Pasinex Resources Limited

Management's Discussion & Analysis
For the Years Ended December 31, 2019 and 2018
Discussion dated: June 8, 2020

Introduction

This management's discussion and analysis ("MD&A") of the financial condition and results of operations of Pasinex Resources Limited (the "Company" or "Pasinex") should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2019.

Management is responsible for the preparation of the financial statements and MD&A. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar figures in this MD&A are expressed in Canadian dollars, unless stated otherwise.

This MD&A has been prepared as of June 8, 2020.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations can be obtained from the Secretary of the Company or on SEDAR at www.sedar.com.

Cautionary Note Regarding Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements; as such term is defined under applicable securities laws. These statements relate to future events or future performance and reflect management's expectations and assumptions regarding the growth, results of operations, performances and business prospects and opportunities of the Company. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "intend", "will", "project", "could", "believe", "predict", "potential", "should" or the negative of these terms or other similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance, achievements or events to differ materially from those anticipated, discussed or implied in such forward-looking statements. The Company believes the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should be considered carefully and investors should not place undue reliance on them as the Company cannot assure investors that actual results will be consistent with these forward-looking statements.

These statements speak only as of the date of this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) general business and economic conditions; (ii) timing and amount of estimated future production (iii) the supply and demand for, deliveries of, and the level and volatility of prices of zinc and other precious metals; (iv) the timing of the receipt of any outstanding regulatory and governmental approvals for the Company's projects; (v) the ability to meet social and environmental standards and expectations; (vi) the availability of financing for the Company's development of its properties on reasonable terms; (vii) the ability to procure equipment and operating supplies in sufficient quantities and on a timely basis; (viii) the ability to attract and retain skilled staff; (ix) exploration and development timetables; and (x) capital expenditure and operating cost estimates.

The Pinargozu zinc mine was placed into production without a feasibility study of mineral reserves demonstrating economic and technical viability, and as such, any forward-looking statements related to the performance of the Pinargozu mine may differ materially from actual results. The decision to operate a mine without a technical report or feasibility study creates increased uncertainty. Economic or technical results of the Pinargozu zinc mine may differ materially from forward-looking statements due to reduced zinc grade, variation in estimated mineral resources, increased difficulty in mining and other risks associated with the reliability of internal analytical results, geological interpretation and statistical inferences drawn from drilling and sampling.

These forward-looking statements involve risks and uncertainties relating to, among other things, exploration and development risks, changes in commodity and, particularly the zinc price, expectations regarding currency fluctuations, possible variation in mineral resources or grade, counter party risk associated with sales of zinc material, access to skilled mining personnel, results of exploration and development activities, uninsured risks, regulatory changes, defects in title, availability of materials and equipment, timeliness of government approvals, changes to government regulation and unanticipated environmental impacts on operations. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors contained in this MD&A. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Company cautions that the foregoing list of important factors is not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.

Description of Business

Pasinex Resources Limited ("Pasinex" or the "Company") is a publicly listed company incorporated in British Columbia. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "PSE" and on the Frankfurt Stock Exchange ("FSE") under the symbol "PNX". The head office, principal address and registered and records office of the Company are located at 82 Richmond Street East, Toronto, Ontario, Canada, M5C 1P1.

Pasinex owns 50% of Horzum Maden Arama ve Isletme Anonim Sirketi ("Horzum AS") which holds the producing Pinargozu high grade zinc mine, through its 100% owned subsidiary Pasinex Arama ve Madencilik Anonim Sirketi ("Pasinex Arama"). The other 50% owner is Akmetal Madencilik Sanayi ve Ticaret A.S. ("Akmetal"), a private Turkish company. Under a direct shipping program, Horzum AS sells directly to zinc smelters / refiners. The Company also holds an option to acquire 80% of the Spur high grade zinc exploration project in Nevada ("Spur Zinc Project").

Selected Annual Consolidated Information

	Year Ended December 31		
	2019	2018	2017
Financial:			
Equity gain (loss) from Horzum AS	**$ 672,139**	$ (4,098,639)	$ 8,153,698
Adjusted equity gain from Horzum AS [1]	**$ 3,965,688**	$ 5,489,452	$ 8,153,698
Dividend received from investment in Horzum AS	**$ 672,139**	$ 1,523,538	$ 1,183,215
Consolidated net income (loss)	**$ (1,032,850)**	$ (8,429,326)	$ 5,834,104
Adjusted consolidated net income [1]	**$ 2,260,699**	$ 2,845,365	$ 5,834,104
Basic net income (loss) per share	**$ (0.01)**	$ (0.06)	$ 0.04
Diluted net income (loss) per share	**$ (0.01)**	$ (0.06)	$ 0.04
Cash used in operating activities	**$ 292,330**	$ 1,006,264	$ 913,682
Weighted average shares outstanding	**144,415,192**	142,823,411	133,888,679
As at December 31:			
Investment in Horzum AS	**$ -**	$ -	$ 8,045,296
Total assets	**$ 2,165,037**	$ 2,280,793	$ 11,622,820
Total liabilities	**$ 2,232,064**	$ 1,314,222	$ 235,623
Equity (deficit)	**$ (67,027)**	$ 966,571	$ 11,387,197
Horzum AS operational data (100% basis):			
Zinc product mined (wet) tonnes	**17,812**	45,757	57,675
Zinc product sold (wet) tonnes	**27,239**	46,154	47,697
Zinc product sold grade	**32%**	33%	33%
Gross margin [1]	**34%**	57%	66%
CAD cost per tonne mined [1]	**$ 436**	$ 229	$ 183
USD cash cost per pound of zinc mined [1]	**$ 0.42**	$ 0.25	$ 0.19

(1) see non-GAAP measures

The Company has a 50% joint venture interest in Horzum AS, which is equity accounted. This means in the Pasinex consolidated financial statements:

- Horzum AS net income is shown on one line in the income statement – Equity gain from Horzum AS
- Horzum AS net assets are shown in Investment in Horzum AS. The investment increases from the equity gain from Horzum AS or any contributions to Horzum AS made by Pasinex and decreases when dividends are paid.

Highlights

Financial and Operational

- For the year ended December 31, 2019 Pasinex incurred a net loss of approximately $1.03 million, compared with a net loss of approximately $8.4 million for 2018. The substantial decrease in net loss in 2019 is largely due to the significant impairment of Akmetal debt to Horzum AS, which was recorded in 2018, resulting in an equity loss of $4.1 million, versus an equity gain of approximately $0.67 million recorded in 2019. The equity gain in 2019 is equal to total of the cash dividends paid in 2019 by Horzum AS to Pasinex Arama. In addition, the Company recorded an impairment to the Golcuk property in 2018. No similar impairment was recorded in 2019. Finally, exploration and general & administration costs are significantly lower in 2019 versus 2018.

- The adjusted consolidated net income and adjusted equity gain (see non-GAAP measures) were $2.3 million and $4.0 million, respectively, for 2019 compared with $2.8 million and $5.5 million, respectively, in the same period in 2018. These non-GAAP measures reflect what the results of the Company would be without the recording of the impairment charges in 2018 and 2019 (see Review of Annual Consolidated Financial Statements and Loan receivable – Akmetal).

- The operating income in Horzum AS decreased from $14.8 million in 2018 to $4.6 million in 2019. This decrease was primarily due to lower sales in 2019.The gross margin (see non-GAAP measures) for 2019 continued to be a healthy 34% although this represents a 23% reduction from 2018. The reduction is largely due to incurring similar fixed costs in both years, which were spread over fewer tonnes produced and sold in 2019 compared with 2018.

  During 2019, the Company received a net of $365,000 from related parties of the Company. Subsequent to the end of the year the Company received an additional $405,500 from those related parties.

Summary of Pasinex Situation in Turkey

- Akmetal is a private Turkish company, which is controlled by the Kurmel family. The Kurmel family has a conglomerate of companies (the "Kurmel Group") that includes Akmetal, a carpet company, an agricultural business, real estate assets and other minor businesses.

- Several of the companies in the Kurmel Group have gone through financial distress during the last three years. This has led to the growth of a large payable amount owed to Horzum AS by Akmetal and one of its subsidiaries.

- In November 2018, one division of the Kurmel Group together with certain family members of the Kurmel family, entered into a Turkish court-controlled process called Concordat. The purpose of this process is to allow a company with liquidity problems, but with assets greater than its debt, time to sell some or all of its assets in order to reorganize and pay its debts. This process was completed on February 21, 2020 and the division and those family members came out of the Concordat process. Concurrent with the ending of this process the Kurmel Group arranged for a loan with a Turkish bank.

- In May 2019, the Company entered into a Debt Agreement with Akmetal to resolve the collectability of the trade receivable owing to Horzum AS. The terms of the Debt Agreement include a minimum amount of repayments on a monthly basis plus the chance for additional repayments from proceeds Akmetal would receive from the sale of its other assets (see *Loan receivable – Akmetal)*. Akmetal has not honoured the terms of the Debt Agreement and has not been able to complete the sale of its other assets as it had planned. As a result, the financial position of Horzum AS and the Company has weakened further.

