Prospero Silver Corp.

Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2019

(Expressed in Canadian dollars - Unaudited)

NOTICE TO READER

The accompanying unaudited interim condensed consolidated financial statements have been prepared by and are the responsibility of the Company’s management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Prospero Silver Corp.
Interim consolidated statements of financial position
(Expressed in Canadian dollars - unaudited)

	Note	September 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash		$ 133,152	$ 474,363
Marketable securities	3	36,247	30,404
Receivables	4	10,234	27,891
Prepaid expenses		8,000	56,009
		187,633	588,667
Non-current assets			
Receivables	4	393,386	414,171
Equipment	5	11,983	14,685
Exploration and evaluation assets	6	3,249,784	3,164,715
		3,655,153	3,593,571
TOTAL ASSETS		$ 3,842,786	$ 4,182,238
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	7	$ 53,310	$ 52,825
TOTAL LIABILITIES		53,310	52,825
EQUITY			
Share capital	10	12,969,430	12,969,430
Share-based payment reserve	11	2,358,806	2,327,481
Deficit		(11,538,760)	(11,167,498)
TOTAL EQUITY		3,789,476	4,129,413
TOTAL LIABILITIES AND EQUITY		$ 3,842,786	$ 4,182,238

Nature and continuance of operations (Note 1)

On behalf of the board:

[signed]:"Tawn Dewey Albinson",
Director

[signed]:"William Murray"
Director

Prospero Silver Corp.
Interim consolidated statements of comprehensive loss
(Expressed in Canadian dollars - unaudited)

		Three month periods ended		Nine month periods ended	
	Note	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Expenses					
Communications		$ 4,202	$ 4,988	$ 11,591	$ 18,439
Directors' fees	12	15,000	34,500	60,000	103,500
Filing fees		771	1,107	12,357	14,429
Foreign exchange loss		15,891	8,286	40,208	9,858
Investor relations	12	11,000	30,000	44,500	90,000
Office and miscellaneous		8,859	10,479	28,009	26,849
Professional fees		10,385	6,726	40,766	42,067
Project investigation costs		-	-	-	47,873
Salaries and wages		15,438	31,101	61,074	93,069
Stock – based compensation	10, 12	-	156,890	21,754	293,629
Travel		4,192	34,040	56,846	86,731
		(85,738)	(318,117)	(377,105)	(826,444)
Other items					
Unrealized gain on marketable securities	3	(10,570)	-	5,843	-
Recovery of previously impaired mineral interest			36,687		36,687
Loss and comprehensive loss for the period		$ (96,308)	$ (281,430)	$ (371,262)	$ (789,757)
Loss per share – basic and diluted	10	$ (0.002)	$ (0.005)	$ (0.007)	$ (0.018)

Prospero Silver Corp.
Interim consolidated statement of changes in equity
(Expressed in Canadian dollars - unaudited)

		Share capital				
	Note	Number of shares	Amount	Share-based payment reserve	Deficit	Total
Balance at December 31, 2017		35,999,404	$ 10,823,368	$ 1,951,526	$ (9,071,644)	$ 3,703,250
Comprehensive loss for the period		-	-	-	(789,757)	(789,757)
Shares issued for cash – private placement		15,965,333	1,365,680	-	-	1,365,680
Shares issued to acquire exploration and evaluation asset		150,000	18,000	-	-	18,000
Shares issued for cash – warrants exercised		5,357,142	803,571	-	-	803,571
Share issue costs – cash		-	(39,369)	-	-	(39,369)
Share issue costs – agents warrants issued		-	(1,820)	1,820	-	-
Share based compensation		-	-	405,461	-	405,461
Balance at September 30, 2018		57,471,879	$ 12,969,430	$ 2,358,807	$ (9,861,401)	$ 5,466,836
Balance at December 31, 2018		57,471,879	$ 12,969,430	$ 2,327,481	$ (11,167,498)	$ 4,129,413
Comprehensive loss for the period		-	-	-	(371,262)	(371,262)
Share based compensation	10	-	-	31,325	-	31,325
Balance at September 30, 2019		57,471,879	$ 12,969,430	$ 2,358,806	$ (11,538,760)	$ 3,789,476

