, statements made during this call are subject to the reader's advisories included in yesterday's news release and in the earnings call presentation. Financial figures contained in the presentation and discussed in today's call are presented in U.S. dollars unless otherwise stated.

Before I turn over the call to Jorge, I would like to indicate that this earnings call contains forward-looking information that is based on the company's current expectations, estimates and beliefs.

This forward-looking information is subject to a number of risks, uncertainties and other factors. Actual results could differ materially from a conclusion, forecast or projection in the forward-looking information. Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information.

Additional information about the material factors that could cause actual results to differ materially from the conclusion, forecast or projection in the forward-looking information and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information is contained in the company's annual information form and MD&A, which are publicly available on SEDAR. The company assumes no obligation to update such forward-looking information in the future, except as required by law.

I would now like to turn the call over to Jorge Alberto Ganoza, President, Chief Executive Officer and Co-Founder of Fortuna.

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Thank you, Carlos. Good morning to all. Our business performed well during the first quarter. We recorded net income of \$0.04 per share, achieved production of 94,110 gold equivalent ounces on track to meet annual guidance. And our costs were all in line with our guidance projections for the period.

The sustained worldwide inflation and corresponding cost creep that we all experienced over the past couple of years has been compressing business margins across the precious metals, mining industry. This, despite initiatives to optimize our operations and streamline the business. Gold and silver prices did not provide any significant relief on margins as of Q1 2023.

But going into the second quarter, metal prices and margins for the business are looking much stronger. Our average realized gold price for Q1 was \$1,893 which is essentially flat against what we realized in the comparable quarter for 2022 and only 7% higher against a realized price two years ago in Q1 2021.

For silver, the story is even a bit more difficult. For 2023, we realized for this Q1, we realized \$22.52, which is 14% lower against the \$26.20 we realized in Q1 2021. Over the last years -- over last year quarter against the comparable quarter, our consolidated cash cost per ounce went from \$772 per ounce to \$923 per ounce, up 20%.

Despite all this, our EBITDA came in at a healthy \$65 million, and the business generated net cash from operation -- operating activities of \$41.8 million. After meeting all our sustaining

capital demands, funding corporate expenses and paying \$12.9 million in taxes, the business generated free cash flow of \$8.7 million.

Luis will expand on our management discussion of financial results later in this presentation. Subsequent to the end of the quarter, we have had a few relevant events of importance that I want to mention. During April at the San Jose mine in Mexico, we had to contend with a 15-day stoppage derived from a union claim demanding increase in profit sharing beyond what's stipulated by law, this dispute has been resolved and operations resumed. In early May as well, the Mexican government approved the new mining reform, which we view as negative for investment in the country, unfortunately.

For starters, mineral exploration in open ground becomes an activity reserve for the government. And existing mineral concessions and mine operations will be subject to many questionable articles in the law, which provides for higher costs and uncertainties to investment. We expect there will be many constitutional appeals filed with the Supreme Court of Justice in Mexico against the new law coming from mining companies and other interest groups.

Another item to be aware of is our first gold pour at the newly built Séguéla mine, which is imminent, and we expect the pour in this second half of May. And on May 8, we announced -- we reached an agreement with Chesser Resources to acquire 100% of the company for an all-share consideration, representing approximately 5.1% of the pro forma Fortuna. We expect this transaction to close in late August, Chesser is a great strategic fit to Fortuna.

Geographically, the Chesser properties are located in Senegal, a near neighboring country to our existing operations in Côte d'Ivoire and Burkina Faso, a mining-friendly jurisdiction Senegal and a place where we can leverage our West African management infrastructure and expertise.

The Diamba Sud project is a high-value advanced exploration opportunity with multiple target still to be drilled test located in the heart of the Senegal-Mali shear zone within a few kilometers of Tier 1 mines in the portfolio of Gold and the preliminary economic assessment carried by Chesser on Diamba Sud outlined a conventional open pit and CIL process that even with a seven million ounce gold resource as it stands today can deliver robust internal rates of return above our minimum investment thresholds.

Paul Weedon, our Senior Vice President of Exploration is with us. And Paul, can you please share your views on the exploration opportunities that Chesser presents to us.

Paul Weedon - Senior Vice President of Exploration, Fortuna Silver Mines, Inc.

