**Prospero Silver Corp.**

**Condensed interim Financial Statements**

**Six months ended June 30, 2020**

**(Expressed in Canadian dollars - Unaudited)**

## NOTICE TO READER

The accompanying unaudited interim condensed 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.

(Expressed in Canadian dollars - unaudited)

| | Note | June 30, 2020 | December 31, 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | $ 12,694 | $ 67,592 |
| Marketable securities | 3 | - | 25,977 |
| Receivables | 4 | 3,207 | 17,486 |
| Prepaid expenses | | - | - |
| | | 15,901 | 111,055 |
| **Non-current assets** | | | |
| Receivables | 4 | - | - |
| Equipment | 5 | - | - |
| Exploration and evaluation assets | 6 | - | - |
| | | - | - |
| **TOTAL ASSETS** | | $ 15,901 | $ 111,055 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables and accrued liabilities | 7 | $ 84,131 | $ 30,822 |
| **TOTAL LIABILITIES** | | 84,131 | 30,822 |
| **EQUITY** | | | |
| Share capital | 9 | 12,969,430 | 12,969,430 |
| Share-based payment reserve | 10 | 2,358,806 | 2,358,806 |
| Deficit | | (15,396,466) | (15,248,003) |
| **TOTAL EQUITY** | | (68,230) | 80,233 |
| **TOTAL LIABILITIES AND EQUITY** | | $ 15,901 | $ 111,055 |

Nature and continuance of operations (Note 1)
Subsequent events (Note 16)

On behalf of the board:

**[signed]:"Tawn Dewey Albinson", Director**

**[signed]:"William Murray" Director**

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

| | | Three months period ended | | Six months period ended | |
|---|---|---|---|---|---|
| | Note | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2019 |
| **Expenses** | | | | | |
| Communications | | $ 5,093 | $ 1,261 | $ 6,015 | $ 7,389 |
| Corporate fees | | 30,000 | - | 67,000 | - |
| Directors' fees | 11 | - | 15,000 | - | 45,000 |
| Filing fees | | 9,320 | 5,360 | 15,619 | 11,586 |
| Foreign exchange loss | | 2,519 | 13,696 | 2,731 | 24,317 |
| Investor relations | 11 | - | 15,000 | - | 33,500 |
| Office and miscellaneous | | 2,489 | 11,440 | 2,798 | 19,150 |
| Professional fees | | 23,639 | 6,538 | 42,174 | 30,381 |
| Salaries and wages | | - | 15,369 | - | 45,636 |
| Share based compensation | 9, 11 | - | 8,158 | - | 21,754 |
| Travel | | - | 17,625 | 2,629 | 52,654 |
| | | (73,060) | (109,447) | (138,966) | (291,367) |
| **Other items** | | | | | |
| Loss on sale of Marketable Securities | 3 | - | - | (9,497) | - |
| Unrealized gain on marketable securities | 3 | - | 10,313 | - | 16,413 |
| **Loss and comprehensive loss for the period** | | $ (73,060) | $ (99,134) | $ (148,463) | $ (274,954) |
| **Loss per share – basic and diluted** | 9 | $ (0.013) | $ (0.017) | $ (0.026) | $ (0.048) |
| **Weighted average number of common shares outstanding** | 9 | 5,747,189 | 5,747,189 | 5,747,189 | 5,747,189 |

Prospero Silver Corp.
Condensed interim 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, 2018** | | 5,747,189 | $ 12,969,430 | $ 2,327,481 | $ (11,167,498) | $ 4,129,413 |
| Comprehensive loss for the period | | - | - | - | (274,954) | (274,954) |
| Share based compensation | | - | - | 31,325 | - | 31,325 |
| **Balance at June 30, 2019** | | 5,747,189 | $ 12,969,430 | $ 2,358,806 | $ (11,442,452) | $ 3,885,784 |
| | | | | | | |
| **Balance at December 31, 2019** | | 5,747,189 | 12,969,430 | 2,358,806 | (15,248,003) | 80,233 |
| Comprehensive loss for the period | | - | - | - | (148,463) | (148,463) |
| **Balance at June 30, 2020** | | 5,747,189 | $ 12,969,430 | $ 2,358,806 | $ (15,396,466) | $ (68,230) |

On July 07, 2020 the Company consolidated its share capital on a ten to one basis. All share and per share information in these financial statements have been restated to retroactively reflect this consolidation for all periods presented.

