

ZEPHYR MINERALS LTD.
(An Exploration Stage Company)

Unaudited Condensed Consolidated Interim Financial Statements
Nine Months ended September 30, 2016 and 2015
(Expressed in Canadian dollars)

Unaudited – Prepared by Management

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 September 30, 2016, 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)**

	September 30, 2016		December 31, 2015
Assets			
Current			
Cash and cash equivalents	\$ 210,694	\$	1,316,332
Accounts receivable (note 3)	29,873		5,945
Prepaid expenses and deposits	86,349		21,255
	326,916		1,343,532
Exploration and evaluation assets (note 4)	1,882,579		1,002,870
	\$ 2,209,495	\$	2,346,402
Liabilities			
Current			
Accounts payable and accrued liabilities (note 5)	\$ 115,388	\$	72,184
Shareholders' Equity			
Share Capital (note 6)	3,371,352		3,371,352
Share-based payments reserve	1,109,962		1,022,082
Deficit	(2,387,207)		(2,119,216)
	2,094,107		2,274,218
	\$ 2,209,495	\$	2,346,402

Basis of presentation and going concern – Note 2

Approved on behalf of the Board:

David Felderhof

David Felderhof, Director

Loren Komperdo

Loren Komperdo, Director

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

	2016		2015	
	3	9	3	9
	Months	Months	Months	Months
Operating Expenses				
Filing fees	\$ 11,741	\$ 21,159	\$ 3,335	\$ 14,346
Foreign exchange loss, net	129	11,927	-	-
Investor relations	7,878	42,926	-	15,671
Professional fees	5,885	24,951	10,260	23,308
General and administrative	766	2,243	1,146	4,476
Rent	2,007	6,021	2,007	5,246
Travel	-	4,358	21	1,254
Transfer agent	10,461	18,616	945	9,528
Salaries	36,693	106,910	16,094	48,282
Share based payments	-	28,880	-	25,850
Net Loss and Comprehensive Loss for the period	(75,560)	(267,991)	(33,808)	(147,961)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	33,395,961	33,395,961	24,380,744	24,380,744
Loss Per Share – Basic	\$ (0.002)	(0.008)	\$ (0.001)	\$ (0.006)

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

	2016	2015
Operating Activities		
Net loss	\$ (267,991)	\$ (147,961)
Items not requiring an outlay of cash		
Share based payments	28,880	25,850
Net changes in non-cash working capital items		
Accounts receivable	(23,928)	(5,325)
Prepaid expenses	(65,094)	22,644
Accounts payable and accrued liabilities	43,204	(12,380)
Cash Used in Operating Activities	(284,929)	(117,172)
Investing Activities		
Expenditures on exploration and evaluation assets	(820,709)	(139,979)
Cash Used for Investing Activities	(820,709)	(139,979)
Financing Activities		
Issue of common shares net of share issue costs		262,212
Cash Provided by Financing Activities		262,212
Net Change in Cash and Cash Equivalents for the Period	(1,105,638)	5,061
Cash and Cash Equivalents, Beginning of Period	1,316,332	92,307
Cash and Cash Equivalents, End of Period	\$ 210,694	\$ 97,368
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	\$ 8,155
Value of brokers warrants issued	\$	\$

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

	Number of shares	Share capital	Share-based payments reserve	Deficit	Total
		\$	\$	\$	\$
January 1, 2015	22,580,628	2,129,330	600,853	(1,834,784)	895,399
Share based payments		-	128,276	-	128,276
Shares issued in private placement	10,715,333	1,275,449	331,851	-	1,607,300
Share issue costs		(67,646)	(14,679)	-	(82,325)
Options exercised	100,000	34,219	(24,219)	-	10,000
Loss for year		-	-	(284,432)	(284,432)
December 31, 2015	33,395,961	3,371,352	1,022,082	(2,119,216)	2,274,218
Share based payments (note 6)		-	87,880	-	87,880
Loss for the period		-	-	(267,991)	(267,991)
September 30, 2016	33,395,961	3,371,352	1,109,962	(2,387,207)	2,094,107

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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") and on the OTC-Markets.

