



**ZEPHYR MINERALS LTD.**

**Unaudited Condensed Consolidated Interim Financial Statements  
Six Months ended June 30, 2020 and 2019  
(Expressed in Canadian dollars)**

**Notice of disclosure of non-auditor review of condensed consolidated interim financial statements pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators.**

**The accompanying condensed consolidated interim financial statements of the Company for the period ended June 30, 2020, have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or a review of these condensed consolidated interim financial statements.**

**ZEPHYR MINERALS LTD.**  
**Unaudited Condensed Consolidated Interim Statements of Financial Position**  
**(Expressed in Canadian dollars)**

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,091,517	\$ 98,630
Accounts receivable (note 3)	19,523	5,142
Reclamation bonds (note 4)	216,429	66,973
Prepaid expenses and deposits	43,778	25,019
	2,371,247	195,764
Reclamation bonds (note 4)	56,735	53,786
Exploration and evaluation assets (note 5)	4,572,619	4,408,242
	\$ 7,000,601	\$ 4,657,792
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 6)	\$ 42,741	\$ 52,835
<b>Long Term</b>		
Reclamation obligation (Note 7)	56,735	53,786
	99,476	106,621
<b>Shareholders' Equity</b>		
Share Capital (note 8)	8,988,048	6,650,404
Share-based payments reserve	2,327,615	1,899,066
Deficit	(4,414,538)	(3,998,299)
	6,901,125	4,551,171
	\$ 7,000,601	\$ 4,657,792

***Basis of presentation and going concern – Note 2***

Approved on behalf of the Board:

**David Felderhof**  
David Felderhof, Director

**Loren Komperdo**  
Loren Komperdo, Director

The accompanying notes form an integral part of these consolidated financial statements

**ZEPHYR MINERALS LTD.****Unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Loss****For the Three and Six Months Ended June 30****(Expressed in Canadian dollars)**

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	<b>2020</b>		<b>2019</b>	
	<b>3</b>	<b>6</b>	<b>3</b>	<b>6</b>
	<b>Months</b>	<b>Months</b>	<b>Months</b>	<b>Months</b>
<b>Operating Expenses</b>				
Filing fees	\$ 8,181	15,577	\$ 10,117	\$ 19,111
Foreign exchange loss, net	40,617	(24,279)	1,594	1,495
Investor relations	43,367	109,342	77,785	101,038
Professional fees	13,196	21,823	6,137	12,819
General and administrative	2,176	3,064	2,318	3,536
Rent	2,951	5,906	2,068	4,140
Travel	1,049	8,222	8,825	15,882
Transfer agent	4,098	7,098	2,230	3,773
Salaries & Consulting	33,083	66,156	30,113	61,826
Share based payments	183,750	203,330	154,380	211,845
<b>Net Loss and Comprehensive Loss for the period</b>	<b>(332,468)</b>	<b>(416,239)</b>	<b>(295,567)</b>	<b>(435,465)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>63,552,867</b>	<b>60,362,623</b>	<b>49,559,722</b>	<b>48,449,545</b>
<b>Loss Per Share – Basic</b>	<b>\$ (0.005)</b>	<b>\$ (0.007)</b>	<b>\$ (0.006)</b>	<b>\$ (0.009)</b>

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The accompanying notes form an integral part of these consolidated financial statements

**ZEPHYR MINERALS LTD.**  
**Unaudited Condensed Consolidated Interim Statements of Cash Flows**  
**For the Six Months Ended June 30**  
**(Expressed in Canadian dollars)**