Yes, certainly. Thank you, Jorge. As Jorge said, Chesser represents the next step for our West African growth and it follows together development. And this is a project we've also been tracking for a few years now and watching it grow over time.

So just a quick summary. As Jorge said, it is located in Senegal, is actually located in the Southeast corner of Senegal, about [indiscernible] easy to access. It's a well-serviced major

regional road that runs on through that way. It's a highway, low security risk. It's a mining jurisdiction, and we've got several Tier 1 scale mines within 50 kilometers of the project.

Chesser is highlighted a simple open pit mine concept across several pits with a conventional two million ton per annum operation. And we would see that something we'd continue to pursue. We would also anticipate this being a project that we would follow very closely behind the Séguéla development path.

Given that when we acquired that four years ago, we had an impaired resource of 200,000 ounces. And today, we have that for gold. So I'd anticipate that we'd see a similar growth through Diamba Sud. Just moving across to the geology side, why do we really like it? It's located in a really highly prospective [indiscernible] in liner which is a world-class mining district, at least to several large Tier 1 operations. The Diamba Sud project itself is located on displays across the main Senegal-Mali shear zone, which is hosted the majority of those large deposits. And I really like the structural complex nature of the deposit that's there highlights real prospectivity. And also, you see there's a lot of similarities to the nearby for coal in the quarter and Yalea operations of B2Gold and Barrick. And they're all within the closest to those 12 kilometers away.

So far, the Chesser folks have identified four shallow gold deposits with a very well-developed oxide supergene entity. And we'd certainly see that evolving further with further exploration records we're looking to carry out later on this year. We're resuming that work.

At the moment though, it's a very attractive exploration play for us. We've got the resources. We've currently got 625,000 ounces indicated at 1.9 grams and a further 235,000 ounces of inferred at 1.5 grams. We see those growing over time as well as the work that we've got to do at Chesser has announced the recent market. There has been certainly some decent intervals reported there [indiscernible] display.

So these are all drill-ready targets. It's the preliminary work done to date. In addition to those, there are several new additional targets that we've identified using their datasets, and that's really one of the highlights for us. These are a portfolio here of new targets available for us to walk up and test.

And then there's also the potential there for a wider regional consolidation. We see a lot of encouragement there. Barrick and [indiscernible] West, we share a least boundary with them. They've got a project there which is quite interesting. And then to the immediate west -- we also have Africa Karakia [ph] project, which is also again highlighting the potential that we see through that area. So in short, what we see here is an advanced exploration play that we could see moving through the phases to feasibility in a short order of time on which we have a high potential for growth, very simple geology in the sense that we know it's there.

We've got a nice degree of structural complexity, which adds a bit more excitement to the process, and it's a project which we think we can carry through fairly quickly and looking forward to getting into the ground later on this year. Thank you, Jorge.

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Thank you, Paul. And we'll move now to get an update from our Operations from our Chief Operating Officer. So David, you want to give.

David Whittle - Chief Operating Officer of West Africa, Fortuna Silver Mines, Inc.

Good morning. Thanks, Jorge. Operations in West Africa continued the solid performance during Q1 2023. The Yaramoko delivery gold production of 26,437 ounces. This was ahead of the mine plan. The additional production contributing to Yaramoko's all-in sustaining costs and cash costs of \$1,509 per ounce and \$819 per ounce, respectively, both ahead of the lower end of annual guidance.

Séguéla's construction remains on time and on budget with the first board projected for this month. Safety performance at Yaramoko was strong, no injury reported. Unfortunately, at Séguéla and exploration contracts received a finger injury which is later classified as an LTI. In early April, failure of the onsite tunneling structure at the Yaramoko portal occurred, which resulted in the loss of the access to the underground mine for a period of 27 days, whilst rehabilitation operations took place.

Normal underground operations resumed on the 1st of May, with the processing plant treating existing stockpiles throughout the rehabilitation period. Production for Q2 remained there and we do not anticipate any Yaramoko underground grade control and brownfields exploration programs continued with encouraging results, extending our planned mining boundaries on the western side of the orebody and increasing stope tunneling within the existing reserve boundaries. Construction progress at Séguéla continues on time and on budget with the project mean 99% complete as of the end of April.

