

Shareholder Update

Monday, January 9, 2017

TSX.V: PSL
www.prosperosilver.com

Welcome Back to Prospero's Shareholder Updates!

My name is Ralph Rushton – I'm the Executive VP Business Development at Prospero Silver, a role I took on in the Fall of 2016. By training I'm a geologist with a Master's degree in Economic Geology. I spent a large chunk of my early career working underground as mining geologist, and then in generative mineral exploration across the Middle East. For the last 13 years I've focused more on the communications / investor relations side of the business based in Vancouver, helping to raise over \$400m in financings for a number of junior resource companies.

With the introductions made, on behalf of the entire team at Prospero Silver I'd like to welcome you to the first Shareholder Update in a long time. We've been planning to add a Shareholder Update page to our website for a while and feel the time is now right as we see market activity has picked up and Prospero is back in the field advancing its properties. With the recent injection of funds into Prospero's treasury we're back in the field exploring for precious metals and 2017 promises to be an exciting year in the development of your Company.

In the coming months we hope to use the format of a quarterly letter to give you some insight into the people who make up the Prospero team, and some background colour on the regions of Mexico we're working in. We also want to provide some educational content on the *process* of exploration; how do our geologists actually explore for precious metals in Mexico? Our aim is to complement the information and results we present to shareholders in our technical news releases. Let's face it, technical news releases can be pretty dry stuff so the Updates should make our "formal" disclosure a little more colourful.

Something other things we hope to cover are the communities and the culture of the Altiplano region of Mexico (the high plains that stretch northwest from Mexico City.) Both play a key role in our day-to-day operations and we hope to share some of our experiences in the region in the coming twelve months. It's a fascinating part of Mexico with a long and profitable history of silver and gold mining stretching back to before the Spanish colonial period. It hosts some of the greatest precious metal mines ever discovered; for example the Pachuca silver mining camp which to date is believed to have produced more than 1.2-Billion ounces of pure silver and fed the treasury of the Spanish empire for hundreds of years.

First and foremost, we want our Updates to be informative, and any feedback you may have - especially requests for us to address specific topics or questions- is welcome. You can contact us via the website using the Send A Message page

(<http://www.prosperosilver.com/s/SendMessage.asp>)

or you can e-mail Ralph Rushton directly at ralphr@prosperosilver.com.

We'll do our best to try to answer questions as long as we are legally able to within the constraints of Canadian disclosure regulations.

Thanks for reading,

Ralph Rushton



Ralph in his slimmer years

Meet the Prospero Team

Prospero has a small team, which reflects in part the efforts to keep overheads low by avoiding a costly Canadian head-office structure, and also our desire to direct the bulk of our treasury dollars into the ground in Mexico. We run an effective "virtual office" with all of our people working from home connecting to each other remotely via the web. To be sure, there's no opportunities to chit chat and socialise around the water-cooler but in the end, we think the reduced G&A is important when we're spending your money on our programs.

As an aside, and while we're on the subject of costs, one consequence of the recent Trump election victory in the US has been an increased decline in the value of Mexican Peso. This time last year, 1 \$CAD bought 12.6 Pesos. As of today, the exchange rate is closer to 16.2 Pesos for one dollar. For companies like ours, that means close to a 25% reduction in many of our local exploration costs in Mexico; a significant saving for a junior.

Our kilt-wearing Scotsman **William (Bill) Murray** heads up the team in his capacity of Chairman of the Board of Directors and puts his pecunious Scottish nature to work guarding the purse strings.

Bill is a veteran engineer with over 30 years' experience who has worked all over the world. He recently stepped down from his Directorship of PolyMet Mining Corp where he took it from a fledgling opportunity in 2003 and oversaw its transition to a development company where final permitting is almost complete for the large NorthMet copper-nickel-precious-metals project located in northeastern Minnesota.