	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Net loss	\$ (416,239)	\$ (435,465)
Items not requiring an outlay of cash		
Share based payments	203,330	211,845
Net changes in non-cash working capital items		
Accounts receivable	(14,381)	(4,047)
Prepaid expenses	(18,759)	(27,390)
Reclamation bonds	(149,456)	-
Accounts payable and accrued liabilities	(10,094)	(30,550)
<b>Cash Used in Operating Activities</b>	<b>(405,599)</b>	<b>(285,607)</b>
<b>Investing Activities</b>		
Reclamation bonds	(2,949)	-
Expenditures on exploration and evaluation assets	(161,428)	(102,301)
<b>Cash Used for Investing Activities</b>	<b>(164,377)</b>	<b>(102,301)</b>
<b>Financing Activities</b>		
Issue of common shares net of share issue costs	2,562,863	779,735
<b>Cash Provided by Financing Activities</b>	<b>2,562,863</b>	<b>779,735</b>
<b>Net Change in Cash and Cash Equivalents for the Year</b>	<b>1,992,887</b>	<b>391,827</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>98,630</b>	<b>101,291</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 2,091,517</b>	<b>\$ 493,118</b>
<b>Non-cash financing and investing activities:</b>		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Value of brokers warrants issued	\$ 34,116	\$ 6,041
Reclamation accrual	\$ 2,949	\$ -

The accompanying notes form an integral part of these consolidated financial statements

**ZEPHYR MINERALS LTD.**  
**Unaudited Condensed Consolidated Interim Statements of Changes in**  
**Shareholders' Equity**  
**For the Six Months Ended June 30**  
**(Expressed in Canadian dollars)**

	<b>Number of shares</b>	<b>Share capital</b>	<b>Share-based payments reserve</b>	<b>Deficit</b>	<b>Total</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>January 1, 2019</b>	47,332,620	5,763,288	1,627,802	(3,385,455)	4,005,635
Share based payments		-	217,145		217,145
Shares issued in private placement (note 8)	4,269,857	709,162	108,950	-	818,112
Warrants exercised	620,000	148,710	(24,710)	-	124,000
Options exercised	250,000	63,350	(25,850)	-	37,500
Share issue costs		(34,106)	(4,271)	-	(38,377)
Loss for year		-	-	(612,844)	(612,844)
<b>December 31, 2019</b>	<b>52,472,477</b>	<b>6,650,404</b>	<b>1,899,066</b>	<b>(3,998,299)</b>	<b>4,551,171</b>
Share based payments (note 8)		-	203,330	-	203,330
Shares issued in private placement (note 8)	10,000,000	1,790,500	343,616	-	2,134,116
Share issue costs		(142,924)	(18,808)	-	(161,732)
Warrants exercised	2,174,428	690,068	(99,589)	-	590,479
Loss for period		-	-	(416,239)	(416,239)
<b>June 30, 2020</b>	<b>64,646,905</b>	<b>8,988,048</b>	<b>2,327,615</b>	<b>(4,414,538)</b>	<b>6,901,125</b>

The accompanying notes form an integral part of these consolidated financial statements

## **ZEPHYR MINERALS LTD.**

### **Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian dollars)**

**Six Months ended June 30, 2020**

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#### **1. NATURE OF OPERATIONS**

Zephyr Minerals Ltd. ("Zephyr") and its wholly owned subsidiary, Zephyr Gold USA Ltd. (collectively, the "Company") is an exploration stage mining company. Zephyr is incorporated in Canada and is based in Nova Scotia, Canada. The Company's head office is located at 1301 - 1959 Upper Water St, Halifax, Nova Scotia Canada B3J 3N2.

Zephyr is a publicly listed company continued under the Canada Business Companies Act with limited liability under the laws of Canada. Zephyr's shares trade on the TSX Venture Exchange ("TSXV").

#### **2. BASIS OF PRESENTATION AND GOING CONCERN**

##### **Statement of compliance**

These condensed consolidated financial statements, including comparatives, have been prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2019. These condensed consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements have been set out in the Company's consolidated financial statements for the year ended December 31, 2019. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2019 which are filed at [www.sedar.com](http://www.sedar.com)

##### **Approval of the financial statements**

These consolidated financial statements were approved and authorized for issue by the Audit Committee and Board of Directors of the Company on August 31, 2020.