- The value of the loan receivable from Akmetal and one of its subsidiaries, to Horzum AS as at December 31, 2019, is $35.1 million. The portion of the receivable owed by the subsidiary is guaranteed by its parent, Akmetal. As at

December 31, 2019, Horzum AS owes Pasinex Arama $2.4 million that arose upon the declaration of a dividend in 2018.

- Management has been in constant contact with senior executives of the Kurmel Group during and subsequent to 2019, while the Kurmel Group have been working through the Concordat process. Pasinex is expecting to receive the payment of the remaining dividend and other amounts owing to Pasinex Arama following a payment of a portion of the Akmetal receivable, as a result of the financial restructuring the Kurmel Group has undergone in the past few months. In addition, the Company has been discussing the necessary management and structural changes at the Horzum AS joint venture,

Other Highlights

- In January 2019, the Company filed an amended National Instrument 43-101 technical report for the Pinargozu mine. The report was filed to comply with National Instrument 43-101 and did not contain any changes to the mineral resource estimate.

- During the third quarter of 2019, the local tax office in Turkey sent a legal demand to the Turkish based directors and officers of Horzum AS for late payment of taxes due. The Turkish tax department has taken no further action against Horzum AS or the individuals associated with the Company, as Horzum AS is waiting to continue negotiations with the Turkish tax department to achieve a payment plan for its outstanding taxes due.

- In September 2019, the underground workers at the Pinargozu mine in Turkey, commenced a strike action for late payment of their wages. This action was resolved during the month of October. Ore production at the Pinargozu mine resumed upon the workers return to work during October 2019.

- On September 11, 2019, the Company announced that it had changed the payment date on an option payment due on the Spur Option Agreement. The payment was originally scheduled to be made on September 11, 2019 and was changed to December 11, 2019. In addition, the remaining 2019 exploration obligations were deferred to 2020.

- Personnel changes during the year included the appointed of a new Chief Financial Officer and the resignation of the Company's Vice President of Exploration.

Going Concern

The application of the going concern concept assumes that the Company will continue in operation for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of operations. At December 31, 2019, the Company has a net equity deficit of $10,667,078 (2018 – $9,634,228) and has a working capital deficiency position of $2,132,494 (2018 – working capital deficiency of $915,466), and had a net loss of $1,032,850 (2018 – net loss of $8,429,326) and negative cash flows from operations of $292,330 (2018 – $1,006,264) for the year then ended and accordingly does not have enough cash on hand to fund its payables and its expected non-discretionary obligations for the next 12 months.

The Company and its wholly owned subsidiary, Pasinex Arama, rely on dividends from Horzum AS and where possible equity financing to fund their exploration and development operations. Horzum AS's financial position has been severely damaged by the continued withholding of funds, by its joint venture partner Akmetal, generated via sales of ore produced by the joint venture's Pinargozu mine. As at December 31, 2019, Horzum AS has a receivable owing from Akmetal of approximately $35.1 million.

Pasinex Arama received $672,139 in dividend payments from Horzum AS in 2019 and $1,523,538 in 2018. Certain Horzum AS expenses including payroll, supplies, some services and costs related to exploration have been paid by

Akmetal to keep the mine operation going. Exploration results have shown that it appears there will be sufficient ore available to be mined through to the development of a 4th adit in the Pinargozu underground mine.

Akmetal is one of many companies owned and controlled by the Kurmel family. Funds have been withheld as a result of cash flow issues that existed in certain of these other companies controlled by the Kurmel family. These companies entered into a process called Concordat, which allows a company with liquidity problems, but with assets greater than its debt, time to sell some or all of its assets in order to reorganize and pay those debts. The Concordat process was completed on February 21, 2020.

With the Pinargozu mine operating and the Concordat process completed, management has been working with Akmetal and the Kurmel family to resolve the collectability of the trade receivable owing by Akmetal to Horzum AS. Until strong credit worthiness is demonstrated by Akmetal, accounting principles required Pasinex to maintain an expected credit loss equivalent to the full balance of the receivable. Receipt of the Akmetal receivable would provide significant cash flow to Pasinex through additional dividends.

As noted in the highlights, management expects to receive the payment of the remaining dividend and other receivables that are owing from Horzum AS to Pasinex Arama following a payment of a portion of the Akmetal receivable. In the absence of the receipt of dividends from Horzum AS the Company would need to secure funding from either equity financing or additional related party loans. During 2019, the Company received net shareholder advances of $365,000 to pay for certain overdue administration costs. Subsequent to the year end, the Company received a further $405,500 from additional related party loans. There can be no assurance that the Company will be able to generate either sufficient dividends from Horzum AS or be able to generate funds from other sources. Accordingly, until Akmetal makes significant payments, these conditions represent a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Pinargozu Operations Update (100% basis)

- Pinargozu mined 17,812 tonnes in 2019 versus 45,757 in 2018. Mine production has decreased in 2019, because of difficulties in gaining access to the available ore and operating fewer shifts due to a reduction in available cash.
- Similar to production, sales volumes are down between years, at 27,239 tonnes in 2019 versus 46,154 tonnes in 2018.
- Lower sales volumes at lower zinc prices resulted in lower gross sales between years. Gross sales for 2019 were approximately $14.6 million, which includes a negative $0.5 million price adjustment from prior sales, compared to approximately $26.0 million in 2018.
- The average grade of the zinc product sold in 2019 was 32% versus 33% in 2018.
- Cash costs per tonne mined (see non-GAAP measures) were $436 in 2019 versus $229 in 2018. Production costs were higher between years mainly because of the lower production in 2019.
- Gross margins (after accounting for all operational costs) remained strong at 34% in 2019 despite the lower sales volumes and prices. This compares to 57% in 2018.
- Production guidance for 2020 is 12,000 tonnes of oxide product. Production will predominantly come from currently developed areas. As such, most of the production is expected to be oxide product material with a grade of around 30%.
- Production is currently on a two-shift basis at the Pinargozu mine. This may change up or down depending on how the Covid-19 situation continues to develop.

Review of Annual Consolidated Financial Statements

Years Ended 2019 and 2018

The following is a summary income statement for Pasinex:

	Year ended December 31	
	2019	**2018**
Equity gain from Horzum AS	**$ 672,139**	$ (4,098,639)
Impairment charge	**-**	(1,686,600)
Impairment of Horzum AS receivable	**(209,016)**	-
Exploration costs	**(179,563)**	(689,636)
General and administration costs	**(1,333,174)**	(1,932,793)
Share-based payments	**(18,000)**	(111,920)
Other income	**34,764**	90,262
Net loss	**$ (1,032,850)**	$ (8,429,326)

- Equity gain (loss) from Horzum AS represents the Company's 50% share of the net income (loss) of Horzum AS. Horzum AS is considered a joint venture for accounting purposes and as such the Company records its share of net income on one line in the income statement. Further details on the results of Horzum AS follows below – *Review of Horzum AS.*

- In May 2018, the Company completed an extensive geological review including mapping, structure, mineralization and geological model/genesis and took the decision to not advance the Golcuk property. Although there was evidence of copper throughout the property the Company believed that it would be difficult to get sufficient contiguous mineralization that would underpin the Company's targets for economical tonnage. Therefore, the fair value was estimated at zero resulting in an impairment charge of approximately $1.7 million in 2018. All required reclamation work on the property was completed and the related license was relinquished to the Turkish government in 2019.

- Pasinex Arama has not received payment from Horzum AS for amounts it has invoiced to Horzum AS since August of 2019. An impairment charge of approximately $0.2 million was recorded in 2019 to reflect the uncertainty of the collectability of the receivable from Horzum AS.

- Exploration costs incurred in 2019 represent consulting at the Spur Zinc Project. In 2018, costs are a result of drilling costs and consulting fees. In 2018, an initial drilling program of four inclined diamond drill holes was completed for a total of 2,291 feet (698 metres) resulting in a new zinc sulphide discovery and verified high grade zinc oxides: 43.9 metres at 14.2% zinc including 13.7 metres at 26.1% zinc and 5.6 ounces of silver (see also Pasinex press release dated September 11, 2018). The Company incurred $0.6 million in costs with respect to the program. The intersection of zinc sulphides in black shales beneath the high-grade zinc oxides at RH Main Zone was an unexpected positive finding and is highly significant from an exploration perspective. RH Main Zone has been the focus of previous, and predominantly, RC drilling. It is only one of at least four other prospects where mineralization occurs at surface along a three to four-kilometre trend between Big Canyon and Horse Canyon on the east flank of the Diamond Range.

Pasinex general and administration costs include the following:

	Year Ended December 31	
	2019	**2018**
General and administration costs		
Advertising and promotion	**$ 42,609**	$ 152,954
Consulting fees	**309,909**	259,205
Investor relations	**11,311**	228,794
Management fees and salaries	**355,859**	657,681
Office and general	**130,821**	89,149
Professional fees	**155,817**	161,434
Transfer agent and regulatory fees	**50,760**	35,330
Travel and meals	**262,491**	324,075
Other	**13,597**	24,171
	$ 1,333,174	$ 1,932,793

General and administration costs have changed year over year due to:

- In general, Pasinex has reduced its overall spend on elective general and administrative costs during the second half of 2019 compared with 2018 to conserve cash.