See accompanying notes to the condensed interim consolidated financial statements

(Expressed in Canadian Dollars - unaudited)

	Nine month periods ended	
	September 30, 2019	**September 30, 2018**
Operating activities		
Loss for the period	$ (371,262)	$ (789,757)
Adjustments for:		
Unrealized gain on marketable securities	(5,843)	(23,610)
Stock-based compensation	21,754	293,629
Changes in non-cash working capital items:		
Receivables	38,442	(211,578)
Prepaid expenses	48,009	(58,926)
Trade payables and accrued liabilities	485	21,226
Net cash used in operating activities	(268,415)	(769,016)
Investing activities		
Option proceeds on exploration and evaluation asset	1,300,257	-
Expenditures on exploration and evaluation assets	(1,373,053)	(1,396,811)
Net cash generated by/(used in) investing activities	(72,796)	(1,396,811)
Financing activities		
Proceeds on issuance of common shares, net of issuance costs	-	2,129,882
Net cash generated by/(used in) investing activities	-	2,129,882
(Decrease) Increase in cash	(341,211)	(35,945)
Cash, beginning of period	474,363	887,917
Cash, end of period	$ 133,152	$ 851,972

Non-cash Transactions (Note 15)

1. Nature and continuance of operations

Prospero Silver Corp. (the "Company") was incorporated on March 31, 2008, under the laws of the province of British Columbia, Canada, and its principal activity is the acquisition and exploration of mineral properties. The Company has mineral property interests located in Mexico that are undergoing evaluation and exploration. The principal address and records office of the Company is located at Suite 1800 – 510 West Georgia Street, Vancouver, British Columbia, V6B 0M3.

The Company's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "PSL".

The Company is evaluating its mineral property interests and has not yet determined the existence of economically recoverable reserves. The recoverability of amounts reported for exploration and evaluation assets depends upon many factors, including; the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete development, and the sustainability of future profitable production or disposition thereof.

These interim condensed consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. A different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at September 30, 2019 the Company had not advanced any of its exploration and evaluation assets to commercial production and is not able to finance day to day activities through current operations. The Company's continuation as a going concern is dependent upon successful results from its exploration activities, its ability to raise sufficient equity financings or borrowings to fund ongoing operations and project development, and ultimately achieving profitable operations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue. Management intends to finance operating costs over the next twelve months with existing working capital, private placements of common shares and loans from directors. While management has been successful in obtaining sufficient funding for its operating, capital and exploration requirements from the inception of the Company to date, there is no assurance that additional funding will be available to the Company, when required, on terms which are acceptable to management.

2. Significant accounting policies and basis of preparation

These financial statements were authorized for issue on November 11, 2019 by the directors of the Company.

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These unaudited condensed interim consolidated financial statements do not include all the information and disclosures required by IFRS for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

2. Significant accounting policies and basis of preparation (cont'd)

Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The unaudited condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise noted.

These unaudited condensed interim consolidated financial statements do not include all the note disclosures required in the annual financial statements. Accordingly these unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended December 31, 2018. All information presented herein is unaudited.

Consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its controlled entity. Details of the controlled entity are as follows:

		Percentage owned	
	Country of incorporation	**June 30, 2019**	**December 31, 2018**
Minera Fumarola S.A., de C.V. ("Fumarola")	Mexico	100%	100%

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of equipment, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

Significant judgements

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to a significant uncertainty;
- the allocation of expenditures as exploration and evaluation expenditures or operating expenses; and
- the determination of the functional currency of the parent company and its subsidiary.

2. Significant accounting policies and basis of preparation (cont'd)

Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking "expected loss" impairment model.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive loss ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Marketable securities	FVTOCI	FVTPL

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive loss on January 1, 2018. There were no marketable securities as at January 1, 2018.

