

**ZEPHYR MINERALS LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the three and nine months ended September 30, 2018 and 2017**

**INTRODUCTION**

The following management's discussion and analysis of the financial position and results of operations of Zephyr Minerals Ltd. ("Zephyr" or the "Company"), prepared as of November 29, 2018 should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2018 and 2017 and its audited consolidated financial statements for the year ended December 31, 2017 including the notes thereto. All amounts are expressed in Canadian dollars unless otherwise noted.

*Certain information included in this discussion may constitute forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Examples of such statements include the Company's plans with respect to the Green Mountain Copper-Gold project ("Green Mountain") and the Dawson Gold project ("Dawson"), including the plan to potentially expand the resource estimate at the Dawson and Windy Gulch segments at Dawson through proposed drilling, potentially complete an initial resource estimate at the Windy Point segment, and other exploration activity, the Company's expected cash and financing requirements and the expected impact if the Company is unable to raise additional capital. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to: the ability of the Company to obtain necessary financing; the ability of the Company to satisfy conditions under any acquisition agreement; the exploration potential of its mining claims; anticipated costs; the results of the metallurgical test work on Dawson; the results of a preliminary economic assessment; the results of a surface and ground water monitoring program for Dawson and compliance with state permitting requirements. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements unless required to do so under applicable securities law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. Although the Company has attempted to identify factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.*

*Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or*

*achievements expressed or implied by the forward-looking statements. These factors include risks such as: the Company's ability to raise additional capital on favourable terms; the Company's ability to obtain, renew or maintain the necessary authorisations and permits for the Dawson project; increases in costs affecting the Dawson project; fluctuations in the price of gold; changes in environmental regulations and fluctuations in foreign currency values.*

*The factors identified above are not intended to represent a complete list of the factors that could affect the Company. Additional factors are noted under "Risk Factors" in the Company's annual information form dated July 24, 2015, ("AIF") a copy of which may be obtained on the SEDAR website at [www.sedar.com](http://www.sedar.com). Included in the risk factors is one, "Influence of Significant Shareholders". In the AIF it is noted that the Company has one significant shareholder controlling 16.25% of its shares. This shareholder currently holds 24% of the Company's shares.*

*Any financial outlook or future-oriented financial information in this discussion, as defined by applicable securities legislation, has been approved by management of the Company as of the date hereof. Such financial outlook or future-oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such outlook or information should not be used for purposes other than for which it is disclosed in this discussion.*

The common shares of the Company are listed and posted for trading on the TSX-V under the symbol "ZFR". The Company's head office is in Halifax, Nova Scotia, Canada. The financial statements have been prepared by management and have not been audited by the Company's auditor, Wasserman Ramsay, Chartered Accountants.

## **OVERVIEW**

Zephyr Minerals Ltd. was incorporated under the *Canada Business Corporations Act* (the "CBCA") on May 26, 2010. The head office of the Company is located at 1300 – 1959 Upper Water Street, Halifax, Nova Scotia. On March 23, 2011, the Company received a final receipt for a prospectus dated March 18, 2011 and became a reporting issuer in the Provinces of British Columbia, Alberta, Manitoba, Ontario and Nova Scotia.

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 Gold project ("Dawson") in Colorado, USA. The acquisition was done by way of a share purchase agreement, whereby Zephyr acquired 100% of Celtic Gold Ltd. (this company's name was subsequently changed to Zephyr Gold USA Ltd. ("Zephyr USA")), a Colorado company and subsidiary of Celtic Minerals, which holds title to Dawson.

The Company has been actively exploring and developing Dawson having completed three drill programs, filed an NI 43-101 report containing resource estimates for the Dawson and Windy Gulch segments, and completed and filed a Preliminary Economic Assessment report on developing the Dawson zone on March 22, 2017. The

Company's objective is to expand resources and obtain a mining permit to support a potential production decision.