- Consulting fees for both years were largely due to costs incurred in conjunction with management of its Turkish operations.

- Investor relation costs decreased substantially year over year as the Company curtailed all investor related activities to save cash.

- Management fees and salaries decreased in 2019 compared with 2018 as the Company transitioned to a part-time CEO and CFO and the resignation of its Vice President of Exploration.

- Travel and meals decreased year over year as Company management visited Turkey fewer times in order to conserve cash.

Pasinex share-based payments are as follows:

	Year Ended December 31	
	2019	**2018**
Share-based payments	**$ 18,000**	$ 111,920

Stock options issued:

- On July 25, 2019, 500,000 stock options were granted to an officer of the Company at a price of $0.09 each, expiring July 25, 2024. The stock options vested immediately and the fair value of the stock options at the date of grant was $18,000.
- On January 24, 2018, 50,000 stock options were granted to a consultant of the Company at a price of $0.20 each, expiring January 24, 2023. The stock options vested immediately and the fair value of the stock options at the date of grant was $8,700.

- On December 4, 2017, one million stock options were granted to an employee of the Company at a price of $0.25 each, expiring December 4, 2022. 400,000 of these stock options vested immediately and the remaining 600,000 stock options vested over a six-month period from date of grant. The fair value of the stock options at the date of grant was $202,000 of which $98,780 was expensed in 2017 and $103,220 in 2018.

Review of Horzum AS

Key Performance Indicators
(shown on a 100% basis)

	Year Ended December 31		Three Months Ended				
	2019	**2018**	**Dec 2019**	**Sept 2019**	**Jun 2019**	**Mar 2019**	**Dec 2018**
Tonnes mined (wet)	**17,812**	45,757	3,516	3,216	4,293	6,787	9,021
Tonnes sold (wet):							
Zinc oxide product	**22,774**	41,794	15,115	-	-	7,659	10,504
Zinc sulphide product	**4,356**	4,056	457	1,502	2,397	-	-
Lead product	**109**	304	109	-	-	-	-
	27,239	46,154	15,681	1,502	2,397	7,659	10,504
Average grades for tonnes sold:							
Zinc oxide product	**30%**	32%	30%	0%	0%	30%	30%
Zinc sulphide product	**43%**	44%	39%	39%	46%	0%	0%
CAD cost per tonne mined (1)	**$ 436**	$ 229	$ 312	$ 398	$ 403	$ 257	$ 437
Equity gain (loss)	**$ 672,139**	$ (4,098,639)	$ -	$ 135,701	$ 286,383	$ 250,055	$ (9,410,185)

(1) See non-GAAP measures

Operating results

- Production at Pinargozu decreased in 2019 compared with 2018 because of difficulties in gaining access to the available ore and operating fewer shifts due to a reduction in available cash. The lower tonnage produced resulted in increased costs per tonne mined as the Company was not able to achieve the same economies of scale in 2019 as it did in 2018.

Financial results

The equity gain (loss) in Horzum AS represents 50% of Horzum AS net income.

Below are the statements of operation for Horzum AS for year ended December 31, 2019 and 2018 with a reconciliation to the Company's equity gain (loss) as shown on the Pasinex consolidated financial statements.

(100% basis Canadian dollars)	**Year Ended December 31**	
	2019	**2018**
Revenue	**$ 14,641,163**	$ 26,029,753
Cost of sales	**(9,709,101)**	(10,479,295)
Selling, marketing and other distribution	**(350,928)**	(782,038)
Operating Income	**4,581,134**	14,768,420
Impairment of Akmetal receivable	**(17,327,082)**	(28,337,420)
General and administration expenses	**(479,861)**	(415,395)
Foreign exchange gain on receivable	**10,385,323**	6,653,945
Finance expense	**(302,276)**	(285,563)
Other	**(424,322)**	197,884
	(3,567,084)	(7,418,129)
Income tax expense	**(2,007,405)**	(2,642,551)
Net loss	**$ (5,574,489)**	$ (10,060,680)
Pasinex joint venture interest	**50%**	50%
Share of net loss	**(2,787,245)**	(5,030,340)
Increase of prior year equity losses	**2,787,245**	931,701
Dividend received	**672,139**	-
Equity gain (loss) from Horzum AS	**$ 672,139**	$ (4,098,639)

Revenue - The table below shows further details on revenue:

(100% basis Canadian dollars)	**Year Ended December 31, 2019**		**Year Ended December 31, 2018**	
	Wet Tonnes	**CAD**	**Wet Tonnes**	**CAD**
Zinc oxide product sales	**22,774**	**$ 12,018,642**	41,794	$ 21,494,973
Zinc sulphide product sales	**4,356**	**2,936,164**	4,056	4,065,065
Lead product sales	**109**	**121,272**	304	469,716
Other revenue	**-**	**84,027**	-	-
Final sales adjustments	**-**	**(518,942)**	-	-
Total revenue	**27,239**	**$ 14,641,163**	46,154	$ 26,029,754

Revenues

Revenues have decreased year over year mainly due to lower sales volumes although lower zinc prices have contributed as well.

Cost of Sales

Costs have decreased modestly in 2019 compared to 2018. Although lower production resulted in lower variable mining costs, including fuel, vehicle expenses, explosives and ground support this reduction was offset by higher costs to access ore. TRY based costs when translated to Canadian dollars were lower in 2019 compared with 2018 because of the weaker TRY to the Canadian dollar.

Impairment of Akmetal Receivable

The Company performed an assessment resulting in the recording of an impairment of the loan receivable from Akmetal as required by IFRS 9. For further discussion see "Highlights – Summary of Situation in Turkey" and "*Loan receivable – Akmetal"*. The recording of the impairment does not represent the elimination of the loan receivable and as such the Company continues to expect full repayment of the loan receivable in due course.

Foreign exchange gain on receivable

The functional currency of Horzum AS is the TRY. The foreign exchange gain is a result of the revaluation of a portion of the Akmetal receivable, which is in US dollars to TRY. The significant gain is the result of the significant decline in the value of the TRY relative to the US dollar during both 2019 and 2018.

Income tax expense

The statutory rate for income taxes in Turkey in 2019 and 2018 is a rate of 22%. Certain tax assets were not recognized due to doubt on whether there would be sufficient profit in the future to offset these amounts. The following is a reconciliation of the expected income tax expense using the statutory rate compared to the actual income tax expense:

(100% basis Canadian dollars)	**Year Ended December 31**	
	2019	**2018**
Loss before income tax expense	**$ (3,567,084)**	$ (7,418,129)
Statutory tax rate	22%	22%
Expected income tax recovery	**784,758**	1,631,988
Non deductible expenses	**(111,678)**	(539,024)
Tax recovery not recognized	**(2,680,485)**	(3,735,515)
Income tax expense	**$ (2,007,405)**	$ (2,642,551)

Net Loss

The net loss is a direct result of the impairment charge recorded in both 2018 and 2019.

Financial condition

The following are summary balance sheets for Horzum AS:

(100% basis Canadian dollars)	**As at December 31**	
	2019	**2018**
Assets		
Cash and prepaid expenses	**$ 6,029**	$ 9,079
Loan receivable - Akmetal	**35,123,238**	14,859,606
Trade receivables - Akmetal	**-**	12,580,043
Less - discount and allowance on Akmetal receivables	**(35,123,238)**	(27,439,649)
Trade receivables - other	**15,876**	538,393
Other current assets	**170,328**	2,295,348
Non current assets	**1,347,527**	2,017,622
Total assets	**$ 1,539,760**	$ 4,860,442
Liabilities		
Amounts due to shareholders and related parties	**$ 2,596,730**	$ 3,970,164
Other liabilities	**11,719,155**	9,955,192
Total liabilities	**14,315,885**	13,925,356
Deficit	**(12,776,125)**	(9,064,914)
Total liabilities and deficit	**$ 1,539,760**	$ 4,860,442

Loan receivable – Akmetal

Akmetal is a private Turkish company, which is controlled by the Kurmel family. The Kurmel family has a conglomerate of companies, the Kurmel Group, that includes Akmetal, a carpet company, an agricultural business, real estate assets and other minor businesses.

Several of the companies in the Kurmel Group have gone through financial distress during the last three years. This has led to the growth of the loan receivable from Akmetal. In November 2018, one division of the Kurmel Group together with certain family members of the Kurmel family, entered into a Turkish court-controlled process called Concordat. The purpose of this process is to allow a company with liquidity problems, but with assets greater than its debt, time to sell some or all of its assets in order to reorganize and pay its debts.