April saw a ramp-up of mining and processing activities is always delivered to the impact of the pit, which is the first deposit being mined. We delivered to the crushing and milling circuits and grade control drilling at the initial benches at Santana with more than 12,000 meters drill. Road clearing and construction to the Antenna pit, the second deposit being mined is currently taking place with great control drilling expected to start in late May 2023.

Gold mining major equipment is now being regularized to site and Mota-Engil, the mining contractor is now in the final stages of the construction of key infrastructure. In parallel with excellent progress underground, operational readiness scope done too well. The mining, technical processing and maintenance teams have all been recruited, with Mota-Engil scheduled to recruit the remaining members of the mining team over the coming months. Back to you, Jorge.

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Thank you. David. Cesar, can you give us your update on LATAM operations, please?

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

Sure, Jorge. Thank you very much. And as you mentioned before, last week, our San Jose mine in Mexico resumed operations after a 15-day illegal blockade. We are now working on the production recovery plan and don't anticipate any impact on annual guidance at this stage. We're also assessing potential impacts on the additional costs related to the agreements reached with the union as well as production targets and safety performance for the year.

During the first quarter, San Jose produced 1.3 million ounces of silver and 8,231 ounces of gold. These results are slightly below Q1 2022 due to lower grades than planned as a result of higher dilution in one of the sublevel stopping areas and a small delay in the mining sequence level 800.

We anticipate mining better grade stopes in the upcoming months, though. Cash cost per ounce at San Jose has come under pressure from a stronger Mexican Peso coupled with higher inflation and lower head grades. All-in sustaining cost for the quarter is in line with annual guidance as lower production and higher cost of sales were offset by timing in CapEx execution.

Moving down to Argentina, Gold production at the Lindero mine was 25,258 ounces, aligned with the mining sequence for the quarter. Head grades are expected to improve in the upcoming mining zones as per mine plan. Mine production for the quarter was 1.6 million tons of mineralized material with a stripping ratio of 1.07:1 which is aligned with the operations planned for the year of 1.17:1.

Lindero AISC is in line with guidance for the year. Cash cost per ounce was impacted by higher labor and onetime services costs as well as the effect of lower grades, but partially offset by lower CapEx execution and savings in key consumables.

AISC is expected to come in at the high end of guidance for the year. In Peru, despite social unrest and numerous road blockades throughout the country in January and February, operations at the Caylloma mine have not been significantly affected. The operation delivered strong production for the first quarter with 8%, 19% and 10% higher production for silver, lead and zinc, respectively.

The operation benefited from better head grades of levels 16 and 17, the deepest levels of the mine and higher tons processed during the period. Caylloma's all-in sustaining cost for the quarter benefited from higher production, lower cash cost and lower CapEx execution and is on target to achieve the lower cost range of annual guidance. That covers the three Latin American operations. Jorge, back to you.

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Thank you. Luis, you want to give your report on financial results, please?

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

Yes, good morning. So sales were \$175.6 million in the quarter, a decrease of \$6.7 million or 4% compared to Q1 2021. The slight decrease was driven by 7% lower silver prices and 14% lower zinc prices. The volume effect on our sales year-over-year was neutral as slightly lower gold and silver sales were offset by higher zinc production at our Caylloma mine.

Year-over-year, our key financial metrics reflect the impact from inflation rates experienced throughout 2022 as well as lower operating margins at Yaramoko and Lindero related to schedule decreases in headwind. These impacts resulted in cash cost per gold equivalent ounce sold of \$916 for Q1 2023, which was \$144 above the prior year. As I just mentioned, this increase is the combined effect of higher input costs across our operations, more processed tonnage to produce a lower number of ounces at Yaramoko and Lindero and the negative effect of relative prices in the calculation of gold equivalent production of approximately \$29 per ounce.

So adjusted net income for the quarter was \$13.2 million, down \$20 million year-over-year. And adjusted EBITDA was \$65.3 million, down \$15 million year-over-year. We have disclosed for the quarter consolidated all-in sustaining costs, including corporate expenses of \$1,514 per gold equivalent ounce sold, which represents an increase of \$230 per ounce year-over-year.