His previous roles include time with Anglo American Corporation in South Africa; a facet of his professional heritage that he shares with yours truly, Ralph Rushton, who also spent time with Anglo in the 1980s in the deep level gold mines of South Africa.



Bill Murray underground at Cordero.



Indiana Jones



Tawn Albinson

The Company's technical effort is overseen by our President, **Tawn Albinson** (think Indiana-Jones-meets-scientist-with-microscope and you should get the picture...). Tawn has lived in Mexico City for many years. He's a US citizen who grew up in Mexico and he speaks 3 languages fluently: English, Spanish and Geo-speak; the latter uses a lot of incredibly long scientific words that we have to translate into English for our news releases.

Tawn's knowledge of Mexican mineral deposits and the history of mining in the country is second to none. He's visited nearly every major mine or mining camp in Mexico and has consulted on many exploration projects for majors and junior companies. He also has a track record of discoveries under his belt.

In addition to being a highly experienced exploration consultant with his own research laboratory, Tawn is a well-respected and widely published economic geologist who has authored or co-authored numerous papers on the economic geology of Mexico.

Our Mexican field teams report to Tawn who guides the overall discovery strategy. He is also the technical conscience of the Company, ensuring that our programs and our technical disclosure meet the standards proscribed by NI43-101. Tawn is a firm believer that "future exploration success in the Altiplano belt will fall to companies that understand, refine and can successfully apply comprehensive geological models of the high-level alteration systems that lie above buried ore deposits." There's that geospeak again...

In the next Update we'll introduce the Mexican geological team.

Prospero's Strategy

At Prospero, we've solidly embraced the project generator model. That means, in theory, we use our tremendous collective knowledge of the geology of Mexico to identify and stake or acquire highly prospective areas that other companies may have missed. We generate targets by desk top studies. Our "landman specialist plays a vital role in this process, trawling through the government cadastaral system to flag areas that are unstaked or about to be dropped. Then we set about adding them to our project portfolio.

Some project generators prefer never to drill their projects and focus on joint venturing them all. We're not that extreme in our approach and we'll happily consider drilling targets that we think have particular technical merit so long as we can do it cost-effectively.

Our focus is on the great Altiplano mineral belt in northern Mexico, sandwiched between the western and eastern mountain ranges- The Sierras. Altiplano means "high plateau" and elevations range from 1,000m to an average of over 2,000m in the south. It's a region our team knows well. We believe we understand its geology and just as importantly, its people and their culture.



The variety of mineral deposit types found in the Altiplano is remarkable. It hosts some of the world's largest silver-rich epithermal deposits; for example the Pachuca epithermal camp (produced over a billion ounces of silver.) There are also skarn systems, carbonate replacement zinc-silver-lead deposits, porphyry copper deposits, volcanogenic massive sulphides and precious-base metal rich intermediate sulphidation epithermal systems. All in all, a rich hunting ground for explorers like Prospero.

Prospero's Matorral project in glorious black and white.

With new discoveries of outcropping economic precious metal mineralization becoming rarer, the future of exploration in Mexico rests on finding blind ore bodies below barren high-level alteration. So our geologists have adopted and refined a multi-disciplinary approach to exploration, applying geochemistry, clay mineralogy, fluid inclusion analysis and silica petrography. This approach allows us to identify the presence of a high-level environment and even estimate the possible depth to a productive mineralized zone.

When we identify an alteration system, we can make an educated guess of its size potential, and where we are in relation to precious metal mineralization. Are we 100m above? 200m above? We can also make assumptions about whether it's likely to be a Au-Ag system, or base metal rich, for example. But ultimately, only drilling can show if the system is well mineralized.