During the year end December 31, 2018, since Horzum AS did not receive any payment from Akmetal on the receivables outstanding for over the year, along with liquidity issues Akmetal was facing during this same period, the Company acknowledged that the credit risk on the Akmetal receivable had increased significantly and there was evidence of impairment. IFRS 9 required that management undergo an exercise to calculate its expected credit losses on the Akmetal receivable. Due to Akmetal's liquidity issues and past performance of nonpayment (or default), management had assessed the probability of credit losses to be high. As a result, as required under IFRS 9, the Company took a full impairment charge of the loan receivable at December 31, 2018.

On May 10, 2019, the Company entered into a legally binding debt repayment agreement ("Debt Agreement") with Akmetal and Horzum AS. The loan receivable owing from Akmetal, and one of its subsidiaries, to Horzum AS as at December 31, 2019 includes (i) the former loan receivable and trade receivable from Akmetal that arose from when Akmetal was selling Horzum AS zinc material; (ii) the cost of approximately 15,000 tonnes of oxide product Akmetal used during 2019; and (iii) $2.2 million in loan payments made to a customer on behalf of Akmetal (the "Debt"). As per the Debt Agreement, the Debt, including the portion owed by Akmetal's subsidiary, is guaranteed by Akmetal. Debt repayments were to be by means of Akmetal's delivery of all zinc sulphide product and some zinc oxide product from its wholly owned Horzum mine. Horzum AS would sell the product and proceeds from the sale will be used to repay the Debt. Repayments of the Debt would be used to pay Horzum AS's tax obligations, for ongoing expenses of Pasinex Arama and for dividend payments from Horzum AS to Pasinex Arama that would then flow to Pasinex. Akmetal is obligated to deliver a minimum of 300 tonnes of zinc product per month. In addition, a portion of proceeds from the sale of certain other of Akmetal assets will also be used to repay the Debt. The Debt Agreement provides other enhancements to the Joint Venture Agreement and will terminate by December 31, 2020.

Akmetal has not honoured the terms of the Debt Agreement and has not been able to complete the sale of its other assets as it had planned. As a result, the financial position of Horzum AS and the Company has weakened further. Due to Akmetal's continued liquidity issues, continued nonpayment of the trade payable, along with the additional usage of Horzum AS inventory in 2019, management continued to assess the probability of credit losses to be high. The value of the loan receivable from Akmetal and one of its subsidiaries, to Horzum AS as at December 31, 2019, is $35.1 million.

Entering into the legally binding Debt Agreement provides a legal mechanism for Horzum AS to receive payment of the Debt but it still does not demonstrate credit worthiness from Akmetal and as a result the receivable remains written down to zero and additions to the receivable from usage of inventory by Akmetal have been written down to zero as well.

Management has been in constant contact with senior executives of the Kurmel Group during and subsequent to 2019, while the Kurmel Group have been working through the Concordat process. The Concordat process was completed on February 21, 2020 and the division and those family members came out of the Concordat process. Pasinex is expecting to receive the payment of the remaining dividend and other amounts owing to Pasinex Arama following a payment of a portion of the Akmetal receivable, as a result of the financial restructuring the Kurmel Group has undergone in the past few months. In addition, the Company has been discussing the necessary management and structural changes at the Horzum AS joint venture.

Amounts due to shareholder and related parties

Amounts due to shareholders and related parties includes the dividend payable to Pasinex Arama of $2.4 million.

Other liabilities

These liabilities include income taxes payable and mining royalties payable. Mining royalties are payable to the government based on a formula of 2% of production value plus a zinc price escalator. The increase in other liabilities at December 31, 2019 compared with December 31, 2018 is primarily due to the non-payment of income and other taxes.

Equity

The increase in deficit at December 31, 2019 compared with December 31, 2018 is due to net loss incurred during 2019.

Commitments

Akmetal entered into a loan facility with one of its customers for overpayments received on advanced provisional invoice payments received in 2018. Akmetal did not make payments against the loan facility, but Horzum AS has paid a total of US$2,211,008 (approximately $2.9 million using the December 31, 2019 spot rate) to this customer. As at December 31, 2018, this amount was US$900,000 (approximately $1.2 million using the December 31, 2019 spot rate).

Expectations for 2020

(100% basis)	**Guidance for the Year Ended December 31, 2020**	
	Wet Tonnes	**Grade**
Zinc oxide product mined	**10,000 to 12,000**	**29% to 31%**
Zinc sulphide product mined	**-**	**-**
	10,000 to 12,000	
CAD cost per tonne mined		$450 - $500

- Mine production from Pinargozu this year is expected to be at least 1,000 tonnes per month. Production will predominantly come from currently developed areas. As such, most of the production is expected to be oxide product material with a grade of around 30%.

- Production is currently on a two-shift basis at the Pinargozu mine. This may change up or down depending on how the Covid-19 situation continues to develop.

- Development of the new adit for access to deep sulphide mineralization has been stalled because of cash flow issues. It is planned to resume this underground development when these cash issues are resolved. At this stage, it is unlikely to expect any production of deeper sulphide mineralization in 2020, rather this production should be realized in 2021.

- The decision to enter production at the Pinargozu zinc mine was made without reference to a technical report or feasibility study prepared under National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("**NI 43-101**"). Accordingly, the Company's production estimates and the economic viability of the mine may differ materially from the estimates contained herein.

Trends

Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in both short-term operating and longer-term strategic decisions. Apart from these and the discussion below on zinc prices and foreign currency, and the risk factors noted under the heading "Risks and Uncertainties", management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations. See "Risks and Uncertainties" below.

Management believes that Pasinex is strongly leveraged to the zinc price and so management continuously monitors the global zinc market. After two relatively strong quarters in the beginning of 2019 the zinc price dropped during the second half of 2019 to an average of US$1.07 per pound compared with US$1.24 per pound during the first six months of the year. This trend is consistent with 2018 where the zinc price average US$1.48 during the first six months of 2018 versus US$1.17 during the last six months of the year in 2018. In 2020, the zinc price has faltered after a strong start to the year. The average price per pound dropped to US$0.94 over the first four months of the year with a low of US$0.86 in April. The low-cost structure of Horzum AS has resulted in strong gross margins notwithstanding the downward trend in zinc prices.

Horzum AS sells their product in US dollars and to a lesser extent in Euros which are then converted to Turkish Lira. As such, Horzum AS's financial performance also depends on the TRY to US Dollar (USD). The USD / TRY exchange rate had a substantial move higher in the latter half of 2018. The average rate in 2019 has been 5.7 compared with an average rate of 4.8 in 2018. The devaluation of the Turkish Lira is a benefit to Horzum AS as sales are denominated in US dollars or Euros, however, the devaluation has a negative impact to Pasinex on the approximately 11 million TRY dividend still owing.

Liquidity and Financial Position

Cash Flows

A summary of Pasinex's cash flows is as follows:

	Year Ended December 31	
	2019	**2018**
Cash used in operating activities		
Before changes in working capital	**$ (1,418,202)**	$ (2,524,159)
Dividend from Horzum AS	**672,139**	1,523,538
Changes in working capital	**453,733**	(5,643)
	(292,330)	(1,006,264)
Cash used in investing activities	**(218,409)**	(324,976)
Cash received from shareholder loans	**365,000**	745,000
Effect of foreign currencies	**(42,250)**	63,136
Net change in cash	**(187,989)**	(523,104)
Opening cash balance	**218,623**	741,727
Closing cash balance	**$ 30,634**	$ 218,623

Cash used in operating activities

Cash used in operating activities before changes in working capital has decreased year over year in line with the decrease in general and administration costs and exploration costs as previously described in financial performance.

Dividend from Horzum AS

The dividend received represents a portion of dividend declared in 2018. As at the end of December 31, 2019, $2.4 million remains to be collected from Horzum AS.

Changes in working capital

The change between periods is largely a function of timing of payable payments.

Cash used in investing activities

In 2019, cash used in investing activities relates to a cash payment of US$100,000 ($132,283), made to meet its obligation under the Spur Option Agreement and miscellaneous costs incurred by Pasinex Arama at Pinargozu. In 2018, Pasinex met its obligation under the Spur Option Agreement and paid US$200,000 ($258,960) in cash and issued 2.2 million Pasinex Common Shares with the remaining expenditures mostly related to work on the Golcuk property.

Cash received from shareholder loans

In 2018, the Company entered into loans with certain shareholders and directors of the Company (the "lenders") in the form of promissory notes amounting to $748,362 (includes $3,362 of accrued and unpaid interest). The promissory notes are payable on demand by the lenders and bear interest at 6% per annum, payable quarterly in arrears commencing September 15, 2018. The Company can pre-pay the promissory notes to the lenders. The promissory notes are secured by all the property and assets of the Company.

During the year ended December 31, 2019, the Company received $385,000 from shareholders of the Company to pay for certain overdue administration costs. A portion of these proceeds was used to make a repayment on a separate shareholder loan of $20,000.