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

2. Significant accounting policies and basis of preparation (cont'd)

Financial instruments *(cont'd)*

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of comprehensive loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive loss.

Equipment

Equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of a significant replaced part is derecognized. All other repairs and maintenance are charged to net income or loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation and amortization are calculated on a declining balance method to write off the cost of the assets to their expected residual values over their estimated useful lives. The depreciation and amortization rates applicable to each category of equipment are as follows:

Class of plant and equipment	**Depreciation rate**
Computer equipment	Declining balance - 40%
Office equipment	Declining balance - 10%
Geophysical equipment	Straight line – 15 years
Transport equipment	Declining balance - 25%

2. Significant accounting policies and basis of preparation (cont'd)

Equipment (cont'd)

Geophysical and transport equipment depreciation and amortization are included in field administrative costs, which are recorded in either project investigation costs or deferred exploration expenditures as appropriate.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purpose only and has no effect on previously reported results.

Accounting standards issued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations on revenue. IFRS 15 establishes a single five-step model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard was mandatory for annual periods beginning on or after January 1, 2018, with early application permitted. As the Company has no revenue, there was no impact on the Company's consolidated financial statements.

Accounting standards issued but not yet applied

The following are accounting standards anticipated to be effective January 1, 2019 or later:

IFRS 16 Leases

IFRS 16 will replace IAS 17 *Leases*. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Application of the standard is mandatory for annual periods beginning on or after January 1, 2019, with early application permitted. IFRS 16 will result in an increase in assets and liabilities as fewer lease payments will be expensed. Management does not expect any impact as the Company does not have any leases.

There are no other IFRS or International Financial Reporting Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's consolidated financial statements.

3. Marketable securities

During the year ended December 31, 2018, the Company acquired 1,013,035 common shares of Magellan Gold Corp. as a payment for expenditures previously incurred on a property which has been fully impaired. At the date of acquisition, the shares had a fair value of $23,610. At September 30, 2019 the shares had a fair value of $36,247 (December 31, 2018 - $30,404) and the Company has recognized an unrealized gain of $5,843 for the nine month period ending September 30, 2019.

(Expressed in Canadian Dollars - unaudited)

4. Receivables

		September 30, 2019		December 31, 2018
Value-added taxes receivables	$	9,886	$	26,945
Other receivables				
Short-term		348		946
Long-term		393,386		414,171
	$	403,620	$	442,062

5. Equipment

		Computer equipment		Office equipment		Geophysical equipment		Transport equipment		Total
Cost:										
At January 1, 2018	$	12,431	$	8,801	$	27,478	$	30,707	$	79,417
Addition		-		-		-		-		-
At December 31, 2018		12,431		8,801		27,478		30,707		79,417
Addition		-		-		-		-		-
At September 30, 2019		12,431		8,801		27,478		30,707		79,417
Depreciation:										
At January 1, 2018		(9,706)		(4,735)		(19,259)		(26,703)		(60,403)
Charge for the year		(1,090)		(406)		(1,832)		(1,001)		(4,329)
At December 31, 2018		(10,796)		(5,141)		(21,091)		(27,704)		(64,732)
Charge for the period		(491)		(274)		(1,374)		(563)		(2,702)
At September 30, 2019		(11,287)		(5,415)		(22,465)		(28,267)		(67,434)
Net book value:										
At December 31, 2018	$	1,635	$	3,660	$	6,387	$	3,003	$	14,685
At September 30, 2019	$	1,144	$	3,386	$	5,013	$	2,440	$	11,983

(Expressed in Canadian Dollars - unaudited)

6. Exploration and evaluation assets

The following table represents the exploration and evaluation assets as at September 30, 2019 and December 31, 2018.