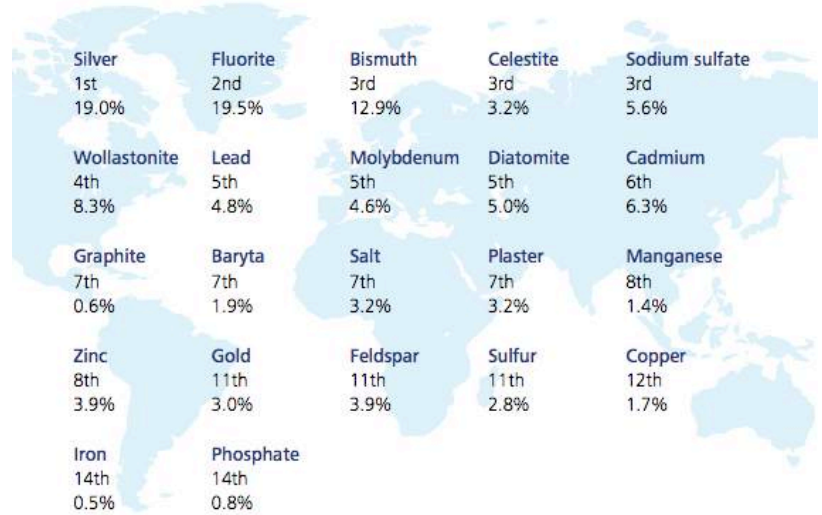
So the final piece of the puzzle is the decision to either advance the projects to drill-ready status and then either drill them ourselves, or do we partner with mining companies who have the resources to move them to production?

The Mineral Potential of Mexico

To paraphrase Donald Trump, Mexico's non-petroleum related mineral potential is yuge.. YUGE! The country's colonial mining history stretches back as far as the arrival of the Spaniard, Cortes, in 1521. He was followed by large numbers of European miners eager to exploit the natural resources of the New World. As the Europeans fanned out across the country, they discovered some of the largest deposits of precious metals then known anywhere in the world. Today, Mexico remains one of the world's largest producers of many industrial commodities as this figure from Deloitte's Mining Industry Mexico shows*. Mining accounted for 8% of Mexico's GDP at the end of 2010.

The country has been blessed with a number of rich, world-class mineral belts as a result of its location on the famous circum-Pacific "Ring of Fire". The active plate tectonic setting, with accompanying volcanism (still active in many places) created the perfect environment for the formation of world-class mineral deposits of silver, gold, lead, zinc and copper. A useful (but extensive) summary overview of the geological setting can be found in the publication of the Society for Geology Applied to Mineral Deposits here:

Mexico's position in mining production - 2010



Source: Mineral Commodity Summaries, U.S. Geological Survey

<https://e-sga.org/fileadmin/sga/newsletter/news25/SGANews25.pdf>

There are even references to publications on Mexican mineral deposits by our very own Tawn Albinson, but be warned, it contains lots of Geospeak and delves into some fairly complex regional geological concepts.

We'll be covering aspects of northern Mexico's mineral belts in subsequent Updates. A broad Geospeak term that we need to introduce early on in the process is "Metallogeny". Wikipedia defines Metallogeny as "the study of the genesis and regional-to-global distribution of mineral deposits, with emphasis on their relationship in space and time to regional petrologic and tectonic features of the Earth's crust."

* <https://www2.deloitte.com/content/dam/Deloitte/mx/Documents/energy-resources/mining-industry-mexico.pdf>

Looking forward to 2017

Sometime in the next few weeks we'll be putting out a news release which will cover our plans for 2017. Some of the proposed work is still being decided on and the programs will be based on the outcome of current activities in Mexico. Please bear with us.

We've been busy preparing updated presentations for each of our key projects. These will be used during the first half of 2017 to solicit joint venture interest in one or more of the projects. The PDAC will be a key shop window for us to advertise our portfolio of Mexican assets.

Upcoming Events

At Prospero we love back ache and sore feet, so we've been back on the investor conference circuit standing at trade show booths for a couple of months now. After our recent visit to the Silver Summit in San Francisco, next up is the [Vancouver Resource Investment Conference](#), January 22-23 2017, at the Convention Centre West. We'll be at booth 213.