## **ZEPHYR MINERALS LTD.**

### **Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian dollars)**

**Six Months ended June 30, 2020**

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#### **Basis of presentation**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in Note 3(i) in the Company's consolidated financial statements for the year ended December 31, 2019 which are filed at [www.sedar.com](http://www.sedar.com)

#### **Going Concern**

The Company holds a 100% interest in mineral claims in Colorado, USA, collectively referred to as the Dawson-Green Mountain property (the "Property"). The Dawson section ("Dawson"), located at the eastern end of the Property comprises an advanced gold project with exploration potential. The Green Mountain section ("Green Mountain"), located at the western end of the Project, is prospective for copper and gold. The El Plomo section ("El Plomo") forms the central portion of the Property and is believed to be prospective for Broken Hill Type ("BHT") silver-lead-zinc mineralization. The Company's objective is to explore and evaluate these mineral claims to determine whether the properties contain economic resources warranting a development program.

As at June 30, 2020, the Company has cash of \$2,091,517, working capital of \$2,328,506, shareholders' equity of \$6,901,125 and an accumulated deficit of \$4,414,538. The Company's financial statements as at June 30, 2020 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

Management of the Company concluded that as at June 30, 2020, the Company has sufficient funds to meet its minimum corporate, administrative and property obligations for the next 12 months. Currently, the Company is required to make minimum annual payments of approximately US\$52,075 to keep the Property in good standing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about a period, which is at least, but not limited to, 12 months from the end of the current reporting period. In order to develop the Property, the Company will need to raise additional capital. If the Company is unable to raise additional capital in the future, the Company may

## ZEPHYR MINERALS LTD.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

Six Months ended June 30, 2020

need to curtail operations, liquidate assets, seek additional capital on less favourable terms and/or pursue other remedial measures. These financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments may be material.

### 3. ACCOUNTS RECEIVABLE

	June 30, 2020	December 31, 2019
HST receivable	\$ 19,523	\$ 5,142

### 4. RECLAMATION BONDS

The Colorado Department of Reclamation and Mining Safety, and the Colorado Bureau of Land Management hold bonds for estimated rehabilitation costs as noted below:

	June 30, 2020	December 31, 2019
Short term bonds related to drilling & geological work	\$ 216,429	\$ 66,973
Long term bonds related to road reclamations	\$ 56,735	\$ 53,786

These funds are restricted for use as indicated above. The short term amounts are released following the completion of the associated reclamation. The long term bonds will be held until the roads built by the Company are no longer in use and the land has been rehabilitated.



**ZEPHYR MINERALS LTD.****Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian dollars)

Six Months ended June 30, 2020

**5. EXPLORATION AND EVALUATION ASSETS**

	<b>Dawson-Green Mountain</b>
	<b>\$</b>
<b>Acquisition Costs</b>	
<b>Balance as at January 1, 2019</b>	378,284
Additions	83,883
Impairment	-
<b>Balance as at December 31, 2019</b>	462,167
Additions	82,247
Impairment	-
<b>Balance as at June 30, 2020</b>	544,414
<b>Exploration</b>	
<b>Balance January 1, 2019</b>	3,502,581
Expenditures	443,494
<b>Balance December 31, 2019</b>	3,946,075
Expenditures	82,130
<b>Balance June 30, 2020</b>	4,028,205
<b>Carrying amount</b>	
As at December 31, 2019	4,408,242
As at June 30, 2020	4,572,619

**Dawson-Green Mountain Property**

The Dawson-Green Mountain Property comprises 140 unpatented mining claims, 11 patented lode mining claims, one patented placer mining claim and one state lease which cover an area of 1,388 hectares (3,430 acres), hosting a prospective mineralized trend over 12 km (7.5 miles) in an east-west direction. The Property is segregated into three distinct sections from east to west referred to as Dawson, El Plomo and Green Mountain.

Dawson comprises 48 contiguous unpatented lode mining claims, and eight patented lode mining claims and one patented placer claim. Dawson encompasses five gold

## **ZEPHYR MINERALS LTD.**

### **Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Expressed in Canadian dollars) Six Months ended June 30, 2020**

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exploration areas which are, from east to west: the Sentinel zone, the Dawson zone, the Copper King zone, the Windy Gulch zone and the Windy Point zone. Dawson forms the eastern portion of the Property which is located in west-central Colorado, 9.5 km southwest of Canon City in Fremont County. Zephyr holds a 100% interest in the unpatented claims, and 50% interest in the eight patented claims, and a 50% interest in one patented placer claim, which constitute Dawson.

