ZEPHYR MINERALS LTD.
(An Exploration Stage Company)

Consolidated Financial Statements
Year ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

Wasserman Ramsay
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Zephyr Minerals Ltd.:

We have audited the accompanying consolidated financial statements of Zephyr Minerals Ltd. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Zephyr Minerals Ltd. and its subsidiary as at December 31, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Wasserman Ramsay

Markham, Ontario
April 26, 2018

Chartered Accountants
Licensed Public Accountants

ZEPHYR MINERALS LTD.
(An Exploration Stage Company)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

		December 31, 2017		December 31, 2016
Assets				
Current				
Cash and cash equivalents	$	14,211	$	230,107
Accounts receivable (note 4)		38,683		18,912
Prepaid expenses and deposits		129,135		76,521
		182,029		325,540
Exploration and evaluation assets (note 5)		2,848,792		2,062,772
	$	3,030,821	$	2,388,312
Liabilities				
Current				
Accounts payable and accrued liabilities (note 6)	$	133,972	$	171,498
Long Term				
Reclamation obligation		32,617		-
		166,589		171,498
Shareholders' Equity				
Share Capital (note 7)		4,461,310		3,530,124
Share-based payments reserve		1,384,046		1,152,476
Deficit		(2,981,124)		(2,465,786)
		2,864,232		2,216,814
	$	3,030,821	$	2,388,312

Basis of presentation and going concern – Note 2
Subsequent events – Note 12

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.
(An Exploration Stage Company)
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31
(Expressed in Canadian dollars)

		2017		2016
Operating Expenses				
Filing fees	$	17,337	$	13,583
Foreign exchange loss		13,303		12,247
Investor relations		146,065		80,417
Professional fees		34,466		32,258
General and administrative		8,760		2,308
Rent		8,068		8,028
Travel		22,307		4,373
Transfer agent		14,171		19,566
Salaries and consulting fees		207,136		144,910
Share based payments		43,725		28,880
Net Loss and Comprehensive Loss for Period	$	(515,338)	$	(346,570)
Loss Per Share – Basic		(0.014)		(0.010)
Weighted Average Number of Common Shares Outstanding – basic and diluted		36,501,041		33,426,761

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

ZEPHYR MINERALS LTD.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the Years Ended December 31
(Expressed in Canadian dollars)

		2017		2016
Operating Activities				
Net loss	$	(515,338)	$	(346,570)
Items not requiring an outlay of cash				
Share based payments		43,725		28,880
Net changes in non-cash working capital items				
Accounts receivable		(19,771)		(12,967)
Prepaid expenses		(52,614)		(55,266)
Accounts payable and accrued liabilities		(37,526)		99,314
Cash Used in Operating Activities		(581,524)		(286,609)
Investing Activities				
Expenditures on exploration and evaluation assets		(753,403)		(1,000,902)
Cash Used for Investing Activities		(753,403)		(1,000,902)
Financing Activities				
Issue of common shares net of share issue costs		1,119,031		201,286
Cash Provided by Financing Activities		1,119,031		201,286
Net Change in Cash and Cash Equivalents for the Year		(215,896)		(1,086,225)
Cash and Cash Equivalents, Beginning of Year		230,107		1,316,332
Cash and Cash Equivalents, End of Year	$	14,211	$	230,107
Non-cash financing and investing activities:				
Cash paid for interest	$	-	$	-
Cash paid for income taxes	$	-	$	-
Value of share based payments charged to exploration and evaluation assets	$	-	$	59,000
Value of brokers warrants issued	$	3,050	$	2,703
Reclamation accrual	$	32,317	$	-

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

ZEPHYR MINERALS LTD.
(An Exploration Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31
(Expressed in Canadian dollars)

	Number of shares	Share capital	Share-based payments reserve	Deficit	Total
		$	$	$	$
January 1, 2016	33,395,961	3,371,352	1,022,082	(2,119,216)	2,274,218
Share based payments		-	87,880		87,880
Shares issued in private placement	661,300	166,920	44,696	-	211,616
Share issue costs		(8,148)	(2,182)	-	(10,330)
Loss for year		-	-	(346,570)	(346,570)
December 31, 2016	34,057,261	3,530,124	1,152,476	(2,465,786)	2,216,814
Share based payments (note 8)		-	43,725	-	43,725
Shares issued in private placement (note 7)	3,925,359	948,582	192,669	-	1,141,251
Share issue costs		(17,396)	(4,824)	-	(22,220)
Loss for year		-	-	(515,338)	(515,338)
December 31, 2017	37,982,620	4,461,310	1,384,046	(2,981,124)	2,864,232

1. NATURE OF OPERATIONS

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

The Company is a publicly listed company continued under the Canada Business Companies Act with limited liability under the laws of Canada. The Company's shares trade on the Toronto Stock Venture Exchange ("TSX-V").

