PASINEX RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

(EXPRESSED IN CANADIAN DOLLARS)

Management's Responsibility

To the Shareholders of Pasinex Resources Limited (the "Company"):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

(signed)	(signed)
Steven Williams	*Victor Wells*
CEO and Director	*Director*

Independent Auditors' Report

To the Shareholders of Pasinex Resources Limited:

We have audited the accompanying consolidated financial statements of Pasinex Resources Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pasinex Resources Limited as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 27, 2018 — Licensed Public Accountants

MNP

Pasinex Resources Limited
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2017	As at December 31, 2016
Assets		
Current assets		
Cash	**$ 741,727**	$ 311,958
Goods and services tax receivable	**147,407**	117,566
Other receivables	**1,560**	1,798
Prepaid expenses and deposits	**92,273**	55,637
Marketable securities (note 5)	**-**	11,342
Total current assets	**982,967**	498,301
Non-current assets		
Equipment (note 6)	**26,134**	16,363
Investment in Horzum AS (note 7)	**8,045,296**	1,901,589
Exploration and evaluation assets (note 8)	**2,568,423**	1,649,536
Total non-current assets	**10,639,853**	3,567,488
Total assets	**$11,622,820**	$ 4,065,789
Shareholders' Equity and Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	**$ 207,826**	$ 222,566
Due to related parties (note 15)	**27,797**	60,252
Total liabilities	**235,623**	282,818
Shareholders' Equity		
Share capital (note 10)	**12,618,506**	10,219,119
Reserves	**1,618,697**	1,274,334
Accumulated deficit	**(1,204,902)**	(7,039,006)
Accumulated other comprehensive loss	**(1,645,104)**	(671,476)
Total shareholders' equity	**11,387,197**	3,782,971
Total liabilities and shareholders' equity	**$11,622,820**	$ 4,065,789

Basis of Measurement and Going Concern (note 2(b))

Approved on behalf of the Board:

"Steven Williams" Director *"Victor Wells"* Director

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Pasinex Resources Limited
Consolidated Statements of Income and Comprehensive Income
(Expressed in Canadian Dollars)

	Year Ended December 31, 2017	2016
Equity gain from Horzum AS (note 7)	**$ 8,153,698**	$ 1,802,710
Expenses		
Exploration costs	**77,649**	-
General and administration costs (note 14)	**1,920,124**	911,892
Share-based payments (notes 11 and 15)	**363,980**	112,200
	(2,361,753)	(1,024,092)
Other income		
Other income	**38,004**	38,434
Foreign exchange gain	**4,155**	12,854
	42,159	51,288
Net income for the year	**5,834,104**	829,906
Other comprehensive loss		
Item that will be reclassified subsequently to profit and loss:		
Currency translation adjustment (note 13)	**(973,628)**	(537,083)
Total comprehensive income for the year	**$ 4,860,476**	$ 292,823
Net income per share - basic (note 12)	**$ 0.04**	$ 0.01
Net income per share - diluted (note 12)	**$ 0.04**	$ 0.01
Weighted average number of shares outstanding - basic (note 12)	**133,888,679**	109,458,400
Weighted average number of shares outstanding - diluted (note 12)	**135,231,058**	111,948,251

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Pasinex Resources Limited
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Operating activities		
Net income for the year	**$ 5,834,104**	$ 829,906
Dividend from Horzum AS	**1,183,215**	-
Adjustments for items not involving cash:		
Share-based payments	**363,980**	112,200
Equity gain from Horzum AS	**(8,153,698)**	(1,802,710)
Other	**7,294**	10,350
Changes in non-cash working capital items:		
Goods and services tax receivable	**(46,608)**	(129,467)
Prepaid expenses and deposits	**(40,485)**	(14,611)
Accounts payable and accrued liabilities	**(3,424)**	(36,178)
Due from related parties	**-**	513,287
Due from Joint venture	**(25,605)**	-
Due to related parties	**(32,455)**	(37,431)
Net cash used in operating activities	**(913,682)**	(554,654)
Investing activities		
Exploration and evaluation assets	**(466,176)**	(455,024)
Equipment acquisition	**(19,340)**	-
Proceeds from sale of marketable securities	**11,068**	4,152
Investment in joint venture	**-**	(39,111)
Net cash provided by (used in) investing activities	**(474,448)**	(489,983)
Financing activities		
Issuance of shares (note 10)	**1,835,554**	1,245,248
Share subscriptions received	**-**	92,500
Net cash provided by financing activities	**1,835,554**	1,337,748
Net change in cash	**447,424**	293,111
Effect of foreign currencies on cash	**(17,655)**	(6,902)
Cash, beginning of year	**311,958**	25,749
Cash, end of year	**$ 741,727**	$ 311,958

Supplemental Disclosure		
Shares issued for property acquisition	**$ 544,216**	$ 145,738

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Pasinex Resources Limited

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of Shares (note 10)	Share Capital (note 10)	Reserves	Deficit	Accumulated Other Comprehensive Loss (note 13)	Total
Balance, December 31, 2015	**100,792,309**	**$ 8,781,434**	**$ 1,208,833**	**$(7,868,912)**	**$ (134,393)**	**$ 1,986,962**
Issuance of shares	13,764,483	745,738	-	-	-	745,738
Share issuance costs - cash	-	(25,298)	-	-	-	(25,298)
Share-based payments (note 11)	-	-	112,200	-	-	112,200
Exercise of warrants (note 10(b))	6,705,458	717,245	(46,699)	-	-	670,546
Currency translation adjustment (note 13)	-	-	-	-	(537,083)	(537,083)
Net income for the year	-	-	-	829,906	-	829,906
Balance, December 31, 2016	**121,262,250**	**$10,219,119**	**$ 1,274,334**	**$ (7,039,006)**	**$ (671,476)**	**$ 3,782,971**
Issuance of shares	2,424,150	544,216	-	-	-	544,216
Exercise of warrants	18,467,971	1,855,171	(19,617)	-	-	1,835,554
Share-based payments (note 11)	-	-	363,980	-	-	363,980
Currency translation adjustment (note 13)	-	-	-	-	(973,628)	(973,628)
Net income for the year	-	-	-	5,834,104	-	5,834,104
Balance, December 31, 2017	**142,154,371**	**$12,618,506**	**$ 1,618,697**	**$ (1,204,902)**	**$ (1,645,104)**	**$11,387,197**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. Corporate Information and Nature of Operations

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. Under a direct shipping program, Horzum AS sells directly to zinc smelters / refiners. The Company also holds an option to acquire 80% of the Gunman high-grade zinc exploration project in Nevada.