Prospero Silver Corp.
Condensed interim statements of cash flows
(Expressed in Canadian Dollars - unaudited)

| | Six month periods ended | |
|---|---|---|
| | June 30, 2020 | June 30, 2019 |
| **Operating activities** | | |
| Loss for the year | $ (148,463) | $ (274,954) |
| Adjustments for: | | |
| Loss on sale om marketable securities | 9,497 | - |
| Unrealized gain on marketable securities | - | (16,413) |
| Share based compensation | - | 21,754 |
| Changes in non-cash working capital items: | | |
| Receivables | 14,279 | 34,043 |
| Prepaid expenses | - | 48,155 |
| Trade payables and accrued liabilities | 53,309 | (7,530) |
| **Net cash used in operating activities** | (71,378) | (194,945) |
| **Investing activities** | | |
| Proceeds from sale of marketable securities | 16,480 | - |
| Option proceeds on exploration and evaluation asset | - | 432,837 |
| Expenditures on exploration and evaluation assets | - | (373,738) |
| **Net cash used in investing activities** | 16,480 | 59,099 |
| **Financing activities** | | |
| Proceeds on issuance of common shares, net of issuance costs | - | - |
| **Net cash generated by investing activities** | - | - |
| Decrease in cash | (54,898) | (135,846) |
| Cash, beginning of period | 67,592 | 474,363 |
| Cash, end of period | $ 12,694 | $ 338,517 |

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 had mineral property interests located in Mexico that were 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”.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including the Company’s. This outbreak could decrease spending, adversely affect demand for the Company’s product and harm the Company’s business and results of operations. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

During the year ended December 31, 2019, the Company determined that it would no longer carry out further exploration work on its Mexican mineral properties as a result of Fortuna Silver Mines Inc. (Fortuna) terminating its exploration agreement (Note 6). On December 27, 2019, the Company sold its subsidiary Minera Fumarola S.A., de C.V. (“Fumarola”) with net assets totaling $3,725,697 for cash consideration of $6,539 (USD$5,000), resulting in a loss on the sale of the subsidiary of $3,719,158.

These unaudited condensed interim 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 June 30, 2020 the Company 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 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 condensed interim financial statements were authorized for issue on August 21, 2020 by the directors of the Company.

***Statement of compliance***

These unaudited condensed interim 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 financial statements follow the same accounting policies and methods of application as the most recent annual

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

consolidated financial statements of the Company. These unaudited condensed interim 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, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

***Basis of preparation***

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

These unaudited condensed interim financial statements do not include all the note disclosures required in the annual financial statements. Accordingly these unaudited condensed interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended December 31, 2019. All information presented herein is unaudited.

***Consolidation and un-consolidated***

These condensed interim financial statements of the Company are prepared on an un-consolidated basis and include the accounts of the Company and also include 100% of the operations of Minera Fumarola S.A., de C.V. ("Fumarola") until the date of sale, being December 27, 2019. As of December 27, 2019, Fumarola's financial statements are no longer consolidated as a result of the sale of the subsidiary.

The condensed interim financial statements include the accounts of the Company and its controlled entity until December 27, 2019. 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 unaudited condensed interim 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 these unaudited condensed interim 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 unaudited condensed interim 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;

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

***Significant judgements*** (Cont'd)

- 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.

***Share-based payments***

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

***Loss per share***

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. When outstanding share issuance rights have an anti-dilutive effect, only basic income (loss) per share is reported.

***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***

The following are accounting standards adopted effective January 1, 2019:

<u>IFRS 16 Leases</u>

IFRS 16 replaces 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. The adoption of this standard had no 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.

(Expressed in Canadian Dollars - unaudited)

**2. 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. On October 7, 2019 these shares were rolled back at one new share for fifty old shares.