2. BASIS OF PRESENTATION AND GOING CONCERN

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies applied in these consolidated financial statements are presented in note 3 and are based on IFRS effective December 31, 2017.

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 April 26, 2018.

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(h).

Going Concern

The Company holds a 100% interest in the Dawson gold project ("Dawson") in Colorado, USA an advanced gold project with exploration potential. The Company's objective is to explore and evaluate these mineral claims to determine whether the property contains economic resources warranting a development program.

As at December 31, 2017, the Company has cash of $14,211, working capital of $48,057 and shareholders' equity of $2,864,232. The Company's financial statements as at December 31, 2017 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.

Subsequent to year end, the Company closed a private placement financing wherein it raised gross proceeds of $1,503,000 through a unit offering more fully described in note 12. Considering this unit offering, management concluded that 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$33,000 to keep the Dawson project in good standing. The Company's 2018 obligation was paid and recorded in the 2017 fiscal year. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. In order to develop the Dawson project, the Company will need to raise additional capital. If the Company is unable to raise additional capital in the future, the Company may 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. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Company and its subsidiaries to all periods presented.

(a) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

The Companies current year accounts have been consolidated with its wholly owned subsidiary Zephyr Gold USA Ltd.

(b) Cash and cash equivalents

Cash and cash equivalents consists of cash, demand deposits and highly liquid short-term investments with an initial term of 90 days or less. Cash and cash equivalents have been designated as held-for-trading.

(c) Share issuance costs

Costs directly identifiable with the raising of capital will be charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issuance costs.

(d) Share-based payments

The Company has a stock option plan that is described in note 7. 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 the 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 offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

(e) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed using the treasury stock method. In accordance with the treasury stock method, the weighted average number of shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(f) Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net profit such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive income (loss), components of other comprehensive income and cumulative translation adjustments are presented in the statements of comprehensive income (loss) and the statements of changes in equity.

(g) Income taxes

Income tax expense represents current tax and deferred tax. The Company records current tax based on the taxable profits for the period which is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income taxes are accounted for using the liability method. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference based on currently enacted or substantially enacted tax rates that are expected to be in effect when the underlying items of income or expense are expected to be realized. The effect of a change in tax rates or tax legislation is recognized in the period of substantive enactment. Deferred tax assets, such as non-capital loss carry forwards, are recognized to the extent it is probable that taxable profit will be available against which the asset can be utilized.

The determination of income taxes requires the use of judgment and estimates. If certain judgments or estimates prove to be inaccurate, or if certain tax rates or laws change, the Company's results of operations and financial position could be materially impacted.

(h) Critical accounting estimates and judgements

The amounts recorded for share-based payment transactions are based on estimates. The Black-Scholes model is based on estimates of assumptions for expected volatility, expected number of options to vest, dividend rate, risk-free interest rate and expected life of the options.

The recoverability of amounts shown for exploration and evaluation assets is dependent on the discovery of economical reserves, the ability of the Company to obtain financing to complete development of the properties and on future production or proceeds of disposition.

Management's belief that no material restoration, rehabilitation and environmental obligation exist at the balance sheet date other than amounts already recorded.

Deferred income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values. Deferred income tax assets also result from unused loss carry- forwards and other deductions. The valuation of deferred income tax assets is adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

Critical accounting judgments

The following accounting policies involve judgments or assessments made by management:

- The determination of categories of financial assets and financial liabilities;
- The determination of a cash-generating unit for assessing and testing impairment;
- The allocation of exploration costs to cash-generating units; and
- The determination of when an exploration and evaluation asset moves from the exploration stage to the development stage.

(i) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The Company presently does not have any amounts considered to be provisions.

(j) Segmented information

The Company's operation consists of a single segment with operations located in Canada and the USA.