On July 25, 2018, the Company announced expanding its holdings in west-central Colorado with the addition of the Green Mountain Copper-Gold project ("Green Mountain"), located approximately 10 km southwest of Dawson.

## **FINANCING**

On November 2, 2018 the Company completed a private placement through the issuance of 1,000,000 units at a price of \$0.15 per unit raising a total of \$150,000. 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 \$0.20 per common share at any time on or before November 2, 2019. The Company paid cash finder's fees of \$10,500 and issued 70,000 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 November 2, 2019.

On April 11, 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. The expiry date of the warrants may be accelerated by Zephyr at any time if the volume-weighted average trading price of the common shares is greater than or equal to \$0.375 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 20th calendar day after the date of such press release. The Company paid cash finder's fees of \$85,490 and issued 474,950 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 April 10, 2019. The expiry date of the finder's warrants are subject to the same acceleration clause as the unit warrants.

On September 19, 2017 the Company receive approval from the TSX Venture Exchange to amend the terms of an aggregate of 4,500,000 common share purchase warrants issued to subscribers (the "Subscriber Warrants") pursuant to the Company's private placement financing, which closed November 18, 2015.

The Subscriber Warrants issued pursuant to the private placement had an exercise price of \$0.20 and an expiry date September 18, 2017. The amended Subscriber Warrants had an exercise price of \$0.30 and expired September 18, 2018. All other terms of the Subscriber Warrants remain unchanged.

On August 1, 2017 the Company closed the second and 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 transferable 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.

On May 29, 2017 the Company closed the first tranche of the 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 transferable 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.

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. There were no commissions or finder's fees in connection with the private placement.

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. The Company paid cash finder's fees of \$5,880 and issued 18,375 finder's fee warrants to a finder 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. The warrants and the finder's fee warrants expired on January 31, 2018, unexercised.

### **Dawson Gold Project, Colorado, USA**

The Dawson Gold project ("Dawson") 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. The gold resources identified to date are confined to the Dawson and Windy Gulch segments with the remaining three segments representing gold prospective areas on the approximately 4.2 km (2.6 miles) long geologically favourable trend. It is located in west-central Colorado, 9.5 km southwest of Canon City in Fremont County. In the first half of 2018, the Company added 12 additional claims to the Sentinel segment, and subsequent to quarter end, added an additional 15 claims to the west of the Windy Point segment (see 'Subsequent Events'). The Dawson project now consists of 72 unpatented lode mining claims, and eight patented lode mining claims and one patented placer claim covering approximately 1,532 acres (620 hectares). Zephyr holds a 100% interest in the 72 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 Zephyr is leased by Zephyr through a "Mining Lease and Agreement" which effectively gives Zephyr 100% control of the these claims. Twenty-one of the 72 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.

The gold mineralization at Dawson was discovered by U.S. Borax Ltd. in the early 1980's and last explored by Uranerz U.S.A. Inc. in the early 1990's. During this period a total of 142 diamond drill holes for 27,206 metres were drilled, from which several resource estimates were completed. In late March, 2013 Zephyr commenced a diamond drill program on the Windy Gulch segment of the Dawson property. The 13 hole diamond drill program of approximately 580 metres was designed to expand and better define the near-surface gold resource. The drill results have been incorporated with historical drill data to calculate the first independent NI 43-101 resource estimate on the Dawson and Windy Gulch zones at Dawson. The resource estimates were disclosed in the technical report on Dawson entitled: "Resource Estimate Technical Report for the Dawson Property Fremont County, Colorado, USA" with an effective date of July 19, 2013.

On November 17, 2015 Zephyr filed on SEDAR a technical report entitled "Updated National Instrument 43-101 Technical Report for the Dawson Property, located in Colorado, USA", with an effective date of August 26, 2015. This report addressed aspects pertaining to metallurgy, mine design, mine scheduling, mining method, proposed equipment, manpower, underground capital and operating cost, but did not include surface capital costs, processing, or the general and administrative costs of the proposed operation.