These consolidated financial statements were authorized for issue by the Audit Committee and Board of Directors on April 27, 2018.

2. Basis of Presentation

(a) Statement of Compliance

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

(b) Basis of Measurement and Going Concern

These consolidated financial statements have been prepared on a going concern basis, under the historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are measured at their fair value. The consolidated financial statements are presented in Canadian dollars except where otherwise indicated. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting. Certain prior year balances have been reclassified to conform with current year presentation.

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, 2017, the Company does not have enough cash on hand to fund its expected nondiscretionary obligations for the year. Funding sources for 2018 include dividends from Horzum AS and/or securing funding from either equity financing or related party loans. Horzum AS declared a 40 million Turkish Lira dividend payable to both of its 50% shareholders to be paid in instalments through 2018 (Pasinex share being approximately $6.5 million). To April 27, 2018, the Company has received $0.8 million of this dividend, which covers greater than half of the Company's expected nondiscretionary spending. The Company expects to receive the remaining $5.7 million in dividends during 2018. Receipt of the dividend should allow the Company to fund its nondiscretionary obligations, fund growth opportunities and grow its cash balance. Horzum AS is expected to maintain a greater than 50% gross margin in 2018 and therefore deliver positive net income. Sales from Horzum AS are sold to its Turkish 50% shareholder and payment of the dividend is dependent on Horzum AS collecting on its current trade receivables and future sales. The Company has received positive indication that funds will be received but there is no assurance that this will be the case and that the Company will be able to generate funds from other sources.

(Expressed in Canadian Dollars, unless otherwise indicated)

3. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the financial statements of Pasinex and its subsidiaries from their respective dates of control, as listed below:

	Location	Nature of Operation	Interest 2017	Interest 2016
Pasinex Arama	Turkey	Mineral exploration	100%	100%
Pasinex Resources Nevada Limited ("Pasinex Nevada") as of September 2017	United States	Mineral exploration	100%	-

Pasinex and its subsidiaries are collectively referred to as the “Company”. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions have been eliminated upon consolidation.

In addition, the Company, through Pasinex Arama, holds a joint venture interest which is equity accounted in the consolidated financial statements, as follows:

	Location	Nature of Operation	Interest 2017	Interest 2016
Horzum AS	Turkey	Mining	50%	50%

(b) Interest in joint venture

The Company determines whether the joint arrangement entered into by the Company is a joint operation or a joint venture based upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Where the Company determines the joint arrangement represents a joint operation, the Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Where the Company determines the joint arrangement represents a joint venture, the Company recognizes its interest in a joint venture as an investment and accounts for this investment using the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Company’s share of the net assets of the joint venture applying consistent accounting policies to the Company. The Company’s share of the joint venture’s profit or loss and other comprehensive income (loss) is included in the Company’s consolidated statements of income and other comprehensive income.

3. Significant accounting policies (Continued)

(c) Foreign currencies

The consolidated financial statements are presented in Canadian dollars, which is also the parent entity's functional currency. The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency of Pasinex Arama and Horzum AS is the Turkish Lira ("TRY"). The functional currency for Pasinex Nevada is the Canadian dollar because its activities are currently carried out as an extension of the parent company.

Foreign currency transactions are translated into the entity's functional currency using exchange rates prevailing at the date of the transactions. All foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at reporting date exchange rates are recognized in the consolidated statements of income and comprehensive income.

Assets and liabilities of Pasinex Arama, which includes the equity accounted investment in Horzum AS, having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting date. Revenues and expenses are translated at average rates for the periods, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting foreign currency translation adjustments are recognized in other comprehensive income.

(d) Revenue recognition

Revenue, included in the equity gain of the Joint Venture, includes the sale of all direct shipping ore. Revenue is recognized when all significant risks and rewards of ownership of the ore have been transferred to the customer.

Revenue is calculated on the sale of ore based on a multiplier which considers the grade of the zinc and an average London Metals Exchange ("LME") price depending on the number of days in the quotational period as defined in the contract or as agreed with the buyer. When there is uncertainty on final pricing, the Company provisionally records revenue using a price below LME. Variations between the price recorded on the date of initial revenue recognition and the final price received are adjusted in revenue upon issuance of the final invoice.

(e) Inventories

Inventories are valued at the lower of average production cost and net realizable value. Production costs include mining costs, applicable overhead costs and depreciation incurred in bringing inventory to its existing location and form. Net realizable value is calculated as the estimated price in the ordinary course of business less estimated future costs to complete the sale.

3. Significant accounting policies (Continued)

(f) Plant and equipment

Upon initial acquisition plant and equipment are valued at cost, being the purchase price and the directly attributable costs required to bring the asset to the location and condition necessary for putting it into use. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment. In subsequent periods, plant and equipment are recorded at cost less accumulated depreciation and impairment charges, if applicable. Depreciation is calculated using the straight-line or declining methods at the following annual rates:

Vehicles	4 - 5 years on a straight-line method
Fixtures and equipment	3 - 10 years on a straight-line method
Mining equipment	30% on declining method
Leasehold improvements	2 - 5 years on a straight-line method

Additions during the year are depreciated on a pro-rata basis based on the annual depreciation amount.