	Acquisition Costs	Exploration Expenditures	Total 2019	Total 2018
Pachuca SE, Mexico [(a) below]				
Beginning of year	$ -	$ 674,523	$ 674,523	$ 230,815
Incurred during the period	-	1,311,502	1,311,502	443,708
Option payments received	-	(1,300,257)	(1,300,257)	-
End of period	**-**	**685,768**	**685,768**	**674,523**
El Petate, Mexico [(b) below]				
Beginning of year	-	794,988	794,988	627,452
Incurred during the period	-	61,979	61,979	167,536
End of period	**-**	**856,967**	**856,967**	**794,988**
Santa Maria del Oro, Mexico [(c) below]				
Beginning of year	-	929,319	929,319	$ 909,776
Incurred during the per period	-	8,546	8,546	19,543
End of period	**-**	**937,865**	**937,865**	**929,319**
Baborigame, Mexico [(d) below]				
Beginning of year	132,703	401,632	534,335	507,966
Incurred during the period	-	1,084	1,084	26,369
End of period	**132,703**	**402,716**	**535,419**	**534,335**
Florida, Mexico [(e) below]				
Beginning of year	-	34,266	34,266	34,266
Incurred during the period	-	-	-	-
End of period	**-**	**34,266**	**34,266**	**34,266**
Bermudez, Mexico [(f) below]				
Beginning of year	-	-	-	60,476
Incurred during the period	-	-	-	370,249
Impairment	**-**	**-**	**-**	(430,725)
End of period	**-**	**-**	**-**	**-**
Buenavista, Mexico [(g) below]				
Beginning of year	-	-	-	41,050
Incurred during the period	-	-	-	710,103
Impairment	**-**	**-**	**-**	(751,153)
End of year period	-	-	-	-
Other, Mexico [(h) below]				
Beginning of year	-	197,284	197,284	202,904
Incurred during the period	-	2,215	2,215	12,302
Impairment	**-**	-	-	(17,922)
End of period	**-**	**199,499**	**199,499**	**197,284**
Total	**$ 132,703**	**$ 3,117,081**	**$3,249,784**	**$ 3,164,715**

6. Exploration and evaluation assets (cont'd)

The following is a description of the Company's exploration and evaluation assets and the related spending commitments:

a. Pachuca SE Project.

During the year ended December 31, 2013, the Company acquired the Pachuca SE property by staking.

Fortuna – initial agreement

The Company secured a $1.5 million investment from Fortuna Silver Mines Inc. ("Fortuna"). Fortuna purchased 5,357,142 units in the Company at $0.28 per unit. The Company is required to spend $1.2 million to drill three of the Company's existing six projects, and $300,000 was required to be spent on the Company's project generative efforts (spent). Within 15 months from signing of the definitive agreement in May 2017, Fortuna will have the right to select one of the projects from the initial project list to joint venture with the Company. Fortuna can potentially earn a staged 70% interest in the selected project by spending US$8 million over 6 years and completing a Preliminary Economic Assessment on the project.

If Fortuna exercises a minimum of 75% of its warrants at any time prior to their expiry, Fortuna will be granted the right to select a second property for joint venture within 18 months of exercising the warrants. The Company will be required to spend at least 20% of the warrant exercise proceeds on further project generative work in Mexico, and the balance on drilling programs on existing and new projects, within 12 months of the warrant exercise date.

As new projects are identified these will be presented to the combined technical committee. Fortuna has ninety days to notify the Company whether or not Fortuna wishes to have the right to retain such target as a possible selected property. If Fortuna declines the Company will be free to deal with such project as it sees fit. All of this has been completed; see 2018 revised work program and amendment below.

2018 Revised work program and amended Strategic Cooperation Agreement with Fortuna.

The Company and Fortuna amended their May 8, 2017 strategic financing agreement including an agreement for the repricing and triggering the exercise of Fortuna's 5,357,142 share purchase warrants to provide additional funding for the 2018 drill program and fixing the deadline for Fortuna to exercise its project selection options.