The 50% of the eight patented lode mining claims not held by Zephyr is leased by Zephyr through a "Mining Lease and Agreement" which effectively gives Zephyr 100% control of these claims. Twenty-one of the 48 unpatented claims, the eight patented lode mining claims and the 50% interest in the one patented placer claim are subject to a sliding scale Net Smelter Return ("NSR") whereby Zephyr agrees to pay up to a 3% NSR as contemplated in the Mining Lease and Agreement.

Zephyr is currently required to make annual advance royalty payments in terms of its Mining Lease and Agreement in the amount of US\$25,000 per year. These advance royalties can be applied in the future to reduce the actual production royalty expense incurred. The Company paid and recorded the 2020 obligation in fiscal 2019. To date Zephyr has made advance royalty payments totalling US\$479,000 which can be so applied. Zephyr USA is also obliged to make a payment of US\$90,000 in the event of embarking on an underground program.

In 2018, the Company expanded its holdings in west-central Colorado by acquiring 62 unpatented lode mining claims and one patented lode mining claim located approximately 3.2 km west of Dawson, forming the Green Mountain section of the Property. The one patented claim was purchased for US\$25,000 in an arm's length transaction and the 62 unpatented lode-mining claims were acquired through staking. Zephyr holds a 100% ownership in these claims with no overriding royalties. Zephyr is required to make annual maintenance payments of \$165 to the State, for each of the unpatented claims.

In 2019, the Company entered into a mining lease agreement with the State of Colorado for a 259 hectare (640 acre) parcel of land ("State Lease") located in the central area of the Property, and also staked six additional unpatented mining claims. In the first quarter of 2020, the Company purchased two patented lode mining claims in the El Plomo section in an arms-length transaction. The two patented claims are subject to a 3% NSR of which 2% may be purchased by the Company at its sole option at anytime for \$2,000,000. The El Plomo section is comprised of 21 unpatented lode mining claims, two patented lode mining claims, and the State Lease. The El Plomo section is contiguous with the Dawson and Green Mountain sections on the east and the west respectively.

## ZEPHYR MINERALS LTD.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

Six Months ended June 30, 2020

#### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020	December 31, 2019
Trade payables	\$ 30,475	\$ 28,606
Accrued liabilities	12,266	24,229
	<u>\$ 42,741</u>	<u>\$ 52,835</u>

#### 7. RECLAMATION OBLIGATION

The Company recognizes a rehabilitation provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. At June 30, 2020 the Company has recognized an environmental rehabilitation obligation in the amount of \$56,735 related to the estimated rehabilitation costs of roads the Company had built to advance exploration work on the Dawson-Green Mountain project. This amount has been capitalized by increasing the carrying amount of its exploration and evaluation assets. At present the timing of the obligation is unknown and will depend primarily on the results of its future exploration program. As such the full amount of the estimated liability has been recognized and has not been discounted. Changes in the estimated timing of rehabilitation or changes to the estimated future costs will be dealt with prospectively by recognizing an adjustment to the rehabilitation liability and a corresponding adjustment to the asset to which it relates. The Company assesses its rehabilitation provision on an annual basis. Actual reclamation costs, when incurred, will be charged against the provision. As noted in note 4 above, the Company has \$216,429 in short term bonds held to cover any reclamation costs associated with its current drill and geological program at El Plomo. No provision has been made for such reclamation costs as the Company does not believe these will be material.

#### 8. SHARE CAPITAL

Authorized capital consists of an unlimited number of common shares.

##### Issuances of common shares in 2020

During the first six months of 2020, 2,174,428 warrants to purchase 2,174,428 common shares were exercised for proceeds of \$590,479.

On February 21, 2020 the Company completed a private placement through the issuance of 10,000,000 units at a price of \$0.21 per unit raising a total of \$2,100,000. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.35 per common share at any time on or before

## ZEPHYR MINERALS LTD.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

Six Months ended June 30, 2020

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August 21, 2021. The Company valued the warrants and apportioned the share issue expenses incurred between the warrants value and the share value on a pro rata basis. In determining the value of the warrants, the fair value of the warrants issued were estimated using a Black-Scholes pricing model with the following weighted average assumptions used.