(g) Exploration and evaluation assets

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility, and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs incurred prior to obtaining licenses are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation costs incurred are capitalized. Acquisition costs incurred in connection with the terms of option agreements are capitalized. All capitalized exploration and evaluation costs are recorded at acquisition cost and are monitored for indications of impairment. Where there are indications of a potential impairment, an assessment is performed for recoverability. Capitalized costs are charged to the consolidated statements of income and comprehensive income to the extent that they are not expected to be recovered.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and transferred to “Mines under construction”. There is no amortization during the exploration and evaluation phase.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(h) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument is classified as: fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables or other liabilities. The Company’s accounting policy for each category is as follows:

(i) Financial assets at fair value through profit or loss (FVTPL)

Financial instruments classified as FVTPL are measured at fair value with gains and losses recognized in the consolidated statements of income and comprehensive income. A financial asset is classified in this category if it was acquired principally for the purpose of selling in the short-term and classified as a current asset. Derivatives are also categorized at FVTPL unless they are designated as hedges. Cash and marketable securities are classified as FVTPL.

3. Significant accounting policies (Continued)

(h) Financial instruments (continued)

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as “trading” assets, have not been designated at FVTPL or as available-for-sale and for which the holder may recover substantially all of its initial investment, other than because of credit deterioration. Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statements of income and comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Other receivables are classified as loans and receivables. They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

(iii) Held-to-maturity

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any financial assets classified as held-to-maturity.

(iv) Available-For-Sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. Available-for-sale financial assets are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss/income, net of tax. The Company does not have any financial assets classified as available-for-sale.

(v) Other Liabilities

The Company's financial liabilities are all classified as other financial liabilities, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding. The Company’s financial liabilities include due to related parties and accounts payable and accrued liabilities.

(vi) Impairment on Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

3. Significant accounting policies (Continued)

(i) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of income and comprehensive income except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income taxes in respect of previous years.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers and employees.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period of the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

(k) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(l) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company’s common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. Significant accounting policies (Continued)

(m) Warrants

The fair value of warrants is measured at grant date, using the Black-Scholes option pricing model. Warrants issued as a finder's fee is recognized as share issuance costs with a corresponding increase in contributed surplus. Proceeds from issuances of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is deferred based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

(n) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(o) Impairment of non-current assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is an indication of impairment, then the asset's recoverable amount is estimated.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income and comprehensive income.

3. Significant accounting policies (Continued)

(p) Earning/Loss per share

Basic earnings / loss per share is computed by dividing the net income or loss attributable to the owners of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings per share is determined by adjusting the earnings or loss attributable to the owners of the Company and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options and common share purchase warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of "in-the-money" stock options and common share purchase warrants are used to purchase common shares of the Company at their average market price for the period.

In periods that the Company reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

(q) Future Accounting Pronouncements

The accounting pronouncements detailed in this note have been issued but are not yet effective. The Company has not early adopted these standards.

IFRS 9 Financial Instruments ("IFRS 9")

In July 2014 the IASB issued the final version of IFRS 9. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flows of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 amends some of the requirements of IFRS 7, Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on the measurement of financial liabilities and de-recognition of financial instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 with early adoption permitted and must be applied retrospectively with some exemptions permitted. The Company has evaluated the adoption of IFRS 9 to have no material effect on its consolidated financial statements and related disclosures.

IFRS 15 Revenue from contracts with customers ("IFRS 15")

In May 2014 the IASB issued IFRS 15 and is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Entities have the option of using either full retrospective or modified retrospective approach to adopt the guidance. The Company has evaluated the adoption of IFRS 15 to have no material effect on its consolidated financial statements and related disclosures.

3. Significant accounting policies (Continued)

(q) Future Accounting Pronouncements (continued)

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16 eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is evaluating the impact of adopting this standard on its consolidated financial statements.

4. Critical Accounting Judgements and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and related disclosure. Judgement is used mainly in determining how a balance or transaction should be recognized in the consolidated financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. Actual results may differ from these estimates.

(a) Accounting Judgement

Significant areas where management's judgement has been applied include:

(i) Exploration and evaluation assets

Judgement is required to determine whether future economic benefits are likely from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of economic recoverability. In addition, management applies a number of estimates and assumptions in its assessments of economic recoverability and probability of future economic benefit including geologic information, scoping and feasibility studies (if any), accessible facilities, existing permits and estimated future cash flows.

(ii) Impairment of non-current assets

Non-current assets are tested for impairment if there is an indicator of impairment. The impairment analysis generally requires the use of estimates and assumptions, including amongst others, long-term commodity prices, discount rates, length of mine life, future production levels, future operating costs, future capital expenditures and tax estimates. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances the carrying value of the assets may be impaired with the impact recorded in the statements of income and comprehensive income.

(iii) Functional currency

The functional currency for the Company's subsidiaries and investment in joint venture applies estimates and assumptions to assess the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgements to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

4. Critical Accounting Judgements and Estimates (Continued)

(a) Accounting Judgement (continued)

(iv) Joint arrangement

Based on the terms of the Joint Venture Agreement between Pasinex Arama and Akmetal Madencilik Sanayi ve Ticaret A.S. ("Akmetal") dated January 17, 2013, the Company has determined the joint arrangement is a form of joint venture and the Company is required to account for its share in the joint venture company by using the equity method. Judgement is required to classify the joint arrangement as a joint venture. The joint arrangement is held through a separate vehicle and the terms of the Joint Venture Agreement indicate the Compnay has the rights to the net assets, however other facts and circumstances suggest the Company does not have joint control of certain assets and liabilities. As a result, Horzum AS is a joint venture.

(v) Going concern

Significant judgments used in the preparation of these consolidated financial statements include but are not limited to those relating to the assessment of the Company's ability to continue as a going concern. Judgement is required to determine the non-discretionary spending for the next 12 months and the potential cash in-flows for the same period. Future cash inflows are largely based on cash flows from Horzum AS, which are based on estimates and assumptions of production and sales volumes, zinc prices, resources, operating costs, capital expenditures and collection of trade receivables.