The Company amended the Fortuna warrants to reduce the exercise price from $0.35 to $0.15 per share, on the condition that, within 3 business days of the exercise price reduction becoming effective, Fortuna would fully exercise the warrants (completed). The funds will be applied toward the initial phases of work under the 2018 drill program. To fund the remainder of the 2018 drill program, the Company agreed to undertake an additional private placement financing with Fortuna as the only subscriber, at a price per share equal to the current market price of $0.075 (completed – Note 10).

At the time of the amendment, the Company was in the process of completing a separate private placement financing. Fortuna waived its pro rata right to participate in this financing. In addition, Fortuna and the Company agreed to a November 30, 2018 deadline for Fortuna to exercise its option rights to select up to two of the Company's projects for option to joint venture agreements as per terms defined in the original May 2017 agreement.

On September 17, 2018 the Company completed the private placement with Fortuna and issued 4,746,667 common shares at a price of $0.075 per share for gross proceeds of $356,000. In connection with the financing, the Company paid $13,436 in share issuance costs – See Note 10. Due to its shareholding Fortuna is now a related party.

6. Exploration and evaluation assets (cont'd)

a. Pachuca SE Project. (cont'd)

On December 10, 2018 Fortuna exercised its right to be granted an option to acquire up to a 70-per-cent interest in the Pachuca Southeast project by spending a total of US$8 million in qualifying expenditures and completing a preliminary economic assessment, with a minimum spend of US$1-million in the first year. During the period ending September 30, 2019 CAD $1,300,257 was received. On September 12, 2019 Fortuna Silver Mines Inc. has terminated the property option agreement. Fortuna has not earned an interest in the Pachuca SE property.

b. El Petate Property

During the year ended December 31, 2012, the Company acquired the El Petate property by staking.

c. Santa Maria del Oro Property

During the year ended December 31, 2011, the Company acquired the Santa Maria del Oro property by staking.

d. Baborigme Property

During the year ended December 31, 2010, the Company acquired the Baborigame property by staking.

e. Florida Property

During the year ended December 31, 2016, the Company acquired the Florida property by staking.

f. Bermudez Property

During the year ended December 31, 2010, the Company acquired the Bermudez property by staking.
This project was fully impaired during the year ending December 31, 2018.

g. Buenavista Property

Pursuant to an Option agreement dated August 1, 2017 the Company, together with its Mexican subsidiary Fumarola, entered into an option to own agreement (the "Option Agreement") with Exploraciones del Altiplano, S.A. de C.V. ("Altiplano") in an all share deal to earn a 100% right, title and interest in and to Altiplano's two Buenavista claims covering approximately 1,177 hectares located in Durango, Mexico, subject to the reservation by Altiplano of a 2% net smelter return royalty. In order to exercise the option and earn its 100% interest in the property, the Company had to issue a total of 750,000 common shares to Altiplano over 48 months. As at December 31, 2018 the Company issued 225,000 of its shares at a fair value of $34,500. A director of the Company owns or controls, indirectly, over 20% of the issued shares of Altiplano.

This project was fully impaired during the year ending December 31, 2018.

h. Other Properties

Ocampo and Quiporito Properties

During the year ended December 31, 2010, the Company acquired the Ocampo and Quiporito properties by staking. The Quiporito property was impaired during the year ending December 31, 2018 and an amount of $17,922 was written off from other properties.

During the year ended December 31, 2018 the Company received $50,604 in recoveries of previously impaired properties, including common shares received (Note 3).