Risk-free interest rate	1.51%
Expected dividend yield	0.00%
Expected stock price volatility	72.94%
Expected life of warrants	1.5 years
Grant date fair value of warrant	\$0.0619

The Company paid cash finder's fees of \$115,740 and issued 551,145 finder's fee warrants to finders acting on behalf of the Company in connection with the placement. Each finder's fee warrant is exercisable into one common share of the Company at \$0.35 per share until expiry on August 21, 2021. The expiration of the warrants may be accelerated if the volume-weighted trading average for the Company's shares on the TSXV is greater than or equal to \$0.70 for any 20 consecutive trading days. If this occurs, the Company may accelerate the expiry date of the warrants by issuing a press release announcing the reduced warrant term whereupon the warrants will expire on the 30<sup>th</sup> calendar day after the date of such press release. The finder's warrants are subject to the same acceleration clause as the unit warrants.

The finder's fee warrants were recorded at their fair value at time of issuance and shown as part of share issue costs netted against share capital. The terms and assumptions used were the same as those for the warrants above.

#### **Issuances of common shares in 2019**

During the year, 250,000 options to purchase 250,000 common shares were exercised for proceeds of \$37,500 and 620,000 warrants to purchase 620,000 common shares were exercised for proceeds of \$124,000.

On June 5, 2019 the Company completed a private placement through the issuance of 2,859,857 units at a price of \$0.21 per unit raising a total of \$600,570. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.30 per common share at any time on or before June 5, 2020. The Company valued the warrants and apportioned the share issue expenses incurred between the warrants value and the share value on a pro rata basis. In determining the value of the warrants, the fair value of the warrants issued were estimated using a Black-Scholes pricing model with the following weighted average assumptions used:

Risk-free interest rate	1.71%
Expected dividend yield	0.00%
Expected stock price volatility	53.21%

## ZEPHYR MINERALS LTD.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

Six Months ended June 30, 2020

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Expected life of warrants	1 year
Grant date fair value of warrant	\$0.045

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The Company paid cash finder's fees of \$26,460 and issued 126,000 finder's fee warrants to finders acting on behalf of the Company in connection with the placement. Each finder's fee warrant is exercisable into one common share of the Company at \$0.30 per share until expiry on June 5, 2020.

The finder's fee warrants were recorded at their fair value at time of issuance and shown as part of share issue costs netted against share capital. The terms and assumptions used were the same as those for the warrants above.

On February 26, 2019 the Company completed a private placement through the issuance of 1,410,000 units at a price of \$0.15 per unit raising a total of \$211,500. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.20 per common share at any time on or before February 26, 2020. The Company valued the warrants and apportioned the share issue expenses incurred between the warrants value and the share value on a pro rata basis. In determining the value of the warrants, the fair value of the warrants issued were estimated using a Black-Scholes pricing model with the following weighted average assumptions used:

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Risk-free interest rate	1.68%
Expected dividend yield	0.00%
Expected stock price volatility	68.68%
Expected life of warrants	1 year
Grant date fair value of warrant	\$0.055

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The Company paid cash finder's fees of \$1,050 and issued 7,000 finder's fee warrants to finders acting on behalf of the Company in connection with the placement. Each finder's fee warrant is exercisable into one common share of the Company at \$0.20 per share until expiry on February 26, 2020.

The finder's fee warrants were recorded at their fair value at time of issuance and shown as part of share issue costs netted against share capital. The terms and assumptions used were the same as those for the warrants above.