(vi) Deferred taxes

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. In addition, the valuation of tax credits receivable requires management to make judgements on the amount and timing of recovery. As of December 31, 2017, the Company has not recognized any deferred income tax assets.

(b) Use of Estimates

As described above estimates and assumption are contemplated with the described judgements. In addition, other significant areas requiring the use of management estimates and assumptions include:

(i) Decommissioning liability

The Company's accounting policy for the recognition of accrued site closure costs requires significant estimates and assumptions such as the requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance and the timing, extent and costs of required closure, rehabilitation activity and applicable discount rates. Changes to these estimates and assumptions may result in actual expenditures in the future differing from the amounts currently provided. The decommissioning liability is periodically reviewed and updated based on the available facts and circumstances. Management's assumption is that there are currently no decommissioning liabilities at its sites, nor subject to known additional environmental liabilities or mitigation measures.

(ii) Share-based payments

The Company makes certain estimates and assumptions when calculating the fair values of share-based compensation granted. The significant estimations and assumptions include expected volatility, expected life, expected dividend rate and risk-free rate of return.

(Expressed in Canadian Dollars, unless otherwise indicated)

5. Marketable securities

	December 31, 2017		December 31, 2016	
	Cost	**Fair Market Value**	**Cost**	**Fair Market Value**
Mutual funds	**$ -**	$ -	**$ 12,978**	$ 11,342
Total	**$ -**	$ -	**$ 12,978**	$ 11,342

During the year ended December 31, 2017, the Company disposed of its marketable securities.

6. Equipment

Cost	**Vehicles**	**Fixtures and Equipment**	**Mining Equipment**	**Total**
Balance - December 31, 2015	$ 23,887	$ 29,512	$ 48,595	$ 101,994
Currency translation differences	(4,694)	(5,799)	-	(10,493)
Balance - December 31, 2016	19,193	23,713	48,595	91,501
Additions/(Disposal)	(19,193)	19,340	-	147
Currency translation differences	-	(4,522)	-	(4,522)
Balance - December 31, 2017	**$ -**	**$ 38,531**	**$ 48,595**	**$ 87,126**
Accumulated Depreciation				
Balance - December 31, 2015	$ 19,166	$ 18,146	$ 33,243	$ 70,555
Depreciation for the year	3,658	3,419	4,606	11,683
Currency translation differences	(3,631)	(3,469)	-	(7,100)
Balance - December 31, 2016	19,193	18,096	37,849	75,138
Depreciation for the year	-	4,544	3,224	7,768
Disposals	(19,193)	-	-	(19,193)
Currency translation differences	-	(2,721)	-	(2,721)
Balance - December 31, 2017	**$ -**	**$ 19,919**	**$ 41,073**	**$ 60,992**
Carrying Amount				
Balance - December 31, 2017	**$ -**	**$ 18,612**	**$ 7,522**	**$ 26,134**
Balance - December 31, 2016	$ -	$ 5,617	$ 10,746	$ 16,363

(Expressed in Canadian Dollars, unless otherwise indicated)

7. Investment in Horzum AS

On January 17, 2013, the Company, through its wholly owned Turkish subsidiary, Pasinex Arama, entered into a joint venture agreement with Turkey based miner, Akmetal, to explore for zinc and other associated commodities in the region between and around Horzum and Tufanbeyli, Adana Province, Turkey. A joint venture company was formed, Horzum AS, held 50% by each joint venture partner. Horzum AS is controlled by a board consisting of equal representatives of both Pasinex and Akmetal.

In 2013, Horzum AS acquired one property in Turkey: Pinargozu. The property is located within the Turkish Provinces of Adana and has been in operation since 2016 producing high grade zinc.

The investment in Horzum AS is considered a joint venture for accounting purposes and accordingly is accounted for using the equity method.

The following table shows the change in the value of the Company’s 50% investment in Horzum AS.

	Year Ended December 31, 2017	2016
Opening balance	**$ 1,901,589**	**$ 377,794**
Additional investment Horzum AS	-	33,934
Equity gain from Horzum AS (7(a))	8,153,698	1,802,710
Dividend received from Horzum AS	(1,183,215)	-
Foreign exchange difference included in other accumulated comprehensive income	(826,776)	(312,849)
Closing balance	**$ 8,045,296**	**$ 1,901,589**

In 2017, a dividend of TRY 7.1 million was declared and paid by Horzum AS to its shareholders, of which Pasinex received half.

(Expressed in Canadian Dollars, unless otherwise indicated)

7. Investment in Horzum AS (Continued)

(a) Summarized Financial Statements for Horzum AS

Summarized financial information for Horzum AS, based on its IFRS financial statements and a reconciliation with the carrying amounts in the Company's consolidated financial statements, are set out below.

Statement of Financial Position at December 31,

(100% Canadian dollars)	**2017**	**2016**
Current assets		
Cash and prepaid expenses	$ 35,172	$ 69,984
Trade receivables – Akmetal (note 7(a)(i))	6,075,850	2,420,054
Trade receivables – other	8,772	1,009,989
Other receivables	503,817	55,106
Amounts due from shareholders and related parties	-	7,367,541
Inventories	2,049,268	1,215,068
Other current assets	44,458	-
Non-current assets		
Trade receivables - Akmetal (note 7(a)(i))	12,015,408	-
Plant and equipment	966,904	337,417
Deferred taxes	282,253	-
Other non-current assets	286,753	150,430
Total assets	$ 22,268,655	$ 12,625,589
Current liabilities		
Trade payable and other current liabilities	$ 1,371,654	$ 553,722
Amounts due to shareholders and related parties	152,980	8,195,218
Other current liabilities	2,730,885	-
Income taxes payable	1,825,290	-
Non-current liabilities		
Employee benefits and other liabilities	97,254	73,471
Equity		
Share capital	237,400	237,400
Surplus	18,001,460	4,313,253
Foreign exchange difference	(2,148,268)	(747,475)
Total liabilities and equity	$ 22,268,655	$ 12,625,589
Pasinex ownership interest	50 %	50 %
Net assets (equity) from above	$ 16,090,592	$ 3,803,178
Pasinex investment in Horzum AS	$ 8,045,296	$ 1,901,589

(i) The sale of zinc is largely sold to a subsidiary of Akmetal which in turn sells the material to third parties. In November 2017, Horzum AS entered into an agreement with Akmetal to structure a formal repayment process, including interest, for the trade receivable that was outstanding at September 30, 2017 from Akmetal's subsidiary.