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Opening Balance | $ 25,977 | $ 30,404 |
| Acquisition | - | - |
| Sold | (25,977) | (7,039) |
| Unrealized gain on marketable securities | - | 2,612 |
| Closing balance | $ - | $ 25,977 |

At the date of acquisition, the shares had a fair value of $23,610. At June 30, 2020 the shares were all sold and had a fair value of $Nil (December 31, 2019 - $25,977) and the Company has recognized a realized loss of $9,497 for the six month period ending June 30, 2020.

**3. Receivables**

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Goods and services taxes receivables | $ 3,207 | $ 10,947 |
| Other receivables | | |
| Short-term | - | 6,539 |
| | $ 3,207 | $ 17,486 |

**4. Equipment**

| | Computer equipment | Office equipment | Geophysical equipment | Transport equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At December 31, 2018 | 12,431 | 8,801 | 27,478 | 30,707 | 79,417 |
| Disposal | (12,431) | (8,801) | (27,478) | (30,707) | (79,417) |
| At December 31, 2019 | - | - | - | - | - |
| **Depreciation:** | | | | | |
| At December 31, 2018 | (10,796) | (5,141) | (21,091) | (27,704) | (64,732) |
| Charge for the year | (655) | (366) | (1,832) | (751) | (3,604) |
| Disposal | (11,451) | (5,507) | (22,923) | (28,455) | (68,336) |
| At December 31, 2019 | - | - | - | - | - |
| **Net book value:** | | | | | |
| At December 31, 2019 and June 30, 2020 | $ Nil | $ Nil | $ Nil | $ Nil | $ Nil |

All the equipment belonged to the subsidiary, Minera Fumarola S.A. de CV and were sold with the subsidiary on December 27, 2019. (Note 1).

(Expressed in Canadian Dollars - unaudited)

**5. Exploration and evaluation assets**

The Company sold its Mexican subsidiary and its exploration and evaluation assets on December 27, 2019. (Note 1)

| | Acquisition Costs | Exploration Expenditures | Total 2020 | Total 2019 |
|---|---|---|---|---|
| **Pachuca SE**, Mexico [(a) below] | | | | |
| Beginning of year | $ - | $ - | $ - | $ 674,523 |
| Incurred during the year | - | - | - | 1,311,502 |
| Option payments received | - | - | - | (1,300,257) |
| | **-** | **-** | **-** | **685,768** |
| **El Petate**, Mexico [(b) below] | | | | |
| Beginning of year | - | - | - | 794,988 |
| Incurred during the year | - | - | - | 104,439 |
| | **-** | **-** | **-** | **899,427** |
| **Santa Maria del Oro**, Mexico [(c) below] | | | | |
| Beginning of year | - | - | - | $ 929,319 |
| Incurred during the year | - | - | - | 8,546 |
| | **-** | **-** | **-** | **937,865** |
| **Baborigame**, Mexico [(d) below] | | | | |
| Beginning of year | - | - | - | 534,335 |
| Incurred during the year | - | - | - | 1,084 |
| | **-** | **-** | **-** | **535,419** |
| **Florida**, Mexico [(e) below] | | | | |
| Beginning of year | - | - | - | 34,266 |
| Incurred during the year | - | - | - | - |
| | **-** | **-** | **-** | **34,266** |
| **Other**, Mexico [(h) below] | | | | |
| Beginning of year | - | - | - | 197,284 |
| Incurred during the year | - | - | - | 2,215 |
| Impairment | - | - | - | - |
| | **-** | **-** | **-** | **199,499** |
| **Disposed on sale of subsidiary** | **$ -** | **$ -** | **$ -** | **$ $(3,292,24)** |
| **Total** | **$ -** | **$ -** | **$ -** | **$ $ -** |

The Company sold its Mexican subsidiary and its exploration and evaluation assets on December 27, 2019. (Note 1)

The following is a description of the Company's exploration and evaluation assets and the related spending commitments: All exploration and evaluation assets and the related spending commitments were sold with the subsidiary on December 27, 2019.