We also plan to attend the largest mining and exploration conference in the world, the [PDAC](#) in Toronto in early March. We will be at booth 2943 in the Investor's Exchange for the full 4 days of the conference. Bill Murray, Tawn Albinson and Ralph Rushton will be attending so please stop by our booth for a catch up.



Share Price & Capital Structure

(Current as of November 2016)

Prospero has traded well since September. In fact, we saw the best trading volumes in the Company's history in late Q3 / early Q4. We briefly touched a 3 year high of C\$ 38 cents but slipped back to the current range of C\$ 28-30 over the last couple of weeks of 2016 and into 2017. Volumes have similarly declined but that's understandable given the time of year and our (temporary) lack of news. Our 12 month share graph is shown below.

Our most recent share structure shows roughly 30.5-million shares issued for a market capitalization of C\$8-9-million. Our current cash position is around \$1.6-1.7-million, sufficient for our planned work programs in 2017.

Shares Issued:	30,537,262
Options Outstanding:	875,000
Warrants Outstanding:	15,113,455
Fully Diluted:	46,525,717



Contact Details

Questions or comment? We're always happy to talk to existing or potential investors about Prospero and our exploration programs. Bear in mind that we all work from home. It can get lonely during the day when you work from home; a bit too quiet sometimes, so if you call, we may talk your ears off. Don't say we didn't warn you. If we happen to be travelling or out of the office we'll try to get back to you as soon as possible.

We're slowly dragging ourselves into the social media age by trying to post regularly on Twitter (@ProsperoSilver) and we're also on Facebook*. You can contact us via our website (www.prosperosilver.com) or by contacting me (Ralph Rushton) directly.

Ralph Rushton

Exec. VP Business Development

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*<https://www.facebook.com/ProsperoSilver/?ref=bookmarks>

The Regulatory Stuff

QP Statement

Tawn Albinson, M.Sc., President of the Company, is a Qualified Person, as defined in NI 43-101, and is responsible for the technical content of this newsletter. Mr. Albinson is a Member of the American Institute of Professional Geologists and a Certified Professional Geologist (CPG) No. 11368. Mr Albinson has over 40 years' experience working in Mexico designing and managing exploration programs for precious and base metal projects. He also owns a petrographic laboratory providing fluid inclusion and petrographic services to the exploration and mining industry. He has authored or co-authored 15 technical research papers covering a diverse selection of Mexican mineral deposits, with an emphasis on intrusion-related systems, and is a recognised authority on the mineral deposits of Mexico.

Cautionary Note Regarding Forward Looking Statements

This newsletter contains certain "forward-looking statements" within the meaning of Canadian securities legislation, relating to, among other things, the Company's proposed use of the financing proceeds. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are statements that are not historical facts; they are generally, but not always, identified by the words "expects," "plans," "anticipates," "believes," "intends," "estimates," "projects," "aims," "potential," "goal," "objective," "prospective," and similar expressions, or that events or conditions "will," "would," "may," "can," "could" or "should" occur, or are those statements, which, by their nature, refer to future events. The Company cautions that Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made and they involve a number of risks and uncertainties. Consequently, there can be no assurances that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Except to the extent required by applicable securities laws and the policies of the TSX Venture Exchange, the Company undertakes no obligation to update these forward-looking statements if management's beliefs, estimates or opinions, or other factors, should change. Factors that could cause future results to differ materially from those anticipated in these forward-looking statements include, possible, accidents and other risks associated with mineral exploration operations, the risk that the Company will encounter unanticipated geological factors, the possibility that the Company may not be able to secure permitting and other governmental clearances necessary to carry out the Company's exploration plans, the risk that the Company will not be able to raise the additional funds in the future to continue to carry out its business plans, and the risk of political uncertainties and regulatory or legal changes that might interfere with the Company's business and prospects. The reader is urged to refer to the Company's reports, publicly available through the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com for a more complete discussion of such risk factors and their potential effects.