(k) Exploration and evaluation assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized as incurred as intangible assets. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Once technical feasibility and commercial viability of the extraction of mineral resources in an of interest are demonstrable, which management has determined to be indicated by a feasibility study and a decision to proceed with development, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to resource property and development assets.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash generating unit level, when there are indicators the carrying amount of these assets may exceed their recoverable amounts. To the extent this occurs, the excess is fully provided against the carrying amount, in the period in which this is determined. Exploration and evaluation assets are assessed on an annual basis and these costs are carried forward provided at least one of the following conditions is met:

- Such costs are expected to be recovered through successful exploration and development and of the area of interest or by its sale; or
- Exploration and evaluation activities in the area have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing, or planned in the future.

(l) Environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to income (loss) for the period.
The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to the statement of operations in the period incurred.

The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of ongoing current programs to prevent and control pollution is charged against income (loss) as incurred.

(m) Foreign currency translation

The presentation currency of the Company is the Canadian dollar. The functional currency of the Company and its wholly-owned subsidiary is the Canadian dollar. The functional currency determinations were made by management based on an analysis of factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

These consolidated financial statements have been translated into Canadian dollars in accordance with IAS 21. This standard requires that assets and liabilities be translated using the exchange rate at period end and that income and expenses and cash flow items be translated using the rate that approximates the exchange rate at the date of the transactions (i.e. average exchange rate for the period).

Transactions in currencies other than the functional currency are recorded at rates of exchange prevailing at the dates of the transactions. At each financial reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in foreign currency are not re-translated.

(n) Future accounting pronouncements

IFRS 9, Financial Instruments effective for annual periods beginning after January 31, 2018. The standard is the first part of a multi-phase project to replace IAS 39, Financial Instruments: Recognition and Measurement. The Company is currently assessing the impact, if any, adoption of this standard will have on the financial statements.

(Expressed in Canadian dollars)

4. ACCOUNTS RECEIVABLE

		December 31, 2017		December 31, 2016
HST receivable	$	38,683	$	18,912
	$	38,683	$	18,912

5. EXPORATION AND EVALUATION ASSETS

Acquisition Costs

	Dawson $
Balance as at January 1, 2016 and December 31, 2016	243,740
Reclamation obligation	32,617
Impairment	-
Balance as at December 31, 2017	276,357

Deferred Exploration Costs

	Dawson $
Balance January 1, 2016	759,130
Expenditures	1,059,902
Balance December 31, 2016	1,819,032
Expenditures	753,403
Balance December 31, 2017	2,572,435
Carrying amount	
As at December 31, 2016	2,062,772
As at December 31, 2017	2,848,792

Dawson Project

On October 31, 2012 the Company announced it had closed a gold property acquisition with Celtic Minerals Ltd. (“Celtic Minerals”) to purchase a 100% interest in the Dawson project in Colorado, USA. The acquisition was done by way of a share purchase agreement, whereby Zephyr acquired 100% of Celtic Gold Ltd. (“Celtic Gold”), a Colorado company and subsidiary of Celtic Minerals, which holds title to the Dawson project. This company was subsequently renamed Zephyr Gold USA Ltd.

(Expressed in Canadian dollars)

The Dawson project is comprised of five gold mineralized areas which are from east to west; the Sentinel segment, the Dawson segment the Copper King segment, the Windy Gulch segment and the Windy Point segment. It is located in south-central Colorado, about 9.5 km southwest of Canon City in Fremont County. The Dawson project consists of 45 contiguous unpatented lode mining claims, and eight patented lode mining claims and one patented placer claim covering approximately 4 km^2 (400 hectares). Zephyr holds a 100% interest in the 45 contiguous unpatented claims, 50% interest in the eight patented claims, and a 50% interest in one patented placer claim. The 50% of the eight patented lode mining claims not held by the Company is leased by the Company through a “Mining Lease and Agreement” which effectively gives the Company 100% control of these claims. Twenty-one of the 45 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 the Company agrees to pay up to a 3% NSR on the aforementioned claims.

The Company 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. To date the Company has made advance royalty payments totaling US$429,000 which can be so applied. The Company is also obliged to make a payment of US$90,000 in the event of embarking on an underground program. The Company is also required to make annual payments of approximately US$6,975 to maintain the unpatent claims that form part of the Dawson project.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2017	December 31, 2016
Trade payables	$ 112,418	$ 146,464
Accrued liabilities	21,554	25,034
	$ 133,972	$ 171,498

(Expressed in Canadian dollars)

7. SHARE CAPITAL

Authorized capital consists of an unlimited number of common shares.