In 2016 the Company completed a 16 hole drilling program of approximately 745 metres on the Windy Gulch segment at Dawson. The drill program was successful in further delineating the shape and trend of the deposit while demonstrating continued high grade gold mineralization defined in the current resource estimate. The program demonstrated that possible future plans of development would likely be by underground mining. The drill program also defined the near surface eastern extremity of the gold mineralization at Wind Gulch. Additional information regarding these drilling results can be found on the Company's website and on SEDAR in news releases dated August 9, 2016, September 27, 2016, and October 18, 2016.

On February 7, 2017, the Company announced the results of a Preliminary Economic Assessment ("PEA") on the Dawson Gold Project. The PEA report was filed on SEDAR on March 23, 2018 and is also available on the Company's website. The PEA provides a base case assessment of developing the Dawson segment mineral resource only. The PEA is preliminary in nature and there is no guarantee that any part of the current inferred mineral resources will be converted into a mineral reserve in the future and developed into a mine.

In Q3-2018 the Company completed a diamond drilling program totaling 11 holes for 1,853 m principally on the Dawson and Windy Gulch segments with the goal of expanding gold resources. One hole was also drilled on the Copper King segment. The best hole, DA-18-16 on the Dawson segment intercepting 3.4 m grading 17.6 g/t gold, 5.5 m of 7.6 g/t gold and 0.9 m of 17.4 g/t. Drill holes DA-18-12 and DA-18-13 intercepted only low grade values and essentially defined the east boundary of the gold mineralization at a relatively shallow depth. Additional potential for gold mineralization in the eastern area of the Dawson segment will be at depth.

The best drill intercept at the Windy Gulch segment was WG-18-40 which intersected 6.6 m grading 4.8 g/t gold, including an interval of 2.7 m grading 9.7 g/t gold. Future drilling at Windy Gulch will be targeted to the west and at depth.

The single hole at Copper King was unsuccessful, intercepting only low grade gold mineralization. While Copper King still has merit for further drill testing, this area will have a low priority given the higher quality targets available for testing elsewhere on the property – notably the Dawson, Sentinel, Windy Gulch and Windy Point segments.

The three holes planned for the Windy Point segment have been postponed to the next drill program. For additional information on the results of the drill program the reader is referred to news releases of July 17, September 10, October 23 and November 8, 2018.

The Q3-2018 field program on the Sentinel segment included reconnaissance mapping and sampling which yielded very encouraging results. The continuation of the mineralized zone at the Sentinel segment was confirmed with the presence of both gossanous outcrops reflecting the massive sulphide horizon which is host to the gold-copper zone and biotite aplite, one of the key gold host rocks in the gold zone on the Dawson segment. In addition, an old historic shaft and several small prospect pits were discovered in the Sentinel segment that are believed to date circa 1890's. A grab sample of gossan from the massive sulphide horizon located 800 m east of the Dawson segment assayed 0.34 g/t gold and 0.18% copper. These grades are similar to those up dip from the high grade gold mineralization in the Dawson gold zone and as such lends strong support to the prospectivity for gold at Sentinel. Zephyr is the first company to explore for gold in this area since the 1890's era, hence the keen anticipation to drill test these prospective targets in the next drill program. For additional information on exploration results at Sentinel, please see news releases dated June 27 and October 23, 2018.

Expenditures on the Dawson project for the three and nine months ended September 30, 2018 and 2017 are as follows:

<b>Exploration Expenditures</b>	<b>2018</b>		<b>2017</b>	
	<b>3 Months</b>	<b>9 Months</b>	<b>3 Months</b>	<b>9 Months</b>
Advanced Royalty Payment	\$ -	\$ -	\$ -	\$ -
Assays and Metallurgy	17,231	30,109	12,138	21,833
Claims Fees	11,524	11,524	8,833	8,833
Consulting and Salaries	6,800	20,933	4,200	11,233
Drilling	327,151	474,345	-	-
Field Camp and Supplies	64,409	137,217	13,979	90,458
Mine Planning / PEA	-	-	-	74,183
Permitting	5,675	11,305	52,448	92,882
Other Exploration & Miscellaneous	1,438	93,437	129,311	257,893
<b>Total E&amp;E</b>	<b>\$ 434,227</b>	<b>\$ 778,870</b>	<b>\$ 220,909</b>	<b>\$ 557,315</b>
<b>Cumulative E&amp;E Since Inception</b>	<b>\$ 3,351,305</b>	<b>\$ 3,351,305</b>	<b>\$ 2,376,347</b>	<b>\$ 2,376,347</b>