(Expressed in Canadian Dollars - unaudited)

6. Exploration and evaluation assets (cont'd)

The following table represents exploration expenditures incurred during the nine month period ending September 30, 2019:

	Pachuca SE	El Petate	Santa Maria del Oro	Baborigame	Other	Total
Drilling	$ 850,007	$ -	$ -	$ -	$ -	$ 850,007
Fees, taxes and duties	220,308	38,020	6,902	931	1,709	267,870
Laboratory analysis and assays	18,233	-	-	-	-	18,233
Logistic support	109,645	3,984	-	-	-	113,629
Stock-based compensation	-	9,571	-	-	-	9,571
Field administration	113,309	10,404	1,644	153	506	126,016
	$ 1,311,502	$ 61,979	$ 8,546	$ 1,084	$ 2,215	$ 1,385,326

The following table represents exploration expenditures incurred during 2018:

	Pachuca SE	El Petate	Santa Maria del Oro	Baborigame	Bermudez	Buenavista	Other	Total
Drilling	$ 234,779	$ -	$ -	$ -	$ 212,931	$ 387,178	$ -	$ 834,888
Fees, taxes and duties	80,253	18,635	16,552	9,093	66,572	143,718	2,756	337,579
Geological Consulting	4,302	22,371	-	11,752	-	-	8,976	47,401
Laboratory analysis and assays	-	-	-	-	13,626	20,920	-	34,546
Logistic support	46,372	15,258	240	4,406	27,950	67,742	-	161,968
Stock-based compensation	-	102,260	-	-	-	-	-	102,260
Field administration	78,002	9,012	2,751	1,118	49,170	72,545	570	213,168
	$ 443,708	$ 167,536	$ 19,543	$ 26,369	$ 370,249	$ 692,103	$ 12,302	$ 1,731,810

(Expressed in Canadian Dollars - unaudited)

7. Trade payables and accrued liabilities

	September 30, 2019	December 31, 2018
Trade payables	$ 22,632	$ 12,761
Amounts due to related parties (Note 12)	11,428	16,064
Accrued liabilities	19,250	24,000
	$ 53,310	$ 52,825

8. Income taxes

The Company made no provision for income tax liability for the nine month period ending September 30, 2019, as no liability is anticipated.

9. Restoration and environmental obligations

The Company is not aware of any restoration and environmental obligations relating to its exploration and evaluation assets. Accordingly, no provision has been made. The Company has conducted early stage exploration programs on its properties. It is not currently possible to estimate the impact, if any, of future legislative or regulatory developments on future restoration and environmental obligations.

10. Share capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

At September 30, 2019 there were 57,471,879 issued and fully paid common shares outstanding (2018 – 57,471,879).

For the nine month period ended September 30, 2019:

There were no shares issued during the period.

For the year ended December 31, 2018:

Shares issued for mineral properties

On July 26, 2018, the Company issued 150,000 shares with a fair value of $18,000 pursuant to its Buenavista property option agreement (Note 6).

Private placements

On September 17, 2018 the Company completed a private placement with Fortuna by issuing 4,746,667 common shares at a price of $0.075 per share for gross proceeds of $356,000. In connection with the financing, the Company paid share issuance costs of $13,436 (Note 6).

On May 28, 2018 the Company completed the second tranche of a non-brokered private placement consisting of 5,468,889 units at $0.09 per unit for gross proceeds of $492,200. Each unit consists of one common share and one-half non-transferable share purchase warrant with one non-transferable share purchase warrant exercisable at a price of $0.16 per share for a period of 2 years. In connection with the financing, the Company paid fees of $1,035 cash and issued 11,500 finder’s fee warrants with a fair value of $709.

(Expressed in Canadian Dollars - unaudited)

10. Share capital (cont'd)

Private placements (cont'd)

On May 18, 2018 the Company completed the first tranche of a non-brokered private placement consisting of 5,749,777 units at $0.09 per unit for gross proceeds of $517,480. Each unit consists of one common share and one-half non-transferable share purchase warrant with one non-transferable share purchase warrant exercisable at a price of $0.16 per share for a period of 2 years. In connection with the financing, the Company paid fees of $24,898 cash and issued 17,500 finder's fee warrants with a fair value of $1,111.

Other

The Company issued 5,357,142 shares pursuant to the exercise of 5,357,142 warrants at $0.15 for gross proceeds of $803,571.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the period ended September 30, 2019 was based on the loss attributable to common shareholders of $371,262 (2018 - $789,757) and the weighted average number of common shares outstanding of 57,471,879 (2018 – 44,284,869). Diluted loss per share did not include the effect of stock options and warrants, as the effect would be anti-dilutive.