2. BASIS OF PRESENTATION AND GOING CONCERN

Basis of Presentation

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, 2015. 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, 2015. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015 which are filed at www.sedar.com

Going Concern

These condensed consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

The Company holds a 100% interest in the Dawson gold project ("Dawson") in Colorado, USA an advanced gold project with excellent 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 September 30, 2016, the Company has cash of \$210,694 working capital of \$211,528 and shareholders' equity of \$2,094,107. The Company's financial

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statements as at September 30, 2016 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 at September 30, 2015, the Company did not have sufficient funds to meet its corporate, administrative and property obligations for the next 12 months. In order to alleviate this situation, on November 7, 2016, the Company announced plans to undertake a non-brokered private placement in the amount of \$600,000 (See Subsequent Events for information on the private placement). Currently, the Company is required to make minimum annual payments of approximately US\$33,000 to keep the Dawson project in good standing. 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 advance and 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.

These condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

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 November 28, 2016.

3. ACCOUNTS RECEIVABLE

	September 30, 2016	December 31, 2015
HST receivable	\$ 29,873	\$ 5,945
	\$ 29,873	\$ 5,945

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Notes to the Unaudited Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

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4. EXPLORATION AND EVALUATION ASSETS**Acquisition Costs**

	Dawson \$
Balance as at January 1, 2015	243,740
Additions	-
Impairment	-
Balance as at December 31, 2015 & September 30, 2016	243,740

Deferred Exploration Costs

	Dawson \$
Balance January 1, 2015	569,435
Additions	189,695
Balance December 31, 2015	759,130
Additions	879,709
Balance September 30, 2016	1,638,839

Carrying amount

As at December 31, 2015	1,002,870
As at September 30, 2016	1,882,579

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.

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

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project consists of 45 contiguous unpatented lode mining claims, and eight patented lode mining claims and one patented placer claim covering approximately 4 km² (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\$379,000 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 non-patent claims that form part of the Dawson project.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2016	December 31, 2015
Trade payables	\$ 83,676	\$ 34,694
Accrued liabilities	31,712	37,490
	\$ 115,388	\$ 72,184

6. SHARE CAPITAL

Authorized capital consists of an unlimited number of common shares. There have been no common shares issued to date in 2016.

Warrants

A summary of the change in warrants for the periods ended September 30, 2016 and December 31, 2015 is provided below:

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	Number of Warrants	Weighted Average Exercise Price	Weighted Average Years to Expiry
At January 1, 2015	884,746	0.20	0.44
Expired	(884,746)	0.20	
Issued	5,821,266	0.20	
At December 31, 2015	5,821,266	0.20	1.48
Expired	(871,266)	0.20	
At September 30, 2016	4,950,000	0.20	.97

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 July 8, 2016 the Company granted stock options to a geological consultant to purchase 200,000 common shares of Zephyr. The exercise price of the stock options is 38 cents per share and will expire 5 years from the date of grant. At the date of grant each option was valued at \$.295.

On February 16, 2016 the Company granted stock options to an officer to purchase 300,000 common shares of Zephyr. The exercise price of the stock options is weighted equally at 15, 20 and 25 cents per share. The stock options vest upon grant and will expire in 5 years from the date of grant. At the date of grant the options were valued at a range of \$.091 - \$.102 each based on exercise price.