## **Green Mountain Copper-Gold Project, Colorado, USA**

The Green Mountain copper-gold project ("Green Mountain") is comprised of one patented lode mining claim and 62 unpatented lode mining claims; including the 29 unpatented lode mining claims acquired subsequent to quarter end. (see 'Subsequent Events'). The one patented claim at Green Mountain was purchased for US\$25,000 in an arm-length transaction and the 62 unpatented lode-mining claims were acquired through staking. The Green Mountain project totals 517 hectares (1,278 acres) and is 100% owned by Zephyr.

Green Mountain occupies a shear zone which is interpreted to be the faulted offset extension of the Dawson Shear Zone and exhibits similar geochemistry and rock types to Dawson, thus is considered to be highly prospective for gold. Discovered in ca. 1882, Green Mountain was mined on a small scale from shallow shafts (maximum depth 76.2 m (250 ft.) on a massive sulphide horizon. Historical records indicate a small tonnage (1,187 t) of high grade material (12.6% copper, 3.8g/t (0.11 oz/ton) gold and 47.6 g/t (1.39 oz/ton) silver, was shipped direct to a smelter early in the last century. Modern exploration programs targeting base metals were carried out by Phelps Dodge between 1979 and 1984 and by Inco Ltd. between 1992 and 1994. A drill hole below the old workings by Phelps Dodge intersected 18% copper, 4.3% zinc and 181.6 g/t (5.3 oz/ton) silver at a drill hole depth of 123.5 m (405 feet) and remains open at depth\*. Zephyr's studies suggest this sulphide horizon is analogous to that at the southern contact of the shear zone at Dawson.

Geological studies by United States Geological Service ("USGS")\*\* at Green Mountain report at least seven old shafts over a distance of 328 m (1,000 ft.) along the Main Trend of the shear zone; rock types identical to those hosting gold mineralization at Dawson, including the garnetiferous biotite gneiss (aplite); and gold values from dump samples ranging from < 1 g/t to 9.24 g/t. The inferred strike length of the shear zone at Green Mountain is 2,440 m (8,000 ft.).

In addition to the Main Trend marked by historic shafts, the Phelps Dodge report\* notes a mineralized "Western Trend", located northwest of the Main Trend. Two drill holes targeting Electromagnetic (EM) geophysical anomalies on the Western Trend intersected disseminated sulphides (no assays reported) with the second hole (317.7 m total depth), believed to be 15-30 m (50-100 ft.) short of the target horizon.

In total, Phelps Dodge drilled 13 diamond core holes totaling 2,172.6 m (7,126 ft.), targeting the copper gold sulphide zone and geophysical anomalies. With the exception of the two drill holes on the Western Trend, seven of the remaining holes were drilled to the southeast, two to the northeast and one vertical. Both the Main Trend and Western Trend at Green Mountain dip 65° - 85° to the southeast, similar to the 60° - 70° southeast dip at Dawson, which means that the footwall zone to the massive sulphide horizon remains largely untested. It is the footwall zone that is the host to gold resources at Dawson. Future drilling by Zephyr on these trends at Green Mountain will be on a northwest bearing.