Commitments

Pasinex through its wholly-owned subsidiary Pasinex Nevada, entered into an option agreement with Cypress Development Corp ("Cypress") and Caliber Minerals Inc. ("Caliber") (formerly named Silcom Systems Inc.) to earn up to an 80% interest in the Spur Zinc Project located in White Pine County, Nevada ("Option Agreement"). The Option Agreement's total consideration to acquire an 80% interest is staged over four years payable in a combination of cash and Pasinex common shares. In addition, the Company must incur minimum exploration expenditures totalling US$2,950,000 over the same four-year period. The Company can accelerate payments to acquire ownership sooner and has no obligation to continue payments if the Company decides not to proceed in exercising the option.

The spending and associated ownership over the four years is as follows:

To acquire an initial 51% of the Spur Zinc Project:

- In December 2017, a cash payment was made to Caliber of US$125,000 ($158,897) and 2.2 million Pasinex Common Shares (value of $484,000) were issued to Caliber and Cypress.
- In September 2018, a cash payment of US$200,000 ($258,960) and issuance of 2.2 million Pasinex Common Shares (value of $264,000) were made to Caliber and Cypress.
- Prior to September 11, 2019 a payment of US$100,000 cash (deferred to December 11, 2019 - paid) and

issuance of 200,000 Pasinex Common Shares (issued) to Cypress.
- In addition, minimum exploration expenditures as defined in the Option Agreement must be spent as follows:
  - US$250,000 prior to December 5, 2018 (paid)
  - US$800,000 prior to December 5, 2019 (deferred to December 5, 2020 - paid $475,000 to December 31, 2019)
  - US$800,000 prior to December 5, 2020.

If the 51% option is exercised, Pasinex will enter into a joint venture agreement with Cypress. Total consideration to acquire the 51% interest includes US$425,000 in cash payments, issuance of 4.6 million Pasinex Common Shares and minimum exploration expenditures of US$1,850,000.

To acquire an additional 29% of the Spur Zinc Project:
- Prior to December 5, 2021 a payment of US$250,000 cash and issuance of 200,000 Pasinex Common Shares to Cypress
- Spend an additional US$1.1 million in exploration expenditures as defined in the Option Agreement.

On September 12, 2019, the Company announced they have reached an agreement with Cypress and Caliber to change the terms relating to the earn-in option agreement on the Spur Zinc Project in Nevada, USA.

The agreement changes the date of the US$100,000 option payment to December 11, 2019 and defers the 2019 exploration obligations to 2020, bringing the exploration obligations to US$1,600,000 for 2020, of which $475,000 has been spent to December 31, 2019. The underlying licenses are in good standing until September 2020.

Financial Condition

The application of the going concern concept assumes that the Company will continue in operation for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of operations. At December 31, 2019, the Company has a net deficit of $10,667,078 (2018 – $9,634,228) and has a working capital deficiency position of $2,132,494 (2018 – working capital deficiency of $915,466), and had a net loss of $1,032,850 (2018 – net loss of $8,429,326) and negative cash flows from operations of $292,330 (2018 – $1,006,264) for the year then ended and accordingly does not have enough cash on hand to fund its payables and its expected non-discretionary obligations for the next 12 months.
See Going Concern above for additional discussion related to the financial condition of the Company.

See "Risks and Uncertainties" below and "Cautionary Note Regarding Forward-Looking Statements" above.

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity, capital expenditures and capital resources that would be material to investors.

Commitments and Contingencies

As of the date of this MD&A, the Company has no commitments and contingencies other than those owed in accordance with the Spur Option Agreement (*see Liquidity and Financial Position – Commitments*). The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are constantly changing and generally more restrictive. The Company does not believe that there are currently any decommissioning liabilities at its sites, nor subject to known additional environmental liabilities or mitigation measures.

Share Capital

As of the date of this MD&A, the Company has 144,554,371 issued and outstanding common shares and an aggregate of 1,750,000 stock options outstanding.

Transactions with Related Parties

Related Party Balances and Transactions

Related parties and related party transactions impacting the accompanying consolidated financial statements are summarized below and include transactions with key management personnel, which include those persons having authority and responsibility for planning, directing and controlling the activities of the Company, as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. A number of these entities transacted with the Company during the period. The terms and conditions of these transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, for similar transactions to non-key management personnel related entities on an arm's length basis.

A summary of the related party transactions are as follows:

	Year Ended December 31	
	2019	**2018**
Management fees and salaries	**$ 311,430**	$ 585,818
Consulting fees	**179,426**	66,438
Share-based payments	**18,000**	103,220
Interest expense on shareholder loans	**51,449**	12,056
	$ 560,305	$ 767,532

Amounts payable to related parties were as follows:

	Due to Related Parties		Shareholder Loans	
	As at December 31		As at December 31	
	2019	2018	2019	2018
7312067 Canada Limited (1)	**$ 94,620**	$ 13,560	**$ -**	$ -
Larry Seeley (2)	**55,304**	11,610	**-**	-
Sven Olsson (2)	**-**	9,563	**101,996**	115,453
Joachim Rainer (2)	**5,000**	-	**-**	-
Jonathan Challis (2)	**3,515**	-	**-**	-
1514341 Ontario Inc. (3)	**14,232**	14,232	**476,714**	291,356
Irus Consulting Ltd. (4)	**28,835**	7,500	**-**	-
Victor Wells (5)	**42,000**	18,000	**-**	-
Wendy Kaufman (6)	**26,666**	1,145	**-**	-
Soner Koldas (7)	**68,187**	13,301	**-**	-
Seeley Holdings Ltd. (8)	**-**	-	**534,728**	291,356
Rainer Beteiligungsgesellschaft (9)	**1,779**	-	**53,341**	50,197
2192640 Ontario Inc. (10)	**54,748**	-	**-**	-
	$ 394,886	$ 88,911	**$ 1,166,779**	$ 748,362

(1) Steven Williams is the Chief Executive Officer of the Company. 7312067 Canada Limited is controlled by Steven Williams.
(2) Larry Seeley, Joachim Rainer and Jonathan Challis were directors of the Company at December 31, 2019 and 2018. Sven Olsson was a director of the Company until his resignation on March 31, 2019.
(3) 1514341 Ontario Inc. is a company controlled by Larry Seeley, a director of the Company.
(4) Irus Consulting Ltd. is a company controlled by John Barry. Mr. Barry was the Vice President Exploration of the Company until his resignation on July 23, 2019.
(5) Victor Wells is a director and the Chairman of the Company.
(6) Wendy Kaufman was the Chief Financial Officer ("CFO") of the Company until her resignation on June 30, 2019.
(7) Soner Koldas is the Country Director in Turkey.
(8) Seeley Holdings Ltd. is a company controlled by a family member of Larry Seeley, a director of the Company.
(9) Rainer Beteiligungsgesellschaft is owned by Joachim Rainer a director of the Company.
(10) 2192640 Ontario Inc. is a company controlled by Andrew Gottwald, the CFO of the Company.

These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the amount of consideration established and agreed to by the related parties. Amounts due to related parties are unsecured, non-interest bearing and due on demand.

To the knowledge of the directors and officers of the Company, as at December 31, 2019, no person or corporation beneficially owns or exercises control or direction over common shares of the Company carrying more than 10% of the common shares of the Company other than set out below:

	Number of Common Shares	Percentage of Outstanding Common Shares
Larry Seeley	**30,000,591**	**20.75%**

Review of Quarterly Consolidated Financial Statements

Three Months Ended December 31, 2019 and 2018

The following is a summary income statement for Pasinex:

	Three Months ended December 31	
	2019	**2018**
Equity gain from Horzum AS	**$ -**	$ (9,410,185)
Impairment charge	**-**	-
Impairment of Horzum AS receivable	**(209,016)**	-
Exploration costs	**(24,042)**	(71,000)
General and administration costs	**(247,458)**	(401,756)
Share-based payments	**-**	-
Other income (expense)	**16,376**	(7,601)
Net Loss	**$ (464,140)**	$ (9,890,542)

Equity gain (loss) from Horzum AS

The equity loss from Horzum AS represents the Company's 50% share of the net loss of Horzum AS. It includes an impairment of the receivable from Akmetal (as described earlier). The adjusted equity gain (see non-GAAP measures) for the fourth quarter of 2019 was $2,502,731 (2018 - $519,503) and the adjusted net income for the same period was $2,038,591 (2018 - $39,146). The increase in the adjusted equity gain is primarily due to the impairment on the Akmetal receivable being larger in 2018 than it was in 2019. Below are the statements of operation for Horzum AS for the fourth quarter of 2019 and 2018 with a reconciliation to the Company's equity gain as shown above.