(Expressed in Canadian Dollars, unless otherwise indicated)

7. Investment in Horzum AS (Continued)

The repayment plan for US$11.4 million (C$14.3 milllion) to Horzum AS is as follows:

First quarter 2018	$ 313,625	
Second quarter 2018	376,350	
Third quarter 2018	376,350	
Fourth quarter 2018	1,003,600	
2018	2,069,925	
2019	12,043,200	
2020	188,175	plus interest
	$ 14,301,300	plus interest

Interest is to be paid at a rate equivalent to Wall Street Journal (WSJ) prime rate. The loan receivable is recorded at $13.4 million ($12.0 million of which is long-term), which reflects the present value of the loan repayments discounted at the current WSJ prime rate. The remaining trade receivables of $4.7 million are expected to be repaid based on typical trade terms as agreed with the customer.

Statement of Operations for the years ended December 31,

(100% Canadian dollars)	**2017**	**2016**
Revenue	$ 31,833,371	$ 11,658,361
Cost of sales	(9,691,707)	(6,791,363)
Selling, marketing and other distribution	(932,378)	(68,690)
General and administrative expenses	(803,574)	(289,279)
Income tax expense	(4,098,315)	(903,609)
Net income	$ 16,307,397	$ 3,605,420
Pasinex ownership interest	50 %	50 %
Equity gain from Horzum AS	$ 8,153,698	$ 1,802,710

Horzum AS can distribute its profits based on terms under the joint venture agreement which requires approval from Horzum AS's board of directors. In March 2018, after approval from its board of directors and shareholders, Horzum AS declared a TRY 40 million dividend (Pasinex share is approximately $6.5 million) to be paid to its shareholders on an instalment basis throughout 2018. As of April 27, 2018, the Company had received $0.8 million. The dividend receivable is a TRY based obligation and as such will be subject to variations from foreign exchange fluctuations.

(Expressed in Canadian Dollars, unless otherwise indicated)

8. Exploration and Evaluation Assets

	Horzum Properties	Golcuk Property	Gunman Project	Total
Balance, December 31, 2015	**$ 300,446**	**$ 925,780**	**$ -**	**$ 1,226,226**
Additions during the year:				
Acquisition costs - cash	(24,154)	46,322	-	22,168
Acquisition costs - shares issued (note 10)	-	145,738	-	145,738
Property exploration costs:				
Consulting fees	337,147	-	-	337,147
Geological and field personnel	(1,818)	7,211	-	5,393
Miscellaneous expenses	(1,149)	16,603	-	15,454
Travel and accommodation	-	11,145	-	11,145
VAT receivable - mining activities	-	47,115	-	47,115
Total additions during the year	310,026	274,134	-	584,160
Foreign exchange adjustment	(34,733)	(126,117)	-	(160,850)
Balance, December 31, 2016	**575,739**	**1,073,797**	**-**	**1,649,536**
Additions during the year:				
Acquisition costs - cash	16,690	94,297	178,362	289,349
Acquisition costs - shares issued (note 10)	-	60,216	484,000	544,216
Property exploration costs:				
Assays	17,474	7,699	-	25,173
Drilling expense	-	92,488	-	92,488
Geological and field personnel	25,759	49,932	-	75,691
Miscellaneous expenses	263	2,193	-	2,456
Travel and accommodation	-	6,471	-	6,471
Total additions during the year	60,186	313,296	662,362	1,035,844
Foreign exchange adjustment	**(17,706)**	**(99,251)**	**-**	**(116,957)**
Balance, December 31, 2017	**$ 618,219**	**$ 1,287,842**	**$ 662,362**	**$ 2,568,423**

(a) Horzum Properties

The Company, through Pasinex Arama had acquired six properties in 2013 located near the Pinargozu mine. As at December 31, 2017, the Company only held the Akkaya Property with its exploration license in good standing. The Company is in the process of transfering the license for the Akkaya Property to Horzum AS. In 2018, in anticipation of the license transfer, Horzum AS will incur the costs to continue to explore Akkaya and as such the costs related to Akkaya will be capitalized in the accounts of Horzum AS.

8. Exploration and Evaluation Assets (Continued)

(b) Golcuk Property

On July 17, 2012, amended on January 29, 2013 and further amended on November 8, 2016, the Company signed an option agreement (the "Agreement") with EMX Royalty Corporation ("EMX") (formerly named Eurasian Minerals Inc.) and its wholly owned Turkish subsidiary, Eurasia Madencilik Ltd. STI, whereby Pasinex, through Pasinex Arama, would acquire a 100% interest in the Golcuk Property ("Golcuk") located in northeast Turkey. The Golcuk mineral rights and operational license were transferred to Pasinex Arama in September 2012.