### **Warrants**

A summary of the change in warrants for the periods ended June 30, 2020 and December 31, 2019 is provided below:

**ZEPHYR MINERALS LTD.****Notes to the Unaudited Condensed Consolidated Interim Financial Statements****(Expressed in Canadian dollars)****Six Months ended June 30, 2020**

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Years to Expiry</b>
<b>At January 1, 2019</b>	7,031,378	0.31	0.36
Expired	(6,461,378)	0.33	
Exercised	(620,000)	0.20	
Issued	2,267,928	0.27	
<b>At December 31, 2019</b>	2,217,928	0.27	.35
Expired	(43,500)	0.20	
Exercised	(2,174,528)	0.27	
Issued	5,551,145	0.35	
<b>At June 30, 2020</b>	5,551,145	0.35	1.14

The following table summarizes information about the warrants outstanding at June 30, 2020 and December 31, 2019:

<b>Expiry Dates</b>	<b>Exercise Price</b>	<b>Number of Warrants 2020</b>	<b>Number of Warrants 2019</b>
February 26, 2020	\$0.20	-	662,000
June 5, 2020	\$0.30	-	1,555,928
August 21, 2021 (Note 12)	\$0.35	5,551,145	-
		5,551,145	2,217,928

**Share-based compensation plan**

The Company has an incentive share-based compensation plan (the "Plan") which permits the Board of Directors to grant stock option to directors, officers, employees and consultants. The total number of options issued at any time cannot exceed 10% of the issued and outstanding common shares of the Company unless shareholder and regulatory approval are obtained. Options granted under the Plan have a five-

## ZEPHYR MINERALS LTD.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

Six Months ended June 30, 2020

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year term. Options are granted at a price no lower than the market price of the common shares less any discounts allowed by the TSXV at the time of the grant.

On May 8, 2020 the Company granted stock options to officers and directors to purchase 875,000 common shares of Zephyr. The exercise price of the stock options is \$0.26 per share. The options vest upon grant and will expire 5 years from date of grant.

In determining the share-based payments expense the fair value of the options issued were estimated using a Black-Scholes option pricing model with the following assumptions:

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Risk-free interest rate	.40%
Expected dividend yield	0.00%
Expected stock price volatility	113.8%
Expected life of options	5 years
Fair value at grant date	\$0.21

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On January 28, 2020 the Company granted stock options to a consultant to purchase 200,000 common shares of Zephyr. The exercise price of the stock options is \$0.28 per share. The options vest upon grant and will expire 2 years from date of grant.

In determining the share-based payments expense the fair value of the options issued were estimated using a Black-Scholes option pricing model with the following assumptions:

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Risk-free interest rate	1.62%
Expected dividend yield	0.00%
Expected stock price volatility	64.42%
Expected life of options	2 years
Fair value at grant date	\$0.0979

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A summary of the change in stock options for the periods ended June 30, 2020 and December 31, 2019 is provided below:

**ZEPHYR MINERALS LTD.**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian dollars)  
Six Months ended June 30, 2020

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Years to Expiry</b>
<b>At January 1, 2019</b>	3,175,000	0.17	2.0
Issued	1,100,000	0.27	
Expired	(325,000)	0.27	
Exercised	(250,000)	0.15	
<b>At December 31, 2019</b>	3,700,000	0.20	2.1
Issued	1,075,000	0.26	
Expired	(75,000)	0.19	
<b>At June 30, 2020</b>	4,700,000	0.20	2.2

**9. RELATED PARTY TRANSACTIONS**

Transactions were in the normal course of operations and were measured at the exchange amounts, which are the amounts agreed to by the related parties.

Included in accounts payable and accrued liabilities is \$14,290 (2019 - \$6,070) due to parties related to officers and directors.

The remuneration of directors and other members of key management personnel during the six months ended June 30, 2020 and 2019 were as follows:

	<b>2020</b>		<b>2019</b>	
Salaries and consulting fees	\$	71,833	\$	70,600
Share-based payments		183,750		102,920
	\$	255,583	\$	173,520

- (i) Share-based payments are the fair value of options granted to key personnel and directors.

**10. FINANCIAL INSTRUMENTS**

The Company has designated its cash and cash equivalents as fair value through income or loss; accounts receivable and accounts payable and accrued liabilities are carried at amortized cost.



## **ZEPHYR MINERALS LTD.**

### **Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

**(Expressed in Canadian dollars)**

**Six Months ended June 30, 2020**

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#### *Management of capital risk*

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. The Company considers capital to be cash and cash equivalents. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Additional funds will be required to finance the Company's Exploration and Evaluation Assets. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

#### *Fair value*

The book value of cash and cash equivalents and accounts payable and accrued liabilities all approximate their fair values at the balance sheet dates, due to the relative short-term maturity of the instruments.