The increase is explained by higher cost per ounce sold described before, higher sustaining CapEx of \$109 of which two-thirds is timing of payments in the prior year, with an offset from lower corporate G&A of \$24 per gold equivalent ounce sold. For Q2 of 2023, we expect to see somewhat higher consolidated all-in sustaining cost due to a pickup in sustaining CapEx and the stoppage at San Jose. And for Q3 and Q4 of this year, we expect to see a trend towards lower levels as Séguéla starts weighing positively on our all-in sustaining cost performance.

Moving on to cash flows. Net cash from operating activities in the quarter was \$41.8 million compared to \$33.2 million in Q1 of 2022. And as changes in working capital and lower income taxes paid compensated for the lower EBITDA of \$15 million year-over-year. Free cash flow from operations was \$8.5 million compared to \$9.6 million in the prior year. As Jorge emphasized, our reported free cash flow figure is after sustaining CapEx, brownfield exploration and corporate expenses. It does exclude Séguéla construction and greenfield exploration.

Our additions to mineral properties and properties plant and equipment as per the cash flow statement was \$61.5 million, which consisted of \$30 million of sustaining CapEx and brownfield exploration, \$17.3 million Séguéla construction expenditures, \$4.5 million of other preproduction activities at Séguéla, \$3.7 million of greenfields exploration and capitalized interest of \$2.8 million.

On to the balance sheet, we closed the quarter with a liquidity position of \$129.7 million, which includes \$45 million undrawn under our existing trade facility as of the end of March. The remaining cash to be spent on the Séguéla construction as of the end of the quarter was approximately \$23 million. Finally, our total net debt, including the outstanding convertible debenture is \$166 million resulting in a leverage ratio of total net debt to adjusted EBITDA of 0.7%. Back to you, Jorge.

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Thank you. That concludes the management question. So Carlos, for the Q&A.

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

Thank you, Jorge. We would now like to open the call to any questions that you may have. Thank you.

Operator

Thank you. At this time, we would like to conduct a question-and-answer session. [Operator Instructions]. We have a question from Tony Christ with Odyssey Investments. You may proceed.

Q: Thank you. My name is Christ. Jorge [ph] could you give any more specific indication of what you expect from the gold mine starting production this month. What you expect in the future? And the other comment I have is, I imagine you gentlemen are looking forward to a very exciting future?

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Thank you for the question, Christ. We already provided for 2023 or guidance estimates for Séguéla. We have guided for gold production between 60,000 and 75,000 ounces. And for all-in sustaining costs, we have provided a range that goes from \$880 to \$1,080 per ounce. So that is our more immediate estimation based on our best assessment of where we are with the project and how the project has been evolving, which is really on time, on budget. I can only comment the good work that the entire West African team has achieved and delivered throughout the construction commissioning and now ramping up, right?

We expect first gold pour in the coming days. It's imminent before the end of this month, we should be having our first call. But looking forward, looking at the bigger picture, Séguéla is a flagship asset for the company. It has many key features. One is meaningful production Second is low cost, it will be our lowest cost mine operation. Third, it has today, a long life of reserves today, as we see the mine based on reserves and the conversion work we're doing on Sandberg resources, we can easily see beyond a decade of mining based on reserves.

So -- and beyond that, it's tremendous exploration potential. We hold a commanding land position in the Séguéla camp, I call it a camp. We have 30 kilometers from north to south along what's most prospective and productive mineralized gold belt. So -- sometimes I am asked, so what follows after Séguéla and my immediate response to that is more Séguéla. We have the expectation that Séguéla can be a much larger mine than what we are bringing into production today, which is already quite meaningful. Thank you.

Q: Thank you. Thank you so much.

Operator

Thank you. We have another question from Adrian Day with Adrian Day Asset Management. You may proceed.

Q: Yes, good afternoon. Two questions, if I may. First one, do you have a sort of budget for exploration at the Diamba Sud project for the next year? And then the second question would be, I just wondered if you had any high-level views that you can give on a geographic spread of the company? And do you look -- are you looking at region? Are you wanting to emphasize particular regions? Or are you looking purely at each mine, each opportunity as it comes along?

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Thank you, Adrian. With respect to the Diamba Sud budget, the transaction the Chase acquisition is expected to close in October -- sorry, in late August. So we are currently working on or plans to -- for the work that will start once the transaction is consummated in August, right? That will, of course, encompass an exploration budget, we do not have a budget at this time, but I can advance to you that exploration will be a focus for the Diamba Sud work that's coming ahead.

