



Prospero Shareholder Update

Thursday, April 27, 2017

Our New Strategic Investor: Fortuna Silver Mines Inc.

Welcome to the April edition of Prospero Silver's shareholder update letter.

There's really only one item of business in this Update. You probably read that last week Prospero secured a C\$1.5-million strategic investment from Fortuna Silver Mines Inc.? In this letter we'll outline why we've done the deal, and what it means for both parties. Our deal with Fortuna consists of a private placement of C\$1.5-million at 28c (just under 5.4-million shares) and the same number of warrants at 35c which will bring in an additional C\$1.875-million if they're all exercised. The C\$1.5-million will be split between our drill programs (C\$1.2-million) and our generative efforts (C\$300k).

We're excited to do the deal with Fortuna as they're just the kind of partner a junior project generator looks for. Fortuna is a growth-oriented mid-tier precious metals producer with a strong focus on silver and gold production of just over 10-million silver equivalent ounces in 2016. Their most recent quarterly production was 2-million ounces of silver and just over 13,000 ounces of gold plus base metal credits.

They have a strong balance sheet, with close to \$200-million in cash, and they operate 2 producing mines; the Caylloma silver-base metals mine in Peru where mining has gone on pretty much continuously for 400 years, and the San Jose silver-gold mine in the state of Oaxaca in Mexico. Fortuna built the San Jose mine from scratch and recently completed an expansion of the mine up to 3,000tpd from underground. In short, Fortuna is a well managed producer that knows how to build mines.

For their investment, Fortuna can pick one project from our existing portfolio to take forward under a formal joint venture agreement where they spend US\$8m to earn 70% of the project.

They have 18 months to select the project. We've agreed with Fortuna that we'll immediately move to proof-of-concept drill testing of 3 of our key targets; probably Santa Maria del Oro (Matorral), Pachuca SE and Petate. Tawn Albinson's team is currently working on the final permits needed to start drilling. We'll most likely be on the ground at Matorral first.

What does the deal mean for Prospero?

We think the agreement with Fortuna is a big step forward for Prospero's development as an explorer. We know Fortuna well: one of Prospero's management team (RR) worked for Fortuna in its early years and helped set up their investor relations program. That connection has helped move the deal forward as rapidly as we could have hoped for.

The private placement is at a 40% higher price than our last PP (20c in September 2016) and it essentially doubles our treasury but with lower dilution than the 20c PP, giving us the resources to drill test 3 of our projects. When the private placement closes, your Company will have roughly C\$3-million in the treasury, with access to more capital if the drilling is successful. We're finally well funded to get on and do what we do best, explore. And if we make a discovery, our strategic partner is an experienced mine builder that knows how to put epithermal precious metal vein systems into production.

The deal also gives us more flexibility and more choice in our exploration programs. As things stood a few months ago, we essentially had to choose between funding the generative work or completing a drill program on one target. We now have the flexibility to do both and Tawn Albinson's team can push on with the all-important generative work to find the next raft of targets.

(As an aside, Fortuna's San Jose deposit is a good example of what we're looking for. It's a low sulfidation epithermal vein system characterized by mineralized multiphase quartz-carbonate-sulfide veins, hydrothermal breccias and stockwork veining. The mineralized system is hosted within a sequence of Tertiary andesitic volcanic and volcanoclastic rocks. The resource is relatively compact and has been traced down dip at least 600m vertically.)

What does the deal mean for Fortuna Silver?

The mid-tier and major precious metals producers all face the same problem: Generating sufficient new resources via their brown fields drilling (*i.e.* drilling near existing mines) and/or through grass roots exploration to maintain their production and growth profiles. But exploration

programs need teams of geologists, and teams of geologists take up resources and management time.

We're seeing a trend towards the larger companies like Fortuna essentially outsourcing their early stage exploration to companies like Prospero via strategic investments. The targets for investment are typically small to micro-cap companies with multiple projects on the go who need access to cash. The mid-tier gets exposure to an extensive early stage project portfolio without having to build a large team to handle the programs. In Fortuna's case they've invested in us and also in Medgold Resources effectively allowing them to monitor at least 10 early stage projects for little effort on their part. In effect they get lots of throws of the dice. If the junior finds something, the mid-tier is able to joint venture the new project and either operate it themselves or fund the junior to operate.

What's Coming Up?

Exploration Programs

The next milestones to look out for are announcements regarding the start-up of drilling at our project(s). With the investment secured, the Mexican team is expediting the final permits needed to kick off drilling. We hope to be underway in late May, most likely at Matorral assuming the timing of final permitting holds to what we think it'll be. We're waiting for a change of soil use permit to allow drill road construction.

Investor Events & Marketing

If you would like to meet Prospero's management team, we will be visiting investment conferences and industry events across North America in the coming year. Next up, we'll be exhibiting at the Las Vegas Money Show May 15-18 at Caesar's Palace in Las Vegas, Nevada. Come along and enjoy some sunshine and meet the team; or rather come along and meet Ralph Rushton who'll be presenting the company at the conference.

In July, we've been invited to exhibit at the Sprott Natural Resource Symposium, an event hosted by the Sprott Group of Companies, focused on natural resource and precious metal investing. The event will be held at the Fairmont Hotel Vancouver, July 25-28. Sprott and their clients are large investors in Prospero so we're hoping to meet some of our shareholders there, and perhaps add some new ones.

We're also planning a trip down to Carlsbad in California to present the recent deal to Sprott's retail brokers there. It's an easy trip from Vancouver and gives us a chance to get the news out again. Toronto is also on the cards to talk to some of the brokerage houses and funds over there.

Later in the spring or early summer, we're thinking about a trip to London and possibly Germany to get the story out over there. We've not marketed there yet so a trip is overdue.

Share Price & Capital Structure

(Current as of April 2017)

The share structure recently changed following the Fortuna PP. The new, post-PP structure is given below. With the revised number of issued shares, our market cap as of April 26 was C\$8.6-million on an issued basis with \$1.5-million in the treasury (before the Fortuna PP funds are included).

- Shares Issued: 30.57m
- Options Outstanding: 845k
- Warrants Outstanding: 15.1m
- Fully Diluted: 46.53m

Trading volumes have dropped off in the first quarter of 2017. We believe this was due in part to a lack of news flow from our projects or from joint venture deals. Overall trading volumes for the TSX.V were also lower in Q1 compared to Q4 of 2016. We can probably expect to see increased volumes in the coming 6 months as we re-establish our technical news flow when drilling starts.



Contact Details

We're always happy to talk to existing or potential investors about Prospero and our exploration programs. 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 Facebook¹.

You can contact us via our website (details below) or by contacting Ralph Rushton directly.

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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

¹ <https://www.facebook.com/ProsperoSilver/?ref=bookmarks>

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.

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