Issuances of common shares in 2017

On January 31, 2017 the Company completed a private placement through the issuance of 302,500 units at a price of $0.32 per unit raising a total of $96,800. 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 $0.38 per common share at any time on or before January 31, 2018. 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	0.45%
Expected dividend yield	0.00%
Expected stock price volatility	99.2%
Expected life of warrants	1 year
Grant date fair value of warrant	$0.166

The Company paid cash finder's fees of $5,880 and issued 18,375 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 $0.38 per share until expiry on January 31, 2018.

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 28, 2017 the Company completed a private placement through the issuance of 675,000 units at a price of $0.32 per unit raising a total of $216,000. 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 $0.42 per common share at any time on or before February 28, 2019. 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:

(Expressed in Canadian dollars)

Risk-free interest rate	0.47%
Expected dividend yield	0.00%
Expected stock price volatility	101.2%
Expected life of warrants	2 years
Grant date fair value of warrant	$0.155

There were no finder's fees or finder's fee warrants associated with the issue.

On May 29, 2017 the Company completed the first tranche of a private placement through the issuance of 2,130,000 units at a price of $0.28 per unit raising a total of $596,400. 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 $0.42 per common share at any time on or before May 29, 2019. 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	0.53%
Expected dividend yield	0.00%
Expected stock price volatility	80.9%
Expected life of warrants	2 years
Grant date fair value of warrant	$0.085

There were no finder's fees or finder's fee warrants associated with the issue.

On August 1, 2017 the Company completed the final tranche of a private placement through the issuance of 817,859 units at a price of $0.28 per unit raising a total of $229,001. 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 $0.42 per common share at any time on or before August 1, 2019. 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	0.74%
Expected dividend yield	0.00%
Expected stock price volatility	81.5%
Expected life of warrants	2 years
Grant date fair value of warrant	$0.053

There were no finder's fees or finder's fee warrants associated with the issue.

(Expressed in Canadian dollars)

Issuance of common shares in 2016

On December 14, 2016 the Company completed a private placement through the issuance of 661,300 units at a price of $0.32 per unit raising a total of $211,616. 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 $0.38 per common share at any time on or before December 14, 2017. 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	0.49%
Expected dividend yield	0.00%
Expected stock price volatility	101.2%
Expected life of warrants	1 years
Grant date fair value of warrant	$0.127

The Company paid cash finder's fees of $5,097 and issued 15,929 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 $0.38 per share until expiry on June 14, 2018.

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 except for the extended exercise date. The finder's warrants were valued at $0.156.

Warrants

A summary of the change in warrants for the periods ended December 31, 2017 and December 31, 2016 is provided below:

(Expressed in Canadian dollars)

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Years to Expiry
At January 1, 2016	5,821,266	0.20	1.48
Expired	(871,266)	0.20	
Issued	346,580	0.38	
At December 31, 2016	5,296,580	0.21	.73
Expired	(780,651)	0.28	
Issued	1,981,055	0.42	
At December 31, 2017	6,496,984	0.34	.86

Note: During the year 4.5 million warrants set to expire in September 2017 were extended for a period of one year and the exercise price was increased from $0.20 to $0.30.

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

On June 1, 2017 the Company granted stock options to consultants to purchase 125,000 common shares of Zephyr with an exercise price of $0.42 per share. The stock options vest upon grant and will expire 2 years from the date of grant.

On September 19, 2017 the Company granted stock options to an officer to purchase 300,000 common shares of Zephyr with an exercise price of $0.25. The stock options vest upon grant and will expire 5 years from date of grant.

The total calculated fair value of share based payments in 2017 is $43,725 which has been recorded as Stock Based Compensation expense.

In determining the share-based payments expense, in fiscal 2017, the fair value of the options issued were estimated using a Black-Scholes option pricing model with the following range of assumptions:

(Expressed in Canadian dollars)

Risk-free interest rate	.53% - 1.01%
Expected dividend yield	0.00%
Expected stock price volatility	66% - 82%
Expected life of options	2.0 - 5.0 years
Grant date fair value of option	$0.057 - $0.122

A summary of the change in stock options for the periods ended December 31, 2017 and December 31, 2016 is provided below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Years to Expiry
At January 1, 2016	2,725,000	0.13	3.1
Issued	500,000	0.27	
At December 31, 2016	3,225,000	0.15	3.6
Issued	425,000	0.30	
Expired	(125,000)	0.25	
At December 31, 2017	3,525,000	0.17	2.8

(Note: Of the options issued 3,475,000 are exercisable as of December 31, 2017)

8. RELATED PARTY TRANSACTIONS

Rent expense of $6,000 (2016 - $6,000) during the year was paid to a director of the Company.