We also will likely be doing some engineering work, Diamba Sud has published preliminary economic assessment and Chesser management was working already on a feasibility study. So we -- although completion of the feasibility study I wouldn't call it a priority for us right now. Certainly, we will look at aspects of the feasibility study, looking to see opportunities for optimization and bringing our own expertise and thoughts to the design and conceptualization of what could be a future mine there, right? So exploration will be a priority, and we are working on those budgets and plans as we speak. We have some time because the transaction is set to close in August, as I explained.

With respect to the more strategic question, your second question, on geographic spread for the company. And that is a key aspect of Fortuna. Fortuna is a company that today has a wide geographic spread, right? We operate in five different countries, in two continents. So this is a key strategic aspect of our business and the subject of strategic discussion has been the subject of strategic discussions. So what you will see is Fortuna anchored in the two regions where we are already established, that's West Africa and the LatAm [indiscernible].

Within these two most productive mining regions, you will see us focused on in the countries where we already operate in the five countries where we operate. The five countries where we are established are mining jurisdictions, Mexico, Peru, the province of Salta, which is proud of its mining heritage. Burkina Faso, the Ivory Coast and now expanding into Senegal. But we -- you will see us first focus in the countries where we are already established, and as a second priority is near neighbors. So what we want to do is be able to leverage the existing infrastructure

we have in our management hubs in the city of Avian in Côte d'Ivoire and in the city of Lima in Peru.

That's where our management hubs fit for the two regions and where we have expertise that we can leverage within the region. You should not look to see Fortuna stepping out of these regions. For example, sometimes I'm asked about Africa. Africa is quite a large place and diverse. We're not looking for opportunities across Africa. We're looking for opportunities in West Africa. In near neighbors in the countries where we already established, the same with LatAm.

So we're not looking at opportunities in North America or Australia or the Philippines or places like that. We -- our core areas of focus are where we are already established, we feel very comfortable there growing our business, and we believe we can manage the geographic dispersion we have in place today.

Q: Okay. Thank you.

Operator

Thank you. Our next question is coming from Justin Stevens with PI Financial. You may proceed.

Q: Just a few questions from my side here. More sort of on the exploration and sort of upside end of things. I know there was some talk earlier this year about looking at [indiscernible]. Can you just maybe give us an idea on what the time line might be for the evaluation there? The potential to -- potentially bring that into the mine life and what we would be needed from the permit side of things?

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Yes. I can advance things from the permit side of things. Arizaro is within our mining concession and any ore that we mine there will be fed to existing infrastructure. So we don't see there any significant issues with permitting. And for the exploration side of things, I'll let Paul talk to Arizaro, Paul?

Paul Weedon - Senior Vice President of Exploration, Fortuna Silver Mines, Inc.

Yes. Thanks, Jorge. We've -- last year, we wrapped up another phase of work on Arizaro we're successful in expanding the footprint of the mineralization that's there. We don't have some optimization of the results, and certainly very encouraging. The grades that we've got are comparable to what [indiscernible] is given that there are long life of mine, there's not a real need at the moment to continue to advance that because it doesn't displace anything that's better value. So we at [indiscernible] in at the end of the Lindero mine life. There's still some work you've done on the optimization of that we've certainly got a reasonable size resource there at the moment.

We will continue to look at the structural repeats of it. It's a polyphase interests here. And we do see some evidence of a reasonably strong recently coherent structural overprint that I don't think was recognized previously. But yes, we're not really doing a lot of work at Arizaro for the next year or so.

Q: Got it. That makes sense. Moving over to the [indiscernible] and the things, though, obviously, some pretty nice results coming out of Sunbird [ph] the last little while as you've been drilling off there. And good to see sort of that resource bump. Are you planning to put out another updated resource on that? Or is just sort of expecting that to fall into the usual annual cadence and so the line up with the annual reserve resource updates?

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Paul.

Paul Weedon - Senior Vice President of Exploration, Fortuna Silver Mines, Inc.

Yes. Thanks for that. Yes, look, we're just going to have the Sunbird drilling just wrapped up now. That's moved across to the ops skies to start the optimization and an introduction into the life of mine later on this year. So it will come out as part regular update next year.