\* *Exploration Report, Green Mountain Mine; J.M. Swallow, 1994.*

\*\* *USGS Open File Report 80-833, Raymond & Sheriden, 1980.*

During the quarter, the Company announced assay results of 17 grab samples collected on a reconnaissance traverse on the patented claim were very encouraging with five exceeding 1 g/t gold including one sample of malachitic garnetiferous biotite aplite which assayed 13.6 g/t gold. This rocktype is one of the principal gold hosts at Dawson and points to the gold prospectivity of Green Mountain. Grab samples are selected samples and are not representative of the mineralization hosted on the property. Zephyr intends, subject to funding, to complete additional exploration work on this highly prospective gold project with strong synergies to Dawson.

Expenditures on the Green Mountain project for the three and nine months ended September 30, 2018 and 2017 are as follows:

<b>Exploration Expenditures</b>	<b>2018</b>		<b>2017</b>	
	<b>3 Months</b>	<b>9 Months</b>	<b>3 Months</b>	<b>9 Months</b>
Assays and Metallurgy	\$ 2,210	\$ 2,210	\$ -	\$ -
Claims Fees	6,672	6,672	-	-
Field Camp and Supplies	6,740	6,740	-	-
Other Exploration & Miscellaneous	10,841	10,841	-	-
<b>Total E&amp;E</b>	<b>\$ 26,463</b>	<b>\$ 26,463</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cumulative E&amp;E Since Inception</b>	<b>\$ 26,463</b>	<b>\$ 26,463</b>	<b>\$ -</b>	<b>\$ -</b>

## **OUTLOOK**

Management continues to hold the view that Dawson has the potential for an economic, near-term, low capex, low opex, high grade underground gold mine. The Company intends to continue exploration with the objective of identifying additional resources to increase the proposed mill through-put as contemplated in the PEA and extend the potential mine life. Areas targeted for resource expansion include the Dawson segment which is open down-plunge and to the west, the Windy Gulch segment which is open at depth, and the Windy Point segment where potential is indicated by near surface high grade gold mineralization. In addition, the newly staked Sentinel claims have added a considerable extension to the Dawson Shear Zone in the east and are considered highly gold prospective. The next drill program is in the planning stages for commencement in the spring of 2019 subject to funding. The large, new Sentinel segment which has never been drilled will be a significant focus, as success in this area would be a transformative event for the Dawson-Green Mountain Project. The Sentinel segment has a strike length of at least 1,000 m, which is twice the strike length of the current resource on the Dawson segment. A targeted soil geochemistry program is underway in the Sentinel segment with results anticipated in late Q4-2018, and will assist in generating additional drill targets.



A review of the Green Mountain Property is currently in progress with the view to planning a limited exploration program in Q2-Q3-2019. The Company is currently endeavoring to gather all historical data on the area to guide planning. This property is considered very prospective for both gold and copper as at Dawson, and as well, zinc and silver.

Further information regarding the Dawson and Green Mountain projects and the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website [www.zephyrminerals.com](http://www.zephyrminerals.com).

## **RESULTS OF OPERATIONS**

The loss for the nine months ended September 30, 2018 was \$344,915 compared to a loss of \$385,142 in the same period for 2017. The loss for the three months ended September 30, 2018 was \$62,844 compared to a loss of \$132,609.

Stock options were issued to a consultant resulting in a share based payments expense of \$36,600 in the three months ended September 30, 2017 compared to no expense for the same period in 2018.

An equity financing completed in 2018 resulted in an increase in filing fees from \$17,186 for the nine months ended September 30, 2017 to \$26,310 for the same period in 2018.

Salaries & consulting decreased in the three months ended September 30, 2018 to \$28,687 from \$43,859 for the same period in 2017 as the Company downsized and streamlined consulting services.

Investor relations expenses were generally consistent for the three months ended September 30, 2018 compared to the same period in 2017. However significant investor relations initiatives earlier in the year resulted in investor relations expenses of \$118,489 for the nine months ended September 30, 2018 compared to \$79,829 for the same period in 2017.

Transfer agent, general and administrative, and rent were generally consistent.

Exploration and evaluation expenditures increased from \$449,315 in 2017 to \$872,196 in 2018. The increase can largely be attributed to the Green Mountain acquisition and the commencement of a diamond drill program.