The spouse of a director of the Company received US$11,000 (2016 – US$5,000) in compensation for providing promotional services to the Company.

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 $21,834 (2016 - $18,622) due to parties related to officers and directors.

The remuneration of directors and other members of key management personnel during the periods ended December 31, 2017 and 2016 were as follows:

(Expressed in Canadian dollars)

		2017		2016
Salaries and consulting fees	$	246,400	$	163,750
Share-based payments		36,600		28,880
	$	283,000	$	192,630

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

9. FINANCIAL INSTRUMENTS

The Company has designated its cash and cash equivalents as fair value through income or loss; accounts receivable are classified as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

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.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than that of the TSXV which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of December 31, 2017, the Company was not compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV. This non-compliance was rectified subsequent to year end with the closing of a private placement (see Note 12).

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 December 31, 2017, the Company had a cash balance of $14,211 to settle current liabilities of $133,972. As noted in Note 12, subsequent to the year end the Company has raised an additional $1,503,000. 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.

(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.

(Expressed in Canadian dollars)

10. INCOME TAXES

The Company has non-capital losses of approximately $2,858,000 (2016 - $2,345,000) available that may be carried forward and applied against future income for Canadian income tax purposes. The tax effect has not been recorded in the consolidated financial statements. The non-capital losses expire, if unused, as follows:

2030	$	61,000
2031		309,000
2032		458,000
2033		365,000
2034		272,000
2035		376,000
2036		504,000
2037		513,000
	$	2,858,000

In addition to the above non-capital loss carry-forwards the Company has approximately 3,330,000 (2016- $2,650,000) in exploration expenditures deductible from future taxable income.

The Company recognizes tax benefits on losses or other deductible amounts generated where the probable criteria for the recognition of deferred tax assets has been met. Consequently, the Company has tax assets relating to deductible temporary differences and unused tax losses of $2,858,000 (2016 $2,345,000) for which no deferred tax asset is recognized, as it is not probable that the deferred tax assets will be realized in the future.

The following are the deductible temporary differences for which no deferred tax assets are recognized in the consolidated financial statements:

		2017		**2016**
Mineral resource properties	$	845,000	$	587,000
Share issue costs		35,500		35,500
Non-capital losses carried forward		2,858,000		2,345,000
	$	3,738,500	$	2,967,500

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 31% (2016 – 31%) to income before income taxes. The reasons for the differences are as follows:

(Expressed in Canadian dollars)

		2017		2016
Statutory tax rate		31%		31%
Expected income tax expense (recovery)	$	(160,000)	$	(104,000)
Items non-deductible (deductible) for tax purposes, net		1,000		(6,000)
Unused tax losses and tax offset not recognized in tax assets		159,000		110,000
	$	-	$	-

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 December 31, 2017:

Country	Cash and cash equivalents	Mineral Properties	Receivables and prepaid	Payables	Profit (Loss)
Canada	$ 603	$ -	$ 42,089	$ 64,217	$ (513,944)
USA	13,608	2,848,492	125,729	69,755	(1,394)
	$ 14,211	$ 2,848,492	$ 167,818	$ 133,972	$ (515,338)

As at December 31, 2016:

Country	Cash and cash equivalents	Mineral Properties	Receivables and prepaid	Payables	Loss
Canada	$ 222,514	$ -	$ 18,912	$ 112,714	$ (335,032)
USA	7,593	2,062,772	76,521	58,784	(11,538)
	$ 230,107	$ 2,062,772	$ 95,433	$ 171,498	$(346,570)

12. SUBSEQUENT EVENTS

On January 30, 2018, the Company announced the staking of 10 additional claims on the eastern boundary of the Dawson property. These new claims cover an area directly east of the existing claims and expand the property to a length of 4.2 km (2.6 miles).

On April 10, 2018 the Company completed a private placement through the issuance of 8,350,000 units at a price of $0.18 per unit raising a total of $1,503,000. 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 $0.30 per common share at any time on or before April 10, 2019, subject to an acceleration clause should the Company's shares trade above certain targets. The Company paid cash finder's fees totaling $85,490 and issued 476,175 finder's fee warrants to a finder's 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 April 10, 2019. The finder's fee warrants are subject to the same acceleration clause as the warrants attached to the unit offering.