(100% basis Canadian dollars)	Three Months Ended December 31	
	2019	**2018**
Revenue	**$ 7,440,654**	$ 4,755,352
Cost of sales	**(7,265,192)**	(3,855,141)
Selling, marketing and other distribution	**(175,556)**	(335,095)
Operating Income	**(94)**	565,116
Impairment of Akmetal receivable	**(10,505,549)**	(28,337,420)
General and administration expenses	**(117,967)**	39,711
Foreign exchange gain on receivable	**8,367,404**	(511,712)
Finance expense	**(274,523)**	6,910,118
Other	**(557,842)**	279,896
	(3,088,571)	(21,054,291)
Income tax expense (recovery)	**(605,463)**	370,518
Net loss	**$ (3,694,034)**	$ (20,683,773)
Pasinex joint venture interest	**50%**	50%
Share of net loss	**(1,847,017)**	(10,341,886)
Increase of prior year equity losses	**1,847,017**	931,701
Dividend received	**-**	-
Equity loss from Horzum AS	**$ -**	$ (9,410,185)

The table below shows further details on Horzum AS revenue:

(100% basis Canadian dollars)	Three Months Ended December 31, 2019			Three Months Ended December 31, 2018		
	Wet Tonnes		CAD	Wet Tonnes		CAD
Zinc oxide product sales	**15,115**	**$**	**6,828,725**	10,504	$	5,280,057
Zinc sulphide product sales	**457**		**253,155**	-		-
Lead product sales	**109**		**121,272**	-		-
Other revenues	**-**		**33,654**	-		-
Final sales adjustments	**-**		**203,848**	-		(524,705)
Total revenue	**15,681**	**$**	**7,440,654**	10,504	$	4,755,352

Revenues were higher in the fourth quarter of 2019 compared to the same period of 2018 as a result of higher quantities of material sold. In both 2019 and 2018, there were sales price adjustments that were made related to sales in a prior period.

Cost of sales at Horzum AS were higher in 2019 compared with the same quarter in 2018 primarily reflecting the related corresponding higher sales total. As well, cost of goods sold in the fourth quarter of 2019 includes approximately $1.6 million in final price adjustments related to prior quarters. The gross margin (see non-GAAP measures) for the fourth quarter of 2019 was 20% compared with 21% for the same period in 2018.

Exploration costs

Exploration costs for Pasinex incurred in the fourth quarter for both 2019 and 2018 were for consulting fees for the Spur Zinc Project.

General and administration costs

General and administration costs for Pasinex for the fourth quarter include the following:

	Three Months Ended December 31			
		2019		2018
General and administration costs				
Advertising and promotion	**$**	**1,548**	$	22,847
Consulting fees		**73,112**		33,996
Investor relations		**246**		35,867
Management fees and salaries		**54,504**		160,219
Office and general		**34,573**		24,966
Professional fees		**32,152**		51,585
Transfer agent and regulatory fees		**10,005**		12,080
Travel and meals		**39,503**		53,423
Other		**1,815**		6,773
	$	**247,458**	$	401,756

General and administration costs for Pasinex in the fourth quarter of 2019 have decrease substantially versus the same period in 2018 as the Company has reduced expenditures to conserve cash. The largest reduction in costs relate to personnel changes including fewer employees and moving to part-time management.

Share-based payments

The were no share-based payments in the fourth quarters of 2019 and 2018.

The following is a summary cash flow for the Company for the fourth quarter.

	Three Months Ended December 31	
	2019	**2018**
Cash used in operating activities		
Before changes in working capital	**$ (238,210)**	$ (478,180)
Dividend from Horzum AS	**-**	757,575
Changes in working capital	**120,121**	(438,091)
	(118,089)	(158,696)
Cash used in investing activities	**(115,614)**	29,209
Cash received from shareholder loans	**190,000**	65,000
Effect of foreign currencies	**(41,523)**	199,470
Net change in cash	**(85,226)**	134,983
Opening cash balance	**115,860**	83,640
Closing cash balance	**$ 30,634**	$ 218,623

Cash used in operating activities before changes in working capital has decreased in 2019 compared with 2018 reflecting the lower general and administration costs and exploration costs in the fourth quarter of 2019. The change in working capital in the fourth quarter of 2018 is due to a large draw down of payables following the receipt of funds from the Horzum AS dividend. Cash used in investing activities includes a cash payment made to meet its obligation under the Spur Option Agreement. Cash received from shareholder loans increased year over year as the Company received less cash from its joint venture.

Selected Consolidated Quarterly Financial Data

The following table provides a summary of unaudited financial data for the last eight quarters:

	Three Months Ended							
	Dec 2019	**Sept 2019**	**June 2019**	**March 2019**	**Dec 2018**	**Sept 2018**	**June 2018**	**March 2018**
Financial:								
Equity gain (loss) from Horzum AS	**$ -**	$ 135,701	$ 286,383	$ 250,055	$ (9,410,185)	$ 521,675	$ 1,805,685	$ 2,984,186
Adjusted equity gain from Horzum AS [1]	**$ 2,502,731**	$ 1,688,233	$ (352,513)	$ 127,236	$ 519,503	$ 521,675	$ 1,805,685	$ 2,984,186
Consolidated net income (loss)	**$ (464,140)**	$ (245,251)	$ (108,609)	$ (214,850)	$ (9,890,542)	$ (194,998)	$ 930,193	$ 726,021
Adjusted consolidated net income (loss) [1]	**$ 2,038,591**	$ 1,307,281	$ (747,505)	$ (337,669)	$ 39,146	$ (194,998)	$ 930,193	$ 726,021
Basic net income (loss) per share	**$ (0.01)**	$ -	$ -	$ -	$ (0.07)	$ -	$ 0.01	$ 0.01
Diluted net income (loss) per share	**$ (0.01)**	$ -	$ -	$ -	$ (0.07)	$ -	$ 0.01	$ 0.01

[1] See non-GAAP measures.

For the first three quarters of 2018, the equity gains represent Pasinex's share of the net income in the joint venture. In the fourth quarter of 2018 an impairment of the Akmetal receivable was recorded. Since the joint venture is equity accounted and because the impairment was so large, the equity loss was capped in the fourth quarter of 2018 so that the investment would not be below zero. In 2019, the quarterly equity gains represent dividends received from Horzum AS as net gains reduce the remaining equity loss not recorded in the fourth quarter of 2018 and net losses increase the unrecorded equity loss. Quarterly adjusted equity gains add back the impairment, net of foreign exchange and income tax impacts, to arrive at the equity gains achieved by the joint venture. Production from the joint venture is stockpiled and sold therefore revenue is not always recognized on a consistent basis. This results in quarterly equity gains varying from quarter to quarter.

Quarterly consolidated net income or loss has varied primarily due to the variability of the equity gain or loss recorded form the joint venture. Exploration and general and administrative costs also impact the consolidated net income but have remaining consistent for the quarters presented so have not impacted the variability a great deal. The quarterly adjusted consolidated net income or loss variability is primarily due to the variability of the adjusted equity gain or loss as described above.

Financial Instruments and Capital Disclosures

In accordance with IFRS, the Company shall disclose the comparison of carrying amounts and fair values of the Company's financial instruments that are carried in the consolidated financial statements. As of December 31, 2019 and 2018, the fair values of the financial assets and liabilities approximate their carrying amounts due to the short-term maturities of these instruments, except for cash and marketable securities which are measured at fair value based on price quotations at the reporting date.

The Company classifies its financial instruments using a fair value hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

	Level 1	Level 2	Level 3	Total
As at December 31, 2019				
Cash	$ 30,634	$ -	$ -	$ 30,634
As at December 31, 2018				
Cash	$ 218,623	$ -	$ -	$ 218,623

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This section presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout the consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein. A discussion of the Company's use of financial instruments and their associated risk is provided below:

a) Credit Risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is attributable to its cash balances, trade receivables and related party receivables. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada and in Turkey. Management believes that the credit risk with respect to trade receivables is remote because of receipt of upfront payments from most customers. The credit risk on related party receivables has been assessed as high (refer to *Loan and trade receivables – Akmetal*). The maximum credit risk exposure relating to financial assets is represented by their respective carrying values as at the statements of financial position date.

b) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient capital to meet liabilities when due after taking into account the Company's holdings of cash that might be raised from equity financings. As at December 31, 2019, the Company had a cash balance of $30,634 (2018 - $218,623) and current liabilities of $2,232,064 (2018 - $1,314,222). All of the Company's accounts payable and accrued liabilities and due to related parties have contractual maturities of less than 60 days and are subject to normal trade terms. Shareholder loans are due on demand from the shareholders but because of the related party nature and the ownership interests of these shareholders, it is unlikely the shareholders would call the loan until ample funds are available in the Company. The Company may manage its short-term liquidity shortfall by obtaining additional loans from directors or by equity financing. See also additional discussion on going concern above.

c) Market Risk

Market risk consists of currency risk, interest rate risk and price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

i) Currency risk - foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company received dividends from its investment in Horzum AS. Dividends are declared in TRY and paid to the Company in increments as excess cash is available and therefore subject to foreign currency risk arising from the fluctuation in currency exchange between the Canadian dollar and TRY.

In addition, during the year ended December 31, 2019, the translation of the assets and liabilities of Pasinex Arama resulted in foreign currency translation adjustments of $24,748 recorded in other comprehensive loss. For the year ended December 31, 2019, if the TRY to Canadian dollar exchange rate increased/decreased by 5% with all other variables held constant, other comprehensive loss would have been approximately $49,000 higher/lower.

ii) Interest rate risk - interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is currently not exposed to interest rate risk.