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

**Fortuna – initial agreement**
During the year ended December 31, 2017, the Company secured a $1.5 million investment from Fortuna Silver Mines Inc. ("Fortuna"). Fortuna purchased 535,714 units in the Company at $2.80 per unit. The Company was 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).

**6. Exploration and evaluation assets** (cont'd)

**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 535,714 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 $3.50 to $1.50 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 $0.75 (completed – Note 10).

On September 17, 2018 the Company completed the private placement with Fortuna and issued 474,667 common shares at a price of $0.75 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 became a related party.

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 year ended December 31, 2019 CAD $1,300,257 was recovered of which $436,484 was received in cash. On September 12, 2019 Fortuna terminated the property option agreement.

**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.

**h. Other Properties**

**Ocampo and Other Properties**

During the year ended December 31, 2010, the Company acquired the Ocampo and Quiporito properties by staking.

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 Company sold its Mexican subsidiary and its exploration and evaluation assets on December 27, 2019. (Note 1)
The following table represents exploration expenditures incurred during the year ending December 31, 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 |
| Geological consulting | - | 41,558 | - | - | - | 41,558 |
| 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 | 11,306 | 1,644 | 153 | 506 | 126,918 |
| | $ 1,311,502 | $ 104,439 | $ 8,546 | $ 1,084 | $ 2,215 | $ 1,427,786 |

**7. Trade payables and accrued liabilities**

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Trade payables | $ 881 | $ 9,960 |
| Amounts due to related parties (Note 12) | 60,000 | 4,862 |
| Accrued liabilities | 23,250 | 16,000 |
| | $ 84,131 | $ 30,822 |

**8. 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.

**9. Share capital**

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

On July 07, 2020 the Company consolidated its share capital on a ten to one basis. All share and per share information in these financial statements have been restated to retroactively reflect this consolidation for all periods presented.

At June 30, 2020 there were 5,747,189 issued and fully paid common shares outstanding (December 31, 2019 – 5,747,189).

**For the six month period ended June 30, 2020:**

There were no shares issued during the period.

(Expressed in Canadian Dollars - unaudited)

**9. Share capital** (cont'd)

**For the year ended December 31, 2019:**

There were no shares issued during the year.

***Basic and diluted loss per share***

The calculation of basic and diluted loss per share for the six month period ended June 30, 2020 was based on the loss attributable to common shareholders of $148,463 (2019 - $274,954) and the weighted average number of common shares outstanding of 5,747,189 (2019 – 5,747,189). 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 changes in options during the six month period ended June 30, 2020 and the year ending December 31, 2019 were as follows:

| | June 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, beginning of period | 435,500 | $ 1.94 | 474,500 | $ 1.90 |
| Options granted | - | - | - | - |
| Options exercised | - | - | - | - |
| Options cancelled | (109,500) | 1.70 | (39,000) | 1.60 |
| Options outstanding, end of period | 326,000 | $ 2.02 | 435,500 | $ 1.94 |
| Options exercisable, end of period | 326,000 | $ 2.02 | 435,500 | $ 1.94 |

Details of options outstanding as at June 30, 2020 are as follows:

| Exercise price | Remaining Life | Number of options outstanding | Expiry |
|---|---|---|---|
| $0.50 | 0.68 years | 16,500 | March 4, 2021 |
| $3.00 | 1.22 years | 40,000 | September 19, 2021 |
| $2.60 | 1.90 years | 177,000 | May 24, 2022 |
| $0.75 | 3.19 years | 92,500 | September 6, 2023 |
| | | 326,000 | |

(Expressed in Canadian Dollars - unaudited)

**9. Share capital** (cont'd)

***Stock options*** (cont'd)

The weighted average price of options outstanding was $2.02 and the weighted average life was 2.12 years.

During the six month period ending June 30, 2020, no options were granted

During the year ending December 31, 2019, no options were granted, and only the vesting of options issued in prior years totalling $31,325 was recorded of which $21,754 was expensed and $9,571 was capitalized to exploration and evaluation assets.