In determining the share-based payments expense, in fiscal 2016, the fair value of the options issued were estimated using a Black-Scholes option pricing model with the following range of assumptions:

Risk-free interest rate	.46 -.58%
Expected dividend yield	0.00%
Expected stock price volatility	98.9 – 108.1%
Expected life of options	5.0 years

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A summary of the change in stock options for the periods ended September 30, 2016 and December 31, 2015 is provided below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Years to Expiry
At January 1, 2015	1,975,000	0.12	2.92
Issued	950,000	0.12	
Exercised	(100,000)	0.10	
Cancelled	(100,000)	0.10	
At December 31, 2015	2,725,000	0.12	4.44
Issued	300,000	0.20	
Issued	200,000	0.38	
At September 30, 2016	3,225,000	0.14	3.78

(Note: Of the options issued 3,075,000 are exercisable as of September 30, 2016).

7. RELATED PARTY TRANSACTIONS

Rent expense of \$4,500 (2015 - \$4,500) during the nine months was paid to a director of the Company.

The spouse of a director of the Company received 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.

The remuneration of directors and other members of key management personnel during the nine months ended September 30, 2016 and 2015 were as follows:

	2016		2015	
Salaries & consulting fees	\$	106,910	\$	48,282
Share-based payments		28,880		25,850
	\$	135,790	\$	74,132

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

8. 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.

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 September 30, 2016, the Company had a cash balance of \$210,694 to settle current liabilities of \$115,388. 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.

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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.

9. 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.

ZEPHYR MINERALS LTD.**(An Exploration Stage Company)****Notes to the Unaudited Condensed Consolidated Financial Statements****(Expressed in Canadian dollars)****Nine Months ended September 30, 2016 and 2015****As at September 30, 2016:**

Country	Cash and cash equivalents	Mineral Properties	Receivables and prepaid	Payables	Profit (Loss)
Canada	\$ 185,824	\$ -	\$ 44,363	\$ 70,881	\$ (256,333)
USA	24,870	1,882,579	71,859	44,507	(11,658)
	<u>\$ 210,694</u>	<u>\$ 1,882,579</u>	<u>\$ 116,222</u>	<u>\$ 115,388</u>	<u>\$ (267,991)</u>

As at December 31, 2015:

Country	Cash and cash equivalents	Mineral Properties	Receivables and prepaid	Payables	Loss
Canada	\$ 1,050,938	\$ -	\$ 9,233	\$ 58,089	\$ (298,558)
USA	265,394	1,002,870	17,967	14,095	14,126
	<u>\$ 1,316,332</u>	<u>\$ 1,002,870</u>	<u>\$ 27,200</u>	<u>\$ 72,184</u>	<u>\$(284,432)</u>

10. SUBSEQUENT EVENTS

On October 20, 2016, the Company announced it had entered into an agreement (the "Agreement") with Mackie Research Capital Corporation ("Mackie") to provide market maintenance services for Zephyr in compliance with regulatory guidelines. Mackie will provide market stabilization and liquidity services of the shares on the TSX Venture Exchange. In consideration for their services, Zephyr agrees to pay Mackie \$3,000 per month. The Agreement will continue in effect unless terminated by either party with a written notice of 30 days. There are no performance factors contained in the Agreement and Mackie will not receive any shares or options from Zephyr as compensation for the services it will render. Zephyr and Mackie are unrelated and unaffiliated entities, but Mackie may provide investment banking services to Zephyr and Mackie and/or its clients may have an interest, directly or indirectly, in the securities of Zephyr.

On November 7, 2016, the Company announced plans to undertake a non-brokered private placement financing of \$600,000 comprising the sale of 1,875,000 units at a price of \$0.32 per unit (the "Private Placement"). Each unit consists of one common share and one-half of one 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 the 12-month anniversary of the closing of the offering. In connection with the offering, a finder's fee consisting of a cash

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commission equal to 7% of the gross proceeds raised under the offering and that number of non-transferable finder's fee warrants as is equal to 7% of the number of shares will be paid. Each finder's fee warrant will be exercisable into one common share of the Company at \$0.38 per share, for a period of 12 months from the closing date. Net proceeds from the funds raised will be used to advance the Dawson project, and for general working capital purposes. All shares and warrants are subject to a four month hold period.