(iii) Price risk - the Company is exposed to price risk with respect to commodity prices, particularly the price of zinc. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as they relate to zinc prices, and the stock market to determine the appropriate course of action to be taken by the Company.

The Company's future profitability and viability depend upon the world market price of zinc. Zinc prices have fluctuated widely in recent years. Sales in Horzum AS are subject to fluctuations in zinc price. For the year ended December 31, 2019, if the price of zinc increased/decreased by 10% with all other variables held constant, consolidated net income (loss) and comprehensive income (loss) would have been approximately $732,000 higher/lower.

d) Capital Structure

In addition to its cash balances, the Company manages its common shares, stock options and warrants as capital. Management reviews its capital management approach on an ongoing basis and will assess making adjustments within the context of the Company's strategy, economic conditions and risk characteristics of its assets. No changes were made to management's approach from 2019. To adjust or maintain the capital structure, the Company may issue new equity, incur debt, enter into joint venture arrangements, or dispose of certain assets. The Company's key policy guidelines for managing capital structure is to ensure there is enough funding to complete its commitments under option agreements and other growth initiatives while maintaining a conservative level of debt relative to total capital and earnings within the context of its financial forecasts for pricing, costs and production.

The Company's investment policy is to hold excess cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends.

Non-GAAP measures

The Company has included certain non-GAAP performance measures throughout this document. These performance measures are employed by management to assess the Company's operating and financial performance and to assist in business decision-making. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors and other stakeholders use this information to evaluate the Company's operating and financial performance; however, these non-GAAP performance measures do not have any standardized meaning. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Adjusted equity gain from Horzum AS

The following table provides a reconciliation of equity loss of Horzum AS to adjusted equity gain from Horzum AS.

	Three Months Ended December 31		Year Ended December 31	
	2019	**2018**	**2019**	**2018**
Reconciliation of adjusted equity gain:				
Equity gain (loss) as per Pasinex statement of loss	**$ -**	$ (9,410,185)	**$ 672,139**	$ (4,098,639)
Add back from Horzum AS statement of operation:				
50% of impairment of Akmetal receivable	**5,252,775**	14,168,710	**8,663,542**	14,168,710
50% of finance expense (discount on receivable reversed in the fourth quarter)		(3,159,896)		-
50% of foreign exchange gain on receivable	**(903,026)**	270,868	**(1,910,610)**	(3,326,973)
Income tax effect of above add backs	**-**	(418,293)	**-**	(321,946)
Recognition (increase) of prior year equity losses	**(1,847,017)**	(931,701)	**(2,787,244)**	(931,701)
Receipt of dividend recorded as equity gain	**-**	-	**(672,139)**	-
Adjusted equity gain	**$ 2,502,731**	$ 519,503	**$ 3,965,688**	$ 5,489,451

Adjusted consolidated net income

The following table provides a reconciliation of consolidated loss to adjusted net income.

	Three Months Ended December 31		Year Ended December 31	
	2019	**2018**	**2019**	**2018**
Reconciliation of adjusted consolidated net income:				
Net loss as per Pasinex statement of income	**$ (464,140)**	$ (9,890,542)	**$ (1,032,850)**	$ (8,429,326)
Add back (deduct):				
Impairment charge	**-**	-	**-**	1,686,600
Equity gain from Horzum AS	**-**	9,410,185	**(672,139)**	4,098,639
Adjusted equity gain	**2,502,731**	519,503	**3,965,688**	5,489,452
Adjusted consolidated net income	**$ 2,038,591**	$ 39,146	**$ 2,260,699**	$ 2,845,365

Cost per tonne mined

The following table provides a reconciliation of cost per tonne mined to cost of sales (the nearest GAAP measure) per the Horzum AS Statements of Operations.

	Three Months Ended December 31		Year Ended December 31	
	2019	**2018**	**2019**	**2018**
Reconciliation of cost per tonne mined				
Cost of sales per Horzum income statement	**$ 7,265,192**	$ 3,855,141	**$ 9,709,101**	$ 10,479,295
Cost of sales adjustments related to a prior period	**(1,633,195)**	-	**-**	-
Inventory change	**(4,535,362)**	83,368	**(1,934,247)**	21,021
	$ 1,096,635	$ 3,938,509	**$ 7,774,854**	$ 10,500,316
Tonnes mined	**3,516**	9,021	**17,812**	45,757
CAD Cost per tonne mined	**$ 312**	$ 437	**$ 436**	$ 229

US$ cash cost per pound of zinc produced

The following table provides a reconciliation of US$ cash cost per pound of zinc produced to cost of sales (the nearest GAAP measure) per the Horzum AS Statements of Operations.

		Three Months Ended December 31		Year Ended December 31	
		2019	**2018**	**2019**	**2018**
Reconciliation of US$ cash cost per pound of zinc product mined					
Cost of sales per Horzum income statement adjusted for inventory change		**$ 1,096,635**	$ 3,938,509	**$ 7,774,854**	$ 10,500,316
Less - sales of lead product		**(121,272)**	-	**-**	(469,716)
		975,363	3,938,509	**7,774,854**	10,030,600
Translate to US$	A	**$ 738,912**	$ 2,980,558	**$ 5,859,854**	$ 7,739,661
Zinc tonnes mined (wet)		**3,516**	9,021	**17,812**	45,757
Zinc product grade mined		**39%**	30%	**38%**	33%
Moisture loss		**7%**	7%	**7%**	7%
Pounds of zinc mined	B	**2,811,449**	5,548,718	**13,877,556**	31,016,831
US$ cash cost per pound of zinc mined	A/B	**$ 0.26**	$ 0.54	**$ 0.42**	$ 0.25

Treatment and refining costs are not included in the US$ cash cost per pound.

Gross margin

The following table provides a reconciliation of gross margin to net income (the nearest GAAP measure) per the Horzum AS Statements of Operations.

	Three Months Ended December 31		Year Ended December 31	
	2019	**2018**	**2019**	**2018**
Reconciliation of gross margin				
Operating income per Horzum AS income statement	**$ (94)**	$ 565,116	**$ 4,581,134**	$ 14,768,420
Add back final price adjustments for Revenue and Cost of Goods Sold related to other periods	**1,429,347**	524,705	**518,942**	-
Gross margin	**$ 1,429,253**	$ 1,089,821	**$ 5,100,076**	$ 14,768,420
Revenue (excluding price adjustments related to other periods)	**$ 7,236,806**	$ 5,280,057	**$ 15,160,105**	$ 26,029,753
Gross margin (gross margin / revenue)	**20%**	21%	**34%**	57%

Risks and Uncertainties

The Company's business contains significant risk due to the nature of mining, exploration and development activities. In addition to the usual risks associated with an investment in a junior resource company, management and the directors of the Company believe that, in particular, the following risk factors should be considered by prospective investors. It should be noted that this list is not exhaustive and that other risk factors may apply. An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Such investment should be undertaken only by investors whose financial resources are sufficient to enable them to assume these risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors below that have affected, and which in the future are reasonably expected to affect, the Company and its financial position.

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

Risks to Profitability

The Company is a junior resource company focused primarily on the acquisition, exploration and development of mineral properties located in the United States and Turkey. The Company's properties have no established mineral reserves and there is no assurance that any of the Company's projects can be mined profitably. Accordingly, it is not assured that the Company will realize any profits in the short to medium term, if at all. Any profitability from the business of the Company will be dependent upon developing and commercially mining an economic deposit of minerals, which in itself is subject to numerous risk factors.

The profitability of the Company's current operations will be directly related to the performance of the Pinargozu zinc mine located in Turkey, which operates without a technical report or established mineral reserves. The development of a mining operation typically involves large capital expenditures and a high degree of risk and uncertainty. Mining operations put into production without first establishing mineral reserves supported by a NI 43-101 technical report and completed feasibility study are subject to much higher risk of economic or technical failure. As the Pinargozu mine (held by Horzum AS) was put into production without a feasibility study or mineral reserves demonstrating economic and technical viability, there is increased uncertainty. The economic and technical risk of failure at the Pinargozu mine is increased by operating without a technical report, and the ore grade, estimated mineral resources, profitability of the mine, the life of the mine, the difficulty in mining zinc ore, the cost in maintaining the mine and any other economic or technical projection may differ materially from the Company's estimates, which would have a material and adverse effect on the Company's results.

Moreover, the ability of the Pinargozu mine to generate positive cash flow for the Company largely depends on the ability for Horzum AS to collect receivables from Akmetal, the Company's distribution partner. If any of the loan receivables owing to the Company from Akmetal are deemed unrecoverable, the Company's business, results of operations and financial condition may experience a material adverse impact.

Reliability of Mineral Resource Estimates

As the Company has not established mineral reserves supported by a NI 43-101 technical report, there is no assurance that the Company's resource or production estimates can be relied upon. The Company currently relies on internal mineral resource estimates for the basis of its projections and forward-looking information. Mineral resources are estimates based on sampling of the mineralized material in a deposit and such estimates may not be found to be accurate. Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimation of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues.