#### *Credit risk*

The Company is exposed to credit risk with respect to its cash and accounts receivable. The credit risk associated with cash is minimal as cash has been placed with a major Canadian financial institution with strong investment-grade ratings by a primary ratings agency. The Company is not exposed to significant credit risk with respect to accounts receivable, as the entire amount due is from a government agency.

#### *Liquidity risk*

The Company's approach to managing liquidity risk is to arrange equity financings in a timely manner so as to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2020, the Company had a cash balance of \$2,091,517 to settle current liabilities of \$42,741. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. Other than as discussed herein, the Company is not aware of any trends, demands, commitments, events or uncertainties that may result in the Company's liquidity or capital resources either materially increasing or decreasing at present or in the foreseeable future.

#### *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate, foreign currency risk and other price risk.

##### **(a) Interest rate risk**

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

## ZEPHYR MINERALS LTD.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

Six Months ended June 30, 2020

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(b) Foreign currency rate risk

Although the Company's principal exploration asset is based in the United States of America, the low annual maintenance costs have led the Company to conclude that it does not believe it is exposed to any significant foreign currency risk at the present time.

(c) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to other price risk.

Financial instruments disclosure requires a statement of the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of fair value are:

- Level 1 Unadjusted quoted prices in active markets for identical assets and 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 has valued all of its financial instruments at Level 2.

## 11. SEGMENTED INFORMATION

The Company's operating segments include an exploration and evaluation property in Colorado, USA and a corporate office in Halifax, Nova Scotia, Canada.

**As at June 30, 2020:**

<b>Country</b>	<b>Cash and cash equivalents</b>	<b>Mineral Properties</b>	<b>Receivables, bonds &amp; prepaids</b>	<b>Payables</b>	<b>Loss</b>
Canada	\$ 2,031,713	\$ -	\$ 36,045	\$ 29,386	\$ (413,303)
USA	59,804	4,572,619	300,420	13,355	(2,936)
	<u>\$ 2,091,517</u>	<u>\$ 4,572,619</u>	<u>\$ 336,465</u>	<u>\$ 42,741</u>	<u>\$ (416,239)</u>

**ZEPHYR MINERALS LTD.****Notes to the Unaudited Condensed Consolidated Interim Financial Statements****(Expressed in Canadian dollars)****Six Months ended June 30, 2020****As at December 31, 2019:**

<b>Country</b>	<b>Cash and cash equivalents</b>	<b>Mineral Properties</b>	<b>Receivables, bonds &amp; prepaids</b>	<b>Payables</b>	<b>Profit (Loss)</b>
Canada	\$ 103,795	\$ -	\$ 21,699	\$ 39,935	\$ (610,730)
USA	(5,165)	4,408,242	124,079	12,900	(2,114)
	<u>\$ 98,630</u>	<u>\$ 4,408,242</u>	<u>\$ 145,778</u>	<u>\$ 52,835</u>	<u>\$ (612,844)</u>

**12. SUBSEQUENT EVENTS**

Subsequent to the quarter end, 1,856,580 common share purchase warrants to purchase 1,856,580 common shares were exercised for proceeds of \$649,803.

On August 12, 2020 the Company accelerated the expiry date of the February 2020 common share purchase warrants in accordance with the terms of the warrants. 3,694,565 warrants are currently outstanding and are subject to the acceleration. If all outstanding warrants are exercised, gross proceeds to the Company will total \$1,293,098. Holders may exercise the warrants before 5:00 p.m. Halifax Time on September 11, 2020 by observing the process as set out in their warrant certificates. All warrants remaining unexercised after the expiry time will be cancelled.

On August 6, 2020, the Company commenced its drill program at El Plomo. The sulphide mineralization cored in DDH EL-20-01 did not meet expectations visually and the drill hole was terminated August 27, 2020 at a depth of 416.5 m (1,366 ft.). Based on the visual results, it was deemed that further drilling was unwarranted pending final evaluation of the drill core and return of assays, anticipated in the fourth quarter.