Stock options

The Company has adopted an incentive stock option plan (the "Plan"), which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and technical consultants, including investor relations advisors, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares at the time each option is granted. The Plan contains restrictions on the number of options, including share compensation arrangements, to which any one service provider is entitled. Such options will be exercisable for a maximum period of up to 10 years from the date of grant. Extended vesting schedules to options issued were adopted by the Company. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company.

The following table summarises the continuity of the Company's share purchase options:

	Number of options
Options outstanding, December 31, 2017	3,160,000
Options granted	1,585,000
Options outstanding, December 31, 2018	4,745,000
Options outstanding, September 30, 2019	4,745,000
Options exercisable, September 30, 2019	4,745,000

(Expressed in Canadian Dollars - unaudited)

10. Share capital (cont'd)

Details of options outstanding as at September 30, 2019 are as follows:

Exercise price	Remaining Life	Number of options outstanding	Expiry
$0.05	1.43 years	240,000	March 4, 2021
$0.30	1.97 years	400,000	September 19, 2021
$0.26	2.65 years	2,520,000	May 24, 2022
$0.075	3.94 years	1,585,000	September 6, 2023
		4,745,000	

The weighted average price of options outstanding was $0.19 and the weighted average life was 2.96 years.

During the year ended December 31, 2018, 1,585,000 options were granted, exercisable at a price of $0.075 per share until September 6, 2023. The assumptions used in the Black-Scholes Option Pricing Model were as follows: expected price volatility of 180%, risk free interest rate of 2.15%, expected life of options of 5 years, and no dividend yield. The fair value of these options granted was $137,204 expensing $107,339 and capitalizing $29,865 to exploration and evaluation assets.

Share purchase warrants

The following is a summary of the Company's share purchase warrant activity during the nine month period ending September 30, 2019 and the year ended December 31, 2018:

	Number of shares	Weighted average exercise price
Outstanding, December 31, 2017	20,470,597	0.21
Issued	5,638,332	0.16
Exercised	(5,357,142)	0.15
Outstanding, December 31, 2018	20,751,787	$ 0.21
Expired	(9,787,000)	0.30
Outstanding, September 30, 2019	10,964,787	$ 0.13

Details of warrants outstanding as at September 30, 2019 are as follows:

Exercise price	Number of warrants outstanding	Expiry
$0.10	3,339,722	January 29, 2020
$0.12	1,986,733	December 3, 2020
$0.16	2,892,388	May 18, 2020
$0.16	2,745,944	May 28, 2020
	10,964,787	

The weighted average price of warrants outstanding was $0.13 and the weighted average life was 0.65 years.

(Expressed in Canadian Dollars - unaudited)

11. Share-based payment reserve

The share-based payment reserve represents the fair value of stock options or warrants until such time that the share-based instruments are exercised, at which time the corresponding amount will be transferred to share capital. During the nine month period ending September 30, 2019 an amount of $Nil (2018 - $Nil) was transferred to share capital. On unit private placements, the share-based payment reserve records the residual value of the fair value of the shares allocated to warrants issued. During the nine month period ending September 30, 2019 an amount of $Nil (2018 - $Nil) was transferred to the reserve.

12. Related party transactions

Related party balances

The following amounts due to related parties are included in trade payables and accrued liabilities (Note 7):

	September 30, 2019	December 31, 2018
Companies controlled by directors or officers of the Company	$ 5,250	$ 7,970
Directors of the Company	6,178	8,094
	$ 11,428	$ 16,064

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Related party transactions

Key management personnel compensation

	Nine months ended	
	September 30, 2019	September 30, 2018
Directors' fees incurred to directors and companies controlled by directors	$ 60,000	$ 103,500
Company officer and director – geological and administrative services – included in deferred exploration costs	82,747	69,977
Companies controlled by directors of the Company – geological and administrative services – included in deferred exploration costs	29,988	46,100
Companies controlled by an officer of the Company – included in investor relations costs	44,500	90,000
Stock-based compensation and vesting	24,367	318,148
	$ 241,602	$ 627,725

Fortuna Silver Mines Inc.