The Company had working capital of \$239,181 at September 30, 2018 compared to working capital of \$374,343 at September 30, 2017. On April 11, 2018, the Company closed a private placement of 8,350,000 units at a price of \$0.18 per unit for aggregate proceeds of \$1,503,000. This has been offset by continued investment in the Dawson Project during the quarter and the net loss incurred for the period.

## Selected Financial Data (Quarterly)

Quarter	Revenue \$	Net Income (Loss) \$	Income (Loss) Per Share \$	Total Assets \$	Shareholder Equity \$
Q3/18	-	(62,844)	(0.001)	4,076,786	3,927,552
Q2/18	-	(198,087)	(0.004)	4,077,882	3,990,396
Q1/18	-	(83,984)	(0.002)	3,053,732	2,781,998
Q4/17	-	(128,383)	(0.004)	3,030,821	2,864,232
Q3/17	-	(132,609)	(0.004)	3,199,827	2,994,430
Q2/17	-	(155,386)	(0.004)	2,982,466	2,863,751
Q1/17	-	(98,960)	(0.003)	2,513,328	2,417,507
Q4/16	-	(78,579)	(0.002)	2,388,312	2,216,814

*Expressed in Canadian dollars. All financial data has been prepared in accordance with IFRS.*

The Company's increase in losses in Q2, Q3 and Q4 in 2017 compared to that of 2016 is largely due to the Company increasing its marketing and promotional activity, and an increase in salaries and consulting fees, as the Company continues to grow and further advance the Dawson deposit. The decrease in loss in Q1 in 2018 relates to a decrease in discretionary expenditures due to a decrease in working capital in the quarter. The increase in loss in Q2 2018 is primarily the result of new investor relations activities. The decrease in Q3 2018 is primarily due to a reduction in consulting expenses.

## **FINANCIAL CONDITIONS, LIQUIDITY AND CAPITAL RESOURCES**

### **Basis of Presentation and Critical Accounting Estimates**

#### **Statement of Compliance**

The consolidated financial statements, to which this MD&A relates, have been prepared in accordance with IFRS, as issued by the IASB.

The significant accounting policies applied in the unaudited condensed consolidated financial statements are presented in note 3 of the audited financial statements for the year ended December 31, 2017 and are based on IFRS effective December 31, 2017.

#### **Approval of the Financial Statements**

The consolidated financial statements were approved and authorized for issue by the Audit Committee and Board of Directors of the Company on November 29, 2018.

#### **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, 2017. 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, 2017. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2017 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, including the Dawson gold project ("Dawson"), an advanced gold project with exploration potential; and the Green Mountain project ("Green Mountain"), prospective for gold and copper. 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 September 30, 2018, the Company has cash of \$148,566, working capital of \$239,181 and shareholders' equity of \$3,927,552. The Company's financial statements as at September 30, 2018 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, 2018, the Company did not have sufficient funds to meet its minimum corporate, administrative and property obligations for the next 12 months. In order to alleviate the situation, the Company intends to raise additional capital. Subsequent to quarter end, the Company closed a private placement financing wherein it raised gross proceeds of \$150,000 through a unit offering more fully described in Subsequent Events. The Company intends to raise additional capital. Currently the Company is required to make minimum annual payments of approximately US\$33,835 to keep the Dawson project in good standing and \$5,115 to keep the Green Mountain claims in good standing. The Company's 2018 obligations have been paid. 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.

## Cash Requirements

As at September 30, 2018, the Company has cash of \$148,566, working capital of \$239,181 and shareholders' equity of \$3,927,552.

The Company's principal requirements for cash in 2018 will relate to expenditures, noted in more detail below, that are required to advance the Green Mountain and Dawson projects, plus administrative expenditures and settling accounts payable. The Company expects to spend approximately \$75,000 before the end of 2018 to complete further exploration and development activities including staking and sampling.