As consideration for the transaction:

(i) Pasinex issued 3 million common shares to EMX over 4 years commencing in 2013, of which the final 1 million common shares were issued in 2016 (note 10)
(ii) Pasinex will pay EMX a 2.9% net smelter royalty ("NSR") from Golcuk production. Pasinex has the option of reducing the NSR to 2% within six years of the agreement date (July 17, 2018) for consideration of US$1,000,000
(iii) Pasinex paid EMX an advance royalty payment of 50 troy ounces of gold or its equivalent in shares of the Company in September 2016 (664,483 Pasinex common shares were issued). This amount to be set off against the NSR once payable
(iv) Pasinex paid EMX an advance royalty payment of 75 troy ounces of gold or its equivalent in shares of the Company and cash in September 2017 (224,150 Pasinex common shares and $62,425 in cash issued). This amount to be set off against the NSR once payable
(v) Pasinex to pay EMX an advance royalty payment of 75 troy ounces of gold or its equivalent on or before each anniversary of the Initial Issuance Date commencing on the sixth anniversary (September 2018). These amounts to be set off against the NSR once payable.

Additionally, Pasinex will be required to complete minimum annual work commitments on the project as follows:

(vi) US$200,000 before the one year anniversary of the date of the transfer of Golcuk to Pasinex Arama (the "Completion Date" that being Septmeber 18, 2012);
(vii) US$250,000 before the two year anniversary of the Completion Date; and
(viii) US$250,000 before June 30, 2017.

Golcuk is classified as an operational license under the Turkish government mining regulations. As such, the property requires, at a minimum, a small-scale mining operation to be carried out each year in order to satisfy its operational license, and each year, the project must process approximately 900 tonnes of ore. The operational license is in good standing as of the date of these consolidated financial statements.

(c) Gunman Project

Pasinex through its wholly-owned subsidiary Pasinex Nevada, entered into an option agreement with Cypress Development Corp ("Cypress") and Silcom Systems Inc. ("Silcom") to earn up to an 80% interest in the Gunman zinc project ("Gunman 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 also has no obligation to continue payments if the Company decides not to proceed in exercising the option.

(Expressed in Canadian Dollars, unless otherwise indicated)

8. Exploration and Evaluation Assets (Continued)

(c) Gunman Project (continued)

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

To acquire initial 51% of the Gunman Project:

- Cash payment made to Silcom of US$125,000 ($158,897) and issuance of 2.2 million Pasinex Common Shares (value of $484,000) to Silcom and Cypress
- Prior to September 11, 2018 a payment of US$200,000 cash and issuance of 2.2 million Pasinex Common Shares to Silcom and Cypress
- Prior to September 11, 2019 a payment of US$100,000 cash and issuance of 200,000 Pasinex Common Shares to Cypress
- In addition, minimal exploration expenditures as defined in the Option Agreement must be spent as follows:
    - US$250,000 prior to December 5, 2018
    - US$800,000 prior to December 5, 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 minimal exploration expenditures of US$1,850,000.

To acquire an additional 29% of the Gunman 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.

9. Accounts Payable and Accrued Liabilities

	As at December 31, 2017	As at December 31, 2016
Trade payables	**$ 176,159**	$ 222,566
Accrued liabilities	**31,667**	-
Total	**$ 207,826**	$ 222,566

(Expressed in Canadian Dollars, unless otherwise indicated)

10. Share Capital

(a) Authorized: Unlimited common shares with no par value.

(b) Issued: At December 31, 2017, 142,154,371 common shares valued at $12,618,506 (December 31, 2016 - 121,262,250 common shares valued at $10,219,119).

The table below lists the shares that have been issued.

	2017		2016	
	Common Shares	**Amount**	**Common Shares**	**Amount**
Balance, beginning of year	**121,262,250**	**$ 10,219,119**	**100,792,309**	**$ 8,781,434**
Exercise of warrants and agent warrants (d) and (e)	18,467,971	1,855,171	6,705,458	717,245
Advance royalty payment to EMX (note 8(b))	224,150	60,216	664,483	79,738
Payment under Option Agreement for Gunman Project (note 8(c))	2,200,000	484,000	-	-
Private placement (c)	-	-	12,000,000	600,000
Share issuance costs on private placement	-	-	-	(25,298)
Acquisition of Golcuk from EMX (note 8(b))	-	-	1,000,000	60,000
Finder's fees on Golcuk acquisition	-	-	100,000	6,000
Balance, end of year	**142,154,371**	**12,618,506**	**121,262,250**	**10,219,119**

(c) On June 3, 2016, the Company closed a non-brokered private placement of 12,000,000 units (the "Units") at a subscription price of $0.05 per Unit for gross proceeds of $600,000. Each Unit consisted of one common share and one share purchase warrant (the "Warrant"). Each whole Warrant is exercisable into one additional common share (the "Warrant Share") of the Company at $0.07 per Warrant Share for a period of one year from the closing. All Warrant Shares were exercised in 2017.

(d) Warrants

The following table reflects the continuity of warrants for the years presented:

	Number of Warrants	**Weighted Average Exercise Price**
Balance, December 31, 2015	**15,129,729**	**$ 0.14**
Issued (note 10(c))	12,000,000	0.07
Exercised	(6,688,658)	0.10
Expired	(1,682,500)	0.18
Balance, December 31, 2016	**18,758,571**	**0.10**
Exercised	(18,303,571)	0.10
Expired	(455,000)	0.18
Balance, December 31, 2017	**-**	**$ -**

(Expressed in Canadian Dollars, unless otherwise indicated)

10. Share Capital

(e) Agent Warrants

The following table reflects the continuity of agent warrants for the years presented:

	Number of Agent Warrants	Weighted Average Exercise Price
Balance, December 31, 2015	**217,200**	**$ 0.18**
Exercised	(16,800)	0.10
Expired	(32,000)	0.18
Balance, December 31, 2016	**168,400**	**0.19**
Exercised	(164,400)	0.19
Expired	(4,000)	0.20
Balance, December 31, 2017	**-**	**$ -**

11. Stock Options

The Company has a Stock Option Plan (the "Plan") in place under which it is authorized to grant options of up to 10% of its outstanding shares to officers, directors, employees and consultants. The exercise price of each option is to be determined by the Board of Directors but shall not be less than the discounted market price as defined by the CSE. The expiry date for each option should be for a maximum term of five years. The Plan was most recently approved at the Company's 2015 Annual General Meeting.