Following the September 17, 2018 financing, Fortuna owned 15,460,951 common shares of the Company, representing 26.90% of the issued and outstanding common shares of the Company. Refer to Note 6.

On December 10, 2018 Fortuna exercised its right to be granted an option to acquire up to a 70-per-cent interest in the Pachuca Southeast project by spending a total of US$8 million in qualifying expenditures and completing a preliminary economic assessment, with a minimum spend of US$1-million in the first year. During the period ending September 30, 2019 CAD $1,300,257 was received. Refer to Note 6. On September 12, 2019 Fortuna Silver Mines Inc. has terminated the property option agreement. Fortuna has not earned an interest in the Pachuca SE property.

13. Financial risk and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada and Mexico and risk is minimised by using major banks which have high credit quality as determined by rating agencies. The Company has secondary exposure to credit risk on its receivables. This risk is minimal as receivables consist primarily of refundable goods and services taxes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company plans and budgets to maintain sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flow needs for operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is subject to capital market uncertainty. There can be no assurance of continued access to significant equity funding.

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at September 30, 2019:

	Within one year	Between one and five years	More than five years
Trade payables and amounts due to related parties	$ 34,060	$ -	$ -

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's Mexican subsidiary is exposed to currency risk as it incurs expenditures that are denominated in Mexican Pesos and United States Dollars while its functional currency is the Canadian Dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The following is an analysis of Canadian dollar equivalent of financial assets and liabilities that are denominated in Mexican pesos:

	September 30, 2019	December 31, 2018
Cash	$ 18,935	$ 7,281
Receivable	393,734	415,117
Prepaid expenses	8,000	6,648
Accounts payable	(19,302)	(8,872)
	$ 401,367	$ 420,174

Based on the above net exposures, at September 30, 2019 a 10% change in the Mexican Peso to Canadian Dollar exchange rate would impact the Company's net loss plus or minus $40,100 (December 31, 2018 - $42,000).

(Expressed in Canadian Dollars - unaudited)

13. Financial risk and capital management (cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is periodically exposed to interest rate risk on its cash equivalents as these instruments are exposed to interest rate fluctuations on renewal. Management has assessed this risk as low.

Capital Management

The Company considers its cash, common shares, warrants and stock options as capital. The Company's policy is to maintain a strong capital base for investor and creditor confidence and to sustain future development of the business. Management considers the capital of the Company to consist of working capital and share capital.

There were no changes in the Company's approach to capital management during the nine month period ending September 30, 2019. The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

		September 30, 2019		**December 31, 2018**
Loans and receivables:				
Cash	$	133,152	$	474,363
Receivables		403,620		442,062
FVTPL:				
Marketable securities		48,002		30,404
	$	584,774	$	946,829

Financial liabilities included in the statement of financial position are as follows:

		September 30, 2019		**December 31, 2018**
Non-derivative financial liabilities:				
Trade payables	$	34,060	$	28,825

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's cash and marketable securities are classified as level 1.

(Expressed in Canadian Dollars - unaudited)

14. Segmented information

Operating segments

The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties.

Geographic segments

At September 30, 2019 and 2018, all of the Company's non-current assets are located in Mexico.

15. Non-cash transactions

The Company incurred the following non-cash investing and financing transactions that are not reflected in the statement of cash flows:

	Periods ended	
	September 30, 2019	**December 31, 2018**
Fair value of shares issued under option agreements	$ -	$ 18,000
Amortization of equipment capitalized	$ 2,702	$ 4,329
Unrealized gain on marketable securities	$ 17,598	$ 6,794
Stock-based compensation capitalized	$ 9,571	$ 102,260