## Contractual and Other Obligations

Zephyr USA 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 2018 obligation in fiscal 2017. The Company will pay and record the 2019 obligation in 2018. To date Zephyr USA has made advance royalty payments totalling US\$429,000 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. Zephyr USA is also required to make annual payments of US\$155 for each of the unpatented claims that form part of Dawson and Green Mountain in order to keep them in good standing.

## OUTSTANDING SHARE DATA

	<b>November 29, 2018</b>	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Common Shares Outstanding	47,332,620	46,332,620	37,982,620
Fully Diluted Common Shares Outstanding	57,538,998	55,968,998	48,335,255

As at September 30, 2018, the Company had a total of 46,332,620 common shares issued.

As of September 30, 2018, 2018 there were a total of 3,175,000 incentive stock options outstanding exercisable for 3,175,000 Common Shares. In addition there were a total of 5,986,428 warrants exercisable for 5,986,428 Common Shares and 474,950 finder's fee warrants exercisable for 474,950 Common Shares.

As of November 29, 2018, there were a total of 3,175,000 incentive stock options outstanding exercisable for 3,175,000 Common Shares. In addition there were a total of 6,486,428 warrants outstanding exercisable for 6,486,428 Common Shares and 544,950 finder's fee warrants outstanding exercisable for 544,950 Common Shares.

See "Overview" in this MD&A for information on issuances of Common Shares by the Company.

## **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, 2018, the Company had a cash balance of \$148,566 to settle current liabilities of \$116,617. 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 not 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.

**RELATED PARTY TRANSACTIONS**

Rent expense of \$1,500 (2017 - \$1,500) during the quarter was paid to an officer of the Company. Certain Directors of the Company advanced a total \$30,000 in funds during the first quarter as short term loans without interest. The funds were repaid to the Directors during the second quarter.

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 at September 30, 2018 is \$36,758 due to parties related to officers and directors.

The remuneration of directors and other members of key management personnel during the nine months ended September 30, 2018 and 2017 were as follows:

	<b>2018</b>		<b>2017</b>	
Salaries and consulting fees	\$	174,833	\$	125,850
Share-based payments		-		36,600
	\$	174,833	\$	162,450

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

### **OFF BALANCE SHEET ARRANGEMENTS**

During the year the Company did not enter into any off balance sheet transactions or commitments as defined by National Instrument 51-102.

### **SUBSEQUENT EVENTS**

On November 2, 2018 the Company closed a private placement through the issuance of 1,000,000 units at a price of \$0.15 per unit raising a total of \$150,000. Each unit consists of one common share and one-half transferable 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 November 2, 2019. In connection with the closing the Company paid a cash finder's fee of \$10,500 and issued 70,000 finder's warrants. Each finder's warrant entitles the holder to acquire one common share of the Company at \$0.20 for a period of twelve months from the closing date.

On November 28, 2018 the Company announced acquiring an additional 44 unpatented lode mining claims through staking at the Dawson and Green Mountain projects; with 19 of the claims forming part of the Green Mountain project, and 15 forming part of the Dawson project. The Company now holds 134 unpatented lode mining claims totaling 1,137 hectares (2,810 acres).

### **QUALIFIED PERSONS**

Mr. H.M. Matt Bolu, Principal Metallurgical Engineer of BOMENCO Inc., is a P.Eng. registered with the Association of Professional Engineers and Geoscientists of BC (APEGBC). He is a Qualified Person as defined under National Instrument 43-101(QP) and has reviewed and approved the metallurgical information contained in this MD&A. Mr. Bolu is independent of the Company. Mr. Mark Graves, who is a P.Geo. registered with the Association of Professional Geoscientists of Nova Scotia (APNS), is also a QP. Mr. Graves, vice president of exploration for the Company, has reviewed and approved the balance of the technical information in this MD&A.

### **OTHER INFORMATION**

The financial statements and additional information regarding the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website [www.zephyrminerals.com](http://www.zephyrminerals.com).