The following table reflects the continuity of stock options for the years presented:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2015	**3,290,000**	**$ 0.12**
Granted (i)	2,200,000	0.19
Expired / forfeited	(1,300,000)	0.11
Balance, December 31, 2016	**4,190,000**	**0.16**
Granted (ii)(iii)	2,200,000	0.25
Expired / forfeited	(40,000)	0.14
Balance, December 31, 2017	**6,350,000**	**$ 0.19**

(i) On October 18, 2016, 2,200,000 stock options were granted to directors and officers of the Company at a price of $0.19, expiring October 18, 2018. The stock options vested immediately. The fair value of the stock options at the date of grant of $112,200 was estimated using the Black Scholes valuation model with the following assumptions: a 2 year expected term; a 114% expected volatility based on historical trends; risk free interest rate of 0.59%; share price at the date of grant of $0.11; and an expected dividend yield of 0%. The fair value was expensed in 2016.

(Expressed in Canadian Dollars, unless otherwise indicated)

11. Stock Options (continued)

(ii) On August 14, 2017, 1,200,000 stock options were granted to an officer and an employee of the Company at a price of $0.25 each, expiring August 14, 2022. The stock options vested in 2017. The fair value of the stock options at the date of grant was $265,200 estimated using the Black Scholes valuation model with the following assumptions: a 5 year expected term; a 139% expected volatility based on historical trends; risk free interest rate of 1.48%; share price at the date of grant of $0.25; and an expected dividend yield of 0%. The fair value was expensed in 2017.

(iii) On December 4, 2017, 1,000,000 stock options were granted to a director of the Company at a price of $0.25 each, expiring December 4, 2022. The stock options will vest as follows: 400,000 stock options vested immediately and the remaining 600,000 stock options will vest six months from date of grant. The fair value of the stock options at the date of grant was $202,000 estimated using the Black Scholes valuation model with the following assumptions: a 5 year expected term; a 139% expected volatility based on historical trends; risk free interest rate of 1.72%; share price at the date of grant of $0.23; and an expected dividend yield of 0%. $98,780 of the fair value was expensed in 2017 with the remaining fair value to be expensed in 2018.

The Company had the following stock options outstanding as of December 31, 2017:

Expiry Date	Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Weighted Average Remaining Contractual Life (years)
October 18, 2018	2,200,000	2,200,000	$ 0.19	0.80
March 14, 2019	550,000	550,000	$ 0.10	1.20
December 19, 2019	1,400,000	1,400,000	$ 0.14	1.97
August 14, 2022	1,200,000	1,200,000	$ 0.25	4.62
December 4, 2022	1,000,000	400,000	$ 0.25	4.93
	6,350,000	5,750,000		2.46

12. Net Income per Common Share

Basic and diluted net income per share are as follows for the periods presented:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Numerator:		
Net income	**$ 5,834,104**	$ 829,906
Denominator		
Weighted average number of common shares - basic	**133,888,679**	109,458,400
Effect of dilutive securities	**1,342,379**	2,489,851
Weighted average number of common shares - diluted	**135,231,058**	111,948,251
Net income per share - basic	**$ 0.04**	$ 0.01
Net income per share - diluted	**$ 0.04**	$ 0.01

(Expressed in Canadian Dollars, unless otherwise indicated)

13. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss only includes the currency translation adjustment related to the translation of Pasinex Arama's TRY based financial statements to the Canadian dollar functional currency. The balances and exchange rates used to translate the financial statements are as follows:

	Year Ended December 31, 2017	2016
Currency translation adjustment	**$ 973,628**	$ 537,083
December 31 foreign exchange rate TRY to Canadian dollar	0.3310	0.3815
Pasinex Arama net assets (in TRY)	**26,323,180**	4,121,291

The net assets of Pasinex Arama have increased because it holds the 50% joint venture interest in Horzum AS. The currency translation adjustment is effected by both the net assets and the foreign exchange rate.

14. General and Administration Costs

General and administration costs are as follows:

	Year Ended December 31, 2017	2016
Advertising and promotion	**$ 193,717**	$ 110,834
Depreciation (note 6)	**7,768**	11,683
Consulting fees (note 15)	**586,038**	53,053
Investor relations	**168,515**	55,140
Management fees and salaries (note 15)	**405,271**	257,162
Office and general	**70,325**	72,648
Professional fees	**167,937**	195,187
Supplies and equipment	**18,661**	1,239
Transfer agent and regulatory authorities fees	**37,151**	31,322
Travel and meals	**264,741**	123,624
General and administration costs	**$ 1,920,124**	$ 911,892

15. 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 includes 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 had transactions with the Company during the year. 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, or similar transactions to non-key management personnel related entities on an arm's length basis.

(Expressed in Canadian Dollars, unless otherwise indicated)

15. Related Party Balances and Transactions (Continued)

A summary of the related party transactions and balances is as follows:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Management fees and salaries	**$ 211,575**	$ 136,000
Consulting fees	**203,478**	107,864
Share-based payments	**319,780**	112,200
	$ 734,833	$ 356,064

Amounts payable to related parties were as follows:

	As at December 31, 2017	As at December 31, 2016
Steven Williams (1)	**$ -**	$ 50,522
Marrelli Support Services Inc. (2)	**-**	2,222
DSA Corporate Services (3)	**-**	2,549
Sven Olsson. (4)	**14,297**	4,959
Irus Consulting Ltd. (5)	**7,500**	-
Victor Wells (6)	**6,000**	-
	$ 27,797	$ 60,252

(1) Steven Williams is Chief Executive Office of the Company.
(2) Mrs. Cindy Davis, the former Chief Financial Officer ("CFO") of the Company, is also a senior employee of Marrelli Support Services Inc. ("Marrelli Support"). Marrelli Support also provides accounting services to the Company.
(3) DSA Corporate Services ("DSA") is affiliated with Marrelli Support through a common officer. DSA provides corporate and secretarial services for the Company.
(4) Sven Olsson is a director of the Company.
(5) Irus Consulting Ltd. is a company controlled by John Barry, a director of the Company.
(6) Victor Wells is a director and the Chairman 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.