**Share purchase warrants**

The following is a summary of the Company's share purchase warrant activity during the six month period ending June 30, 2020 and the year ended December 31, 2019:

| | Number of shares | | Weighted average exercise price |
|---|---|---|---|
| Outstanding, December 31, 2018 | 2,075,179 | $ | 2.10 |
| Expired | (978,700) | | 3.00 |
| Outstanding, December 31, 2019 | 1,096,479 | $ | 1.34 |
| Expired | (897,806) | | 1.38 |
| Outstanding, June 30, 2020 | 198,673 | $ | 1.20 |

Details of warrants outstanding as at June 30, 2020 are as follows:

| Exercise price | Number of warrants outstanding | Expiry |
|---|---|---|
| $1.20 | 198,673 | December 3, 2020 |
| | 198,673 | |

The weighted average price of warrants outstanding was $1.20 and the weighted average life was 0.43 years.

**10. 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 six month period ending June 30, 2020 an amount of $Nil (year ending December 31, 2019 - $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 six month period ending June 30, 202 an amount of $Nil (year ending December 31, 2019 - $Nil) was transferred to the reserve.

(Expressed in Canadian Dollars - unaudited)

## 11. Related party transactions

***Related party balances***

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

| | | June 30, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Companies controlled by directors or officers of the Company | $ | 60,000 | $ | - |
| Directors of the Company | | - | | 4,862 |
| | $ | 60,000 | $ | 4,862 |

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

***Related party transactions***

***Key management personnel compensation***

| | Six months ended | | | |
|---|---|---|---|---|
| | | June 30, 2020 | | June 30, 2019 |
| Corporate fee – Incurred to a company controlled by a director | $ | 60,000 | $ | - |
| Directors' fees incurred to directors and companies controlled by directors | | - | | 45,000 |
| Company officer and director – geological and administrative services – included in deferred exploration costs | | - | | 56,421 |
| Companies controlled by directors of the Company – geological and administrative services – included in deferred exploration costs | | - | | 23,838 |
| Companies controlled by an officer of the Company – included in investor relations costs | | - | | 33,500 |
| Stock-based compensation and vesting | | - | | 24,367 |
| | $ | 60,000 | $ | 183,126 |

***Fortuna Silver Mines Inc.***

Following the September 17, 2018 financing, Fortuna owned 1,546,095 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.

## 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:

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

***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 previously in 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.

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 June 30, 2020:

| | Within one year | Between one and five years | More than five years |
|---|---|---|---|
| Trade payables | $ 60,881 | $ - | $ - |

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at December 31, 2019:

| | Within one year | Between one and five years | More than five years |
|---|---|---|---|
| Trade payables | $ 14,822 | $ - | $ - |

***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 was 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 did not hedge its exposure to fluctuations in foreign exchange rates.

All the company's financial assets and liabilities are denominated in Canadian Dollars and the Foreign exchange risk is minimal.

***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.

(Expressed in Canadian Dollars - unaudited)

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

***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 six month period ending June 30, 2020 or year ending December 31, 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:

| | | June 30, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Loans and receivables: | | | | |
| Cash | $ | 12,694 | $ | 67,592 |
| Receivables | | 3,207 | | 17,486 |
| FVTPL: | | | | |
| Marketable securities | | - | | 25,977 |
| | $ | 15,901 | $ | 111,055 |

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

| | | June 30, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Non-derivative financial liabilities: | | | | |
| Trade payables | $ | 60,881 | $ | 14,822 |

***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.

**14. Segmented information**

***Operating segments***

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

***Geographic segments***

At June 30, 2020 and December 31, 2019 all the Company's assets were located in Canada, and 2019, all of the Company's non-current assets were 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 | |
|---|---|---|
| | June 30, 2020 | December 31, 2019 |
| Amortization of equipment capitalized | $ - | $ 3,604 |
| Unrealized gain on marketable securities | $ - | $ 2,612 |
| Share based compensation capitalized | $ - | $ 9,571 |
| Exploration and evaluation costs paid by optionor | $ - | $ 863,733 |