Q: Got it. That makes sense. And just on that, I mean, obviously, it's looking like it's got a decent amount of size there. what sort of -- or two different ways, either what sort of potential flexibility you have in debottlenecking, or what do you sort of see as the main Séguéla process bottleneck if you were to try to look at increasing the throughput?

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

David, do you want to address this question on the bottlenecking of Séguéla's plant and whether our plans are with respect to assessing the expansion of the mill?

David Whittle - Chief Operating Officer of West Africa, Fortuna Silver Mines, Inc.

Yes. [Indiscernible]. Within the initially anticipated set up the plant and the DFS. It was expected that we would be able to increase the throughput for the plant around year three to about 1.5 million, 1.6 million tonnes a year. That was ultimately based around changes with grain size modifications through the plant. The design of the plant also has an option for the installation of ore mill and ample pressure later on in life as well to further expand the throughput.

But at the moment, obviously, the focus will be to see where the real boundaries exist in the existing plant. At the moment, we're just establishing operation of the plant, and we're feeding oxide ore. So it's a little bit early to be able to go through that process. But by a little bit later on this year, we should be starting to refresh [indiscernible] and we should be able to start looking at where some of the bottlenecks live and be able to remove we're only moving those bottlenecks. I

think it's a gale over the following years is going to be a very, very dynamic environment with the Sunbird deposit coming into the mining plan and some other good exploration opportunities.

I think the mine planning is going to be very dynamic over the next few years, and that's going to be probably a lot of engineering work to really determine where the production from Séguéla and whether the constricting factor will really be all the mine. I mean we -- I think both will be pushing each other long for a good couple of years later.

Q: Great. So that's what we want to hear. Thanks.

Operator

Thank you. Our next question is coming from [indiscernible]. Sir you may proceed.

Q: Thank you operator. Most of my questions have already been answered, but I have one question on your recent acquisition of Chester Resources. So you will be focusing on exploration and finding more ounces and more satellite pits at [indiscernible]. But do you have any sort of target in amount of ounces that you would like to -- that you would be able to settle for before moving into development and devising a feasibility study on the [indiscernible]? Thank you.

Jorge A. Ganoza - President, Chief Executive Officer and Director, Fortuna Silver Mines, Inc.

Thank you. That's a good question, Jesper. We have a threshold and view that [indiscernible] with the work that Paul has outlined, has a fair chance to go beyond 1 million ounces, so that's with work in the immediate area of deposits that have been discovered and drilled and also with some of the other initiatives outlined by Paul. So our view is that it can certainly get beyond 1 million ounces. Now how big? Well, the drill bit will tell us, right? But beyond 1 million ounces is, we believe, a reasonable expectation based on the information and our understanding today.

And we have certain criteria. We want to see a life of reserves that support a mine for over a decade. We would like to see in our mine portfolio, all of the assets at 10 years plus in reserves. And we would like to see production that for a company of our size annual production from each asset nor in the range of 150,000, 120,000 ounces annually, right? And so with respect to physical metrics, that is what we would like to see in every asset.

And then, of course, we have our financial thresholds with respect to our expectations on internal rates of return and things like that. But more on the fixed side of metrics, 10 years of reserves minimum and meaningful production at competitive costs, of course, right? And with the grades that we have at [indiscernible] over 1.5. We believe we can achieve low cost ounces and its conventional mining, conventional processing. So we just need to focus on the exploration and get it beyond that amount, which is the 1 million ounces, right?

Today, it's a 5 million-ounce deposit with all the -- and as we have said in the past, it looks very much like Séguéla look to the exploration team back in the day when the Séguéla acquisition was made. When the Séguéla acquisition was made back in 2019, Séguéla was a 400,000 ounce

deposit. Today is touching 2 million ounces and continues to show potential to grow. So we see a similar opportunity in general terms.

Q: That was a great answer. And yes, you provided some great color on that. That was it for me operator.

Operator

Thank you so much. At this time, we have no further questions on the telephone lines, so I will hand the call back over to management.

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

Thank you, Ali [ph]. If there are no further questions, I would like to thank everyone for listening to today's earnings call. Have a great day.

Operator

Thank you. This does conclude today's conference, and you may disconnect your lines at this time. We thank you for your participation.