(Expressed in Canadian Dollars, unless otherwise indicated)

15. Related Party Balances and Transactions (Continued)

To the knowledge of the directors and officers of the Company, as at December 31, 2017, 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	**29,728,191**	**20.91 %**

16. Income Taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statement of income (loss) and comprehensive income (loss) for the years ended December 31, 2017 and 2016:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Income before income taxes	**$ 5,834,104**	$ 829,906
Statutory tax rate	**26.00 %**	26.00 %
Expected income tax recovery based on statutory rate	**1,516,867**	215,776
Adjustment to expected income tax benefit:		
Non-deductible items	**243,646**	12,375
Non-taxable income	**(1,630,740)**	-
True up	**(257,871)**	-
Foreign tax rate difference	**(479,190)**	(244,231)
Change in deferred tax assets not recognized	**607,288**	16,080
Total income tax provision (recovery)	**$ -**	$ -

<u>Canada</u>

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences.

	As at December 31, 2017	As at December 31, 2016
Non-capital loss carry-forwards	**$ 7,436,000**	$ 5,778,000
Capital losses	**74,150**	74,150
Equipment	**16,617**	13,393
Financing costs	**32,034**	56,888
	$ 7,558,801	$ 5,922,431

(Expressed in Canadian Dollars, unless otherwise indicated)

16. Income Taxes (Continued)

The Company has non-capital loss carry-forwards of approximately $7,436,000 (2016 - $5,778,000) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	Canada
2026	$ 118,000
2027	132,000
2028	376,000
2029	648,000
2030	261,000
2031	529,000
2032	631,000
2033	671,000
2034	903,000
2035	764,000
2036	745,000
2037	1,658,000
	$ 7,436,000

In addition, the Company has capital loss of $74,150 (2016 - $74,150), which may be carryforward indefinitely and apply to reduce future capital gains.

Turkey

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences.

	As at December 31, 2017	As at December 31, 2016
Exploration and evaluation assets	**$ -**	$ 68,857
Net operating loss carry-forwards	**782,311**	1,109,335
	$ 782,311	$ 1,178,192

Pasinex Arama has net operating loss carryforwards of approximately $819,000 (2016 - $1,109,000) which may be carried forward to apply against future year income tax for Turkish tax purposes.

Expiry	Turkey
2018	$ 234,000
2019	77,000
2020	205,000
2021	92,000
2026	211,000
	$ 819,000

(Expressed in Canadian Dollars, unless otherwise indicated)

16. Income Taxes (Continued)

United States

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences.

	As at December 31, 2017	As at December 31, 2016
Net operating loss carry-forwards	**$ 80,000**	$ -

Pasinex Nevada has net operating loss carryforwards of approximately $80,000 which may be carried forward to apply against future year income tax for United States tax purposes.

Expiry	Turkey
2037	$ 80,000
	$ 80,000

17. Segmented Information

The Company has one operating segment, acquisition, exploration and development of mineral properties. The table below shows consolidated data by geographic segment based on the location:

	As at December 31, 2017	As at December 31, 2016
Non-current assets by geographic segment		
Turkey	**$ 9,977,491**	$ 3,567,488
United States	**662,362**	-
	$10,639,853	$ 3,567,488

	As at December 31, 2017	As at December 31, 2016
Assets by geographic segment		
Turkey	**$10,482,028**	$ 3,750,211
Canada	**478,430**	315,578
United States	**662,362**	-
	$11,622,820	$ 4,065,789

(Expressed in Canadian Dollars, unless otherwise indicated)

17. Segmented Information (Continued)

Year Ended December 31, 2017	Canada	Turkey	United States	Total
Equity gain from joint venture	$ -	$ 8,153,698	$ -	$ 8,153,698
Net (loss) income	$ (2,000,680)	$ 7,914,976	$ (80,192)	$ 5,834,104

Year Ended December 31, 2016	Canada	Turkey	United States	Total
Equity gain from joint venture	$ -	$ 1,802,710	$ -	$ 1,802,710
Net (loss) income	$ (852,897)	$ 1,682,803	$ -	$ 829,906

18. 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, 2017 and 2016, 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.

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Cash	$ 741,727	$ -	$ -	$ 741,727
	$ 741,727	$ -	$ -	$ 741,727

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Cash	$ 311,958	$ -	$ -	$ 311,958
Marketable securities	11,342	-	-	11,342
	$ 323,300	$ -	$ -	$ 323,300

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 note 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 these consolidated financial statements.

18. Financial Instruments and Capital Disclosures (Continued)

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 primarily attributable to its cash balances. 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 receivables is remote. The Company mitigates credit risk on these financial instruments by adhering to its investment policy that outlines credit risk parameters and concentration limits. 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, 2017, the Company had a cash balance of $741,727 (2016 - $311,958) and current liabilities of $235,623 (2016 - $282,818). 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. The Company may manage its short term liquidity shortfall by obtaining additional loans from directors or by equity financing. See also note 2(b) for additional discussion on going concern.

c) Market Risk

Market risk consists of currency risk and interest rate 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 instalments over a six to nine month period 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, 2017, the translation of the assets and liabilities of Pasinex Arama resulted in foreign currency translation adjustments of $973,628 recorded in other comprehensive loss. For the year ended December 31, 2017, 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 $0.5 million 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, 2017, if the price of zinc increased/decreased by 10% with all other variables held constant, consolidated net income and comprehensive income would have been approximately $1.2 million higher/lower.

18. Financial Instruments and Capital Disclosures (Continued)

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. 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 access 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.