The Company's mineral resource estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, all of which may prove to be unreliable. Furthermore, there are risks related to the reliability of analytical results and unforeseen possible variations in grade or other considerations.

Exploration Risk

The exploration and development of mineral deposits involves a high degree of financial risk over a significant period of time that even a combination of management's careful evaluation, experience and knowledge may not eliminate. While discovery of ore-bearing structures may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current mining, exploration and development programs of the Company will result in profitable commercial mining operations.

Commodity Markets

The price of the Company's securities, its financial results, and its access to the capital required to finance its production and exploration activities may in the future be adversely affected by declines in the price of zinc. Zinc prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of zinc by various dealers, financial institutions, interest rates, exchange rates, inflation or deflation, currency exchange fluctuation, global and regional supply and demand, production and consumption patterns, speculative activities, increased production due to improved mining and production methods, government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, environmental protection, and international political and economic trends, conditions and events. If these or other factors adversely affect the price of zinc that are the subject of the Company's production and exploration efforts, the market price of the Company's securities may decline.

Market Fluctuation and Commercial Quantities

The market for minerals is influenced by many factors beyond the Company's control, including without limitation, the supply and demand for minerals. In addition, the metals industry in general is intensely competitive and there is no assurance that, even if apparently commercial quantities and qualities of metals are discovered, a market will exist for their profitable sale. Commercial viability of zinc and other mineral deposits may be affected by other factors that are beyond the Company's control, including particular attributes of the deposit such as its size, quantity and quality, the cost of mining and processing, proximity to infrastructure, the availability of transportation and sources of energy, financing, government legislation and regulations including those relating to prices, taxes, royalties, land tenure, land use, import and export restrictions, exchange controls, restrictions on production, and environmental protection. It is impossible to assess with certainty the impact of various factors that may affect commercial viability such that any adverse combination of such factors may result in the Company not receiving an adequate return on invested capital or having its mineral projects be rendered uneconomic. These risks are accentuated because of the lack of a NI 43-101 technical report on mineral reserves at the Pinargozu mine. Without a NI 43-101 technical report, economic and technical viability of the Pinargozu mine cannot be assured.

Option and Joint Venture Agreements

The Company has and may continue to enter into option agreements and/or joint ventures as a means of acquiring property interests. Any failure of any partner to meet its obligations to the Company or other third parties, or any disputes with respect to third parties' respective rights and obligations could have a material adverse effect on the Company's rights under such agreements. Furthermore, the Company may be unable to exert direct influence over strategic decisions made in respect of properties that are subject to the terms of these agreements, and the result may be a materially adverse impact on the strategic value of the underlying mineral claims.

Property Titles

The principal property interests that the Company owns, controls or has the right to acquire by option or agreement come variously under the *3213 Turkish Mining Law* (Turkey), the *Federal Land Policy and Management Act* (United States), and the *General Mining Law of 1872* (United States), each of which has its own registration and management systems. Although the Company has either obtained title opinions or reviewed title for the material properties that it owns, controls or has the right to acquire by option or agreement, there is no guarantee that title to such mineral property interests will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers, and title may be affected by undetected defects. The Company may also experience challenges in effecting the transfer of title to certain of its mineral properties. There may be valid challenges to the title of the mineral property interests which, if successful, could impair development and/or operations.

Financing Risks

Although the Company currently generates operating cash flow from the Pinargozu mine, the Company's distribution partner, Akmetal, has been slow to pay Horzum AS and trade receivables are growing. The Company has no other source of operating cash flow and there is no assurance additional funding will be available for further exploration, development and maintenance of its projects. Further exploration and development of the Company's properties may be dependent upon its ability to obtain financing through equity or debt, and although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of the Company's projects, the loss of right to the Company's properties, or the ability to finance the continued operation of the Pinargozu mine.

Mining Risks and Insurance

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, catastrophic equipment failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards that may not be insured against or that it may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Risks Related to Operations in a Foreign Jurisdiction

The Company's business operates in a foreign jurisdiction where there are added risks and uncertainties due to the different economic, cultural and political environments. The Corporation's mineral exploration and mining activities may be adversely affected by political instability and changes to government regulation and policy relating to the mining industry. Other risks of foreign operations include political unrest, labour disputes and unrest, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist actions, arbitrary changes in law or policies of particular countries (including nationalization of mines), foreign taxation, price controls, delays in obtaining or renewing or the inability to obtain or renew necessary permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports and increased financing costs. Local economic conditions can also adversely affect the security of the Company's operations and the availability of supplies. In addition, risks of operations in Turkey include fluctuations in currency exchange rates, inflation, and significant changes in laws and regulations including but not limited to tax regulations, permitting and expropriation. These risks may limit or disrupt the Company's projects, reduce financial viability of local operations, restrict the movement of funds or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation. There can be no assurance that changes in the government or laws or changes in the regulatory environment for mining companies or for non-domiciled companies will not be made that would adversely affect the Company's business, financial condition, results of operation and prospects.

Government Regulations, Permitting and Taxation

The Company's production and exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Company to carry out its activities, its various licences and permits must be obtained and kept current. There is no guarantee that the Company's licences and permits will be granted, or that once granted will be extended. In addition, the terms and conditions of such licences or permits could be changed and there can be no assurances that any application to renew any existing licences will be approved. There can be no assurance that all permits that the Company requires will be obtainable on reasonable terms, or at all. Delays or a failure to obtain such permits, or a failure to comply with the terms of any such permits that the Company has obtained, could have a material adverse impact on the Company. The Company may be required to contribute to the cost of providing the required infrastructure to facilitate the development or maintenance of its properties. The Company will also have to obtain and comply with permits and licences that may contain specific conditions concerning operating procedures, water use, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Company will be able to comply with any such conditions. Future taxation of mining operators cannot be predicted with certainty so planning must be undertaken using present conditions and best estimates of any potential future changes.

Health, Safety and Community Relations

The Company's operations are subject to various health and safety laws and regulations that impose various duties on the Company's operations relating to, among other things, worker safety and obligations in respect of surrounding communities. These laws and regulations also grant the relevant authorities broad powers to, among other things, close unsafe operations and order corrective action relating to health and safety matters. The costs associated with the compliance with such health and safety laws and regulations may be substantial and any amendments to such laws and regulations, or more stringent implementation thereof, could cause additional expenditure or impose restrictions on, or suspensions of, the Company's operations. The Company has made, and expects to make in the future, significant expenditure to comply with the extensive laws and regulations governing the protection of the environment, waste disposal, worker safety, mine development and protection of endangered and other special status species, and, to the extent reasonably practicable, to create social and economic benefit in the surrounding communities near the Company's mineral properties.

Environmental Protection

The mining and mineral processing industries are subject to extensive governmental regulations for the protection of the environment, including regulations relating to air and water quality, mine reclamation, solid and hazardous waste handling and disposal and the promotion of occupational health and safety, which may adversely affect the Company or require it to expend significant funds. There is also a risk that environmental and other laws and regulations may become more onerous, making it more costly for the Company to remain in compliance with such laws and regulations.

Reliance on Key Personnel

The Company's development to date has largely depended and in the future will continue to depend on the efforts of key management and other key personnel. Loss of any of these people, particularly to competitors, could have a material adverse effect on the Company's business. Further, with respect to future development of the Company's projects, it may become necessary to attract both international and local personnel for such development. The marketplace for key skilled personnel is becoming more competitive, which means the cost of hiring, training and retaining such personnel may increase. Factors outside the Company's control, including competition for human capital and the high level of technical expertise and experience required to execute this development, will affect the Company's ability to employ the specific personnel required. The failure to retain or attract a sufficient number of key skilled personnel could have a material adverse effect on the Company's business, results of operations and financial condition. The Company has not taken out and does not intend to take out 'key person' insurance in respect of any directors, officers or other employees.

Competitive Industry Environment

The mining industry is highly competitive, both domestically and internationally. The Company's ability to acquire properties and develop mineral reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for mineral exploration, of which there is a limited supply. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. The Company may also encounter competition from other mining companies in its efforts to hire experienced mining professionals. Competition could adversely affect the Company's ability to attract necessary funding or acquire suitable producing properties or prospects for mineral exploration in the future. Competition for services and equipment could result in delays if such services or equipment cannot be obtained in a timely manner due to inadequate availability, and could also cause scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment, any of which could materially increase project development, exploration or construction costs and result in project delays.

Global Financial Conditions

Recent global financial conditions have been characterized by increased volatility and access to public financing, particularly for junior mining companies. These conditions may affect the Company's ability to obtain equity or debt financing in the future on terms favourable to the Company or at all. If such conditions continue, the Company's operations could be negatively impacted.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, power sources and water supply are important determinants affecting capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Use of Accounting Judgements and Estimates

Refer to Note 4 of the Company's Consolidated Financial Statements.

Disclosure of Internal Controls

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements; and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate filed by the Company does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited condensed interim consolidated financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Additional Information

Additional information about the Company can be found on their Disclosure Hall page at www.cnsx.ca, the Company's website at www.pasinex.com, or on www.sedar.com.